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Entrepreneurial Environment Dilemma in Puerto Rico: A Challenge of Self and System

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This study addresses the unexplained stagnant entrepreneurial environment in Puerto Rico despite average or above average entrepreneurial potential, capabilities and intentions compared to other high-income countries. Analysis of interviews with public, private and civic sector leaders and both successful and less successful entrepreneurs suggests a pervasive lack of support for entrepreneurs from formal organizations charged with entrepreneurship development and a failure of entrepreneurs themselves to develop networks to support venture startup and sustainment.

INTRODUCTION

Among high-income countries Puerto Rico (PR), at 3.1 percent, has one of the world's lowest rates of early-stage entrepreneurial activity (Bosma, Jones, Autio, & Levie, 2008) – despite a two-decade government effort to spur it. Deemed average or above average in entrepreneurial potential and capabilities but low in opportunity by PR adults (Bosma et al., 2008), the island maintains an “inhospitable business climate” with an underdeveloped private sector (Davis & Rivera-Batiz, 2006).

Experts blame structural problems rather than a lack of entrepreneurial spirit for the failure of entrepreneurship to flourish in PR (Aponte, 2002). The island, long reliant on the presence of multinational corporations to sustain the economy and historically lax in encouraging local business development, was hard hit by the elimination in 2006 of tax exemptions that incentivized U.S. subsidiaries to locate in PR. Despite several attempts to jumpstart the economy in the wake of their departure, reports from worldwide organizations such as the Global Entrepreneurship Monitor (GEM) (Aponte & Rodríguez, 2005; Bosma et al., 2008), the World Economic Forum (Schwab, 2010), and the World Bank (2010) certify the disappointing state of entrepreneurship in PR.

Surprisingly, the literature is lean regarding this problem. In particular, there are no studies that explore the deficit of entrepreneurship from the perspective of organizational leaders and entrepreneurs themselves. To address this gap, we conducted qualitative research based on interviews with twenty-one successful and unsuccessful PR entrepreneurs and fourteen decision-making leaders from civic, private, and governmental organizations. We theorized that how entrepreneurs and organizational leaders perceive the entrepreneurial climate may influence decisions they make about starting or supporting new businesses.

Our data suggest that Puerto Rico's low rate of entrepreneurship stems from two levels of failure—systemic and individual. On one hand, government, civic, and private organizations with the potential to assist entrepreneurs appear not to provide optimum support. On the other, entrepreneurs appear not to exploit opportunities to develop professional networks that might help in conceptualizing, initiating, and scaling their businesses. A striking deficit of networks, well documented in the literature as vital to supporting venture creation and sustainment, deters entrepreneurship in PR. Our findings call for strategic initiatives from entrepreneurial support organizations—public, private, and civic—and entrepreneurs themselves to foster network development and utilization.

Literature Review

Extensive research has been conducted on entrepreneurship and its effect on national economic growth (Birch, 1979; Audretsch & Thurik, 2001; Gartner, Shaver, Carter, & Reynolds, 2004; Lundström & Stevenson, 2005; Braunerhjelm, Acz, Audretsch, & Carlsson, 2010). While scholars have long recognized a positive relationship between entrepreneurship and economic development, the literature is not entirely consistent about the factors that drive it. Thus, as Van de Ven (2007) suggests, we need to continue evaluating the entrepreneurship process to advance understanding of its dynamics and development over time.

Entrepreneurship is influenced by the relationships between entrepreneurs, enterprises and the environment (Lundström & Stevenson, 2005). Among external factors that may impact the entrepreneurial environment, researchers point to intra-institutional agreements (Rodrik, 2007), the role of government via legal, political, and economic policies and the country's social structure (Lundström & Stevenson, 2005; Lowrey, 2003; Shane, 2003).

The GEM model suggests entrepreneurial activity responds to internal factors (Entrepreneurial Framework Conditions or EFCs) and external factors (General National Framework Conditions or GNFCs) that intervene between the emergence and expansion of new firms (Bosma et al., 2008). Among the GNFCs, the GEM model includes external trade openness, the role of the government, market efficiency, technology intensity, physical infrastructure, labor market structure, and institutional regulations.

EFCs that may affect the creation and development of new firms, according to the GEM model, include financial support, education and training, research and development (R&D), international market openness, access to physical infrastructure and cultural and social norms. However, internal and external factors can positively or negatively influence entrepreneurship depending on the interpersonal relationships of entrepreneurs (Hoang & Antoncic, 2003) and the relationships between public and private institutions (Rodrik, 2007). This supports Van de Ven's (1993) argument that studies are deficient if they focus exclusively on the characteristics and behavior of entrepreneurs without taking into account the environment and individual interaction.

Individual social networks may affect entrepreneurial intent (Hmieleski and Corbett, 2006), entrepreneurial orientation (Ripolles & Blesa, 2005) and opportunity recognition (Singh, 2000), as well as the decision to become an entrepreneur (De Clercq & Arenius, 2006). Entrepreneurship, hence, is an "inherent networking activity" (Dubini & Aldrich, 1991, p. 306) involving entrepreneurs as actors and/or coordinators of resources in a specific context (Aldrich & Zimmer, 1986; Hébert & Link, 1989).

The network success hypothesis states that network support increases the probability of survival and growth of newly founded businesses (Brüderl & Preisendörfer, 1998). The network compensation hypothesis asserts that networks compensate for shortfalls in other types of capital, such as human and

financial (Light & Karageorgis, 1994), and the network founding hypothesis claims that “network resources, networking activities and network support are vital to new firms and... (to) stimulate entrepreneurship” (Burt, 1992, p. 36).

Social capital literature addresses the contacts, connections and mechanisms that individuals utilize for personal advantage (Adler & Kwon, 2002). Researchers have observed that friends and acquaintances (Birley, 1985), family and relatives (Yoon, 1991), and venture capitalists (Gupta & Sapienza, 1992), among others, may be especially helpful to entrepreneurs’ access to potential customers and suppliers, as well as to information. Family may provide informal credits (Yoon, 1991) and emotional support (Sanders & Nee, 1996), but could overly limit an individual’s circle (Birley, 1985; Renzulli, Aldrich, & Moody, 2000). Professional networks such as advisors, partners, customers, buyers, and employees may add valuable resources such as credibility, reputation, and legitimacy (Klyver & Bager, 2007).

Coleman (1988) suggests that social networks facilitate market exchange and provide insurance and resources to achieve individual goals. Relationships are used to get advice and resources (Granovetter, 1985; Johannisson, 1988; Hansen, 1995) as well as information, knowledge, access to channels and support (Klyver & Bager, 2007) and serve as a source of opportunities (Burt, 1992). How much social capital is available and how it can be used is influenced by social structure, thus differences in culture, degree of social network closure, availability of resources, etc., may all influence how much social capital individuals have and how much of it they can draw upon. Although entrepreneurs must build social networks independently, the building process varies by individual motivation, planning and experience (Greve & Salaff, 2003). This is because entrepreneurs activate their social networks based on different needs (Granovetter, 1985; Burt, 1992). However, how they progress through all entrepreneurial phases using those networks seems to differ and successful ventures appear to depend heavily on individuals’ abilities to develop their networks (Greve & Salaff, 2003). The literature is not clear, however, about the development and composition of an efficient social network structure conducive to a rich environment for entrepreneurship (Greve & Salaff, 2003).

Originally, scholars studied networks as a uni-dimensional concept (Burt, 1992; Coleman, 1988), but, some, such as Nahapiet and Ghoshal (1998) and Hoang and Antoncic (2003), have adopted a multidimensional perspective. The multidimensional perspective of networks considers the overall structural patterns connecting entrepreneurial actors (Burt, 1992) without losing sight of the relational dimension, as manifested in “strong” (Brüderl & Preisendörfer, 1998) and “weak” ties between people (Granovetter, 1983), and the cognitive dimension that allows entrepreneurs to make sense of new information and knowledge (Nonaka, 1994) and share meaning (Nahapiet & Ghoshal, 1998).

The Case of Puerto Rico

PR, like any other country, has unique characteristics that, as Shane (1996) suggests, need to be considered if one wants to motivate people to become entrepreneurs. Those characteristics have been shaped by a history of colonialism in which certain “rules of the game” were formed in PR’s economic, political, and cultural structures (Dietz, 1986). In a culture that is based on the education of excellent employees, rather than entrepreneurs, entrepreneurship represents a great challenge (Romaguera, 2010).

The elimination of Section 936 of the U.S. Internal Revenue Code in 2006 brought an obligatory institutional change to the model that had maintained PR’s economic stability for the prior thirty years. Created in 1976, it provided federal and PR state tax exemption to the repatriated earnings of U.S. subsidiaries doing business on the island. From its origin, Section 936 was the island’s major economic provider and job creator. In 1993, when the phase-out of 936 was announced (commencing in 1996 and ending in 2006), the Puerto Rico Commonwealth Administration proposed a new *Economic Development Model* to replace it (Commonwealth of Puerto Rico, Governor’s Office 1994). This alternative model emphasized native start-up businesses and the development of entrepreneurial skills.

Davis and Rivera-Batíz (2006) point out several barriers in PR’s entrepreneurial environment, including policies and institutional arrangements, special-interest tax subsidies, regulatory and artificial entry barriers, and inefficiencies in the permit process. Aponte (2002), however, challenges their strongly negative conclusions, pointing out that the above mentioned EFCs were not taken into account in Davis,

et al.'s analysis nor were recent tax incentives and support efforts to encourage native entrepreneurship. In contrast, the GEM 2005 shows that although PR's environment is favorable for new businesses, governmental mechanisms fail to integrate, in a logical and efficient manner, the resources for sustainable entrepreneurial growth (Aponte & Rodríguez, 2005). Furthermore, Aponte (2002) showed that despite dependence on foreign capital, there is entrepreneurial desire among the general population. Thus the problem resides in the perception of feasibility based on PR structural problems.

METHODS

Methodological Approach

We chose a grounded-theory approach, described by Suddaby (2006) as most appropriate when wanting to learn how individuals interpret reality— in our case how entrepreneurs and organizational leaders perceive the PR entrepreneurial environment and respond to it. Grounded theory involves the discovery of patterns in the data that build theories directly from “the actual meanings and concepts used by social actors in a real setting” (Gephart, 2004, p. 457). Grounded theorists aim to remain open to the data by resisting *prior* theory or assumptions.

We conducted semi-structured interviews comprised of open-ended questions that maximized respondents' opportunities for free expression while allowing us to guide the general direction of the interviews, avoid implicit hypothesis-testing and facilitate inductive reasoning. Two important characteristics of grounded theory are constant comparison and theoretical sampling. Constant comparison refers to the researcher's continual comparison of data. This implies immediate, active immersion in the data rather than its post-collection management. Theoretical sampling refers to the researcher's recognition that the data, rather than *a priori* design decisions, dictate how data collection should proceed and when it should be terminated. Two main principles under theoretical sampling are appropriateness and adequacy (Glaser & Strauss, 1967). We achieved appropriateness by carefully selecting participants who were knowledgeable about the area being explored, while we addressed adequacy by continuing the sampling and coding until theoretical saturation was reached.

Sample, Data Collection and Analysis

We collected data in two phases. To identify key issues influencing entrepreneurship in PR, we interviewed 14 leaders who influence its entrepreneurial policy – five from civic organizations, four from government, and five from the private sector. The civic organizations were nonprofit organizations that serve as a liaison between public and private businesses to provide aid to entrepreneurs. Governmental respondents worked in programs associated with entrepreneurship, and private sector leaders worked for organizations that support specific membership businesses. These leaders were in top management positions, such as presidents and executive directors. During this initial phase of data collection, we also interviewed seven entrepreneurs identified by our leader respondents as successful.

Having captured key issues of interest to leaders and entrepreneurs, an additional 14 entrepreneurs identified as either successful or unsuccessful were interviewed for a total of 21 11 successful and 10 unsuccessful. To be considered a successful entrepreneur the business had to be currently operating and included in “Apostando a Puerto Rico,” a special report by *El Nuevo Día* (PR's national newspaper) that showcased entrepreneurial initiatives thriving despite the economic crisis. Unsuccessful entrepreneurs were represented either by those who had launched but closed a business or were currently suffering from serious financial difficulty and were on the official bonus exoneration 2009 list (Solicitud de Exoneración Ley 148 DE 30 de junio de 1968, ENM) published by the Department of Labor and Human Resources of Puerto Rico (DTRH). This list includes entrepreneurs who, for economic reasons such as bankruptcy, closing, or a substantial decrease in income, requested to be exempted from paying the annual allowance stated by law.

Successful entrepreneurs included 10 men and one woman, four aged 30 to 40 and six 45 or older. The 10 men had at least a bachelor's degree, while the woman did not. Seven had previous business experience, four in family businesses. Five of the eight with previous jobs related to their businesses had

worked for multinational companies. Two were in retail, four in manufacturing, and five in service industries. One was a start-up business, less than five years old, four had been operating six to 10 years, and six for 10 to 15 years. Unsuccessful entrepreneurs included five women and five men. Five were 35-40 years old, three were 40-45, and two were 45 years plus. Eight had at least a bachelor's degree. Three had previous business experience, one in a family business and two in prior entrepreneurial attempts. Six had previous jobs related to their businesses; two were in multinational companies. Five were in retailing and five in service industries. Seven were in their first five years of operation; two had operated six to 10 years, and one venture between 10 and 15 years.

We conducted semi-structured interviews that lasted about one hour. All 35 interviews were audio-recorded and professionally transcribed. An interview protocol ensured consistency, even when the semi-structured methods followed intuitive leads (Spradley, 1979).

The interview questions were broad and open-ended to allow respondents to narrate experiences and understandings rather than be questioned solely on specific details (Maxwell, 2005). The questions, (See Appendix A) sought to avoid theoretical or hypothetical assessments.

Qualitative data analysis often involves a coding process during which raw data are raised to a conceptual level. This analysis involves comparison of new and previously analyzed data. We conducted open, axial, and selective coding that allowed us to derive concepts and develop properties and dimensions of them (Corbin & Strauss, 2008).

We listened and read the interviews recordings and transcripts repeatedly to develop tentative ideas about categories and relationships (Emerson, Fretz, & Shaw, 1995). The coding process was conducted manually as soon as transcribed interviews were available. We first conducted open-coding, a line-by-line analysis of every transcript to identify “codable moments” (Boyatzis, 1998) or fragments of text with potential significance. We captured over 1,500 of such fragments in 35 interviews and assigned them to 90 categories. Next, we considered the categories independently for each subset of our sample—successful and unsuccessful entrepreneurs— noting first-level similarities and differences.

A second phase of coding (axial) resulted in combining related themes and concepts (Corbin & Strauss, 2008), reducing the previously generated codes to 11 categories (Boyatzis, 1998). Selective coding, a process in which the integration of categories moved from substantive to formal theory, derived an explanatory framework and, more importantly, revealed implications and relevance of this theory in more than one substantive area (Glaser & Strauss, 1967). From this process, three core categories produced three key findings (See Appendix B).

FINDINGS

We invited Puerto Rican entrepreneurs – both successful and unsuccessful – to narrate their start-up and scale-up experiences. The majority attributed difficulties at both stages to insufficient support from external community sources. However, the data also revealed the failure of entrepreneurs themselves to develop support networks and to seek assistance from, or provide assistance to, fellow business founders.

Finding 1: Of public, private and civic organizations charged with promoting entrepreneurship in Puerto Rico, only the latter are considered supportive by most entrepreneurs. Government organizations are deemed least (and private organizations as only somewhat more) helpful to entrepreneurs.

Based on the mission statements of entrepreneurship facilitation organizations (EFOs), Puerto Rican entrepreneurs expect assistance from them to overcome limited resources, reduce costs, explore opportunities, and develop skills. The majority of our respondents, however, revealed that most public and private EFOs fail to fulfill such needs. Half of the successful and seven of 10 unsuccessful entrepreneurs asserted that most public and private EFOs lacked understanding of or sensitivity to the needs and challenges of local entrepreneurs.

All entrepreneurs described negative start-up experiences caused, they claimed, by public EFO disinterest, lack of commitment and competency, bureaucratic processes, and political interests. Similarly,

16 of 21 entrepreneurs described private EFOs as unsupportive and unhelpful during their start-up process. Five of 11 successful entrepreneurs, however, shared some positive experiences with *private* EFOs later in their venture process.

On a more positive note, entrepreneurs described civic EFOs—such as university, sponsored incubators and consulting services, small minority organizations, and other non-profit institutions—as more supportive and responsive to their needs. Seven unsuccessful and six successful entrepreneurs recounted how civic EFOs intervened in a helpful way as they formed or grew their businesses. In particular, entrepreneurs professed that civic EFOs helped them to expand networks, find new opportunities, reshape business ideas, revise business plans, and gain technical knowledge through short courses and professional consulting services.

Finding 2: Entrepreneurs perceive that public and private EFOs prioritize foreign over local businesses and that civic EFOs favor specialized, high impact industries rather than traditional local businesses.

Entrepreneurs—successful and unsuccessful—uniformly concurred that public and private EFOs are more concerned with attracting foreign investment than growing local businesses. Most entrepreneurs expressed the belief that civic EFOs prioritize local entrepreneurs, but focus on specialized, high impact businesses. As one successful entrepreneur said: “We visited a civic agency office, but through their questions and comments I realized that our business was very simple for them; they wanted to hear about technological processes etc. ...but that wasn’t our idea...”

Entrepreneur’s perceptions were confirmed by public and private EFO leaders who see foreign investment as the best way to develop a competitive business environment in PR. Civic EFO leaders confirmed the perceptions of entrepreneurs that they see high-impact companies in such industries as biotechnology, aerospace, and IT as PR’s best competitive entrepreneurial bet. Only a few government, private, and civic EFO leaders emphasized the importance of traditional Small Medium Enterprises (SMEs), self-employed individuals and microbusinesses as important.

Finding 3: Successful and unsuccessful entrepreneurs use different types of networks in different ways during different stages of their venture development. Successful entrepreneurs utilize broader and more diversified networks, develop them more quickly, and rely on them more strategically than unsuccessful entrepreneurs.

The composition and use of PR entrepreneurs’ networks varies by the developmental stage of their businesses and network use appears associated with venture success. Figure 1 illustrates that as their businesses developed, successful entrepreneurs were far more open to working with wider and more varied actors than were unsuccessful entrepreneurs. Both used previous job contacts and family and friends as their primary networks prior to and early in the start-up process. Successful entrepreneurs, however, also availed themselves (even prior to start up) of institutional contacts at universities, institutes, and nonprofit organizations associated with business, reaching out to these sources for advice, information, and guidance.

In the second developmental stage (start-up) successful entrepreneurs were already proactively pursuing strategic relationships with industry executives and/or intermediaries who could expose them to “big” clients. By the third stage (growth) successful entrepreneurs recognized the need for more specialized assistance and reached out to targeted actors such as distribution and export professionals, financing specialists, EFOs, and other entrepreneurs.

In contrast, unsuccessful entrepreneurs were far less proactive in expanding their networks. During startup, for example, they limited their association to professional advisors such as lawyers, accountants, and HR consultants to ensure they were within the law, but hesitated to otherwise expand their networks until they felt more established, that is, in the growth phase. Only then, belatedly in comparison to successful entrepreneurs, did they try to expand their business network by relying on customers.

FIGURE 1
DIFFERENCES BETWEEN SUCCESSFUL AND UNSUCCESSFUL ENTREPRENEURS:
TYPES OF NETWORKS USED THROUGHOUT THE THREE
STAGES OF BUSINESS DEVELOPMENT

Entrepreneur	Concept Development	Start-up>>>>	Growth>>>>
<i>Successful</i>			1. Family/friends
			2. Colleagues
	1. Family/friends	1. Family/friends	3. Institutions
	2. Colleagues	2. Colleagues	4. Market
	3. Institutions	3. Institutions	5. EFOs
		4. Market	6. Specialists
			7. Other Entrepreneurs
<i>Unsuccessful</i>		1. Family/friends	1. Family/friends
	1. Family/friends	2. Colleagues	2. Colleagues
	2. Colleagues	3. Institutions	3. Institutions
		4. Professional Consultants	4. Market / Customers

Even when both successful and unsuccessful entrepreneurs employed the same types of networks during the same phases of business development, they used them for different purposes. Prior to start-up, for example, nine of 11 successful entrepreneurs tapped their previous job contacts primarily as a source of potential clients, while seven of 10 unsuccessful entrepreneurs used job contacts as a source of technical knowledge. Secondly, family members were relied upon by most of the successful entrepreneurs as a source of business know-how. This was useful as most had business experience.

In contrast, most of the unsuccessful entrepreneurs used their family just to validate decisions and provide emotional support. Only two unsuccessful entrepreneurs had family members with business experience. The most remarkable difference was the use of civic EFOs including universities and institutes. Half of the successful entrepreneurs used educational institutions as a key source of business knowledge, information, and contacts; while none of the unsuccessful entrepreneurs did. Moreover, four of 10 unsuccessful entrepreneurs claimed they did not value formal education as important to entrepreneurship. Differences in how successful and unsuccessful entrepreneurs used networks throughout the venture process are illustrated in Figure 2.

While family, friends, and previous work colleagues continued to be relied upon by both groups as their business progressed, successful entrepreneurs added more actors with specific value more quickly than unsuccessful entrepreneurs. Successful entrepreneurs, for example, used their networks early on to build their customer base and during start-up to build legitimacy in their industry and to transcend barriers to success. Our data evidenced no recognition on the part of unsuccessful entrepreneurs about the value of networks in addressing these issues. Unsuccessful entrepreneurs, on the contrary, used their considerably

more limited networks for transactional purposes—to acquire technical information, comply with laws and policies, and acquire clients by references.

FIGURE 2
DIFFERENCES BETWEEN SUCCESSFUL AND UNSUCCESSFUL ENTREPRENEURS:
DIFFERENT WAYS TO USE NETWORKS THROUGHOUT THE THREE
STAGES OF VENTURE DEVELOPMENT

Entrepreneur	Concept Development	Start-up>>>>	Growth>>>>
<i>Successful</i>	1. To obtain business know-how	1. To reach economic, physical, and human resources	1. To gain legitimacy
	2. To ID potential clients	2. To gain recognition in their industry	2. To make strategic alliances
	3. As a source of knowledge and information	3. To expand their contacts	3. To take advantage of opportunities
<i>Unsuccessful</i>		4. To overcome barriers & limitations	4. To share experiences, contacts, and ideas
	1. For emotional support	1. For emotional support	1. For emotional support
	2. For technical knowledge	2. For technical knowledge	2. For technical knowledge
		3. To comply with laws	3. To comply with laws
		4. To assess a limited group of customers	4. To center strategy on customers

While unsuccessful entrepreneurs did not reach or survive the growth stage, successful entrepreneurs took advantage of their better developed networks in this phase by expanding their markets and/or diversifying their businesses. In the growth stage, successful entrepreneurs increased their interaction with existing networks and expanded to include additional EFOs and other entrepreneurs.

DISCUSSION

For more than thirty years until 2006, Puerto Rico offered federal tax exemptions for U.S. subsidiaries. Shortly before FDI exemptions expired, the PR government announced a new economic model based on indigenous business development and the advancement of entrepreneurial skills, but our study shows that little progress has been made in advancing it.

Entrepreneurs point to a lack of entrepreneurial experience, expertise and resources, and the deficient structure of many public, private, and civic entrepreneurial advocacy organizations as deterring entrepreneurship in PR. They also acknowledge failure in change in mindset—from a “colonial” point of view that encouraged foreign investment to a more “independent” one that encourages domestic economic activity based primarily on new firm formation.

PR, which has long fostered an employee mindset, faces a challenge to move to an entrepreneurial one. During the past decade a number of universities and some civic and nonprofit organizations have created educational programs to promote a new entrepreneurship culture. This supports our entrepreneurs' perceptions that civic entities are closer to understanding their needs and challenges than governmental and other private associations.

Our research suggests that low entrepreneurial activity in PR may be related to both institutional and individual networking failures. On the one hand, government, civic, and private organizations with the potential to assist entrepreneurs appear not to provide optimum support. On the other, entrepreneurs themselves appear not to exploit the opportunity to develop professional networks that might provide help in conceptualizing, initiating, and scaling their businesses. Our findings shed light on the role of networks in entrepreneurial success, specifically how the paucity of them dampens small-medium business growth.

Systemic Failure

Our research suggests that bureaucratic and disjointed governmental structure overwhelms new entrepreneurs seeking information, resources, and permits during the start-up phase and onward. Entrepreneurs complain that the lack of an established entrepreneurial network structure provided by the government results in lost opportunities, money, and time necessary to be competitive. These findings support Aponte's (2002) earlier research that addressed the structural problem and the GEM 2005 report which found that governmental mechanisms are not integrated in a logical and efficient manner to provide resources needed for sustainable entrepreneurial growth.

But the weak structural network problem in PR is not limited to governmental organizations alone. Entrepreneurs also identified private entrepreneurial advocacy organizations as bureaucratic, disconnected from each other, and managed by small interest groups. Government administrators and organizational leaders are new to building an entrepreneurial environment based on local entrepreneurs' needs, which Baumol, Litan, and Schramm (2007) pointed out are very different than those of multinational corporations. Local entrepreneurs perceive that EFOs may not today have but need – the know-how, expertise, experience, and organizational structure and capabilities to encourage and sustain a vibrant entrepreneurial environment.

Our research suggests that the absence of a shared vision and commitment to local entrepreneurial growth among entrepreneurship advocates retards its development. Local entrepreneurs argue that EFOs do not understand their needs and challenges; and key decision makers confirmed they are still more concerned with attracting foreign investments and creating high impact local companies than nurturing small traditional businesses.

The challenge in PR is, as Spencer (2008) asserts, to reap not only short term benefits in the form of job creation when hosting foreign firms onshore, but to ensure long term advantage by connecting them and promoting their interaction with local business. PR must create a relational entrepreneurship environment using the presence of big and foreign companies to transfer knowledge and technology to local entrepreneurs as Lowe and Kenney (1999) suggest.

Entrepreneurship is best conducted in an environment where there is diversity (Hatchuel, Lemasson, & Weil, 2006). To achieve this, it is necessary to break the "lock-in" (David, 2005) of a specific industry to avoid losing the diversification perspective, something PR has failed to do. The island's history reflects concentrations within specific industries, such as coffee, sugar, tobacco, leather, and textiles and, more recently, technology industries such as pharmaceuticals and medical devices. Our research points out that even those EFOs currently interested in local entrepreneurs are more focused on developing high impact industries such as aerospace, biotechnology, and IT.

In summary, to address the systemic failure of entrepreneurship in PR, national administrators and organizational leaders need to be aware of all three network dimensions: structural, cognitive, and relational – that currently hinder the entrepreneur. Also, leaders need to be aware of the particular needs of local entrepreneurs, but at the same time develop strategies to ensure that relationships between small-medium local enterprises and large and foreign ones are established to create and share new knowledge.

Individual Failure

Network scholars maintain that entrepreneurship is no longer an individualistic practice (Aldrich & Zimmer, 1986; Hoang & Antoncic, 2003; Anderson & Starnawska, 2008). Networks are essential to attract and extend resources (Jack, Drakipoulou, & Anderson, 2008), as well as to overcome institutional deficiencies (Licht & Siegel, 2006). Our study suggests that “reliance” is not enough. The extent to which the entrepreneur personally and proactively builds, manages, and exploits networks was the differentiator between the successful and unsuccessful ventures in our sample. Entrepreneurs’ cognitive biases about their environments – failure, for example, to appreciate the power and potential of networks– may result in lost opportunity and sub-optimal venture performance. Our study revealed clearly that successful and unsuccessful entrepreneurs reacted differently when faced with the same systemic failure. When disappointed by EFOs, successful entrepreneurs proactively created their own support networks by enlisting family members with business experience, former colleagues, institutions such as universities and other nonprofit organizations, key “big” customers, and older entrepreneurs. Less successful entrepreneurs, on the other hand, remained comparatively isolated, relying on a small number of less effectual supporters, family members and friends often more helpful in the very early stage of business development than in later stages.

To achieve a goal in a specific situation, Matthews, Deary, and Whiteman (2003) suggest that entrepreneurs use self-regulation skills. Self-regulation mechanisms are governed by motivation, self-efficacy beliefs, and emotions (Bandura & Jourden, 1991). Hence, in social situations, perceived self-efficacy might affect venture decisions (Krueger & Brazeal, 1994), especially the movement from intention to action (Boyd & Vozikis, 1994). Our research suggests that successful entrepreneurs make keen assessments of their abilities, often recognizing deficits and are open to third party support and proactively pursue it. In contrast, less successful entrepreneurs often exaggerate their ability to affect outcomes, overestimating their skills (Simon, Houghton, & Aquino, 1999), ignoring contradictory signs and information, and harboring higher expectations of success. Unrealistic beliefs about their potential to control situations will inhibit entrepreneurs’ development of and reliance on support networks and affect the decisions they make. Our study also suggests that entrepreneurs who create ample, diverse, and strategically purposed networks early in the venture process outperform entrepreneurs who do not.

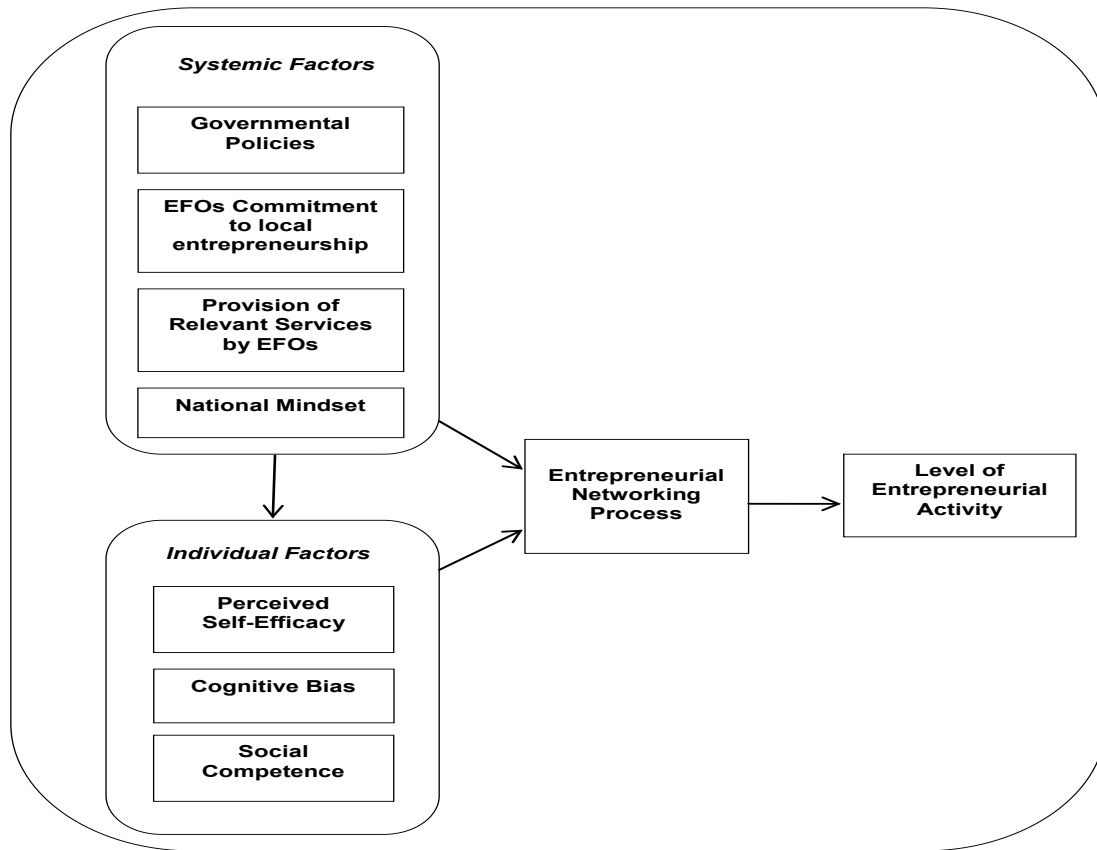
Entrepreneurs’ social competence (Baron, 2000) which refers to the ability to interact effectively with others and adapt to new social situations, may be essential to successful network development. Our study revealed that successful entrepreneurs, from very early in the process, were open to identifying big customers and searched for ways to establish connections with them. During the growth phase when entrepreneurs recognize the need to obtain specialized knowledge, the successful ones in our sample revealed their willingness to re-establish connections with EFOs and to nurture relationships with other entrepreneurs. In this phase we observed successful entrepreneurs purposefully establishing alliances and partnerships as well as making strategic moves with network agents to expand their businesses. In contrast, unsuccessful entrepreneurs opted to wait for their business to become more secure before seeking relationships with big customers, thinking it would be better to offer an established product. Instead of expanding their networks during the growth process, they continued to rely on the close, personal supporters who had advised them during startup.

Our data indicates that how successful and unsuccessful entrepreneurs use their networks varies by business phase. Even if both types of entrepreneurs have connections with the same agents, such as former colleagues, family members, and customers, the successful ones use them more strategically to glean information, contacts, ideas, and knowledge. Our data confirms that entrepreneurs’ networks will enhance their ventures only if entrepreneurs use them “strategically.”

Our findings should be of interest to both entrepreneurs and EFO leaders. Entrepreneurs can better ensure success by realistically self-assessing their strengths and deficits and recognizing the importance of nurturing strong and strategic support networks uniquely appropriate for each stage of venture development. EFO leaders should heed lessons from the entrepreneur network literature about entrepreneurs’ critical need for networks (Brüderl & Preisendörfer, 1998) and our findings about the dramatic deficit of them in PR.

In conclusion, our data suggests that the level of entrepreneurial activity in PR will be, in part, a function of entrepreneurial networking capabilities. Those capabilities in turn are influenced by systemic and individual level factors. The systemic level factors are governmental policies, EFOs' commitment to the entrepreneurship environment, provision of relevant service by EFOs, and a shift of national mindset. The individual level factors include entrepreneurs' perceived self-efficacy, cognitive bias, and social competence. Based on our findings, we developed the conceptual model presented in Figure 3. This model reflects our findings that networks, affected by both systemic and individual factors are essential for a vibrant entrepreneurial environment in PR.

**FIGURE 3
CONCEPTUAL MODEL**



LIMITATIONS

Our sample size was small, but ample and consistent with similar qualitative inquiries using a grounded-theory approach. While the sample included successful and unsuccessful entrepreneurs, they were not pre-selected to represent specific types of business or industry sectors. The strong patterns revealed across our sample cannot, therefore, be strictly interpreted as representative of all or a particular industry set of firms. Moreover, since the sample was limited to small-and-medium sized businesses in PR, our findings may not be generalizable to large companies. While our findings and conceptual model are most certainly not a comprehensive explanation of the lack of entrepreneurship in PR, they do offer a perspective about potentially critical factors that may affect it.

CONTRIBUTION

This study reveals the deficit of entrepreneurial facilitator organizations to support PR entrepreneurs and entrepreneurs' own shortcomings in ensuring their success. Until now, many academics as well as practitioners have focused on specific external or internal variables associated with entrepreneurship, overlooking the interplay between institutional and individual factors. This is true specifically with regard to PR. Our study thus addresses a gap in empirical work on entrepreneurship there. There have been few studies—and, to our knowledge, no qualitative studies—reflecting the perspectives of practicing entrepreneurs and multi-sector business, government, and civic leaders about the well-recognized failure of entrepreneurship to flourish in PR.

IMPLICATIONS FOR PRACTICE AND FUTURE RESEARCH

This study has several important implications for both practice and future research. Our findings reveal insight into a network deficit that appears to constrain entrepreneurship in PR. Both EFOs (public, private, and civic) and entrepreneurs themselves can take steps to build and utilize the kinds of networks that, according to ample research, are vital to venture conceptualization and growth. Government, in particular, should reconsider its commitment to entrepreneurship by ensuring staff competence, expertise, and experience and by pursuing policies and strategies to change the general mindset regarding where economic growth comes from and how a sustainable entrepreneurial environment could be created. EFO leaders might re-evaluate their missions and programs to more effectively support business founders by increasing their own interaction with other entrepreneurial advocacy organizations and purposefully counseling and supporting entrepreneurs on network development.

Our findings demonstrate that entrepreneurs often lack both the skills to build viable networks to sustain their ventures and an appreciation for why they should do so. Until now, PR decision makers have concentrated on the development of technical knowledge and/or economic resources to promote entrepreneurial activity. Our findings indicate entrepreneurs must overcome cognitive biases that affect their decisions about seeking and using outside advice and direction and suggest that more education and training, including specific attention to social competencies is needed. Educational entrepreneurship programs may benefit from improved curriculum designs.

We recommend more targeted research on entrepreneurs' network use (or misuse) to determine if the problem is endemic, industry or related to firm size, business phase, founder characteristics, etc. Case studies of entrepreneurs who have overcome the odds in PR and flourished would provide practical guidance to struggling business founders.

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APPENDIX A: INTERVIEW PROTOCOL

Interview Protocol – 1st Phase

1. What is your background?
2. Can you describe your organization?
3. Can you tell me about successful entrepreneurial events that you remember from the last five years? Explain what happened and how it came about.
4. Do you know of any unsuccessful entrepreneurial events that occurred in the last five years? Tell me what happened and how they came about.
5. If you were given a magic wand that would allow you to add or change something in regard to the entrepreneurial or business environment in Puerto Rico, what would you wish for?

Interview Protocol - 2nd Phase

1. What is your background?
2. Can you describe your firm?
3. Could you tell me about how the idea to start your business came about?
4. Could you tell me what was going on in your life when you made the (final) decision to establish this business?
5. Can you describe the most gratifying/positive moment you had during the time (process) when you were establishing your business? What happened and why?
6. Can you describe the least gratifying/negative moment you had during the time (process) when you were establishing your business? What happened? Why? How did you resolve it?

APPENDIX B: CORE CATEGORIES AND THEMES

Categories	Themes
<p>Support: issues mentioned by entrepreneurs about the lack of support from private, public, and civic organizations.</p>	<p>Networking structure: data shows that entrepreneurs perceive lack of an adequate formal supportive network.</p> <p>Knowledge and competency of supportive organization: entrepreneurs perceive that supportive organizations don't have the entrepreneurial and technical knowledge and expertise to help them start or grow an entrepreneurial venture.</p> <p>Understanding of local entrepreneurs needs: entrepreneurs perceive that supportive organizations don't have an adequate understanding of local entrepreneurial ventures and how their needs and challenges are different from big foreign companies.</p> <p>Bureaucratic processes: entrepreneurs perceive that dealing with supportive organizations involves excessive paperwork and bureaucratic and inefficient processes.</p> <p>Trust and intentions: entrepreneurs believe that supportive organizations are political or motivated by self-interest in personal gain rather than to help entrepreneurs succeed.</p>
<p>Priorities: entrepreneurs perceive that support organizations are focused on high impact companies and attracting foreign MNC rather than them.</p>	<p>Work focus: entrepreneurs perceive that support organizations continue to focus their efforts and resources on attracting and retaining foreign companies and don't give priority to local entrepreneurs.</p> <p>Strategic mindset: entrepreneurs perceive that the strategic mindset at all levels of support organizations continues to be to create jobs by supporting large firms rather than promoting local entrepreneurial activities.</p>
<p>Individual Network Competencies: individual skills and abilities to contact others for their benefit.</p>	<p>Self-efficacy: entrepreneur assessment of his/her ability to start and grow a new business.</p> <p>Cognitive bias: affects the assessment of external situations, personal capabilities, and venture decisions.</p> <p>Network competencies: lack of experience in building social skills necessary to leverage business opportunities and develop strategic partnership and relationships.</p> <p>Business life-cycle dynamics: understanding the dynamics and evolving needs of networking activities for successful business development at different stages.</p>

Learning Orientation of SMEs and Its Impact on Firm Performance

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In this paper, we investigate the extent to which an organizational learning orientation (LO) impacts performance using a sample of 228 Austrian SMEs. After elaborating the theoretical background, we examine the impact of LO on performance in the context of environmental dynamism and hostility and finally explore implications of the interaction between LO and the environmental dynamism and hostility for SME performance. Results of multiple regression analysis suggest that a high level of LO results in higher performance levels. However, both highly dynamic environments as well as hostile environments absorb possible performance effects of a high LO in SMEs.

INTRODUCTION

Any organization acting in a dynamic environment and trying to achieve and sustain competitive advantages needs to advance its organizational knowledge base and therefore requires an organizational learning orientation (LO). There is a lot of research available on the LO of SMEs which nearly exclusively focuses on individual or at best group level learning, but not on organizational learning processes (Wyer and Mason, 1998; Wyer, Mason, and Theodorakopoulos, 2000). Our study tries to overcome this deficit by applying an organization-level approach to the learning of small- and medium-sized businesses (SMEs) and by analyzing its impact on firm performance.

Individual learning and organizational learning are two categorically different levels of learning (processes) because (a) individual (and group level) learning processes do not automatically lead to an increase of the organizational knowledge base, they even often do not, and (b) organizational learning processes have different outcomes compared to individual learning (e.g. changes of organizational values).

Learning orientation (LO) as an organizational phenomenon was strongly addressed in the late nineties and later on. Within this paper, we define the learning orientation of an organization as its basic attitude towards learning, resulting in more or less organizational learning processes (Sinkula, Baker, and

Noordewier, 1997; Baker and Sinkula, 1999). Baker and Sinkula (1999) and Baker, Sinkula and Noordewier (1997) developed a scale for measuring the LO of organizations. Their construct consists of three dimensions: commitment to learning, shared vision, and open mindedness and has a clear organizational level focus.

Successful learning processes are strongly connected with improved firm performance, innovation (Mitra, 2000), sustainable customer relations, and an overall entrepreneurial orientation (Rhee, Park, and Lee, 2010). Still, a huge number of SMEs do not devote any resources for improving their organizational learning orientation (Dalley and Hamilton, 2000). Furthermore, SMEs often even fail to use publicly subsidized offerings for their employees for individual lifelong learning programs effectively (Morrison and Bergin-Seers, 2002), since effective learning strongly depends on the organizational culture, communication modes and learning styles (Dalley and Hamilton, 2000). SMEs might be viewed as a unique “problem-type” with regard to organizational learning, which has to be differentiated from large companies (Wyer and Mason, 1998; Scheff, 2001). On the one hand, SMEs are generally considered as flexible and adaptable organizations, whereas on the other hand, flexibility and adaptability require resources, which are usually scarce in this type of organization (Mugler, 1998). Therefore, the empirical analysis of the effect of LO on SME-performance is of special interest.

Additionally, environmental factors affect the relationship between organizational learning and firm performance. Especially in the European context, a lot of SMEs compete internationally and are more and more forced to cope with environmental dynamism and environmental hostility (Spicer and Sadler-Smith, 2006). A distinct LO therefore enables SMEs to rapidly adapt to changing environmental conditions. Against this backdrop, the research question addressed in this paper is: *Does an organizational LO in the context of environmental dynamism and environmental hostility improve SME performance?*

This paper is structured as follows: First, we elaborate the theoretical background on organizational LO with a special focus on SMEs, which then leads us to the formulation of the underlying hypotheses. Afterwards, we introduce the research method and present our measures. Subsequently, we present the results of regression analyses, and discuss them with regard to the existing literature. Finally, we draw conclusions of our study and discuss several limitations as well as suggestions for further research.

ORGANIZATIONAL LEARNING AND LEARNING ORIENTATION IN SMEs

The capability of organizations to learn is viewed as a source of sustainable competitive advantage (Levinthal and March, 1993), as “organizations of all kinds will not survive, let alone thrive, if they do not acquire an ability to adapt continuously to an increasingly unpredictable future” (Pearn, Roderick, and Mulrooney, 1995, p. 15). In general, organizational learning (OL) is defined as a process of knowledge creation through “acquiring information about the state of the world and [...] improving what the organization can do” (Cohen, 1991, p. 135). It consists of four dimensions: (1) Knowledge acquisition, (2) information distribution, (3) information interpretation, and (4) organizational memory (Huber, 1991). From an outcome-perspective, the importance of establishing a balance between exploration and exploitation has to be taken into consideration: Exploitation focuses on the application of knowledge already available within the organization, whereas exploration is directly related to organizational learning by focusing on the generation of new knowledge and competitive advantage (March, 1991; Levinthal and March, 1993). Hence, innovation is viewed being an outcome of learning processes, creating new knowledge within the organization (Brown and Duguid, 1991; Ayas, 1999; Scheff, 2001).

For our paper, it is – in line with Baker and Sinkula (1999) – of utmost importance to distinguish between “organizational learning” and a distinct “learning orientation” of an organization. Organizational learning is a dynamic process which occurs when there is a “mismatch of outcomes to expectations” (Baker and Sinkula, 1999, p. 412). In general, OL can be divided into two basic forms of learning: (1) adaptive or single-loop learning, as a kind of incremental learning, where organizations react on changes in the environment and initiate “corrections” through learning processes (Lumpkin and Lichtenstein, 2005; Easterby-Smith and Araujo, 1999), and (2) generative or double-loop learning, which is defined as higher-order learning and therefore might lead to a change of “viewing the world” by questioning and

changing organizational processes (Lumpkin and Lichtenstein, 2005; Easterby-Smith and Araujo, 1999). Therefore, double-loop learning might of course change the way single-loop learning is processed, too.

The learning orientation (LO) of an organization is associated with double-loop or proactive learning (Celuch, Kasouf, and Peruvemba, 2002) and might be conceptualized as a “set of organizational values that influence the propensity of the firm to create and use knowledge” (Sinkula, Baker, and Noordewier, 1997, p.309). Hence, whereas organizational learning is the dynamic *process* of knowledge accumulation, the LO of an organization is its basic *attitude* towards learning itself. Organizations with high LO value learning in two areas: (1) response to changes in the environment, *and* (2) ability to constantly question its relationship with the environment (Baker and Sinkula, 1999). LO is closely connected to the market orientation of an organization, which defines the ability of businesses to process market information. Organizations which show a high LO recognize the importance of learning from their environment (Santos-Vijande et al., 2005; Weerawardena, O’Cass, and Julian, 2006) and consider that (radical) innovation does not solely come from reaction to environmental changes (Baker and Sinkula, 1999). In doing so, the LO of an organization positively influences its performance at least indirectly (Santos-Vijande et al., 2005) and has a positive impact on firm innovativeness (Calantone, Cavusgil, and Zhao, 2002).

Sinkula, Baker, and Noordewier (1997) define three core components of an organizational LO, which are applied for our study: (1) Commitment to learning, (2) open-mindedness, and (3) shared vision. Organizations with a high commitment to learning explicitly promote a learning culture, as they consider learning to be of utmost importance for the organization’s future development. Open-mindedness is directly connected with an organization’s ability to *unlearn* (Scheff, 2001). Open-minded organizations regularly and proactively question their routines, assumptions, and beliefs, which is seen as an important prerequisite for the acquisition of new knowledge and change through organizational learning. Whereas commitment to learning and open-mindedness directly influence the organization’s learning intensity, shared vision “influences the direction of learning” (Sinkula, Baker, and Noordewier, 1997, p.309). A commonly shared vision within the organization therefore serves as the basement for proactive learning (Scheff, 2001), providing a learning focus for all members of the organization, as “without a shared vision, individuals are less likely to know what organizational expectations exist, what outcomes to measure, or what theories in use are in operation” (Sinkula, Baker, and Noordewier, 1997, p.309).

Even though organizational learning and the LO of small- and medium-sized businesses is viewed as being different to that of large organizations (e.g. Wyer, Mason, and Theodorakopoulos, 2000; Keskin, 2006), little attention has been drawn to the LO of this special type of organizations by now, although organizational learning processes significantly differ with regard to organizational size (Spicer and Sadler-Smith, 2006; Michna, 2009). Nonetheless, empirical evidence shows that the learning attitude of SMEs differs in terms of formalization and structure (Keskin, 2006), complexity and management (Wyer, Mason, and Theodorakopoulos, 2000), the predictability of learning outcomes (Wyer and Mason, 1998), and communication modes and learning styles (Dalley and Hamilton, 2000; Scheff, 2001). Furthermore, the LO of SMEs seems to be rooted in the organization’s culture (Hult, Hurley, and Knight, 2004), particularly in the extent to which the organization inclines to engage in and support new ideas (Rhee, Park, and Lee, 2010) and values a certain market orientation (Santos-Vijande et al., 2005).

A great deal of SMEs is facing turbulent and challenging environments, which require effective organizational learning (Spicer and Sadler-Smith, 2006), as the general LO is central to innovativeness and performance not only in large firms, but especially in SMEs (Weerawardena, O’Cass, and Julian, 2006; Rhee, Park, and Lee, 2010). LO requires a pronounced focus on the market and customers, which enables SMEs to respond to market developments and customer needs. Hence, LO has the potential to enhance revenues, market share, and in the long run, growth in number of employees. Similarly, the response to customer needs leads to customer retention and might provide substantial input for new product ideas, too. However, it has to be noted that in this regard, research seems to be ambiguous as Nasution et al. (2011) recently found no significant empirical evidence for a positive relation between LO and innovation.

HYPOTHESES

A distinct LO enables organizations to effectively acquire and use new knowledge and “is a source of flexibility, adaptability and competitive advantage” (Spicer and Sadler-Smith, 2006, p.141). Empirical evidence shows that organizational learning (as well as innovation) contributes in a positive way to firm performance (Jiménez-Jiménez and Sanz-Valle, 2011). Hence, we selected performance as the dependent variable for our study and conclude that the LO of an organization potentially influences performance in SMEs positively (Baker and Sinkula, 1999; Mitra, 2000; Spicer and Sadler-Smith, 2006; Michna, 2009; Zahra, 2010). Therefore, we hypothesize:

H1: The learning orientation of SMEs is positively related to performance.

Furthermore, we draw special attention to the influence of environmental conditions the organization is embedded in. Examining the influence of environmental characteristics on the performance of SMEs enables us to draw a more integrated picture of the influences on SME behavior as such (Mugler 1998). Regarding the environmental conditions a SME is embedded in, we concentrate on two distinct characteristics: environmental dynamism and environmental hostility. Regarding the environment SMEs are operating in, volatile markets, both on customer and supplier side, as well as increased competition on globalized markets can be seen as major impact factors. Dynamic environments are highly unpredictable regarding the behavior of competitors and the expectations of customers, and therefore comprise numerous business opportunities which may lead to competitive advantage (Miller, 1987; Frank and Keßler, 2008). Recognizing and exploiting those business opportunities in dynamic environments forces organizations to keep their alertness towards environmental changes and their performance on a highly competitive level. Furthermore, the hostility of the environment is reflected by several characteristics, such as price, competition, regulatory restrictions, unfavorable trends and so forth (Miller, 1987). Environmental hostility thus has a large potential to negatively impact SME performance. Summarizing, we pose the following two hypotheses:

H2: High environmental dynamism leads to an increase in SME performance.

H3: High environmental hostility leads to a decrease in SME performance.

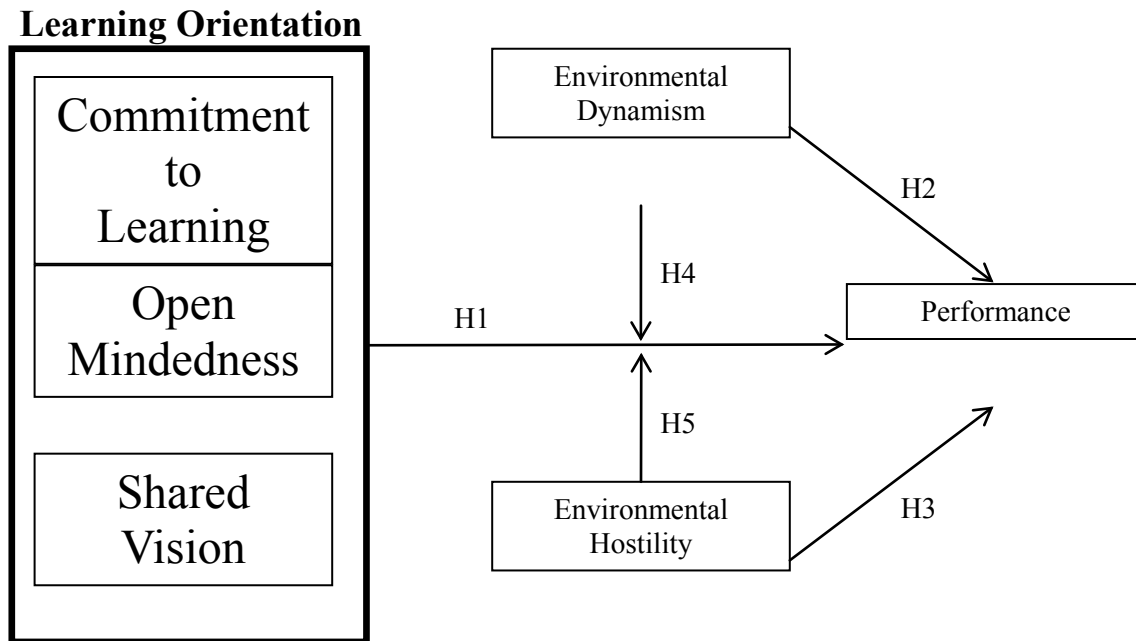
Organizational learning is often seen as a means to achieve the organization’s fit with its environment (Levinthal, 1991). Therefore, it is necessary to include the environment – as an important stimulus for initiating learning processes (Huysman, 1999) – into our research approach. Scheff (2001) notes that stable, non-hostile environments do not provide sufficient stimulation for organizations to learn. Hence, we conclude that the relation between the LO and performance in SMEs stipulated in hypothesis 1 may be moderated by the organization’s environment and hypothesize as follows:

H4: The LO-performance relation in SMEs is moderated by environmental dynamism.

H5: The LO-performance relation in SMEs is moderated by environmental hostility.

Graph 1 finally presents the research model for our study.

**FIGURE 1
RESEARCH MODEL**



RESEARCH METHOD

Sample

The sample for this study was derived from a survey of 2,878 Austrian businesses classified as small and medium-sized enterprises (SME) with an employee number of 20 up to 249. We decided to exclude micro-businesses and assessed a minimum number of 20 employees for our sample, as empirical results show that especially micro-businesses show little to no LO due to their restricted firm size (Birdthistle, 2008). Furthermore, we selected industries demonstrating increased innovation potential in manufacturing and service sectors¹, which are assumed to enhance more adaptive, higher-order learning styles due to higher industry dynamics (Chaston, Badger, and Sadler-Smith, 2001).

The mail survey was conducted in 2006; address informations were drawn from “Aurelia” business database, which contains nearly 50 % of all Austrian businesses. A total of 358 businesses returned the questionnaire, which equals a response rate of 12.4 %. After rejection of not entirely completed questionnaires, the final data set used for statistical analysis consisted of 228 businesses, with an average number of 77 employees. No response bias concerning the firm’s industry, number of employees and amount of revenues could be identified.

Measures

Independent Variables

Our research model (figure 1) includes three independent variables:

- *Learning orientation*: The construct of LO was measured using a 15-item scale based on the scales proposed by Sinkula, Baker and Noordewier (1997) and Baker and Sinkula (1999). A full list of the items used is presented in appendix A. LO was treated as a single construct (Sinkula, Baker, and Noordewier, 1997) consisting of the three dimensions (1) commitment to learning, (2) shared vision, and (3) open-mindedness. Each dimension was represented by five items

employing Likert-scales, ranging from 1 (totally disagree) to 7 (totally agree). In order to control for the reliability of the scales, the Cronbach's alpha was calculated, showing a value of 0.88.

- *Environmental dynamism* was measured applying a 4-item scale from Miller (1987); single items are listed in the appendix. The reliability of the scale is reflected by a Cronbach's alpha of 0.79.
- *Environmental hostility*: For the measurement of the degree of environmental hostility a 3-item scale, again based on Miller (1987) was employed. The scale shows a sufficient alpha-level of 0.68.

Dependent Variable

Performance can be measured in a number of different ways; for our study, we decided to apply a multi-faceted measure, which combines financial and non-financial items in order to address the multidimensionality of success (Spicer and Sadler-Smith, 2006). *Firm performance* as the dependent variable in our model consists of five dimensions: (1) revenues, (2) number of employees, (3) market share, (4) share of regular customers, and (5) success with new products/processes. To put short-term, fleeting success into perspective, respondents were asked to rate the development of the five dimensions over the last (full) three years preceding the survey. Furthermore, in line with central findings in the literature measuring success (e.g. Chandler and Hanks, 1993), the indicators of success were put into relation with major competitors. Therefore, respondents rated the development of the five dimensions mentioned above for the past three years compared to their major competitors in their industry using 7-point scales (1 – far lower than competitors; 7 – far higher than competitors). The reliability of the scale was sufficient with an alpha of 0.79.

Control Variables

As controls, three single items were employed: (1) business size, measured in number of employees (part-time employees were converted into fulltime equivalents), (2) business age in years (divided into 10 different age groups), and (3) industry, distinguishing in manufacturing or service industry.

RESULTS

Our proposed research model (figure 1) was tested via multiple regression analysis. Beforehand, zero-order correlations were calculated. These are, together with means and standard deviations, portrayed in table 1.

TABLE 1
CORRELATION MATRIX, MEANS AND STANDARD DEVIATIONS (n = 228)

	mean	SD	1	2	3	4	5	6	7
Performance	4.70	0.80							
Size	76.98	112.98	.162**						
dummy manufacturing	0.72	0.44	-.170**	.019					
dummy services	0.25	0.43	.170**	.004	-.945***				
business age	6.19	3.30	-.292***	.156**	.325***	-.310***			
learning orientation	5.28	0.89	.389***	.000	-.011	.025	-.052		
environmental dynamism	4.64	1.02	.481***	.044	-.053	.076	-.258***	.296***	
environmental hostility	4.54	0.97	-.048	.095	.037	-.020	.162**	.052	-.108

SD = standard deviation

*** p < 0.001, ** p < 0.01

In order to test for multicollinearity, the variance inflation factors (VIF) were calculated. The VIF for all independent variables and interaction terms were just slightly over 1, the highest VIF equaled 1.254. Hence, this criterion for multicollinearity concerns was far below critical values (Urban and Mayerl, 2006). Similarly, bi-variate correlations among the independent variables or moderators (LO,

environmental dynamism, and environmental hostility) are lower than 0.3 and therefore as well below critical values (Hair et al., 2010).

To test our hypotheses, three regression models were calculated; results are presented in table 2. In model 1, only the control variables were entered: (1) Business size, measured in number of employees, (2) business age, (3) a dummy variable (service industry – yes/no), and (4) another dummy variable (manufacturing – yes/no). As can be seen in table 2, business size shows a significant positive relation with the dependent variable performance ($\beta = 0.209$, $p < 0.01$), whereas business age shows a significant negative relation ($\beta = -0.300$, $p < 0.001$).

Two approaches were used to analyze the relation between the independent variables and the performance dimensions: The main effects approach and the contingency approach. The main effects approach describes the relation between the independent variables and SME performance as a function in which the independent variables do not interact with one another. Therefore, in model 2 the independent variable (LO) and the two potential moderators – environmental dynamism and environmental hostility – were added. In doing so, a significant change in R^2 could be observed ($\Delta R^2 = 0.236$, $p < 0.001$). Our independent variable LO shows a significant positive impact on performance ($\beta = 0.280$, $p < 0.001$). Furthermore, environmental dynamism, one of the potential moderators, shows a highly significant relation with performance ($\beta = 0.338$, $p < 0.001$). Therefore, hypotheses 1 and 2 found support. Hypothesis 3, assuming a negative impact of environmental hostility on performance, found no support ($\beta = -0.009$, not significant).

TABLE 2
RESULTS OF REGRESSION ANALYSIS ($n = 228$)^a

Variables	Performance		
	Model 1	Model 2	Model 3
Controls			
Business size	.209**	.180**	.177**
Business age	-.300***	-.187*	-.188*
Industry : services	.036	-.076	-.083
Industry : manufacturing	-.043	-.163	-.166
Independent Variables			
Learning Orientation		.280***	.284***
Environmental Dynamism		.338***	.346***
Environmental Hostility		-.009	-.011
Interaction effects			
LO * Environmental Dynamism			.069
LO * Environmental Hostility			-.043
ΔR^2	.135***	.236***	.006
R^2	.135	.371	.377
adjusted R^2	.119	.351	.351
F	8.674***	18.518***	14.664***

^a standardized regression weights

*** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$

The contingency approach goes one step further and accounts for interactions between two variables in the form of two-way interactions. Accordingly, two interaction terms (Baron and Kenny, 1986) were entered into regression analysis in model 3. Again, the relations between LO and environmental

dynamism and performance were highly significant, but the interaction terms did not show any significant impact on the dependent variable. Furthermore, no significant change in R^2 could be observed. Therefore, hypothesis 4 and 5 (moderating effect of environmental dynamism and environmental hostility on the LO-performance relation) could not be supported.

DISCUSSION

Concerning the main effect of our study – the positive relation between LO and performance – our results confirm those of Baker and Sinkula (1999), as we found empirical evidence that a high level of LO results in higher performance levels. Our results even extend previous findings concerning the LO-performance relationship, as we were able to show that a certain LO is important for the success of small- and medium-sized businesses, too (similarly: Pett and Wolff, 2010). Additionally, our findings extend the generalizability of the LO-performance relation, as we show that LO even impacts non-financial performance indicators as share of regular customers and success with new products and services.

With regard to specific environmental factors SMEs are operating in our study shows that environmental dynamism acts as a significant predictor for firm performance. Accordingly, SMEs in industries with dynamic environments develop the capability of adapting more effectively and efficiently to new environmental conditions and therefore might be more successful than their large counterparts. Our results show, that a hostile environment impacts SME performance negatively, although to a very small extent and without statistical significance. Although, environments in our sample were perceived as relatively hostile, SMEs seem to be able to commit their customers to the business and to develop new products through their flexibility and closeness to customers (Mitra, 2000; Rhee, Park, and Lee, 2010). Thus, the stable relations between SMEs and their customers enable SMEs to foil the hostile activities of their competitors.

Concerning the assumed moderating effects of environmental dynamism and hostility, our findings did not support the research model. A low positive effect of dynamism on the LO-performance could be observed although without statistical significance. LO and environmental dynamism do have a positive relation with performance, as results of our main effects assumed show, but it seems as SMEs cannot manage to link this positive influence of the two predictors effectively. Therefore, we found empirical evidence for two parallel, independent processes (LO, environmental dynamism), which do not result in an increased performance outcome if combined together. Hence, it seems as if the rapidness of environmental changes constricts the performance-effect of LO and furthermore the adaptation of structures and processes to dynamic environments. Our results are therefore in line with Scheff (2001), who notes that successful businesses seem to be less interconnected with their environment. Adaptation to changing environments therefore seems to be closer connected to flexibility than a long-term LO (Wyer and Mason, 1998). Furthermore, SMEs face a lack of resources (Scheff, 2001) to efficiently make use of possible synergetic effects between LO and environmental dynamism. Summarizing, we can conclude that a highly dynamic environment absorbs possible performance effects of a high LO in SMEs. This in turn supports the assumption that the capability to continuously adapt to an increasingly unpredictable future is more a fundamental prerequisite for firms to survive in highly dynamic environments (Pearn, Roderick, and Mulrooney, 1995) than a performance driver.

Another environmental aspect with an assumed moderating effect on the LO-performance relation – environmental hostility – did not show any influence as well. SMEs do perceive the degree of hostility in their environment, but this perception has no negative influence on performance. Accordingly, a tight LO does not show the assumed performance effect in hostile environments. A lack of predictability in hostile environments by definition therefore makes organizational learning almost impossible and vain.

CONCLUSION, LIMITATIONS, AND IMPLICATIONS FOR FURTHER RESEARCH

Our results extend past research about LO and organizational performance. Research up to this point focused on individual or group level learning processes. This study addresses organizational LO in SMEs.

Although organizational learning processes significantly differ with regard to organizational size (Spicer and Sadler-Smith, 2006; Michna, 2009), little attention has been drawn on the specifics of LO in SMEs so far. We were able to show that a certain LO is important for the performance of small- and medium-sized businesses. Furthermore, our findings extend the generalizability of the LO-performance relation, as we show that LO impacts non-financial performance indicators, too. However, we found out that a high LO does not bring about the assumed performance effect in highly dynamic and/or hostile environments. Accordingly, further research is challenged to examine the interconnectedness of SMEs with their environment to reveal the impact of environmental characteristics on performance and LO more deeply.

In this study we defined LO as the basic attitude towards learning. Especially for SMEs, it can be assumed that the owner-managers' values and attitude have a high influence on the organizational culture and thus the organizational LO rooted in the culture (Hult, Hurley, and Knight, 2004; Santos-Vijande et al., 2005), too. For this reason, we suggest additional research on the influence of owner-managers on the organizational LO of SMEs (Morrison and Bergin-Seers, 2002; Dalley and Hamilton, 2000). This can be seen as one aspect of the internal context of SMEs, which "is central to what will and what will not be learnt" (Dalley and Hamilton, 2000, p.52). Additional studies in this regard will enable researchers to uncover, operationalize, and evaluate in more detail the internal (e.g. cultural, Scheff, 2001) context of SMEs and its implications for the LO-performance relationship.

Of course our study has to face some limitations. It would have been superior for the underlying research model to apply a longitudinal research design. However, we have tried to mitigate this shortfall by employing a retrospective collection of performance data over a period of three years.

The results of this study are also valuable and applicable for the practical domain. Owner-managers have been found to show little interest for programs aiming at stimulating their LO (Morrison and Bergin-Seers, 2002). Our results underline the importance of owner-managers engaging in learning in order to enhance business performance. Furthermore, looking at prior research, SMEs do not devote sufficient resources for improving their organizational LO (Dalley and Hamilton, 2000; Scheff, 2001). In general, older generations tend to exhibit higher levels of inertia, and therefore their LO decreases (Levinthal, 1991). Hence, organizational LO in owner-managed SMEs is likely to decrease with business age as well. Results of our study indicate the importance of applying resources to enhance organizational LO, especially for older businesses to stay competitive. Therefore, SMEs might as well consider cooperation with other businesses to overcome resource deficits by acquiring external resources (Scheff, 2001).

ENDNOTE

¹According to ÖNACE classification, our sample contained the following industries: food industry; wood industry; paper industry; chemical production; metal production and processing; steel and light metal construction, manufacturing of metal products; mechanical engineering; production of office machines as well as data processing machines and facilities; production of devices for electrical power generation and distribution; communications technology and production of broadcasting and television devices as well as electronic components; production of medical, measurement and control systems and optics; production of moto vehicles and motor vehicle parts; other vehicle construction; recycling; data processing and databases; technical, physical and chemical inspection; advertising; waste water and waste management, other waste disposal.

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APPENDIX A: FULL LIST OF ITEMS

Commitment to Learning

Managers basically agree that our organization's ability to learn is the key to our competitive advantage.

The basic values of this organization include learning as key to improvement.

The sense around here is that employee learning is an investment, not an expense.

Sinkula, Baker, and Noordewier 1997

Learning in my organization is seen as a key commodity necessary to guarantee organizational survival.

Our culture is one that does not make employee learning a top priority. (reversed scored)

Baker and Sinkula 1999

Shared Vision

There is a commonality of purpose in my organization.

There is total agreement on our organizational vision across all levels, functions, and divisions.

All employees are committed to the goals of this organization.

Employees view themselves as partners in charting the direction of the organization.

Sinkula, Baker, and Noordewier 1997

We do not have a well-defined vision for the entire organization. (reversed scored)

Baker and Sinkula 1999

Open-Mindedness

We are not afraid to reflect critically on the shared assumptions we have made about our customers.

Personnel in this enterprise realize that the very way they perceive the marketplace must be continually questioned.

We rarely collectively question our own biases about the way we interpret customer information. (reversed scored)

Managers encourage employees to "think outside the box".

Original ideas are highly valued in this organization.

Sinkula, Baker, and Noordewier 1997

Baker and Sinkula 1999

Environmental Dynamism (Miller 1987)

Growth opportunities in the environment have decreased dramatically.

1 2 3 4 5 6 7

Growth opportunities in the environment have increased dramatically.

Production/service technology has remained the same.

1 2 3 4 5 6 7

Production/service technology has changed very much.

Rate of innovation of new operating processes and new products or services has fallen dramatically.

1 2 3 4 5 6 7

Rate of innovation of new operating processes and new products or services has dramatically increased.

Research and development activity has fallen off greatly.

1 2 3 4 5 6 7

Research and development activity has substantially increased.

Environmental hostility (Miller 1987, reversed)

Market activities of our key competitors...

... have become far less predictable.

1 2 3 4 5 6 7

... have become far more predictable.

... have become far more hostile.

1 2 3 4 5 6 7

... have become far less hostile.

... now affect the firm in many more areas (pricing, marketing, production, etc.)

1 2 3 4 5 6 7

... now affect the firm in far fewer areas (pricing, marketing, production, etc.)

Assessing the Qualities of Athlete Endorsers: A Study of Consumer Preferences for the 3 Qualities of Sports Endorsers Attractiveness, Trustworthiness, Expertise

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The use of celebrities to endorse products is a popular technique used by numerous marketers. Athlete endorsers, a subset of celebrity endorsers, are also extremely popular and have their own distinct positioning in the minds of consumers. This research takes a closer look at the three qualities of athlete endorsers, attractiveness, trustworthiness, and expertise. It seeks to both discover how consumers define these three qualities as well as how important each of these qualities is to consumers. Steps were taken to test a possible gender difference when it comes to determining consumer preference. A difference between consumers with differing levels of sports involvement was also examined. The result was that differences were discovered in both of these areas. This indicates that gender and sports involvement are key demographic considerations to be addressed when making the decision to use an athlete to endorse a product.

INTRODUCTION

The U.S. professional sports team industry is an approximately \$19 billion a year industry. Sports from golf to football at levels from peewee to professional are extremely popular. This can translate into significant profits for marketers who can capitalize on this popularity and effectively use athletes to endorse their products and services. This paper is focused on defining the three main qualities (attractiveness, trustworthiness, and expertise) of athlete endorsers and determining the relative importance that consumers place on these three qualities in a number of situations. A survey was conducted to test whether or not there is a difference in these definitions or levels of importance between genders and between those that are more and less involved in sports activities.

Literature Review

Celebrity Endorser Qualities

When it comes to celebrity endorsers, there are three main terms used to describe them. These terms are attractiveness, expertise in sport, and trustworthiness of the individual. All celebrity (individuals that are famous in the social realm) endorsers possess these qualities to varying degrees. Generally, it is considered more beneficial for the endorser to have a high level of all three qualities, but for particular products and consumers certain qualities are of higher value to the consumer. This makes those qualities more effective in these situations. Celebrity sports endorsers are no exception to this.

The first of these qualities, endorser attractiveness, is often approached in terms of physical appearance and facial attractiveness. Some researchers use a more multidimensional construct that includes aspects such as the perceived similarity of the endorser to the consumer, the familiarity of the endorser to the consumer, and whether or not the source is likable or admired (Boyd, 2004, p.84). When it comes to athlete endorsers, attractiveness is a common feature of the endorser. Due to the nature of their professions, athletes are generally in peak physical condition and are therefore found to be physically attractive. These athletes tend to have high familiarity (especially for the followers of their particular sport) and are usually well-admired.

Endorser expertise is the “perceived ability of the celebrity to make valid assumptions,” that is, the endorser’s ability to provide the consumer with accurate and beneficial information (Premeaux, 2009, p. 43). For athlete endorsers, having high levels of expertise may be more important than physical attractiveness for creating a positive mental connection between the athlete endorser and the endorsed product or event. Strong expertise may even be important enough to compensate for poor physical attractiveness and trustworthiness (Premeaux, 2009, p.33). Expertise has also been found to be the quality most associated with intent to purchase (Premeaux, 2009, p. 44). Athletes who are at the top of their particular sport will generally have higher expertise, at least within the area of that sport (Stone, 2003, p.96).

The final endorser quality is trustworthiness. Trustworthiness refers to “the consumer's confidence in the source for providing information in an objective and honest manner” (Boyd, 2004, p. 83). Athletes that are particularly successful tend to have greater perceived trustworthiness when it comes to their technical knowledge (Stone, 2003, p. 96). However, their multiple endorsements and off-the-field antics may lead the endorser to have less character trustworthiness. Consumers feel that trustworthiness is higher for athletes who are endorsing athletic products as opposed to non-athletic products (Koernig, 2009, p. 31).

Gender Preferences for Celebrity Endorsement Qualities (Males)

Traditionally, males, particularly younger males, are more associated with sports and sports products than are women. As a result, the male college market is the target of much of the sports advertising found on television today (Shuart, 2007, p.137). Sports advertising that uses athlete endorsers may be particularly effective for this group. This is because research has shown that athlete endorsers have greater AIDA effects (driving individuals through the sequence of attention, interest, desire, and action) for males. Males are also more influenced by familiar celebrity endorsers in comparison to females (Premeaux, 2009, p.37-40). Men are more likely to correctly identify unnamed athlete endorsers and they prefer male endorsers to female endorsers.

Gender Preferences for Celebrity Endorsement Qualities (Females)

Though females are less targeted in the sports advertising market, they represent a growing area of importance for sports marketers. Some research has even shown that for Generation Y (those born between the approximate years of 1982-2000), teen females are actually more influenced by athlete endorsers than male teens are (Shuart, 2007, p. 129). It is important to identify some findings that are unique to the female market. Females rate endorsers as more expert when there is a strong fit between the endorser and the product (Boyd, 2004, p, 82). Although males prefer male endorsers, females have demonstrated no preference for endorser gender (Peetz, 2004, p.146).

Effect of Sports Involvement

The gender effect found for many of the variables of athlete endorsers can be modified by the respondent's level of sports involvement. More specifically, these effects (such as males' preference for male endorsers) are greater for consumers who have low sports involvement. In turn, their response to athlete endorsers may be more predictable (Boyd, 2004 p.92). It may be more difficult, or even impossible, to predict the response of consumers that have a high level of involvement in sports (Boyd, 2004, p.91).

HYPOTHESIS

Observation indicates that women are more long-term both when it comes to their purchase decision and when it comes to their decision making process. They tend to purchase products that satisfy their long-term needs and they tend to invest more research into making their decision. This research includes gathering firsthand information from others who have already purchased the product, particularly specific information on why the product did or did not work. Although it is much less significant than in past years, women today are still generally less knowledgeable about sports than are men. Their friends, who are usually women, are therefore also less knowledgeable about sports.

This would indicate that perhaps when it comes to sports products, women will rely more on the expertise of the endorser than men will. Since women have less personal expertise in the area, and since they cannot consult their friends on the subject, they will have to rely on the expertise of the endorser. This will lead to them valuing expertise above attractiveness and trustworthiness. The formal hypothesis is thus:

H₀ = Women will value the expertise of sports figures endorsing sports products more than men will.

H_A = Women will not value the expertise of sports figures endorsing sports products more than men will.

Other Anticipated Results

Based upon the research conducted, this researcher anticipates an additional result. If the hypothesis is not rejected, the respondent's level of sports involvement will lessen the effect on that respondent's preference for endorser expertise. Since the predicted gender gap is based upon females' lack of knowledge about sports, it would seem that females that do have greater knowledge about sports would be less affected. These females would have more personal expertise, and may likely have friends that are more involved in sports and have more expertise. Using this reasoning, they would not need to rely as much on the endorser's expertise.

Research Method

In order to obtain data on the subject a survey instrument was constructed. This survey first required the respondents to define the three endorser qualities in question (attractiveness, trustworthiness, and expertise) by ranking possible contributors (such as facial appearance, likability, and familiarity for attractiveness) in order of importance. These both provided a clearer picture of how the respondents were defining the qualities, and forced the respondents to consider all aspects (such as both physical and non-physical aspects of attractiveness) contained within the qualities. Once the respondents had defined the qualities, they were asked to rank the importance of the three qualities in a number of listed situations. After this they were asked how likely it was that they would purchase a product that was endorsed by a person with a high level of each separate quality. Upon the completion of these questions the respondents were asked to rate themselves in terms of their level of sports participation, the degree to which they follow sports, and their overall feeling of personal sports involvement. Finally, demographic information such as age, gender, and academic class was gathered.

The completed surveys were then coded and entered into PASW Statistics 18 for statistical analysis. For the ranked data, a crosstabs analysis was performed and the Chi-Square value was used to determine the level of significance. For the interval data, an ANOVA analysis was performed and the F value was used to determine the level of significance. The findings were then filtered to include only those with significance at the .05 level and greater. Those of particular interest will be discussed in this paper.

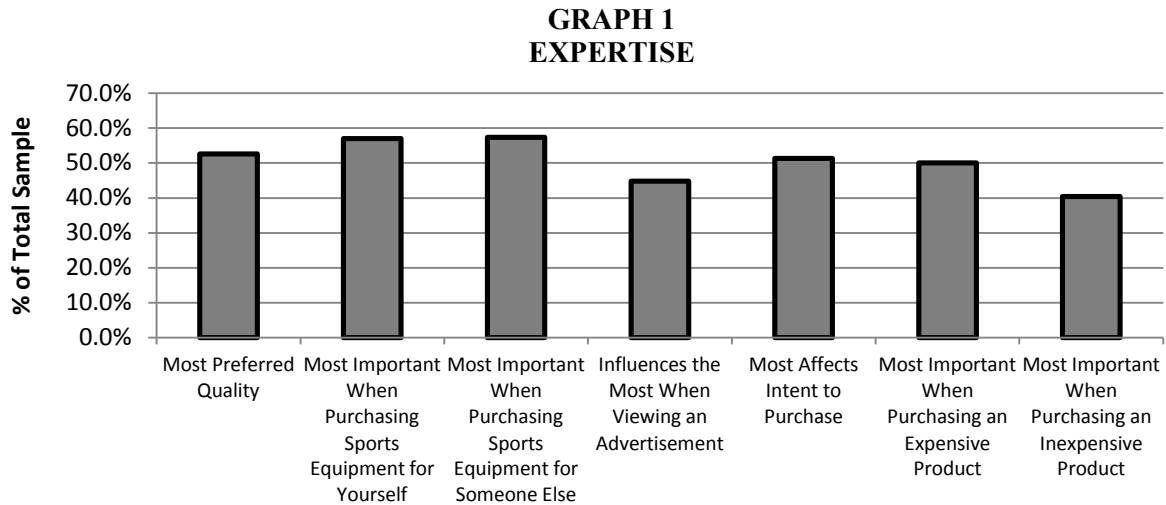
SAMPLE SURVEY

The population being tested consisted of current college students between the ages of eighteen and twenty-four. From this population a sample was selected and total of 230 usable surveys were completed by this sample. Of these 230 there was an approximately fifty-fifty split between males and female, and a variety of academic majors were represented. All four class levels (freshman, sophomore, junior, and senior) were represented, but 71.7% of the respondents were upperclassmen. This should not undermine the integrity of the results because the upperclassmen and underclassmen are so close in age. For visual representation see Appendix B.

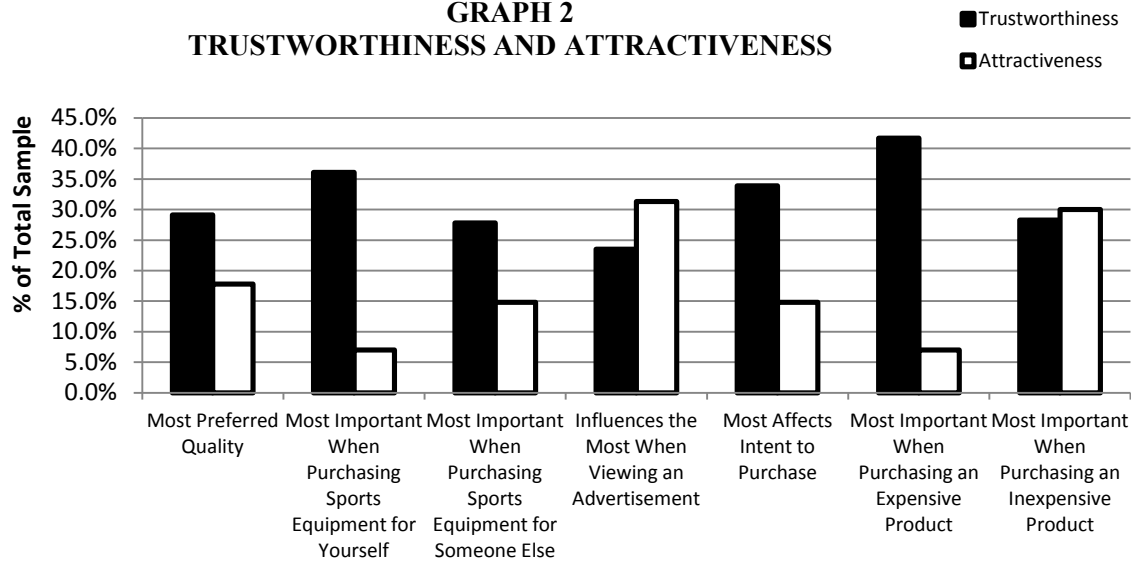
RESULTS

Summary Results

As predicted by the 2 graphs below:

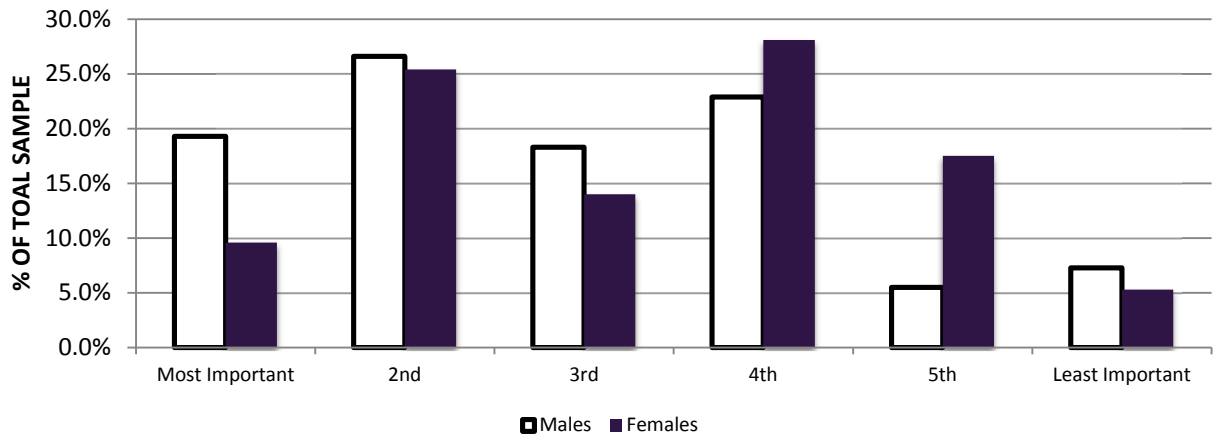


**GRAPH 2
TRUSTWORTHINESS AND ATTRACTIVENESS**



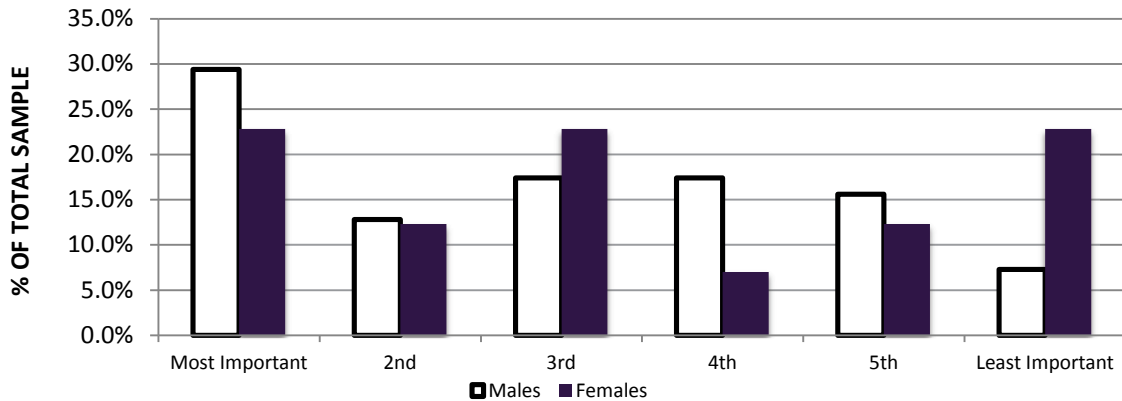
Defining Attractiveness

**GRAPH 3
IMPORTANCE OF LIKABILITY FOR DEFINING ENDORSER ATTRACTIVENESS**



A significant relationship was observed between the respondent’s gender and the level of importance placed upon endorser likability (see GRAPH 3) when defining attractiveness (Pearson Chi-Square $p \leq .05$). The respondent’s gender had an effect on how important he/she rated likability. An impact that was found was that male respondents were significantly more likely to rate likability as being one of the top three important aspects of attractiveness than female respondents were (Pearson Chi-Square $p \leq .05$). This is represented by 64.2% of males placing likability in the top three in terms of importance, compared to 49.1% of females.

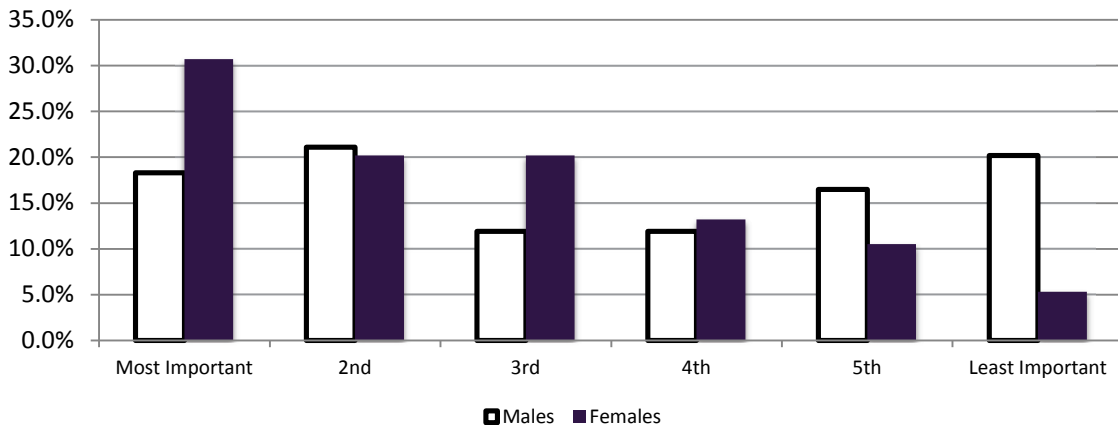
GRAPH 4
IMPORTANCE OF FAMILIARITY FOR
DEFINING ENDORSER ATTRACTIVENESS



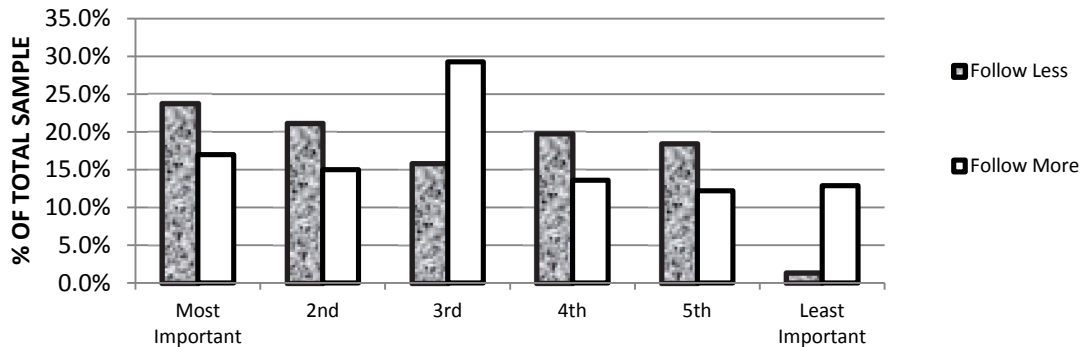
A significant relationship was observed between the respondent's gender and the level of importance placed upon the familiarity of the endorser to the respondent (see GRAPH 4) when defining attractiveness (Pearson Chi-Square $p \leq .01$). The respondent's gender had an effect on how important he/she rated familiarity. Male respondents were significantly more likely to rate the endorser's familiarity as being in the top four important aspects of attractiveness than female respondents were (Pearson Chi-Square $p \leq .05$). This is represented by 77.1% of males placing familiarity in the top four in terms of importance, compared to 64.9% of females.

Another significant relationship was observed between the respondent's gender and the level of importance placed upon the endorser being in good physical shape (see GRAPH 5) when defining attractiveness (Pearson Chi-Square $p \leq .01$). The respondent's gender had an effect on how important he/she rated the endorser being in good physical shape. Female respondents were significantly more likely to rate being in good physical shape as being one of the top three important aspects of attractiveness than male respondents were (Pearson Chi-Square $p \leq .01$). This is represented by 71.1% of females placing being in good physical shape in the top three in terms of importance, compared to 51.4% of males.

GRAPH 5
IMPORTANCE OF BEING IN GOOD PHYSICAL SHAPE
FOR DEFINING ENDORSER ATTRACTIVENESS



GRAPH 6
IMPORTANCE OF A FRIENDLY PERSONALITY FOR
DEFINING ENDORSER ATTRACTIVENESS

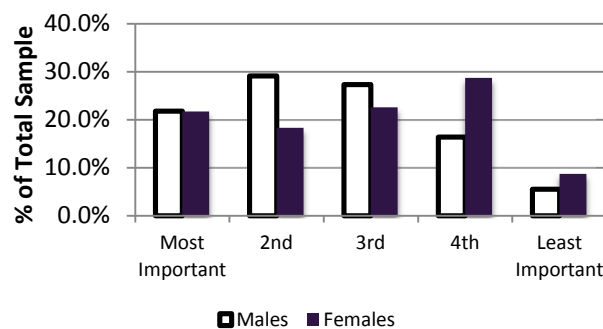


A final significant relationship was observed between the respondent's self-rated level of following sports and the level of importance placed upon the endorser having a friendly personality (see GRAPH 6) when defining attractiveness (Pearson Chi-Square $p \leq .01$). The respondent's level of following sports had an effect on how important he/she rated the endorser being in good physical shape. Those that follow sports less frequently placed having a friendly personality as being one of the top two in terms of importance 44.7% of the time, compared to 32% of those who follow sports more frequently (Pearson Chi-Square $p \leq .06$).

Defining Trustworthiness

A significant relationship was observed between the respondent's gender and the level of importance placed upon the endorser having a criminal record (see GRAPH 7) when defining trustworthiness (Pearson Chi-Square $p \leq .05$). The respondent's gender had an effect on how important he/she rated the endorser having a criminal record. For this aspect of trustworthiness, female respondents were significantly more likely to rate the presence of a criminal record as being one of the top two important aspects of trustworthiness than male respondents were (Pearson Chi-Square $p \leq .05$). This is represented by 49.1% of females placing the presence of a criminal record in the top two in terms of importance, compared to 33.9% of males. Note here, the assumption is being made that the presence of a criminal record is detracting from the endorser's trustworthiness. All aspects of trustworthiness were negative aspects that would make the endorser less trustworthy.

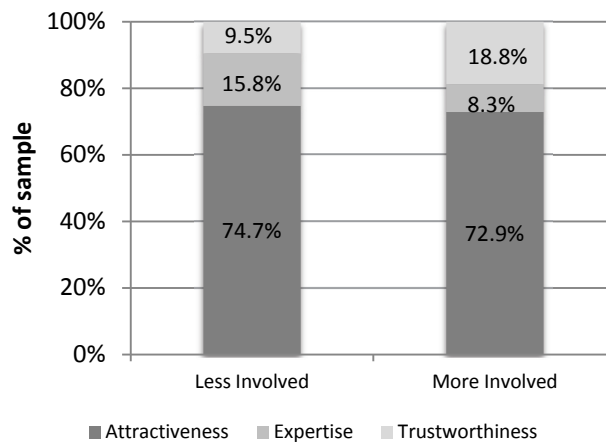
GRAPH 7
IMPORTANCE OF HAVING A
CRIMINAL RECORD FOR DEFINING
ENDORSER TRUSTWORTHINESS



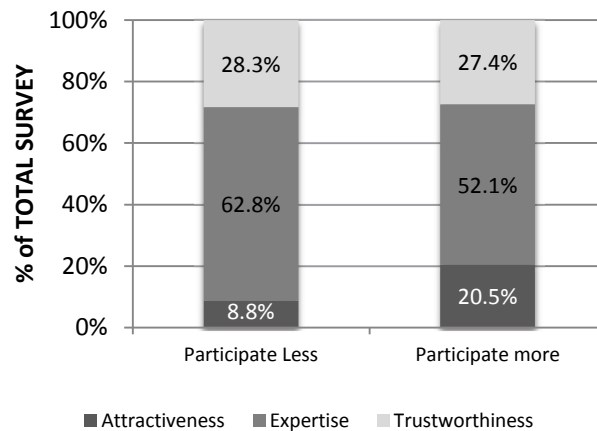
Endorser Quality Rankings

A significant relationship was observed between the respondent's level of sports involvement and the endorser quality that he/she rated as the least important (see GRAPH 8) when purchasing a product for him/herself (Pearson Chi-Square $p \leq .05$). Respondents that were more involved were significantly more likely to rate trustworthiness as the least important endorser quality in this situation (Pearson Chi-Square $p \leq .051$). This is represented by 18.8% of respondents that were more involved in sports selecting trustworthiness as the least important, compared to 9.5% of respondents that were less involved in sports. Also, a greater percentage of respondents that were less involved in sports selected expertise as the least important (15.8% of those that were less involved and 8.3% of those that were more involved), but this finding was not significant.

GRAPH 8
LEAST IMPORTANT ENDORSER
QUALITY WHEN PURCHASING A
PRODUCT FOR YOURSELF



GRAPH 9
MOST IMPORTANT ENDORSER
QUALITY WHEN PURCHASING A
PRODUCT FOR SOMEONE ELSE



Another significant relationship was observed between the level at which a respondent participates in sports and the endorser quality that he/she rated as the most important when purchasing a product for someone else (Pearson Chi-Square $p \leq .05$). For this situation, (see GRAPH 9) respondents with a higher

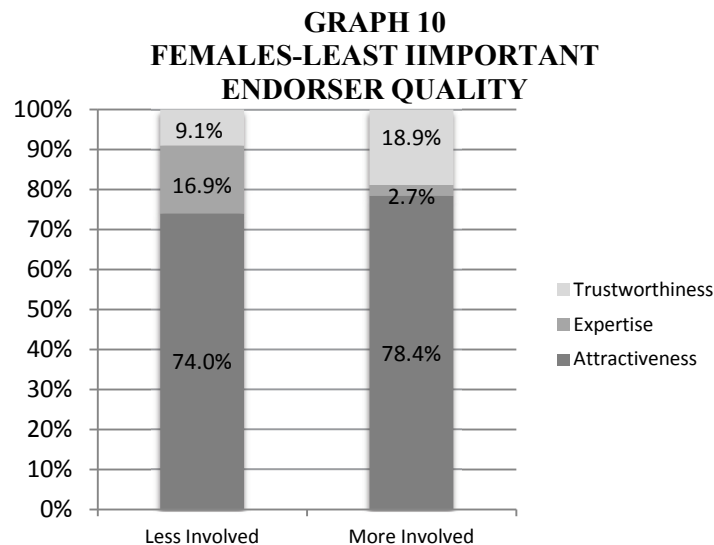
level of participation in sports were significantly more likely to select attractiveness as the most important endorser quality than respondents with a lower level of participation in sports (Pearson Chi-Square $p \leq .05$). This is demonstrated by 20.5% of high participators selecting attractiveness as the most important, compared to 8.8% of low participators. A greater percentage of low participators (62.8% in comparison to 52.1% of high participators) selected expertise as the most important endorser quality in this situation, but this result was not significant.

Likelihood of Product Purchase

A significant positive relationship was observed between the respondent's level of sports involvement and the likelihood that he/she would purchase a product when the endorser had a greater amount of expertise (Single Factor ANOVA, F Value $p \leq .01$). Respondents that were more involved in sports claimed to be more likely to purchase the product in this situation. The average likelihood for these respondents was 4.45 out of 5, compared to 4.17 out of 5 for respondents that were less involved in sports.

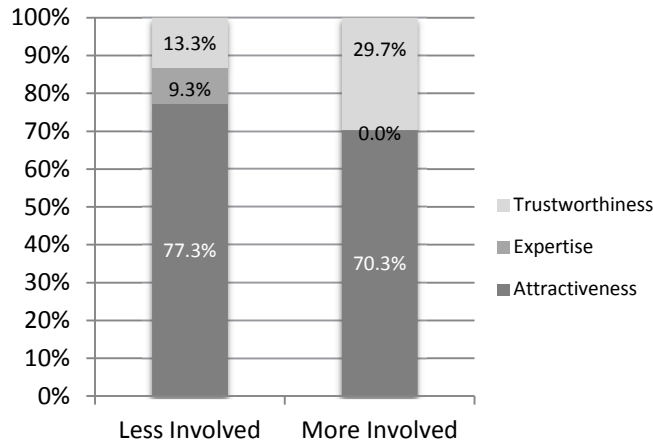
A Comparison of the Female Respondents by Involvement

A significant relationship was observed between the female respondent's level of sports involvement and the endorser quality that she rated as being least important (see GRAPH 10) when purchasing a product for herself (Pearson Chi-Square $p \leq .05$). Females that were less involved in sports were significantly more likely (16.9% compared to 2.7% of females that were more involved in sports) to select expertise as the least important quality in this situation (Pearson Chi-Square $p \leq .05$).



Another significant relationship was observed between the female respondents' level of sports involvement and the endorser quality that (see GRAPH 11) they rated as being least important when purchasing an expensive product (Pearson Chi-Square $p \leq .05$). Females that were more involved in sports were significantly more likely to select trustworthiness as the least important quality (Pearson Chi-Square $p \leq .05$). This is shown by 29.7% of these females selecting trustworthiness as the least important, compared to 13.3% of females that were less involved in sports. Females that were less involved were more likely to select expertise as the least important endorser quality (Pearson Chi-Square $p \leq .055$). This is shown by 9.3% of these females selecting trustworthiness as the least important, compared to 0% of females that were more involved in sports.

GRAPH 11
FEMALES - LEAST IMPORTANT
ENDORSER QUALITY WHEN
PURCHING AN EXPENSIVE PRODUCT



A final significant relationship was observed between the extent to which the female respondent follows sports and the likelihood that she would purchase a product when the endorser has high levels of attractiveness (Single Factor ANOVA, F Value $p < .05$). Females that follow sports more regularly were more likely to agree with the statement “I am more likely to purchase a product endorsed by a sports figure with great attractiveness.” The average likelihood attributed to this question was 3.69 out of 5, compared to 3.31 out of 5 for females that follow sports less regularly.

DISCUSSION

Hypothesis Test

The results clearly show that gender does make a difference when it comes to both defining endorser qualities and determining the relative importance of these endorser qualities in a variety of situations. This is in agreement with the evidence laid out in the literature review. The null hypothesis that was developed was not supported by the data that was gathered. While the hypothesis was laid forth that women would value expertise more than men would ($H_0 = \mu_M \leq \mu_F$), no gender preference was observed. In addition, there was no gender preference observed for any of the endorser qualities in terms of overall preference. This shows that no blanket statements about gender and preferences for endorser qualities. Instead, the specific situation should be taken into effect. Finally, since the hypothesis was not upheld, the additional predictions are no longer relevant.

Gender Results

The hypothesis may not have been supported, but there were still many interesting results. Gender differences were observed in how respondents defined endorser qualities. The most differences were observed in the definition of attractiveness. **An all encompassing theme for the definition of this quality was that males were more likely to rank many of the non-physical factors as more important. These non-physical features include the athlete being likable and being familiar to the respondent. Males rated both of these aspects higher than females did.** It is important to note that these preferences only relate to how the respondent defined attractiveness, and not how important that found attractiveness as an endorser quality.

This is perhaps the result of male respondents being less willing to define the attractiveness of athlete endorsers (which are generally male) in terms of physical appearance. Current cultural norms do not

promote the focus on a male's physical appearance by other males. When it comes to the conscious definition of attractiveness, males may be more drawn to non-physical aspects such as likability and familiarity. This could easily account for the significant relationship that resulted. It is important to note, though, that if this is indeed the reason, male respondents may still place importance on physical appearances, but at a more subconscious level.

Further support is found for this idea in the significant relationship found between the respondent's gender and the importance that the respondent placed on the athlete being in good physical shape when defining attractiveness. **While male respondents were more likely to place a higher importance on non-physical aspects such as likability and familiarity, female respondents were more likely to place a higher importance on the extremely physical aspect of the athlete being in good physical shape.** The same cultural norms that frown on males focusing on other males' physical appearances to determine attractiveness allow and even encourage females to focus on such aspects. Females may be more concerned with physical appearance in general. This could be important when selecting an athlete based on attractiveness to endorse products for female consumers. Personality may be a less important to this group than physical appearance is.

There was also one gender difference when it came to defining endorser qualities. This difference was present in the respondent's definition of trustworthiness. **Female respondents rated the presence of a criminal record as being more important for defining endorser trustworthiness than male respondents did.** Males are perhaps more concerned with an athlete's performance (and fair play) on the field than their conduct off the field, whereas females may find off the field troubles as being a bigger issue than their male counterparts. In light of this, marketers that wish to use trustworthy endorsers should select athlete endorsers without a criminal record when marketing to female consumers.

Sports Involvement Results

Responses also varied based upon the respondent's level of participation in sports, the extent to which he/she follows sports and his/her overall level of sports involvement. When dividing respondents in this way, there was less of a difference observed in how respondents defined endorser qualities. There was one area of significant difference. This appeared when the respondents were asked to define endorser attractiveness. For this quality, the extent to which the respondent follows sports has a significant effect on how important it is to him/her that the endorser has a friendly personality. **Respondents that follow sports less frequently were more likely to rate a friendly personality as being more important than respondents that follow sports more frequently.** When advertising mass market products it may be better to select an athlete with a friendly personality to endorse the product, but when targeting sports fans it may be less important.

The extent to which the respondent follows sports also had an effect on how likely female respondents believed it was that they would purchase a product when it was endorsed by an athlete with great attractiveness. Females that follow sports more regularly were more likely to agree that they would purchase the product in this situation. It is important to note, though, that the average response was only barely in the "agree" range and therefore it should not be a top consideration.

The level at which the respondent participates in sports also had an effect on the responses recorded. The difference between low participators and high participators showed up in which endorser quality they ranked as being the most important when the respondent is purchasing a product for someone else. High participators were more likely to select attractiveness as the most important quality in this situation than low participators were. This could be the result of the higher self-expertise of high participators. A greater percentage of high participators may feel that their own expertise is sufficient to the point that the expertise and trustworthiness of the endorser is not necessary. The majority of both high and low participators selected expertise as the most important endorser quality. **When selecting an athlete to endorse a product, it might be more important to select one that has both attractiveness and expertise when targeting high participators, and one that has expertise but less attractiveness for low participators.**

The respondent's level of sports involvement had an effect in a number of areas. When it came to ranking the least important endorser quality when purchasing a product for him/ herself, respondents that were more involved were more likely to select trustworthiness than the less involved respondents were. These individuals may believe that they are better able to judge for themselves whether or not the endorser's message can be trusted, and therefore find the endorser's trustworthiness to be less important. **The most popular answer (by far) for both more and less involved respondents, though, was attractiveness. This shows that when purchasing a product for themselves, respondents care less about the attractiveness of the endorser, and more about the quality of the information they are receiving (both in terms of expertise and trustworthiness).**

Sports involvement is a factor in determining whether respondents will believe that they are more likely to purchase a product when the athlete endorsing the product has high levels of expertise. Respondents with high levels of sports involvement were more likely to agree that they would indeed purchase the product in this situation. The average response fell well within the agree range, even edging towards strongly agreeing. This shows that **expertise is more likely to affect purchase intentions for those that are more involved in sports.** The average response for respondents that are less involved is well within the agree range, so expertise is also important for their purchase intentions.

Specifically looking at the female respondents, sports involvement had two significant effects. The first is that females that are less involved in sports were more likely to select expertise as being the least important quality when purchasing a product for themselves. This shows that expertise is less important to female respondents that are less involved in sports than those that are more involved, but attractiveness is still the least important overall. More than three quarters of all the female respondents selected attractiveness as the least important. This shows that the quality of the message being delivered is more important than the attractiveness of the deliverer. When advertising to female consumers that are less involved in sports, expertise may be less important, but not to the extent of attractiveness.

The second effect is that females that are more involved in sports were more likely to select trustworthiness as being the least important endorser quality purchasing an expensive product. This is likely due to their greater believed ability to judge the truth of the marketing message for themselves. Once again, though, the vast majority of respondents selected attractiveness as the least important in this situation. **While trustworthiness may be less important for females that are more involved, it should not be sacrificed over endorser attractiveness.**

CONCLUSION

This research was conducted with the intent to find a gender difference when it comes to preferences for endorser qualities (attractiveness, trustworthiness, and expertise) of athletes. It was expected that females would prefer the trait of expertise more than males would. Based on the data collected this expectation was not confirmed, but gender differences were identified.

These differences were present in how respondents defined the three endorser qualities, with the greatest number of differences coming in the definition of endorser attractiveness. Males rated both familiarity and likability (two non-physical attributes) as being more important when defining attractiveness than females did, and females rated the highly physical attribute of the endorser being in good physical shape as being more important than males did. This indicates that when selecting an athlete endorser based on attractiveness, it is important to first consider the target consumer's gender.

In addition to gender differences, there were observed differences between respondents based upon their level of sports participation, the extent to which they follow sports, and their overall level of sports involvement. While these differences were not present in the most chosen answer for any of the questions, they were present in the next most popular answers. For example, while both highly involved and minimally involved individuals were most likely to select attractiveness as the least important quality when purchasing a product themselves, those that were more involved are more likely to select trustworthiness than those that are less involved.

Other results include that females who are less involved in sports are more likely to select expertise as being the least important when purchasing a product for themselves, and females that are more involved in sports are more likely to select trustworthiness as the least important when purchasing an expensive product. Individuals that participate more in sports were more likely to select attractiveness as being the most important quality when purchasing a product for others. These results are important to consider when selecting an athlete to endorse a product for these different consumer groups.

Purchase intentions were affected both when the endorser's expertise was great and when the endorser's attractiveness was great. Individuals that were more involved with sports are more likely to agree with the statement "I am more likely to purchase a product endorsed by a sports figure with great expertise" than individuals that are less involved. Females that follow sports more regularly were more likely to agree with the statement "I am more likely to purchase a product endorsed by a sports figure with great attractiveness" than females that follow sports less regularly. In terms of affecting purchase intentions, any individual who is more involved in sports will be more swayed by endorser expertise, and females that follow sports more regularly will be more swayed by endorser attractiveness.

RECOMMENDATIONS

While this research has uncovered some interesting results more work is needed to fully utilize and understand the significance of these findings. The first critical area for future research is one that would discover the cause for the differences found by this study. While the data collected indicates a difference both between men and women and between highly involved and minimally involved sports individuals, it does not determine the reasoning behind this difference. Future studies should be aimed at discovering this reasoning so that the differences may be better understood and more appropriate actions may be taken to capitalize on these differences. For example, if males find likability to be more important for defining attractiveness because they enjoy being able to relate with the endorser, then an appropriate action would be to present the endorser in a down to earth situation that the consumer may commonly find themselves in too. On the other hand, if they find likability more important because it helps set the athlete apart from ordinary people and makes them an idol to look up to, then presenting the athlete as being special or unique may be more appropriate. This research could be carried out by conducting interviews with consumers to probe their reasoning, or by finding some other way to isolate the different possible reasons.

A second area of future research would be in discovering an average distance between the respondent's preference ratings. That is, determining how big a gap there is between how important the most important quality is and how important the second quality is. This would allow marketers to better understand how much time and money should be invested in acquiring endorsers with the qualities rated as less important. For example, if expertise is the most important quality in a given situation and attractiveness is a very close second, then it would be worthwhile to find an endorser with high levels of both. If expertise is the most important and attractiveness is very far behind and not even really important at all, then it would only be worth finding an endorser with expertise. This study could be conducted by having consumers rate the importance on a scale rather than having them simply rank in comparison to the other qualities.

A third and final, and very important area of research would be to study the more subconscious-level preferences of consumers. Rather than asking respondents which endorser quality is most important to them, this study would discover respondents' preferences without explicitly asking them. A way of accomplishing this would be to first conduct a pretest to determine a number of athletes' levels of the three different endorser qualities (attractiveness, expertise, and trustworthiness). Another group of respondents would then be asked to select which endorser they preferred in different situations. These responses could be compared back to the pre-established levels of the three qualities and respondents' preferences for these qualities could be determined. By conducting research like this a couple of things would be accomplished. There would not be the same issue as the one mentioned when it came to males defining attractiveness. These respondents would feel less pressure to conform to social norms that discourage noticing another male's physical attractiveness. Instead, they would just select an endorser and

not the endorser's attractiveness specifically. It would also reduce the number of misguided responses based upon a lack of self-understanding. Many consumers are unaware of their own actual preferences and instead respond in the way they think that they should or the way that they would like to be true.

Overall, this research is a good starting point to further understanding consumer preferences for athlete endorsers. This is an important area of study because athlete endorsers have unique circumstances that are not shared by other endorsers or even other athlete endorsers. These circumstances include that they are generally well-known, attractive (due to the nature of their professions requiring constant exercise), and highly familiar in the use of many of the products that they endorse. These qualities make them ideal endorsers for athletic equipment and apparel and huge profits can be drawn from using these athletes to promote products. A fuller understanding of consumer preference in this area would allow marketers to obtain the greatest benefits from these athletes.

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The Impact of MNC's Home Country Politics on Host Country Nationals' Organizational Commitment

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MNC home country government policies/events may not resonate well with HCN employees. If HCN employees disagree with the MNC's home country policies or events, such policies or events may provoke or stir emotions toward the MNC's home country thus increasing the MNC's political risk. Exploring the issue of a MNC's home country policies or events impact on the HCN employees' organizational commitment, we develop a conceptual model and propositions that consider the characteristics of the MNC, the policy/ event, and the individual.

INTRODUCTION

Concerns with the political aspects of the business environment have always been an issue for multinational corporations (MNCs); thus, political risk in international business research has received considerable attention (e.g. Bremmer & Zakaria, 2006; Bruce, Wilkinson, & Owen, 2003; Makhija, 1993; Nigh, 1985). In the past, research on international political risk has focused primarily on the assessment of host and/or home country government policy, political events, macroeconomic uncertainties, and appropriate organizational responses, particularly at the organizational level (Delios & Henisz, 2003; Ring, Lenway, & Govekar, 1990). One aspect of political risk research that has not been as rigorously examined is the relationship between political risk and organizational commitment by host country nationals (HCNs) within MNCs. The success of international operations relies on the local employees in the host unit; however, we do not know whether home country political policies or events affect its international companies' overseas employees' behavior or not. Extant research offers little guidance about the impact of politics on organizational behavior within MNCs. Given the potential importance of home country politics on MNC global operations, the lack of attention to this area seems particularly surprising. This gap represents an opportunity for refining the understanding of organizational commitment. In this study, we begin to examine the impact of political policies or events related to the MNC's home country on the behavior of its host country nationals.

When HCNs personally disagree strongly with the MNC's home country governmental policies/political events or they are in an environment that is strongly biased against the home country government's policy and/or political events, how would they react to such policy or events transpiring in the MNC's home country? For example, when host country nationals working for a U.S. organization in a country with a strong anti-US sentiment, how does this anti-US sentiment affect his or her perception of

the organization for which he or she works. If host country anti-U.S. sentiment escalates, what is the effect on employee behavior? Can an employee yell “death to America” at one moment and then return to work for an American organization as if nothing happened? Stated otherwise, do home country government policies and political events weaken an employee’s organizational commitment to his or her host unit of the MNC? We propose that HCNs’ reactions to home country government policy or political events could affect how they evaluate their companies, which may influence their behaviors and subsequent commitment to the MNC. Conceptually, we seek to provide insights into the extent to which such negative sentiment translates into employee behaviors.

The opening section of this study provides theoretical background on international political risk and organizational commitment. We next develop our conceptual model and related propositions. We conclude by discussing the implications, limitations, and future research directions of our work.

LITERATURE REVIEW

Although MNCs encounter many different kinds of risk, the risk associated with the political environment is considered one of the most important issues MNCs face in the international environment (Butler & Joaquin, 1998; Ghoshal, 1987; Nigh, 1985). Political risk is defined as the adverse consequence associated with political events (e.g., Butler & Joaquin, 1998; Root, 1972; Kobrin, 1979). Political risk affects the operations of the MNC. The negative outcomes arising from political events have a profound impact on the outcome of MNCs’ investments (Boddewyn, 1988; Brewer, 1993); therefore, the related literature focuses on how a MNC can forecast and manage political risk to mitigate the risk (e.g., Caves, 1996; Hoskisson, Eden, Lau, & Wright, 2000; Lenway & Murtha, 1994; Kostova & Zaheer, 1999; Rugman & Verbeke, 1998). In this paper, we specifically focus on the reactions of host country national employees arising from a MNC’s home country government policies and/or political events.

The concept of organizational commitment has captured the attention of organizational researchers for many years (Hom & Griffith, 1994). Employee organizational commitment is often considered as the psychological attachment of workers to their workplaces (Allen & Meyer, 1990; O’Reilly & Chatman, 1986). Mowday, Porter, and Steers defined organizational commitment as “the relative strength of an individual’s identification with and involvement in a particular organization” (1982, p. 27). Researchers have examined the construct, antecedents, and outcomes of organizational commitment extensively (Mathieu & Zajac, 1990; Morrow, 1993; Mowday, et al., 1982). Organizational commitment has been found to influence organizational outcomes such as job satisfaction (Bateman & Strasser, 1984; Mowday, et al., 1982), motivation (Mowday, Steers, & Porter, 1979), attendance (Mathieu & Zajac, 1990), job turnover (Hom & Griffith, 1995), and performance (O’Reilly & Chatman, 1986; Somers, 1993).

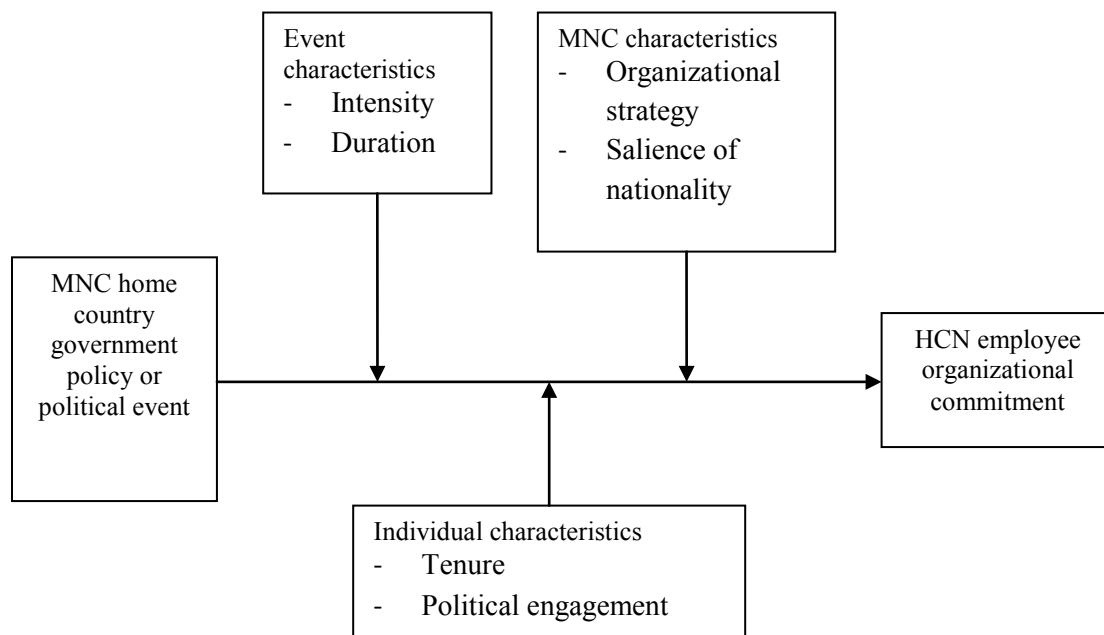
Viewing organizational commitment as a multi-dimensional construct, Allen and Meyer (1990) further refined it and distinguished among three forms of organizational commitment: affective, continuance, and normative. They defined affective commitment as “an emotional attachment to, identification with, and involvement in the organization;” continuance commitment is “the perceived costs associated with leaving the organization;” and, normative commitment is the “perceived obligation to remain in the organization” (Allen & Meyer, 1990, p. 21). This study focuses on affective commitment because it the most relevant in this context. Following Mowday and his colleagues (1982), we define commitment as the belief in and acceptance of organizational goals and values, a willingness to exert effort on behalf of the organization, and a desire to maintain organizational membership.

HOST COUNTRY NATIONALS EMPLOYEES’ COMMITMENT WITHIN MULTINATIONAL CORPORATIONS

When an organization expands its global operation, it will hire more local nationals in each of its host country locations. The foreign employees’ commitment toward the organization will influence the success of international operations (Meyer & Allen, 1988; Mowday, et al., 1982). How to promote foreign employees’ commitment to the organization becomes a challenge for MNCs (e.g. Gregersen & Black,

1992; Handy, 1992). However, most research on organizational commitment within MNCs focuses on the impact of culture on organizational commitment (e.g. Chen & Francesco, 2000; Fischer & Mansell, 2009; Palich, Hom & Griffeth, 1995; Smith, Fischer, & Sale, 2001; Wasti, 2003). One important factor has not been investigated in this stream of research – home country politics/events influence on host country nationals’ actions. Host country nationals’ sentiments aroused by MNCs’ home country politics should not be ignored. Marketing research has investigated the impact of political events or animosity on consumer behaviors (Klein, Ettenson, & Morris, 1998; Knight, Holdsworth & Mather, 2007; Leong, et al., 2008, Pappu, Quester, & Cooksey, 2007). This research suggests that consumers’ purchase intentions and behavior can be affected by consumers’ perception of a product’s home country. Animosity toward another nation can be an important and powerful predictor of foreign product purchase, even when this hostility is unrelated to beliefs about the quality of products produced in that country. We argue that the same logic can be applied to international organizational behavior research. In Figure 1, we present our model of how an MNC’s home country government policies and/or political events may impact host country national employees’ organizational commitment. We will develop our arguments supporting the model in the following discussion.

FIGURE 1
HCN’S COMMITMENT TO THE ORGANIZATION IN LIGHT OF A MNC’S HOME COUNTRY GOVERNMENT POLICIES AND/OR POLITICAL EVENTS



Working for a foreign organization does not mean host country nationals will embrace or agree with the icons, popular culture, or government policies/political events associated with MNCs’ home countries. Home country policies or political events may not resonate well with HCNs. If host country nationals strongly disagree with their MNC’s home country government policies and/or political events, such government policy or political event may provoke or stir emotions such as hostility or animosity toward the MNC’s home country. Such negative sentiment might affect employees’ evaluation of the organization for which they work. Which then raises the question whether it possible that HCNs may harbor a negative sentiment toward the MNC’s home country without a similar sentiment/view of the employing MNC. Just like the impact of animosity on consumer behavior, we argue that negative sentiment affects organizational behavior independently of judgments of the organization for which host country nationals work. Yet, if a negative sentiment is sufficiently strong, it will affect HCN employees’

affective evaluations of their companies. In turn, the lower levels of organization judgment and affect lead to decreased commitment to the organization.

Furthermore, host country nationals may not distinguish between the interests of the MNC and MNC's home country government (Nigh, 1985). Even worse, they may view MNCs' subsidiaries as extensions of the home country government's policies (Gladwin & Walter, 1980; Vernon, 1977). In the past some governments, such as U.S. government, have used MNCs as an instrument of its foreign policy (Moor, 1980), and some MNCs did work with their home country governments (Behrman, 1971; Nigh, 1985). Although, these appear to be rare cases, these incidents may contribute to an overall perception of the potential linkage between a MNCs' home country national interests and the MNC's own self-interest. For example, after the 2003 invasion of Iraq, there was hostility toward the U.S. in some parts of the world. Many individuals associated Americans and/or American companies with what the American government was doing and considered Americans and American companies as convenient symbols of U.S. government policy with which they disagreed and could demonstrate against. On March 26, 2003, antiwar demonstrators protested in front of McDonald's in Argentina, expressing their anger with signs that read "McDonald's sells happy meals to finance the war" (Postlewaite, 2003: 390). If host country national employees of MNCs such as McDonald's are strongly against an MNC's home country government policy or political event and they believe what they do is contributing to the perpetuation of the government policy or political event, we would expect that the employee's organizational commitment would decline impacting the employee's pro-MNC behaviors. Concomitantly, if HCNs employees are suspicious that a hidden agenda exists between their MNC and the home country government, the host country national employees may resist accepting the organizational values and goals, which may lower their attachment to the MNC

It would seem logical, therefore, to suppose that employees' attachment to the MNC could be affected by the sentiments aroused by an MNC's home country government policies and/or political events. That is, all else being equal, an MNC affiliated with a home country national government executing a government policy or engaging in a political event viewed unfavorably could lead to lower organizational commitment among HCN employees. This leads us to the following proposition:

Proposition 1: An MNC's home country government policy/political event will affect an HCN employee's organizational commitment toward the MNC.

MODERATING EFFECTS OF CHARACTERISTICS OF EVENT, MNC, AND THE INDIVIDUAL

In addition to the potential impact of policy or event, there are other factors that tend to exacerbate and even accelerate the host country national employee's organizational commitment relationship to the MNC such as the characteristics of government policy or political event, the characteristics of the organization, and the characteristics of the individual. Each of these is discussed below.

Characteristics of the Event: Intensity/Duration of HCN Employees' Attachment to Event

The association between government policy and/or political events and the response of an HCN employee will be affected by the intensity of the employee's attachment to the event. Whether the HCN employee's sentiment arises from previous or ongoing hostility to a particular MNC's home country government policies or to a new, particular political event should result in a different level of impact on the host country national employee's organizational commitment. An employee who reacts to an isolated, single event garnering intense media coverage is less likely to attempt to continue to follow the event when the intensive media coverage is over. The antipathy generated by the event may, and probably will, dissipate. Thus, this event is less likely to have a long-term effect on the host national country employee's organizational commitment to the MNC. Yet, if such sentiment or antipathy is based on a series of events or a home country's continuing or reaffirmed government policy, the HCN employee's ongoing hostility/animosity can evolve over time. The impact on the host country national employee's

organizational commitment will be longer and more intense. For example, when French protesters interrupted the 2008 Olympic torch relay through Paris in anger over Chinese policies toward Tibet, Chinese citizens boycotted Carrefour supermarkets in retaliation. Chinese nationalist sentiment was running very high in the country over the perceived slight to Chinese national dignity, and many French companies bore the brunt of the backlash. The French MNC LVMH Group, Carrefour's parent firm, as well as Louis Vuitton were among French companies targeted by Chinese activists. Thus, Chinese employees who worked for French retailers during that period may have experienced ennui, negative feelings, or even antipathy toward their companies because of the affiliation with France although the French companies had nothing to do with the protests against the Chinese Olympic torch relay and the event had nothing to do with French government policy. Once the Olympic torch was safely in Beijing, Chinese nationalist sentiment against France and its MNCs dissipated. It appeared that no one continued to focus on the event anymore and Chinese boycott efforts toward the French MNCs lost impetus. Thus, the impact of such an event on long-term host country national employee organizational commitment is low.

Unless such events remain in the public spotlight for long periods or there are reinforcing events that continue to stoke the emotional engagement, we expect that HCN employees organizational commitment returns to the stable state enjoyed prior to the precipitating event. This insight therefore leads us to the following proposition:

Proposition 2: There is an inverse relationship between the intensity/duration of a government policy/political event and the degree of organizational commitment a host country national employee will experience. Single, isolated events engender low levels of organizational commitment conflict while larger and/or continuing events result in higher levels of organizational commitment dissonance.

Characteristics of MNC: Salience of Nationality

Although, MNC foreign subsidiaries are often the most visible home country institutions in the host country, not every MNC foreign subsidiary experiences the same negative sentiment or becomes the target of a boycott or other public action. Companies from the same country may not share the same images or associations. While some companies have a high profile abroad, other companies do not enjoy the same high stature or status. Some American MNC foreign subsidiaries are easy targets of anti-U.S. sentiment because of their high visibility. Particular American companies bear the brunt of such resentment due to their iconic symbolism. If an MNC has been considered as an icon of particular country or represents the popular culture of that country, then the association between the company and country will be higher or stronger. For example, McDonald's has been targeted in France, India, Pakistan, and other countries as well as Coca-Cola, which has been targeted for protests in India and Middle Eastern countries as citizens of those countries have protested against various U.S. government policies and/or political events. The MNC's iconic status is the reason why particular firms are selected for protests. Less well known companies rarely become targets of a boycotts or protests.

Those who work for high profile, iconic organizations tend to more easily associate the organization with its home country. When there is a negative event associated with the MNC's home country, that high degree of association with the country will have a more intense influence on the employees' organizational commitment and behaviors. This discussion thus leads to the following proposition.

Proposition 3a: An MNC's salience for the host country national employee moderates the impact of government policies/political events on the HCN employee's organizational commitment and behaviors. As the MNC's salience increases, the impact of an event will increase.

Characteristics of MNC: MNC Strategy

The degree of integration between subsidiary and the rest of the organization may affect how HCN employees perceive the subsidiary. When a company has a multi-domestic or multinational strategy, a subsidiary has less communication with other units and conducts business more independently from other units as opposed to a more globally or international strategy which requires closer coordination among the disparate units (Bartlett & Ghoshal, 1989). Because of a MNC's multi-domestic or multinational strategy's emphasis on fit with the local environment, the subsidiaries, consequently, will develop unique subsidiary-level cultures. At the same time, due to the emphasis on fit with the local environment, these MNCs will tend to have fewer expatriates within the subsidiary. Thus, there will be a greater proportion of local nationals within the top management team of the subsidiaries. This emphasis on fitting into the local environment and resulting mirroring of the top executives to the host country natives results in HCN employees being less likely to perceive they work for a foreign organization. Therefore, the impact of a MNC's home country government policy or political event being associated with the MNC will be lower for this kind of company.

For a high integration organization (i.e., an organization following a global or international strategy where every unit around the globe strives to mirror as closely as possible the MNC's headquarters culture for continuity and standardization), the argument is just the opposite. In order to integrate the subsidiaries more consistently into a global system, MNCs will tend to have greater numbers of expatriates in their subsidiaries. In such a system, expatriates tend to be used as a way to control or transfer culture and/or knowledge among units (Bartlett & Ghoshal, 1989; Gupta & Govindarajan, 1991, 2000). As the proportion of expatriates within the top management team increases, national identity is likely to be salient in the minds of HCN employees. We argue that the degree of integration between the subsidiary and the rest of the organization will affect how host country national employees perceive the subsidiary. HCN employees of global-strategy MNCs will perceive the organization less as a local organization and thus more of an organization that reflects its home country. Therefore, the impact of MNC home country government policies and/or political events on host country national employees' organizational commitment will be higher for this kind of organization. From the above, we derive the following proposition:

Proposition 3b: MNC strategy will moderate the impact of governmental policies/political events on host country national employee's organizational commitment. MNCs with higher degrees of integration (i.e., a global strategy) will experience higher impacts from MNC's home country government policies/political events on HCN employees' organizational commitment while less integrated organizations (i.e., a multi-domestic strategy) will experience limited impact from MNC's home country government policies/political events on HCN employees' organizational commitment

Characteristics of the Individual: Personal Characteristics

Tenure

Individual attributes such as tenure may also moderate the impact of MNC home country government policies and/or political events on the HCN employee's organizational commitment. Tenure has been found to be associated with organizational commitment (Clisson & Durick, 1988; Gregersen & Black, 1992; Mowday, et al., 1982). As HCN employees' tenure with the MNC increases, they tend to have an increased commitment to the firm because of the individual psychological investment, the establishment and maintenance of social networks, and the familiarity with the MNC's organizational practices. Because of this, HCN employees with increasing length of tenure are more likely to have a stronger attachment to the MNC. Thus, the impact of MNC home country government policies and/or political events on HCN employees' organizational commitment will be lower. Conversely, HCN employees with only short periods of tenure are expected to have less investment in their firm. In congruence, their organizational commitment and attachment to the MNC is expected to be lower. Thus, the impact of

MNC home country government policies and/or political events on the host country national employee's organizational commitment may be higher. From the previous discussion, follows the proposition:

Proposition 4a: The degree of impact on a host country national employee's organizational commitment from a MNC's home country government policy/political event is inversely related to the length of employee tenure at a MNC.

Political Engagement

Different political events elicit different responses from individuals. Some individuals are highly politically engaged while others find little of concern for themselves in the political discussions of the day. While not everyone has the same response to the same political event, there are some who maintain a high interest in government policies and political events. These engaged individuals follow a particular event with a high level of interest and involvement. Concurrently, these individuals are more likely to seek information and discuss the issue with others. Political events in general and unique, specific events are sources of interest and become issues for the politically engaged. Thus, a government policy or political event is more likely to stir emotions for them. For others, however, a government policy or political event may not be an issue at all. These individuals demonstrate a low level of interest. They are less likely to get involved/respond to a government policy or political event. These individuals don't seek information, and they don't follow closely current government policies or political events. Therefore, government policies and political events associated a MNC's home country will have much lower impact on them.

From the above discussion, we expect that HCN employees who are attuned to the MNC's home country government policies and political events and are more politically engaged to experience a change in their organizational commitment to the MNC arising from MNC home country government policies and political events. Conversely, we expect HCN employees who are limited in their political engagement to experience little change in their organizational commitment to the MNC arising from MNC home country government policies and political events. This leads to the following proposition:

Proposition 4b: The higher a HCN employee's own political engagement, the greater an impact a MNC's home country government policy/political event has on a host country national employee's organizational commitment.

DISCUSSION AND CONCLUSION

Klein noted that "A country's actions can haunt its international firms decades after the fact" (2002, p. 360). Thus, the actions of a nation-state's government to promote the objectives of the nation can reverberate to impact the success of that nation's MNCs in unintended ways.

To date, academic studies have not assessed the individual level outcomes of MNC's home country government policies or political events. We have suggested that a relationship can be established between a subsidiary's employees' organizational commitment and a MNC's home country government policies and/or political events. In this paper, we conceptualized how host country national employees react to the MNC's home country government policies and/or political events. A country's policies and/or actions in the international arena might affect how its MNCs' overseas employees perceive and react to the companies for which they work. As national affairs transpire between countries, HCN employees' affective evaluations of their MNC are expected to be influenced. The impacts of the MNC's home country government policies or political events on HCN employees' organizational commitment is expected to wax and wane depending on diverse factors such as intensity/duration of an policy/event, the salience of the MNC's nationality, the overall strategy of the MNC, and various individual personal characteristics.

Operating an international business makes it necessary that managers and researchers have a better understanding of foreign employees' reactions toward and commitment to their organization. This paper

seeks to make two contributions to the existing management research on political risk and organizational behavior. First, this paper identifies the effect of a previously undiscussed factor in the study of international organizational behavior, (home country governmental policies and/or political events on HCNs). Thus, our theorizing is an attempt to provide the missing link between the streams of political risk and organizational commitment literatures on this topic. International politics are legitimate and important areas of inquiry for researchers in international organizational behavior research. Second, the research focuses on the political risk arising from the home country rather than the risk of host country events. Previous political risk research focused on the host country, not the home country. Our study is in line with the growing literature examining the effects of political risk.

This study, motivated by the disparities between previous strategy and international management research, has practical relevance to managerial decisions regarding organizational commitment and behavior. With increased political instability and conflict, operating an international business makes it necessary that managers and researchers have a better understanding of foreign employees' commitment to their company. Politics and business are inseparable; they are intertwined. A MNC's home country's unpopular government policies or political events that garner international attention may be viewed as being hostile by HCNs. Negative reactions to such policies may affect the performance of MNCs. In view of such possibilities, MNCs should develop strategies to neutralize or resolve potential negative sentiments. Additionally, MNCs may distance themselves from such unpopular policies or events by diminishing perceptions of the MNC's linkage to a specific home country.

Though the model presented here has conceptual strength, it also suffers from conceptual limitations. Several directions for future research remain to be investigated in order to provide an even more robust understanding of the phenomenon under consideration. First, other dependent variables such as organizational identity or turnover should be considered. We do not know whether MNC home country government policies and/or political events have an impact on HCN employees' organizational identity or whether it will affect their turnover. Second, other potential moderators or the antecedents of such negative sentiments should be examined. Examining additional dependent variables, moderators and antecedents will lead to the development of a more comprehensive model. Finally, future research might seek to understand what MNC actions may exacerbate the situation and develop strategies to defuse such negative sentiments.

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Do Women Still Hold Up Half the Sky? Portrayal of Women in Chinese Advertising: 1980-2001

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“Women can hold up half the sky” was a popular slogan in China in 1970’s. The slogan reflects the belief of Chinese socialists that men and women are completely equal, both physically and mentally. In 1979, China changed its socialist economic system into a more capitalistic market economy. As a result of this transformation, those selling goods had to compete for buyers. Consequently, advertising, which was relatively unknown in China, began to take hold. This paper explores the impact of magazine advertising in China on the image and portrayal of women within Chinese society over a 20 year period, 1980-2001. This time-frame is significant because it marks the beginning of China’s capitalist economic experiment up to the point that China is accepted into the World Trade Organization (WTO). This 20 year period is long enough to measure trends and evaluate changes in Chinese society and represents an important first stage in China’s participation in the international market economy. The 581 ads, evaluated in this study, indicate that women’s role portrayal in Chinese advertising has changed over the 20 year time-frame from that of an equal partner to men to a more westernized image of women as objects of beauty and sexual desire.

INTRODUCTION

In 1979, the improbable happened: China introduced a capitalist market system into its socialist planned economy. As a result, a number of social and economic changes occurred in Chinese society. Particularly impressive has been the double-digit economic growth experienced over the past three decades, far outpacing growth in western developed countries. But with economic growth has come a liberalization of social mores and a concern that Westernization is changing the underlying belief systems upon which society operates (Cui and Yang, 2009). These concerns regarding liberalization are particularly evident in relation to advertising where the use of sex appeal is prevalent due to “the increasing presence of Western popular culture” (Cui and Yang, 2009). These changing attitudes and mores regarding sexuality raise concerns about the roles of men and women in society and how they will be viewed by others.

Chinese culture is strongly rooted in Confucianism, a belief system that subjugates the “me” to the “we” and has a strong respect for authority. Under this system, the social construction of gender has historically embodied a sexual division of power that institutionalizes male sexual dominance and female sexual submission (Chow et al., 2004). Traditionally, this meant that Chinese women were regarded as dependent upon men and their place was within the family (Chow et al., 2004). Women’s roles changed dramatically when the communist party promised to make women *equal* partners. Under Mao, “the liberation of women was always tied in with the liberation of the nation” (Brownell, 2000), and a popular Chinese saying during this time was “women hold up half the sky,” indicating that women and men were viewed as equal partners in the development of the nation state. Thus, Chinese women began the “long march” from the Confucian notion of women as inferior to men, to Chairman Mao’s definition of women as male-equals (Gil and Anderson, 1999). This equality manifested itself in men and women performing the same jobs and even dressing alike to reinforce the sameness of the two sexes (China Briefing, 2000, p. 212).

The role of women in Chinese society is heavily influenced by two factors: political ideology and economic development. Political discourse, formulated and enforced by the government, is accepted by the vast majority of the Chinese people and functions as social and ideological control (Lu, 1999). Ideological purity is enforced by the media which is under the strict control of the government. Access to other opinions has been thwarted through laws and practice. This control has been most recently demonstrated through the denial of access to internet sites that the government feels might undermine its teachings and principles. Because the state was the sole arbiter of what was acceptable behavior, the image of the Communist woman as an equal partner in society was not challenged by other, conflicting images.

However, the advent of economic reform opened Chinese culture to more influences from western countries and has the potential to not only change how business is done but also how the people view themselves and each other as a result of images presented in advertising. Prior to the early 1980s, product advertising essentially did not exist in China. The introduction of advertising in the new marketing economy meant that the state’s portrayal of Chinese culture and the relationship between the sexes could be challenged. How significant and long term such challenges may be has yet to be determined. So, it seems that the two factors above may have contradictory effects on the role of Chinese women in society in the future. A strongly controlled and managed political ideology that prescribes equality of the sexes in all ways of life may conflict with a more open approach to economic development which allows for the use of more westernized marketing approaches in the selling of goods and services. This conflict may be particularly relevant in the images of the sexes portrayed in product advertising.

A logical question to ask, at this point in China’s development, is, ‘do women still hold up half the sky’ or have competitive practices, particularly western-style advertising, introduced negative portrayals of women that demean their position in society? This study attempts to answer that question by tracking the portrayal of woman and their roles in society, as reflected in magazine advertisements, during a critical period in China’s development: 1980-2001. This period reflects the time between the beginning of the economic liberalization process and China’s entry into the World Trade Organization (WTO). During this period, China became not only an economic juggernaut but a more accepted member of the international community, culminating in its membership in the WTO.

This study contributes to the literature in several ways. First, by using longitudinal data, the study answers the questions of whether the role and portrayal of women changed during China’s economic liberalization process, and if so, in what way? Second, it examines gender role change during a unique period of China’s history, allowing for the investigation of how gender advertising is affected by cultural and economic changes and providing insight regarding gender stereotyping and its progression. Finally, the study extends previous studies regarding advertising in China, providing a clearer and more complete picture of women’s role portrayal in that country and providing valuable information for public-policy makers, marketing practitioners and advertisers.

LITERATURE REVIEW

Above and beyond serving as a vehicle for promoting and selling products, advertising has been used by researchers to analyze a culture's aspirations, values, and belief systems (Pollay and Gallagher 1990; Courtney and Whipple 1983; Biswas et al, 1992). A look at how women have been portrayed in advertisements gives us a sense of their role as viewed by the overall society.

U.S. Ad Portrayal of Women

Most studies dealing with women's role in society as defined through mass media have looked at the U.S. market because of its consumption-driven economy and its heavy marketing orientation. A seminal study in this field was a 1971 study by Courtney and Lockeretz which found four stereotypes of women depicted in U.S. magazine advertisements: 1) women's place is in the home; 2) women do not make important decisions or do important things; 3) women are dependent on and need men's protection; and 4) women are seen by men as primarily sexual objects.

Subsequent studies found similar results related to women's subservient, tangential, or decorative roles as portrayed in advertising (Courtney and Whipple 1983, Connell 1987; Kang 1997). In many instances women were seen as someone who was valuable only in terms of their relationship to others, either as mother (Patterson et al. 2009; Gilly 1988; Pingree et al. 1976) or wife (Patterson et al. 2009; Coltrane and Adams 1997).

There was some change beginning in the 1980s due to women's increasing job presence and political activism on the part of women's organizations. During this period, Bretl and Cantor (1988) found that women appeared equally with men as central characters in advertisements, although women tended to be placed more in domestic settings. Lazier (1993) and Hovland et al. (2005) indicated a decreased emphasis on gender stereotyping in mass media presentations. However, even though there were some indications of positive progress, Koernig and Granitz (2006) still found that women were more likely to be depicted in traditional roles.

International Ad Portrayal of Women

Studies of women's role in other western cultures tracked U.S. findings. Wiles et al. (1995) found that more than 90% of U.S., Swedish, and Dutch ads showed women outside the work environment. Milner and Higgs (2004) examined TV ads in Australia and found, surprisingly, that heavily traditional role portrayals for women were becoming more, rather than less, pronounced. Patterson et al. (2009) documented the heightened awareness of negative female stereotyping in Ireland.

Several studies, done in Eastern cultures, showed similar female role depictions. Ford et al. (1998) found that Japanese women tended to be portrayed as younger, more appearance-conscious, and in more sexist roles compared to men. However, the study also found that women and men were just as likely to be depicted positively in the ads. Razzouk et al. (2003) study of Thai magazine advertising showed that females were seen primarily as sex objects compared to other roles such as professional, housewife, or dependent.

Siu and Au (1997) concluded that Asian societies such as Singapore and China tend to use sexual stereotyping in their ads while Cui and Yang (2009) saw women in Indonesia, Malaysia, and Thailand primarily depicted in traditional roles in those countries' advertising. Ford et al. (1998) pointed out that across international gender literature, women tend to be portrayed as younger and more concerned with physical attractiveness than men and tend to be seen promoting products of a lesser value.

In a meta-analysis of 64 research studies related to gender role portrayals in TV and radio ads from 1975 to 2007, Eisend (2010) found that gender stereotyping exists but has been declining over the years. Eisend found that stereotyping was more prevalent in the area of occupational status.

Chinese Ad Portrayal of Women

Studies of mass media portrayal of women in China are sparse and do not have the luxury of a significant time frame to make comparisons and draw conclusions. Many Chinese studies are of ads in

Hong Kong which, arguably, given its history, could be considered to be more a part of Western culture than part of Chinese culture.

Furnham and Mak (1999) reported that Hong Kong women were more often portrayed in the home than in a professional setting and were seen in dependent roles. In a comparison of Hong Kong and Australian ads, Lai Man So (2004) found that women took on sexier roles in Hong Kong than in Australia.

In analyzing TV commercials in China and the U.S., Cheng (1997) found that ads in both places reinforced typical stereotypes of women being in the home and serving a decorative function, but Cheng concluded that Chinese ads were more stereotypic than U.S. ads. In a study of subway ads in China, Cheng and Wan (2005) found women were portrayed in more traditional, non occupational roles than men and tended to be younger and more sexual. However, Hung and Li's (2006) research on Chinese magazine ads indicated that advertisers embraced a full spectrum of women's roles in China – from homemaker and mother to sophisticated career woman.

Hong (2005) found that Chinese magazines had significantly increased the portrayal of nudity in their ads since the early 1980s. However, Hong (2005) and Paek and Nelson (2007) indicated that such portrayals were conservative compared to western images of female nudity.

The research studies available generally indicate that female role portrayal in Chinese advertising mirror the portrayal of women in other countries with a more mature advertising history. These findings support Belk's suggestion (1988) that a developing culture acquires hedonistic consumption behaviors more rapidly than western society. The scarcity of research related to portrayal of women in Chinese advertising makes this study particularly relevant for researchers interested in the Chinese market.

HYPOTHESES

This study addresses nine hypotheses related to the role of women in advertising in Chinese mass market magazines from 1980-2001. These hypotheses relate to the overall theory that Chinese advertisements during that time frame will mirror trends associated with western advertising (Eisend 2009). Given that previous studies have suggested that women's images are more likely to appear in advertising for all products, but especially for women's products (Plakoyiannaki and Zoto 2009; Siu and Au 1997), it is hypothesize that:

H₁: More females than males would appear in Chinese advertisements.

H₂: The use of females in Chinese advertisements would increase over time.

This study classified ads on the basis of Venkatesan and Losco's (1975) female role portrayal categories as follows: 1) relationship roles – shows intimate relationship between men and women; 2) beauty or sex attraction roles – shows women as sex objects or as young and inactive stereotypes; and 3) women as authority figure roles – shows women having knowledge or expertise in a specific field or as a decision-maker. Given previous studies which show that women in western societies have tended to be portrayed in ads more often as sex objects than as authority figures (Plakoyiannaki and Zoto 2009), it is hypothesized that:

H₃: Females will be portrayed over time more as beauty or sex objects than as part of a relationship or in a position of authority.

A central figure's age is an important indicator of physical beauty in western ads with younger models, particularly female models, used to portray sex appeal (Eisend 2009; Hovland et al 2005). Lin (2001) also suggested that a modern youth appeal had been increasingly used in Chinese advertisements. In terms of age, this study classified advertising models into three age groups: young (< 30 year-old), middle age (30-50 year-old), and older (>50 year-old). Based on previous findings, we hypothesized:

H_{4(a)}: There would be an increasing use of young models in Chinese advertisements over time.

H_{4(b)}: Female models are likely to be younger than male models used in advertising.

Displays of nudity tend to sexualize those being portrayed. While nudity (partial or whole) has been a staple of western advertising, nudity in Chinese advertising is relatively new and benign. Hovland et al (2005) suggested that the level of nudity expressed in advertisements is a valuable indicator to understanding the changing images of Asian women. This study used four categories to categorize nudity: nudity shown in whole body, in 1/2 body, 1/4 body or 1/8 body. Based on western practice we hypothesize:

H_{5(a)}: There would be an increasing use of nudity in Chinese advertisements over years.

H_{5(b)}: Nudity would be used more with female models than male models.

Product type is an important indicator for both consumption activities and gender role behavior (Eisend 2009). Comparing the product type and the product user helps us understand consumer preferences and (un)equal sharing of power in household decision-making (Eisend 2009). This study categorized two major product types: functional products or psychological products. Functional products combine primarily tangible benefits (something that can be felt or tasted, for example) with intangible, symbolic aspects, such as taste that reminds one of childhood and grandma's house. While psychological benefits, including health, beauty, and entertainment, are viewed as primarily intangible in nature (evoking feelings or emotions, for example) with some tangible aspects, such as cosmetics and concert tickets (Stafford et al. 2003). In the 1980s, utilitarian values dominated Chinese advertising as most Chinese mainly consumed functional products (Tse et al. 1989). However, as social expectations and living standards rose, a more extravagant lifestyle became an emerging theme in Chinese advertising (Hung and Li 2006). Additionally, Stafford et al. (2003) suggested that males are more likely to associate with products containing functional benefits, while females are more likely to associate with products containing psychological benefits. Thus,

H_{6(a)}: Psychological products would appeal more than functional products over the years.

H_{6(b)}: Female are more likely to be associated with psychological products than males.

METHODOLOGY

This study used content analysis of half-page ads appearing in six popular Chinese magazines from 1980 – 2001, a period which reflects the beginnings of Chinese economic changes up to its entry into the World Trade Organization. In 1977, Hal Kassarian introduced content analysis methodology to consumer research; content analysis of print and television ads has been used extensively in tracking the portrayal of women in society and has been determined to be an effective measure for identifying and measuring female role orientations (Kolbe and Burnett, 1991; Krippendorff, 2004). In addition, content analysis has been used to investigate social trends, consumer value, and information availability (Belk and Pollay 1985; Tse et al. 1989). Our research has two goals: first, from a historical perspective, to trace the evolution in the use and application of women in advertising from 1980-2001 and to analyze the thematic domains that dominate Chinese advertisements during this time. Our study also used a historical-cultural analysis to aid in interpreting the data since it allows us to draw meaning from advertising over time (Gross and Sheth 1989).

Following the work of Gross and Sheth (1989), magazine ads were selected as the sampling frame because of the characteristics of ad content and accessibility. Television and newspaper advertising were not chosen because advertising on television was rare and newspaper advertising was primarily politically-oriented during this period. Magazines used in the study included two Chinese general population magazines (*Eight Hours* and *Golden Age*), two Chinese female-oriented magazines (*Women*

and *Chinese Women*), and two Chinese male-oriented magazines (*Sports* and *Science 24 hours*). The criteria for magazine selection were length of existence (none with an origin later than 1978), national coverage, and circulation. All of the selected magazines are well-known with over a million in readership. The study found 1,350 ads appearing in those magazines; the sample was narrowed down to 581 ads on the basis of: (1) eliminating duplicate ads; and (2) using ads with male and/or female images in the ads [i.e., ads without human models were removed from consideration].

Data were coded by two independent raters. At first, a subset of 50 ads was used as a test case and later removed from the study. Inter-rater reliability for the practice set was 91.7%. After the initial training, raters then coded the 581 ads used in the study. Since the number of chance agreements required for Cohen's Kappa is generally unknown (Kolbe and Burnett 1991), inter-judge reliability was calculated. Of the items included in the study, inter-coder reliability ranged from 81.2% to 93.4%, and coders resolved their disagreements through discussion.

FINDINGS

An analysis of the 581 ads resulted in support for seven of the nine hypotheses.

Chi-square analysis was first used to determine whether there is a significant difference between gender portrayal (male versus female). The results (Table 1) show that there are more female images (67.1%) used than male images, and the difference is significant ($p < 0.001$). A more detailed analysis indicated that female images were heavily used each year from 1980 to 2001 (Table 2), with the percentage of female image use varying from 66% to 100%. To further understand whether the target audience of each magazine influenced whether more or less females were used, we tested for that. The results suggested that females were used more across all three magazine types [magazines for men, magazines for women, and general magazines] (see Table 3). Even for the magazines primarily targeting male consumers, the use of female images is slightly more ($N = 44$) than the use of male images ($N=41$). However, there was no clear pattern for the increasing or decreasing use of female models. As the literature shows, at the very beginning of Chinese advertising (e.g. 1980, 1982, and 1983), female images were used exclusively (100%). All images were of attractive, if not beautiful, Chinese women. Thus, hypothesis 1 is supported, and hypothesis 2 is not supported.

Hypothesis 3 tests how female roles were portrayed over the years. According to Table 4 (below), the leading theme for female role portrayal was sexual attraction (58.5%). This is also supported in the literature, with attraction being the dominant characteristic of women portrayed in Chinese advertising. Figure 1 shows the trend of the portrayal during the period of study. The results suggest that though the portrayal of women as objects of beauty or sexual attraction fluctuates over the years, overall it is increasing. Thus, hypothesis 3 is supported.

TABLE 1
CHI-SQUARE ANALYSIS OF MALE AND FEMALE IMAGES

	male	female	both sexes	Total
No. of Ads	118	390	73	581
% of Ads	20.3%	67.1%	12.6%	100.0%
<i>Chi-Square: 303.783, DF=2, P<0.0001</i>				

TABLE 2
FREQUENCIES OF WOMEN PORTRAYED (BY YEAR)

Year	No. of Ads with Women Images	% of the Year
1980	6	100%
1981	12	81%
1982	5	100%
1983	4	100%
1984	6	88%
1985	11	86%
1986	13	82%
1987	9	92%
1988	22	88%
1989	18	74%
1990	15	84%
1991	14	74%
1992	17	83%
1993	15	79%
1994	21	93%
1995	9	69%
1996	25	79%
1997	28	77%
1998	25	86%
1999	38	80%
2000	40	66%
2001	37	76%
Total	390	80%

TABLE 3
MAGAZINE TYPE AND GENDER ROLE PORTRAYAL

		Gender Portrayed			Total	
		male	female	both sex		
Magazine Type	General	Count	40	177	28	245
		% within Mag Type	16.3%	72.2%	11.4%	100.0%
		% of Total	6.9%	30.5%	4.8%	42.2%
	Women's	Count	37	169	21	227
		% within Mag Type	16.3%	74.4%	9.3%	100.0%
		% of Total	6.4%	29.1%	3.6%	39.1%
	Men's	Count	41	44	24	109
		% within Mag Type	37.6%	40.4%	22.0%	100.0%
		% of Total	7.1%	7.6%	4.1%	18.8%
	Total	Count	118	390	73	581
		% within Mag Type	20.3%	67.1%	12.6%	100.0%
		% of Total	20.3%	67.1%	12.6%	100.0%

TABLE 4
FREQUENCIES OF FEMALE GENDER ROLES PORTRAYAL

	No. of Ads	% of Ads
depict a relationship	43	7.4%
depict sexual attraction	340	58.5%
depict authority	97	16.7%

FIGURE 1
ROLE PORTRAYAL OVER 20 YEARS

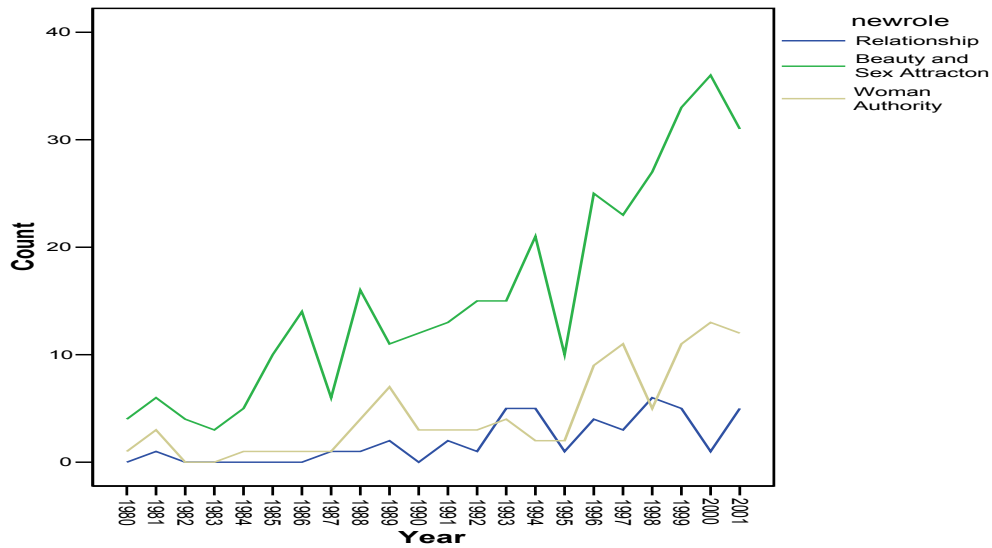
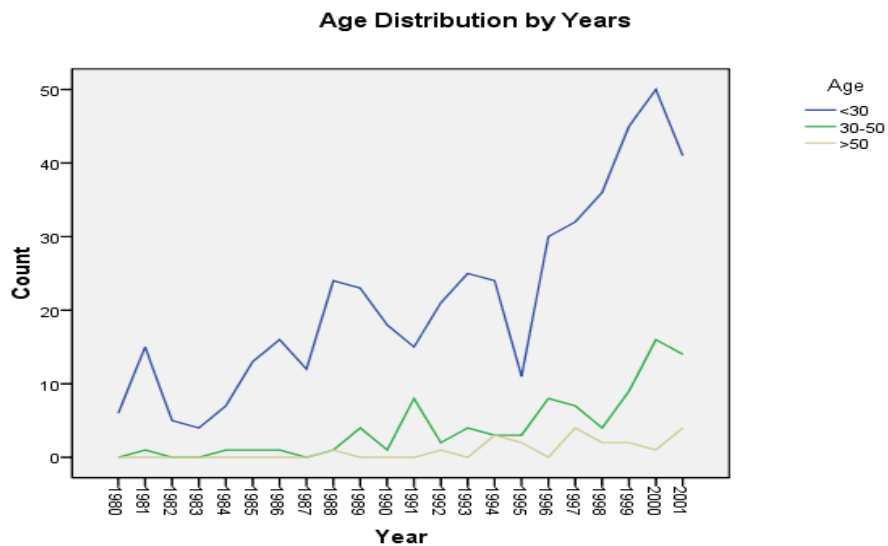


FIGURE 2
AGE USED IN GENDER ROLE PORTRAYAL OVER YEARS



We further tested how age was portrayed in Chinese magazines. In order to focus on more female images, we excluded the images of teenagers or those younger than teens. Chi-square analysis was used to test the importance of age and nudity in gender role portrayal. According to Figure 2, youth is a dominate theme, as most models used were under age 30. This is supported by the literature, where youth is a key element in international advertising. This trend is consistent throughout the study and Hypothesis 4(a) is supported.

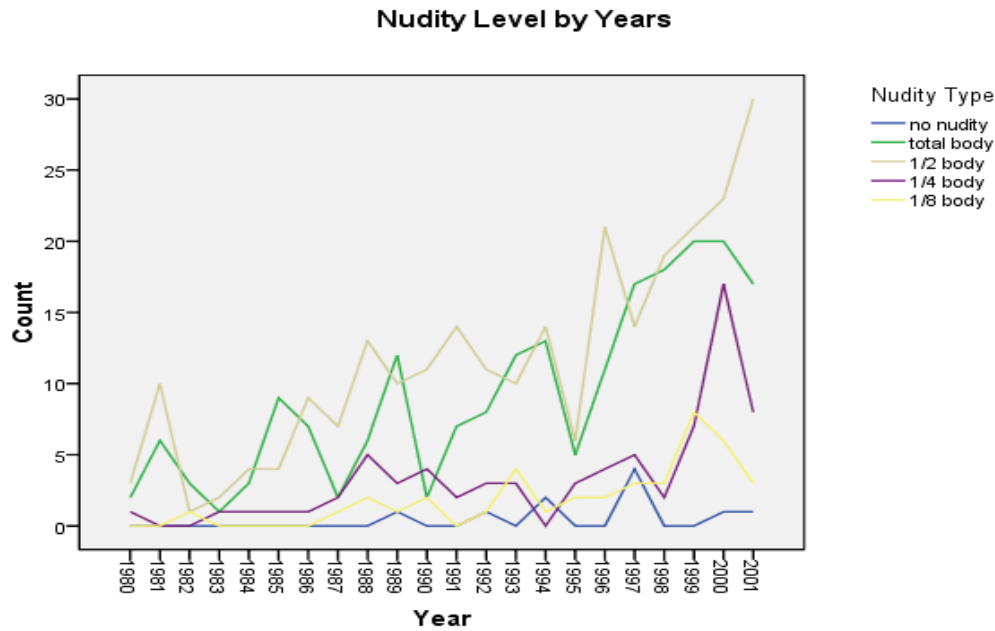
To determine age differences for male and female models, we used cross-tab analysis (Tables 5). Results show that young women are most likely to be used as there were 58.1% of young female images used over the past 20 years and an equal use of younger to older male images. Hypothesis 4(b) is supported ($X^2= 167.85$, $df=6$, $P<0.01$).).

TABLE 5
PERCENTAGE OF AGE USED IN GENDER ROLE PORTRAYAL

		Gender Portrayed			Total	
		male	female	both sex		
Age	Teens	Count	16	30	15	61
		% within age	26.2%	49.2%	24.6%	100.0%
		% of Total	2.8%	5.2%	2.6%	10.5%
	20 -30	Count	42	332	38	412
		% within age	10.2%	80.6%	9.2%	100.0%
		% of Total	7.2%	57.1%	6.5%	70.9%
	30-50	Count	53	25	10	88
		% within age	60.2%	28.4%	11.4%	100.0%
		% of Total	9.1%	4.3%	1.7%	15.1%
	>50	Count	7	3	10	20
		% within age	35.0%	15.0%	50.0%	100.0%
		% of Total	1.2%	0.5%	1.7%	3.4%
Total	Count	118	390	73	581	
	% within age	20.3%	67.1%	12.6%	100.0%	
	% of Total	20.3%	67.1%	12.6%	100.0%	

Figure 3 above shows how nudity was used over the years. Generally speaking, nudity use has increased during the time frame of the study, particularly as it relates to full or half body nudity. Based on figure 3, H5(a) is supported. We further tested whether the display of nudity was different between males and females. It was determined that nudity was more likely to be used with a female body than a male body (see Table 6). The chi-square test also indicates that the differences between the sexes regarding the use of nudity ($X^2=19.97$, $df=8$, $P<0.01$) was significant. Consequently, H5(b) is supported.

**FIGURE 3
USE OF NUDITY ON MODEL OVER YEARS**

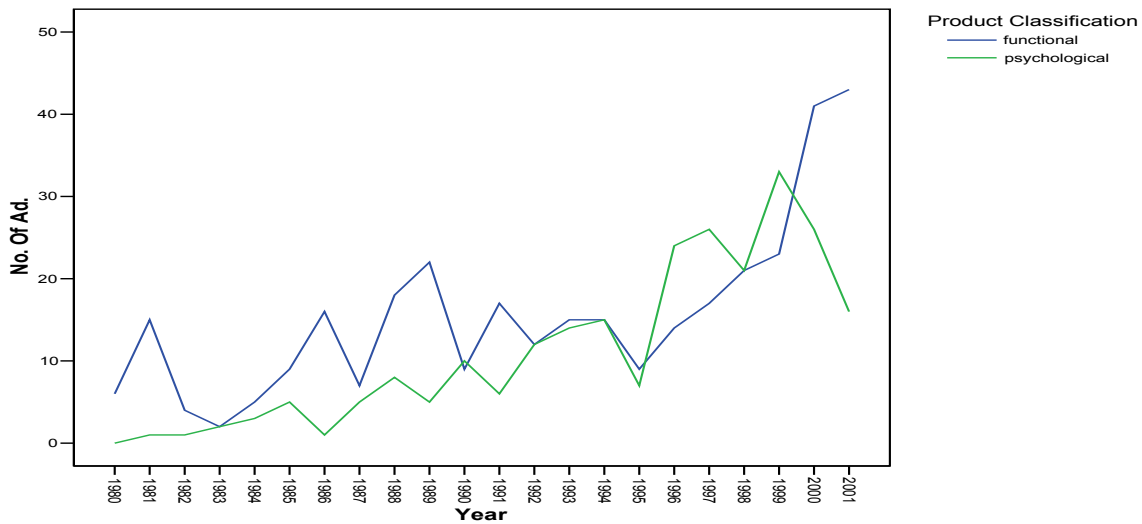


**TABLE 6
NUDITY TYPE/GENDER PORTRAYAL CROSSTAB**

	Gender Portrayal			Total
	Male	female	both sex	
no nudity	2	6	2	10
total body	35	130	36	201
1/2 body	57	168	32	257
1/4 body	19	52	2	73
1/8 body	5	34	1	40
Total	118	390	73	581

The last hypothesis tested how functional and psychological products were applied in gender role portrayal. First, we tested the presentation of functional and psychological products over the years. Findings from Figure 4 suggest that although psychological products were increasingly advertised over the years, functional products still dominated the advertising during this time frame. We further linked the product type and the product users (Table 7, below). It is interesting to see that functional products are more used in advertising than psychological products if the targeted consumers are male (57.1%); however, psychological products are more widely used to advertise to female consumers (65.6%). In addition, functional products (71.9%) dominated the advertising if both male and female consumers were represented. Thus, H6(a) is not supported, while H6(b) is supported.

FIGURE 4
FUNCTIONAL PRODUCTS VERSUS PSYCHOLOGICAL PRODUCTS OVER 20 YEARS



CONCLUSIONS

This study represents an initial effort in exploring gender role portrayal in Chinese advertising over 20 years of dynamic change in China, 1980-2001. First, the results offer support for a strong presence of females in China’s advertising with female images more heavily used than male images for all periods of time (1980-2001). However, those female images very clearly mirrored the roles of female models in western advertising, with females portrayed as beautiful, alluring figures or objects of desire. Second, youth became an important theme in China’s advertising, with increasing use of young female models during the period under study. This attraction to youth is an important development since Chinese society has historically revered the elderly among them, and is a further indication of the impact of western ideals since youth is strongly favored in western societies. Third, nudity became more prevalent when China opened to the Western world in the 1980s, and nudity was more likely to be seen with female models. These results substantiate other studies of Chinese advertisements during this time frame (Hong, 2005; Jin, 2006). In addition, the prevalence of nudity indicated in this and other studies is supported by actions taken by the Chinese government in 2007 banning such practices in advertising (Wang, 2007). Finally, advertisers tend to use female models for psychological products and male models for functional products. These results reflect some western advertising practices where women are used to promote more trivial or less valued products (Ford et al, 1998).

Overall, the results illustrate a China that has become more integrated into the fabric of the international community as reflected in the images and messages presented in its advertising. These images and messages have specifically impacted women and their role in society. In some ways women have benefitted from the changes, allowing them to discard the “masculinized women” image of the pre liberalization period (Hung and Li 2006) and to embrace their femininity. However, China, a country which promoted equality of the sexes pre 1980, seems to have adopted over the 20 period of the study many of the images of western women which emphasize physical attractiveness and sexuality over substantive roles in society.

TABLE 7
PRODUCT USER/PRODUCT CLASSIFICATION CROSTAB

			Product Classification		Total
			functional	psychological	
Product User: <i>men</i>	Count		16	12	28
	% within Product User		57.1%	42.9%	100.0%
	% within Product Classification		4.7%	5.0%	4.8%
<i>women</i>	Count		63	120	183
	% within Product User		34.4%	65.6%	100.0%
	% within Product Classification		18.5%	49.8%	31.5%
<i>child</i>	Count		2	8	10
	% within Product User		20.0%	80.0%	100.0%
	% within Product Classification		.6%	3.3%	1.7%
<i>both sexes</i>	Count		259	101	360
	% within Product User		71.9%	28.1%	100.0%
	% within Product Classification		76.2%	41.9%	62.0%
Total	Count		340	241	581
	% within Product User		58.5%	41.5%	100.0%
	% within Product Classification		100.0%	100.0%	100.0%

IMPLICATIONS

This study provides insight for academicians and practitioners who desire a more clear understanding of the evolution of gender role portrayal in China's advertising during a critical period of economic and social development, 1980-2001. This insight should allow for better evaluation and planning related to the portrayal of gender and product characteristics in China. As China's position in the world economy further evolves, particularly as it carves out an important role in the WTO, further studies should determine whether representations of females in Chinese advertising change again to reflect the developing sensitivity in Western societies regarding negative gender role stereotyping.

This study also contributes to the discussion of whether gender stereotyping in advertising molds or mirrors gender-related values in our society. Some studies would argue that "advertising does not reflect the significant advancement of the gender equality movement in many societies" while others suggest that "role portrayals in commercials are more representative of contemporary women," and that "gender role stereotyping in advertisement has declined" (Eisand, 2010). This study adds to the ongoing discussion of that issue and raises the question as to whether current representations of females in Chinese advertising are true representations of how females are viewed by society at large.

An important question in this study is: can women still hold up half the sky? Current advertising practices related to women in China seem to reflect a change from that of an equal partner to men [holding half of the sky] to a more westernized image of women as objects of beauty and sexual desire. The changes indicate that, as China has migrated towards a more consumer-oriented society, marketers tended to adopt the Western ideal of role portrayal in Chinese advertisements. However, given that Chinese women's past encompassed different experiences and expectations associated with their role in society, their roles in the future may not be so easily circumscribed. Their past roles reflecting independence, collective morality, and determination (Hung et al. 2007) may allow them to combine the best of both representations.

How gender roles evolve and how the society responds to that evolution are important issues for advertisers. It seems premature at this point to assume that Chinese consumers will respond the same as western consumers have to advertising messages, given the differences in cultures. Consequently, more studies will be needed to determine if the evidence of westernization contained in this study and others is deep-rooted or if it is a short term adjustment during a period of unparalleled change.

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The Rise of Medium-Sized Enterprises in Europe Beyond the Dualistic Model: Small vs. Large Firms

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The crucial issues raised by the MSEs include their relative efficiency in comparison with the overall economy, and their role in sustainability and long-term prospects for European countries and regions, which are based strongly on the presence of manufacturing MSEs. This paper, in particular, investigates the pre-existing relationship between the growth processes of medium-sized Italian family businesses and the corresponding financing policies they adopt. The survey reveals interesting variables that could explain the financial behavior of medium-sized enterprises: objectives, preferences, past experiences, the financial culture of the entrepreneur or entrepreneurial group, time and the characteristics of the development project.

INTRODUCTION

This paper takes its cue from the transformations that have taken place in manufacturing industry since the 1980s. On the one hand, the establishment of more efficient production techniques has led to the gradual break-up of large businesses, whose organization has increasingly come to involve the outsourcing of its production phases. On the other hand, the growth in disposable income has driven demand for increasingly differentiated goods, which require highly flexible production processes favoring the emergence of small and medium-sized enterprises. All this had led to a two-way process of change in Europe: small companies have shown a tendency to grow to an intermediate size, while large firms have broken up, transferring their productive activities to smaller entities. Thus analyses of MSEs allow us to move beyond traditional approaches to economic structure, like the dualistic models which often oppose sections of the economy based on small firms to those based on large firms. The crucial issues raised by the MSEs concern their relative efficiency in comparison with the overall economy, and the sustainability and long-term prospects for European countries and regions based strongly on the presence of manufacturing MSEs. The European Union fixed the following quantitative standards to define a medium-sized manufacturing enterprise: 50-249 employees, turnover under 50 million euro, total assets under 43 million euro.

A recent survey (Confindustria, R&S, Unioncamere, 2010) shows that MSEs in Germany, Spain and Italy account for a higher share of national exports. However, these countries' MSEs have different specializations. The importance of mechanical engineering in Germany may be noted (46.1% of total MSEs' turnover), while in Italy, "the Italian style" sectors cover 62% of total MSEs' sale; in Spain mechanical engineering provides 27% of total sales, and the food and beverage sector generates 24.2% of MSEs' turnover. In the Italian industrial system, medium-sized businesses are becoming more important and more visible than small and large ones. Italian medium-sized family businesses have a clear historical identity. They developed in the 1950s and 1960s during the Italian economic boom, and consolidated in the 1970s. Today there are more than 4,000 medium-sized family businesses, mainly concentrated in the northeast and centre of Italy. Most of them are dynamic and flexible firms which operate in international markets competing on high quality market segments (Colli, 2002; Coltorti, 2008; Varaldo et al., 2010). In these types of firms, corporate governance and finance are strongly interrelated factors drawing from the family's primary goals (i.e. maintaining the control of the firm, offering employment opportunities to family members, passing on a "tradition") (Banca d'Italia, 2005; Corbetta, 2005).

However, in the last decade, this aforementioned "personal capitalism" is facing new challenges as a consequence of two main phenomena: the rising competition from new developing countries, and generational passage. Indeed, both of these phenomena necessitate a modification of corporate governance and fundraising in the "traditional" family business (Montemerlo, 2005). Thus, the aim of this paper is to present the results of an investigation into the way Italian MSEs finance their growth.

To accomplish this, the paper is organized as follows: First, the research question is presented in part 2; the theoretical framework and the literature review are then illustrated in part 3; part 4 discusses the survey methodology and data collection, and part 5 presents conclusions and addresses further research.

The Research Question

Interest concerning the preexisting relationship between processes of development of medium-sized Italian family businesses and the corresponding financial policies they adopt emerged from a close examination of the available statistics that quantitatively reveal the relevance of the medium-sized business in the European context, which at first seems to be homogenous in its productive structure. But at the same time, the unique particularities of the financial structure of medium-sized firms in Italy was also of interest .

The European productive system, in fact, presents the following articulation of economic activity (the data refers to non-financial sectors) for classes of businesses: the micro and small-sized firms represent 98.8% of all businesses, medium-sized firms 1.1%, and large companies only 0.2% (Eurostat, 2010). Focusing only on the industrial sector, medium-sized businesses account for 3.8%. The relatively large quantity of medium-sized businesses in Europe is marked by its complex and significant contribution to the value added, which accounts for roughly 21.2%. Furthermore it is important to examine the financial structure of medium-sized firms (medium-sized firms are defined as businesses with a combined sales between 10 and 50 million Euro) in the European context (See Table 1).

Financial resources are predominantly of short-term nature, concurrently with the structure of the capital invested, which is characterized by the prevalence of working capital. Trade debts are the most significant among the current liabilities. The only two countries that significantly show medium-and long-term borrowings are Germany (26.8 %) and Austria (28.4%). Italy presents the lowest grade of net worth with respect to the other European countries. Rather, it is first in both trade debts (25.8%), as well as short-term borrowing (17.8%).

TABLE 1
FINANCIAL STRUCTURE OF MEDIUM-SIZED FIRMS IN THE MANUFACTURING INDUSTRIES OF ITALY, FRANCE, SPAIN, PORTUGAL, BELGIUM, HOLLAND, GERMANY, AUSTRIA AND POLAND (2007)

	I	FR	SP	P	B	NL	D	A	PL
LIABILITIES	100	100	100	100	100	100	100	100	100
Short-term borrowings	17,8	3,2	11,5	-	5,2	-	8	-	-
Trade accounts payable	25,8	22,9	19,1	17,3	16,7	n/a	10,4	8	17,1
Other current liabilities	0,9	1,3	0,1	4,8	1,3	n/a	0,1	n/a	2,7
CURRENT LIABILITIES	53,7	42	39	44,2	38	30,4	39,6	34	37,9
Medium- and long-term borrowings	11,7	15,5	11,8	15,3	15,3	18,2	12,6	14,1	10,3
Provisions	5,6	3	1,1	0,8	3,1	2,6	14,2	14,3	2,1
MEDIUM AND LONG-TERM LIABILITIES	17,3	18,5	12,9	16,1	18,4	20,8	26,8	28,4	12,4
NET WORTH	29,1	39,6	48,1	39,7	43,7	48,8	33,6	37,6	49,7
TOTAL	100	100	100	100	100	100	100	100	100

Source: Analysis of data from Bach – European Commission, 2007

The analysis of the aggregated data affirms that medium-sized manufacturing firms in Europe show significant differences in the net worth percentage between one country and another—an expression of the completely different institutional and socio-economic contexts in which these medium-sized firms operate. The data brings these differences to light, but is not able to explain their dynamics. For this reason, the present work aims to examine the preexisting relationships between the *processes of growth of medium-sized family businesses in Italy and the ways in which financial resources are obtained*. In particular, the following questions are asked:

- i. What is the logic that guides owners of medium-sized family businesses in their financial decisions?
- ii. Should “*traditional*” financial resources (self-financing, trade debts, borrowings) be substituted by more “*evolved*” methods of financing (*private equity*, listing the company on the stock market)?

A Literature Review

Much of today’s research on the financial structure stems from Modigliani and Miller’s work on optimal capital structure (Modigliani, Miller, 1958, 1965; Miller, 1977). This fundamental theory sparked an important conceptual discussion that produced significant theories such as the trade-off theory, the pecking order theory, the agency theory, and so on. However, in the 1980s and 1990s, some authors doubted the suitability of neo-classical finance to SMEs and family business sectors because of their concentrated ownership and control in the hands of few people (entrepreneurial firms), often members of the same family (Marchini, 2000 b, 2005).

According to the main authors (Barton & Matthews, 1989; Hutchinson, 1995; Cressy 1995; Merikas, Bruton & Vozikis, 1993; McMahan & Stanger 1995; Cressy & Olofsson, 1997), the individual preferences of entrepreneurs are the primary factors that affect corporate finance. Furthermore, according to Romano, Tanewski & Smyrniotis (2000); to Gallo, Tàpies & Cappuyns (2004) and to Wu, Chua & Chrisman (2007), personal preferences concerning growth, risk, and ownership control are the driving forces behind the “peculiar financial logic” of family business.

In light of the above considerations, our investigation, based on a sample of Italian medium-sized family firms, contributes to the debate on owner-managers’ aversion to the loss of ownership. Thus, our

main research question is: «Does the above-mentioned reluctance to open up their capital to third parties seriously restrict MSEs' growth potential?»

TABLE 2
INDIVIDUAL PREFERENCES AMONG ENTREPRENEURS AND FINANCIAL DECISIONS

Author	Year	Argument
Barton Matthews	1989	Financial decisions are influenced by strategic decisions, determined by the entrepreneur's personal factors.
Hutchinson	1995	The entrepreneur's aversion to risk and to his loss of control keeps investment and financial policies among inter-dependents.
Cressy	1995	The model reveals the connections between an entrepreneur's decisions of indebtedness and his aversion to the control exercised on the business by external financiers.
Merikas, Bruton & Vozikis	1993	The proposed model reveals the existing link, in small-scale firms, between financial and strategic decisions.
McMahon & Stanger	1995	In financial decision, the utility of the small-scale entrepreneur is a function, first and foremost, by economic-financial outcomes, by systematic risk, but also by non-systematic risk and non-economic-financial outcomes.
Cressy & Olofsson	1997	The results of this empirical research confirm the small-scale entrepreneur's aversion to a dilution of control; the entrepreneur is not really inclined to let in new stakeholders.

Source: authors' own analysis

TABLE 3
FINANCE OF SMALL- AND MEDIUM-SIZED FAMILY BUSINESSES

Authors	Year	Argument
Romano, Tanewski & Smyrnios	2000	The model, which was described and empirically tested, demonstrates that the size of the firm, the industrial sector, the age of the company and that of the general director, the amount of family control, the business plan, the objectives of the owner, and the plan of growth all influence financial decisions by the entrepreneur in the context of family businesses.
Gallo, Tàpies & Cappuyns	2004	The results of this research affirmed that family businesses are characterized by a "special financial logic" when it comes to growth, risk and control of the ownership; they are determined by the personal preferences of the family members who manage the firm.
Wu, Chua & Chrisman	2007	Family involvement indirectly reduces the utilization of risk capital, through the influence exercised on the choice of mechanisms that control the costs of the firm.

Source: Authors' own analysis

Particularly referring to the Italian literature, it is possible to trace the contributions concerning finance exclusively dedicated to medium-sized Italian businesses from 1977 (Massari M.). Those who are concerned with studying the relationship between finance and medium-sized businesses have examined

the financial structure of medium-sized firms to understand how its eventual or necessary growth can positively indicate their pathway to development.

It is possible to delineate two lines of inquiry. The first (Massari M., 1977, 2007; Morelli & Monarca, 2005; Ruozi & Ferrari, 2007), which was inspired by neoclassical principles of finance, starts with the argument that the financial structure of medium-sized firms in Italy is not balanced, because it is subcapitalized and unbalanced with short-term debt. It thus argues for the necessity of opening capital to third-party risk, so as to recuperate missing financial resources and to reestablish a correct balance between debt and personal capital (Franzosi & Pellizzoni, 2005; Del Giudice & Bollazzi, 2007).

The second (Corbetta, 2000, 2005; Caselli, 2005; Coltorti, 2004, 2008; Rullani, 1999; Bonomi & Rullani, 2005), however, is based on the conviction that medium-sized firms in Italy are characterized by a financial structure that is, in reality, balanced. It therefore argues that there is the possibility of taking alternative pathways: the one that utilizes “traditional” financial instruments (self-financing, trade debts, short-term borrowing), and the other that makes recourse to financial means that are more “evolved” (private equity, business angels, stock markets, innovative debt/equity instruments). Both, in fact, can adequately sustain the development of the medium-sized firm.

An empirical study conducted on eighteen medium-sized Italian firms helped Caselli (2005) propose, as a preliminary interpretative hypothesis, the existence of different pathways of financial growth that can sustain the development of this specific category of business. Specifically, the author identified two pathways to growth based on logics of financial behavior adopted by medium-sized firms: “finance-based” and “firm-based”. For the companies that undertook a finance-based pathway, financial intermediaries provide financial resources in the form of debt capital and risk capital; the external resources are therefore utilized “such that they are indispensable to spark and to maintain a trajectory of growth by the firm” (p. 92). The businesses that take a firm-based pathway are distinguished by the predominant use of internal financial resources, with little recourse to bank loans. They are marked by occasional interactions with financial intermediaries, but only for the goal of resolving specific problems, and these interactions are therefore privy of any more concentrated involvement. In this case, the pathway to growth is sustained by internal resources and by occasional financial contributions on the part of the nucleus of owners, in the form of true monetary resources or loans with rates favorable to the business.

In sum, the choice between these specific pathways of financial growth finds its origins in the history of the firm and its owner, and can be reduced to several objective and subjective factors.

Our goal is to concentrate on the subjective variables, including:

- the economic subject’s goals concerning development;
- his propensity to take risks and to opening ownership of the firm
- his financial culture
- the links of the entrepreneur with the surrounding financial community.

THE METHODOLOGY

In order to answer to the main research question, we deepened our investigation through case studies, which are employed to describe an evolutionary phenomenon that can be identified through a deep analysis of the firms considered. This means that the researcher should gather all information using several methods including in-depth interviews with the firms’ decision makers (Yin, 1981). The following two paradigmatic cases have been analyzed: a successful medium-sized family business that has accepted financial institutions and stock market investors as partners, and another successful medium-sized family business that, on the contrary, has financed the growth mostly through self-financing.

Particular attention was given to the *selection of the industrial sector*. In this research project, attention was given to one of the four cardinal sectors of Italian manufacturing (the cardinal sectors of the Italian manufacturing industry—those in which Italy is the most specialized and presents a commercial surplus relative to other countries, can be grouped in the “4As” of the “Made in Italy” label: Alimentari-vini (food and wine); Abbigliamento-moda (clothing/fashion); Arredo-casa (housewares); Automazione-meccanica-gomma-plastica (cars, mechanics, tires and plastics according to Fondazione Edison, 2009):

the clothing / fashion sector — particularly the leather / shoemaking sub-sector. The added value of the Italian clothing/fashion industry was 26 billion Euros in 2006 (the figure higher than the total value added of the aerospace industries of France, Germany and the United Kingdom combined) while the number of employees is roughly 719 thousand; in 2008, the commercial surplus reached 22 billion Euros. In addition, for 2006, Italy placed first in the leather/shoemaking sector according to the *Trade Performance Index UNCTAD/WTO*. 167,000 were employed in this sector; the regions of Tuscany, Marche and the Veneto each had more than France and Germany. The economic relevance of the leather-making sector in Italy thus justifies its selection as an industry to analyze.

FINDINGS AND DISCUSSION

Two “ideal types” of firms from this sector were selected, which operate as successful medium-sized businesses in the Italian and international context but which utilize different financial instruments. The first (*The Bridge*) utilizes “traditional” financial instruments (self-financing, trade debts, short-term borrowings), while the second (*Piquadro*) uses more innovative financial instruments (private equity, stock market listing). For each of the two companies selected, the information collected are reported below based on the following analytical categories: company profile, the process of growth, the sources of financing.

The Case of the “The Bridge”

Company Profile

Il Ponte Pelletteria s.p.a. (“The Bridge”) was founded in 1969, when five young men came together to create what was essentially a large artisan laboratory in a small village outside of Scandicci, in the province of Florence, called Ponte a Greve (“ponte” literally means “bridge” in Italian). It was a place in which the specific abilities of each founder-shareholder could amalgamate, creating high-quality leather purses and accessories with precious materials. From that time on, the primary Italian materials and artisanal craftsmanship typical of a Florentine *bottega* (workshop) combined to create the well-known “English style” aesthetic, an original Anglo-Tuscan fusion. The company’s production activities are spread throughout Italy and in factories situated in Eastern Europe. The productive de-localization, a necessary decision, began in the 1990s to reduce the elevated costs of production. Its principle international markets are Germany and the United Kingdom, but the company has a presence on every continent, primarily in wholesale boutiques, which account for 22percent of its foreign income.

Today Il Ponte Pelletteria s.p.a. serves the accessible luxury market through two internationally recognized brands: “*The Bridge*” (started in 1975) and “*Wayfarer The Bridge*” (started more recently); both are part of the holding group, Il Ponte Finanziaria s.p.a.. In 2001, the company began a project of capillary expansion throughout the province and applied a uniform architectural style for all of its stores, so as to enable a worldwide recognition of “*The Bridge*”. The company is legally a corporate group whose holding company is “Il Ponte Finanziaria S.p.a.”. It is a family-owned group headed by three of its original five founders. The entrepreneurial group is therefore now composed of the first and second generations of these families. The owners of the first generation are artisans; they matured their own abilities in the artisanal bottegas of Florence, and have preferred to dedicate themselves to business management, particularly in the production and operation of the company. These entrepreneurs fit perfectly into the “artisan entrepreneur” category identified by Smith (1967): the “artisan entrepreneur” is one who is involved in the executive activities, privileges the consolidation of power and is strongly oriented to the short-term. But the management of a successful business for forty years has certainly stimulated the company’s evolution into a style of direction of each shareholder, indispensable for creating the necessary consonance between the phases of development and growth of the business and the “life cycle of the entrepreneur” (Marchini, 2000, p. 121).

Today “The Bridge” group is a formally structured organization, with well-defined roles, and two professional managers (business director and director of production) to whom the operational decisions are delegated, so that the entrepreneurs can concentrate on strategic activities, as well as those of

coordination and control. The four young second-generation entrepreneurs found themselves working in a family business, side to side, without the luxury of having specifically chosen to do so as their parents did, and therefore found themselves carving out the most appropriate roles for themselves within the preexistent organization (brand director, retail manager, product development manager, human resources manager). The objective of the entrepreneurial group has always been to create a distinctive, high-quality product, distinguished by “artisanship, informality and durability, transformed today in transversality, hedonism and eco-sustainability”.

The Growth Process

Today “*The Bridge*” is a medium-sized corporate group: in 2008 its income was around 37 million Euro, with capital investments of 34 million Euro, and employing around 90 workers in their Italian offices. Its actual size is the result of a process of growth that began in 1975 to capitalize on the favorable economic conditions in the years of the Italian economic boom. In its 40-year history, the company’s quantitative development is linked to a concomitant qualitative development. The competitive strategies of market penetration and market development (internationalization strategies) have produced an operational growth and internal structure that has fostered inter- and intra-business relationships. Cooperative relations (external networks) that links the company with its partners in its supply chain has ensured the benefits of vertical integration without its typical constraints: minor requirements of their own financial resources, major flexibility by substituting variable costs with fixed costs, the development of synergies combining resources and competencies, maximum productive efficiency and maximum stimulus towards technological innovation.

Its growth has even found expression in the creation of a corporate group, through which diverse styles of production and commercialization tied to its different brands (“*The Bridge*” and “*Wayfarer The Bridge*”) can be opportunistically managed.

The current strategic goal is to strength its brand worldwide, valorizing the Florentine artisanal tradition that it incorporates. The human resources director has begun a project of recovering and safeguarding the Florentine artisanal leather making culture. After interviewing the leatherworkers in the firm, he began restoring the procedures and techniques of the production of leather goods so that they could survive and add value to artisans’ abilities which unfortunately are being lost. Furthermore the Florentine artisan culture will have to be communicated to the clientele, through the sales managers of each store, who must therefore also be adequately trained. The priority objective is to spread the artisanal culture for which the business stewards, incorporating it in its products, and transforming it into a lasting competitive advantage.

The Sources of Financing

The company’s financial structure is substantially balanced. In the 40-year-history of *The Bridge* group, the principal source of funding has been self-financing. The cash flow generated by the current management has adequately financed the firm’s. The business has scarcely made recourse to external financial resources, neither in the form of debits nor in the form of equity, because, on the one hand, it did not have a need for it thanks to the abundant flow of self-financing, and on the other hand because of the entrepreneurial group’s fear that the costs and risks connected to the external recruitment of resources would be larger than the benefits derived. The first generation of owners are still resistant to allowing their business to be open to eventual external financing or other external stakeholders (private equity operators or capital markets).

“The Bridge” Case Study Discussion

“*The Bridge*” is a medium-sized group, a family-owned business, which has successfully operated for 40 years in the made in Italy consortium (within the leatherworks field). From an artisanal laboratory founded by five young Florentines in 1969, it has transformed itself into an important player in the industry in the productive district of Scandicci that operates in the national and international contexts, serving with high-quality products the accessible luxury market segment.

The pathway to development was effectively sustained by “traditional” financial instruments (self-financing and trade debts) without the necessity of turning to external sources of financing (financial debts, private equity, quotations on the capital market). In particular, the strategies of growth were developed in accordance to the objectives of the entrepreneurial group, that is, by maintaining the ownership and control of the business and to avoid being controlled by any providers of funds.

For the future, the second-generation owners have not excluded the possibility of making recourse to external financing to sustain large investments potentially called for by future strategies of branding, capillary expansion into national and international markets, and extending the productive spectrum.

The Case of “Piquadro”

Business Profile

The company “*Piquadro*” was founded by Marco Palmieri, along with other partners from Riola di Vergato (province of Bologna) in 1987. In its early years, the firm produced leather products as a third party for the main deluxe Italian brands. Only afterwards, when it acquired experience, an understanding of the market, and the capacity to identify a niche in which it could insert itself, the company took the step to produce briefcases, suitcases and small leather articles under their own label. The brand Piquadro was born in 1998 through the will of the two brothers, Marco and Pierpaolo Palmieri, currently partners in Piquadro s.p.a.; the former is the President and Administrator delegate, while the second is Business Director and Administrator of Piquadro Holding. The two entrepreneurial brothers possess the majority of the group’s social capital, often across other entities, and exert their power of control over the entire corporate group. It is a family business in every way.

The process of outsourcing its production began in the 1990s, and today their production is totally outsourced to China, where its partners, rigorously selected, guarantee their respect for a high qualitative and ethical standard. The primary materials used in the productive processes are acquired predominantly in the Italian market. In Italy, the firm’s logistical and restocking activities, its research and development, design, troubleshooting, planning of acquisitions, quality control, marketing and communication, and distribution take place in its new factory in Gaggio Montano (Bo), which was inaugurated in 2006.

The Process of Growth

In twenty-two years, the “*Piquadro*” group reached its medium-size dimension with 50 million Euro in sales, an investment capital equal to 49 million Euro, and employing 570 workers (as of 31 March 2009). The firm’s process of growth was rapid, but its acceleration was checked from 1998, the year in which its business strategy changed radically: the company started its own brand, it proceeded to open its first shops, and the Palmieri brothers traveled to China to outsource their production activities. The growth assumed both a qualitative and quantitative form, through cooperative relationships with select partners in the international productive chain and through the formation of a corporate group.

Growth is an objective that is consciously followed by the entrepreneurial group, flanked by specialized partners with specific competencies, whose professionalism and availability of enormous financial resources effectively sustains the firm’s pathway to development (Palazzi, 2010).

The Sources of Finance

The actual structure of capital is the result of a evolved financial pathway, distinguished by the significant presence of specialized financial partners, entered into the business by the will of Marco Palmieri, who desired to interact with professionals who had a financial approach to business and financial competency that he lacked. And thus in 2002 Fineco Capital fund completely underwrote an influx of capital equal to 2.5 million Euro, arriving at 25% ownership of the organization. In July 2005, the fund BNL acquired 35% of the social capital of Piquadro Holding, taking the place of the company’s former financial partner. In 2007 the company arrived at the quotation in the stock market, segmenting Expandi; the agency was valued on the market at 110 million Euro. Today a minority of the social capital of Piquadro s.p.a., 13%, is held by the market.

Opening the company's capital to third parties was seen by the entrepreneurs as an indispensable instrument for the development of the firm, in that it guaranteed an enormous amount of resources, since an abundant influx of self-financing was not able to be generated, and, above all, specialized professionalism and competence. The financial partners were attracted by an ambitious, forward-looking business model and by the entrepreneurs who were determined to leave a mark in the history of their business.

"Piquadro" Case Study Discussion

The "*Piquadro*" group is an example of a family business that has traveled the road of rapid development, successfully capitalizing on the "Made in Italy" worldwide brand. The entrepreneurship of the Palmieri brothers linked perfectly with the managerial and other specific competencies of the professionals who loaned their expertise to the company. The firm thus illustrates the model of *managerial entrepreneurship* (Marchini, 2000, vol. I, p. 87) composed of behaviors—at times more entrepreneurial and at other times more administrative according to forces from the external environment or from internal factors in the organization.

The company's financing was an indispensable instrument for the development of the business. The involvement of private equity operators, attracted by the firm's interesting and ambitious projects, has given a strong impetus to its growth process, by providing conspicuous financial resources and a high level of expertise. The "traditional" financial instruments (abundant influx of self-financing and relevant commercial debits) were effectively combined with the so-called "advanced" instruments (private equity, quotation in the stock market) to create a balanced financial structure, capable of sustaining the important pathway of development without modifying the nature of the company as a family business.

CONCLUDING REMARKS AND FUTURE RESEARCH

In the last decade, medium-sized Italian businesses have been promoters of an interesting evolution in the national production system. However, they have remained in the shadows until now; they were always associated with small-scale businesses, and the prevailing opinion noted their differences lay exclusively in the qualitative parameters (number of employees, sales, total assets) communally used for classifying businesses. Nevertheless, the essence of medium-sized firms goes beyond the value of any quantitative standards, and is found in the qualitative characteristics that distinguish them from other categories of businesses. And the challenge, for those who study them, consists in identifying the qualitative particularities of these types of firms. For this reason it is important to analyze the dynamics of development in actual successful medium-sized businesses, to understand the evolutionary pathways that have fostered their transition from a small-sized to a medium-sized firm, and helped to consolidate its position (McKelvie & Wiklund, 2010).

This research project examined the existing relationship between processes of growth and development of medium-sized family businesses in Italy and the relative methods of financing. For the two family businesses studied here, the process of growth is the result of both a quantitative and qualitative development. The dimensional growth, in the form of operational growth and structural growth, was promoted through adequate strategies of market penetration, product development, and international expansion. The contemporaneous qualitative development, cultivated through interpersonal relationships with other businesses, even at the international level, did nothing but consolidate the pathway of development undertaken.

Both of the businesses present balanced financial structures, but they represent the outcome of profoundly different financial policies. In fact, in its 40-year history, "The Bridge" group has utilized as its main financial instruments, self-financing and trade debts, and, only in a residual nature, short-term borrowings. Such "traditional" financial instruments have adequately sustained the process of business growth, which was promoted and undertaken step by step as financial resources became available; they also supported the will of the entrepreneurial group, which continues to resist making recourse to external financial resources out of fear of losing control of the family business. For the "Piquadro" group, the

elevated influx of self-financing has helped cover the financial needs contemporaneously with the resources given to them by institutional investors (private equity firms) and supplied by the stock market. The influx of financial resources, notwithstanding the financial expertise provided by the institutional investors, which are attracted by far-reaching, long-term development projects of development, have effectively sustained the rapid path of development that began in the 1990s and continues today. Opening the business up to external entities, in particular institutional investors, was a response to the ownership's needs and desire to be surrounded by people with elevated levels of experience and specific financial competency during its period of growth.

To fully understand the financial logic of these two medium-sized firms, one cannot neglect considering objectives, abilities, previous experiences, motivations, and the individual preferences of the owners. These factors have influenced the companies' financial decisions, creating financial pathways that are unique and not standardized, as many of the theoretical contributions concerning entrepreneurial financing have argued (Colot, Michel, 1996; Gibson, 1992-1993; Barton, Matthews, 1989; Hutchinson, 1995; Cressy, 1995; McMahon, Stanger, 1995; Cressy, Olofsson, 1997; Gregory, Rutherford, Oswald, Gardiner, 2005; Gallo, Tàpies, Cappuyns, 2004).

In these two specific cases, the businesses have undertaken alternative financial pathways (as Caselli, 2005 had already hypothesized and empirically revealed): "The Bridge" has undertaken a firm-based approach, distinguished by the predominant use of internal sources of financing, scarce recourse to bank loans, and only occasional relationships with financial intermediaries. Piquadro, however, has undertaken a "finance-based" approach, characterized by ample recourse to external financial resources in the form of loans from banks and private equity, and intense collaboration with financial intermediaries who bring with them significant levels of experience and competencies.

The principle limit of the present work, implied in the theoretical-philosophical interpretativist approach, comes from the methodology of the research adopted, which was based on the multiple field case study, which does not allow the results to be generalized.

These cases reveal two alternative approaches to financing, undertaken with success on the part of two medium-sized Italian family businesses. They elicit interesting questions to which continuing research will respond:

- In medium-sized businesses, how much does the entrepreneur's or the entrepreneurial group's objectives, personal preferences, previous experiences, and financial culture influence the selection of the most opportune financial model for sustaining processes of growth?
- How much does the entrepreneur's perception of the variable "time" necessary to undertake growth processes influence the selection of the most appropriate financial instruments for the firm?

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Entrepreneurial Creation of Social Value: The Basement for Post-Crisis Recovery

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Global economic crisis started in 2007 had revealed two main problems which appeared and grew within pre-crisis period. The first one is lack of entrepreneurial activity which leads to decrease in workplaces and progress (high tech sphere or biotechnology growth seems to be an exception which only proves the rule) – it can be easily seen from statistics analysis that there are only a few countries where entrepreneurial activity is growing while in the others even people with some entrepreneurial spirit prefer to become employees at big corporations. The second one is the misbalance in economic activities of real, financial and virtual sector enterprises. As far as statistics shows maximum profitability can be seen in banking (including investment banking) or virtual sector while both of them are in a certain way distributing tomorrow's payments into today's quickly achieved profits. Such attitude seem to suit shareholders who achieve extra income but is completely opposite to real entrepreneurial attitude since entrepreneurs are mainly concerned with making the world a better place to live instead of earning money quickly. Therefore the two stated problems are interrelated. This relation reveals the main problem of pre-crisis world which lead to global crisis: since social value produced by entrepreneurial units cannot be measured, it was considered unimportant and all the emphasis was put by entrepreneurs and especially hired managers into gaining profits as quick as possible (this can also be seen in economic models such as, for example, EVA model). This thesis is also proved by the research on corporate social responsibility or social entrepreneurship. Corporate social responsibility research is supposed to convince managers that being responsible can actually increase profits. Social entrepreneurship study sees social entrepreneurs as a special phenomena and is trying to figure out the reasons for social entrepreneurs' economics success.

Both assumptions seem to be only a part of the truth. Analysis of successful entrepreneurial projects shows that they all were more or less social: almost all of the entrepreneurs had stated their main intention was to solve some problem of the society which as they believed (as well as their investors believed) could also bring them some income. Then if we take into consideration that all entrepreneurship is social it can lead us to the idea how to restructure the post-crisis world in order to increase entrepreneurial activity and pass the recession as soon as possible. This solution is partly based on Keynes's ideas of crisis management which were mainly based upon recognition that entrepreneurial activity should be increased by all means and partly based upon social value recognition.

Currently there are only a few instruments for social value recognition if it is produced by entrepreneurs. One can mention tax exemptions imposed in case a company is doing charity and some relevant cases; in our opinion this is not enough. Regular entrepreneur who is trying to build long lasting business for example in the area of services is bound to receive lower profits than for example financial institutions producing derivatives. This means that an entrepreneur is going to attract less efficient

resources than financial institutions. On the other hand if we compare long lasting effect both of them have on the society (this one is simplified in order to make the main idea clear) we are to see that in 10 year perspective service oriented entrepreneur is making its local market a better place for the customers while the financial institution is producing problems to the society at least by means of producing high difference in people's income. This situation is what we are facing now and which needs special instruments to be solved.

It has to be mentioned that market itself if based on laissez-faire principle is going to lead to solution of this problem but it would occur in a long period of time in case most of the customers become highly educated and tend to see long distance results of their current decisions (which is unlikely in global perspective). Henceforth the solution seem to be in government regulation which should be based not only upon economic results entrepreneurial units produce as it is done today, but should take into account both social and economic value produced by businesses (the idea had been featured in sustainable development doctrine but never came to implementation). For example, taxation should be based on both social and economic effect produced when negative social effect should lead to increase in tax rates as it is done today for casinos and green mailing where negative effect is obvious. This practice should be extended into other spheres on the basis of strict social value measuring system: in that case entrepreneurial activity would become more attractive that it is today which would lead to resources inflow in this sphere. On this basis the period of global recession can be shortened.

INTRODUCTION

Global economic crisis started in 2007 had revealed two main problems which appeared and grew within pre-crisis period. The first one is lack of entrepreneurial activity which leads to decrease in workplaces and progress (high tech sphere or biotechnology growth seems to be an exception which only proves the rule) – it can be easily seen from statistics analysis that there are only a few countries where entrepreneurial activity is growing while in the others even people with some entrepreneurial spirit prefer to become corporation employees. For example, as one can see from Global Entrepreneurship Monitor 2010 Global Report, innovation driven economies are providing the lowest rate of entrepreneurial activity (10.6% involved in early stage entrepreneurship activity in Iceland is maximum) while in factor driven economies entrepreneurial activity comes up to 52.2% in Vanuatu (absolute maximum) and there also are a few countries where entrepreneurial activity is over 30%. Again, in efficiency driven economies average early stage entrepreneurship activity is 11.7% which is higher rate than maximum in innovation driven economy group (GEM, 2011). Same tendency can be seen if one looks at the graph of established entrepreneurial activity – the leading countries within mentioned groups are different, but again most active are entrepreneurs coming from factor driven economies. It is also worth mentioning that only 34% of active entrepreneurs in factor driven economies are necessity-driven while a higher share are improvement driven ones. Moreover, according to R. Fairlie more than a half of entrepreneurs in world's largest innovation driven economy, US, are immigrants, and this tendency is getting stronger through the period of 1996-2010 (Fairlie, 2011). All of the mentioned facts are implicit proof that in highly developed economies workforce prefers to become an employee rather than entrepreneur and it results in low entrepreneurial activity.

The second problem which was revealed by the crisis is the misbalance of economic activities in real, financial and virtual sector enterprises. As far as statistics shows maximum profitability can be seen in banking (including investment banking) or virtual sector of economy while both of them are in a certain way distributing tomorrow's payments into today's relatively high and quickly achieved profits. Such attitude seem to suit shareholders who achieve extra income but is completely opposite to real entrepreneurial attitude since entrepreneurs are mainly concerned with making the world a better place to leave instead of earning money quickly. The proof for this thesis can be also found in GEM 2010 Report – the countries with undeveloped financial and virtual sector seem to show higher entrepreneurial activity than those where the said sectors are mature. The described fact seems logical: in case financial sector is well-developed it starts to attract best resources and they are henceforth flowing out of entrepreneurial

sector. This leads to decrease of SME's opening and results in economic and employment problems since companies which are 1 to 5 years old according to Kauffman's 2011 State of Entrepreneurship Address are creating more than 60% of new jobs while mature companies which are over 10 years old create approximately 10% of new jobs. This means that lack of entrepreneurial activity would certainly lead to great economic problems which had been proven by the crisis.

In our opinion the two stated problems are interrelated. This relation reveals the main problem of pre-crisis world which became one of the most important reasons of global crisis: entrepreneurs are creating social value which is highly underestimated by policymakers and practitioners while being one of the most important motivators for creation of new venture. By social value here we mean all the non-financial outcome that arises from entrepreneurial activity, including happiness, ecological situation, knowledge etc., and it is worth mentioning that social value created by entrepreneurs can be both positive and negative which is essential for conclusions and recommendations which would be provided in this paper. In general entrepreneurs are driven by desire to make meaning: (a) increase the quality of life, (b) right a wrong or (c) to prevent the end of something good (Kawasaki, 2004), and this particular intention might become a basement for recovery in case it is could be regulated and stimulated. The opposite to entrepreneurial behavior is solid profit-orientation which became one of the reasons that provoked crisis: since social value produced by entrepreneurial units cannot be measured, it was considered unimportant and all the emphasis was put by entrepreneurs and especially hired managers into gaining profits as quick as possible (this can also be seen in economic models such as, for example, EVA model), and this resulted in unsustainable model of pre-crisis development.

SOCIAL ENTREPRENEURSHIP AND SOCIAL RESPONSIBILITY: PHENOMENA VERSUS ENTREPRENEURIAL NATURE

Nowadays social value creation is studied within management theory as phenomena of corporate social responsibility and within entrepreneurship theory as phenomena of social entrepreneurship. In order to understand, how does social value creation affect entrepreneurial behavior we first need to take a closer look at the existing research.

During past years quite a bit of research on the issue whether being socially responsible affects company's performance and achieved results can lead to opposite conclusions. Some of this research (see, for example Carroll, 1979, Collins & Porras, 1994, Porter & Kramer, 2006) shows that there is positive relation, and if a company is active in CSR its financial results are getting better as well. Others argue, that mentioned relation is at least mixed and CSR can lead to financial losses as well as to financial gains, and existing empirical papers are a proof of that (see for example Margolis & Walsh, 2001, De Bakker, Groenewegen & Den Hond, 2005). Such contradictory results mean that there are no direct relation between CSR and financial performance which means that in case society is interested in socially responsible companies some specific regulation measures should be implemented to stimulate them.

Social entrepreneurship researches studies social entrepreneurs as a special phenomena and is aiming to figure out the reasons for social entrepreneurs' economics success. But analysis of social entrepreneurship definitions (by Dacin, Dacin & Matear, 2010) shows that one cannot clearly define what social entrepreneur is: it is stated that social entrepreneur addressed social need, but in general all entrepreneurs are addressing certain societal needs (Schramm, 2010). The same thing was as well mentioned by Mair (Mair, 2006) who insists that all successful entrepreneurs are generating some social value. Mentioned research results lead to a conclusion that by nature all entrepreneurship is social, the trend to stop being socially active arises not from the nature of entrepreneurship but out of state of environment.

One can see the following evaluation of business structure: it seems that if successful entrepreneur is managing company it is true it keeps creating social value; on the opposite, if company is being driven by techno structure (Galbraith, 2008) this is not necessary. It is entrepreneur's intention in company creation to make meaning (empirical research shows that this is true for necessity driven ventures as well: almost all of the entrepreneurs had stated their main intention was to solve some problem of the society which as

they believed could also bring them some income) but when venture grows and is henceforth managed by employees it is not necessarily keeping to create positive social value. Last year had provided the evidence that multinational companies were building their profits by means of negative social value creation (Daimler-Benz corruption scandal is an example).

If we take into consideration that all entrepreneurship is social it can lead us to the idea how to restructure the post-crisis world in order to increase entrepreneurial activity and pass the recession as soon as possible. This solution is partly based on Keynes's ideas of crisis management which were mainly based upon recognition that entrepreneurial activity should be increased by all means and partly based upon social value recognition. This idea is supported by father of social entrepreneurship, G. Dees, who argues: "How many businesses would start from scratch and go to scale if we didn't have venture capital? If we didn't have banking and financial infrastructure to support business growth? If we didn't have business schools? We have a very elaborate support structure for business entrepreneurs. ... Without something similar for social entrepreneurship, we can't expect to see the same kind of scaling and impact." (Brookes, 2010).

There are two main arguments against this thesis. First one is that special regulation of social value creation by state authorities is being against the nature of entrepreneurship. This could be true if such regulation would be direct, but in this paper it will be shown that institutional type of regulation can be provided for social value creation. No one argues that taxation as a regulation tool is against the nature of entrepreneurship: so the only problem is to create a similar type of instrument for social value regulation. The second argument against social value creation regulation is that social result cannot be measured and henceforth cannot be managed, so no regulation tools could be provided for government policies stimulating social value creation. In this paper we need to take a closer look at this issue in order to prove it wrong.

THEORETICAL APPROACH TOWARDS SOCIAL COST, BENEFITS AND EFFICIENCY MEASURING: IS SUCH MEASUREMENT POSSIBLE?

In terms of marginal theory social efficiency is the optimal distribution of resources in society, taking into account all external costs and benefits as well as internal costs and benefits. Social Efficiency occurs at an output where Marginal Social Benefit (MSB) = Marginal Social Cost (MSC) (see for example Watkins, 1981). In this case market price of a good is defined by the customer according to his/her estimation of good's utility and amount of goods stock – in this case the bigger the stock is the lower is good's utility for the customer, and the price is defined by marginal utility. Such an approach leaves the problem of measurement for social costs and benefits unsolved. And henceforth it is argued that the said effect and costs cannot be measured at all. For instance, Gliberman argues: "How are social values of different outputs and inputs established? After all, consumers are unlikely to have identical tastes and preferences, while workers, landowners, and other suppliers of inputs are likely to differ in their skill levels and other endowments. Hence, members of society will differ in their individual valuations of the many different outputs and inputs that characterize economies. In capitalist economies, the forces of supply and demand establish the values of outputs and inputs. Specifically, market-clearing prices, that is, prices that equate supply and demand, ordinarily serve as measures of value. The reliance on market-clearing prices as measures of social value can be conceptually justified by acknowledging that buyers should be willing to pay, at a maximum, what any quantity of a good is worth to them rather than go without that good. This implies that the market demand curve for a good should represent the valuation that consumers, in the aggregate, place on different quantities of the good. Similarly, sellers should be willing to supply to buyers any given quantity of a good only if the price received at least covers the incremental cost of supplying that quantity. This, in turn, implies that the market supply curve for a good can be taken to represent the incremental cost of supplying different quantities of the good in question. Under reasonable assumptions, the market demand curve is presumed to be downward sloping, while the market supply curve is presumed to be upward sloping." (Gliberman, 2011). At the same time empirical

evidence proves that consumers are not intending to buy, for example, fair trade goods just for the reason they provide certain social value, the cost of the product remains the priority choice characteristic.

A standard assumption in the economic theory of production is free disposability, meaning that if the point (x, y) , for an output y and inputs x , is in the producer's production set then so too is any point (x', y') such that $x' > x$ and $y' < y$. As noted in the last section, the assumption of free disposability has been invoked explicitly in some studies of social efficiency and is implicit in other studies. This may be a defensible assumption for a production process (though it can certainly be questioned in that context). But how can we interpret the application of this assumption to (say) life expectancy as the "output" and public spending on health as the "input"? There are (thankfully) very few governments in the world that can freely dispose of their citizens such that if the country initially has a life expectancy of (say) 60 years, and health spending of (say) \$100 per person per year, it is equally feasible for it to have a life expectancy of 40 at the same or greater spending. The applicability of production theory to measuring social efficiency is questionable. Social indicators do not stem from anything one could reasonably think of as a production function representing a well-defined technology operated by an individual producer with well-defined physical inputs. While there are production functions under the surface somewhere, there is clearly a lot more going on in determining the aggregate relationship between measured social outcomes and social spending and/or national income (Ravallion, 2003).

As the result of mentioned measuring problems social efficiency is addressed by researchers as a certain aggregate of life quality, working conditions, state of environment, people's free time etc. when none of the above can become worse as a result of certain decision implementation (Pareto efficiency). But if one looks at empirical evidence he can find out that measures leading to decrease of mentioned parameters are frequently implemented if they provide high economic effect and this allows some researchers make a statement that social efficiency does not exist in market economy. For example, one of Rizzo's (Rizzo, 1979) major points is that the concept of efficiency has no meaning apart from the pursuit of specified ends. But he concedes too much when he states, at least at the beginning of his paper, that "of course it [the common law] is efficient" relative to certain specified goals. For there are several layers of grave fallacy involved in the very concept of efficiency as applied to social institutions or policies: (1) the problem is not only in specifying ends but also in deciding *whose* ends are to be pursued; (2) individual ends are bound to conflict, and therefore any additive concept of social efficiency is meaningless; and (3) even each individual's actions cannot be assumed to be "efficient"; indeed, they undoubtedly will not be. Hence, efficiency is an erroneous concept even when applied to each individual's actions directed toward his ends; it is *a fortiori* a meaningless concept when it includes more than one individual, let alone an entire society.

Let us take a given individual. Since his own ends are clearly given and he acts to pursue them, surely at least *his* actions can be considered efficient. But no, they may not, for in order for him to act efficiently, he would have to possess perfect knowledge—perfect knowledge of the best technology, of future actions and reactions by other people, and of future natural events. But since no one can ever have perfect knowledge of the future, no one's action can be called "efficient." We live in a world of uncertainty. Efficiency is therefore a chimera. (Rizzo, 1979). In continuation of this argument Rothbard argues that "Not only is "efficiency" a myth, then, but so too is any concept of social or additive cost, or even an objectively determinable cost for each individual. But if cost is individual, ephemeral, and purely subjective, then it follows that no policy conclusions, including conclusions about law, can be derived from or even make use of such a concept. There can be no valid or meaningful cost-benefit analysis of political or legal decisions or institutions." (Rothbard, 2006). This argument leads the author to a conclusion that ethics should be implemented heavily and in that case only social efficiency would occur.

As it can be seen mentioned arguments are based upon thesis substitution. Logic used to prove that social efficiency cannot be measured due to the fact that individuals have different opinions on what social costs and benefits are, and it is impossible to argue on that issue. At the same time this does not mean that social value creation cannot be measured for the purpose of regulation. Let us give an analogy. Average people's income, salary, physical characteristics (such as weight of height) cannot be measured as well since they would be very different to each individual. But existing business and government

structures are completely ignoring this fact when they are developing their regulation and market policies which are quite efficient. The answer to the challenge put by Rizzo and Rothbard is that in order to develop a policy to stimulate entrepreneurial creation of social value one does not need to measure individual social costs and benefits – instead average social costs and benefits should be used, so we would be implementing the law of averages in order to develop a basement for regulation of social value creation.

The necessity of such regulation instrument is the following. Nowadays a business structure which is able to create high profits while providing society with negative social value is not being responsible for the latter. Henceforth entrepreneur who is creating both positive economic and social value is usually dealing with extra costs (since he or she spends some money for positive social value creation). Since there is no direct relation between such behavior and financial results (as it is proven in CSR research) in approximately half of the cases such an entrepreneur is developing competitive disadvantage for his/her business. This became one of the reasons of unsustainable economy development which we had witnessed in pre-crisis period and which seems to be restored today. Henceforth a special mechanism for positive social value creation as a basement for post crisis recovery and building a sustainable economic model is needed. Dr. Dees puts it that way: “We badly need greater clarity and transparency in performance evaluation and assessment. That would give skeptics confidence that we're achieving the impact we're claiming to achieve. But that's a small piece of a larger puzzle. We need improved legal structures, better financial mechanisms, better pipelines for talent, and more directed education and training. We need all of that, and a culture that understands social entrepreneurship and supports it.” (Brookes, 2010).

SOCIAL VALUE MEASURING INSTRUMENT DEVELOPMENT

Before moving towards development of social value measuring instrument that can be used for regulation policies, we need to mention that currently some research results on measuring social benefits and costs are being published (see for example Blanchflower & Oswald, 2011). An approach suggested in this paper is based upon empirical research.

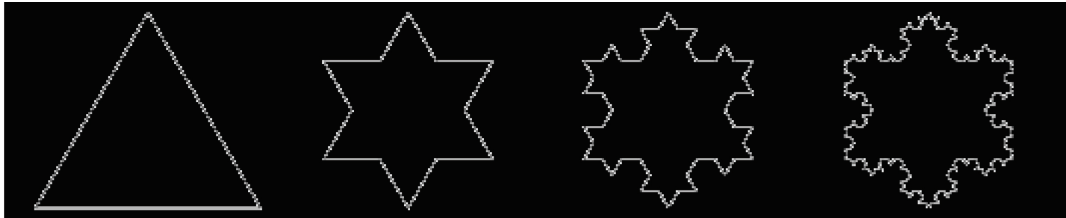
Analysis of real, financial and virtual sector company's performance based upon the data assembled from over 170 Russian enterprises had shown, that in case company is creating zero social value approximately 1/10 of its profits is gained because employees and agents are not being dissatisfied with entrepreneurial venture actions. This figure came out of chronological comparative analysis of company performance which was provided in cases of relatively stable economic development and different approach towards social value creation in different periods taken into consideration for the purpose of analysis. It was also estimated, that there is a relation between creation of positive social and economic value by an entrepreneurial unit, and this relation has two specific features: it is non-linear and tends to be reproduced on self-similarity basis both in case of positive and negative social value creation. Those two features meant that mathematical framework to be used for social value modeling should be based on those specific features. Henceforth fractal theory was chosen as mathematical framework. Though fractal is not clearly defined by mathematicians nowadays, it is being addressed as a set of fractional dimension. According to Mandelbrot, the author of fractal theory, fractal is a rough or fragmented geometric shape that can be split into parts, each of which is (at least approximately) a reduced-size copy of the whole (Mandelbrot, 1982), which means that fractal is both non-linear and self-similar.

In order to solve the problem of social benefit measurement in value terms a fractal with interstitial dimension from 1.2 to 1.3 (this dimension is defined by estimated type of relation between social and economic value creation by an entrepreneurial unit) should be chosen as a basic figure for mathematical modeling. This chosen figure should also have a feature of continuity and is to be directed into external environment. According to developed set of features Koch snowflake curve was chosen (see Figure 1).

When the selected fractal is used in order to solve the problem of social benefit measurement it can be changing in four different ways according to type and trend of social result created by entrepreneurial structure:

- in case created social value is changing evenly in one direction (entrepreneur is creating only positive or only negative social value) Koch curve will have its classical shape as shown on Figure 1;

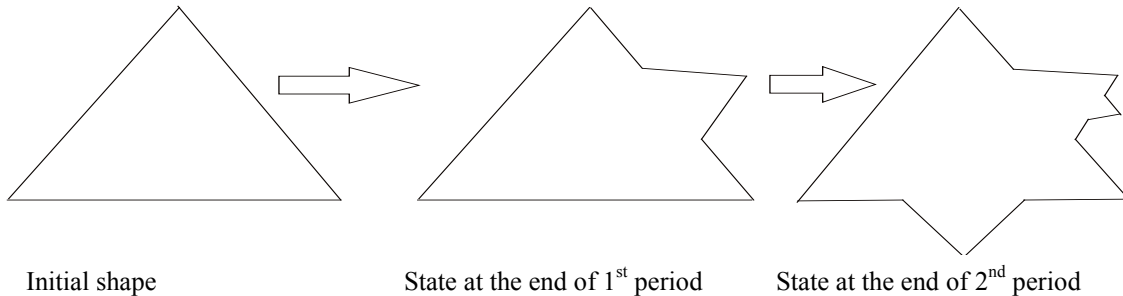
**FIGURE 1
FIRST FOUR ITERATIONS OF KOCH SNOWFLAKE**



Source: <http://mathworld.wolfram.com/KochSnowflake.html>

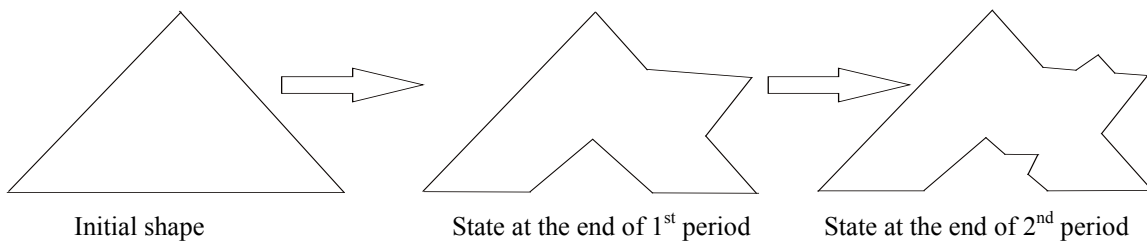
- in case created social value is changing unevenly in one direction Koch curve will be changing partially in comparison to classical shape – for example as it is show on Figure 2;

**FIGURE 2
FIRST THREE ITERATIONS OF KOCH SNOWFLAKE
(UNEVEN ONE DIRECTION CHANGE)**



- in case created social value is changing evenly in opposite directions Koch curve will be changing partially in comparison to classical shape – for example as it is show on Figure 3;

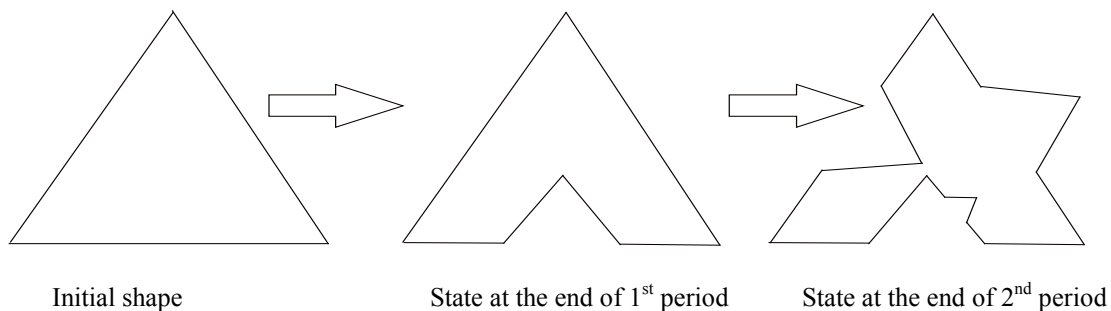
**FIGURE 3
FIRST THREE ITERATIONS OF KOCH SNOWFLAKE
(EVEN OPPOSITE DIRECTIONS CHANGE)**



- in case created social value is changing unevenly in opposite directions Koch curve will be changing partially in comparison to classical shape – for example as it is show on Figure 4.

The length of initial figure rib in all cases is 1/20 of entrepreneurial structure profit received on the initial stage, and henceforth the area of initial fractal is equal to share of the profit received due to creation of social value. The difference between fractal areas at the end current and previous period is the measure of social result produced in value terms. Finally, single change of Koch curve in this model occurs when all criteria influencing social value created change by 10% from initial state. In case the change is higher (lower) than 10%, the basic length for next Koch curve iteration is changing proportionally. Social value which is measured in value terms according to the described algorithm becomes a basement for social benefit creation regulation procedures.

FIGURE 4
FIRST THREE ITERATIONS OF KOCH SNOWFLAKE
(UNEVEN OPPOSITE DIRECTIONS CHANGE)



SOCIAL VALUE CREATION REGULATION MECHANISM DEVELOPMENT

In this paper we will be suggesting two main mechanisms for social value creation regulation. First one is a modified quota mechanism (an analog of the one introduced by Kyoto protocol). In terms of positive social value creation stimulation it could be used in the following way. On the first stage minimum (basic) acceptable social value level (for region or country, according to regulation level) is to be estimated. In case entrepreneur is producing social value which is lower than basic level, he/she should buy a quota equal to negative social value created from government authorities or companies producing positive social value. This would allow launching compensation mechanism which would allow entrepreneurs who produce positive social value transform it into income which should lead to increase in economic system sustainability. Within this mechanism the main problem is a problem of basic social value level estimation, which we suggest to be considered equal to zero at initial stage of regulation in case that:

- the level of labor turnover in an entrepreneurial structure is now exceeding normal;
- entrepreneurial unit performance is transparent (according to global standards);
- company's agents assess information on entrepreneurial unit performance as clear and understandable;
- claim for replacement is not exceeded the rate which is considered normal of the country, region and industry;
- entrepreneurial unit is ecologically safe (according to national and regional requirements);
- government and society do not have valid claims on company performance.

Using the same basic level of positive social value creation and suggested mechanism for social value amount estimation in value terms the other way of entrepreneurial social value creation stimulation can be implemented. This second mechanism should imply tax preferences for entrepreneurial structures which are creating positive social value (social value volume in that case should be subtracted from taxation

basement), and tax extras in the opposite case. As it can be seen both mechanisms are to be used in order to provide balance between social and economic entrepreneurial value creation.

CONCLUSIONS AND FUTURE RESEARCH

Framework and policy approaches suggested in this paper are to be used in order to stimulate natural entrepreneurial desire to provide social value to society and build a sustainable economic model of post crisis world on this basement. In order to achieve this result a solution of two main theoretical and empirical problems was suggested. First of all it was proven that entrepreneurial social value creation regulation mechanisms could be developed and could be transparent and reliable those it was earlier argued by some researches that this is impossible. Second, a framework for social value creation measurement in value terms was provided together with suggestions on basic level of social value estimation – and those two are the essential part of regulation mechanisms. We can also make a conclusion that suggested approach does not contradict with the nature of entrepreneurship, it is not providing any unbearable restrictions for entrepreneurs and can be used in order to improve both economic and social efficiency of certain socio-economic system.

But still there are some questions that need to be addressed in future research. First of all, some measuring assumptions are based on single country empirical information which is enough to make a suggestion, but not to prove suggested thesis. Future research should clarify this issue. Second, more search is needed to define criteria which are to be used in order to estimate basic level of positive social value creation. Those criterions are probably different in different types of entrepreneurial environment. Again this issue does not affect suggested framework but is very essential for policy making. Finally the role of simultaneous regulation of social and economic value created by entrepreneurs in building the basement for sustainable economic growth should be searched as well, though existing evidence shows such an approach would allow increasing both social and economic value of performance since it will stimulate entrepreneurs to create higher social value while being economically efficient.

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Marketing Entrepreneurship: Linking Alertness to Entrepreneurial Opportunities with Strategic Orientations

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Marketing and entrepreneurship have long been recognized as two key responsibilities for firms. Research efforts, however, have generally considered the two separately or examined integration only in specific contexts. This paper, building upon Austrian economics and marketing perspectives, presents marketing and entrepreneurship as synonymous and explores the means by which a firm's marketing function may fulfill its entrepreneurial role. Strategic orientations, it is suggested, serve to alert marketing entrepreneurs to opportunities by focusing attention on aspects of the firm's environment. Testable propositions linking alertness to opportunities, strategic orientations, and market maturity are presented. Both managerial and research implications are discussed.

INTRODUCTION

Ideas from the Austrian school of economics, founded by Menger (1871) in the late nineteenth century, have entered into several streams of marketing theory literature. Alderson (1957), for example, indicates that the work of Mises (1949), an Austrian economist, influenced his theory of functionalism. In the 1990s, both Dickson (1992) and Hunt and Morgan (1995) drew upon Austrian economics in presenting theories of firm competition. Defining marketing as a technological (or applied) discipline, Kirkpatrick (1983) suggests that Austrian perspectives on entrepreneurship offer a foundation for marketing theory. Expanding upon this viewpoint, he links the Austrian vision of entrepreneurship with strategic marketing, claiming that "strategic marketers are entrepreneurs" (Kirkpatrick, 1985, p. 186). More recently, Broeckelmann (2008) addresses the potential of Austrian economics as a general marketing theory. Concluding that the Austrian approach is not a satisfactory basis for a general theory of marketing, he concurs with Kirkpatrick in presenting Austrian economics as a solid foundation for that aspect of marketing focused on commercial exchanges.

This paper expands Kirkpatrick's (1983, 1985) "marketing is entrepreneurship" viewpoint by examining the means by which a firm's marketing function is able to fulfill the entrepreneurial role. The focus is on the part played by strategic orientations in directing a firm's marketing function to profit opportunities. A strategic orientation, it is suggested, serves to alert marketers to opportunities by focusing attention on a particular aspect of the firm's environment. Propositions related to strategic orientations are presented: (1) the strength of each strategic orientation will vary in the stages of market maturity, and (2) for each strategic orientation, strength of the orientation-performance relationship will

vary in the stages of market maturity. In other words, the firm's marketing function, interpreting signals from the competitive environment, moves to orient toward various environmental elements and profit opportunities.

AUSTRIAN ECONOMICS

Marketing, according to Kirkpatrick (1983, 1985), is an applied discipline that aims to define general principles by which need-satisfying products may be created, promoted, and delivered to consumers. These general principles can be "derived from the concepts, principles, and laws of Austrian economics" (Kirkpatrick, 1985, p. 186). The Austrian vision of market competition as a dynamic process, in particular, provides a foundation for an entrepreneurial theory of marketing. From an Austrian perspective, economics is based on human choice. According to Mises (1949, p. 14), all human choices are aimed toward removing a "felt uneasiness." Both Mises and Rothbard (1962) restate this principle in declaring that choices and actions are generated by a desire to exchange a less satisfactory state of affairs for a more satisfactory state. Continuing this line of reasoning and drawing upon Menger's (1871) earlier insights regarding market prices, Mises (1949, p. 270) indicates that the "captain is the consumer" in a market society. Producers (labeled entrepreneurs, capitalists, farmers, etc.) cannot determine what is to be produced. Consumers, whose tastes and preferences continually change, control production through choices concerning what to buy and what not to buy. So long as scarcity is an enduring characteristic of the market, competition among producers ensures that resources are employed to further consumer satisfaction. Kirkpatrick (1983, p. 47) equates this perspective with the idea that the market economy "begins and ends with the consumer," often considered the foundational concept for marketing management (e.g., Houston, 1986).

The Market Process

Mises (1949), Hayek (1948), and Kirzner (1973) argue that the market is a dynamically competitive process. This process involves four "actors" performing basic functional roles: entrepreneurs, capitalists/landowners, workers, and consumers. The first three make up the productive forces of the market. All actors lack knowledge concerning the current and future state of the market and their actions in the face of uncertainty are speculative in character. Mises and Kirzner observe that uncertainty and speculation result in a market process that is essentially entrepreneurial for both producers and consumers. In striving to offer consumers a more satisfactory state of affairs, however, entrepreneurs relieve consumers of the necessity to act as entrepreneurs. The result is a market process that can be examined "as if all entrepreneurial activity were in fact carried on by producers" (Kirzner, 1973, p. 18).

As entrepreneurs discover errors in prior entrepreneurial plans, the plans are corrected and the market moves toward equilibrium (Hayek, 1948). Rothbard (1962, pp. 885-886) explains that the test of an entrepreneur's plan corrections, guided by perceptions regarding consumer desires and recognizing consumer sovereignty, comes quickly:

Large profits are a signal that he has been on the right track, losses that he has been on the wrong one. Profits and losses spur rapid adjustments to consumer demands; at the same time, they perform the function of getting money out of the hands of the inefficient entrepreneurs and into the hands of the good ones. The fact that good entrepreneurs prosper and add to their capital, and poor ones are driven out, insures an ever smoother market adjustment to changes in conditions.

If the market reaches equilibrium, the market process ceases. Market activities would then continue indefinitely without change. But failures of entrepreneurial discovery and correction, as well as continual changes in consumer preferences, resource availability, and technology prevent the process from proceeding to completion. Nevertheless, Austrian economists indicate that entrepreneurial discovery and correction can be viewed as moving the market toward a constantly changing equilibrium (Kirzner, 1997).

Entrepreneurial Alertness

Klein (2010) distinguishes among three strands of entrepreneurship literature. Occupational perspectives explore the characteristics and attitudes of potential and actual entrepreneurs, often comparing entrepreneurship career options with non-entrepreneurship employment (e.g., Mboko, 2011). Structural approaches examine particular firms (or industries) and generally associate entrepreneurship with specific market structures (in most cases, markets comprised of small firms or turbulent markets) and organizational cultures (e.g., Aldrich, 1990). The Austrian perspective of Mises (1949) and Kirzner (1973), in contrast, views entrepreneurship as an essential producer (firm) function. Kirzner's perspective on markets and competition directs attention to this entrepreneurial role, found in large and small firms, old and young firms, and across occupation and industry categories. For Kirzner, an entrepreneur is a speculator who seeks opportunities to better satisfy consumers needs and wants. A successful entrepreneur, exercising alertness to opportunities and moving to take advantage of such opportunities, is rewarded with profits. Following Mises, he recognizes the arbitrage element in all entrepreneurial activity. The entrepreneur who speculates better than others about the future state of the market is able to "buy low and sell high." Kirzner (1997, p. 73) emphasizes the competitive nature of this process, as "each entrepreneur seeks to outdo his rivals in offering goods to consumers (recognizing that, because these rivals have not been offering the best possible deals to consumers, profits can be made by offering consumers better deals)."

Entrepreneurial alertness refers to anticipating opportunities to better serve the needs and wants of consumers and then exploiting those opportunities. Brockmann (2011, p. 46) contends that successful entrepreneurs are able to access tacit knowledge, "work-related practical knowledge learned informally through experience on the job," and this access has a positive impact on their ability to recognize opportunities and make better decisions related to those opportunities. Similarly, Earl (2003) suggests that successful entrepreneurs have a comparative advantage in making mental connections among elements of the environment. By making unique connections, an entrepreneur is able to develop a product that has greater appeal to consumers than anything competitors are able to provide. The resulting arbitrage opportunity, however, does not exist (beyond the mind of the entrepreneur) until the consumer is aware of the product's value. Entrepreneurs must discover opportunities, assess the attractiveness of each opportunity, and then exploit the more attractive opportunities. Plummer, Haynie, and Godesiabo (2007) extend this discovery-evaluation-exploitation framework to include selection of a strategy for exploiting each attractive opportunity. Kirkpatrick (1983, p. 48) summarizes this effort, which he suggests is synonymous with the marketing function of a firm, by indicating that the entrepreneur's end goal is "to make the opportunity available to the consumer in such a way that he cannot miss it." Poor choices and mistakes in the process result in "underexploited" opportunities (Plummer et al., 2007) or losses (Kirzner, 1997) that stimulate subsequent entrepreneurial discoveries.

MARKETING ENTREPRENEURSHIP

Kirkpatrick (1983, 1985) equates the role of entrepreneur, as defined by Mises (1949) and Kirzner (1973), to the marketing function of a business enterprise. Speculative insight, or alertness to opportunities, allows a firm's marketing function to anticipate and realize profit opportunities by offering consumers "better deals." In essence, the marketing function creates these opportunities by employing the classic tools of marketing management: market research, product design, pricing, marketing communications, and distribution (Broeckelmann, 2008; Kirkpatrick, 1983). Success in this endeavor comes from providing consumers with value (allowing consumers to exchange less satisfactory states of affairs for more satisfactory states). Broeckelmann (2008) agrees with Kirkpatrick in presenting Austrian perspectives as a solid base for the commercial aspects of marketing. Pointing to commonly accepted definitions of marketing, including those put forward by the American Marketing Association and Philip Kotler, he identifies "striking similarities with the Austrian entrepreneur" (Broeckelmann, 2008, p. 54). Marketing managers, planning and acting in the context of a dynamic market process where consumers' tastes and preferences continuously change, must speculate about uncertain future events and use

instruments of the marketing program to facilitate exchanges with consumers. Alertness to opportunities, which allows for product differentiation, exploitation of opportunities, and resulting profits, is one key to success. In a dynamically competitive market process, however, product differentiation and profits quickly erode (Broeckelmann, 2008; Kirkpatrick, 1983; Kirzner, 1997). The firm's marketing function must therefore scan the environment in search of short-term as well as long-term opportunities for profit. Opportunities for long-term product differentiation and lasting profits are rare, so the firm's marketing function (acting entrepreneurially) most regularly seeks profit opportunities that can be briefly exploited through relatively small changes in marketing program elements.

In recent years, the interrelationship between marketing and entrepreneurship has been explored through the "entrepreneurial marketing" construct presented by Morris, Schindehutte, and LaForge (2002). Emerging primarily from structural and occupational approaches to entrepreneurship, entrepreneurial marketing is offered as most appropriate for the marketing functions of small and mid-size firms facing environmental turbulence. Entrepreneurial marketing differs from the "marketing is entrepreneurship" of Kirkpatrick (1983, 1985) and Broeckelmann (2008), who indicate that the marketing function in all firms (and in all competitive environments) is essentially entrepreneurial. Elaborating on this point, Kirkpatrick (1985, p. 186) describes strategic marketing as follows:

Strategic marketing unites innovation with execution. Just as individual acting man chooses his goals and then acts to achieve them (with no guarantee that he will achieve them), so also the strategic marketer chooses his company's goals (including what products to offer and what markets to serve) and then sets out to achieve them. That is entrepreneurship.

This paper, adopting Kirkpatrick's functional conception of entrepreneurship, views entrepreneurship as the essence of the marketing function in all firms.

PHILOSOPHICAL CONCEPTS AND STRATEGIC ORIENTATIONS

Kirkpatrick (1983) and Broeckelmann (2008) present Kirzner's (1973) concept of entrepreneurship, focused on alertness to opportunities, as identical to the marketing function of a firm. Klein (2010), however, identifies a weakness in this approach in its failure to offer a theory of how opportunities are identified. Both Earl (2003) and Holcombe (1998) address this limitation. Earl (2003, p.15), pointing out that "profit opportunities are not things that lie around waiting to be found," examines the question of how opportunities come to be perceived by entrepreneurs. His answer is that the entrepreneurial role involves construction of opportunities through mental connections. The entrepreneur creates the potential for profit opportunities by linking elements of the firm's internal and external environments (product attributes, consumer desires, technological capabilities, etc.). The firm then engages in operational activities in order to make the connections and profits a reality. Holcombe (1998), exploring the relationship between Kirzner's views on entrepreneurship and Hayek's (1945) perspectives concerning use of knowledge, suggests that alertness to opportunities involves being in the "right position" to notice opportunities. Specific knowledge does not create entrepreneurial insight, but it does place the firm in a position to notice things that could not be noticed without that knowledge. Knowledge differences thus partly explain why one entrepreneur is able to make the mental connections needed for discovering profit opportunities while others are incapable of making those connections. Holcombe also emphasizes that knowledge critical to entrepreneurship is not necessarily substantive knowledge, but knowledge of where to find relevant information. Based upon these extensions of Kirzner's functional approach to entrepreneurship, the role of the marketing function within a business enterprise can be stated as follows: determine where relevant information is to be found, seek that information, construct mental connections, and create profit opportunities ahead of the competition. In performing these tasks, marketing entrepreneurs manifest alertness to opportunities as described by Mises (1949) and Kirzner. For over half

a century, the marketing literature has asserted that the starting point for successfully performing this entrepreneurial role lies with philosophies that guide a firm's marketing activities.

Philosophical Foundations for Alertness to Opportunities

The principle of the marketing concept, which emerged in the 1950s and early 1960s, has become a philosophical foundation for both marketing academics and practitioners. Proponents argue that creating satisfied customers should be the primary objective of a business (Keith, 1960; Levitt, 1960). Keith, for example, expresses the requirement that marketers place consumers' needs before the production and selling abilities of a firm. He describes an evolutionary approach, with a firm gaining strength as it moves through production and sales phases to a customer satisfaction emphasis. In the antecedent phases (guided by production and sales philosophies), the firm's products are not tailored to meet consumer needs and wants as revealed by marketplace research. Adopting a more negative tone, Levitt (1960) urges marketers to avoid "marketing myopia," the naïve belief that current profitability will extend indefinitely into the future. He provides numerous examples of marketing efforts where firms emphasize current product features and production processes while giving little attention to customer desires. Instead of internally-focused product and production approaches, Levitt declares that firms must be preoccupied with the idea of satisfying customer needs. In this manner, stagnation is avoided and marketplace opportunities are continually identified and exploited. For decades, marketing texts have presented the marketing concept as superior to the product and production concepts defined by Levitt and the sales concept critiqued by Keith and others (e.g., Kotler, 1977). Summarizing the philosophy, Saxe and Weitz (1982, p. 343) link the marketing concept to the marketing function's alertness to opportunities, which requires a firm to "determine the needs of a target market and adapt itself to satisfying needs better than its competitors."

Despite widespread academic and practitioner acceptance, questions have been raised concerning the value of the marketing concept in guiding a firm to successful performance outcomes. Hayes and Abernathy (1980) argue that the marketing concept leads only to creation of feasible products within the customers' frame of reference. The result is incremental innovation and inferior products over the long-term. Hamel and Prahalad (1991), advocating a product concept, assert that firms centered on understanding and responding to customers' needs are unable to anticipate many innovations which later prove to be commercially successful. In a more extensive critique and restatement of the marketing concept, Houston (1986) suggests that most interpretations of the philosophy lead to an incomplete prescription for firm success. Failing to recognize that consumers are not necessarily good sources of information concerning their future desires, marketers often accept the necessity of following only the currently expressed needs and wants of their customers. Interpreted in this manner, the marketing concept creates a marketing function that fails to recognize the frequent need for product designers and salespeople to educate and persuade consumers. Houston suggests that a consumer-focused management philosophy does not require the firm to set aside its unique skills, capabilities, and resources in product design, production, and sales in attempts to better satisfy consumer needs and wants. Under certain circumstances, "the production concept or the sales concept would be a more appropriate management philosophy for the organization than the marketing concept" (Houston 1986, p. 85). Consumers who pursue exchanges by emphasizing non-product elements of the marketing mix, for example, may be best served by firms which aggressively seek out customers for established products (the sales concept). In other cases, passivity with regard to marketing efforts (the production concept) may best serve consumers who choose simply to accept or reject available products. An underlying customer focus provides the philosophical base for a firm's efforts to discover, evaluate, and exploit opportunities, but this does not suggest that opportunities are to be identified only by gathering information on consumers' current desires and then responding to those desires. Dependent upon circumstances, the philosophical foundations of the production, sales, product, and other concepts may provide a better starting point for the firm's marketing function as it develops entrepreneurial alertness to opportunities.

From Concepts to Orientations

Marketing, sales, production, and product concepts are philosophic bases from which the marketing function gains direction. The term orientation, rather than concept, is generally used when considering implementation of a particular business philosophy, as reflected in the strategic activities of a firm (e.g., Kohli & Jaworski, 1990). Orientations represent elements of the firm's culture that guide its interactions with the environment. A market orientation, for example, is grounded in adoption of the marketing concept with its emphasis on understanding and responding to consumers' needs and wants. In contrast, a production orientation guides firms to pursue production and distribution efficiencies that produce widely available and relatively inexpensive products. These and other orientations provide strategic alternatives directing the marketing function toward various environmental emphases. Each orientation requires choices in allocation of resources as the firm seeks to develop a better understanding of customers, competitors, internal operations, technological advances, and other aspects of the competitive environment. The values and beliefs implicit in an orientation encourage continuous learning about key environmental factors and action to exploit opportunities revealed by the learning. Firm knowledge and distinctive capabilities arise from this learning process. It is the development of these distinctive capabilities (or competencies) that allows the firm to attain a superior competitive position.

From a marketing entrepreneurship perspective, the firm's distinctive capabilities are competencies in alertness to opportunities. Competent firms are able to perceive profit-making opportunities and act to take advantage of those opportunities. Researchers of the resource-based view of the firm and the associated resource-advantage theory of competition contend that the foundations of these competencies are generally related to organizational learning (e.g., Hunt & Morgan, 1995). An orientation, manifest through use of firm resources and capabilities, stimulates acquisition of knowledge that cannot be readily emulated by competitors. This knowledge, focused on critical aspects of the firm's environment, develops a marketing function that is alert to opportunities for creating, promoting, and delivering value to consumers through practical application in product design, production processes, market intelligence, selling techniques, and other aspects of the competitive environment. If the firm's entrepreneurial alertness is superior to that of competitors, it will have an advantage in the potential for discovering, correctly evaluating, and exploiting attractive (profitable) opportunities in key areas.

Many orientations (often termed strategic orientations) have been recognized in both the marketing and strategic management literature. Much of this work focuses on the market orientation and follows conceptual frameworks suggested by Kohli and Jaworski (1990) and Narver and Slater (1990). While both frameworks emphasize the importance of a customer focus, the Narver and Slater conceptualization includes a competitor orientation component which the marketing literature has increasingly come to view as a distinct strategic orientation (Noble, Sinha, & Kumar, 2002). Some aspects of the competitor orientation, including an emphasis on short-run performance and aggressive sales and promotional efforts, appear synonymous with the sales orientation as traditionally presented in the marketing literature. Although most orientation research has focused on the market orientation and its components, a number of studies suggest that a market orientation is not the only viable strategic alternative. Orientations found to be prevalent in some contexts include the production, sales, and product (often labeled entrepreneurial or innovation) orientations prominently featured in marketing texts (Berthon, Hulbert, & Pitt, 2004; Noble, Sinha, & Kumar, 2002). Others closely linked with a firm's marketing function are the externally focused alliance orientation (Kandemir, Yaprak, & Cavusgil, 2006) and the internally directed learning and employee orientations (e.g., Grinstein, 2008). These and other studies indicate that no single orientation offers the lone prescription for superior performance. Research outcomes point to a variety of orientations leading to discovery and exploitation of opportunities for competitive advantage and profitability.

Two general conclusions have emerged from the literature on strategic orientations. First, firms differ in the extent to which they emphasize a specific orientation. As Kohli and Jaworski (1990, p. 6) indicate in their specification of the market orientation:

It therefore is appropriate to conceptualize the market orientation of an organization as one of degree, on a continuum rather than as being either present or absent. This conceptualization facilitates measurement by avoiding certain difficulties inherent in asking informants to indicate whether or not their organization is market oriented (e.g., it may be somewhat market oriented).

An orientation is not “all or nothing,” but a degree of emphasis for firm activities. A second and related conclusion emerging from orientation studies is that firms must consider tradeoffs. With limited human and financial resources, capabilities, and time, tradeoffs among the activities associated with each orientation are required (Heiens, 2000). For example, Noble, Sinha, and Kumar (2002, p. 29) note that the weakened market and product orientations of a strongly production-oriented firm result in “a reduced ability to maximize customer satisfaction and, in some cases, reduced quality due to the extreme focus on cost minimization.” A firm certainly has the potential to combine orientations and enhance its alertness to opportunities in different areas, but it cannot be oriented toward all things. Each orientation directs the firm to utilize its resources and capabilities in developing technologies allowing for identification and realization of certain types of profit opportunities. The question facing each firm is where to seek opportunities. Answers to the question guide the firm to emphasize (or strengthen) strategic orientations that stimulate learning, knowledge, and development of firm capabilities related to those areas of the environment where the firm has determined that opportunities are most likely to be found.

RESEARCH PROPOSITIONS

Research propositions, derived from the literature, are presented below. The propositions consider (1) antecedent environmental factors that encourage or discourage strategic orientations, and (2) performance consequences of the link between environmental factors and strategic orientations. Guiding the propositions is the belief that a firm’s orientation stimulates alertness to opportunities by developing the firm’s knowledge and capabilities in some focal aspect of the competitive environment. A firm’s distinctive technologies, its practical applications of knowledge, procedures, and systems, allow it to perceive opportunities that other firms are unable to perceive. No single orientation, however, is able to create a marketing function that is alert to all opportunities. A strong production orientation, for example, may foster development of technical and engineering skills that enhance the firm’s ability to identify and exploit opportunities for improved operating and distribution efficiencies. Exercising alertness to opportunities in product design, changing customer desires, persuasive promotional techniques, or other areas, however, would likely require implementation of other business philosophies. As resource constraints prevent a firm from orienting toward all things, tradeoffs among orientations result in tradeoffs in alertness to opportunities. A firm highly alert to opportunities in one area will necessarily be less alert to other types of opportunities.

Holcombe (1998) believes the environment can direct a firm to turn its perception toward particular areas in search of profit opportunities. External events, such as changes in consumer desires or technological developments, signal marketing entrepreneurs that profit opportunities are available. This perspective, while consistent with the Austrian view of entrepreneurial choice, recognizes that choices can be impacted by the environment. Holcombe further suggests that opportunities are most likely to be found in growing economies (markets). This conclusion is based on the belief that the dynamic nature of growing markets attracts entrepreneurial activity, creating profit opportunities. A stagnant market “blunts the incentive for entrepreneurial activity” (Holcombe, 1998, p. 56). In effect, Holcombe contends that a market orientation is optimal in all instances. The firm’s marketing function seeks opportunities by focusing attention on customers. Stagnant markets, with unchanging consumer desires and little or no growth, offer little to the firm’s marketers in terms of profit opportunities.

In his restatement of the marketing concept, Houston (1986) points to circumstances in which alternatives to the market orientation can better serve the organization in its efforts to discover and exploit opportunities. Markets may not be the most dynamic aspect of the firm’s environment. Passive

consumers, those lacking insight into the potential value of technological changes, and consumers who simply pursue the “better deal” among established competitors do little to significantly change status quo interactions between firms and consumers. DeMarais (1996) builds upon this perspective in presenting a contingency framework of strategic orientations. Like Holcombe (1998), he expects firms to orient toward more dynamic elements of the competitive environment. Dynamism of elements is expected to vary, however, as the market evolves along technical, market, and competitive paths. This research both advances the marketing entrepreneurship perspective of Kirkpatrick (1983) and elaborates upon the DeMarais framework. A strategic orientation is viewed as a manifestation of a firm’s alertness to opportunities in some aspect of its environment. Marketing decision makers, acting based upon signals from the competitive environment, choose where to seek opportunities. The marketing function, in other words, adopts a contingency approach to strategic orientations and alertness to profit opportunities. The product life cycle (PLC), a market maturity model incorporating multiple environmental factors, is proposed as a framework by which firms’ contingent orientations toward profit opportunities and superior competitive performance can be explored.

The Product Life Cycle and Strategic Orientations

The PLC concept, originating with Dean (1950), is a well-known descriptive framework used to describe evolving marketplace dynamics. Four stages of product-market evolution are generally distinguished in the marketing literature: introduction, growth, maturity, and decline (Day, 1981). The introduction stage is characterized by slow sales growth, variation in product design, and few competitors. The subsequent growth stage is a period of market acceptance, rapidly rising sales, and new market entrants. Sales growth slows in the maturity stage and the number of competitors stabilizes or declines as firms engage in intense competition. In the decline stage, products are viewed as commodities by most customers, weaker competitors exit the market, and the remaining firms focus on efficient operations. Similar views of market and industry evolution have emerged from other disciplinary perspectives. One example is Utterback and Abernathy’s (1975) examination of technological industry evolution, which describes product and process technologies moving from an early “fluid” stage to a “rigid” final stage. Although the distinguishing characteristics of stages and the number of stages are somewhat arbitrary, there is substantial agreement concerning the essential pattern of development in life cycle stages (Klepper, 1997). The essence of the PLC is that markets evolve through distinct stages distinguishable by unique demand, competitive, and technological conditions (e.g., Day, 1981).

Marketing scholars disagree concerning the scientific and managerial value of the PLC concept. The framework has been faulted for conceptual and operational problems resulting in poor predictive power and invalid managerial prescriptions (Hunt, 1983). While recognizing flaws of the PLC, many consider it to be of value as a descriptive framework for considering market dynamics (Day, 1981; Kan & Ellis, 2007; Kazanjian, 1988; Klepper, 1997). The potential strength of the PLC as a contingency factor impacting strategic orientations is based on the unique competitive environment existing at each stage of market evolution. Literature in multiple disciplinary areas has shown agreement that the most dynamic aspects of the market, including firm priorities, problems, and opportunities, change as markets mature (Kazanjian, 1988; Shahidi, 2008). The distinctive nature of each life cycle stage requires changes in a firm’s knowledge, resources, and capabilities (Hwang & Park, 2007). As Shahidi (2008, p. 157) notes, a firm “evolves through a sequence of learning, reevaluating, and readjusting strategic orientations” in moving through the stages of the PLC. Changing orientations allow a firm’s marketing function to maintain its alertness to opportunities by directing its attention to the most dynamic environmental elements at each stage of the PLC. To maintain consistency with historical marketing perspectives as well as the more recent work of Kan and Ellis (2007), this paper conceptualizes the four evolving stages of the PLC as introduction, growth, maturity, and decline.

Research from multiple perspectives has examined the relationship between elements of the competitive environment and a firm’s strategic orientations. Few studies, however, have directly examined the impact of PLC stages on strategic orientations. An exception is the Kan and Ellis (2007) study of Hong Kong manufacturers, which found that a market orientation was strongest for firms in the

growth stage of the PLC. A number of studies, though not specifically focused on strategic orientations, have indirectly explored the impact of PLC stage on a firm's approach to its environment. Klepper (1997), for example, summarizing evidence from various disciplinary perspectives and a broad range of product categories, indicates that firms' focus on product innovation peaks early in the PLC. An extensive stream of literature emerging from the work of Utterback and Abernathy (1975) also describes manufacturing firms' shift in emphasis from an emphasis on product innovation in the initial stage of the PLC to a focus on process (production) innovation in the final stage. Narver and Slater (1990) find that many firms in mature markets maintain internally oriented sales and production perspectives rather than a market orientation. Day and Nedungadi (1994), studying perspectives of senior managers, report a sequence of customer, competitor, and self-centered orientations based upon stage of market maturity (from least mature to most mature product-markets). Their competitor perspective is an aggressive approach to strategic marketing similar to a sales orientation, while the self-centered perspective is clearly production oriented.

Conceptual and empirical studies examining strategic orientations, while not directly considering market maturity, also suggest PLC-orientation links by pointing to a variety of external circumstances in which a firm may or may not find a particular orientation to be desirable (e.g., Berthon et al., 2004; Houston, 1986; Narver & Slater, 1990). Much of this work is consistent with Jaworski and Kohli's (1993) propositions concerning the moderating impact of environmental variables on the strength of a firm's market orientation. Greenley (1995), for example, finds that a market orientation is less valued by firms facing the market and technological turbulence characteristic of the PLC introduction stage. Consistent with this finding, Popper and Buskirk (1992) suggest that competition in the introduction stage of the PLC is oriented toward product design rather than marketing activities. In the growth and maturity stages of the life cycle, competitive intensity pushes firms to a stronger market orientation (Harris, 2001). With the predictable demand and competitive stability generally found in market maturity, Heiens (2000) suggests a shift in emphasis to sales and outperforming competitors. As DeMarais (1986) and Kan and Ellis (2007) point out, many of these external factors vary with stage of the PLC, indicating that the concept may be an appropriate framework for simultaneously examining multiple extraneous influences on strategic orientations.

In accordance with the research examined above, the following propositions are presented:

- P1: The product orientation is stronger for firms in the introduction stage than for firms in the growth, maturity, and decline stages.*
- P2: The market orientation is stronger for firms in the growth stage than for firms in the introduction, maturity, and decline stages.*
- P3: The sales orientation is stronger for firms in the maturity stage than for firms in the introduction, growth, and decline stages.*
- P4: The production orientation is stronger for firms in the decline stage than for firms in the introduction, maturity, and growth stages.*

These propositions do not suggest that a firm cannot exhibit a relatively strong orientation toward one or more aspects of its competitive environment in all PLC stages. Instead, each orientation will tend to be strongest at a particular stage of the PLC. Consistent with the traditional presentation of the market orientation in the marketing literature (e.g., Houston, 1986; Kotler, 1977), a customer orientation is viewed as its fundamental aspect. The competitor orientation, included as a core component of Narver and Slater's (1990) market orientation conceptualization, is not directly considered in these propositions. As noted earlier, the sales orientation examined here shares many similarities with a competitor orientation.

The Product Life Cycle, Strategic Orientations, and Firm Performance

Since the emergence of the market orientation as a foundational concept for marketing practice, strategic orientation literature has centered on the proposition that a particular firm orientation leads to

superior marketplace performance. The above propositions imply that strong orientations at specific stages of the PLC are linked with firm performance. A market orientation is strongest during the growth stage, for example, because firm management believes that the most dynamic aspect of the competitive environment during that stage is the consumer. Orientating toward that dynamic element enhances the firm's alertness to profit opportunities. Kan and Ellis (2007), examining the relationship between PLC stage, market orientation, and firm performance among Hong Kong manufacturers, provide evidence supporting a stronger link between market orientation and firm performance in the growth stage than in other PLC stages. In contrast, Noble, Sinha, and Kumar (2002) report no relationship between customer orientation and performance among the largest American retailers. In this context, generally corresponding to the PLC maturity stage, a sales orientation was found to be positively related to performance.

Conceptual and empirical research links product and production orientations, respectively, with superior firm performance in the introduction and decline stages of the PLC. During the introduction stage, customers are still learning about products and stable preferences have yet to be established. Under these conditions, firm performance is often dependent upon product design. Berthon et al. (2004), for example, find that senior executives of North American firms generally link product innovation with performance in turbulent environments (characteristic of the PLC introduction stage). Research examining the evolution of industry product and process technologies indicates that better performing firms in declining industries are those able to shift their competitive emphases to process innovation and development of internal technical and engineering skills characteristic of a production orientation (e.g., Utterback & Abernathy, 1975).

The following orientation-performance propositions are based upon the prior discussion:

P5: The product orientation – performance link will be stronger in the introduction stage of the PLC than in the maturity, growth, and decline stages.

P6: The market orientation – performance link will be stronger in the growth stage of the PLC than in the introduction, maturity, and decline stages.

P7: The sales orientation – performance link will be stronger in the maturity stage of the PLC than in the introduction, growth, and decline stages.

P8: The production orientation – performance link will be stronger in the decline stage of the PLC than in the introduction, growth, and maturity stages.

These propositions do not preclude a strong relationship between a particular orientation and performance in multiple stages of the PLC. In addition, strong links between multiple orientations and performance are possible in any particular stage of the PLC.

DISCUSSION

The primary purpose of this paper is to offer a conceptual elaboration of Kirkpatrick's (1983) marketing entrepreneurship perspective. The basic premise is that a firm's marketing function manifests alertness to opportunities through strategic orientations. Furthermore, the PLC is offered as a framework by which firms' orientations toward opportunities can be explored. Managerial implications and suggestions for future research are now considered.

Managerial Implications

Marketing and entrepreneurship are recognized as two key firm responsibilities. The functional roles of marketing and entrepreneurship, however, have often been considered separately. Research focused on entrepreneurial marketing is an exception, but the focus of entrepreneurial marketing has generally been confined to specific types of firms (e.g., small businesses) and environments (e.g., turbulent markets). Kirkpatrick's (1983) perspective, in contrast, offers an integration of marketing and entrepreneurship relevant for all firms. In adopting the Austrian viewpoint by which firms relieve consumers of the

necessity to act entrepreneurially, he reaffirms that all marketing activities must focus on identifying and taking advantage of opportunities to better serve customers. The managerial focus of this paper concerns the means by which a firm's marketing function can be alert to opportunities and thus improve its potential for competitive advantage and superior performance. The answer presented is that the firm's marketing function, through strategic orientations, directs the firm toward opportunities in particular aspects of the competitive environment. For marketing managers, linking alertness to opportunities with strategic orientations offers insights into the means by which a firm can identify and exploit profit opportunities. Acting based upon signals from the environment, marketers lead firms toward areas of opportunity. These opportunities may be found in the external environment or in the firm's resources and capabilities. Linking opportunity identification with orientations adds managerial insight into the value inherent in both concepts.

An ongoing discussion in the marketing literature concerns the value of a market orientation and its alternatives. Many studies suggest a generally positive relationship between a market orientation and business performance (e.g., Kohli & Jaworski, 1990; Narver & Slater, 1990; Ruekert, 1992). Some also indicate the superiority of a market orientation in comparison with other orientations (Dawes, 1998; Noble, Sinha, & Kumar, 2002). This is the orthodox viewpoint presented in marketing texts, where descriptions of alternative orientations make it "extremely unlikely that any half-sane manager would deliberately adopt any orientation other than marketing" (Pearson, 1993, p. 234). Dissenting perspectives, however, question both the importance of the market orientation-performance relationship as well as its relevance in some environments (e.g., Greenley, 1995; Jaworski & Kohli, 1993; Kan & Ellis, 2007). Research efforts by Fritz (1996) and Wong and Saunders (1993) also suggest that production, selling, and product orientations can produce successful performance outcomes. Pending results of future empirical examination, support for the above propositions would suggest that PLC stage is a relevant factor for marketing managers to consider when leading the marketing function to a particular strategic orientation. Marketers choose where to orient the firm in seeking opportunities, but the choices are impacted by signals from the competitive environment. As DeMarais (1996) suggests, this contingency approach to strategic orientations asserts that managers must seek opportunities by directing the firm's attention to dynamic aspects of its environment. Linking alertness to opportunities and orientations also requires managers to recognize that orientation decisions are matters of emphasis (not a decision to adopt only one particular orientation) and that multiple areas of opportunity are available to the firm.

Research Implications

The research propositions presented here examine the impact of one variable, market maturity, on a firm's strategic orientations. Each orientation is considered independently, but this does not indicate that various strategic orientations are incompatible. Resource and capability constraints require firms to make tradeoffs in the strength of orientations, but evidence from the marketing literature suggests firms often exhibit more than one strong orientation (e.g., Berthon et al., 2004; Fritz, 1996). Fritz suggests that such a holistic approach, emphasizing multiple areas in which a firm is alert to profit opportunities, may result in superior long-term performance. Future research examining the fit (compatibility) of product, market, sales, and production orientations at various stages of the PLC could add insight to the process by which firms readjust strategic orientations over time. Research examining factors other than market maturity impacting strategic orientations also has the potential for enhancing understanding of firms' alertness to opportunities, relationships among orientations, and links between orientations and firm performance. The Miles and Snow (1978) strategic typology, based upon managers' strategic intent, is an attractive option for consideration as it fits well with the Austrian perspective on individual (producer and consumer) choice. Holcombe (1998) contends that both the environment and managerial intent direct a firm to turn its perception toward particular types of profit opportunities. Considering the relative impact of the environment and managerial choice could aid in understanding contingencies involved in firms' approaches to strategic orientations.

Empirical testing of propositions presented in this paper poses some challenges. First, measurement of strategic orientations is controversial. Conceptualizations of market orientation, for example, vary

considerably from study to study and the conceptualizations are often inconsistent (Henderson, 1998). Second, stages of the PLC are not clearly defined. This has created difficulties in prior efforts to compare firm strategy and performance at each PLC stage (Kan & Ellis, 2007). Finally, in assessing the impact of strategic orientations on firm performance, the question of subjective versus objective measures must be considered. Reviewing studies focused primarily on the market orientation, Henderson (1998) finds that managerial perceptions of both orientation and performance do not match the perceptions of outside observers. In addressing each of these challenges, replication of studies from multiple research perspectives is a key to gaining theoretical consensus.

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Family and Territory Values for a Sustainable Entrepreneurship: The Experience of Loccioni Group and Varnelli Distillery in Italy

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This study proposes a key reading of the phenomenon of the family business and of its relationship with sustainable and CSR-oriented strategies focusing on the specificities of family SMEs relative to values, culture and relationships with the territory (local context). The purpose of the current research is to demonstrate that the consolidation of authentic and durable relations among the family business, the stakeholders and the local context depends on the presence of shared values which are the fruit of a given territory's civic traditions and are the expression of the culture of the socio-economic environment in which they are embedded.

INTRODUCTION

Sustainable management refers to the ability of an enterprise to meet economic, environmental and social requirements over the long term (World Commission, 1987). Until now, the necessity for sustainability in strategic decisions has, for the most part, only been accepted in major enterprises (large, multinational, globalised companies). However, the objective of sustainability requires the active participation of all businesses of every dimension, together with those of public and private organizations, institutions and associations from the economic, social, and political worlds.

The theme of stakeholders management, like that of sustainability and CSR-oriented strategies, is predominately studied in major enterprises; in comparison, SMEs (small and medium-sized enterprises) have received relatively little attention (Thompson & Smith, 1991; Spence et al., 2003). There is a small body of literature on SMEs' experiences in industrialized countries and a very limited amount in developing countries (Perrini, 2006).

Empirical evidence shows that most of SMEs' external socially responsible activities are occasional and unrelated to their business strategy (EC, 2002). This does not, therefore, exclude the proactive contribution of small businesses, which are normally family businesses, and constitute a fundamental structural component of the socio-economic fabric in the world (IFERA, 2003; European Commission, 2004; Rankin Kerr, 2006). On both the national and international levels, there emerges the need to deepen the understanding of the motivations of the small firms' commitment to CSR (Morsing, 2006; Nielsen & Thomsen, 2006) and to provide guidelines and instruments to aid SMEs adopt and communicate socially oriented policies (Castka et al., 2004). At the same time, the need to adopt a diverse perspective with respect to conventional theories is confirmed and the necessity to bring to light specifics of SMEs (Spence, 1999; Jenkins, 2004, 2006). A systematic analysis of the possible transferability of sustainability, CSR and stakeholders management concepts for SMEs - such as the discovery of SME specific patterns - constitutes a critical gap in the research which needs to be filled (Lawrence, Collins &

Pavlovich, 2006; Rutherford, Blackburn & Spence, 2000; Revell & Blackburn, 2007), since SMEs play a critical role in industrialized and developing economies (OECD, 2009).

Based on this premise, this study proposes a key reading of the phenomenon of the family business and of its relationship with sustainable management and CSR orientation. A family firm is a business in which ownership and management are combined with a family unit and its members strive to achieve and maintain intra and extra-organizational family-based relationships. The family nature of a business is determined by the cultural and behavioural aspects introduced by long-term family and community-oriented relationships (Litz, 1995).

Starting from the pre-existing theories on family businesses and on territorial relationships, this contribution focuses on the particular importance that family SMEs play in creating pathways to the sustainable development beginning from the local context in which they are inserted, and on the synergistic relations that they create with the territory in which they operate. These relationships are expressed by virtue of the influence among the culture of the business and of the territory.

The research question can therefore be summarized in these terms: “When transferred to the business, does the fabric of values that characterises the family, which is derived from its socio-economic environment, facilitate the firm’s sustainability orientation?” The foundational hypothesis is that the presence of a solid ethical framework that surround the primary family members within the business, and is shared by diverse actors in the same territory, guides the adoption of sustainable and CSR-oriented strategies.

The work is structured as follows: The first section brings the studies on family business together with those of sustainability, emphasizing the role of the territory’s immaterial assets (social capital) and inter-organizational relations (relational capital), which are considered facilitators that inspire a way of doing business and governing the firm that are oriented towards CSR and sustainability.

The second section develops an empirical analysis based on a qualitative research that is centered on the case study method (Yin, 1994; 1995 Eisenhardt, 1989; Sharma et al., 1996).

Two Italian family businesses are considered (the Varnelli Distillery and the Loccioni Group), who are part of a wider set of businesses that serve as a model of territorial social responsibility in the Marche region. This region contains a number of “champions of CSR” (best practices) capable of leading the way in sustainable development projects that create value for the community, both near and far.

RESEARCH DESIGN

The objective of this study is to discuss how elements of social capital associated with the concept of familiness affect the development of a CSR and sustainable orientation in family SMEs. Our line of argument is based on a starting point that the centrality of values, relations, and embeddedness to local environment are characteristic attributes of family SMEs and constitute the driving force behind long-term investments to develop capacities, human resources and lasting relations with stakeholders (Stafford et al., 1999; Olson et al., 2003; Miller & Le Breton-Miller, 2006).

In other words, the hypothesis assumes that the immaterial components of a territory (social assets, fiduciary relations, etc.), which match the relationship-building capacities of the entrepreneur, are linked to the socio-economic characteristics of the territory in which the family business operates.

In the following sections, we use the literature on family business, resource-based view and CSR to develop a discussion on a sustainable territory model that incorporates the specific features of the family nature of a firm. The final model is presented in the last section with the main conclusions of the study.

The propositions that can be derived from the literature discussion and posited as the core of the empirical study are the following:

Proposition 1: “Embedded or “territory” family businesses are those that have inherited the best values of the socio-economic context and local traditions”.

Proposition 2: "Territory" family businesses have innovatively reinterpreted these values, orienting them towards sustainability, which comes from outside the civic roots of the place, experienced as community".

Qualitative research has been undertaken to demonstrate that the values of the members of the family business and the values of their territory, which constitute the immaterial components of the firm, are in reciprocal relationships and represent a fulcrum for the development of sustainable strategies. Specifically, the research project adopted the case study method as its methodological approach because it is adaptable to the development of an exploratory analysis, as is proposed herein.

THEORETICAL FRAMEWORK

Numerous contributions on family businesses (Ward, 1987; Handler, 1989; Aronoff & Ward, 1991; Wortman, 1994; Dyer & Sánchez, 1998) have created the context of a theoretical corpus that is not completely defined. This has also occurred because the theme is enriched by dialogues with disciplines such as psychology, economics, strategic management, and, more recently, ethics, corporate social responsibility and sustainability (Casillas & Acedo, 2007; Chrisman et al., 2005; Zhara & Sharma, 2004).

Despite the high fragmentation of the literature, several essential points regarding the concept and the phenomenon of the family business can be synthesized into the following shared propositions: the family business is a specific type of company; it is a real entity composed of systems (family, ownership, management) regulated by specific values and norms; it is characterized by the overlap between two institutions (the family and the firm); the conflicts and critical situations can often be ascribed to the complexity of the relations between the aforementioned sub-systems; the challenge of succession represents its most characteristic element and the instruments for dealing with this constitutes a crucial element for its survival and development.

Comparing family and non-family businesses, managerial literatures and marketing studies point out that the family business is "unique" for its potential to create durable relationships with its stakeholders (and in particular its clientele); thus it generates competitive advantages that are difficult to imitate. There are several characteristics that create this uniqueness, including: the possibility of promptly responding to the stakeholders requests thanks to less complex decision-making mechanisms; the perception of trust and credibility that the family business is able to convey (Upton, 2001); the attention by members of the family to the preservation of their own reputation by caring for relationships; informal relationships and a strict correlation of values between family members (Lyman, 1991). The centrality of these relationships and values give them a lead role in ensuring the success of the business and the maintenance of competitive advantage.

Another aspect to be highlighted is that the prevalent methodology in this field of research is characterized by descriptive studies on small-scale businesses (Bird et al, 2002; Sharma, 2004) focused on the application of resource-based view (RBV) (Wernerfelt, 1984, 1995; Cabrera-Suárez et al., 2001). The inimitable and defendable resources typical of this business are, above all, linked to the character of familiness and to the system of values possessed by the entrepreneurial family and transferred to the firm as a whole; values that often come from its socio-economic environment of origin, in which both the family and the business are linked by strong bonds. The complex of tacit understandings and intangibles (social, human, relational, and organizational capital) represent a resource that is difficult to imitate, which characterizes family businesses more than other types of firms (Berman et al., 2002).

Habbershon & Williams (1999) were the first to apply the principles of the resource-based view to explain the competitive advantage (or disadvantage) of family firms. They introduced the concept of familiness by identifying the bundle of idiosyncratic internal resources and capabilities resulting from the involvement of the family in the firm and matching them with the firms' strategic capabilities. Other authors have mentioned the involvement of family members with the firm and their interactions within it as the source of certain family-based attributes of family firms that create familiness (Pearson et al., 2008; Sharma, 2008; Sirmon & Hitt, 2003; Zellweger et. al., 2010).

Recently, a theoretical development of the familiness construct is the theory of social capital (Hoffman et al., 2006; Pearson et al., 2008). Arregle et al. (2007) defined social capital as the goodwill and resources made available to an actor via reciprocal, trusting relationships that can be both intra and inter-organizational. From a stakeholder approach, social capital, in terms of trust and reciprocity norms, relation networks and relational competences, relates to various aspects of the normative vision of stakeholder management such as transparency, goodwill and good citizenship (Ortiz-Avram & Kühne, 2008; Putnam, 2000).

Family firms may be especially oriented to investing in social capital due to their particular dependency on the network of interpersonal relationships that determine how they function (Murillo & Lozano, 2006). As a result, relations with stakeholders through specific managerial procedures may allow companies to exploit their social capital (Russo & Perrini, 2010). Arregle et al. (2007) argued that family firms are unique in this respect because they include two types of social capital: the family's and the firm's. Family firms members have strong interaction with stakeholders that help to develop organizational social capital. Sharma (2008) highlighted the importance of the so-called "bridging" social capital, given the impact of family connections with critical stakeholders (such as clients) on family firm performance.

The relevance of these aspects is also confirmed in the field of CSR and sustainability studies. One relevant aspect that emerges from the research conducted on the diffusion of CSR in SMEs (MORI, 2000; Joseph, 2000) is that the process of orientation towards CSR normally is promoted by the owner-entrepreneur and depends on his ethical orientation (Vyakarnam et al., 1997; Spence et al., 2000; Spence & Lozano, 2000; Spence & Rutherford, 2003; Kvåle & Olsen, 2006). Entrepreneurs' ethical values, as well as improved customer loyalty are the primary reasons to adopt CSR practices; better relations with the community and public authorities are also considered (Enderle, 2004). Entrepreneurs and their families are active members of a territorial community, of which they represent the "creative soul", to which they are intimately linked and in which they reinvest part of the economic wealth they generated and their energies. Family SMEs - strongly rooted in their respective region and characterized by long-term relations with stakeholders - possess a good starting position for implementing sustainability strategies as a result of their structure and territorial rootedness (Leborgne & Lipietz, 1991; Storper, 1995). Various studies have highlighted the contribution of CSR in terms of increasing the social capital of SMEs, of participating in the construction of the common good (Spence & Schmidpeter, 2003) and of the sustainability of specific territories.

This explains the development of peculiar approaches to CSR, centred on a logic of SME involvement in networks and districts (Molteni et al., 2006; Battaglia et al., 2006; Ørskov, 2006; Kromminga & Dresewski, 2006). The participation of the SME in networks characterized by the presence of a plurality of actors, both public (local institutions, chambers of commerce, universities) and private (trade associations, non-profit organizations, banks, professional orders), facilitates the implementation of actions and programmes of socially-oriented development of SMEs and of the local area in which they are inserted (Fugazza et al., 2006; Lepoutre, 2006; Maaß, 2006).

Finally, two further aspects should be highlighted.

First, one must consider the utility of the stewardship theory to understand the model of family business governance. According to this theoretical framework (Davis, Schoorman & Donaldson, 1997), the behavior of the manager towards the principle (entrepreneur) is cooperative. In the attempt to satisfy the interests of his organization, the principal considers the expectations and the interests of the workers and the territory in which the business is inserted. Thus, in this perspective, the quality of the relationships that the business fosters with the surrounding territory and with diverse local actors becomes highly important.

Secondly, one must also consider that in family SMEs the entrepreneur is often oriented towards the theory of social success (Sciarelli, 2007). Success is measured not only by the results achieved by the enterprise, but also, and perhaps more, by the achievement of respect in the surrounding community. Social leadership finds its counterbalance in social responsibility attributed to, and embraced by, the entrepreneur.

Based on such theories, the strength of the family business' relationships with the territory in which it operates assumes a major role for two fundamental reasons. On the one hand, the cohesion that characterizes familial relations and the tendency to adopt a model of governance that adheres to stewardship theory assumes a synergistic value that is difficult to recognize in other organizations. On the other hand, the relational capacities of a family business can be considered the driver that triggers the creation of sustainable pathways, which guarantee the business' and the territory's long-term survival.

Some studies have focused their attention on the importance of the quality of relations between the firm and the territory but not with specific reference to family businesses, while few have turned their attention to the role and to the quality of relationships that the family business establishes with the territory to which it belongs. The virtuous circle of entrepreneurship and the corporate culture depend on the business environment as well as on the presence of selective entrepreneurial policy (Aldrich & Martinez, 2001; Minguzzi & Passaro, 2000). A favourable business climate, which springs from a system of anthropological, social and positive economic factors, has an influence on the development of the business and favours orientation towards CSR, which finds fertile land in commonly-held values, and sets off a virtuous process that is at the basis of sustainable development of the company as well as the place where it is rooted. Trust is built both on geographical closeness, common history and on joint activities as well (Granovetter, 1985; Peredo & Chrisman, 2006). The anthropological culture of the territory and firms are strongly interconnected. The concept of culture reminds to beliefs, norms, traditions and attitudes that drive the behavior of individuals and organizations belonging to a definite community (Schein, 1990). The literature is reach with research concerning the relations between culture and management (Hofstede, 1980). Ringov & Zollo (2007) interesting contribution offers empirical evidence to test the assumption that corporations' socially responsible behavior is influenced by specific dimension of the cultural context in their home country.

Recently, the concept of the territory has assumed a "holistic" meaning. It has gone from the notion of a (static) place, with a predominant geographic and object connotation, to a dynamic concept, conceived of as a fusion of specific and contextual values ("genius loci"), heirs to past traditions and influencers of the future. It is intended to mean a complex system of tangible and intangible resources, historically determined, that gives place to a network among more actors.

In this sense the territory can be conceptualized as a meta-organization, such as the system of relations between actors in which each (business, civil society, and institutions) play an important role in the activation of developmental processes. When values and behaviors are closely shared and a collaborative climate is created at the base of relationships between diverse local actors the fusion of these factors forms the relational infrastructure of the territory, that is, its social capital: a system of distinctive intangible resources that is difficult to reproduce elsewhere.

Social capital therefore is the combined effect of relations between a plurality of subjects, including the business and the family, who are engaged and work together. The activation of such contact is motivated by the effort, and especially by the will, to generate virtuous political and socio-economic contexts. The family business becomes, in this perspective, an important motor not only for the growth of the local economy, but also for the diffusion of its culture and for social development, thanks to its mediatory role among internal and external subjects and its promotion of elements of local identity.

The "Third Italy" and Its Socio-Cultural Features

The development of the regions in the "Third Italy" (i.e., Tuscany, Veneto, Emilia Romagna and Marche) can be attributed not only to more general, exogenous causes (such as crisis and restructuring of large firms) but also to endogenous causes (Bagnasco, 1977; Becattini, 1979; Fuà & Zacchia, 1983; Putnam, 1993). Among these, in particular, the presence of strong social relationships in the countryside has contributed to the birth and diffusion of a form of industrialization that is spread among neighbours based on forms of personal communication and fiduciary rapports. In this framework, the role of tradition in the rural family is significant thanks to the family's organization as an autonomous productive unit equipped with working knowledge that has constructed the foundations of the small-scale business. Italian SMEs have inherited from the rural world a work ethic of sacrifice and

the custom of cooperating among the family. The entrepreneurial development of the second half of the 1900s, which is the base of the success of “made in Italy” products sprung from the principles and the values of the sharecroppers and the small-scale farmers. In this way, a local economy characterized by a strong social matrix was born - a matrix that is the result of cohesion among the rural family. The sharecropping culture has provided tenacity, acclimation to hard work, respect and honour for promises. These elements help earn the trust of the subjects within the community with whom it enters into relationships, and favors the development of industrial activities. The continuity with its local historic roots represents the foundation upon which more and more family businesses (like the Loccioni Group and Varnelli) are constructing innovative pathways to sustainable development.

METHODOLOGY

The current study is placed in a body of research which involves both academics as well as consulting groups and professional exponents (i.e. entrepreneurs and managers), making ample use of case studies. Consequently, the qualitative research methodology chosen to carry out the objectives indicated above is that of a multiple case study which develops the theory by examining the phenomena within its broader socio-environmental context (Yin, 1994). Recently, entrepreneurship scholars have called for a return to in-depth methods, such as narrative and case studies (Gartner, 2007). Such approaches are valuable for building theory (Eisenhardt & Graebner, 2007), generating theoretical propositions - that can then be tested using broad-based quantitative research designs - and formulate hypotheses on which theories can be constructed. In addition to developing the understanding and interpretation of the phenomenon, the case studies' purpose is to present concrete testimonies which can provide the means for critically evaluating opportunities of involvement with the community, providing solutions, and activating a virtuous cycle of development.

The businesses examined come from the Marche region, because of its predominance of small and medium-sized family businesses. A clarification is necessary with specific reference to this geographic area. The Marche region is a classic example of the afore mentioned “Third Italy” model, in which the development of SMEs (normally family SMEs) is established in small centers, without upsetting the pre-existent agricultural and artisan vocations, and preserving socio-economic fabric of relationships anchored in the territory. It is a region with one of the largest presence of artisan companies and districts. A recent study that analyzed the geography of sustainability in Italian provinces – in terms of economic, social, and environmental development – found that the provinces within the Marche region were at the top of this list and characterized by superior values than the national medium, balancing economic development with social cohesion (Unioncamere, 2010). Marchegian businesses are also highly present in different national “best practices” lists for their CSR and sustainability-oriented development projects (such as lists by ISVI, the Institute for Business Values or by Symbola¹, a foundation for ensuring Italian quality active in Italy for years, adhered to by hundreds of firms - among them, SMEs from the Marche region, i.e Varnelli and the Loccioni Group, number among the most significant -, institutions, and associations, that places the territory and its uniqueness at its center, connecting competitiveness with social well-being, local traditions with innovation and orientation to the future, beauty with quality), and have also been recognized at the national and international levels (such as with the Sodalitas Social Award).

Within this broad area, a data set of Marche' SMEs was created by first identifying members of Confindustria (the leading national association for Italian entrepreneurs) who all received a survey questionnaire. Family businesses were next identified within this data set, and, from those, businesses distinguished by their relationship-building capacity - Loccioni Group and Varnelli Distillery - were selected. Particular attention was paid to the system of relationships that the founder and his successors had established with the surrounding territory, and the fiduciary relationships that had developed through time. Interest in examining the two firms also derives from the values system that characterize their mission and governance (and which is reflected in their accountability), oriented towards sustainability. In the choice of enterprises, we considered the “cohesive” and “multi-certified” Italian SMEs typology

which comes from an analysis of 4.000 companies' orientation towards CSR. A behaviors map reveals five groups of companies: cohesive; multicertificate; aware; mobilizable; skeptical; the first two types are characterized by the attention to their stakeholders' expectations and appear to be predominantly located in districts and clusters (Unioncamere, 2003; Molteni & Lucchini, 2004).

More specifically, the two family SMEs were identified and selected among those exhibiting the following qualities:

- the presence of a framework of ethically-connoted values, shared by the leaders of the firm and widespread throughout the organisation;
- carrying out and promotion of CSR actions and strategies as well as sustainability efforts;
- the adoption of CSR communication tools and development of accountability systems.

Multiple sources were triangulated: open-ended and semi-structured interviews, document analysis, and direct observations. Once the primary reflections were developed, they were discussed with the entrepreneurs. This act of fact-checking and soliciting feedback was useful for compiling the final version of the interpretive model proposed, and for the identification of future directions for the research.

The study was developed across a multi-year period, beginning in 2009 and continuing today. The interviews with the management, the entrepreneurs (founder, successors) and the family members became particularly useful for identifying the values of these actors. Also useful was the rich documentation provided by the firms, such as the social report, the statement of values, as well as the useful information posted on their official internet sites. It should also be mentioned that a participant observation approach was applied; the entrepreneurs and their collaborators were involved in projects like seminars, conferences and workshops in which their experiences and testimonies were exchanged with researchers, other entrepreneurs, and local institutions.

Data Analys

The following is an edited profile of the two firms summarized in Table 1.

**TABLE 1
CHARACTERISTICS OF THE FIRMS**

<i>Company title - Registered office - Year of constitution - Sector - Corporate purpose - Employees – Total Sales (2009) - Economic subject</i>	<i>Instruments of implementing and communicating CSR and sustainability, Year Introduced</i>
<i>Varnelli Distillery Spa; Pievebovigliana (MC) - Italy; 1868 Food industry: anice, bitters and herbal drink 15 employees; 10,000,000 euros; family-owned business</i>	Chart of values, year 2007; ISO 14001, year 2007; SA8000, in 2008; OHSAS, in 2010
<i>Loccioni Group, Angeli di Rosora (AN) - Italy; 1969 Electronic industry Electrical and electronics equipments, automatic equipment and plants-design-robots; automotive; integrated technologies for environmental monitoring (high technology); measurement and quality control; biomedicine and medical equipment; telecommunications and environmental control; equipment for the management of domestic energy (green energy); courses and consultancy for technical and managerial education and for business development. 297 employees; 50,000,000 euro; open family-owned business</i>	List of company values (“charter of values”), in 1969; Code of ethics, in 1996; Social report, in 1997; Intangibles impact, in 1997; Cause Related Marketing, in 1999

The two companies cited as case studies are not listed on the Stock Exchange and are by nature closed companies, which is typical of family capitalism as it exists in Italy among small and medium-sized firms. However they are emerging, well-performing companies that have been able to evolve and develop managerial capabilities (in finance, marketing and organization) which have brought them to high competitive levels at the national, European and world levels. This, despite the fact that they remain family businesses. They were founded by entrepreneurs who come from local families of agricultural extraction (i.e. former sharecroppers). In some cases they were set up after the entrepreneurs had had work experience in other firms in that area (i.e the Loccioni Group). At present the companies are

prevalently - if not entirely - family run. In particular, the Loccioni Group is made up of six companies all situated in the same province, founded over a period of forty years by the current president (Enrico Loccioni) and owned by him and his wife. The second generation of this family (a son, owner of a non-controlling quota of shares) has recently started working with the Group. Although the ownership is primarily family (the company heads), two of the businesses in the group are partially owned by non-family members (holding non-controlling quotas of stock), that is, former employees and people who dealt with the firm who have received assistance from the Group's owner in setting up a new branch of the Group through a internal spin-off process.

RESULTS

Proposition 1: "Embedded or "territory" family businesses are those that have inherited the best values of the socio-economic context and local traditions".

First, in Loccioni Group and in Varnelli trust and social solidarity are learned from the family which is intended as a primary model of community and of the relational network in which one lives by, and follows the rules for constructing the future.

Secondly, they represent family SMEs in which the entrepreneurs and their family inherited from their ancestors the fundamental values of family, faith, work, commitment, and courage. The roots of the companies are based on the 400 years of communally practicing the harvest, which have prepared marchegian populations for the world of entrepreneurship because the harvester was a small-scale businessman. The agrarian culture embraced profound religious values (that were based on Christian doctrine) that represent the foundation of their orientation towards sustainable socio-economic development (Table 2). These family businesses are characterized by the presence of a heritage of ethical and behavioral values that is passed down from generation to generation and undoubtedly represents an advantage.

TABLE 2
TERRITORY AND COMPANIES' VALUES

<i>"Marchegian" values</i>	<i>Loccioni Group's values</i>	<i>Varnelli Distillery's values</i>
Trust, familial solidarity, social solidarity, faith, patience, strength of will, tradition, optimism and tenacity, adaptability, commitment, courage, sense of work and sacrifice.	Honesty, humanity, justice in relationships with the diverse actors in the socio-economic system, satisfaction of the client and of stakeholders, constancy, coherence, spirit and capacity for innovation, energy, responsibility.	Honesty, humanity, justice in relationships with the diverse actors in the socio-economic system, spirit and capacity for innovation, the satisfaction of the client and of stakeholders, respect for the person.

Below is a brief profile of the two companies, based on the direct words of the entrepreneurial actors. The *Loccioni Group* was founded in 1968 in a small town in the Province of Ancona on the intuition of Enrico Loccioni (the current president) who began his entrepreneurial "journey" in the sector of industrial electrical implants. He started his adventure as an electrician, embracing an entrepreneurial spirit and an intimately agrarian popular culture.

"One night, when I was 5 years old, one of my father's cows died. This meant that we couldn't move our oxcart, we had to stop plowing the fields. The next day our neighbors got together and brought us a young calf: a vestige of the agrarian culture in which the ethics of giving trump economic rationality" (E1 - E. Loccioni, President of The Loccioni Group, entrepreneur of the year in 2007, recipient of the Ernst & Young Award for Quality of life).

Business and family live 100% together. The family unit is at the forefront of Loccioni Group's scale of values.

“The family is the primary source of values. It aggregates. It allows for the development of ideas. It catalyzes valuable expectations. Our business values come from the same “norms” that guide, and have guided, the family. We have a particular culture of doing business. We even compare ourselves to other models, for example, that of Olivetti, which has left an indelible mark of inestimable values in the territory. Tradition for us is an engine, even for the new generations. We are an open business. We run the business as a network: not a hierarchical network, but as nodes of understanding that dialogue with one another in relationships of shared dignity. Shared dignity means having faith in each other.” (E2 - E. Loccioni).

Enrico Loccioni speaks of values and culture not with intellectual boldness, but with human simplicity, with the genuine candor of the self-taught man who has only made it to middle school, but who had envisioned his own model of industrial development in Werner Von Siemens and Adriano Olivetti (industrial humanism). The “metalmezzadro model” (“metal.harvester model”) of the Group is based on a parallel between the industrialist (entrepreneur-manager) and the agriculturalist (guided by rational calculation, by a work ethic and by savings), between tradition and innovation (“tradinnovation”) (Tables 3-4).

TABLE 3
LIST OF LOCCIONI GROUP'S VALUES

<i>Imagination</i>	<i>To be capable of imagining means being capable of creating.</i>
<i>Energy</i>	<i>Much of it is needed to dream and to realize one's dreams.</i>
<i>Responsibility</i>	<i>For the air that we breathe, the land that we walk on, the resources that we utilize, and the trust that we earn.</i>
<i>Tradition & Innovation</i> <i>(“Tradinnovation”).</i>	<i>To learn from the past to give form to the future.</i>

“We take the best of the past to build the future (E3- E. Loccioni).

“Look towards the sky, but have your feet planted firmly on the ground” (S1 - C. Loccioni, Enrico's son)

“Values at the foundation of agrarian culture are “obstinacy”, desire, dedication to one's work, parsimony, the sense of one's limits, the sense of the family as the nucleus of solidarity, responsibility. We love to define ourselves as ‘metalmezzadri’. From the agrarian culture we have learned: the importance of traditional values, the communication of trust with a handshake; the habit of working under conditions of seasonal uncertainty; the merits of diversification to reduce risk, just like in sharecropping diversification of cultivations (...) Values sustain actions that are positive and responsible, generating a type of development that respects humans and the environment. Without values one cannot go far. Our intangible values are imagination (to know how to create), energy (to achieve our dreams), responsibility (for the air we breathe, the land we walk on, the resources that we utilize, the trust that we gain). Values are the self-identity of the group: they provide a common language, they give strength to our businesses and guide them as they adapt to the market. Actions, even everyday ones, require profound moral commitment.” (E4 – E. Loccioni).

TABLE 4
THE “IDENTITY CARD” OF THE LOCCIONI GROUP

<i>Attention to human resources</i>	<ul style="list-style-type: none"> - 55% of the collaborators are high school graduates; 45% college graduates; median age is 33 years. - 7% of its resources dedicated to educational development. - Best Work Place Italia Award, from 2002 to 2007 for excellence in organizational environment and the satisfaction of collaborators (from Great Place to Work Institute, Italy). - Ernest & Young Prize, “Entrepreneur of the year”, 2007, “Quality of Life” category. - Recognition as “Olivettiano businessman of the year 2008”.
<i>Attention to research</i>	<ul style="list-style-type: none"> - 4% of its resources invested in Research and Development. - 12 patents and 7 applied research projects. - European Recognition for the research project /DG XII, European Union) “MEDEA” (on quality control in the domestic electronics sector). - 11 patented research projects. - Best Application Award, Automotive Forum 2008 (“MEXUS” project). - Marchegian of the Year (2008) for technological innovation.
<i>Attention to CSR and sustainability</i>	<ul style="list-style-type: none"> - Sodalitas Social Award 2005 Finalist, for the category “Internal CSR Processes and network enterprise model”; “Metalmezzadro” project in the knowledge-based business. - Sodalitas Social Award 2008 Finalist, “Sustainability Projects” category. - “Business and Culture” Award 2003, project “Bluzone”. - Sodalitas Social Award 2009, Finalist in “sustainable initiatives” for the LOV Project, The Land Of Values. - Leaf Community Project: Leaf Energy and Future (partner of the European Commission in the “Sustainable Energy Europe Campaign”, accomplishments recognized by Legambiente.

The *Varnelli Distillery* is located at the foot of the “Monti Sibillini” National Park. It was founded by Girolamo Varnelli who, during the course of studying the medicinal herbs of this land, compiled a number of recipes for liquors and bitters, which, at the time, were used to cure malaria and high fevers in his town. Managed by the Varnelli family from its inception, the company is controlled and managed by the fourth generation of the family - three sisters and their mother. Its mission, just like its history, is firmly anchored in the surrounding territory, which constitutes one of the business’ primary elements of competitiveness.

“I feel that the future lies in the small towns, in traditional values and in culture. These values are the result of a process of sedimentation through time. Our region has a high level of quality among social groups. It really has an extraordinary heritage” (VI - O. Varnelli, Managing Director - successor).

The company’s mission is marked by a balanced mix of traditional and modern management strategies, competition and social cohesion, strong local identity and a dynamic approach to the global dimension of the market. In carrying out its mission, the company particularly emphasizes its investment in intangible capital, that is, in soft elements within the value chain: human resources, competency, research, branding, links with the community, youth education, and environmental protection (Table 5).

TABLE 5
VARNELLI’S GUIDELINES

<p><i>Respect for the rules and continuous improvement</i> <i>Conformity to the requisite rules SA8000 e ISO14001 (social and environmental sustainability) and OHSAS 18001 (security).</i> <i>In addition to conforming to all of the legislative prescriptions, the company explicitly defines its internal rules to avoid any gaps.</i></p>
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Sustainable development and social responsibility

Through specific programs of improvement, the company points to conserving and protecting natural resources and to minimizing the negative environmental effects associated with their products and with their productive activities (ISO9001).

Satisfaction of all interested parties

Starting with its directors, all of the company's personnel are involved in communicating with interested parties to help keep the company embedded in its social context and to develop constructive relationships.

Respect for the individual

The company respects all of the rules aimed at helping care for its labor force and for those inside its supply chain.

Education, information, training and awareness

These principles are mandatory in the company's goal of providing its employees the best work environment and for sharing in the work and its results.

Collaboration with its stakeholders

The company collaborates with its suppliers to identify opportunities for improving its impact on the environment and for undertaking socially responsible activities. It is aware of the importance of collaborating with public authorities and the greater population, and of fostering a climate of trust and transparency towards every aspect of its business.

Efficiency and involvement in reducing pollution

Varnelli Distillery fights against every form of pollution and urges its employees to behave in ways that reduces the consumption of energy and natural resources, in line with environmental rules.

Goal-orientation

The company constantly monitors and analyzes its progress in satisfying interested parties and its practices, by planning with clear objectives, teamwork, the daily example of individual employees, communication of initiatives and results, website, publications in trade journals and raising its providers' awareness.

Proposition 2: "Territory family businesses have innovatively reinterpreted these values, orienting them towards sustainability, which comes from outside the civic roots of the place, experienced as community".

The above-mentioned values are ones that express a sober style of individual and familial life; in the conception of the firm as a precious good, true public goods, which must be managed with a profound sense of responsibility in considering all of its subjects and not only its shareholders.

Loccioni Group and Varnelli cultivate the objective of a growth that can also help to valorize and develop the entire territory at the same time, positing a form of sustainable development that is in harmony with the land in which the firm operates and with the human relationships that characterize it. Both the companies testify this business "way of being" adhering to multiple occasions of exchange and comparison (workshops, forums, meetings, testimonies, etc.). They desire to valorize and leave a mark on their territory and present themselves as vehicles of development. Market by a sense of community and territorial belonging, they possess a distinctive capability in activating networks of relations. The companies' network of relationships are articulated (Tables 6-7). The collaborative links are established at the local level, involving the principle subjects of the territory, as well as at the extra-local level.

TABLE 6
THE VARNELLI'S SYSTEM OF RELATIONSHIPS

<i>Collaborators</i>	<i>The company promotes ongoing educational activities (training meetings) with different types of collaborators, calling on the sector's professionals that teach the culture of hospitality and of the history of Varnelli's products.</i>
<i>"Valuing Labor" Award</i>	In 2007 the company received this award, which is given by the Marche Region to the region's firms who distinguish themselves in providing a safe work environment, caring for its employees, supporting equal opportunities, investing in education, fostering links with the territory, and maintaining a high quality of human relations inside the firm.
<i>Hometowns</i>	Even though the company moved its factory into a small suburb (Muccia) of its hometown in 1996, it still maintains legal residence in Pievebovigliana, so as not to deprive the town of its historic company. Over 2.5% of its profits go towards funding social, cultural and athletic initiatives within the regional territory.

<i>Collaboration with other Marcheian firms</i>	Varnelli collaborates with other Marcheian firms in the hospitality industry and towards the valorization of the territory's products: such as in the case of the synergy developed with the Loccioni Group, to whom collaborators had transferred technical knowledge and skills.
<i>The Girolamo Varnelli Foundation</i>	Since 2002 the Foundation, dedicated to the founder, has undertaken cultural, educational and social initiatives aimed at promoting the tradition of distillation and the territory.
<i>Visitors to the Varnelli House</i>	The company is open to frequent visitors from schools, universities, trade associations, and enthusiasts (1000 visitors/year). These visits emphasize and transmit the added values of the Varnelli family: its entrepreneurial style and its long history.
<i>Training and Research Institutes</i>	The company cultivates a number of relationships aimed at promoting youth education: internships with educational institutions, collaboration with vocational tech colleges (such as ISTAO: Adriano Olivetti Institute for the Study of Business Management).
<i>Symbola Foundation</i>	The company is a shareholder of the Symbola Foundation for Italian Quality. This foundation's objective is to spread the model of Soft Economic development, that is, the development of an economy based on knowledge and innovation, on identity, history, creativity and quality, of which a growing number of Italian (and specifically Marcheian) businesses are excellent examples. "Territories help firms to meet each other; it is where alliances are created among knowledges, new technologies and traditions, and where competition is nurtured by training, research and social cohesion (first of which is still familial cohesion), and positive relationships for the community" (www.symbola.net).
<i>Participation in fairs and other events</i>	Varnelli takes part in numerous fairs and other events, both at the local as well as the extra-local levels. The company develops local relationships with surrounding towns, the province, the Marche region, the mountain communities, banking foundations, and universities. The firm develops extra-local relationships with a number of different subjects to safeguard its communitarian brand, such as with Slow Food; associations of Italians abroad, the official Marche region representative in Brussels, the University of Milan – Bocconi, Ordre International des Anyssetiers; ICE, and the European Office for Harmonizing the Internal Market.

TABLE 7
LOCCIONI GROUP'S NETWORK MODEL

<i>U-net</i>	<i>A multidisciplinary network of universities and research centers for the development of scientific competence and applied research.</i>
<i>Crossworlds</i>	A network of large international groups that aim to stimulate the transfer of automotive technology towards other sectors.
<i>Nexus</i>	A plural-sector network of local businesses that communicate and work together towards the development of the territory and synergistic potentials. Nexus, created in 1994 by Enrico Loccioni, inspired by his idea to facilitate integration between SMEs in the Province of Ancona, thereby increasing territorial growth, as well as the growth of the single firm participants. The latter takes place through the sharing of information and experiences by a global network of local companies able to communicate, interact with and utilize the potential synergies within the group. Many initiatives are promoted by Nexus: monthly meetings, a virtual board, training courses, school collaboration, scholarships, data provision for students' thesis, training, polytechnical institution visits, and European projects. Its staff is made up by 30 entrepreneurs/companies and more than 550 collaborators.
<i>Bluzone</i>	In 2001 Enrico Loccioni "put into method" all of the company's formative activities and collaborations with schools and research centers, creating the network," a kind of educational laboratory (every year more than 1000 students are hosted) in which spaces (inside the company) and people host students of every class, grade and nationality. Since 2002 Loccioni Group has been accredited as an educational organization of the Marche Region; it partners with 28 schools, 20 universities, and 5 master's programs. All of this contributes to the development of a new conception of culture and the formative role of the firm, above all called to help the growth of the territory and of the young people that give it life.

The project is centered on the concept of welcoming various stakeholders. By collaborating with small local tourism agencies (especially agro-tourisms), the Group offers its work-related visitors a unique and custom-designed tourist experience, based on the particularities of the location, focusing on oenogastromic and country tourism. In the Loccioni's companies guides on hotel and restaurant partners and tourist brochures selected on the most significant Marchegian locales, are offered (produced and published at the Group's expense, without any external contribution). Such a "heritage experience" helps transmit those values and the ethical matrix which stands at the base of its entrepreneurial culture to its partners. At the same time, it offers the community, without any ulterior motives or desire for return, an opportunity that has economic and occupational reflects and stimulates in terms of managerial development for tourism entrepreneurs.

The following are quotes from interviews with the entrepreneurs.

"Ours is a way of being an open enterprise from the very beginning, born to welcome interlocutors as carriers of value; formation, collaboration, team work are our practices. (...) From a strong shared culture and from driven human resources can arise the commitment for the Common Good and the strength to face the market." (E5 - E. Loccioni).

"The environment includes people, their values and culture. What the company gives to the environment is just as fundamental as what it receives from it."(E6 - E. Loccioni).

"LOV is a project that permits those who visit us the ability to share in a singular encounter of professionalism and conviviality. The visit to the Group must be a moment that involves, other than commercial intents, also moments of hospitality, that permits one to discover the values and the culture that originates in our world. The values and the passion which distinguish us come from the same Land from which we draw our energy, and it's for this reason that our concept of hospitality goes beyond work-a-day contexts and extends throughout the territory." (E7 -E. Loccioni).

"Varnelli considers the values that have guided it from the start before every decision it makes. It is a business that lives in harmony with the surrounding territory, that takes on its unique characteristics and its great values. The people who reside in this territory have more prospects for sustainable survival. We could seem to be self-reflexive and say that after 150 years one could think that the firm is "done" [old]. But this isn't the case; we feel that we are shouldering great responsibility to carry on the work of those who came before us. We are in an area far from the big players, but this area has a social balance that keeps us and other Marchegian firms young. We are convinced that the best way to do business is to keep in mind all of the interests of the territory. We act based on a spontaneous ethic. We act, and that's it. Ethics are something that is very intimate that you have to live, and that's it. We do not naturally want to badmouth ourselves, but if this is the price you have to pay to teach a new way of doing business, we would never hold back." (V2 -O.M. Varnelli)

DISCUSSION

Loccioni and Varnelli are territorial companies, strongly embedded to their cultural and socio-economic contexts. They can be considered "convivial" companies, whose competitive success grows out of the commitment to values and to the human spirit and where lives a type of "art", reconciling economic

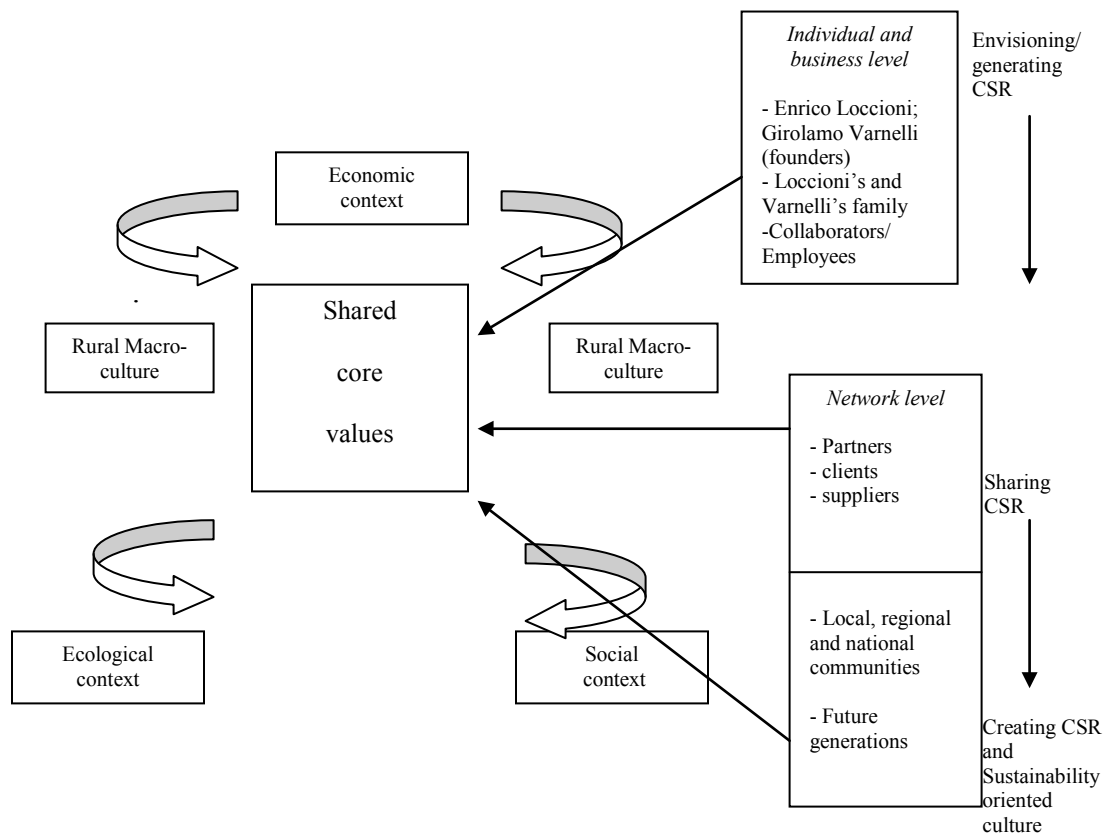
objectives and humane ones. “Conviviality” is manifested in the creation of CSR-oriented networks and partnerships.

They have a strong capacity to open itself up to others, to work together with trust and to “weave and spin” towards the force of a networking approach. Equally strong is the link between the sense of social responsibility of the companies, on the one hand, and the culture and ethics as distinctive organizational competencies, on the other. Orientation towards sustainability pervades the organizational culture. Such orientation is born and develops from the cardinal figure of the entrepreneurs and their family members, it pervades the collaborators, and from them it returns towards the managers and is transmitted to every stakeholder who enters into relation with their companies. In managing the business, the entrepreneurs have imported the principles and values typical of the rural Marchegian tradition, which constitutes a sort of meta-culture in which the firms move (Graph 1).

CSR orientation “constrains” and at the same time facilitates the construction of networks. The network represents the application of a social form (“clan”) at the base of which personal relationships subsist between individuals, who are linked by rapports of friendship, esteem, trust and even kinship.

Reinforced by their socio-cultural and anthropological values and by the typical nature of the surrounding land, the companies have become vectors of intangible factors. They have developed explicit and implicit understanding, integrating themselves with universities, schools, research institutions, technological centers, incubators. Thus development occurs for the sake of valorizing people, defending the values of the territory, elevating the quality of life and of work, generating profits and ideas.

GRAPH 1
SOCIO-CULTURAL DYNAMICS



CONCLUSIONS AND IMPLICATIONS

The present research has focused its reflections on the contribution offered by the wealth of immaterial elements of a territory (social and fiduciary capital) and the consolidation of lasting and stable

relations between the family business and its territory to the development of sustainable practices. It is hoped that the research presented here has provided a first step towards understanding the centrality of the anthropological culture of the place of which the family businesses are expressions and the capacity to create value through the institutionalization of useful relationships with their territories of origin. One of the assumptions in our discussion is that family firms have the potential to support the development of social responsibility and sustainability. The conviction remains that the specific traits of the family business must be understood better - particularly through analyses of cases and of specific aspects that have not yet been examined - because of their actual and potential role in the diffusion of CSR and sustainability strategies.

The work is therefore intended to closely examine the “sustainable family values” which are at the core of the family SMEs’ orientation towards stakeholders. Territory family businesses in this context refer to businesses whose sustainable development is connected to the local context in which they are inserted. Such businesses are important protagonists in the construction of sustainable oriented networks that are constituted by a plurality of actors (other public and private, for- and non-profit businesses, institutions, and organizations) with whom they enter into relationships, utilizing the exemplary social cohesion that characterises the local contexts (city, province and region) in which they operate. In this way they activate (or support) paths of sustainability inside the community and the territory from which they come - pathways that are not always exclusively local, but often extend themselves into the national and international contexts.

In light of the information collected and of the considerations made herein, it is possible to affirm that both of the family businesses have their strength in the relationship-building capacity of their founder and successors, in familial cohesion, in the quality of the values that they incorporate, and in the social cohesion of the local context in which they are inserted. This social cohesion is the primary immaterial resource that exists in the provinces of Italy’s Marches region.

The analysis reveals a profile of family businesses that are strongly committed to contributing to the promotion of the quality of their surrounding territory. They are able to sustain a process of co-evolution towards forms of communal development between the businesses and the territory in which they are rooted. This aspect is the expression of a particular way of doing business that is not altogether exclusive of these two cases.

However, the study has several limitations. First, the observation of the two case studies represents a preliminary attempt at deepening the understanding of how reciprocal relationships among the territory’s social capital, as well as how territorial and familial relations, affect a family business’ orientation towards sustainability. A more profound understanding requires an even deeper qualitative analysis that is broadened by a quantitative analysis. Second, the question remains whether it is possible to extend these findings to a broader sample (analytic generalization) - starting with SMEs belonging to the same region (Marches) - across different Italian local contexts, and across other countries. This would necessitate a more detailed investigation into how the socio-economic environments influence the entrepreneur, the family and the SMEs’ values. In addition, it can build evidence on the differences and similarities in the values framework that comes from cultural factors.

Nevertheless, because these two cases specifically interrogate these aforementioned elements, they constitute a useful point of departure for future reflections in merit of the possibility that the relationship between the culture of the territory and the culture of the family both is predicated on strategies of sustainability. Future research should focus on testing the proposition suggested in our model of territorial responsibility centered on the best practices of territory family SMEs. Consequently, it is useful to reflect on the possibility that these experiences, even in their specificity, can offer original contributions that can enrich the literature on the theme of the survival and success of family businesses and on their role in promoting pathways to sustainability.

ENDNOTE

1. www.symbola.net; www.softeconomy.it.

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Innovation Management of SMEs in the Creative Sector in Flanders and the Netherlands

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This article studies the innovation management of 105 creative SMEs in Flanders and the Netherlands. This region appears to have an innovative climate and stimulating life style, well developed infrastructure and proximity of logistics and suppliers. However, we identified many restricting legislations and regulations that hamper creative SMEs. Above that, creative SMEs fail to find sufficient access to capital to invest in their growing innovative activities. Dutch creative SMEs find more easily access to external financial resources and governmental support than their Flemish colleagues. Finally, the use of managerial and financial tools seems uncommon but required among creative SMEs.

INTRODUCTION

Today, SMEs represent a very important part of the European economy, not only in terms of number of firms but also in terms of added value and employment. Within the SMEs group, the creative sector is recently one of the fastest growing sectors. Creative SMEs in Belgium and the Netherlands show a growth in employment that is almost double that of the average in all sectors. Since the creative sector in Flanders and the Netherlands is particularly one of small and micro firms, they often lack important scale economies, financial and human resources and well established organizational structures to effectively manage the market introduction of their innovations. Recent research has shown that many creative SMEs lack systematic methods with which to measure the impact of their innovations and the proportion of risks to profits and they also lack formal strategic innovation management systems (De Jongh e.a., 2003). Other studies indicate a lack of financial and managerial knowledge within creative SMEs and the capacity to invest in management and marketing to successfully sell innovations on an international scale (Nauwelaerts & Frank, 2007; Sleuwaegen & Onkelinx, 2008; Nauwelaerts & Vijfeyken, 2010).

Starting from these facts, our paper focuses on the strategic innovation management of creative SMEs in Flanders and the Netherlands. We mainly base our study on the innovation diagnostic instrument, developed by Mazzarol & Reboud (2006). On the basis of an extended questionnaire, this instrument identifies strong and weak points in the innovation management process of SMEs, as measured by the innovation diagnostic diamond (IDD) and identifies particular innovation profiles of SMEs, through an initial assessment of the anticipated lifecycle (length), sales forecast (volume) and profit margin (rate) of the innovations, which determine the overall RENT that can be generated from the investment.

We studied a group of 105 creative SMEs in Flanders (82) and the Netherlands (23) between 2006 - 2010. Interviews were carried out personally and took on average two to three hours. In our study we focus on factors which stimulate or hinder innovation of creative firms. Key success factors of successful innovations are identified as well as so called 'profit profiles' or 'RENT profiles' of creative SMEs.

First we conclude that almost all Flemish and Dutch creative SMEs are convinced of the importance of innovation and effective innovation management for the survival of their business on the global, competitive market. Almost all firms plan to commercialize an innovation within the next 3 years.

Many studied cases reveal to have a 'shrimp profile', showing small margins, volumes and lengths. A 'shrimp profile' shows a less complex innovation that can be commercialized fairly quickly and is usually appropriate for small or micro firms. Next, also other dominant profiles like 'champions', 'flash in the pan' and 'oases' are identified. 'Champion innovations' show that small firms can develop potentially high performance innovations in all three aspects (length, volume and margin) while a 'flash in the pan profile' can be determined by the short length of lifetime of the innovation. 'Oasis innovation' has a long length of lifetime and is beneficial for SMEs in case of high margins.

On the side of the 'innovation climate' we identify many stimulating factors such as the well developed infrastructure and proximity of logistics, suppliers etc. and an innovative and stimulating life style in the global area of Flanders and the Netherlands. However, we identify many restricting legislations and regulations that seem to hamper seriously most creative SMEs. Above that, many creative SMEs fail to find sufficient access to capital to invest in their growing innovative activities. Most of their investments are originating from reinvested profits. When we compare Flemish to Dutch (from the Netherlands) SMEs, we observe that the Dutch creative SMEs find more easily access to external financial resources and governmental support and subventions. We also find that, the younger SMEs seem to attach more importance to their suppliers than their older competitors. All interviewed SMEs attach a high importance to the demands of their clients, sometimes to such an extent that they neglect their own pricing strategies.

It also appears from our study that the use of managerial tools like a SWOT analysis or setting up a financial or business plan is very uncommon among creative SMEs.

The next section describes the importance of the creative SME sector in Flanders and the Netherlands. Section two gives an overview of the relevant literature and introduces the main research propositions. In section three we describe our research method and data collection and in section four we present our results and discuss our findings. Finally in section five we formulate policy recommendations and conclusions as well as the limits of our study.

THE CREATIVE SME SECTOR IN FLANDERS AND THE NETHERLANDS

Today, SMEs (1) represent a very important part of the European economy, not only in terms of number of firms but also in terms of added value and employment. In the period 2007 – 2010 macro-economic figures show that the Dutch and Belgian economy are influenced by the world wide economic crises. Growth rates of real GDP of both countries show a decline since 2009. Total workforce of both countries in this period grew slightly. (Index Mundi, 2011) (See Table 1 and Figure 1)

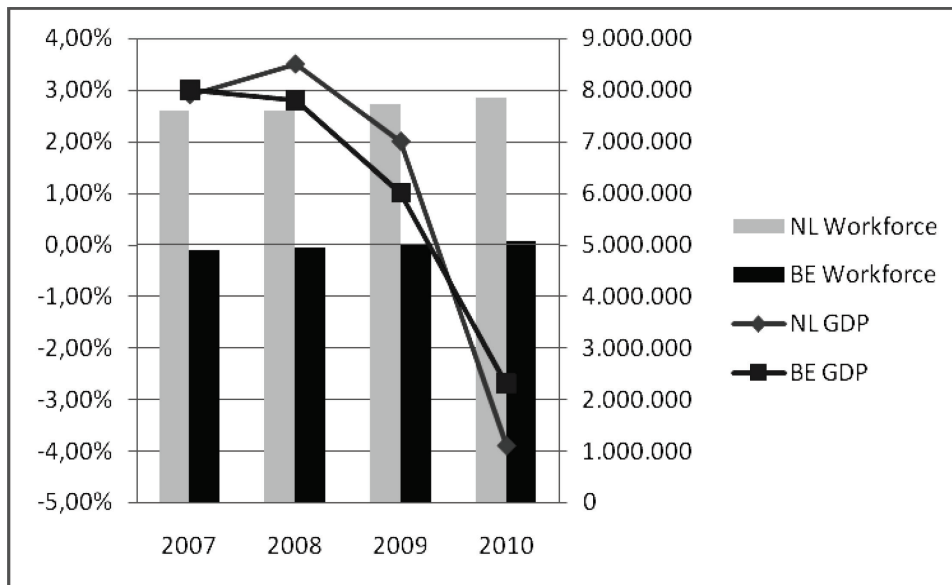
Within the SMEs group, the creative sector is recently one of the fastest growing sectors. We consider the creative sector as "all companies active in fashion- and jewel design, interior design, architecture, furniture and product design, graphic design, photography etc." According to De Jong et al. (2007) features of creative firms can be classified in four domains, arts, media & entertainment, creative services and knowledge intensive services.

Belgium and the Netherlands are listed in the top 10 of European countries in the perspective of successful contribution of their creative industries to their economy. The Belgian-Dutch creative SME sector has grown substantially in the past ten years thanks to the growing welfare and technological progress. Above this, the creative sector is relatively young and in a strong development stage (De Voldere e.a., 2006).

TABLE 1
MACRO-ECONOMIC FIGURES FROM THE NETHERLANDS AND BELGIUM (2)

		2007	2008	2009	2010
Real GDP Growth rate	NL GDP	2,90%	3,50%	2,00%	-3,90%
	BE GDP	3,00%	2,80%	1,00%	-2,70%
Workforce	NL Workforce	7.600.000	7.604.000	7.715.000	7.848.000
	BE Workforce	4.890.000	4.940.000	4.990.000	5.070.000
Investment % of GDP	NL investment	19,3	20	20,5	19
	BE investment	19,4	21,3	22,7	21,3

FIGURE 1
WORKFORCE AND GDP, THE NETHERLANDS AND BELGIUM (2)



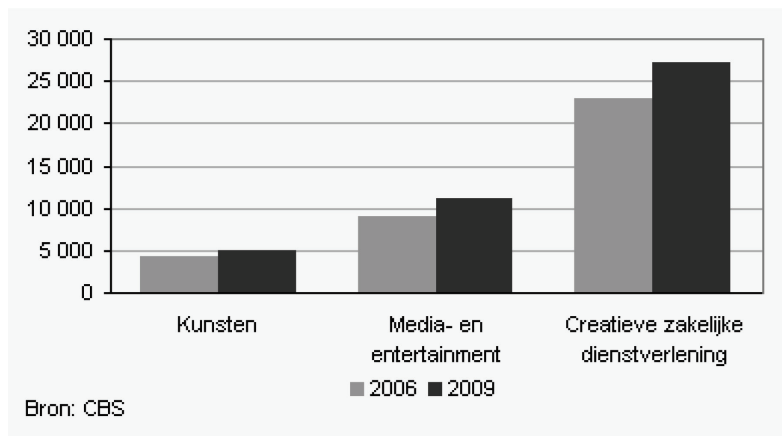
Creative SMEs in Belgium and the Netherlands show a growth in employment that is almost double that of the average in all sectors. Creative firms operate in general on a small scale. Dutch figures on creative firms show that in 2009, about 66 percent are micro firms with one owner (no employees); 27 percent are micro firms with 2-10 employees; 6 percent are small firms with 10-50 employees and 1 percent of Dutch creative firms are middle-sized and have more than 50 employees (Braams & Urlings, 2010).

Unfortunately, the creative sector is relatively difficult to identify since it is not well defined or delineated in the existing literature and statistics. Only recently and in reaction to the economic crisis, sector and regional studies are made in relation to growth and economical value of creative firms. The creative industry is described as a “vital and multifaceted sector that makes a major contribution to the

innovation and business development climate” (Amsterdamse Innovatie Monitor, 2011). De Jong, Fris & Stam (2007) classify features of creative industries in four domains: arts, media & entertainment, creative business services and knowledge-intensive business services. For the period 1995 – 2003 De Voldere, *et al.* (2006) identified the core creative sector in Flanders and Brussels as follows: the audiovisual industry; the music industry; fashion industry; architecture and design; the printed media and publishing sector.

Depending on the chosen definition of creative industry (Braams & Uurlings, 2010), the total amount of creative firms in the Netherlands in 2009 is 43.000 (small definition: arts, media & entertainment, creative business services) or 78.000 (large definition: arts, media & entertainment, creative business services, creative retail business, knowledge intensive services, other firms). According to the small definition 5 percent of all Dutch firms are creative firms. Total growth rate of the Dutch creative industry is 19 percent in the period 2006 - 2009 (total growth rate all firms in that period is 16 percent). Figure 2 represents the numbers of firms of three main categories of Dutch creative firms in 2006 and 2009; art, media and entertainment and creative business services. Figure 2 shows substantial growth between 2006 and 2009 in all categories but mostly in the ‘creative business services’.

FIGURE 2
NUMBERS OF FIRMS IN THE THREE MAIN CATEGORIES (THE NETHERLANDS)



Since the creative sector in Flanders and the Netherlands is particularly one of small and micro firms, they often lack important scale economies, financial and human resources and well established organizational structures to effectively manage the market introduction of their innovations. Recent research has shown that many creative SMEs lack systematic methods to measure the impact of their innovations and the proportion of risks to profits and they also lack formal strategic innovation management systems (De Jongh e.a., 2003). Other studies indicate a lack of financial and managerial knowledge within creative SMEs (Nauwelaerts & Frank, 2007) and the capacity to invest in management and marketing to successfully sell innovations on an international scale (Sleuwaegen & Onkelinx, 2008; Nauwelaerts & Vijfeyken, 2010).

Starting from these facts, our paper focuses on the innovation management of creative SMEs in Belgium (Flanders) and the Netherlands. In order to identify key factors which stimulate or hinder the innovation process of creative firms we make use of an analytical framework and corresponding questionnaire developed by Mazzarol and Reboud (2006). In a previous study of Nauwelaerts, Van Assche and Van Beveren (2011) the innovation profile of the Flemish creative (design) sector has been studied on the basis of 51 case studies in Flanders. Our study is extended by about 31 extra cases in Flanders and 23 cases in the Netherlands. This allows us to have deeper insights in the similarities and differences between the Flemish and the Dutch innovation climate and processes of their SMEs. Our study also contributes to a larger study initiated by Mazzarol and Reboud which is focused on

understanding the process of innovation management from the perspective of the small firm and from a strategic perspective. Research data of this larger study is stored in a collective database of research partners in 12 countries, working together in an innovation program. We want to provide a contribution for owner/managers of small creative firms and policymakers offering them an insight in key factors of successful innovation management as well as so called 'profit profiles' or 'RENT profiles' of creative SMEs. Our study also wants to compare the innovation climate in Flanders and the Netherlands and raises questions on the important role of the owner-managers of creative firms in relation to their innovation strategy. The paper contributes to a better understanding of management of innovation in small creative firms.

LITERATURE OVERVIEW AND RESEARCH PROPOSITIONS

Our study builds on previous research on innovation management in SMEs and management of small creative firms. In order to investigate the role of management and environment in the process of innovation of small creative firms we made use of an existing questionnaire developed by Mazzarol & Reboud (2006). In this section we discuss relevant literature in relation to the questionnaire and our study: innovation management of SMEs and strategic management of small creative firms. Corresponding with the literature, we introduce research questions.

Innovation Management of SMEs

Small firms are dominant in most countries (OECD, 2004) and in the perspective of economical changes and the struggle of firms to establish sustainable competitive advantage, successful innovation management in small firms is of significant interest for managers of SMEs, policy makers and researchers. According to Biolos (1996) innovation champions can rely on three fundamental competences: they show that new products are connected to core competences of the firm and at the same time related to market reality; these firms show flexibility and are able to react on changing demands of potential clients and markets; these firms can not only create but also develop and commercialise innovative outputs. Davilla, Epstein & Shelton (2006) relate successful innovation management to 'design principles': strong leadership, innovation strategy and innovation portfolio. Innovation has to be integrated in the business model and is connected with the vision and mentality of the firm. This is in line with findings of Smith *et al.* (2008): 'the innovation principal has to be fully integrated in the culture of the organisation'. Factors that influence the ability of management of innovation are leadership style, resources, structure of organisation and culture, technology, knowledge management, strategy, employees and innovation process. Creativity is needed in the first stage of innovation and Van Bruystegem *et al* (2007) find that cross functional teams, job rotation and complementarities in teams improve creativity.

Devos, De Woestyne & Van de Broeck (2007) state that insufficient marketing research budgets, insufficient R&D, high risks and lack of knowhow are reasons for small and medium-sized firms to underperform in relation to innovation. Management of creative firms often lack managerial knowhow and have difficulties in developing and commercializing their new products and services successfully (Nauwelaerts & Franck, 2007).

Measuring Innovation Management

Although the focus of their research project is primarily on the firm and data are collected on the organisational level, Mazzarol & Reboud (2009) introduced a broader conceptual framework for studying the process of innovation management in order to understand the overall task environment of organisations (supportiveness of National Innovation System, overall task environment within a country) as well. The framework has therefore a focus on three units of analysis: *system view*, *organisational view* and *individual view*, earlier suggested by Tan *et al.* (2009). In relation to 'system view' the National Innovation System (NIS) and overall task environment are supposed to be valuable in relation to the process of managing innovations. NIS includes the common innovation infrastructure (e.g. governmental R&D policies) and clusters specific factors (e.g. Porter's 5-forces) (Porter & Stern, 2001). Mazzarol &

Reboud follow Adams *et al.* (2006) in defining key elements related to innovation management: inputs (people, physical and financial resources, tools), knowledge management (idea generation, knowledge repository, information flows), innovation strategy (strategic orientation, strategic leadership), organisation and culture (culture and structure), portfolio management (risk / return balance, optimisation tool use), project management (project efficiency, tools, communications, collaboration) and commercialisation (market research, market testing and marketing and sales). 'Individual view' is related to leadership style, entrepreneurial orientation, managerial competence and capacity for strategic partnering of firm's senior management. According to Santi *et al.* (2003) potential RENT (returns) of an innovation results from the volume of the innovation, the rate of margin and the length of the innovation. In order to categorize firms in (one of six) RENT-configurations or RENT-profiles Mazzarol & Reboud follow Santi *et al.* and measure six items related to volume, rate and length: market adoption and anticipated sales (volume), estimated gross and net profit margin (rate of margin) and a complexity of technical based lifecycle of the innovation and ease of replication by competitors (length).

Strategic Management of Creative Firms

Companies in the creative sector will strategically focus on niches. This implicates that they are continuously looking for unique and innovating designs. The combination of a niche market with a flexible organisation structure and production of small volumes represent their success (Nauwelaerts & Vijfeyken, 2010). Nauwelaerts & Franck (2007) identify critical weaknesses of entrepreneurship within the creative industry: lack of cash at the start; insufficient financial flexibility in all stages of growth and insufficient managerial knowledge and knowhow, especially in the field of business economics, finance and law. Third parties are supposed to play a role in innovation processes of creative SMEs (Hollaender, Cools & Nauwelaerts, 2010). Nauwelaerts *et al.* (2007) states that training and participating in interactive networks and workshops can offer a solution. Networking with customers and suppliers make creative firms more flexible and increases their chances of success.

Research Questions

In our study we focus on the process of innovation management of small creative firms in Flanders and the Netherlands. Research questions are:

- Q1. In relation to firm profiles, innovation success and 'organizational view':*
Which RENT-profiles are dominant for the firms in our study and what can we learn from this?
Is innovation success related to certain RENT-profiles?
Which stakeholders are important for small creative firms?
- Q2. In relation to innovation climate and 'system view':*
Which factors influence the innovation climate in Flanders and the Netherlands?
Is there a difference in the innovation climate between the two countries?
To what extent is the innovation climate in both countries perceived as an important stimulating factor for innovation of creative SMEs in Flanders and the Netherlands?
- Q3. In relation to the strategic management process of the innovation and "individual and organizational view":*
What can be said about the strategic focus of creative firms in our study?
What can we learn from our results of the diagnostic diamond in terms of resources-, strategy-, innovation- and market index?
Which managerial characteristics of the owner – managers of creative firms are related with innovation success?

RESEARCH METHOD, SAMPLE AND DATA COLLECTION

On the basis of an extended questionnaire and the innovation diagnostic instrument, developed by Mazzarol & Rebound (2006) we can identify strong and weak points in the innovation management process of SMEs, as measured by the innovation diagnostic diamond (IDD). It also allows us to identify particular innovation profiles of SMEs, through an initial assessment of the anticipated lifecycle (length), sales forecast (volume) and profit margin (rate) of the innovations, which determine the overall RENT that can be generated from the investment. This innovation diagnostic instrument, allows us to formulate conclusions and policy advice for creative SMEs in view of their innovation management. It is a strategic analysis rather than a financial one and provides the entrepreneur with a sense of how complex their commercialization task is likely to be, as well as how formal their innovation management system is within the firm. For example, a high potential RENT innovation profile (e.g. high volume, rate and length), known as a 'Champion' will typically require a more formal innovation management approach with an IDD profile that is strong on all four areas (e.g. strategy, innovation, resources and market) of commercialization activity.

We studied a group of 105 creative SMEs in Flanders (82) and the Netherlands (23) between 2006 - 2010. The creative SMEs in Flanders were selected from the databases of the Center for Entrepreneurship in the Creative SMEs in Flanders and in the Netherlands by snowball sampling starting with a selection from the database of the researchers guided by theoretical sampling. Survey questions were translated into Dutch and double checked by Dutch experts. Interviews were carried out personally and took on average two to three hours. In October 2006, a first invitation was distributed by the Flemish Centre for Entrepreneurship in the Creative Sectors (CONCreaS) to all creative entrepreneurs listed in their combined databases, to participate in the Innovation Diagnostic. This invitation was sent by mail to 432 small firms active in the creative sector. A number of firms responded directly to the invitation, while others were contacted by telephone in the following weeks to encourage participation in the survey. While the majority of the participants preferred to fill in the questionnaire together with a member of the Lessius team during an interview (which usually took place at the firm), six firms preferred to fill in the diagnostic alone and to send it to us directly by e-mail. During the academic year 2009 – 2010 we decided to start a second round of interviews of creative SMEs in Flanders and the Netherlands with the help of students in both countries. Finally we succeeded to raise the total number of interviews up to 105 in total.

We conclude from our population analysis that firms active in the creative sector in Flanders are typically micro or small firms, with few employees. The majority of firms is led by the owner-manager (who also answered the questionnaire in most cases), typically without any support of other senior managerial staff or a board of directors.

The firms in our sample are active in the following sectors: Fashion, Design, Architecture, Visual Arts, Media, Music, Audiovisual and Performing Arts. About 99 percent of them are micro or small firms with less than 50 employees. In the Flemish sample, 83 percent are micro firms with less than 10 employees while in the Dutch sample, only 65 percent of them are micro firms. This reflects well the overall conclusion that creative firms in the Netherlands are on average slightly bigger. 73 percent of the SMEs are younger than 10 years old and show a growth of 19 percent in terms of full time employees and of 73 percent in part time employees compared to three years ago. This confirms that the creative industry is still young but in a stage of important growth and development. Table 2 shows the annual turnover of the SMEs in our sample, divided into five groups and table 3 shows the numbers of micro versus small firms.

One important research question the study focuses on is the role of stakeholders such as clients and service suppliers in the innovation process of creative SMEs. We focus on factors which stimulate or hinder innovation of creative firms. Key success factors of successful innovations are identified as well as so called 'profit profiles' or 'RENT profiles' of creative SMEs. In this perspective we paid attention to the role of stakeholders, especially clients and service suppliers in relation to innovation. Third parties are supposed to play an important role in innovation processes of creative SMEs (Hollaender, Cools & Nauwelaerts, 2010). Next, we calculated the different market-indices, strategic-, resources- and

innovation-indices based on the diagnostic diamond. Finally, attention was given to the ‘innovation climate’ and its differences between Flanders and the Netherlands. We identify the most important stimulating and hindering governmental measures (fiscal stimuli, subventions, regulations, infrastructure) for creative SMEs in order to grow and innovate.

TABLE 2
OVERVIEW OF THE SALES VOLUME OF THE FIRMS IN OUR SAMPLE

Sales volume	Percentage of the population
< 250.000	45%
250.001 - 1.000.000	27%
1.000.001 - 2.000.000	14%
2.000.001 - 3.000.000	4%
> 3.000.001	8%
No answer	2%

TABLE 3
NUMBER OF EMPLOYEES IN THE SMES OF THE SAMPLE

Country			Frequency	Percent	Valid Percent
Belgium	Valid	<10 MICRO	68	82,9	85,0
		>=10 SMALL	12	14,6	15,0
		Total	80	97,6	100,0
	Unknown	2	2,4		
	Total	82	100,0		
NL	Valid	<10 MICRO	15	65,2	65,2
		>=10 SMALL	8	34,8	34,8
		Total	23	100,0	100,0

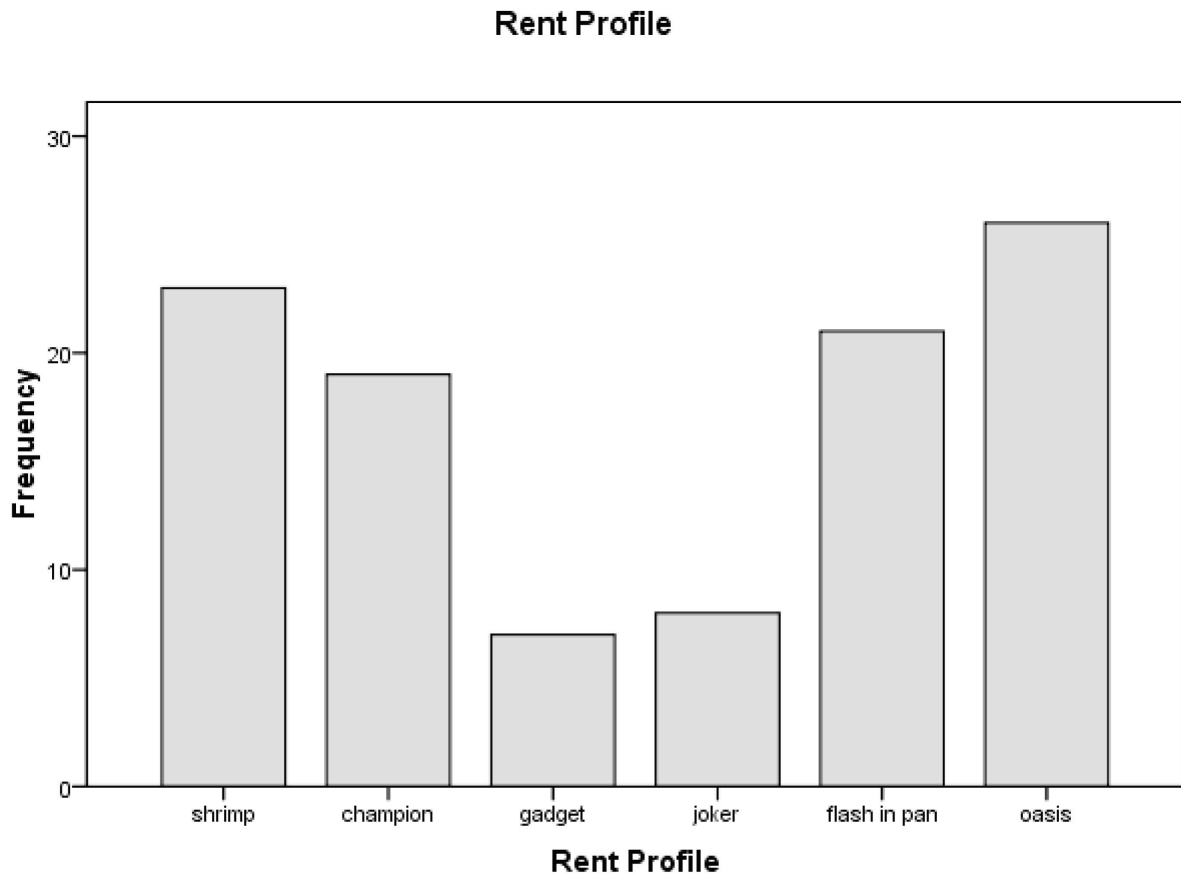
DATA ANALYSES AND RESULTS

First we conclude from our interview analyses that almost all Flemish and Dutch creative SMEs are convinced of the importance of innovation and effective innovation management for the survival of their business on the global, competitive market. Almost all interviewed creative SMEs plan to commercialize an innovation within the next three years.

As was explained in detail before, entrepreneurs were asked to evaluate a particular innovation in terms of its volume (total annual sales generated by the innovation), rate (rate of profit associated with the innovation) and length (duration of the innovation’s lifetime). On the basis of these three characteristics, eight RENT profiles were identified. The results for the Flemish and Dutch sample are given in Figure 3.

Compared to the global international sample of firms, our sample has a significantly higher frequency of ‘Oasis’; ‘Shrimp’ and ‘Flash in the pan’ profiles. Next, we also found relatively many ‘Champion’ profiles.

FIGURE 3
RENT PROFILES IN THE TOTAL SAMPLE



In relation to our first research topic, many studied cases reveal to have a ‘shrimp profile’, showing small margins, volumes and lengths which could be expected from the sample we identified. At first sight, we would advise these companies to try to extend their sales volumes, margins as well as the period of commercialization. Nevertheless, this ‘shrimp profile’ seems not always undesirable since it shows a less complex innovation that can be commercialized fairly quickly and is usually appropriate for small or micro firms. In line with this profile, many creative SMEs base their success on many, frequent but small innovations and unique products, requiring smaller investments. SMEs active in Fashion and Jewel design are typical examples of creative firms with ‘shrimp’ profiles that can be very successful in commercializing frequent innovations in limited series. Most of the ‘Shrimp’ profiles in our sample, realized more than ten innovations during the past three years. This implies that these establishments are much less dependent on a single innovation, but rather on their long-term success in commercializing multiple innovations.

Next, also other dominant profiles like ‘champions’, ‘flash in the pan’ and ‘oases’ are identified. ‘Champion innovations’ show that small firms can develop potentially high performance innovations in

all three aspects (length, volume and margin) while a ‘flash in the pan profile’ can be determined by the short length of lifetime of the innovation. ‘Oasis innovation’ has a long length of lifetime and is beneficial for SMEs in case of high margins. The ‘Oasis B’ profile is an attractive profile for micro firms, given its low requirements in terms of production volume. As we will see below, creative micro firms face serious difficulties in acquiring sufficient funding for their innovations, rendering high investments virtually impossible. Hence, the ‘Oasis B’ profile, which combines low volume with a high rate and high length, is a highly attractive RENT configuration for the firms in our sample.

On the side of the ‘innovation climate’ we identified many stimulating factors such as the well developed infrastructure and proximity of logistics, suppliers etc. and an innovative and stimulating life style in the global area of Flanders and the Netherlands. As can be seen in Figure 4, the Dutch-Flemish region is generally perceived as positive by firms with respect to the geographic distance to their market, the lifestyle and standard of living and infrastructure. However, since many firms in the creative sector sell luxury goods or services, they are necessarily heavily influenced by the economic climate.

However, we identified many restricting legislations and regulations that seem to hamper seriously most creative SMEs. Above that, many creative SMEs fail to find sufficient access to capital to invest in their growing innovative activities. Most of their investments are originating from reinvested profits. Although governments try to stimulate investments, it appears very difficult for creative micro firms to have access to external financial funds or ‘risk capital’, often needed for innovations by young, creative SMEs. Governments should help them by providing clear communication and accessible information on supporting programs and opportunities.

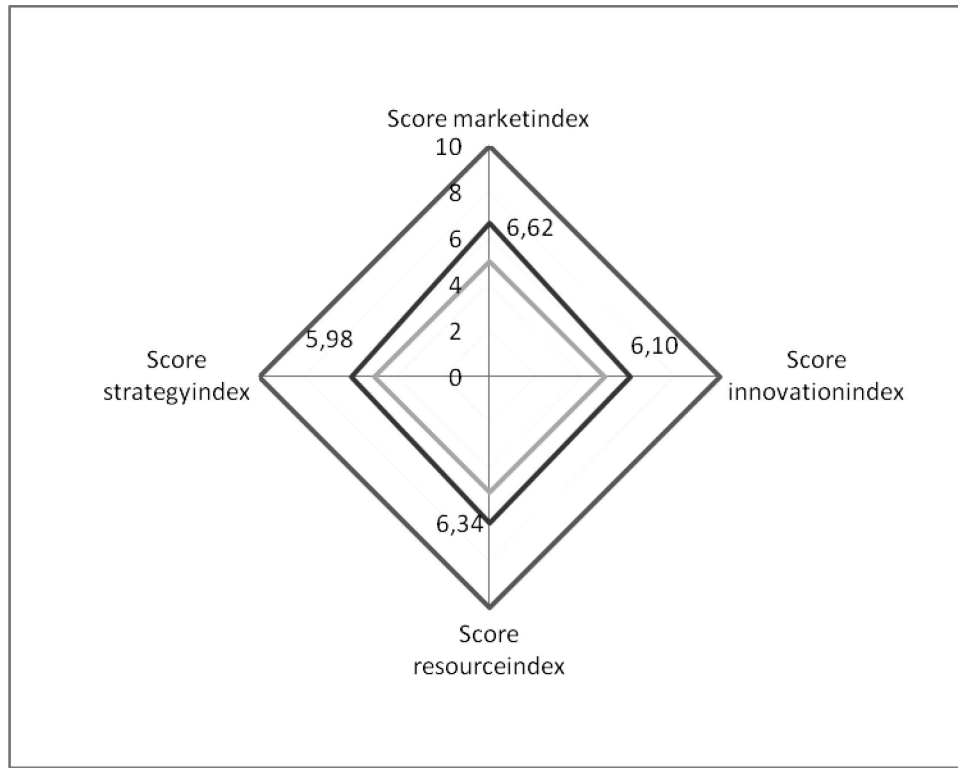
FIGURE 4
OVERVIEW OF OUR FINDINGS OF ON INNOVATION
CLIMATE IN FLANDERS AND THE NETHERLANDS

Positive influence	±	Negative influence
Geographic proximity to key markets	Difficult access to workforce with necessary skills and education	Limited government support for local small innovators, difficult access to risk capital and public support schemes
Stimulating Lifestyle in Flanders & the Netherlands Infrastructure: Communications, logistics, roads, suppliers, ICT	Access to high quality (local) research centers (eg. Universities)	Access to (external) financing to fund future growth Cost of doing business (wages, resources, other costs and regulation)

When we compare Flemish to Dutch SMEs, we observe that the Dutch creative SMEs find more easily access to external financial resources and governmental support and subventions. This important conclusion is in line with results from other studies in and also outside the creative sector (De Ruyter, 2010)

When looking at the results of the ‘diagnostic diamond’, we can conclude from figure 5 that on average, the SMEs in our sample have scores for all four indices above the expected average levels of five (indicated by the light grey line).

FIGURE 5
THE DIAGNOSTIC DIAMOND FOR SMES IN FLANDERS AND THE NETHERLANDS



The market-index shows the highest global score (6,62) for our sample. This market-index focuses on how effective and efficient the firm is in bringing the innovations to the market. Thus, it focuses on the final stage of selling the innovation to the final customers. In order to evaluate the firms' performance on its market-index, questions are asked concerning the perceptions of the clients, the viability of the innovation within the existing technologies, systems and processes of the customers, previous collaboration with customers and customer adoption in relation to innovation. The result of the market-index shows that the SMEs in our sample are quite good in responding to the needs and demands of their customers. We also found that, the younger SMEs seem to attach more importance to their suppliers than their older competitors. All interviewed SMEs attach a high importance to the demands of their clients, sometimes to such an extent that they neglect their own pricing strategies.

On the other hand, we find the lowest score (5,98) for the 'strategy index'. The strategy index focuses on the methods and tools used by the firm in order to manage their innovations in an effective and efficient way. Among these tools we identify f.e. the use and setting up of a business plan, a SWOT analysis, a financial or cash flow plan, firm's anticipation on regulations of government, firm's assessment of bargaining power of customers and suppliers and assessment of risks in the light of potential threats. The results of the strategy –index confirm our earlier findings: the use of managerial tools like a SWOT analysis or setting up a financial or business plan is very uncommon among creative SMEs. This is probably due to the lack of managerial knowledge and qualified people in these subjects, also confirmed by Nauwelaerts & Frank (2007) and Sleuwaegen & Onkelinx (2008). This weakness is also related to the sometimes difficult access to financial resources, since banks or other financial providers often require a solid and reliable financial and business plan from their clients.

Finally, the use of patents or other protection of intellectual property seems very limited in the creative SMEs. This is probably related to the high costs and complex procedures of IP protection but at the same time it makes creative SMEs more vulnerable for imitations of their innovations.

When we finally compare the results for the SMEs from Flanders to those from the Netherlands we find that the Market- and Innovation-index do not show significant differences. On the other hand, for both the Resource- and Strategy-index, the respondents from the Netherlands show significantly higher scores. This perfectly explains and confirms our previous finding that SMEs from the Netherlands find more easily access to governmental and other support compared to their Flemish colleagues and have generally a more developed strategy. If we look at the age of the firms, we find that the older SMEs show significantly higher scores for the Resources- and Strategy-index, which also seems logical and in line with our previous findings.

CONCLUSIONS AND POLICY IMPLICATIONS

To conclude our paper, we formulate some policy suggestions for SMEs in the creative sector drawn from our study. First, we advise creative SMEs on the basis of our diagnostic diamond not only to focus on product or service innovation but also to develop their managerial knowledge and skills and effectively use financial, strategic and marketing plans, administrative tools and other organizational innovations. This will help them to structure and organize their businesses in a more effective and efficient way and to manage their innovations successfully on today's uncertain and competitive international markets.

Next, creative SMEs should have better access to governmental support. Governments should provide more accessible information on -and lower the barriers to- the supporting programs, especially for the very small and micro firms in Flanders.

On the basis of the analysis of the 'RENT profiles' we suggest that creative SMEs should try to extend the life cycle of their innovations for instance through the use of more IP protection or other long term, exclusive contracts. If possible, they should also try to extend the margins and volumes of their innovations. Unfortunately this is often difficult since most innovations of creative SMEs are typically related to unique products or small, limited series. We conclude that creative SMEs should try to more proactively organize and manage their businesses and invest in financial and business plans, management tools, strategic planning and marketing which will bring on many advantages like better access to external financial resources, risk reduction, more effective reaction to uncertain circumstances and more profits on the longer term. Owner managers of creative firms can be helped in these items by the actions of supporting organizations such as Concreas and Design Flanders.

Further research could try to identify new, effective supporting actions by which governments and other organizations can respond to these special needs of SMEs in this growing sector.

Finally we notice that the results of our case studies cannot be perfectly compared to those in other countries or sectors since our sample contained mainly very small, micro firms with a very restricted management structure. Nevertheless, the creative sector in Flanders and the Netherlands has a strong growth potential and is therefore worth more focus and support.

ENDNOTES

1. Definition of SMEs: < 250 employees, turnover \leq 50 million euros and balance sheet total \leq 43 million euros. Micro firms in our study have less than 10 employees.
2. Index Mundi, 2011

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A Study in Tipping Culture in Taiwan's Travel Service Industry

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The purpose of this study was to explore how the consumers' awareness of service staff professional performance will influence the amount of tips they decide to pay. Based on an empirical study approach through questionnaires and statistics analyses, the results show the amount of a tip is limited by customers' habits, in which Taiwanese visitors generally pay a fixed amount of tip as the travel agency suggested; only a small ratio of those tourists would like to pay more tips as an appreciation to the tour service staffs. The customer would like to have more services, but the tips increased are not proportional to the increased amount (quality) of services.

INTRODUCTION

Service is the key "product" and the most important part in the tourism industry. However, the quality control for service is difficult to define as the term itself possesses the characteristics of intangibility, inseparability, heterogeneity, perishability, etc. Therefore the quality control of service in the tourism industry is more difficult than manufacturing industries. Furthermore, tourism services are easy to copy and imitate. As a result, the speaking and non-verbal behavior among servers greatly affects customer perception. Therefore travel product quality can be felt when service provision is considered to meet consumer needs or exceed consumer expectations. In addition, as the background of each consumer differs, it will also reflect on travel product perception. In other words, even the same travel products may produce different satisfaction due to personal consumer perception.

In the travel industry, customers usually pay the fees before they enjoy the service. Consumer satisfaction includes service quality, product quality, price, situational factors and personal factors. The attitude by the travel service staff will directly affect customer satisfaction and purchase intentions. When the service staff is given a tip by the customer when providing services, it encourages the serviceperson and may enhance future work/service performance; it will also bring a positive effect on the quality of service. Therefore, the service quality of the tour guide and leader during the travel is the key to achieve consumer satisfaction.

LITERATURE REVIEW

Generally, the people who receive a tip, also called a gratuity, are the service workers. It is usually given after the act of service. It is an extra fee other than the normal payment fee as an appreciation for

the high quality service by the tour guide and leader. A tip is considered as a social etiquette and practiced among the service industry in many countries. It can be seen as giving thanks to low-income workers engaged in services (Azar, 2005b). A tip represents the incentive and reward for good service (Lynn, Zinkhan, Harris, 1993), and is the interaction between a customer and service personnel from social interaction into economic exchange (Lynn et al., 1993). Because the customs among different nations and regions vary, there are also different points of views for tipping; people pay tips mainly because of social norms. When people did give a tip, negative feelings such as guilt and embarrassment may occur (Azar, 2002). In the literature review, tip is often related with quality of service (Lynn & Grassman, 1990; Lynn and Latane, 1984) and customer satisfaction is often referred to restaurant research subjects (Lynn, 2003). Not all services will receive tips; in some regions a tip serves as the main income source (Wikipedia, 2010), for example a travel guide. Wu (2004) indicated that the amount of tip is proportional to the efforts and well attitude of the tour leader. Generally, other factors that influence tips include service attitude (Bitran & Hoech, 1990), the consumer's gender (Stillman, 1980), age (Paul, 2001), etc.

Since 2008, air travel is affected by high oil prices and the outbreak of the global financial crisis, causing the rise of ticket prices and reduction of customers' discretionary budgets in leisure travel (IATA, 2009; ICAO, 2009). An analysis based on the overall tourism industry reported that some properties in common, basically tourism industry demands of marketing, are spatial (space) and service oriented (service). The main profit maker is by space, e.g. hotel rooms, flight reservations and restaurant seating (Week Wise, 2005). The service staff attitude during travelling will directly affect the customer satisfaction and purchase intentions. When the service staff is given a tip by the customer when providing services, it encourages the serviceperson and may enhance future work/service performance, and also brings a positive effect on the quality of service (Week Wise, 2005).

In the world of business, service quality is a goal which also offers a service commitment to customers to ensure a sustainable operation for the enterprise. Service quality is defined as a measure of how well a delivered service matches customer expectations (Gronroos, 1982; Parasuraman et al., 1988). The overall services may be determined by the degree of satisfaction from subjective judgments. Travel agency service quality satisfaction relies on travel service by offering a wide range of products and services, the service procedure should be able to meet with customers demands. Travel industry service quality includes three elements: technique, function, and community. In addition, the service quality of travel industry includes five dimensions: reliability, responsiveness, assurance, empathy, and tangibles. Reliability means a travel agency can provide precise service for customers. Responsiveness means a willingness to help customers and provide immediate service. When customers intend to travel, travel agencies will response and resolve their needs as soon as possible. Assurance refers to the service of personnel knowledge, which increases customers' confidence such as a tour guide expertise, responsiveness and sincere attitude. It can make customers feel safe and respected, and always consider the customers feelings interests, so that customers have the feeling of full trust. Empathy represents the providing of customers the ability to humanized care. Travel agents can serve tourists and travelers to provide humane care, put themselves in the interests of visitors. Tangible refers to the actual hardware facilities, equipment, staff appearance, and external communication data such as hotels, airports, free shuttle bus services, hotel facilities, restaurants, dressing style of the tour guide, etc.

The first factor of determining overall customer satisfaction factor is the quality of perception, followed by the value of perception (Formell et al., 1996). Past studies in service management show that customer satisfaction is the result of customer expectation, which its value equals to a corresponding price in service quality (Hallowell, 1996). Customer perception and perceived value (value) have become a type of differentiation, and is one of the important key factors to maintain competitive advantage; the company must provide more than valuable products or services to the customer of their competitors. At the same time, the customer perception value is also the most important indicator in the customers' intentions to purchase (Parasuraman and Grewal, 2000). Customer satisfaction is recognized to have significant relation to value, in which its nature and concept is affected by the quality of service, product

quality, price, situational factors and personal factors (Athanasopoulos, 2000; Zeithaml & Bitner, 2000). The measurement of tourist satisfaction is based on the degree of expected satisfaction, and comparison between the sightseeing value and past experience in the tourist area (Yoon and Uysal, 2005). In addition, factors such as overall pleasure, paying intention, and dissatisfaction are used to measure visitor satisfaction (Lee, Graefe & Burns, 2004).

The advances in information technology development have made a great impact to the travel industry. The first stage of changes is the changes of ecology and human resources in the travel industry. Because all kinds of tourism information are spread through the internet with no borders, tourism information has become even more pervasive and well circulated. The similarity among tourism products has become the major competitive factor in the travel industry. As a result, tourists and travelers value service attitude and product diversity.

RESEARCH METHODS

The tipping culture varies among different countries and has different standards. Taiwan has no tipping habits, with the exception in hotels and restaurants which a 10% service fee is charged (service charge). Although other services are not mandatory, when customers receive good service and willing to give tips, it represents an encouragement to the workers.

According to the group travel contract for overseas travel, established by of the Taiwan Tourism Bureau (2000 and 2004), travel agents should check the tipping standards of the travel destination, explain to their clients, and provide the information of the correct tipping amount. As a result, travel groups, whether at home or abroad, are often charges an extra cost for tips from the package fees. Usually the tip situation (customs) is briefed to the group during pre-departure meetings. The standard payment of tips of a group tour for different regions is listed in Table 1.

TABLE 1
COMPARISON OF TIP PAYMENTS OF TAIWAN TRAVEL GROUP

Travel Zone	Charges per person per day (1 USD=32NTD)
Southeast Asia	NT\$ 200 (including the guide, leader, and driver)
Northeast Asia (Japan)	NT\$ 250 (including the guide, leader, and driver)
United States, Canada	US\$ 10 (including tour guide, leader, and driver)
New Zealand, Australia	US \$ 10 (including tour guide, leader, and driver)
Europe (long line)	€ \$10 (including tour guide, leader, and driver)
Domestic Tourism	NT\$ 100 (including tour guide and driver)

The average salary for the people in the tourism industry of Taiwan is notably lacking competitiveness when compared to other industries (week wise, 2005). As the salary among Taiwan's travel agencies are generally low, the tour guide/ leader's income heavily relies on extra trips from travel fees, tips, shopping commission, and service charges. However, in the travel industry, the tour leader works outside of the company and is therefore difficult for the company monitor and evaluate the service performance provided by the tour leader. The total cost of the tour price is the sum of the tip and tour package fee. From the perspective of tour group members, however, a second time payment does not make a big difference. A second time payment is seen as a tip for the leader. If every tour leader provides an identical service performance, the tip fee can be included in the package fees. In other words, customers need only to customers pay fees that are clearly mentioned in the tour package. The travel

agency pays the tour leader's deserved wage to avoid the trouble of secondary payments. As a matter of fact, several travel agencies in Taiwan include the tip fee within the tour package. The wage of the tour leader is adjusted according to the evaluation by the tour group members.

The approach of this research is based on the academic study from literature review, Taiwan customs, and the people's lifestyle. The research framework is then established, which the tour leader professional image on the visitor's perception value and satisfaction, and the relations to visitor behavior intentions are discussed. A questionnaire survey of customers is taken for the overseas travel packages, thus establishing the study of the hypothesis shown in Figure 1.

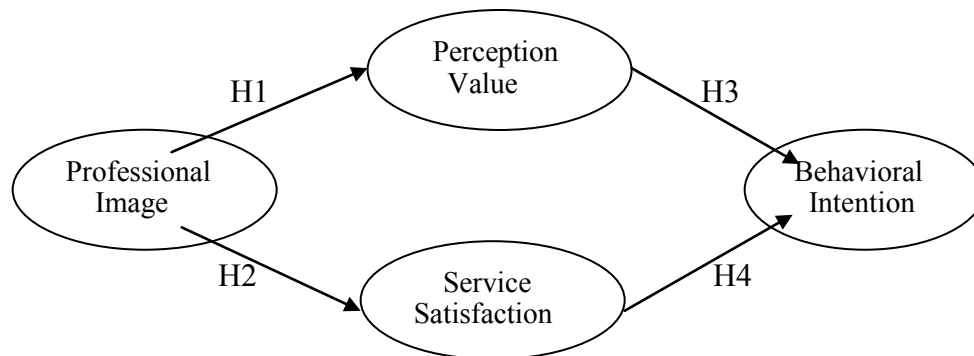
Hypothesis 1: the professional image of service staff has positive relationship on tourist perception value.

Hypothesis 2: the professional performance service staff has the positive relationship on tourist service satisfaction.

Hypothesis 3: tourist service perception value and tourists behavioral intention have positive impact.

Hypothesis 4: tourist service satisfaction and tourist's behavioral intention have positive impact.

**FIGURE 1
THE RESEARCH HYPOTHESIS MODEL**



QUESTIONNAIRE ANALYSES

This survey was performed during February, 2010, from the Taoyuan Airport, schools, private companies, travel agents and other places. A total of 400 questionnaires were distributed, and a number of 332 valid copies were returned. The basic information of the passengers' data is shown in Table 2; the largest population in age level of the tourists was 36~45 years of age; and tourists of private business was the majority. The average monthly disposable income is around 35001~45000 NTD. If the leader provided good service, 43.7% tourists intend to give more tips, which 18.1% of the respondents will give an additional 100~500NTD and 17.8% will give 501~1000 NTD or more. However, 56.3% of the respondents have no experience of giving additional tips. The results showed that those who are willingness to give extra tips, 60.2% decided to give an amount of 500NTD or less. The best timing for the tour leader to collect tourist tips is the last night before leaving for home (78.6%).

TABLE 2
PASSENGER PROFILES

Attributes/distribution	Sample number	Frequency (%)
Gender		
Male	110	33.1
Female	222	66.9
Age		
Less than 20	5	1.5
21-25	56	16.9
26-35	84	25.3
36-45	102	30.7
46-55	53	16
55-65	32	9.6
Occupation		
Student	47	14.2
Government employee	10	3.0
Private business	123	37.0
Professional	57	17.2
Freelancer	43	13.0
Unemployed	21	6.3
Others	31	9.3
Income		
Less than 5,000	27	8.1
5001-15000	44	13.3
15001-25000	40	12.0
25001-35000	77	23.2
35001-45000	81	24.4
45001-80000	53	16.0
More than 80,000	10	3.0

Note: Sample Number = 332; 1 USD = 32 NTD (in February, 2010)

The questionnaire has twenty questions which were designed according to the following standard operation to meet with this study. Fourteen questions are in the aspect of professional image (Cronbach's Alpha=0.895), three questions in the aspect of perception value (Cronbach's Alpha=0.895), three questions in the aspect of service satisfaction (Cronbach's Alpha=0.917), and three questions in the aspect of behavioral intention. Likert's Scale measurement is used. A five-point scale was used to assess, 5 = extremely agree to 1= extremely disagree.

This SEM structure program is applied with CFA to check the fit goodness of the model. By the path analysis, it belongs to accepted value (Wu and Tu, 2005). The results of each value are in compliance with the criteria or thresholds, so this model has a good fitness and explanation ability shown as Table 3 and Table 4.

TABLE 3
ANALYSIS RESULTS OF CFA

Goodness-of-fit measure	Value	Accepted Value
Chi-square value (χ^2)	164.887	
Degrees of freedom (DF)	86	
Chi-square value (χ^2)/ degrees of freedom (DF)	1.917	< 3
P-value	.000	
Root mean square residual (RMR)	0.020	< 0.05
Root mean square error of approximation (RMSEA)	0.053	< 0.08
Goodness-of-fit index (GFI)	0.936	> 0.90
Adjusted goodness-of-fit index (AGFI)	0.911	> 0.90
Normed fit index (NFI)	0.921	> 0.90
Relative fit index(RFI)	0.903	> 0.90
Incremental fit index (IFI)	0.960	> 0.90
Tacker-Lewis index(TLI)	0.951	> 0.90
Comparative fit index(CFI)	0.960	> 0.90
Parsimony-adjusted NFI (PNFI)	0.754	> 0.50
Parsimony goodness-of-fit index(PGFI)	0.671	> 0.50
PCFI	0.786	> 0.50
CN	240	>200

TABLE 4
ANALYSIS RESULTS OF CFA

	Estimate	S.E.	C.R.	P
Professional Image--->Perception Value	.996	.100	9.911	***
Professional Image --->Satisfaction	.468	.101	4.648	***
Perception Value--->Behavior Intention	.996	.087	11.411	***
Satisfaction--->Behavior Intention	.140	.043	3.279	.001

Note. N=332, *** represents p < 0.001

According to the result of table 4 shows, this study based on relevant scholars, four hypotheses applied in Taiwan travel agency leaders are established and the test results are supported as shown in the following Table 5.

TABLE 5
TEST RESULT OF RESEARCH HYPOTHESES

Research Hypotheses	Test Result
<i>H1</i> : the professional image of service staff has positive relationship on tourist perception value	Supported
<i>H2</i> : the professional performance service staff has the positive relationship with tourist service satisfaction	Supported
<i>H3</i> : tourist service perception value and tourists behavioral intention have positive impact	Supported
<i>H4</i> : tourist service satisfaction and tourists behavioral intention have positive impact	Supported

CONCLUSIONS AND RECOMMENDATIONS

The results in this study show that the professional image of tour leaders is related to the tourists' perception value and satisfaction. It will also directly affect the behavior intention of tourists. With the continuously growing popularity of the internet, customers may simply browse the network to check for different travel itineraries, prices, and other related information. As a result, the service quality which tourists value in a tour is mainly the professional performance of the service staff. Quality management plays an important role in the entire process. The management of the travel staff should include careful selection and recruitment, provide complete vocational training, arrange their career development and provide a series of planning to achieve the objectives of the organization. At the same time, travel service is a type of customer-oriented service in the industry. When the service staff is given a tip by the customer when providing services, it encourages the serviceperson and may enhance future work/service performance, and also brings a positive effect.

Most group tourists prefer including tips within the package system. From an economic perspective, the original purpose of including tip fees within the package fee is to protect the brand image of a travel agency. Tip legalization will help to improve service staff income. It will also reduce the psychological pressure to concentrate better in providing service. In the current situation of Taiwan's travel industry, the providing by Taiwan travel industry of tour packages which emphasizes on high service quality and less shopping points is gaining popularity by consumers. At the same time the revenues of the tour leader and guides are increased. When the tour leader and guides become initiative, this will also help the future development of the tourism industry. Therefore, tips should be offered towards good performance from the tour leader, tour guide and good personnel service. It is an expression of gratitude to the tour leader, tour guides and staff. It is a way of appreciation and also an international etiquette to encourage good performance.

As this study has several limitations, the following suggestions are made as reference for subsequent research. First of all, this study is focused on tourists travelling overseas. Although the travel itineraries among various packages are nearly the same, prices may vary as the included products may differ, such as the meals, hotel class standards, and so on. If the tour goes smoothly within the entire period, tourists are generally satisfied. Therefore, it is recommended that follow-up research should study the same itinerary from the same travel agency, and to consider additional dimensions such as product quality, corporate image, etc. The influence during the low and peak seasons in tourism should also be considered for the integrity for future research.

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