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Thematic Issue
Retailing and Innovation

edited by
Blaženka Knežević
University of Zagreb, Croatia



Cracow University of Economics
Faculty of Economics and International Relations
Centre for Strategic and International Entrepreneurship

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Editorial

In its essence, entrepreneurship is a multidimensional phenomenon (Žur & Urbaniec, 2016), but in each business activity and each industry entrepreneurship has a specific environment and, thus, issues that entrepreneurs have to deal with are specific as well. This EBER issue *Retailing and innovation* is putting the retail industry in focus.

Historically, retail was an industry focused on local markets and aiming to distribute goods in a narrow geographical area. But since the early 1990ties retail internationalization was one of the most obvious trends in modern economy (Knezevic & Szarucki, 2013) which changed retailers' perception and actions from narrow national towards the regional or continental level. Thus, the attention of many researchers was drawn to conceptualizations, research and discussion of the roots, drivers, scopes, dynamics and consequences of retail internationalization (for instance: Burt *et al.*, 2003; Alexander & Myers, 2006; Dawson, 2007).

The accession of Central and South-Eastern European Countries in EU and their opening to retail internationalization processes has led to a structural change in the domestic retail industry and had affected entire national economies (see Karasiewicz & Nowak, 2010; Knezevic *et al.*, 2011).

Increased entry of large retail chains in the region is changing relationships in distribution channels and has a direct impact on consumer behaviour. The resulting increased competition, followed by market consolidation has led to numerous consequences such as: changes in proportion of the negotiating power between retailers and suppliers, introduction of new technologies, changes in logistic processes, and implementation of modern and innovative marketing strategies. Therefore, continuous innovation has become the imperative for entrepreneurs in the region in this particular industry.

The aim of this issue is to present current trends and environment of entrepreneurship in retailing industry with focus on innovations in various forms of retail formats, private brands, improved supplier relationship and modern information and communication technologies which influence both retailers and consumers.

This thematic issue consists of six thematic articles and six nonthematic articles. In the first section, the retailing industry is in focus and the second section is dedicated to general issues in contemporary entrepreneurship.

In the first thematic paper, Sreten Ćuzović, Svetlana Sokolov Mladenović, & Djordje Ćuzović are exploring *the Impact of Retail Formats on the Development of Food Retailing*. In the paper authors analyse the development of retail formats of the largest global food retailers within the timeframe 2009-2014 and they empirically prove that continuing innovation in the field of retail formats is a prerequisite for business success in the long run.

The second paper deals with *The Importance of Store Image and Retail Service Quality in Private Brand Image-Building*. On the basis of primary research conducted in Bosnia and Herzegovina, Adi Alić, Emir Agić and Merima Činjurević, explain the role which store image and retail service quality can play in private brand image-building in the context of an emerging market.

The third paper entitled *Young Consumers' Perception of Problems and Usefulness of Mobile Shopping Applications* is written by Blaženka Knežević and Mia Delić. The paper elaborates how young consumers from Croatia perceive problems and usefulness of mobile shopping applications. The presented results are based on a wide-range primary survey on mobile commerce attitudes within young population in Croatia.

Marzanna Katarzyna Witek-Hajduk and Anna Napiórkowska, in the fourth paper entitled *A Framework of Retailer-Manufacturer Cooperation and Competition: Consumer Durable Goods Retailers' Case Studies* are studying the framework of cooperation and competition between retailers and key manufacturers from a perspective of retailers offering consumer durables. The research was conducted on the basis of in-depth and face-to-face interviews with managers of six SMEs or large retailers offering consumer durables in Poland.

Fifth thematic paper entitled *Innovative Positioning as a Marketing Tool of Retailers on the Food Market* by Grażyna Śmigielska and Magdalena Stefańska develops the theory of retail business positioning as part of marketing innovation-based strategy. Based on a case study in food retailers' positioning in Poland the authors explain that innovative retail formats and business models should be included retailers' positioning strategy.

The last thematic paper written by Tomasz Brodzicki is entitled *Internationalisation and Innovation Intensities of Polish Manufacturing Firms: A Close Nexus?* On a sample of Polish manufacturing companies, the author discovers a close and robust correlation between innovation and internationalisation intensities and suggests that rising innovation intensity allows companies to become more internationalised by raising their probability of exporting.

The second section of this journal issue deals with different general topics of modern entrepreneurship such as: immigrant entrepreneurship, welfare models, multinational activity, work system design and staff performance, ownership and management team structure, organizational practices and routines.

Mai Camilla Munkejord, in the article entitled *Becoming Spatially Embedded: Findings from a Study on Rural Immigrant Entrepreneurship in Norway*, investigated mutual connections between immigrant entrepreneurs, place and community. She claims that being supported by the rural community, immigrant entrepreneurs may be able to successfully create and exploit opportunities in rural area and positively contribute to economic development of local rural communities.

The next paper titled *Distinct and yet not Separate: Revisiting the Welfare Models in the EU New Member States* is contributed by Helena Tendera-Właszczuk and Michał Szymański who argue that the welfare state models pursued in the new member states of EU and in the EU-15 differ in terms of their effectiveness, social fairness/justice as well as in terms of the influence of public spending on the quality of life and reduction of poverty. In addition, on the basis of statistical analysis, they classified new member states in the Nordic model (Czech Republic, Slovenia and Cyprus), the continental

model (Hungary, Slovakia and Malta), the Anglo-Saxon model (Lithuania, Latvia and Estonia) and the Mediterranean model (Poland, Croatia, Romania and Bulgaria).

Andrzej Cieślak in his article entitled *Determinants of MNE Activity in Poland: The Case of Firms from EU-15*, empirically validates the theoretical predictions of the modified knowledge capital model of multinational enterprise. He identifies and explains the main reasons for undertaking international production in Poland by foreign firms from the EU-15 countries.

The article entitled *The Internationalisation of Family Firms: the Role of the Ownership Structure and the Composition of Top Management Team* by Aleksandra Wąsowska explains that the concentration of ownership within the family hinders the propensity to export, but it has no effect on export intensity and export scope. Also she finds that foreign ownership contributes to firm performance and that the impact of minority foreign ownership is more pronounced than the controlling foreign ownership. In addition, she claims that involvement of nonfamily managers enhances internationalisation.

Isichei Ejikeme Emmanuel, Isaac Ayanyinka Ayandele wrote the paper titled *Operational Work System Design and Staff Performance in the Nigerian Construction Industry*. They discuss that the key drive to improve performance is the satisfaction of staff coupled with an outstanding operational job design. On the basis of the primary research results, they firmly prove that there is a significant relationship between operational work system design and staff performance.

In the last paper, Zofia Patora-Wysocka brings the topic *Beyond Stability vs. Change Dilemma: Everyday Practices and Routines as Sources of Organizational Life*. She presents the problem of organizational practices and routines as important drivers of organizational survival, development and change. The paper explains the way of practice that is either radical or evolution-like, based on results of comparative case studies from creative and textile-apparel industries.

Papers included in this issue prove that the entrepreneurship is a complex research field which includes many different aspects and a great variety of issues. Moreover, thematic papers which are focused on a particular industry, in this case retailing, are shedding new light and give a valuable insight on specific contemporary trends and topics of interest of entrepreneurs and researchers in the field of retail marketing and management. We strongly believe that all studies make a valuable scientific contribution that can serve as the basis for fruitful scientific discussion and future research.

Blaženka Knežević
Thematic Issue Editor

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The Impact of Retail Formats on the Development of Food Retailing

Sreten Ćuzović, Svetlana Sokolov Mladenović, Djordje Ćuzović

ABSTRACT

Objective: The main objective of this paper is to analyse the development of retail formats and their impact on the development of food retailing, through empirical testing of the largest food retailers within the timeframe 2009-2014.

Research Design & Methods: This paper shall, in addition to the review of literature on the development of retail formats, focus on the analysis of the Global Power of Retailing report 2011-2016. Statistical material consists of the available data on the ranking of the largest retail companies, viewed by sales volume, in the period from 2009 to 2014, published annually by the consulting firm, Deloitte Touche.

Findings: The research results show the dominant share of food retailers in the total number of retailers in the list of Top 250 retailers. In addition, the results point to a different structure of food retail formats in the period from 2009 to 2014. The position of individual food retailers in the list of the most successful ones changes over time and standard multiple regression results show that this is due to the introduction of new retail formats.

Implications & Recommendations: Continuing innovation in the field of retail formats is very important to food retailers. Decision makers need to pay special attention and focus on increasing the sales volume and better ranking of companies in the list of most successful ones, where one of the factors is the introduction of new retail formats.

Contribution & Value Added: The originality of this work lies in studying some aspects of the FDI inflow into the group of both similar and different countries in terms of economy.

Article type: research paper

Keywords: retail formats; food retailing; innovation; ranking of food retailers; internationalisation

JEL codes: L81, M1, O39

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INTRODUCTION

In the conditions of intensive and complex competition, retail is a dynamic economic sector which, in many countries, has a growing share in the creation of gross domestic product, value added, and employment (Bronnenberg & Ellickson, 2015). Since retail belongs to a group of innovation-intensive sectors, the strengthening of its role in the overall economy is the result of the application of plenty of diverse innovations. Literature (Lovreta *et al.*, 2013, p. 271) classifies these innovations into institutional, functional, and technological. Food retailing is an integral part of the retail sector and is also subject to the application of innovation.

Various studies point to the necessity of the implementation of innovation in retail, with the focus on innovation in the field of the continuous introduction of new retail formats (Reinartz *et al.*, 2011; Brown, 2010). These innovations are known in literature as institutional innovations (Lovreta *et al.*, 2013, p. 273). On the other hand, the business of retail companies shows the proliferation of retail formats, which indicates their importance in introducing innovations in retail. Based on these studies, on the one hand, and innovation intensity of retail and food retailing, on the other hand, this paper aims to analyse the possible impact of retail formats on the development of food retailing through empirical testing of the most successful food retailers in the period from 2009 to 2014.

The work is divided into three parts. The first part gives a systematic review of literature in the field of retail and food retailing, with a focus on the implementation of institutional innovation, i.e. the continuous development of new retail formats. The subject of an analysis will be the most studied theories of institutional changes in retail, their similarities and differences, as well as their practical application. The second part defines the research design and methodology, hypotheses which will be tested, as well as the research sample. The third part elaborates the results of the empirical research, statistical calculation, the resulting regression equation, followed by the final conclusion, research limitations, and recommendations for future research.

LITERATURE REVIEW

Theories on Retail Format Innovation

Innovation is the main driver of the economic progress, regardless of the characteristics of the socio-political system (Ćuzović *et al.*, 2015). Innovation is one of the main motives and factors of development, of both the economy and company business (Kosala, 2015). Given that trade is an innovation-intensive sector, the application of innovation in trade over time influences the strengthening of its position in the system of marketing. Current development of trade highlights certain principles in the processes of innovation and the application of modern techniques and technology in trade.

Specifically, these are (Lovreta *et al.*, 2013, p. 273):

- As a rule, economically most developed countries introduce innovation in trade.
- The process of accepting innovation in trade constantly intensifies in less developed countries.
- The whole process of innovation in trade intensifies, which permanently shortens the lifecycle of trade institutions.

- Larger multi-filial trade organisations dominate innovation.
- Innovation occurs in all aspects of the functioning of trade, including technology, management, and the total content of marketing activities.

Based on these principles, as well as on research in the field of innovation in trade (Hortacsu & Syverson, 2015; Miotto & Parente, 2015), one can identify two main types of innovation in trade, retail, and food retailing. The first refers to so-called *institutional innovations*. These are comprehensive innovations in trade, especially innovations in individual trade institutions, i.e. retail formats, such as department stores, supermarkets, discount stores, etc. The second group refers to so-called *functional innovations*. They are manifested in the performance of certain functions or segments of business activity of a trading company. In this regard, there are characteristic innovations which have recently manifested themselves in the implementation of so-called strategic planning system.

There are numerous theories on retail format innovations, and, thus, innovations in food retailing. There is no universally acceptable and applicable theory because these theories are complementary. Based on the existing theories within this scientific research field, Brown (1987) divides theories on retail format innovation into three groups:

1. Cyclical theories,
2. Theories of conflict,
3. Theories of environment.

The most famous *cyclical theory* is the theory of wheel of retailing, created by the American author McNair (Ćuzović & Ivanović, 2010, p. 16). This theory describes the passing of retail format through various stages. In the first phase, an innovative retail format enters the market with a lower status: lower prices, services, and range. After that, it goes through a phase when the pressure of competition makes it improve its status. In the last phase, the phase of saturation, it becomes inflexible. So, the retail format passes through the previously described phases, thereby forming the wheel of retailing.

Despite its contribution to the explanation of the development of retail formats, the wheel of retailing theory has certain disadvantages. First of all, this theory cannot be universally applied to all retail formats. Thus, the development of department stores and supermarkets follows the wheel of retailing theory, while the development of shopping centres and specialised shops takes place contrary to the logic of this theory. One of the drawbacks of this theory is that it overlooks the influence of various factors on changes in retail formats. Thus, some authors, in an attempt to compensate for this shortcoming of the wheel of retailing theory, point to environmental factors (Bucklin, 1972; Hollander, 1960; Lewis, 1945; Bartels, 1981; Dreesman, 1968) and conflict factors as determinants of changes in retail formats.

Based on the strengths and weaknesses of the wheel of retailing theory, from the viewpoint of the internationalisation of retail, this theory is an important instrument for understanding the development of retail formats on different markets. However, whether the development of a retail format will follow the wheel of retailing theory depends on the level of market development. For example, if a retail company enters the developed markets, the emergence and development of its retail formats will follow the wheel of retailing theory, while on the less developed markets, such similarities cannot be expected. Generally speaking, the markets with similar economic and social conditions rely on the rules of the wheel of retailing theory, while on different markets, the emergence and development of retail formats take place in a different way.

In addition to the wheel of retailing theory, the theory of conflict has given its contribution to the explanation of retail format innovation. According to this theory, retail format innovations are the result of conflicts between different retail formats and different categories within a single format, referring to inter-format and intra-format conflict. In fact, this theory emphasises the response of a retail format to the emergence of a new one. So, there are four stages through which the existing retail format passes after the appearance of the new one, and these are (Martenson, 1980, p. 50):

- Phase of shock, in which retail format behaves cautiously, perceiving the new format as a threat which cannot be overcome.
- Phase of defensive withdrawal, in which retail format seeks to maintain the existing position on the market.
- Phase of acknowledgement or recognition, in which retail format sees the real situation and seeks to counter the new one.
- Phase of change, in which retail format creates a strategy of responding to the risk of the emergence of the new one, where the focus of this strategy is either on imitation or differentiation.

Practice has shown that the most common reaction to the emergence of a new retail format is the creation of a completely opposite strategy in relation to the innovator. This, in turn, influences the development of the third retail format which combines the strategy elements of the first two retail formats, which can be described through the example of the emergence of discount department stores as the synthesis of discount store and department store strategies.

Theories of environment, just like the previous two ones, have given their contribution to the theoretical explanation of innovation in retail formats. These theories are based on the fact that retail cannot be viewed in isolation from the environment. In this context, changes in retail formats are determined by the influence of a large number of factors. In an effort to draw attention to these factors, Arndt (1972) and Cundiff (1965) perceive the development of retail formats in the context of the economic development of the country. According to these authors, the level of personal consumption and the geographic concentration of population largely determine the number of customers per retail format, as well as the sales volume by retail format. In general, this theory views the emergence and development of retail formats in the context of social and economic conditions in a country. Thus, better conditions on one market create an adequate basis for the development of retail formats.

Proliferation of Retail Formats

In a competitive environment, retail companies tend towards permanent introduction and development of retail formats (Hino, 2014). Thus, proliferation of retail formats is becoming a hallmark of modern retailing, including food retailing. However, this is not peculiar to the recent period only, but has occurred gradually over a long historical period, which indicates that a single retail format passes through various stages throughout its lifecycle.

Numerous theoretical studies (Carpenter & Moore, 2006; Fox *et al.*, 2004; Goldman & Hino, 2005; Klein & Schmitz, 2016; Maruyama *et al.*, 2016), confirmed in modern practice, point to current lifecycle phases of particular retail formats, which can be seen in Figure 1.

Figure 1 shows the entry of traditional retail formats, supermarkets, and hypermarkets into the phase of saturation. In the growth phase, in addition to specialised category shops, there are discount stores, especially so-called hard discounters. These are retail

formats following an aggressive strategy of “everyday low prices”, which are 20 to 30% lower than prices in supermarkets. They offer a limited range of products with high turnover coefficient, with a small number of products and brands within each category. Prominent representatives of this type of business format are German *Aldi* and *Lidl*, as well as French *Carrefour’s Dia* (Global Power of Retailing, 2011-2016).

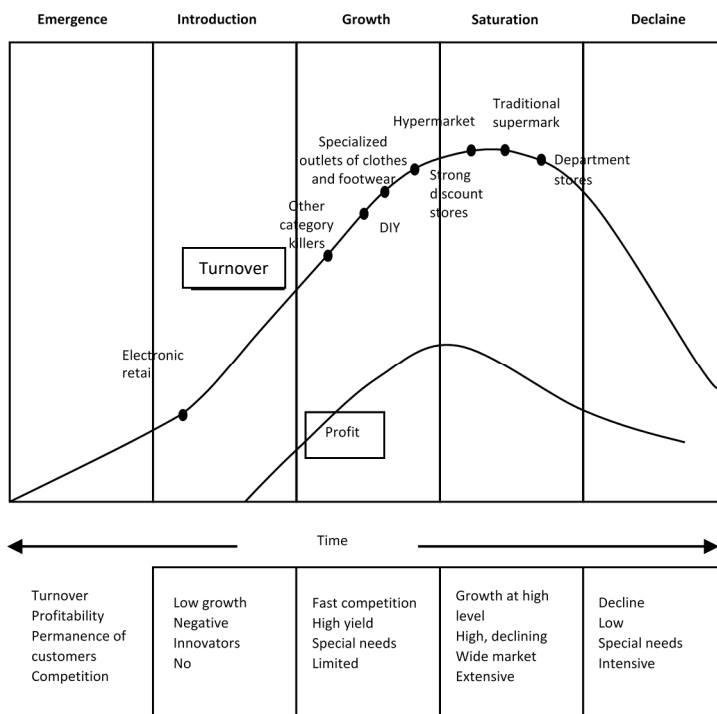


Figure 1. Lifecycle of retail formats in the European Union

Source: Planet Retail. Retrieved on March 1, 2016, from: <http://www.planetretail.net/presentations/ApexBrasilPresentation.pdf>

Orientation towards discount stores and hard discount stores is just one example of the proliferation of retail formats. This is confirmed by changes in the US retailing in the early 2009, when this market started introducing new, small supermarkets focusing on fresh foods, which were given the common name “Urban Style Supermarkets” (Retailing 2015: New Frontiers 2007 Price Waterhouse Coopers/TNS Retail Forward). These are retail formats of up to 1000 square metres, offering a small number of products and oriented towards a more pleasant shopping experience, with greater emphasis on low costs and trademark strategy. Along with this retail format, the US market emerged with so-called Marketsite, a concept introduced by the company *Wal-Mart*, with emphasis on the quality of products and services, and the strategy of sales at so called “round” prices (for example, eight, six, four, two dollars) (COMPANY PROFILE Wal-Mart Stores, Inc).

In addition to these changes, the EU market introduced innovation in the form of so-called social stores. A pioneer with these stores is Austria, where the first social store was

opened in May 1999, in Linz, as a result of a private initiative of four families (Holweg & Lienbacher, 2010). These retail formats focus on product sale at significantly lower prices for the population with low living standard, whose share in the population has increased due to the effects of the global economic crisis. In addition to providing the population with low purchasing power with the opportunity to purchase low-cost products, social stores provide help to persons who have lost their jobs by employing them. Consumers are offered three or four rows of shelves with the same goods, dominated by one type of tea, biscuits, flour, sugar, and so on. The principle is that no alcoholic beverages or tobacco are sold, with a limitation that the buyer, i.e. the household, has the right to do the shopping in social stores up to three times a week. Following the model of Austrian social stores, the same were opened in other countries of the European Union, but also on the markets of the countries being potential candidates for the accession to the European Union.

MATERIAL AND METHODS

Based on previous theoretical observations, further analysis will refer to the development of the leading food retailers, with a focus on their retail formats. Statistical data will include data found in the list of the biggest retailers (top 250), annually published by a consulting firm Deloitte Touche. The analysis will focus on the period from 2009 to 2014.

Thus, the subject of analysis will be data in the last six annual Global Power of Retailing reports (Global Power of Retailing, 2011-2016). The focus of the research will be on twenty food retailers, which, based on these reports in the last five years, occupy the first 70 places in the rankings. This is due to the fact that, out of the first 70 retailers in the rankings, at least 20 are in the category of food retailers during the last six reporting periods. At the same time, if one takes a look at the structure of 250 largest retailers in the period from 2009 to 2014, one can see the dominant share of food retailers in the total number of top 250 retailers, viewed from the aspect of their number, but also in terms of their sales volume. This can be seen in Table 1 below.

Table 1. The share of food retailers in top 250 (2009-2013)

	2009	2010	2011	2012	2013	2014
The share of food retailers in top 250 (in terms of the number)	55.6%	53.2%	54%	54.8%	52.8%	50.4%
The share of food retailers in top 250 (in terms of sales volume)	68.0%	66.6%	67.8%	68.3%	67.5%	66.7%

Source: own calculation based on Global Power of Retailing (2011-2016), Global power of retailing (2011-2016). Retrieved on March 2, 2016 from <http://www2.deloitte.com/be/en/pages/consumer-business/articles/global-powers-of-retailing.html>

Food retailers use different retail formats to carry out their activities. Their structure indicates their number and diversity, i.e. their proliferation, as seen in Figure 2.

After the defined research sample, it is necessary to determine the data which will be subject to analysis. Since the aim is to explore the impact of retail formats on the positioning and business performance of food retailers, for the purpose of this study, data on the number of used retail formats will be taken from the last six Global Power of Retailing reports. At the same time, according to the available report data, food retailers position-

ing relative to the competition will be analysed based on their ranking in the observed reports. Data which are the subject of analysis can be found in ANNEX I to this paper.

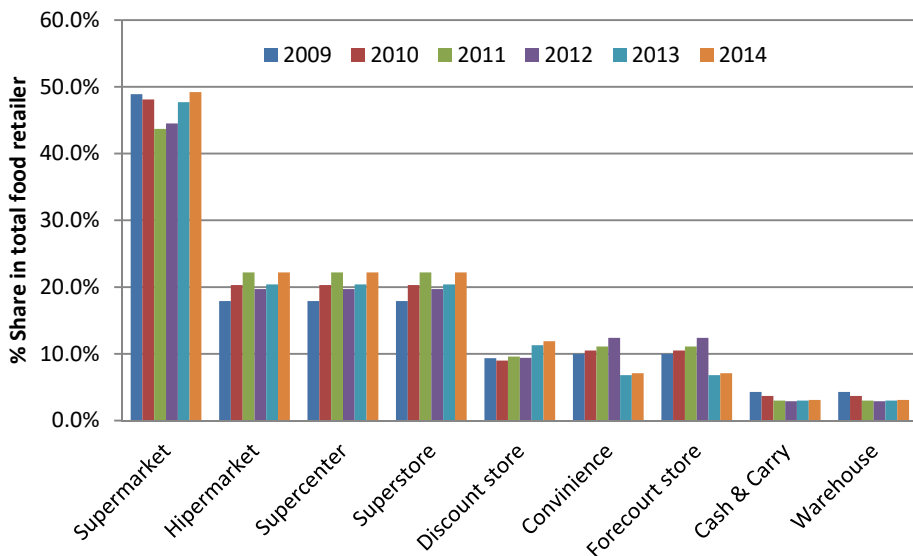


Figure 2. Structure of food retail formats (2009-2014)

Source: own calculation based on Global Power of Retailing (2011- 2016), Global power of retailing (2011- 2016). Retrieved on March 2, 2016 from <http://www2.deloitte.com/be/en/pages/consumer-business/articles/global-powers-of-retailing.html>

Starting from the defined research sample and data, the paper will test the following hypothesis:

H1: The number of retail formats used by food retailers is a determinant of their position in the top 250 world retailers.

As there is no consensus in literature on the relationship between food retailing and internationalisation, it is necessary to take into consideration the phenomenon of retail internationalisation, as well as food retail internationalisation (Alexander & Doherty, 2009; Alexander & Doherty, 2010; Ćuzović & SokolovMladenović 2008; Ćuzović & SokolovMladenović, 2012; Ćuzović & SokolovMladenović, 2015). For this reason, the following hypothesis will be tested as well:

H2: In addition to the number of used business formats, the number of countries where a food retailer operates is a statistically significant determinant of ranking among the top 250 retailers.

Testing these hypotheses relied on the method of standard multiple regression. The choice of this method arose from the fact that it examines the relationship of a continuous dependent variable (in this study, the ranking among the top 250 world retailers) and two or more independent variables or predictors (in this paper, the number of retail formats used and the number of countries in which a retailer operates). In this study, through the method of standard multiple regression, all predictors were simultaneously entered into the regression equation. This allowed for the assessment of the predictive power of each

independent variable, i.e. measuring its contribution to the improvement of the model which consists of other independent variables. Statistically speaking, this method examines how much of the unique variance of the dependent variable (ranking in the list of top 250 retailers) is explained by each of the independent variables separately (number of business formats used and the number of countries in which a retailer operates).

RESULTS AND DISCUSSION

By using the statistical programme SPSS 20, the results of descriptive statistics were obtained (Table 2).

Table 2. Results of descriptive statistics

	Mean	Coef. Of Var.	Std. Deviation	N
Ranking	17.39	0.82	14.279	119
Num. of formats	2.05	0.57	1.171	119
Number of countries	13.36	0.76	10.160	119

Source: own calculation.

The data in Table 2 show that the coefficient of variation in respect of ranking equals the mean value, i.e. that the analysed food retailers are among the better-ranked ones (in this case, among the top 70). The mean number of countries in which they operate is 13, but there is also a large coefficient of variation, so, according to this criterion, there is large dispersion. In terms of the number of retail formats, the mean value is 2, and coefficient of variation is around 0.8. This means that the sample includes almost an equal number of observations of those who use only one retail format and those who use two or more retail formats. The results of descriptive statistics related to the correlation coefficient between the dependent and independent variables are shown in Table 3.

Table 3. Correlation coefficients

		Ranking	Num. of formats	Number of countries
Pearson Correlation	Ranking	1.000	-.441	-.500
	Num. of formats	-.441	1.000	.558
	Number of countries	-.500	.558	1.000

Source: own calculation.

The results in Table 3 show that there is no strong correlation (greater than 0.7) between the dependent (rank in the top 250 world retailers) and independent variables (the number of business formats used and the number of countries where a food retailer operates), but that there is certain correlation among them, which provides for the right to proceed with further research. This conclusion is made on 119 observations for each variable.

One way to check normality of the given set, i.e. whether the sample is adequate, is through the diagram Normal Probability Plot (P-P) of the Regression Standardised Residual. It is shown in Figure 3. The diagram shows that the points lie in almost straight diagonal line from the lower left to the upper right corner of the diagram. In other words, Figure 3 shows no major deviations from normality, allowing for the analysis of multiple regression results.

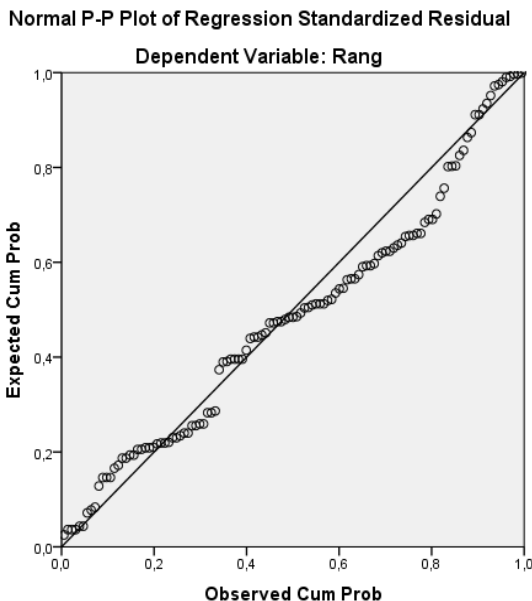


Figure 3. Normality test

Source: own calculation.

Standard multiple regression results are shown in Tables 4 and 5.

Table 4. Multiple regression results

Model	Unstandardised Coefficients		Standardised Coefficients	t	Sig.	95,0% Confidence Interval for B		Correlations			Collinearity Statistics	
	B	Std. Error				Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
(Constant)	30.190	2.300		13.127	.000	25.634	34.745					
Num. of formats	-2.868	1.152	-.235	-2.490	.014	-5.149	-.587	-.441	-.225	-.195	.689	1.452
Number of countries	-.518	.133	-.369	-3.905	.000	-.781	-.255	-.500	-.341	-.306	.689	1.452

Source: own calculation.

Table 5. Multiple regression results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.537 ^a	.288	.276	12.154
a) Predictors: (Constant), Number of Country, Num. of Format				
b) Dependent Variable: Ranking				

Source: own calculation.

Based on the data in Table 3, it can be concluded that there is no multicollinearity between the two defined independent variables. Specifically, in Table 4, field “Tolerance”, which shows how much of the variance of the given independent variable is not explained by the variances of other independent variables, shows that the value of this variable is 0.689. When the value of this indicator is lower than 0.1, it points to a too

high correlation with other variables and the existence of multicollinearity, so that the established model is not good. In this study, it is not the case.

Table 5 shows that the value of adjusted determination coefficient is 0.276. This indicates that the constructed model, which includes the number of retail formats used and the number of countries where a retailer operates, explains almost 30 per cent of the variance in the position in the ranking (ranking among the top 250 retailers). The choice of the adjusted coefficient of determination is the result of a relatively small sample of 119 observations. From the standpoint of this criterion, the model is justified.

In order to evaluate the contribution of each independent variable to explaining the ranking among the top 250 retailers, the standardised value of beta coefficient is analysed, as shown in Table 4. From this, one may conclude that the independent variable (the number of countries in which a retailer operates) has the largest individual contribution to the explanation of the dependent variable (the place in the rankings), when subtracting the variance explained by another independent variable (-0.369). A little lower Beta coefficient is recorded in respect of the variable "number of retail formats" (-0.235), meaning that the contribution of this independent variable is somewhat smaller.

If one takes into account that both variables (the number of retail formats used and the number of countries in which a retailer operates) have the value of the coefficient "Significant" less than 0.05, it can be concluded that they make a statistically significant contribution to the prediction of the dependent variable. In other words, the number of retail formats used and the number of countries in which a retailer operates are statistically significant determinants of the position which a particular food retailer holds among the top 250 retailers in the past six analysed reports. In this way, the paper has proven both the first and the second hypothesis.

Starting from the previously obtained research results, the regression model can be constructed, which explains the ranking among the top 250 retailers in the observed six-year period (2009-2014). Regression equation is as follows:

$$\text{Ranking} = -2.868 \times \text{Number of retail formats used} + 0.518 \times \text{Number of countries in which a retailer operates} + 30.19 \quad (1)$$

With the clause *ceteris paribus*, regression equation suggests that an increase in the number of retail formats by 1 leads to the improvement of the position of 20 analysed companies in the list of top 250 retailers by three places up, regarding the period from 2009 to 2014.

CONCLUSIONS

Retail, including food retail, faces numerous changes and challenges. One of the basic characteristics of modern retailing is the introduction of innovation, which literature classifies into institutional, functional, and technological innovation. The paper has specifically analysed institutional innovations, reflected in the permanent development of retail formats.

The work tests the hypothesis that the development of business formats, in terms of their number and diversity, affects the positioning of food retailers in the list of the most successful retailers. Based on the observed research sample, using standard multiple regression, the first hypothesis has been confirmed. The second hypothesis set in this work has also been confirmed.

To test this hypothesis, data found in the official reports on the most successful retailers (Global Power of Retailing) was used, regarding the period from 2009 to 2014. The results of the analysis have shown that the number of retail formats used and the number of countries in which a retailer operates are statistically significant determinants of the position which a particular food retailer holds among the top 250 retailers in the past six analysed reports. The results of the analysis have allowed for the construction of a regression model which shows that the introduction of new retail formats (increasing their number in the structure of business formats) affects the improvement of food retailers' ranking in the list of top 250 retailers.

As in many other studies, especially those relying on empirical research, analyses presented in this paper have certain research limitations. This primarily refers to the research sample, observation period, as well as the applied research methodology. A more detailed analysis implies a larger number of observations, i.e. a larger number of food retailers, as well as a longer period of analysis.

The paper indicates certain implications. In theoretical terms, the paper has systematised previous research in the field of the development of retail formats. In practical terms, the paper can serve retail managers in the decision on the introduction of new retail formats. Also, the results presented in this paper can serve as a starting point for future, more detailed analyses and research. It would be useful to explore which types of retail formats particularly affect the development of retail and the positioning of food retailers in the list of the most successful retailers, judging by sales volume.

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Appendix

Companies	Year	Num. of Format	Number of Country	Rang
Wal-Mart Stores Inc	2009	4.00	16.00	1.00
Wal-Mart Stores Inc	2010	4.00	16.00	1.00
Wal-Mart Stores Inc	2011	4.00	28.00	1.00
Wal-Mart Stores Inc	2012	4.00	28.00	1.00
Wal-Mart Stores Inc	2013	4.00	28.00	1.00
Wal-Mart Stores Inc	2014	4.00	28.00	1.00
Carefour	2009	4.00	36.00	2.00
Carefour	2010	4.00	33.00	2.00
Carefour	2011	4.00	33.00	2.00
Carefour	2012	4.00	31.00	4.00
Carefour	2013	4.00	33.00	3.00
Carefour	2014	4.00	34.00	6.00
Metro AG	2009	3.00	33.00	3.00
Metro AG	2010	3.00	33.00	4.00
Metro AG	2011	3.00	33.00	4.00
Metro AG	2012	3.00	32.00	7.00
Metro AG	2013	3.00	32.00	7.00
Metro AG	2014	3.00	32.00	8.00
Tesco plc	2009	4.00	13.00	4.00
Tesco plc	2010	4.00	13.00	3.00
Tesco plc	2011	4.00	13.00	3.00
Tesco plc	2012	4.00	13.00	2.00
Tesco plc	2013	4.00	13.00	5.00
Tesco plc	2014	4.00	13.00	5.00
Schwarz Unternehmens	2009	1.00	25.00	5.00
Schwarz Unternehmens	2010	1.00	26.00	6.00
Schwarz Unternehmens	2011	1.00	26.00	7.00
Schwarz Unternehmens	2012	1.00	26.00	6.00
Schwarz Unternehmens	2013	1.00	26.00	4.00
Schwarz Unternehmens	2014	1.00	26.00	4.00
The Kroger Co	2009	1.00	1.00	6.00
The Kroger Co	2010	1.00	1.00	5.00
The Kroger Co	2011	1.00	1.00	5.00
The Kroger Co	2012	1.00	1.00	5.00
The Kroger Co	2013	1.00	1.00	6.00
The Kroger Co	2014	1.00	1.00	3.00
Costco Wholesale Corp.	2009	2.00	9.00	7.00
Costco Wholesale Corp.	2010	2.00	9.00	7.00
Costco Wholesale Corp.	2011	2.00	9.00	6.00
Costco Wholesale Corp.	2012	2.00	9.00	3.00
Costco Wholesale Corp.	2013	2.00	9.00	2.00
Costco Wholesale Corp.	2014	2.00	10.00	2.00
Aldi GmbH	2009	1.00	18.00	8.00
Aldi GmbH	2010	1.00	18.00	10.00
Aldi GmbH	2011	1.00	17.00	8.00
Aldi GmbH	2012	1.00	17.00	9.00
Aldi GmbH	2013	1.00	17.00	8.00
Aldi GmbH	2014	1.00	17.00	7.00
Rewe-Zentral AG	2009	1.00	13.00	12.00
Rewe-Zentral AG	2010	1.00	13.00	12.00
Rewe-Zentral AG	2011	1.00	11.00	19.00

Rewe-Zentral AG	2012	1.00	11.00	22.00
Rewe-Zentral AG	2013	1.00	11.00	21.00
Rewe-Zentral AG	2014	1.00	11.00	20.00
Edeka AG	2009	1.00	1.00	14.00
Edeka AG	2010	1.00	1.00	16.00
Edeka AG	2011	1.00	1.00	15.00
Edeka AG	2012	1.00	1.00	18.00
Edeka AG	2013	1.00	1.00	16.00
Edeka AG	2014	1.00	1.00	17.00
Groupe Auchan SA	2009	3.00	14.00	15.00
Groupe Auchan SA	2010	3.00	13.00	15.00
Groupe Auchan SA	2011	3.00	12.00	12.00
Groupe Auchan SA	2012	3.00	13.00	14.00
Groupe Auchan SA	2013	3.00	13.00	14.00
Groupe Auchan SA	2014	3.00	13.00	13.00
Aeon Co Ltd	2009	3.00	9.00	18.00
Aeon Co Ltd	2010	3.00	8.00	17.00
Aeon Co Ltd	2011	3.00	9.00	13.00
Aeon Co Ltd	2012	3.00	10.00	13.00
Aeon Co Ltd	2013	3.00	10.00	17.00
Aeon Co Ltd	2014	3.00	11.00	16.00
Safeway Inc	2009	1.00	3.00	24.00
Safeway Inc	2010	1.00	3.00	24.00
Safeway Inc	2011	1.00	3.00	25.00
Safeway Inc	2012	1.00	3.00	25.00
Safeway Inc	2013	1.00	3.00	30.00
Safeway Inc	2014	1.00	2.00	30.00
Koninklijke Ahold	2009	1.00	10.00	25.00
Koninklijke Ahold	2010	1.00	10.00	25.00
Koninklijke Ahold	2011	1.00	11.00	26.00
Koninklijke Ahold	2012	1.00	12.00	26.00
Koninklijke Ahold	2013	1.00	7.00	24.00
Koninklijke Ahold	2014	1.00	6.00	24.00
ITM Development	2009	1.00	8.00	27.00
ITM Development	2010	1.00	8.00	27.00
ITM Development	2011	1.00	8.00	28.00
ITM Development	2012	1.00	8.00	29.00
ITM Development	2013	1.00	6.00	27.00
ITM Development	2014	1.00	5.00	27.00
Delhaize Group	2009	1.00	6.00	32.00
Delhaize Group	2010	1.00	7.00	37.00
Delhaize Group	2011	1.00	11.00	32.00
Delhaize Group	2012	1.00	11.00	33.00
Delhaize Group	2013	1.00	9.00	33.00
Delhaize Group	2014	1.00	7.00	34.00
Coop Italy	2009	1.00	1.00	47.00
Coop Italy	2010	1.00	1.00	52.00
Coop Italy	2011	1.00	1.00	56.00
Coop Italy	2012	1.00	1.00	60.00
Coop Italy	2013	1.00	1.00	60.00
Coop Italy	2014	1.00	1.00	66.00
Centre Distributeurs	2009	3.00	6.00	22.00
Centre Distributeurs	2010	3.00	7.00	23.00
Centre Distributeurs	2011	3.00	7.00	24.00

Centre Distributeurs	2012	3.00	7.00	24.00
Centre Distributeurs	2013	3.00	7.00	23.00
Centre Distributeurs	2014	3.00	7.00	22.00
Casino Guichard	2009	3.00	25.00	26.00
Casino Guichard	2010	3.00	27.00	26.00
Casino Guichard	2011	3.00	26.00	22.00
Casino Guichard	2012	3.00	26.00	20.00
Casino Guichard	2013	3.00	29.00	13.00
Casino Guichard	2014	3.00	29.00	15.00
Alimentation	2009	2.00	9.00	48.00
Alimentation	2010	2.00	9.00	43.00
Alimentation	2011	2.00	10.00	43.00
Alimentation	2012	2.00	19.00	31.00
Alimentation	2013	2.00	19.00	31.00



Authors

The contribution of co-authors is equal and can be expressed as 33.3% each of the authors: S. Cuzovic prepared the literature review, S. Sokolov Mladenovic prepared material and methods, while Dj. Cuzovic prepared discussion.

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The Importance of Store Image and Retail Service Quality in Private Brand Image-Building

Adi Alić, Emir Agić, Merima Činjurević

ABSTRACT

Objective: The purpose of this research is to highlight the role which store image and retail service quality can play in private brand image-building in the context of an emerging market in South-Eastern Europe (i.e. Bosnia and Herzegovina). We propose to address this issue by seeking answers to the following questions: (1) Does a 'halo effect' take place between the store image and the private brand image? (2) How does consumer's evaluation of the quality of the service delivered by a retailer affect the image of its private brand?

Research Design & Methods: Data were collected through a field survey via the store-intercept method. The sample consisted of 699 customers of two large retail chains. The data were analysed using the Structural Equation Modelling technique.

Findings: The findings of the present study suggest that store image and retail service quality are important factors in the formation of the image of product-branded products.

Implications & Recommendations: This study offers some important insights for retailers who intend to develop their private brand. First, the image transfer from store brand to private brand suggests that retailers should consider the introduction of a private brand as a brand extension, with their stores as the parent brand. Second, we recommend that retailers put more emphasis on quality improvement initiatives related to the store environment attributes.

Contribution & Value Added: This study enhances the discussion on the phenomenon of private branding by analysing the store-level factors which underpin the formation of private brand image in the context of less developed European markets.

Article type: research paper

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JEL codes: M30

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INTRODUCTION

Private brands (here PBs), also known as private labels, own brands, retailer brands, house brands, store brands or distributor brands, are brands owned and sold by a retailer in its own stores (Diallo, 2012). These brands have undergone a profound transformation over the years - from generics to copycats or mimics to premium brands (Kumar & Steenkamp 2007). Initially positioned as cheap, low-quality unbranded alternatives to national brands, nowadays PBs are viewed as trusted brands with equity (Cuneo, Lopez & Yague, 2012) which can compete head-to-head with national brands (Huang & Huddleston, 2009). The birth, the evolution and the rise of PBs have had a tremendous impact on the retail landscape. This became increasingly apparent in recent years when almost all major retailers have launched PB programs across many product categories (Collins-Dodd & Lindley, 2003; Vahie & Paswan, 2006). According to the Private Label Manufacturer's Association (PLMA), one-third of basic grocery and household items in American supermarkets, drug chains, and mass merchandisers are sold under a PB. In Western Europe, PB penetration exceeds 50% sales by volume in Spain and Switzerland and more than 40% in major markets, such as the United Kingdom, Germany, Portugal, Belgium, and Austria (PLMA, 2015). Given this impressive growth and penetration of PBs in many North American and Western European retail markets, it is not surprising that the topic of private branding has attracted considerable interest among marketing scholars and *practitioners*.

Although a lot of research has been undertaken within a broad field of branding, scholars nevertheless argue that additional academic efforts are required in the area of private branding (Ailawadi & Keller, 2004; Beneke, Brito & Garvey, 2015; Calvo-Porrall Martinez-Fernández, Juanatey-Boga, & Lévy-Mangin, 2013; Diallo, 2012). According to Ailawadi & Keller (2004), understanding how retailers create their brand images and how these images influence consumer perceptions of PBs should be considered as a research priority in the area of private branding. Given that PBs are more multi-sensory in nature than product brands, and can rely on rich consumer experience to impact their equity, retailers can create their images in different ways, e.g. by attaching unique associations to the quality of their service, their in-store atmosphere, their product assortment or their pricing policy (Ailawadi & Keller, 2004). Nevertheless, there is a lack of research addressing the issue of the formation of PB image from the consumer's standpoint (Vahie & Paswan, 2006; Wu, Yeh & Hsiao, 2011).

Therefore, this paper strives to enhance our understanding of the phenomenon of private branding by analysing the store-level factors (store image and retail service quality) which underpin the formation of PB image among consumers in Bosnia and Herzegovina. Drawing on the cue utilisation theory (Olson & Jacoby, 1972) and stimulus-organism-response (S-O-R paradigm (Mehrabian & Russell, 1974), we propose a conceptual model of the PB image formation. This study employs the quantitative survey-based approach to test the hypotheses based on the proposed conceptual framework which delineates the relationship between store image, retail service quality and PB image. The data were analysed using the Structural Equation Modelling (SEM) technique.

The next section provides the theoretical background and the development of hypotheses. The following section outlines the study's methodology with a focus on data collection and measurement issues. The fourth section presents and discusses the find-

ings of the empirical study which was undertaken by using structural equation modelling to test the research hypotheses. Finally, theoretical and managerial implications, limitations and research orientations for future studies are presented.

LITERATURE REVIEW

This section provides a brief overview of concepts underpinning the proposed model which relates the dimensions of PB image, as dependent variable, to store image and service quality dimensions, as explicative variables. The cue utilization theory (Olson & Jacoby, 1972) and stimulus-organism-response (S-O-R) paradigm (Mehrabian & Russell, 1974) were applied to develop theoretical arguments underlying research hypotheses. The cue utilization theory states that consumers rely on both extrinsic and intrinsic cues to make judgments about product's overall excellence or quality (Olson & Jacoby, 1972), whereas the S-O-R paradigm posits that stimuli from environments affect an individual's cognitive and affective reactions, which in turn lead to some behaviour (Mehrabian & Russell, 1974). Both theories have been widely applied to study consumer behaviour related to PBs (e.g. Bao, Bao & Sheng, 2011; Calvo-Porrá *et al.*, 2013; Collins-Dodd & Lindley, 2003; Huang, 2009; Wu *et al.*, 2011).

Private Brand (PB) Image

Before attempting to define PB image it necessary to understand the concept of brand image. Brand management scholars (Aaker, 1991; Keller, 1993) have argued that brand image is an essential part of powerful brands, which enables businesses to differentiate themselves from competitors. Although brand image is a relevant concept in consumer behaviour, there is still no agreement about its definition and measurement. According to Keller (1993), brand image is made up of brand association and it is defined as "the perceptions about a brand as reflected by the brand associations held in consumer memory" (Keller, 1993, p. 3). A similar definition was provided by Aaker (1991) who defines brand image as "a set of associations, usually organized in some meaningful way" (Aaker, 1991, p. 109). According to Keller (1993), these associations can be classified into three major categories: (1) attributes, i.e. descriptive features of the product itself and attributes linked to the purchase and/or consumption, (2) benefits, i.e. personal value which consumers attach to the brand attributes, and (3) attitudes, i.e. consumer's overall evaluation of a brand. Brand image is, therefore, a mental picture of a brand or a branded product/service and includes symbolic meanings which consumers associate with the specific attribute of a product/service (Dobni & Zinkhan, 1990). Despite the proliferation of the ways in which brand image has been conceptualised and operationalised, there is widespread agreement among scholars that overall brand image encompasses functional or cognitive and affective components (Martínez Salinas & Pina Pérez, 2009; Low & Lamb, 2000).

The above mentioned discussion on brand image can be applied equally well to private branding. PB image refers to tangible or cognitive aspects, such as quality, price, or attributes related to the PB, as well as to intangible or affective aspects of the PB which consumers can form directly through their own experience or indirectly by advertising or some other sources of information (Keller, 2008). Thereby, PB image is a multidimensional concept which includes two components: quality image and affective image (Vahie & Paswan, 2006; Wu *et al.*, 2011). Previous studies suggest that product brand image is determined by

numerous factors, such as product attributes, the marketing mix, the individual perceptions of the brand, personal values, experience, the type of brand users and context variables (Dobni & Zinkhan, 1990). However, the private branding literature suggests that store image and perceived service quality are two prominent antecedents of PB image (Bao *et al.*, 2011; Beneke & Zimmerman, 2014; Wu *et al.*, 2011). Due to their noteworthy acclaim, this study sheds some light on their significance in the formation of PB image.

Store Image and Private Brand (PB) Image

Despite the wealth of literature (theoretical, empirical and descriptive), it is still not quite clear what constitutes a store image or how retailers should go about building it (Theodoridis & Chatzipanagiotou, 2009). One of the first definitions of the concept of a store image was offered by Martineau (1958). He describes store image as the “way in which the store is defined in the shopper’s mind, partly by its functional qualities and partly by an aura of psychological attributes” (Martineau, 1958. p. 47). Thus, store image is determined by a complex combination of both tangible (functional) and intangible (psychological) attributes which consumers attach to a particular store (Beneke, Brito & Garvey, 2015). In order to identify and classify attributes which together form the overall store image, a number of previous studies have used a multi-attribute approach (e.g. Bloemer & de Ruyter, 1998; Diallo, 2012; Liljander, Polsa & van Riel, 2009; Vahie & Paswan, 2006). For instance, Bloemer and de Ruyter (1998) provide a list of attributes which influence the overall store image, including location, merchandise, store atmosphere, customer service, price, advertising, personal selling and sales incentive programmes. According to Chowdhury, Reardon and Srivastava (1998), the key elements or attributes determining a store image are: product selection, product quality, employee service, atmosphere, convenience, and price/value. Beneke *et al.* (2015) observed that the most commonly studied store image attributes are product quality, store quality, store atmosphere, layout, service, convenience, price level and assortment. For the purpose of this study, store image is defined as a set of commercial brand affiliations which pertain to the store in the consumer’s mind (Beristain & Zorrilla, 2011). In accordance with previous studies (Collins-Dodd & Lindley, 2003; Wu *et al.*, 2011), we placed focus on the following store image attributes: product variety, employee service, store atmosphere, price, product quality and the overall attitude.

Many researchers have sought to better understand the effect of store image on consumer evaluation of PBs (e.g. Beneke & Carter, 2015; Beneke & Zimmerman, 2014; Beristain & Zorrilla, 2011; Liljander *et al.*, 2009; Semeijn, van Riel & Ambrosini, 2004). In particular, these studies found that favourable store image helps fuel positive attitudes towards PBs, suggesting that the functional or psychological attributes of a store may be easily transferable to PBs which the store provides (Beneke & Carter, 2015; Beristain & Zorrilla, 2011; Collins-Dodd & Lindley, 2003; Vahie & Paswan, 2006; Wu *et al.*, 2011). Beneke and Carter (2015) point out that consumers tend to rely more heavily on extrinsic cues, such as store image, to make rational assessment of PBs when they do not have enough information about the product or when they have low product knowledge (expertise). Furthermore, Richardson, Jain and Dick (1996) posit that if consumers find the store to be unattractive or poorly maintained, they tend to ascribe these traits to store’s PB products, thus diminishing the overall impression of PBs. Semeijn *et al.* (2004) argue that store image improvements through service, merchan-

dise and store layout can create favourable impressions of PBs by reducing the consumer's perceived risk associated with PB purchases. Thus, we propose that retailers with a more positive store image are more likely to form a more favourable PB image in the consumer's minds. Therefore, the following hypothesis is posed:

H1: Store image has a positive and direct effect on the private brand (PB) image.

Service Quality and Private Brand (PB) Image

Service quality is one of the most discussed and disputed concepts in the service quality and service marketing literature. Over the years, many scholars have sought to define and measure service quality using different theoretical lenses, known as the "Nordic approach" (Grönroos, 1984) and the "American approach" (Parasuraman, Zeithaml & Berry, 1988) to service quality conceptualisation. The "Nordic approach" proposes that the customer's overall perception of service quality is composed of functional and technical quality, with technical quality (service outcome quality) being what the consumer gets after the service delivery process in buyer-seller interactions and functional quality (service process quality) referring to the interaction between the customer and employees during the service encounter (Grönroos, 1984). The "American approach" suggests that service quality is the function of the differences between expectation and performance along five service quality dimensions, namely reliability, responsiveness, assurance, empathy, and tangibles (Parasuraman *et al.*, 1988).

Although Berry (1986) highlights that retail business is services business, it must be noted that the quality of service delivered by retailers is somewhat specific as retailers offer a mix of services and products (Siu & Cheung, 2001). Consequently, the customer perception of service quality in a retail context is to some extent affected by the purchased product as well. The retail literature suggests that customers evaluate service quality at the overall level, attribute level, and at dimensional level (To, Tam, & Cheung, 2013). At the overall level, Westbrook (1981) argues that the customer's evaluation of service quality is affected by two broad types of experiences, namely merchandise-related experiences (i.e. the quality and availability of the goods and services) and in-store experiences (i.e. interactions with store employees and the ease of walking around the store). At the attribute level, Baker, Grewal and Parasuraman (1994) suggest that store environment encompassing ambient attributes (e.g. music, scent, lighting), design attributes (e.g. physical facilities) or social attributes (e.g. customer responsiveness of store's personnel) play pivotal role in the customer's evaluation of service quality. In an attempt to bridge the Nordic and American schools of thought on service quality, Brady and Cronin (2001) proposed the hierarchical service quality model (HSQM) which was tested in a retail setting. According to Brady and Cronin (2001), service quality is a three-tiered concept, encompassing three primary dimensions: interaction quality, physical environment quality and outcome quality. Interaction quality refers to the perceptions of the customer concerning the interpersonal interactions which take place during service delivery. Three sub-dimensions of this primary dimension suggest that the employee's attitude, behaviour, and expertise are shaping the customer's perceptions of interaction quality. Physical environment quality refers to the quality of the surrounding environment or physical facilities, whereas outcome quality refers to consumers' evaluation of the purchase experience in the store (Brady & Cronin, 2001).

Prior research suggests that favourable assessment of retail service quality is associated with the positive behavioural outcomes, such as customer satisfaction and an intention to repurchase and recommend (Dabholkar *et al.*, 1996; Siu & Cheung, 2001). Studies by Swoboda *et al.* (2007), Wu *et al.* (2011), have highlighted the role of retail service quality in the consumer-decision making process in relation to PBs. Research conducted by Wu *et al.* (2011), in particular, found that direct association exists between retail service quality and PB image. Huang (2009) further explains that good retail service quality may lead to positive 'halo effect' towards the PBs offered by a retailer. In the light of the above, the following hypothesis is posed:

H2: Retail service quality has a positive and direct effect on the private brand (PB) image.

MATERIAL AND METHODS

The main goal of this study is to empirically validate a conceptual model in which: a) store image (conceptualised as a set of store's attributes) influences PB image, and b) service quality, conceptualised as a second order construct made-up of three dimensions: interaction quality, service environment quality, and outcome quality, influences PB image. Drawing on the conceptual model, the current study aims to offer answers to the following research questions:

RQ1: Does a 'halo effect' take place between the store image and the private brand image?

RQ2: How does the consumer's evaluation of the quality of service delivered by a retailer affect the image of its private brand?

In this study, we placed emphasis on two types of retail formats, namely hypermarkets and drugstores. Since most of past research on PBs focused on large supermarket and hypermarket grocery chains, previous findings cannot be easily generalised to other retail formats. To improve the validity of findings in the area of private branding, it becomes paramount that scholars conduct more research in the context of other retail formats (Calvo-Porrall *et al.*, 2013; Wu *et al.*, 2011). Thus, in this study we selected a large hypermarket chain *Konzum* and a drugstore chain *dm-Drogerie Markt*, as target retailers which have established well-known multi-tiered PB programmes.

As suggested by Richardson *et al.* (1996), consumer propensity toward PBs varies among product categories. For the purpose of this study, two products were chosen: potato chips (*K Plus* brand), as a low-cost, low-risk and low-involvement product category, and a shower gel (*Balea* brand), a product category which carries higher purchase risk and a greater level of consumer involvement. The selection of product categories was based on the following criteria: (1) the products are bought regularly, and thereby, consumers are able to easily evaluate different aspects and perceptions related to their purchase; (2) they are product categories which have different levels of consumer involvement and degrees of risks associated with the purchase; and (3) they are product categories in which PBs have a significant market share. It should be noted that chosen PBs (*K Plus* and *Balea*) are brands owned by retailers who do not place the chain name prominently on their brand; thus, the relation between the PB name and the store brand name is less transparent to consumers.

Data were collected via a store intercept method in downtown Sarajevo, Bosnia and Herzegovina. Sarajevo is chosen as the prime location for this study due the following

reasons: (1) it is the capital of Bosnia and Herzegovina and an important retail market; (2) both retailers (*dm-Drogerie Markt and Konzum*) have more than ten stores in Sarajevo and thus consumers shop at and they are familiar with both retailer's stores; and (3) due to time and financial constraints, this location is deemed most suitable. A non-probability convenience sampling was employed to recruit respondents and collect the data. The surveys were administered by undergraduate marketing research students, who were well trained and instructed in the store intercept and interviewing techniques. Given the specific focus of this study, the exit intercept method was thought to be most desirable. Upon approaching the respondents, the interviewers identified themselves, explained the purpose of the survey, and provided respondents with the definition of PBs and examples of such brands. To minimise the potential bias due to non-probability sampling, interviews were conducted on both weekdays and weekends during morning and late afternoon/evening hours. At the end of field work, a total of 699 usable questionnaires were obtained across two product categories, 359 for *K plus* potato chips and 340 for *Balea* shower gel. A detailed breakdown of the sample characteristics, in terms of gender, age, income, educational attainment, and the frequency of PB purchases is shown in Table 1.

Table 1. Demographic characteristics of the sample

Variable	%	Variable	%
<i>Gender</i>		<i>Education</i>	
Female	71.4	High school	31.7
Male	28.6	College or vocational school	19.0
<i>Age</i>		Bachelor's degree	38.9
Under 20 years	10.2	Master's degree or higher	10.3
21-25 years	22.3	<i>Product category</i>	
26-30 years	17.3	Potato chips – K Plus	51.4
31-35 years	15.7	Shower gel – Balea	48.6
36-40 years	13.3	<i>Purchase frequency</i>	38.9
40 +	21.1	Seldom	24.2
<i>Income</i>		Sometimes	46.9
Under BAM 1,000	26.8	Often	28.9
BAM 1,001-1,500	39.9		
BAM 1,5001-2,000	26.6		
BAM 2,000 +	6.7		

Source: own study.

The sample was slightly skewed towards females, approximately 2.5:1. This unequal gender distribution of the sample is in line with the assumption that women are usually more responsible for doing the shopping for the household than their male counterparts (Beneke, 2013). With regard to the frequency of PB purchases, more than three quarters (75.8%) of respondents said they purchased PB either often or sometimes. This indicates that the sample consisted of consumers who are *au fait* with PBs.

The research instrument – the questionnaire comprised scales measuring the constructs of store image, service quality and PB image. The store image scale assessed consumers' perceptions of the store image based on the six store attributes: product variety, employee service, store atmosphere, prices, product quality and overall attitude. This scale was adopted from the works of Collins-Dodd and Lindley (2003) and Wu *et al.*

(2011). For measuring service quality, we adopted the service quality instrument developed by Brady and Cronin (2001). Therefore, in this study service quality is viewed as a multidimensional construct encompassing three factors – interaction quality, service environment quality, and outcome quality. Following Keller's (1993) two-dimensional conceptualisation of brand image, we measured cognitive (quality) and affective (affection) dimensions of PB image. Specifically, PB image was assessed using a five-item scale developed by Vahie and Paswan (2006). All involved constructs were measured using seven-point Likert scale, ranging from 1 “strongly disagree” to 7 “strongly agree”.

RESULTS AND DISCUSSION

The data analysis proceeded in three phases. First, the internal reliability of responses in multi-item scales was assessed by determining Cronbach's alpha coefficient and *item-total correlations* (Hair *et al.*, 2010). The results revealed that the scales measuring store image (SI), interaction quality (IQ), outcome quality (OQ) and quality aspect of PB image (Q) are reliable with the present data (Table 2.). Also, the analysis found Cronbach's alpha to be less than the recommended value of 0.7 for two constructs: service environment quality (SEQ) and affective component of PB image (A). However, it should be noted that Cronbach's alpha value greater than 0.6, with item-to-total correlations greater than 0.3, is adequate for conducting research in social sciences (Hair *et al.*, 2010). Second, the structural equation modelling (SEM) technique to examine the hypotheses in the proposed model was applied. Following Anderson & Gerbing (1988) methodological suggestions, the two-step approach for assessing structural equation models was employed. The first stage involves the assessment of the measurement model and the second stage advances to testing the structural relationships (hypotheses) among the latent constructs. This approach avoids interaction between the measurement and structural models and re-specification errors (Hair *et al.*, 2010).

To assess the reliability, convergent validity, and discriminant validity of constructs in the proposed model, confirmatory factor analysis (CFA) was employed. The measurement model was estimated using the maximum-likelihood method (MLM) and the model fit was tested using several fit indices. Hu and Bentler (1999) acknowledged that it is very difficult to specify a cut-off value for each fit index because it does not work equally well under various conditions. However, to enhance the interpretation of the findings, the following “benchmark” is being provided. Values for the Root Mean Square Error of Approximation (RMSEA) can range from zero to 1.0, whereas an RMSEA value of less than 0.5 indicates good fit, in the range of 0.05 to 0.10 is considered an indication of a fair fit, and values above 0.1 indicated poor fit (Maccallum, Browne & Sugawara, 1996). For the Standardized Root Mean Squared Residual (SRMR), the conventional cut-off point is less than 0.08 for a good-fitting model (Hu and Bentler, 1999). A normed chi-square value (χ^2/df) of less than 5.0 has been suggested to indicate an adequate model fit (Scumacker & Lomax, 2004). According to Hair *et al.* (2010), the Comparative Fit Index (CFI) and the Tucker-Lewis index (TLI) should be greater than 0.9. Traditionally, values of 0.9 and greater for Goodness-of-Fit Index (GFI) and the Adjusted Goodness of Fit Index (AGFI) indicate well-fitting models (Hooper, Coughlan & Mullen, 2008). According to the model evaluation criteria suggested in the prior discussion, the

overall fit of the measurement model to data was acceptable: $\chi^2 = 504.126$ ($p < 0.001$); $\chi^2/df = 4.541$; RMSEA = 0.071, SRMR = 0.061; CFI = 0.952; TLI = 0.941.

Table 2. Scaling and measurement properties

Constructs	Code	Dimensions and manifest variables	λ	St. error
Store image (SI) $\alpha = 0.894$	si1	This store provides a variety of products.	0.535	
	si2	The entire product in this store has good quality.	0.855	0.173
	si3	The entire product in this store has good low price.	0.840	0.150
	si4	The products of this store are good value for money.	0.902	0.163
	si5	The interior decoration of this store let me feel pleasant atmosphere.	0.908	0.161
	si6	Overall, I have positive attitude in this store.	0.513	0.093
Interaction quality (IQ) $\alpha = 0.902$	iq1	Overall, I'd say the quality of my interaction with this store's employee is excellent.	0.857	
	iq2	I would say that the quality of my interaction with this store's employee is high.	0.960	0.034
Service environment quality (SEQ) $\alpha = 0.607$	seq1	I would say that store's physical environment is one of the best in its industry	0.583	
	seq2	I would rate this store's physical environment highly.	0.752	0.086
Outcome quality (OQ) $\alpha = 0.899$	oq1	I always have an excellent experience when I visit this store.	0.937	
	oq2	I feel good about what this store provides to its customers.	0.872	0.027
Quality private brand image (Q) $\alpha = 0.817$	q1	Too many of the private label brand I buy at this store are defective in some way ^a .	0.910	
	q2	Most private label brand I buy at this store wear out too quickly ^a .	0.953	0.026
	q3	This store does not care enough about the quality of its private label brand ^a .	0.501	0.036
Affective private brand image (A) $\alpha = 0.627$	a1	I like the private label brand of this store very much	0.614	
	a2	I am satisfied with most of the private label brand I buy at this store.	0.747	0.074
Service quality (SQ)	IQ	Interaction quality	0.934	
	SEQ	Service environment quality	0.859	0.049
	OQ	Output quality	0.981	0.049
Private brand image (PBI)	Q	Quality PB image	0.942	
	A	Affective PB image	0.951	0.035

Note: Goodness of fit: $\chi^2 = 504.126$ ($p < 0.001$); $\chi^2/df = 4.54$; RMSEA = 0.071, SRMR = 0.0605; CFI = 0.952; TLI = 0.941. ^a Reverse-coded items

Source: own study.

We then assessed the construct's internal consistency and validity. All constructs were deemed to be highly consistent and reliable, as their composite reliability (CR) scores were above the recommended cut-off value of 0.7 (Bagozzi & Yi, 2012). According to Hair *et al.* (2010), convergent validity is satisfied if the standardised factor loading exceeds 0.5, is significant at 0.001, and average variance extracted (AVE) is greater than 0.5. As shown in Table 2, the standardised factor loading of items (manifest variables) and first-order constructs ranged from 0.501 to 0.981, and all were statistically significant ($p < 0.001$). Average variance extracted of the three latent constructs (SI, SQ and PBI) ranged from 0.604 to 0.896. These findings suggest that convergent validity is satisfied. Discriminant validity was assessed by comparing the square root AVE of each construct to its correlations with other constructs (Fornell & Larcker, 1981).

The results showed that discriminant validity of constructs is supported as the square root AVE of each construct is greater than the correlations between that construct and any other construct in the model. Table 3 displays CR, AVE, square root AVE and correlation values, supporting reliability, convergent and discriminant validity of constructs. Once the measurement model was validated, subsequent structural equation modelling (SEM) analyses were conducted to support the proposed model and to test the hypotheses. The results of the structural model (measurement and structural regression model) are shown in Figure 1.

Table 3. Reliability, convergent and discriminant validity of constructs

Construct	Composite reliability and convergent validity		Discriminant validity ^a		
	CR	AVE	SI	SQ	PBI
Store image (SI)	0.897	0.604	0.777^a		
Service quality (SQ)	0.947	0.858	0.192	0.926	
Private brand image (PBI)	0.945	0.896	0.619	0.224	0.947

Note: ^a Square-root AVE values are in diagonals (bold) and correlations (*r*) are off diagonal values

Source: own study.

The fitting indices of the structural model are as follows: $\chi^2=504.126$ ($p<0.001$); $\chi^2/df = 4.541$; RMSEA = 0.071, SRMR = 0.061; CFI = 0.952; TLI = 0.941. In comparison with the values suggested in the prior discussion, the findings demonstrate that the model's fit is satisfactory. Thus, it was deemed appropriate to test the hypothesised paths. As predicted by hypothesis H1, positive relationship between store image (SI) and private brand image (PBI) was supported ($\beta = 0.598$; $p<0.001$). Service quality (SQ) was also found to have a statistically significant positive influence ($\beta = 0.109$; $p<0.001$) on private brand image (PBI) providing the support for hypothesis H2. The predicted relationships, standardised, unstandardised coefficients, and hypotheses test outcomes are provided in Table 4. We also examined the predictive power of the structural model. According to Cohen (1988), the value of R^2 for endogenous latent variable (0.26, 0.13, and 0.03) can be used as the threshold to demonstrate substantial, moderate, and weak explanatory power of the model. In the present study, the findings suggest that 39.5% of the variance of private brand image (PBI) can be explained by store image (SI) and service quality (SQ), suggesting that the model provides substantial explanatory power.

The main finding of this study is that store image plays an important role in the image-building of PB, suggesting that consumers may derive inferences about PB image from their original perceptions of the retailer's store image. These results provide support for the accessibility-diagnostics theory (Feldman & Lynch, 1988) which assumes that consumers are "cognitive misers", in that they will not retrieve all possible information to make judgments (Meyvis & Janiszewski, 2004). Instead, they will first try to retrieve the most accessible information. Because memory is related across nodes and structured into categories (e.g. store and private brand), consumers may draw inferences from one category to evaluate a related category. This is likely to occur if the information regarding the first category is highly accessible and more diagnostic than the other information from which a consumer derives judgments about the second (target) category. Whereas previous studies have demonstrated a positive effect of PB image on store image (e.g. Anselmsson, Johansson & Persson, 2007; Kremer & Viot, 2012), we empirically validated an effect of the opposite type – the image transfer from the store brand up to private brand. Thus, the more positively

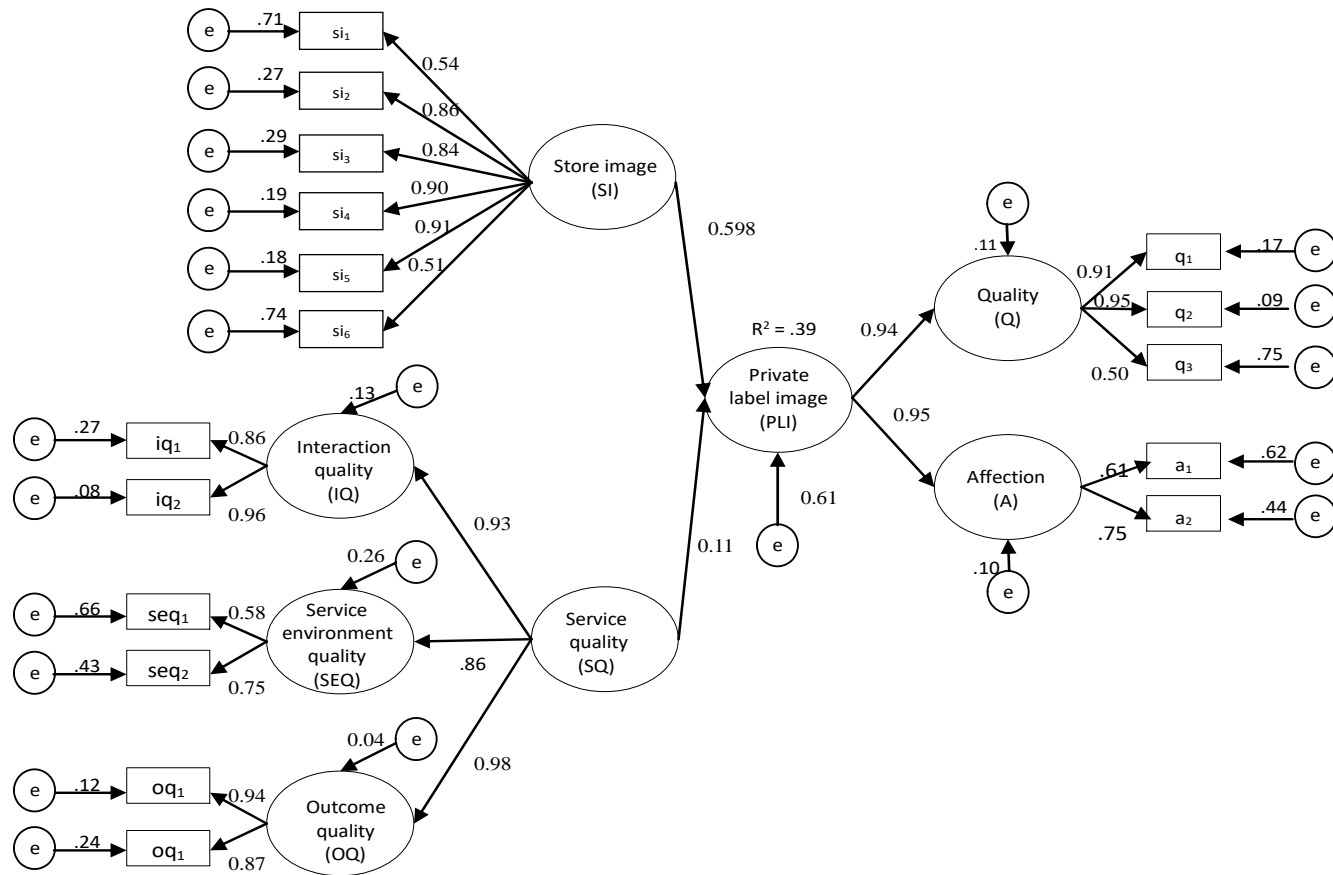


Figure 1. Structural model: Antecedents of PB image

Source: own elaboration.

customers view a retailer's store, the more positively they will judge its private brands. The positive link between store image and PB image implies that the unique positioning of stores influences consumer's attitudes towards PB, as suggested by previous studies (e.g. Collins-Dodd & Lindley, 2003; Semeijn *et al.*, 2004; Wu *et al.*, 2011).

Our findings also suggest that a perception of the quality of service offered by retailers has a positive effect on PB image. This result is in line with Wu *et al.* (2011) who found that in the Taiwanese market service quality directly affects PB image and has indirect effect on purchase intentions of PBs. Furthermore, the present study supports findings reported by Huang (2009), who found that the delivery of high service quality of retailers increases the perceived quality of their private brands. More specifically, among five retail service quality dimensions, Huang (2009) found that reliability and personal interactions have the strongest effects on the perceived quality of PBs. From a broader perspective, service marketing literature and retail literature also support the link between the quality of service delivered by a retailer and perceptions of PBs (e.g. Brady & Cronin, 2001; Dabholkar *et al.*, 1996; Swoboda *et al.*, 2007).

CONCLUSIONS

Recent industry reports indicate that brands owned and sold by retailers (PBs) continue to chip away at the dominance of national (manufacturer) brands in terms of consumer's patronage, sales, and market share. Although researchers have investigated the antecedents of the consequences of PB image for more than a decade, more research is needed to clarify the role of intangible factors in the PB image building. Unlike most studies on PB image, this study is carried out in a transitional economy of South-Eastern Europe (i.e. Bosnia and Herzegovina) where the PB market penetration rate is significantly lower compared to the mature European and U.S. markets (Renko, 2013). Therefore, this study enhances the external validity (generalisability) of previous empirical findings beyond the Western context. At a broad level, our findings suggest that store image and the perception of service quality have a significant influence on PB image (both quality and affective dimensions), with store image having a slightly stronger influence. In other words, consumer's perception of the store attributes and the quality of service delivered by a retailer partially determine the success of a PB strategy.

This study offers some important insights for retailers who intend to develop their PB. First, the image transfer from store brand to private brand suggests that retailers should consider the introduction of a PB as a brand extension, with their stores as the parent brand. Specifically, retailers should try to integrate the image of the store (e.g. the quality and variety of product, store atmosphere, etc.) into the set of associations which make up the image of the PB. For instance, if the objective is to evoke an image of high quality or premium PB, then the store attributes need to be modified accordingly. However, it should be noted that this 'halo effect' can also be harmful to PB image if store image is not properly managed. Therefore, retailers need to conjure up a strong and favourable store image in the minds of consumers, which will consequently enhance the image of their PBs. Recognizing the importance of store-related attributes in the image-branding of PBs, store managers should strive to elicit favourable store image by increasing product variety, enhancing product quality, offering the products in the price worthy of value, and pleasantly decorating the store. Given that service quality is one of the key drivers of PB image, we recommend that retailers put more emphasis on quality im-

provement initiatives. Particularly, in order to form favourable and strong image of a PB, it is necessary to improve service environment quality, interaction quality and outcome quality. The store environment quality may be enhanced by remodelling the layout to make customers move easily around the store and to find PBs conveniently. Also, retailers may boost the quality of the store environment through careful selection of certain ambient elements, such as flooring, colouring, lightning, scent, etc. Interaction quality can be enhanced through the placement of knowledgeable, kind employees within the store. Because poor employee service, such as an employee's rude, hostile attitude and dishonest behaviour will lower the perceptions of *service quality and, thus, lead to a decline in* consumer's impressions about PB image, personnel training, and incentive salary may be a desirable method to promote and enhance *employee's commitment to service quality*. Finally, retailers should maintain the competitive price of their brands and improve the efficiency of customer service (pre-, during, and after-sale).

This study has several limitations. Firstly, this study focused only on two retail formats (hypermarkets and drugstores), two retail chains (*Konsum* and *dm-Drogerie Markt*), and two product categories (potato chips and a shower gel). Secondly, the data were collected exclusively in the retailer's stores located in the city of Sarajevo. Therefore, results may differ with respect to other domestic, regional and national markets, retail formats, retail chains and product categories. Future studies are therefore welcomed in expanding the domain of this research with respect to the geographical coverage, retail format, and product category. Furthermore, Stern, Zinkhan and Jaju (2001) found that marketing literature provides at least three different approaches to the store image conceptualisation and its measurement, namely functional, psychological, and complex gestalt. In this study we adapted the functional approach and, thereby, our measurement of store image is less powerful in capturing intangibles and psychological attributes (e.g. the attractiveness of the décor and style of the store; atmospheric cues, such as music, scent, colouring; friendliness or the congruence between store image and actual self-image), which are also considered to be key components of store image. Thus, future studies need to take into account tangible (functional) and intangible (psychological) components of store image and examine the extent to which they have different effects on the PB image. Moreover, further research should look at store image from a broader perspective and examine how retailer (corporate) image affects PB image. Finally, our study only examined the antecedents of PB image (i.e. store image and service quality), thus, future studies might also include behavioural outcomes, such as PB purchase or loyalty towards PBs.

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Young Consumers' Perception of Problems and Usefulness of Mobile Shopping Applications

Blaženka Knežević, Mia Delić

ABSTRACT

Objective: The objective of this paper is to explain how young consumers from Croatia perceive problems and usefulness of mobile shopping applications.

Research Design & Methods: The paper is based on descriptive statistics of data collected in a wide-range survey on mobile commerce attitudes within young population in Croatia. The questionnaire was designed upon recent literature in the fields of electronic and mobile commerce. The quantitative data analysis regarding mobile application problems and usefulness was conducted on 276 validated questionnaires.

Findings: The majority of young population in Croatia is experienced in smartphone usage and can be referred to as "handset generation". They express a high level of satisfaction regarding mobile purchasing and have positive attitudes towards the usefulness of mobile shopping applications. They are aware of mobile purchasing obstacles and risks and perceive some of them as very important.

Implications & Recommendations: The results of this study can be useful for researchers and practitioners in the retail industry. The findings can be used as a basis for adjusting policies towards mobile commerce within business strategies, not only in the retailing industry, but in other industries as well.

Contribution & Value Added: The paper is a valuable contribution to research fields of retail marketing, retail management, electronic commerce and, especially, mobile commerce because it deals with primary data collected in a specific geographical market. As the authors developed their own set of questions, the presented findings can be used as a basis for future research in various markets and groups of consumers.

Article type: research paper

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INTRODUCTION

Nowadays, the number of smartphone users increases rapidly, and thus the base of potential customers who will use their mobile devices for everyday pre-shopping, shopping and post-shopping activities increases. Therefore, the application of mobile technologies is one of inevitable trends in the technological development of modern retail industry. Mobile commerce today is not only mere purchase via a mobile device, but it is, also, the identification of the customer in terms of solutions applied to improve customer loyalty and automatised payment transactions over the mobile phone.

Retailers have recognized the importance of this trend and are trying to attract customers by constantly improving the sales channels. The best way to do this is to offer retail applications designed for the most popular mobile platforms: iOS, Android, Windows Phone, and Blackberry.

When considering mobile phones as a marketing and sales channel, most of the retailers focus primarily on transactions via mobile devices, i.e. the direct m-commerce. However, according to research by Deloitte (2013), a much more effective approach is to perceive mobile phones as an additional tool to in-store shopping. For example, in the UK the application of smartphones affects the 5.8% increase in the total sales in stores. Investments in improving mobile applications can help retailers to influence consumer behaviour. The percentage of consumers who make the conversion when purchasing thanks to smartphone increased by 12% compared to those who do not use mobile devices, given that the retailer's applications provide a significant experience and help consumers when making purchasing decisions (Deloitte, 2013).

The research study by eMarketer (2004) ranks positive factors influencing the choice of online channel into the following claims: (1) I save time by not going to store, (2) I can shop when stores are closed, (3) I avoid crowds on holidays, (3) I get better prices, (4) It is easy to search products, (5) I can get products that are not available in stores, (6) It is easy to do price comparison, (7) I can get free packaging and delivery, (8) I earn loyalty points, (9) It is easier to purchase from the digital wish list.

But when it comes to mobile commerce, advantages do not always outweigh disadvantages, also referred to as m-commerce obstacles and risks. Various authors explain and analyse a wide scope of negative issues related to mobile commerce and mobile shopping applications. Some of the issues are: limited buying power as there is still a narrow number of customers willing to purchase via smartphones; various technological issues, such as accessibility, connectivity and the speed of network or limitation of the mobile phone screens and mobile browsers; limited marketing possibilities caused by graphical limitations of smartphones; loss of personal face-to-face interaction with consumers; and many issues in the field of consumer privacy and security.

The aim of this paper is to explain how young consumers from Croatia perceive (1) problems of mobile applications and (2) usefulness of mobile shopping applications. The paper focuses on the analysis of data collected in a large-scale survey on mobile commerce attitudes within young population.

Firstly, the paper presents the contemporary literature on mobile commerce, smartphones and mobile applications and draws research hypotheses. Secondly, the design of the primary quantitative survey and research methodology are explained. Finally, the results focusing on mobile applications obstacles and risks,

together with the attitudes of young population towards the usability and usefulness of mobile applications as shopping tools are discussed.

LITERATURE REVIEW

According to Yuan and Cheng (2004), the rapid growth of mobile and smartphone industry transformed m-commerce into the next wave of e-commerce. M-commerce has become one of the key priorities in numerous business organisations (Ropers, 2001), and many of them target to invest in Apps development for various purposes (Tech Crunch, 2011).

With gaining popularity by m-commerce, more scholars and literature turned their attention to this electronic wireless medium and to major factors and determinants of m-commerce success. Kabir and Hasin (2011) highlighted the major m-commerce success factors as follows: System Quality (online response time, 24-hour availability, page loading speed, visual appearance), Content Quality (understandability, timeliness, and preciseness), Trust, Support (tracking order status, account maintenance, payment alternatives, Frequently Asked Questions), Mobility and Personalisation.

Several perceived consequences are stated as critical determinants in the context of mobile technology adoption in the existing literature: (1) perceived usefulness/value (Mahatankoon *et al.*, 2006; Snowden & Spafford, 2006; Yang, 2005); (2) perceived ease of use (Cheong & Park, 2005; Kurnia *et al.*, 2006; Lin & Wang, 2005; Malhotra & Segars, 2005; Wai, 2012); (3) perceived risk (Laundon & Traver, 2007; Turban, 2008; Wai, 2012); (4) perceived enjoyment (Hong *et al.*, 2006; Pagani, 2004); and (5) perceived obstacles (Childs, 2013).

Perceived ease of use (PEOU) is an important determinant of user satisfaction; it refers to the degree to which the prospective user expects the target system to be free of effort (Dai, 2009). Applying the same concept in the context of Apps technology, Wai (2012) interpreted PEOU as "the extent to which users perceive the ease of interaction with Apps enables them to receive proper and useful information they need". For mobile phone users, the ease to use is a crucial factor (Cheong & Park, 2005; Snowden & Spafford, 2006) just like perceived usefulness (PU), the degree to which a person believes that engaging in online transactions via mobile commerce would enhance his performance. Perceived usefulness or value means that m-commerce creates value for customers by providing services and additional benefits when compared to traditional e-commerce applications (Tsalgatiidou & Pitoura, 2001). These are the two vital elements in the Technology Acceptance Model (TAM) which influence individuals' attitudes towards using the system. Based on previous research, usefulness and ease-of-use may positively affect customer's satisfaction (Ribbink *et al.*, 2004).

The conceptual idea of perceived risk suggests any transactions or behaviours involving risk which may cause negative or unpleasant consequence (Wai, 2012). There are various problems and risks in electronic commerce. Turban (2008) defines three levels of building confidence in electronic commerce activities: (1) confidence in Internet retailer, (2) trust in the Internet as a sales channel, and (3) confidence in the business environment and legal framework. On the other hand, there are several problems associated with online shopping as given in the literature (Laundon & Traver, 2007): the security of card operations, the protection of privacy and personal information, delivery costs, product quality, product return policy, delays in delivery, and other problems. Consumers may be unaware that their personal information is distributed for non-authorized use.

Previous studies indicate that perceived risk is a multi-dimensional construct in m-commerce contexts (Featherman & Pavlou, 2003; Lim, 2003; Martins *et al.*, 2014). Several authors (Featherman & Pavlou, 2003; Yang *et al.*, 2014) adopted five-dimensional measurement of perceived risk in m-payment: (1) perceived financial risk (consumer perception about the possible monetary loss caused by the usage of m-payment), (2) perceived privacy risk (a lot of private information, like phone numbers, social security numbers, pin code, consumption locations, shopping records is required in the m-payment process), (3) perceived performance risk (user's perception of the possibility of the m-payment system malfunctioning and not working as intended or advertised, and thus being unable to provide the desired services), (4) perceived psychological risk (consumer's perception of any possible psychological frustration, pressure, or anxiety resulting from the use of m-payment), and (5) perceived time risk (any possible time loss due to the usage of m-payment).

According to Brockett (2012), web owners and companies conducting business over the Internet and through mobile devices have to protect themselves from four major operational risk exposures related to: technical deficiencies, legal deficiencies, physical security, and privacy risks. The physical limitations (size, memory, illuminated screens, limited power, etc.) of a mobile device often force application developers to make security versus performance trade-offs. As Ghosh and Swaminatha (2001) stated, these limitations can force application developers to give up security features, such as encryption, in an effort to improve online performance.

Another dimension determining mobile technology adoption, satisfaction, is defined as pleasantness and fulfilment, which is users' post-purchase evaluation and affective response to the overall product and service experience (Wai, 2012). In the mobile-service context, Wu and Wang (2005) believe that satisfaction has predictive power on consumers' post-usage behaviours, and affects the user's motivation to make recommendation to potential customers, by bringing greater efficiency to business in maintaining their competitive advantages.

Content reliability is proven as the most influential parameter effecting customer satisfaction significantly. In terms of content reliability, Choi (2008) highlighted four difficulties or problems in m-commerce: (1) it is hard for a mobile device to show enough pre-information about content in the text form because of the limited screen size and difficulty in controlling the device; (2) customers are not willing to use pre-listening service due to additional costs; (3) all the content from various providers cannot be individually verified; and (4) due to the immaturity of the system for reviewing experienced services in m-commerce, it is difficult to obtain directly postscripts or notes after using the services.

In his research, Childs (2013) identified several concerns or obstacles regarding the use of shopping applications, clustered as mechanical or perceptual concerns, which are adopted in this research: (1) Mechanical Concerns (shortens the phone's battery life, not confident store layout, difficult to read information on the display panel, over notification from retailer, frequency of updating, the amount of memory space required, slow response time within the store's environment, and cumbersome navigation); (2) Perceptual Concerns – time/value proposition is not adequate, insufficient dollar savings, underpromotion and the lack of awareness of mobile applications, smartphone coupons not welcomed at checkout, concern for smartphone theft, privacy intrusion, too many undesired requests (surveys, personal info, etc.).

In conclusion, m-shopping holds potential in the rapidly growing world of digitally connected smartphone owners. Most of the research into m-commerce investigates mobile transaction in general usage, not specific to smartphone applications context. Regarding the upcoming smartphone applications' popularity and the importance of the understanding of influential factors of customers' satisfaction, this study emphasises the key components which affect consumers' adoption of Apps-commerce.

Based on the analysed literature, the following hypotheses are proposed for this research:

- H1:** Majority of young consumers in Croatia are experienced users of mobile phones and mobile shopping applications.
- H2:** Young consumers in Croatia understand obstacles and risks of mobile shopping applications usage.
- H3:** In young population from Croatia the usability of mobile shopping applications is highly evaluated.

MATERIAL AND METHODS

The quantitative survey on student population took place in April 2015. The digital questionnaire was distributed through social networking platform – Facebook and Google Classroom, official pages of University courses, to students at various study programmes of the University of Zagreb, Croatia. The main objective was to understand young smartphone users' perception and attitudes towards smartphones and mobile applications as shopping tools in the aspects of convenience, content reliability and customer satisfaction.

Based on the questionnaire components from previous studies, a modified questionnaire was developed. The questionnaire was structured into 6 sections. The questionnaire constructs and objectives of each section are detailed in Table 1. An online questionnaire included questions of different types: one choice question, multiple choice questions and Likert scale ranking questions. As this paper focuses on the results from third, fourth and fifth section of the survey, the research analysis will cover only those survey sections.

The target group of the questionnaire focuses on the smartphone users aged between 18 and 35. This target group is suggested with highest potential of smartphone apps adoption due to its high acceptance of new technology and purchasing power. The total number of respondents to this survey is 285. Table 2 shows relative frequency of sample characteristics.

As shown in Table 2, there were 74% of female and 26% of male students in the sample. The gender structure of the sample was in accordance with the student population within faculties of social sciences in Croatia, but the questionnaire did not include questions on the study field and we cannot claim that students from other scientific fields did not take part in the survey. Moreover, all respondents are aged between 18 and 35, in which almost 60% of respondents were from the age group of 18-24. The largest proportion of students (34%) have monthly income (in terms of allowances, scholarships, wages and/or part time job fees) higher than 2000 kunas (i.e. higher than 260 EUR). About 55% of the survey participants held the bachelor degree, followed by the group of high school education which accounted for 37.5% correspondingly, while only 7.4% owned master degree or above.

Table 1. Questionnaire structure and objectives

Section	Objectives	Questions are designed according to
Section 1: Personal information	to collect demographic data	Strugar <i>et al.</i> (2011); Choi <i>et al.</i> (2008)
Section 2: Smartphone and mobile applications usage	(1) to assess the smartphone penetration rate; (2) to eliminate smartphone non-users from further analysis	Strugar <i>et al.</i> (2011); Turban (2008, p. 66)
Section 3: Users' perception towards mobile applications for buying products/services	(1) to gather respondents' attitude towards mobile applications for buying products/services based on different consequences, to examine satisfaction level in different aspects (e.g. time/money); (2) to explore: ease of use, barriers to the use, risk perception, perceived value	Strugar <i>et al.</i> (2011); Wai (2012); Childs (2013); Brockett, Golden (2012); Turban (2008, pp. 431-434 and 452-453); Laundon, Traver (2008, pp. 492-498); Featherman, Pavlou, (2003)
Section 4: Users' perception of mobile browsers characteristics	(1) to gather respondents' attitude towards mobile commerce based on various characteristics, such as: convenience, system quality, content reliability, perceived price level, visibility; (2) to examine the relative importance of the mobile browsers characteristics	Strugar <i>et al.</i> (2011); Wai (2012); Childs (2013); Turban (2008, pp. 443-446 and 844-845); Laundon, Traver (2015, pp. 157-158 and 492-493)
Section 5: Users' perception of customer service and satisfaction with mobile commerce	(1) to gather respondents' attitude towards mobile commerce based on customer service and customer satisfaction; (2) to examine the relative importance of these premises	Choi <i>et al.</i> (2008); Turban (2008, pp. 421-422 and 433-434, 443)
Section 6: Users' attitudes to future progress of mobile commerce	to evaluate users' perceptions of future progress of mobile commerce and mobile applications	Choi <i>et al.</i> (2008); Laundon, Traver (2015, pp. 218-223 and 538-539)

Source: own work.

Table 2. Characteristics of the sample

CHARACTERISTIC	OPTIONS	RELATIVE FREQUENCY (%)
age	18-24	58.9
	25-30	37.2
	31-35	3.9
gender	male	26
	female	74
highest level of education	high school	37.5
	bachelor	55.1
	master or higher	7.4
monthly income (including allowances, scholarships, wages and/or part time job fees)	less than 65 EUR	15.1
	65-130 EUR	27.4
	130.1-260 EUR	23.5
	more than 260 EUR	34

Source: own work.

RESULTS AND DISCUSSION

For the purpose of this paper, quantitative descriptive analysis was performed, absolute and relative frequencies were calculated. For Likert-scale questions mean, standard deviation and modal values are presented and t-test was applied, as suggested by Boone & Boone (2012). Even though some statisticians negate such solutions, numerous business studies accept and apply such an approach (Lüthje & Franke, 2003; Fayolle *et al.*, 2006; Zellweger & Sieger, 2012; Ozaralli & Rivenburgh, 2016; Wach & Wojciechowski, 2016).

The majority of respondents use smartphones (96.8%), while only 3.2% do not use smartphones as a primary mobile device. Respondents who do not use smartphones were excluded from further analysis, so further analysis was based on 276 validated questionnaires. In addition, those respondents who are smartphone users were asked for how many years they have used smartphones in their everyday life. The majority of respondents have used smartphones for more than 2 years (Figure 1).

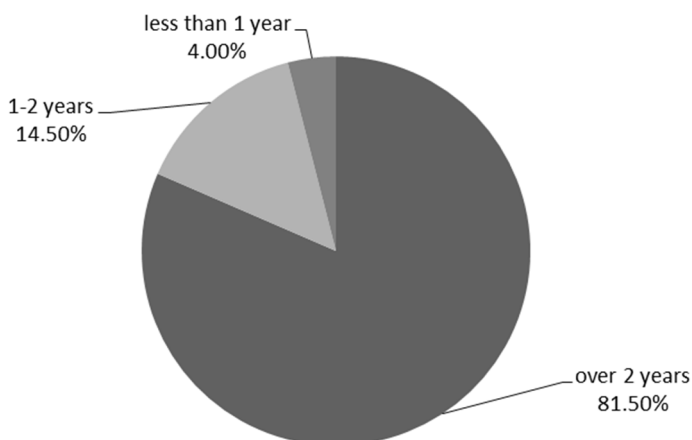


Figure 1. The proportion of respondents according to experience in using smartphones

Source: own work.

Furthermore, Smartphone users were asked to estimate how many hours per day they spend on using mobile applications. 40.2% of smartphone users claim that they spend between one and two hours a day, 19.90% spend two or three hours, 12% spend more than three hours, while 27.9% (less than one third) spend less than one hour per day on mobile applications' usage. Following this, we can conclude that this student generation has been growing up with digital technology since their later childhood and that they are using their smartphones extensively, which empirically proves Turban (2012, p. 279) who claims the "handset culture" existence among young generation, where cell phones are inevitable part of their lifestyle. In addition, Turban (2012, p. 279) states they are major online buying force which makes and spends reasonable amounts of money. Also, Smith's (2013) findings emphasise that the penetration of smartphone technology is substantial, growing, and assures its growing involvement in

shopping behaviours. Our findings prove that there is the existence of such handset generation in Croatia as well; therefore, H1 hypothesis is accepted.

Discussion of Results on the Perception of Mobile Shopping Obstacles and Risks

This survey tested a great number of claims regarding the motives, benefits, usefulness and other positive aspects of smartphone usage and some of them are already discussed in Knezevic *et al.* (2015) research. The authors discussed the penetration rate of mobile commerce in younger population in Croatia, and came to the conclusion that there is 30.4% of active mobile buyers who purchase several times a year via their mobile phones. In addition, 18% of them use specialised mobile applications for retail purchases. The data analysis applied and explained in the paper by Knezevic *et al.* (2015) showed that, from the point of view of young mobile shoppers, the most popular product group bought online is “tickets”, while the saving of time and the availability of service 24/7 are recognised to be the most important motives for using mobile applications in retail purchasing within student population in Croatia. Moreover, three main values of mobile shopping applications in comparison to traditional shopping are: (1) a wide range of information, (2) real-time and updated information and available products, and (3) recommendation based on individual history. Therefore, this paper is oriented towards obstacles, risks and attitudes towards mobile applications rather than mobile commerce in general and mobile commerce benefits, as those topics were scrutinised in Knezevic *et al.* (2015).

Table 3 shows observed statements on obstacles of mobile applications ranked by the rating average.

Table 3. Perception towards obstacles of mobile applications usage

Answer Options	MEAN	MOD	Mod /TOTAL (%)	(4+5) / TOTAL (%)
The use of mobile applications shortens the phone's battery life	4.04	5	41.6	72.0
Frequency of updating mobile applications	3.65	4	42.4	62.4
Too many undesired requests (surveys, personal info, etc.)	3.61	4	32.5	57.6
Overnotification from retailer	3.60	4	33.6	54.4
Amount of memory space required	3.60	4	37.6	60.0
Difficult to read information on display panel	3.43	4	40.8	52.0
Apps is underpromoted (lack of awareness)	3.40	4	36.0	44.4
Smartphone coupons not welcomed at checkout	3.03	3	44.0	34.4

Note: 1 - “Not Important”; 2 - “Mostly unimportant”; 3 - “Neutral”; 4 - “Mostly important”; and 5 - “Very Important”.
Source: own work.

Three main obstacles as perceived by our respondents are: (1) The use of mobile applications shortens phone's battery life, (2) Frequency of updating mobile applications and (3) Too many undesired requests (surveys, personal info, etc.). Three of the statements are rated below 3.5 which is used as a limit for the purpose of this research, indicating positive attitudes if the observed mean values are higher. Therefore, t-test was used to explain statistical significance of this negative difference between the observed mean and a limit of 3.5, i.e. hypothetic mean. Calculated p-values were 0.5136 for statement “Difficult to read information on display panel” and 0.5322 for “Apps is underpromoted (lack of awareness)”. Therefore, the existing negative difference is not statistically significant for $\alpha=0.05$ or $\alpha=0.10$ for those two statements. Meanwhile, p-

value for statement "Smartphone coupons not welcomed at checkout" is 0.0000, which means that negative attitude toward this statement is statistically significant for $\alpha=0.05$.

The observed obstacles were differently evaluated in Childs' (2013) research where shortening the phone's battery life and the frequency of updating mobile applications obstacles were evaluated with minor importance. Also, the amount of memory space required is considered as an unimportant obstacle in Childs' research, as opposed to this study where the amount of memory space required is evaluated as an important factor of mobile applications' usage.

When reconsidering mobile applications as a communication channel with a targeted market, it is important to know what the perceived risks are when mobile applications are used as shopping tools.

As illustrated in Table 4, most of respondents believe the payment procedure in mobile applications is safe (67.20%), the service provider can protect their personal information (57.50%). However, for all other statements, respondents have neutral or negative opinions, i.e. summarised positive attitudes are below 50%. Moreover, calculated means for each offered statement are below 3.5 (as a presumed measurement of positive attitude). This negative mean difference is statistically significant at $\alpha=0.05$ for statements regarding legal framework (Q25) and return policy (Q26) and at $\alpha=0.1$ for statement regarding product expectations (Q27). At the same time, small negative mean difference for (Q29) is not statistically significant at all. The exception to the rule is positively evaluated statement "I believe the payment procedure of electronic in-Apps purchase is safe." with average grade 3.6350 (above tested 3.5, which indicates the level of positive attitude) confirmed as statistically relevant at $\alpha=0.05$.

Nonetheless, we have to point out that Table 4 shows the existence of a respectively large number of respondents who do not have an opinion on the statements Q25, Q26 and Q27. This leads us to the conclusion that even this young population is not very well informed on m-commerce issues and there is an opportunity for marketers to use this fact when promoting m-business initiatives. First of all, they should inform and educate consumers on issues, risks and policies which are applied in this area.

On the basis of the given explanation, we conclude that H2 hypothesis is not accepted. Even though young consumers understand the obstacles to installing and using mobile applications (see Table 3), their awareness and understanding of the legal framework regarding customer protection together with their knowledge on retailers' and providers' policies can be significantly improved (see Table 4).

Table 4. Risks of using mobile applications

	Q25 Legal framework	Q26 Return policy	Q27 Product Expectations	Q28 Safe payment	Q29 Privacy protection
average grade (MEAN)	3.3474	3.2770	3.4030	3.6350	3.4950
standard deviation	1.0216	1.0669	0.9075	0.8663	0.9236
MEDIAN	3 - neutral	3 - neutral	3 - neutral	4 - mostly agree	4 - mostly agree
MEDIAN/TOTAL	34.50%	39.80%	40.70%	57.50%	48.70%
MODAL VALUE	4 - mostly agree	3 - neutral	3 - neutral	4 - mostly agree	4 - mostly agree
MODAL VALUE/TOTAL	35.40%	39.80%	40.70%	57.50%	48.70%
Confidence interval (95%)	3.23 >3.35> 3.47	3.16 >3.28> 3.41	3.29 >3.40> 3.50	3.54 >3.63> 3.74	3.38 >3.49> 3.60
(mostly agree + agree)/TOTAL	46.90%	39.90%	46.30%	67.20%	57.50%
P-value for t-test $\mu=3.5$ ($\alpha=0.05$)	0.0086	0.0005	0.0723**	0.0090	0.9272*

Note: 1 - "strongly disagree"; 5 - "strongly agree"; * difference between OBSERVED MEAN and HYPOTHETIC MEAN ($\mu=3.5$) is not statistically significant for $\alpha=0.05$ or $\alpha=0.10$; ** statistically significant at $\alpha=0.10$; Evaluated statements: Q25 "Existing legal framework of customer protection regarding privacy and security is sufficient."; Q26 "I believe retailers may provide comprehensive refund and exchange policy in apps-commerce."; Q27 "I am confident that there is no discrepancy of actual product performance relative to expectation."; Q28 "I believe the payment procedure of electronic in-Apps purchase is safe."; Q29 "I am confident that service provider may protect my personal information."

Source: own research.

Discussion of the Results on the Usability and Usefulness of Mobile Applications as Shopping Tools

To maintain a long-term return in business, retaining customer satisfaction in the Apps purchase and usage is essential to ensure profitable repeat business. The satisfaction level affects the user's motivation to make recommendation to potential customers (Wai, 2012), and brings greater efficiency to businesses in maintaining their competitive advantages.

Therefore, respondents were asked to specify their opinion towards mobile shopping ease of use which is also claimed to be one of the motives or one of the obstacles to m-commerce acceptance by consumers. For each sentence regarding statements on easiness, they were asked to choose a level of agreement. According to the data in Table 5, we can observe relatively high grades for each proposed statement. The only statement which was evaluated below 4 was "I prefer personalised user interface design" with average grade of 3.6, but compared to the t-test mean of 3.5, this mean difference is not statistically significant at $\alpha=0.05$. Therefore, we can conclude that smartphone users are mostly satisfied with the level of usability issues which are tested in this survey. These results are generally similar to Wai's (2012) research findings, where simple and user-friendly interface design and easiness of learning to use mobile applications for purchasing are rated as highly preferable.

Moreover, respondents were asked for an opinion on 3 statements regarding the level of satisfaction from the purchasing process via mobile applications. In Figure 4 customer

satisfaction and perceived value rating average are shown, from which it can be observed that majority of respondents agreed with all 3 statements on the usefulness of mobile shopping via mobile applications. On the basis of the presented results, we can conclude that young consumers express a high level of satisfaction regarding mobile online purchasing, which is in line with Wai (2012). This finding is of great interest for marketers, because the positive attitude of consumers towards a marketing channel (in this case m-commerce) makes it easier to introduce and promote activities done within or through a particular channel. As it can be observed in the graph (Figure 4), positive answers prevail and are around 70%, if we sum up options "4- mostly agree" and "strongly agree". Average grades (means) were calculated and for each option the average grade exceeded 3.85. Also, p-values of t-test at the hypothetic mean $\mu=3.5$ ($\alpha=0.05$) were below 0.0001 for each option. Therefore, we can conclude that there are positive attitudes when discussing the satisfaction with the usage of mobile applications and that this finding is statistically relevant.

Table 5. Value of easiness of Apps to purchase products or services

	I prefer simple and user-friendly interface design	Learning to use mobile applications for purchasing products/services is easy to me	My interaction with mobile applications for purchasing products/services is clear and understandable	I prefer personalised user interface design (e.g. number of items displayed per page, colour, music)
average grade (MEAN)	4.176	4.160	4.088	3.600
standard deviation	0.8986	0.8270	0.8615	1.0625
MEDIAN	4 - mostly agree	4 - mostly agree	4 - mostly agree	4 - mostly agree
MEDIAN/TOTAL (%)	40.0	43.2	50.4	31.2
MODAL VALUE	5 - strongly agree	4 - mostly agree	4 - mostly agree	3 - neutral
MODAL VALUE/TOTAL (%)	42.4	43.2	50.4	31.2
confidence interval (95%)	4.02 >4.18 > 4.33	4.01 >4.16 > 4.31	3.94 >4.09 > 4.24	3.41 >3.6 > 3.79
(important + very important)/TOTAL (%)	82.4	81.6	83.2	54.4
P-value for t-test $\mu=3.5$ ($\alpha=0.05$)	0.0000	0.0000	0.0000	0.1113*

Source: own research.

According to the presented findings, young consumers agree that mobile shopping applications are easy to use (Table 4) and they express a high level of satisfaction with the usage of mobile applications (Figure 4). Therefore, we can conclude that H3 hypothesis is accepted.

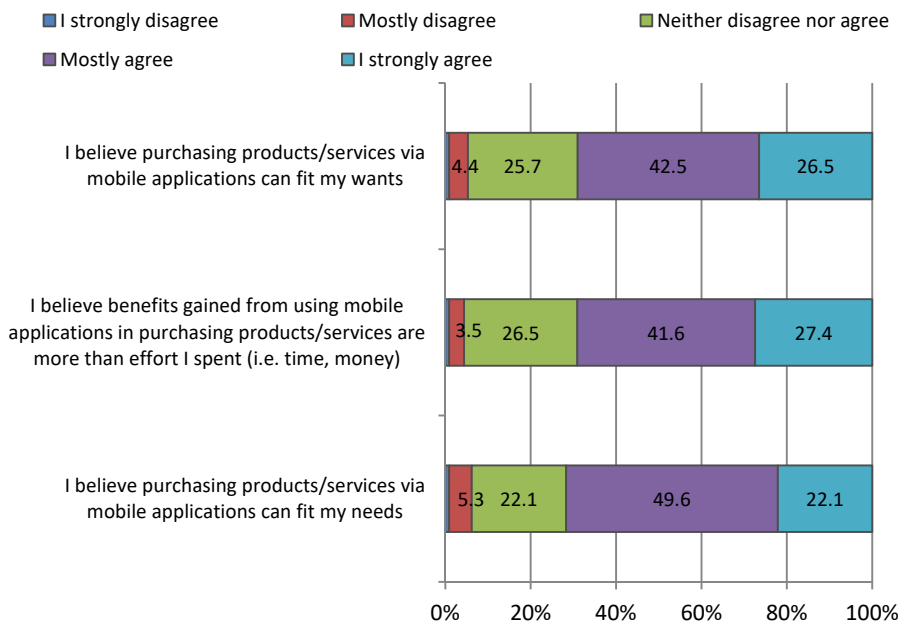


Figure 2. Perceived value and satisfaction with using mobile applications

Source: own work.

CONCLUSIONS

The base of potential customers who will use their mobile devices for everyday shopping activities is increasing due to a rapidly growing number of smartphone users. Therefore, mobile commerce has become one of the key priorities in many business organisations (Ropers, 2001), especially those oriented towards final consumers, such as the retail industry in particular. A respective number of authors analyse and explain various aspects of mobile commerce starting from defining its benefits toward emphasising its obstacles, risks and disadvantages. However, there is a scarcity of research studies in some geographical areas, such as Eastern Europe.

Therefore, this paper focused on the attitudes of young consumers in Croatia. The survey took place in April 2015 and 285 respondents filled in the questionnaire. Out of them only 3.2% were not smartphone users and majority of them (81.50%) have been using this technology for more than 2 years. Therefore, we accept **H1**: "Majority of young consumers in Croatia are experienced users of mobile phones and mobile shopping applications".

However, there are several concerns in young population regarding mobile application usage and those are: (1) The use of mobile applications shortens the phone's battery life, (2) The frequency of updating mobile applications and (3) Too many undesired requests (surveys, personal info, etc.). This finding can serve marketers as a basis for improvements in this area. In addition, we have to emphasise that around 20% of respondents expressed disagreement with the claims related to the (1) comprehensive refund

policies, (2) the privacy of the consumer' data and (3) the sufficiency of the legal framework for customer protection regarding privacy and security. Therefore, marketers should pay more attention to making more efforts to communicate policies in those areas to targeted consumers. Hypothesis **H2**: "Young consumers in Croatia understand the obstacles and risks of mobile shopping applications usage" cannot be accepted (based on the gathered empirical data) because there is a lack of knowledge in the area of the legal framework and awareness of retailers' and providers' policies.

Nonetheless, we can observe that young consumers in Croatia have a positive attitude towards the usefulness of mobile shopping via mobile applications, which is in line with Wai (2012). Therefore, hypothesis **H3**: "In young population from Croatia the usability of mobile shopping applications is highly evaluated" is accepted. Marketers could use these findings when introducing promotional activities within or through a particular mobile commerce channel.

The main limitation of this research is its focus on a particular consumer group (young consumers) at the particular market (Croatia), so the findings cannot be generalised for the whole population in Europe or for all consumer groups in the market. Therefore, we suggest further research on various groups of consumers and at various markets in order to make comparison and conduct further analysis. Moreover, in this research we applied the basic descriptive data analysis, and in future analysis we suggest the application of more complex statistical methods, such as inferential statistical analysis.

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A Framework of Retailer-Manufacturer Cooperation and Coopetition: Consumer Durable Goods Retailers' Case Studies

Marzanna Katarzyna Witek-Hajduk, Anna Napiórkowska

ABSTRACT

Objective: The purpose of this paper is to develop a framework of cooperation and coopetition between retailers and key manufacturers from a perspective of retailers offering consumer durables.

Research Design & Methods: In order to answer the research questions semi-structured, in-depth and face-to-face interviews with managers of six SMEs or large retailers operating in Poland and offering consumer durables were carried out.

Findings: The empirical studies confirm both cooperation and coopetition between retailers and manufacturers – suppliers of consumer durables depending on, among others, the category of consumer goods and the balance of power between retailers and manufacturers. The scope of cooperation is not too wide, and concerns only some of the value chain processes indicated in the literature.

Implications & Recommendations: Conducted studies are exploratory and need to be deepened with the use of quantitative research that will help determine the impact of the balance of power between manufacturers and retailers and the strength of retailer-manufacturer relations on the range / areas and financial and non-financial performance of this cooperation.

Contribution & Value Added: The originality of this work lies in studying some aspects of retailers' relations with their key suppliers operating in consumer durables market.

Article type: research paper

Keywords: retailer-manufacturer relationships; cooperation; coopetition; consumer durables

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INTRODUCTION

The issue of inter-organizational relationships is the subject of numerous publications and it is emphasized that organizations must rely on cooperation with other organizations to accomplish strategic goals (e.g. Nooteboom, 2004; Cygler, 2009). The authors refer to different theoretical concepts, including game theory (Brandenburger & Nalebuff, 1995), the resource-based approach (e.g. Romanowska, 2002; Lavie, 2006), the transaction costs theory (Hennart, 1988; Geyskens, Steenkamp, and Kumarf, 2006) and network approach (e.g. Czakon, 2009, 2015). Plenty of publications are focused not only on bilateral relations, but also on multilateral, including the phenomenon of cooperation and cooptation in the context of networks (e.g. Peng & Bourne, 2009). Many researchers have focused primarily on horizontal relationships, devoting less attention to vertical relationships (e.g. Chen & Hall, 2007; Jap, 1999, 2001), and especially to the relations between retailers and manufacturers.

The authors emphasize the importance of the relational/network mechanism including links of cooperation and cooptation for the companies development, evaluating retail companies and impact on their innovation and competitiveness. Inter-organizational relations, including retailer-manufacturer cooperation and cooptation, make it possible to increase the retailer's resource potential by access to complementary and valuable resources of manufacturers- partners of the relationship, which contributes to more effective competition in the market (Stanczyk-Hugiet, 2012).

There are different models of firm growth based on the inter-organizational relationships (Stanczyk-Hugiet, 2011). In these models, firm growth is explained: through access to resources (Tsang, 1998), by processes such as knowledge sharing, its creation and conversion (e.g. Combs, Ketchen, & Hoover, 2004), the creation of innovation (e.g. Mention, 2011), by capturing the value elaborated within the network (e.g. Castaldo, 2007) or by expanding the borders with changes in cross-organizational network configuration (Santos & Eisenhardt, 2005).

The increased interest in the topic of the relationships between retailers and manufacturers is related to the transformation of the role of retailers in the supply chain (Bloom & Perry, 2001; Amato & Amato, 2008) and changes in their business models. Among the factors determining the role of modern retailers and their relationships with suppliers are indicated, inter alia, processes of consolidation of retailers, the development of information technology and systems supporting customer relationship management (Corsten & Kumar, 2005) and an increase in the diversity of distribution channels (Seiders, Berry & Gresham, 2000) including the appearance of new types of retailers (Internet auctions, group-buying platforms, etc.). It is accompanied by an increase in sales and the importance of retailers' private brands (Soberman & Parker, 2006). As a result of changes in retailers' and manufacturers' business models, the traditional boundaries between them are blurring (Yew & Johansen, 2008). For years, manufacturers and retailers were included in separate strategic groups (Porter, 1976). However, in recent years differences between the quality of retailers' brands and manufacturers' brands have been reduced. A change is observed in the manufacturers' strategy in response to competition from retailers' private brands, including cooperation in the manufacturing of products under these brands (Verhoef, Nijssen, & Sloot, 2002; Witek-Hajduk, 2015). Hence, retailers not only work

with manufacturers as their brokers, but also in other processes in the value chain, and often compete with them for the same customers, among others, offering products under their private brands (Anderson, Day, & Rangan, 1997). This favours the intensification of cooperation and coopetition between retailers and manufacturers.

In several publications on the relationships between manufacturers and retailers, the authors undertake issues such as: the nature of these relationships (Noordewier, John, and Nevin, 1990), dependence (Heide & John, 1988) and trust (Kumar, Scheer, & Steenkamp, 1995; Doney & Cannon, 1997), balance of power and sources of leverage (Bloom & Perry, 2001; Dapiran & Hogarth-Scott, 2003), competition between manufacturers and retailers' brands (Oubiña, Rubiuo, & Yaüge, 2006; Gomez & Benito, 2008), cooperation with the manufacturers regarding their production (Witek-Hajduk, 2015), manufacturers' cooperation with large retailers (Kłosiewicz-Górecka, 2010) and factors affecting the results of these relationships (Palmatier, Dant, Grewal, and Evans, 2006). The above issues are examined with particular regard to two perspectives (Cox, Sanderson, & Watson, 2000): marketing (e.g. Corsten & Kumar, 2005; Brennan & Turnbull, 1995) and value chain management (e.g. Segal, 1989; Salmon, 1993). Research on the manufacturers-retailers cooperation and coopetition take both retailers (e.g. Ahmed & Hendry, 2012) and manufacturers' perspective (e.g. Gomez-Arias & Acebron-Bello, 2008).

Many publications on retailers-manufacturers cooperation and coopetition concern the FMCG market, including food (Kotzab & Teller, 2003). Only a minor amount of studies deal with retailers' cooperation with consumer durables manufacturers (e.g. Chow, Kaynak, & Yang, 2011). Few are also publications on retailers' coopetition with their suppliers (e.g. Kim, Kim, Pae, & Yip, 2013).

In order to fill this research gap, the aim of this work is a description and analysis of the framework of cooperation and coopetition between retailers and consumer durables manufacturers from the perspective of retailers and to answer the following research questions: 1) What is the nature and the strength of the relationships between retailers and consumer durables manufacturers?; 2) What are the areas and forms of retailers' cooperation/coopetition with manufacturers supplying consumer durables?; 3) What are individual and joint benefits from cooperation/coopetition with manufacturers as perceived by retailers? To answer the research questions in-depth interviews with managers of six retailers operating on the Polish market for consumer durables were carried out.

The article consists of four parts. The first part presents the literature review on cooperation and coopetition between retailers and manufacturers. The second part presents the research method. Next, the results of qualitative empirical research on a group of six retailers dealing in consumer goods durables are presented. The article closes with conclusions.

LITERATURE REVIEW

Retailers – Manufacturers' Cooperation and Coopetition

The authors of publications on the relationships between manufacturers and retailers do not agree on the naming, definitions and typologies of these relations. Authors use terms: "relations" (Yu & Pysarchik, 2002), "relationships" and "interactions" (Jeong, Hastak, & Syal, 2009). Moreover, many authors equate "relations"/"relationships" only with

cooperation (Blundel & Hingley, 2001), while others indicate that cooperation is just one of the types of relations (Bengtsson, Hinttu, and Kock, 2003).

Taking into account the relationship nature (competition, cooperation) Bengtsson *et al.* (2003) distinguish the following types of relationships: competition, cooperation, co-competition and coexistence. The retailer-manufacturer relationship is often a complex mixture of cooperation and competition (Borsenberger & Doisy, 2003). According to the above mentioned typology retailer's cooperation with the manufacturer means that the parties combine only relationships of cooperation and there is no competition between them. Characteristics of cooperation are: high frequency, high level of trust and substantial power connections, which can be formal or informal (Bengtsson & Kock, 2000). According to Buxmann, Ahsen, and Diaz (2008) cooperation takes place when the retailer and the manufacturer-supplier come to the coordination of the planning process. Authors distinguish, however, decentralized cooperation, when the parties independently draw up plans and then exchange information on this subject, from centralized cooperation, when one party plans for both parties of the relationship. It should be added that some authors use, beyond the term "cooperation", other terms, like "collaboration" and "coordination" (e.g. Singh & Power, 2009). Many researchers use the term collaboration, sometimes highlighting its various levels. According to Vlachos, Bourlakis, and Karalis (2008) the highest level is a cognitive collaboration characterized by a high degree of trust and pursuing common goals. In the case of cooperative level of collaboration the parties exchange information and establish common goals, but also strive to achieve individual benefits. In turn, the lowest trading level of collaboration means that parties only exchange data, e.g. through a website.

Co-competition between retailer and manufacturer means that parties at the same time compete with each other and work together (Bengtsson *et al.*, 2003). As noted by Bengtsson & Kock (2000) co-competition is characterized by high frequency of relations, significant strength and the average level of trust between the parties of the relationship, which may be formal or informal. Retailer cooperate with the supplier to achieve common goals, while competing with him to get the individual benefits (Kim *et al.*, 2013). Co-competition relationships between the buyer and the seller are more stable and durable compared to horizontal relations between competitors (Zerbini & Castaldo, 2007). Co-competition between the retailer and the manufacturer – retailer's supplier takes place when the retailer introduces to its stores private brands in product categories, in which it cooperates with the manufacturer-supplier or the manufacturer creates its own stationary or on-line store/ stores offering the same products as the ones that are sold in stores of cooperating retailer. The nature and strength of the relationships (cooperation and competition) connecting the retailer with the manufacturer is thus defining the character of this relationship.

Elements that define the framework for retailers' relations with manufacturers are also the scope and areas of cooperation and co-competition. Swoboda, Pop, and Dabija (2010) distinguish three areas of retailers' cooperation with manufacturers: processes oriented to innovations, customers and supply chain. Cooperation in the field of innovation concerns, among others, market information exchange, market analysis, product design, product development and category management (e.g. Dupre & Gruen, 2004). On the other hand, cooperation in the customer-oriented processes includes activities such as shops design, training of sales staff, the exposure of products, loyalty programs, advertising (e.g. Ailawadi *et al.*, 2010), other promotional activities, including those conducted at the point of sale

(e.g. Park, 2004; Huang, Li, & Mahajan, 2007). Cooperation in the supply chain-oriented processes is focused on distribution, purchasing and production planning, inventory management and procurement, planning and meeting the needs of customers (e.g. Corsten & Kumar, 2005; Derrouiche, Neubert, & Bouras, 2008), as well as production of retailers' private brands by manufacturers (e.g. Oubiña, Rubiuo, & Yaüge, 2006).

An important element defining a framework of retailers' cooperation and coopetition with manufacturers is the form and duration of the relationship. Retailers, which are characterized by long-term orientation (Hogarth-Scott & Parkinson, 1993) expect benefits from cooperation in the long run (Morgan & Hunt, 1994) and seek to maximize profits from the series of transactions (Ganesan, 1994), while the retailers characterized by short-term-orientation expect immediate results and seek to maximize profits from a single transaction. In addition, Hogarth-Scott and Parkinson (1993) distinguish the following six forms of retailers' cooperation with suppliers forming a continuum because of the degree of control in the pursuit of economic efficiency: "pure transactions", repeated transactions, long-term relationships, real partnership, strategic alliances and network organizations.

Another element defining a framework for retailers' cooperation and coopetition with the manufacturers are the outcomes/benefits of this relationship. Retailer's cooperation and coopetition with suppliers leads to the achievement of both individual and joint benefits for relationship parties (Pereira, Brito, & Mariotto, 2013). Terpend, Tyler, Krause, and Handfield (2008) list following benefits of cooperation: operational performance improvements, integration-based improvements, capability-based improvements, and financial performance improvement. These relationships serve not only to share knowledge (Heide & George, 1990), but also to create competitive advantage by both partners, which wouldn't be possible to achieve acting alone (Simatupang & Sridharan, 2002). This is possible thanks to the acquisition of complementary resources from the other side of the relationship (Dyer & Singh, 1998), or by reducing transaction costs (Svensson, 2002). As noted by Kim *et al.* (2013), the joint benefits are the bigger, the stronger the cooperative and synergistic dimension of coopetition is.

So the key elements forming the framework of cooperation and coopetition between retailers and manufacturers are: strength of a relationship of cooperation and competition between them, forms of cooperation, areas of cooperation/coopetition and individual and joint benefits of cooperation.

MATERIAL AND METHODS

In order to answer the research questions semi-structured, in-depth and face-to-face interviews with managers of six SMEs or large retail enterprises (according to the statutory definition) operating in Poland and capable of offering consumer durables were carried out. In the study, as consumer durables we include products that are frequently purchased and the product's lifetime is relatively long (Cole, 1962). In accordance with the recommendations in the literature, each of the interviews with retailers' managers lasted 1.5-2.5 hours.

The literature justifies the use of qualitative research methods in the field of management and emphasizes that mentioned methods allow to research little-known issues (e.g. Denyer & Tranfield, 2006; Cassell, Symon, Buehring, & Johnson, 2006; Czakon, 2009). It is stressed that the goal is to go beyond the rational opinions and understand the participants perspectives and the phenomena that is under the study

(Styśko-Kunkowska, 2014). Researchers often use in-depth and face-to-face interviews, and as a research tool - semi-structured questionnaire containing a number of open questions (Zaborek, 2009; Gótz & Jankowska, 2014).

In order to obtain answers to research questions in management sciences one of two approaches can be taken: 1) inductive perspective, in which case empirical research is carried out first and then generalizations and theories based on the collected data are formulated or 2) the hypothetical-deductive method, consisting of hypotheses and then criticizing them by using the deductive process, enabling hypothesis confrontation with experience. In the literature, plenty of analytical strategies are distinguished including reflective and structural analysis. Among the structural strategies, *inter alia* the following are indicated: grounded theory, content analysis, semiotics (Malhotra & Birks, 2007), template analysis (Symon & Cassell, 2012) and a number of analytic techniques used to build and verify theoretical propositions via pattern matching (Yin, 2003). The literature highlights advantages but also limitations of the grounded theory methodology in the exploration of inter-organizational relationships, including the phenomenon of cooperation and competition (Gótz & Jankowska, 2014).

Purposive sampling of retailers, which is the most recommended strategy for qualitative research, was used (Saunders, Lewis, & Thornhill, 1997), to provide a variety of perspectives of the surveyed retailers due to the size of the retailer, its business model and categories of consumer durables, which are offered in the retailer's stores. We chose firms based on our knowledge about research phenomena and taking into account which retailers may deliver best insights for an issue under study and are able to provide as much information as possible to achieve the research goals (Perry, 1998). Critical, extreme, heterogeneous and homogenous strategies were used to choose participants: retailers represent different branches (heterogeneity) and managers-informants represent similar positions (homogeneity), (Styśko-Kunkowska, 2014). Interviews were conducted with managers of the surveyed retailers responsible for relations with manufacturers who are suppliers of durable consumer goods to the retailer's stores. Interviews were conducted during the period from 08.04.2015 until 21.12.2015. Characteristics of the retailers are shown in Table 1.

Three of the retailers are companies with foreign capital and three with the Polish capital. Four of the retailers are internationalized.

As a result of in-depth interviews, we obtained a comprehensive set of data on the managers' opinions regarding relationships, including cooperation and competition, with manufacturers of consumer durables and activities undertaken in retailers' cooperation with manufacturers who are their key suppliers. According to the recommendations from the literature (e.g. Yin, 2003), we assured the anonymity for the managers participating in the interview and their companies.

Depending on the adopted research perspective, in qualitative research two approaches in coding are used: 1) *a priori*, when the categories are created on the basis of existing theoretical concepts and previously completed studies with the possibility of modifying the category under the influence of empirical material and 2) grounded theory, when the categories (codes) are constructed on the basis of data (e.g. Pickard, 2007). In this research we followed structural analysis based on technical procedures involving explicit category classification systems for the purpose of identifying patterns inherent in phenomena under study (Denyer & Tranfield, 2006). The analysis was made with the following

analytical categories: 1) the retailer's suppliers structure, 2) the balance of power between retailer and key manufacturers-suppliers, 3) the nature of relationships between retailer and key manufacturers, 4) the strength of cooperation between retailer and key manufacturers, 5) the strength of competition between retailer and key manufacturers, 6) forms of cooperation/cooperation between retailer and key manufacturers, 7) areas of cooperation between retailer and key manufacturers, 8) areas of competition between retailer and key manufacturers, 9) individual benefits of cooperation between retailer and key manufacturers, and 10) joint benefits of cooperation between retailer and key manufacturers.

All interviews were recorded and during the interviews interview protocol was used. Transcripts of the interviews were then encoded with highlights and keywords on the side-lines and numbers and letters, which were to mark the different topics and subtopics (Miles & Huberman, 1994).

Table 1. General characteristics of the surveyed retailers of consumer durables

No.	Legal form	Categories of durable consumer goods available in retailer stores	The size of the company due to the number of employees	Origin of capital	Retailer's description
I.	Limited liability company (LLC)	DIY, articles for construction and renovation	large	foreign	- own stores, no franchising, - 72 retail stores in Poland, - approx. 15% share of private brands.
II.	Limited liability company (LLC)	toys, clothing and accessories for children	large	Polish	- own stores, no franchising, - 204 retail stores in Poland, - 5 private brands.
III.	Limited liability company (LLC)	equipment and computer accessories, electronics and household appliances	large	foreign	- own stores, no franchising, - 57 retail stores in Poland, - 4 own brands (approx. 0.7%-1.5%).
IV.	Limited liability company (LLC)	articles for furnishing the house, DIY and cultivating the garden	large	foreign	- own stores, no franchising, - 49 retail stores in Poland, - approx. 10% share of private brands, - an online store and mobile app (approx. 2-3% share).
V.	Limited liability company (LLC)	books, stationery	SME	Polish	- own stores, no franchising, - 16 retail stores in Poland, - on-line store, - lack of private brands.
VI.	Limited liability company (LLC)	frames, sunglasses, correction glasses	SME	Polish	- on-line store - 60-70% of sales, - stationary store, - lack of private brands.

Source: own elaboration.

RESULTS AND DISCUSSION

Framework of Retailers' Cooperation and Competition With Manufacturers of Consumer Durables – Research Findings Based on In-depth Interviews With Managers of Six Retailers

The surveyed retailers vary in scope and areas of cooperation with the manufacturers. Company I cooperates with approx. 800 suppliers, of which 90% are Polish manufacturers. As indicated by the retailer's manager: "We have a whole range of suppliers, from very small manufacturers from whom we buy e.g. plants – these are usually local farmers, to the monopolies." The internal value chain of the company covers purchasing, marketing and sales, as well, although not as large range – product design. Polish suppliers provide mainly manufacturers' brands, retailer's private brands are outsourced to external manufacturers, mainly foreign, with which the retailer is also working on other markets.

In Company II relationships with manufacturers and their structure depends on the area of activity ("fashion" vs. "non-fashion"). In each each area of activity a different business model is being used. In "fashion" 97% of the suppliers comes from Asia, where the retailer outsources production of its private brands. The company prefers to work with medium-sized manufacturers, employing at most a few dozen employees, for whom it feels that it is a partner. These companies are more flexible and have a greater sense of responsibility. In the case of the "non-fashion" suppliers are closer geographically, they are strong international brands, for which the retailer's bargaining power is much smaller, a large part are also Polish manufacturers.

Company III cooperates with various manufacturers, both Polish and foreign. Strategy of the range of products takes into account Polish local conditions. One of the signs of the cooperation is managing the range of products with strong brands in stores. As indicates retailer's manager: "We are working on this topic with our suppliers and we implement commonly agreed solutions when they affect favourably for sale and are convenient for the consumer in his purchasing decision, e.g. Apple, Nespresso, Bose, Miele, GoPro, Samsung."

Company IV works with approx. 700 suppliers, of which 85% are Polish manufacturers, also approx. 40% of private brands are produced locally. As indicated by the retailer's manager: "Our company has large autonomy of the various national bodies. There is a range of products that need to be everywhere, but it is also appreciated locality and adaptation to local customers, e.g. tiles in the southern Poland are different than in other regions of the country." As one of the most important signs of cooperation, bringing the greatest benefit, the company indicates retailer's exclusive products, according to the retailer eliminating the competition with suppliers. The company prefers long relationships based on cooperation and negotiations. Company's manager also confirms benefits from sharing knowledge with key suppliers – manufacturers of strong brands: "Key suppliers are very well aware of what should be a group of products to comprehensively serve the customer, without them, this obligation would rest with us, and we would have to conduct deep research".

Company V tries to diversify its suppliers, as indicated by company's manager: "We had a supplier for approx. 45% of sales, problems began, imposing worse conditions, but in the end, after 2 years we ended working with him." As the main threat the manager perceives the fact that manufacturers are beginning to look by themselves for new sales channels, e.g. Internet and supermarkets: "Manufacturers are looking for sales by themselves, we are afraid of such a situation. Distribution market shrinks, only the largest last and are trading all goods to survive. The chain is shorter."

Manager of the Company VI indicates a problem among retailers themselves: "Manufacturers will be happy to cooperate, but retailers think mainly in terms of low price and quality." A major role is played by electronic business, on-line store it in the case of this retailer has up to 60-70% of sales. The entire purchasing process is also virtual, as stated by company's manager: "We can order through on-line purchase platforms, also in Polish companies. Even small suppliers have their sales platforms. Mobile apps are necessary in this business, it is a complicated product."

Table 2 presents a framework of cooperation and coopetition of the surveyed retailers with their manufacturers and the benefits of cooperation from the retailers' perspective.

Each retailer refers above all, financial and marketing benefits of cooperation with manufacturers, as well as the trust, reducing risk and sharing knowledge about consumer preferences. Coopetition in relations between retailers and manufacturers is mainly noticed in case of large manufacturers, which have their own stationary or on-line stores (three interviewed retailers), as well as in relations with retailer's private brands manufacturers (two interviewed retailers). Company IV doesn't notice competition, even when the manufacturer starts its own distribution.

Only three out of six retailers indicate joint benefits, mainly referring to sharing knowledge, exchanging information and experience with manufacturers. As highlighted by manager of Company I: "Each channel of obtaining information is good. If the supplier is a specialist in a particular field, we benefit from his knowledge. There are also our suggestions for manufacturers as to the appearance of products." The company is also trying in some areas to pass their knowledge to manufacturers: "We are in a certain sense educators of our suppliers, e.g. in wood products and certification, we stimulate them to do something in this regard. If not cooperating with us, they would incur penalties for e.g. the lack of proper documentation." In case of Company II cooperation with "non-fashion" manufacturers is complex: "Manufacturers often suggest what could be improved or changed in the product concept. We or the manufacturer suggest something when we want to introduce unique or innovative product". Company III exchanges information with their manufacturers mainly on consumer trends and buyers preferences.

Table 2. Framework of cooperation and coepetition between the surveyed consumer durables retailers and manufacturers

No.	The retailer's suppliers structure and key manufacturers characteristic	Manufacturers-suppliers bargaining power	Forms of cooperation with manufacturers-suppliers	Cooperation and coepetition with manufacturers	The cooperation individual/ joint benefits from retailer's perspective
I.	<ul style="list-style-type: none"> - purchase on the Polish market - approx. 90%, - direct import from Asia, including China, Vietnam and Indonesia, - greater freedom in choosing suppliers (purchases centralized - approx. 7-9%), - Polish branch works with approx. 800 suppliers, - Polish suppliers provide mainly manufacturers' brands, - most of the private brands is imported. <p>Key manufacturers:</p> <ul style="list-style-type: none"> - medium and large Polish manufacturers. 	<ul style="list-style-type: none"> - depends on the size of the sale's share, - most suppliers can be easily changed. 	<ul style="list-style-type: none"> - with Polish suppliers - direct transaction based relationships, - with large suppliers -long-term framework agreements, - no capital connections with suppliers. 	<p>Cooperation:</p> <ul style="list-style-type: none"> - often begins at the stage of pre-production, in the design phase, e.g. garden furniture, - setting the level of prices and other supply conditions, - exclusive products, - organizing and co-financing of promotional campaigns, - cooperation in the field of after-sales service, - sharing information about the customers' preferences, - suggestions from manufacturers, who are considered experts, - exchange of ideas on the appearance and functionality of the products and packaging. <p>Coepetition:</p> <ul style="list-style-type: none"> - in relations with retailer's private brands manufacturers. 	<p>Individual:</p> <ul style="list-style-type: none"> - financial benefits, - financial benefits of exclusive products, which are often new to the market. <p>Joint:</p> <ul style="list-style-type: none"> - exchange of information and experience with manufacturers, primarily for consumer preferences.
II.	<ul style="list-style-type: none"> - suppliers are small, medium and large manufacturing companies, - two areas of activity - "fashion" and "non-fashion". <p>"Fashion"</p> <ul style="list-style-type: none"> - producers of clothing and footwear to retailer's order and under its private brands, - products are designed in Poland, while production is outsourced to foreign producers (approx. 90 suppliers, 97% comes from Asia). <p>Key manufacturers:</p> <ul style="list-style-type: none"> - approx. 60 per cent. share of sales, - of 20 regular suppliers, 5 which can be described as the key manufacturers, - 20% of the suppliers accounts for about 80% of the value of retailer's purchases and sales. <p>"Non-fashion"</p> <ul style="list-style-type: none"> - strong brands manufacturers, - purchases are realized from manufacturers from different markets, including from local suppliers. <p>Key manufacturers:</p> <ul style="list-style-type: none"> - owners of strong brands, - no capital relationship with suppliers. 	<p>"Fashion":</p> <ul style="list-style-type: none"> - it depends on the suppliers' size and business area. <p>"Non-fashion":</p> <ul style="list-style-type: none"> - strong power of the owners of strong brands. 	<p>"Fashion":</p> <ul style="list-style-type: none"> - long-term contracts signed as a result of the segmentation process and supplier evaluation, - indefinite framework contracts, signed for a specific order. <p>"Non-fashion":</p> <ul style="list-style-type: none"> - long-term contracts negotiated every year. 	<p>"Fashion":</p> <ul style="list-style-type: none"> - outweigh cooperation relationships with small or medium-sized, mostly overseas suppliers. <p>Cooperation:</p> <ul style="list-style-type: none"> - using suppliers' suggestions, e.g. in the field of packaging or product functionality, - suppliers share their experience of working with other, larger retailers. <p>Coepetition:</p> <ul style="list-style-type: none"> - retailer's private brands produced by manufacturers. <p>"Non-fashion":</p> <ul style="list-style-type: none"> - cooperation mainly with manufacturers strong brands owners, e.g. in promotional activities. <p>Cooperation:</p> <ul style="list-style-type: none"> - manufacturers often suggest what could be improved or changed in the product concept, - pricing, - promotional activities, including the selection of promotional lines (products that are covered by the promotion price). 	<p>"Fashion":</p> <p>Individual:</p> <ul style="list-style-type: none"> - greater flexibility of suppliers when the order goes beyond the standard, - financial benefits, - branding benefits, - trust, - increased manufacturer's responsibility in the event of delays or errors, - streamlining the process and the product itself. <p>Joint:</p> <ul style="list-style-type: none"> - none. <p>"Non-fashion":</p> <p>Individual:</p> <ul style="list-style-type: none"> - financial benefits, - branding benefits, - trust, - streamlining of the product. <p>Joint:</p> <ul style="list-style-type: none"> - sharing knowledge.
III.	<ul style="list-style-type: none"> - manufacturers are diverse, largely foreign, - manufacturers with Polish capital, both large and small, - created at the international level, - sales using mobile technology, - no capital relationship with suppliers. <p>Key manufacturers:</p>	<ul style="list-style-type: none"> - depends on the supplier and product category, the greatest power have 	<ul style="list-style-type: none"> - long-term contracts. 	<p>Cooperation:</p> <ul style="list-style-type: none"> - exclusive products, - marketing activities, - joint advertising campaigns, - sales promotion in the form of price discounts (especially for smaller brands), 	<p>Individual:</p> <ul style="list-style-type: none"> - financial benefits, - marketing benefits, - risk reduction. <p>Joint:</p>

	<ul style="list-style-type: none"> - owners of strong international brands, - for retailer are important branding aspects, key suppliers have stands in retailer's stores - shops in shops, 	large manufacturers of strong brands.		<ul style="list-style-type: none"> - events, - competitions in social media, advertorials and corporate newsletters, - cooperation in the assortment management of leading brands. <p>Coopetition:</p> <ul style="list-style-type: none"> - manufacturers' own stores. 	<ul style="list-style-type: none"> - exchange of information on consumer trends and customers' preferences (sharing knowledge).
IV.	<ul style="list-style-type: none"> - approx. 700 suppliers, - import - 15% (mainly from China), - Polish suppliers (85%). <p>Key manufacturers:</p> <ul style="list-style-type: none"> - owners of strong brands have a large share in sales, - in certain categories- manufacturers producing retailer's private brands, e.g. floor panels. 	<ul style="list-style-type: none"> - no irreplaceable suppliers, - manufacturer who has a wide range of products, large share of sales, - small rotation of suppliers, - large significance to consumer preferences. 	<ul style="list-style-type: none"> - with key suppliers long-term, negotiated every year agreements, - with other suppliers -annual agreements, revised every year. 	<ul style="list-style-type: none"> - Dominate partnerships. <p>Cooperation:</p> <ul style="list-style-type: none"> - exclusive products, - products designed or modified together, - co-creation of products range, - exchange of market information, customer preferences, - inventory management - information exchange, return of goods or additional discounts after a failed promotional campaign, - promotional activities (spots, newsletters), - exchange of information on current sales, - cooperation in the spatial arrangement of the store (e.g. display panels). <p>Coopetition:</p> <ul style="list-style-type: none"> - no competition, even if the manufacturer enters into distribution, - no drastic methods of negotiation with suppliers. 	<p>Individual:</p> <ul style="list-style-type: none"> - financial and marketing benefits, - using research results of trends and market conducted by large manufacturers, - using the knowledge on comprehensive customer service, - trust, negotiating the payment deadline, - risk reduction, - using technological innovations of manufacturers, e.g. software for interior design, - financial benefits of exclusive products, which are often new to the market. <p>Joint:</p> <ul style="list-style-type: none"> - none.
V.	<ul style="list-style-type: none"> - approx. 50 suppliers, 10 of which are distributors, - large and small publishing houses, - diversification of suppliers to not obtain a majority stake by one of them, - orders take into account the best conditions, promotions. <p>Key manufacturers:</p> <ul style="list-style-type: none"> - publishers of the general diversified offer. 	<ul style="list-style-type: none"> - on the side of strong publishers, - strong publishers are trying to restrict the right to free return. 	<ul style="list-style-type: none"> - long-term contracts for an indefinite period. 	<p>Cooperation:</p> <ul style="list-style-type: none"> - publishers' announcements- retailers know in advance what book will be released, - promotional activities (dedicated site in shops, meetings with authors), - joint sales analysis, - cooperation in orders -delivery in one day from the virtual warehouse, no inventory, - orders in the logistics minimum- for delivery pays the publisher. <p>Coopetition:</p> <ul style="list-style-type: none"> - publishers are looking for new sales channels, including their own on-line stores. 	<p>Individual:</p> <ul style="list-style-type: none"> - mainly financial benefits, - the right to return unsold goods without the cost, - after sale payments. <p>Joint:</p> <ul style="list-style-type: none"> - none.
VI.	<ul style="list-style-type: none"> - depending on the product category, - correction glasses frames: small and medium manufacturers -outsourced production in China. <p>Key manufacturers:</p> <ul style="list-style-type: none"> - small and medium manufacturers, including Chinese manufacturers, - Polish and foreign companies. 	<ul style="list-style-type: none"> - the supplier can be easily changed, manufacturers are loyal. 	<ul style="list-style-type: none"> - lack of long-term contracts, short-term, transactional relationships. 	<p>Cooperation:</p> <ul style="list-style-type: none"> - marketing campaigns, - promotional activities, - exchange of market information, new consumer trends, - good relations with manufacturers in complaints process. <p>Coopetition:</p> <ul style="list-style-type: none"> - on-line sales by manufacturers, - the manufacturer's own stores. 	<p>Individual:</p> <ul style="list-style-type: none"> - mainly financial benefits, - improving customer service (complaints), - flexibility of smaller manufacturers as to the price and terms of payment. <p>Joint:</p> <ul style="list-style-type: none"> - none.

Source: own elaboration.

CONCLUSIONS

The conducted in-depth interviews with managers of six retailers of consumer durables, including four large and two SMEs show a complex picture of retailers relationships with consumer durables manufacturers, especially those of key importance to the retailer. The empirical studies showed different types of competitive and cooperative relations in the six studied companies and confirm relations such as cooperation and cooptation between retailers and manufacturers who are suppliers of consumer durables (Kim *et al.*, 2013). A diverse range of cooperative relations between the parties was found depending on, among others, the category of consumer goods and the balance of power between retailers and manufacturers on the market, including the strength of manufacturers brand. The scope of cooperation is not too wide, and concerns only some of the value chain processes indicated in the literature (see. Freedom, Pop, & Dabija, 2010). The surveyed retailers cooperate with manufacturers primarily in the innovation-oriented and customer-oriented processes and above all in promotional activities, especially those undertaken in the point of sale or using brochures and shop windows which are usually financed by the manufacturers (Park, 2004). Only three surveyed retailers indicated joint advertising campaigns with manufacturers in other media, including the mass media or e.g. organizing joint promotional events in public space. Several retailers cooperate with manufacturers in the exchange of market information, including the results of marketing research, knowledge about the customers preferences, sometimes also sales data. From the perspective of a few of the surveyed retailers (especially of consumer electronics, home appliances and hardware) an important role is played by cooperation in the field of customer service. In four cases, the cooperation also applies to the delivery by manufacturers of certain products exclusive to the retailer. Only bookstore pledged cooperation with producers in terms of inventory management and orders. Compared to the FMCG market (Kotzab & Teller, 2003) the scope of cooperation of the surveyed retailers in planning and meeting the needs of customers is limited: only one declared reliance upon suggestions from manufacturers who are considered experts and exchanging ideas about the look and functionality of products and packaging. None of the surveyed retailers cooperate with manufacturers in the field of the category management. Only two large retailers indicated that they consider such cooperation with key manufacturers in the future.

The study also confirmed the presence of cooptation in relations with manufacturers (Kim *et al.*, 2013), but with different strengths depending on the area of activity: the strongest in the case of fashion, including clothing, correction glasses frames or sunglasses, but also computer accessories / electronics / home appliances. In addition, manufacturers-suppliers of consumer durables are still primarily using distribution through retailers, rather than direct (owned or franchised stationary stores or on-line manufacturers' stores), although the growing importance of this second strategy was reported by the interviewed retailers.

The studied retailers above all indicate transactional relations with manufacturers-suppliers of consumer durables, including repetitive transactions. Some retailers declared long-term framework agreements especially with key manufacturers. There was no capital connection of the surveyed retailers with manufacturers-their suppliers. Forms of relations of the retailers with manufacturers show the fact that their orienta-

tion is rather short than long-term. Long-term orientation is concerned with the relationship with key partners (Hogarth-Scott & Parkinson, 1993).

According to the managers representing studied retailers, cooperation with their key manufacturers-suppliers is the source of most of all individual benefits, including primarily financial benefits and especially the increase in sales as the result of obtaining exclusivity for specific product models, and cost reduction. It was pointed out also individual benefits such as reducing risk and the branding benefits. Three retailers also indicated the acquisition of knowledge and know-how. Only half of the surveyed retailers pointed joint benefits for both parties. This can be explained by the fact that compared to the FMCG market, the scope and strength of cooperation and coopetition on the consumer durables market are smaller.

As a result of the research a model of retailer-manufacturer relationships was elaborated (Figure 1).

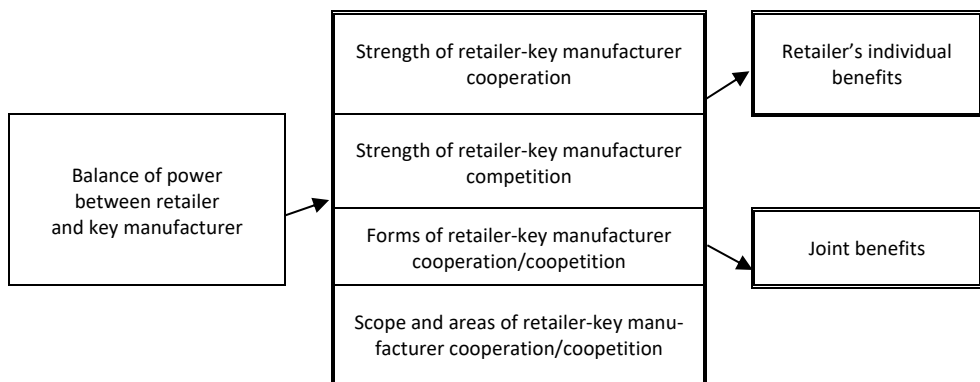


Figure 1. Model of retailer-manufacturer relationships

Source: own elaboration.

Conducted qualitative studies are exploratory and need to be deepened with the use of quantitative research. Quantitative research will help determine the impact of the bargaining power of the relations' partner, the balance of power between manufacturers and retailers in the relevant market and the nature (cooperative and competitive) and strength of retailer-manufacturer relations on the range / areas and financial and non-financial performance of this cooperation. In addition, it is worth to confront the perspective of retailers with the perspective of manufacturers.

Furthermore, the limitation of the study is that it is focused on bilateral relations between retailer and key manufacturer. Future research should take into account the perspective of network relations.

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Innovative Positioning as a Marketing Tool of Retailers on the Food Market

Grażyna Śmigielska, Magdalena Stefańska

ABSTRACT

Objective: The aim of the paper is to develop the theory of retail business positioning as a part of marketing innovation-based strategy. It is proposed that innovative retail formats and business models should be included in it.

Research Design & Methods: The critical literature review on the existing dimensions of business positioning as well as the new, suggested dimensions is made. General trends in food retailers' positioning in Poland and the positioning strategy development of Carrefour are analysed in the form of examples and a short case study. They are based on the secondary sources like academic papers, retail magazines and companies' web sites.

Findings: On the fragmented food markets retailers position themselves by introducing format innovations and stressing low price. Then they have to reposition themselves by attributes other than price. Big mass merchandisers are now segmenters.

Implications & Recommendations: In Poland the tendencies for buying natural, Fair Trade, diabetics, organic or functional products, as well as the focus on the elderly segment are opportunities for retailers. Yet, trading up creates new opportunities for discounters.

Contribution & Value Added: The paper contributes to the theory of retail positioning by linking elements of the marketing and the entrepreneurship approaches. It also develops knowledge about the Polish retail food market.

Article type: conceptual paper

Keywords: retail marketing; positioning; marketing innovations; entrepreneurship; food market

JEL codes: L81, M31, M39, O31, L26

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INTRODUCTION

Retailing, by its nature, is a very competitive business due to the existence of many ways of satisfying consumers' needs (many retail formats – store and non-store retailing), small entry barriers and the easiness of coping the successful models. The contemporary retail structure has been the result of introducing new retail formats since the middle of the twentieth century, which were radical innovations (the last one is selling via the Internet) and the successful internationalisation process which in the food sector has been very intensive since the eighties of the last century.

Along with these processes, which could be described as concentration and globalisation, retailers have more and more powerful position in distribution channels; they started to be called “gate keepers”, due to the fact that they could block a manufacturer's access to the market. Contemporary retailers, organised as chains, are rather leaders of distribution channels than passive executors of the manufacturer's policy. They introduce their own marketing strategies in which positioning, as the main marketing concept, is the key to build competitive advantage. This interpretation of the positioning concept is recognised in the literature. But the aim of this paper is to indicate a different point of view on retailers' positioning, which seems to be a much broader concept than this widely recognisable because it involves such dimensions as retail formats and business models. The new retail formats and business models are becoming an important marketing tool of contemporary retailers. In the practical part of the paper the processes of positioning and then repositioning carried out by retailers operating in Poland, after the political and economic changes taking place in the late eighties of the last century, are analysed. Different dimensions of positioning on the food market are illustrated by the case study of Carrefour.

Critical literature review, logical thinking, examples and case studies based on secondary data sources are used to fulfil the goal of the paper.

LITERATURE OVERVIEW

Positioning is a very important concept due to its role in developing competitive advantage (CA) but, in this context, it seems not to be recognised enough in academic publications on retail marketing. It has drawn the attention of economists (Alderson, 1937, 1965), theorists of management dealing with the problems of sustainable competitive advantage (Porter 2001, pp. 59-65) and, lately, marketing specialists (Kotler, 1994, pp. 87-88). Here, the attention is focused on the marketing aspect which is becoming important on saturated markets.

Positioning as a marketing concept could be traced to the early views of the development of competitive advantage. Alderson (1937; 1965) indicated that suppliers should specialise to satisfy different needs of the buyers. In the paper *A Marketing View of Competition* (1937) he wrote “The specialized supplier in a segmented market does not behave like a monopolist. He seeks profits of adaptation, which are profits of efficiency but broader in scope, involving not only the idea of doing a given job well but also that of picking the right job to do”. It means that a company must adapt to the changing environment. Alderson also contributed to the contemporary view of the positioning concept, indicating that companies should strive for working out unique attributes and in this way differentiate from competitors. In his opinion, differentiation could be achieved by lowering prices, the selectiveness of

advertising messages, changes in the existing product, as well as introducing innovations. Thus, Alderson in the concept of positioning includes some elements related to marketing activities (low prices or advertising), as well as to entrepreneurship (innovations).

Along with the development of the theory of marketing, this concept has become more and more related to marketing activities of companies. Some authors, like Ries and Trout (1982; 1997), associated it, first of all, with promotional activities, while others (Kotler, 1994) with the whole marketing strategy. Ries and Trout (1982, p. 2) claimed that positioning involves influencing prospective customers' awareness and finding the way to place our product in the prospective customers' mind by saying "positioning is not what you do to a product. Positioning is what you do to the mind of the prospect". Kotler (1994, pp. 270-289) considered positioning as the stage of the marketing strategy development, at which the differentiation of the product range or/and the company in relation to its competitors is made, in order to satisfy customers' needs better. The characteristics used in the positioning process include: price, tradition, fashion, ingredients, durability, country of origin, and so on. He stressed the role of positioning as a marketing tool in developing competitive advantage and also addressed some issues of retail positioning (Kotler, 1994, pp. 523-25).

The foundations of the theory of retail marketing were established by Lazer and Kelley (1961). They identified five basic characteristics of strategic marketing management and tools of retailing mix which should be used by retail companies, such as:

- planning, which involves identifying goals and programmes of their achievement,
- consumer orientation in which marketing philosophy is much more important than marketing tools,
- system approach in which the retail organisation is perceived as the complex system of activities; its focus is on the integration of the resource utilisation of retail businesses to satisfy current market needs, and the exploitation of future opportunities,
- management of changes, which means creative adjustment of retail business to the changes which take place in the turbulent environment,
- Innovations, which are crucial for business success, thus, the attention should be drawn to research and development.

As far as the retailing mix is concerned, Lazer and Kelley (1961) proposed three main marketing tools: 1. Merchandise and services which also include prices, 2. Location with the physical distribution, 3. Promotion. All of them can be perceived as the basics for successful targeting and positioning.

The role of marketing management in business has been growing along with changing their position in distribution channels. As a consequence, many of them are no longer just intermediaries; they could rather be described as "conductors of two-sided platforms that serve as ecosystems in which the value is created and delivered to customers..." (Sorescu *et al.*, 2011). It was reflected in the development of many different constructs of the marketing mix in retailing (Bilińska-Reformat, 2015, p. 57). Some of them, e.g. Sullivan and Adcock (2003), include positioning and image as a part of the marketing mix.

Levy and Weitz (2001) defined positioning in retailing as designing and implementing a set of instruments used in order to create a certain image of the retailer in the customer's mind in relation to the competition. Others (Walters & Laffy, 1996; Devlin *et al.*, 2003; Oppewal & Timmermans, 1997) focus on how retailers could differentiate. Walters and Laffy (1996) indicated that positioning in the retail sector involves integrated actions

in such areas as: the product range, the store format and its environment, the type and the scope of the services and amenities offered, communication with customers (Devlin *et al.*, 2003). Other authors such as Wortzel (1987), also Oppewal and Timmermans (1997) indicated price, product and services as the attributes which could differentiate a retailer from a competitor. In the new millennium a lot of attention is paid to own brand positioning, their role in store positioning and developing the retail patronage (Huang & Huddleston 2009; Collins-Dodd & Lindley, 2003; Diallo, 2012; Beristain & Zorrilla, 2011). This set of positioning attributes could be developed and specified but at this point it should be rather mentioned that the clear specification of target markets and tailoring the marketing offer to the customers' expectations makes this process effective.

All the above interpretations concern positioning as a part of the marketing process in which marketing tools (or retail marketing tools) are applied to achieve the expected image of the store. The positioning strategy starts from the choice of the target market and includes a description of the manner in which a given business will serve the customers and differ from the competitors, i.e. based on what values the company is planning to build its competitive advantage (Brooksbank, 1994). Successful positioning also requires an analysis of the image of the competitors' stores and the identification of the dimensions of its key image.

Retailers who want to cover a significant share of the markets, which are becoming more and more diversified, have to create different concepts of distribution and finally develop new separated models of retail sales for different groups of customers. The number of the markets targeted by retailers depend on the segmentation strategy they implement, which could be classified as the strategy of (Omar, 1999, p. 89):

1. Positioner – starts with the specific position aiming at a specific competitor.
2. Segmenter – starts with market segmentation.
3. Differentiation – starts with the marketing mix differentials.
4. Mass retailers – starts with similar marketing mix.

As an example – a mass retailer could become a segmenter if it discovers significant differences in various market components, then attempting to satisfy the needs of one or a few well-defined segments. With time, the segmenter becomes a positioner if segmentation policies are not paying off and if in the identified segments strong competition exists.

Selecting the right target market and the differentiation of a retail offer from competitors generate high level of satisfaction (Gilbert, 1999, p. 102). This offer includes merchandise, location, price level, store layout or the method of selling, the brand name and service, thus the whole marketing mix which is involved in developing an image reflecting retailers' positioning. Promotion plays a special role in this process because via its tools, particularly via advertising slogans, a message how the company wants to differentiate is communicated to customers. Therefore, positioning should not be restricted to the promotional process; the promotional statement could stay the same, while there are changes in the other elements of the marketing mix or on the contrary, promotional statement changes without changes in the other elements of the mix. The aim of positioning efforts is to create retail patronage for a store. Consumers patronise retailers from which they expect to receive the most value from shopping experiences and from the merchandise acquired (May, 1989; Chao & Tsuchiya, 2006).

Applying Aldersons' (1965) view on positioning in the retail sector, its members could also differentiate from competitors by introducing innovations. The most important for retailers are format innovations which represent a combination of particular levels of each ele-

ment of the retailing mix, such as: product assortment, pricing strategy, location, consumer interface, and so forth (Levy & Weitz, 2008; Grzesiuk, 2003). In case of the retailing development of new retail formats, e.g. a department store in the mid-nineteenth century, then mail order (the end of the nineteenth century), chain stores (1912), supermarkets were radical innovations (Schumpeter, 1947, p. 85). Those and other new retail formats (discount stores, hypermarkets and finally e-commerce which appeared on the market scene later) were the main competitive forces which determined the direction of changes of the market structure and the ways the profits were distributed. Each of them, when appearing on the market, started the process called the creative destruction which led to the bankruptcy of traditional retailers competing directly with the innovator (Bliss 1960; Anitsal & Anistal, 2011). On the other hand, the supernormal profits gained by the innovator encouraged competitors to copy its strategy, and as a consequence traditional retailers, in order to stay competitive, had to look for new ways to differentiate from the innovator, which finally led to trading up (Sorescu *et al.*, 2011). This process of changes for food mass -merchandisers is presented in Figure 1.

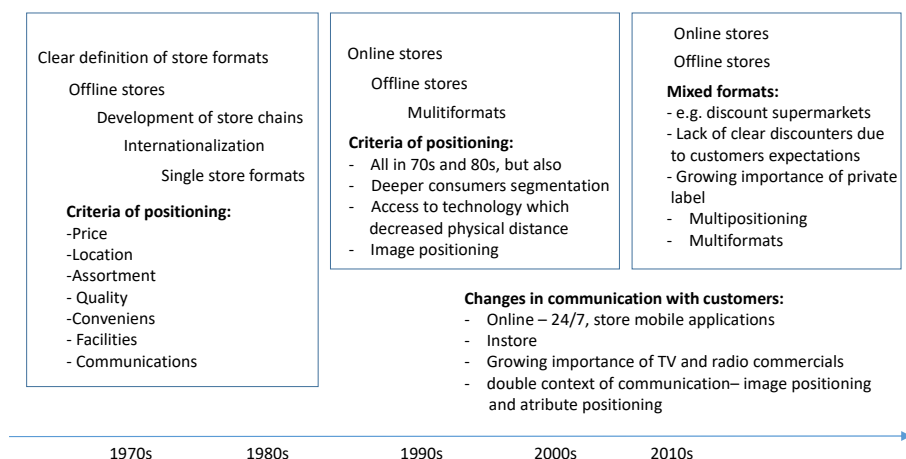


Figure 1. Evolution of the positioning concept in retail entities

Source: own concept.

Figure 1 shows that the first mass food merchandisers mainly operate on national markets and try to differentiate themselves by components of the marketing mix. Then, when the process of fast internationalisation started, they continue this policy but also add new dimensions of positioning due to the market development and the development of new technologies, mainly the Internet. At the third stage, mass merchandisers entered not saturated markets in which they could differentiate themselves by opening supermarkets, discount stores and hypermarkets, as well as new business models. New business models could be described as two or more retail formats belonging to multiple chain retailers whose operations are integrated to preserve and advance the retail brand equity (Sorescu *et al.*, 2011). Changes in retail business models could be considered marketing innovation (Sławińska, 2015). Innovations in the retail business model are related to such areas as operational efficiency, operational effectiveness and customer lock-in (value appropriation), as well as customer efficiency, customers effectiveness, and customer engagement (value creation) (Sorescu *et al.*, 2011;

Śławińska, 2010). Introducing new business models which, e.g., facilitate shopping experiences, creates value. New business models and distinctive positioning provide opportunities to achieve extraordinary profits (economic rents) and competitive advantage (Sorescu *et al.*, 2011). New retail formats and business models are discussed in literature (Aleksander, 2008; Swoboda, 2013), although not in the positioning context. The aim here is to show that they could successfully differentiate a retailer from the competitors.

Positioning strategies are influenced by changes in the character of the market, the competitive environment and consumer behaviour. The food market is considered difficult to compete because consumers tend to compare prices. These characteristics have determined strategies of mass merchandisers operating on the food market for many years. They tried to reduce costs and position themselves on low prices. But because on a given market there could be only one price leader, they have to find also other attributes to differentiate, as for example, service. Now, one of the most important positioning attributes also on the food market, is own brand, which is difficult to copy (Śmigieliska & Stefańska, 2013).

Over the last thirty years, the competitive retail environment has changed dramatically. Retailers, even if they are small players, have to compete in the global environment, which is the result of fast retail internationalisation, also involving retailers offering food (Goldman 1993; Lal *et al.*, 2004). International companies have started to penetrate not only similar foreign markets but also the markets in less developed countries. The pressure for internationalisation forced e.g. Wal-Mart, the biggest world trade operator, to enter Germany and Great Britain. It created the threat and the interest of the national players to find their place on the market which will differentiate them from Wal-Mart (Ellickson *et al.*, 2012). Reinartz *et al.* (2011) indicated that global scale retailers have to establish a market presence (at the same time) on mature markets, emerging markets and less developed markets. They considered retail formats and branding (store brands and private label) as important dimensions of retailing innovation which to be successful should be tailored to the expectations of foreign markets. At that point it should be noticed that such innovations differentiate foreign companies from the local players so they could be considered a way of positioning. The focus of global players is on big, unsaturated markets, such as India or China where they could position themselves by a new retail format (Azeem & Sharma, 2015). Their expansion forces domestic companies to differentiate to sustain on the market (Skallerud & Grønhaug, 2010). Due to the fact that the consumption food patterns on these markets are quite different, they could cause problems with the positioning on a new market with fixed model and create opportunities for national players. International retailers also entered unsaturated markets of so called post-socialist countries and positioned by retail formats, already tested on home markets. These formats, like hypermarkets, supermarkets and discount stores, were very successful on food markets.

Fast changes and the differentiation of consumers' behaviour are both challenging and creating new opportunities for retail business positioning. On the one hand, retailers are forced to react to market changes, but on the other hand to shape them by promotional activities and educating customers. The starting point of both directions is to observe megatrends in economy, which indirectly or directly transfer into changes in consumption trends (den Hertog & Brouwer, 2000). One of the examples involves demographic changes, which led to the development of new segments, such as the elderly. Some retailers have started to target this group of customers because it is growing; its members want the products to be adjusted to the specific needs and they

are ready to pay for that. Thus, the retailers are interested in searching this market and developing retail patronage (Oates *et al.*, 1996; Teller *et al.*, 2013).

The presented literature review has shown that retailers have to face the challenge of own brand product, store, format and a new business model positioning, which influence each other. On the other hand, it should be noticed that in retailing introducing new format or new business models are innovations which could efficiently position (differentiate the retailer) from its competitors.

MATERIAL AND METHODS

The idea of the paper comes from the observation of the changes in the retail structure in Poland which inter alia highlighted the boost and then the stagnation of hypermarkets' development, the success of other retail formats introduced by Polish and foreign operators and changes in the way the foreign retailers wanted to be perceived. It was specified in the section setting up the aim of the paper: the development of the theory of retail business positioning as part of marketing strategy. The literature studies on positioning and retailers' positioning have shown that retailers could also differentiate themselves by introducing new formats and new business models which could be considered marketing innovations.

Some desk research has been conducted, which includes academic papers, retail magazines, companies web sites to find out how the companies in Poland differentiate from competitors. A case study illustrating the development of Carrefour positioning strategy has been elaborated to find out if the role of new retail formats really matters and if the trend of repositioning is taking place. Foreign retailers, which started to develop very fast on the Polish food market since the mid-nineties, positioned themselves by introducing new retail formats, such as supermarkets, hypermarkets, discount stores (Knezevic & Szarucki, 2013), which compete on price. It was visible in their promotional campaigns where they stressed low price as the main benefit. Some Polish food retailers differentiated successfully from them by finding a market segment which was not sufficiently served. When competitors – mainly foreign supermarkets, hypermarkets and discounters – position themselves on price, Piotr i Paweł or Alma, deli chains, succeed by offering high quality products to customers (Śmigielska & Stefańska, 2015; Karczewska, 2013). They could be considered a new supermarket format with a wide assortment of high quality products which differentiate them from their competitors.

RESULTS AND DISCUSSION

As the time was passing and the market started to be more and more saturated, also the foreign companies introduced changes in retail formats they operate (Borusiak *et al.*, 2015; Kucharska, 2016). As far as the supermarket format is concerned, some of the supermarkets (Kłosiewicz- Górecka, 2011):

- become very similar to convenience stores, due to the fact that they are located in the settlements and opened from very early morning to late night,
- have a very wide assortment of fresh and non-food products (Intermarchè),
- many of them are located in the city centre.

Other changes in the retail structure include a growing number of speciality stores, e-commerce and direct selling companies which position themselves successfully in the market niches, due to identifying opportunities coming from changes in the lifestyle (Table 1).

Table 1. The criteria of positioning and selected retail shops

Criterion of positioning	Example of the retailer
Organic Food	Organic Farma Zdrowia, BIOVERT
Original food	Pożegnanie z Afryką, Czas na Herbatę
Fair Trade products	Sklepy Świata, Szczypta Świata
Sports nutrition	Herbalife, SFD
Traditional and local food	Krakowski Kredens, Wyroby regionalne

Source: authors' own study.

Some mass merchandisers have also started to target these market niches by offering local, ecological and Fair Trade product, often displayed on special shelves (Stefańska 2014). Most of them are own brand products. The diversified portfolio of own brand products of food retailers in Poland shows that they try to reach different market segments, not only price conscious customers. This demonstrates their repositioning and draws buyers' attention to other values important to the retailer, around which it builds competitive advantage. It can rely on offering products in a wider range than competitors in this category or improving the price-value relations for the customer. A good example of repositioning strategies are given inter alia by Tesco and Lidl chains. It was reflected in the marketing slogans: the general trend which was visible in the mid -nineties to stress the low price (the examples are "everything and cheap – Tesco" or "Lidl is cheap"), due to the growing consumer expectations towards product quality has been changed and now the main Tesco slogan is "Everything for family" whereas Lidl is claiming that it "values quality".

The other trend which could be identified is to use the ethnocentrism of Polish consumers towards the food in the positioning strategies of retailers. It comes from the fact that many Poles are convinced that local food is more tasty and healthy (Bilińska-Reformat, 2014; Bilińska-Reformat & Dewalska-Opitek, 2014).

What is a little bit strange is that the positioning of discount stores as the cheapest, which had been characteristics for that format for many years and became the source of its success, has changed. Discount chains which operate in Poland do not want their stores to be perceived as stores for poor consumers (Kucharska, 2016, p. 40). For example, in Lidl retail chain, it is reflected in a great variety of fresh products, including organic products, offering well-known brands like Wittchen, high quality world wines and good quality own brand products from Polish producers. Contribution to the positioning on quality and value is made by the stores' arrangement, services, and high expenses on promotion.

A good example of how hypermarket chains have developed their positioning strategies is provided by Carrefour. Carrefour entered Poland in 1997 by opening its first hypermarket in Łódź (www.Carrefour.pl 2016a). It took place three years after the first hypermarket – Hit had appeared on the Polish market. Due to the fact that the Polish market was not saturated by mass merchandisers, and was characterised by very favourable law, as well as consumers' acceptance of big stores, the number of hypermarkets was growing very fast until 2002. In that year the first signs of stagnation were noticed (Figure 2).

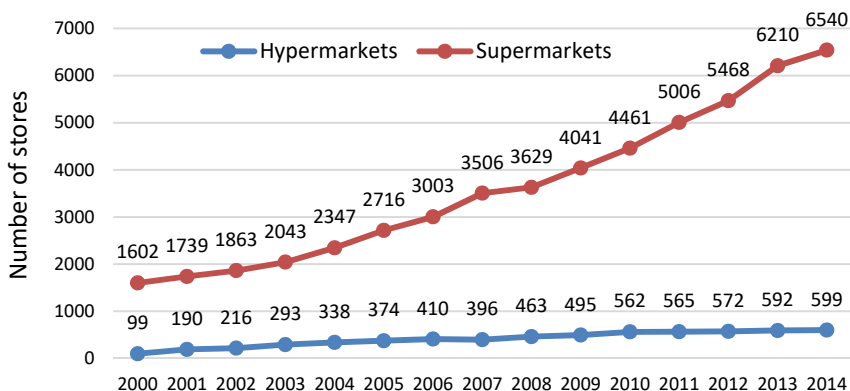


Figure 2. The number of hypermarkets and supermarkets in Poland in 2000-2014

Source: Stefańska & Pilarczyk 2010; Rynek wewnętrzny w Polsce w 2012, Rynek wewnętrzny w Polsce w 2014; own study – counting the number of hypermarkets in every chain, based on companies web sites.

Carrefour's strategy reflected its main business model which along with prices stresses good quality of products. It was communicated to customers by introducing the Quality Carrefour brand in 1998. At the beginning of the twenty-first century it had to respond to the environmental changes which involved inter alia:

- restrictions to opening hypermarkets,
- growing competition from other hypermarket chains, e.g. Tesco, Auchan or Kaufland,
- consumer preferences for a smaller format,
- development of shopping malls also in smaller cities.

The company reacted to them by introducing supermarket chains – Champion and Globi, convenience stores and shopping malls. Since 2007 it has also been developing franchising – a model of cooperation which is growing very fast on the Polish FMCG market. As a consequence, it has become a multi-format retailer operating by selling food in: Carrefour hypermarkets, in supermarkets – Carrefour Market, as well as Express Convenience, Express Minimarket, and Globi (the last three chains are franchise systems). The development of franchise formats, which are smaller and compete on convenience, is the response to the shortage of time characteristic for contemporary consumers, which means that they do not want to spend much time shopping. But it is interesting to notice that each of them has a specific market segment – Globi for instance is located in residential complexes, whereas the others are located in the city centres and position themselves by the assortment and the opening hours.

The contemporary business model implemented by Carrefour in Poland is communicated to consumers inter alia by the assortment policy in which own brands are stressed. They are positioned as “value for money” in six assortment groups and as premium: Reflects de France, NASZA WĘDZARNIA (OUR SMOKEHOUSE), Quality and TERRE D’ITALIA (Marka Carrefour 2016b). Carrefour also includes eco, bio products and products for diabetics in its offer (www.portalspozywczy.pl 2016). On special shelves up to 700 “healthy” products could be displayed. Their sales is supported by the campaign “From the love to be healthy”, whose idea is to promote healthy lifestyle. Carrefour not only

applies the segmentation strategy based on assortment. The company also creates an overall offer for special target groups (for example, programmes for the retired (seniors) or special offers for big families – Carrefour accepts so called Card of Big Families.

To sum up, in the last decades Carrefour has had to change its way of doing business – from one mass merchandiser model to a few diversified models. It has resulted in the necessity to integrate the positioning concept by using the retailing mix on the level of stores for some concepts, and, at the same time, developing new formats of stores and positioning them to fit to the expectations of different market segments.

This research is thought to initiate a discussion about considering new formats and new business models as the marketing innovation which could position the retailer successfully on a given market. In theory, publications on these two topics are separated, perhaps because introducing innovations is still related to the activity of an entrepreneur (Anitsal & Anitsal, 2011). In some cases it is true when there is a new activity on the market introduced by an entrepreneur using marketing intuitively. If it is the marketing activity of retail chains, the question is which marketing tools are used to search the market and how far this search goes or perhaps the retailers just transfer the format and try to create the demand for it. To answer this questions a lot of research is needed, especially focused on the strategies of multinational retailers.

As far as the Polish food market is concerned, this research is also of preliminary character, just to provide the general idea of the scope of the problem of changing positioning by retailers. Further research on introducing new retail formats, business models, the development of a new market segment and attributes used in the positioning strategies is necessary to reflect the clear picture of it.

Hant and Pall (2009) in the paper ask the question “if retailing is really unique” and argue that it is not and that the existing management theories could be applied to analyse the retail internationalisation. In the Authors’ opinion retailing is somehow different and these differences should be taken into account. As it has been discussed in this paper, retailers could position themselves also by introducing new retail formats and new business model and in this way differentiate from competitors, and at the same time leaving their positioning slogan unchanged.

This concept is crucial because the role of positioning is to develop the retailer’s image, which is the key asset of service companies in the contemporary economy but which has not been discussed here.

CONCLUSIONS

Competition on the food retail market is very intense: food is offered by small neighbourhood stores, convenience stores, hypermarkets, supermarkets, discount stores; food can be also purchased from vending machines, via the Internet – from online stores and even direct sales companies. In retailing one of the ways to differentiate successfully from competitors is to introduce a new retail format, targeting the market segment (niche) which is not satisfactorily serviced by competitors and which is big enough to be profitable. In the literature it is not called positioning although it has all characteristics which qualify it into this category – a new market segment, a different marketing mix, and so on. Perhaps it is because sometimes these new formats are not introduced by marketing specialists but by entrepreneurs identifying new opportunities to develop, as it was in the case of the first retail structural

innovations: convenience stores, supermarkets, discount stores, hypermarkets, and as it is happening now in emerging markets, where local players successfully differentiate from big international chains. But anyway, to be successful the right combination of marketing tools is necessary. They should be used for the positioning of own brands, stores, formats, business models to develop a desirable image of the retailer. The communication process is crucial for the successful positioning but these concepts are not synonymous.

It should be noticed that although positioning is considered a strategic marketing tool which differentiates the retailer from its competitor, successful retail formats could be very easily imitated by the competitors so retailers must always look for new ways of differentiation, which leads to repositioning.

One of important trends which has been noticed is that food retailers gradually withdraw from the positioning on price to the positioning on other attributes, such as product quality, and even mass merchandisers include products targeting different market segments in their offer (organic, local, Fair Trade products, nutrition, gluten free, sugar free, and so on). In this way they change their positioning from mass retailers to segmenters. They not only satisfy the customers' needs but they also create them by their offer, as well as promotional activities. Promotional tools used by retailers, besides general marketing tools, also involve merchandising.

Changes which are taking place in retailing indicate the trend to trading up. In Poland many retailers build a message around the same content – high quality, Polish food and so on. It raises the question if such positioning is justified by the growth of income of Polish society. It seems that no one is interested in exempting “mental space” in the form of a hard discount store. This raises some opportunities for new players, who might target customers particularly sensitive to the price level and differentiate by offering really cheap products, as, for example, first discount stores in the 1960s. Their success will depend on some internal factors, such as marketing capabilities, to convince consumers to their offer, as well as external factors – the demand for products and the power of the competitors.

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Internationalisation and Innovation Intensities of Polish Manufacturing Firms: A Close Nexus?

Tomasz Brodzicki

ABSTRACT

Objective: The paper aims at the empirical identification of the nexus between innovation and internationalisation intensities in a sample of Polish manufacturing companies.

Research Design & Methods: Using a unique dataset combining micro-level financial data from InfoCredit and results from an extensive survey we follow the approach of Altomonte, Aquilante, Ottaviano & Bekes (2013). We define innovation and internationalisation intensities and analyse the two dimensions disjointly and then simultaneously use formal econometric tools.

Findings: Both dimensions are closely and robustly correlated. There is some evidence for the causality going from innovation to internationalisation. Polish manufacturing companies have in general low innovation and internationalisation intensity. Rising innovation intensity allows companies to become more internationalised and in particular, it raises their probability of exporting. Mean characteristics of firms, such as employment, sales or productivity, change along the two examined dimensions.

Implications & Recommendations: Our results firmly support the postulates of the heterogeneous firms' trade theory. The results strongly support the introduction of a new type of economic policy in which internationalisation promotion and innovation promotion are simultaneously targeted at the level of a firm.

Contribution & Value Added: We extensively analyse innovation and internationalisation intensities for manufacturing firms from Poland. Using a logit model we show their impact on the likelihood of exporting. We furthermore apply the classification of exporting firms along temporal and geographical dimensions identifying main features and links to the key dimensions.

Article type: research paper

Keywords: innovation intensity; Internationalisation intensity; firms heterogeneity; logit model; Poland

JEL codes: F14, O31, C21, C26

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INTRODUCTION

For many years economic theory assumed for the sake of simplicity that firms are symmetric or homogeneous. This assumption was also present in a key monopolistic competition model of Dixit and Stiglitz (1977) which laid the foundation for the new trade theory of Krugman and others (Krugman 1979, 1980). In a seminal paper, Nelson (1991) wrote that economic science had to recognise firms' differences explicitly to be closer to business management and strategy, in the case of which "firm differences are at the heart of their inquiry." It was only fully acknowledged with the rise of the new trade theory (Melitz, 2003) under the pressure of surmounting micro-level evidence.

Firms differ in many dimensions, including their innovation potential and actual innovation performance. A critical review of theoretical economic and business management literature proves that innovation boosts firm's performance and competitiveness. The empirical results are, however, rather inconclusive. Most studies find individual returns to innovation to be significant and positive (Adams and Jaffe 1996). Some, on the contrary, find them to be insignificant or even negative. Numerous studies find evidence of a positive and robust correlation between firm's productivity, innovation, and internationalisation. Nonetheless, the direction of causality between them is still being discussed or questioned (Cieřlik, Michałek & Michałek, 2012).

The paper aims at the empirical identification of the nexus between the intensity of innovation and the intensity of internationalisation in a cross-sectional sample of Polish manufacturing companies. In the analysis, we utilise a unique firm-level financial dataset collected by InfoCredit and augmented with the results of an extensive qualitative survey. To some extent, we follow Altomonte *et al.* (2013) to obtain comparable and unbiased results.

The remainder of the paper is structured as follows. Section 2 reviews theoretical and empirical literature. Section 3 describes materials and methods and in particular, the survey and financial data utilised and provides definitions of innovation and internationalisation intensities. Section 4 presents results and discusses them. In particular, it analyses innovation and internationalisation intensities separately and then jointly and shows changing firm characteristics along the two dimensions. In the next step, it analyses the nexus between innovation and internationalisation with formal econometric methods, and finally, identifies the impact of innovation and internationalisation intensities on the likelihood of exporting by Polish manufacturing companies. The last section concludes.

LITERATURE REVIEW

The theory points to a positive relationship between innovation and internationalisation intensity. Technology-based models of international trade, such as a technology gap model of Posner (1961) or the product life-cycle model of Vernon (1966) postulate that at the firm-level that innovation is a key driver of exporting. The concepts were further developed by Krugman (1979, 1980), Dollar (1986), Jensen and Thurby (1987) or Segerstrom, Anant and Dinopoulos (1990). Melitz (2003), as it has been mentioned already, extended the analysis by incorporating productivity heterogeneity at the firm level giving rise to heterogeneous firms theory (HFT) that dominated the theoretical work in the last decade.

The international business literature postulates that export behaviour depends on structural firm's characteristics, managerial and organisational factors, as well as incentives and disincentives to the internationalisation process (Leonidou, 1998). The resource-based view of a firm explains some of the principal causes of the observed firm heterogeneity (Barney, 1991; Hitt, Bierman, Shimizu, & Kochhar, 2001). Last but not least, the innovation management literature postulates that innovative firms enter foreign markets to increase their total sales and thus decrease the average costs of innovation (Tidd & Bessant, 2009). Furthermore, Wach (2015) discusses from the theoretical perspective the key role of innovation as an element of general entrepreneurial orientation and its impact on the internationalisation process of SMEs.

In the empirical literature, the linkages between internationalisation and innovation, previously analysed at the macro or meso level, are nowadays being investigated at firm-level with the growing body of evidence being accumulated (Bernard & Jensen, 1999, 2004). Most studies find evidence of the so-called self-selection mechanism with a gain in productivity preceding entry into foreign markets (Bernard & Jensen, 1999, Bernard, Jensen, & Schott, 2006).

Innovation is one of the most important determinants of the likelihood of exporting, as well as of export intensity at the firm level. Evidence for the statement was provided, among others, Hirsch and Bijaoui (1985), Entorf, Krader, and Pohlmeier (1988), Kumar and Siddhrthan (1994), Wakelin (1998), Sterlacchini (1999), Basile (2001), Roper and Love (2002) or Caldera (2010). Most studies point to the actual causation going from innovation to exports (e.g. Cassiman & Golovko, 2011; Becker & Egger, 2013) and only a limited number of studies identifies the positive causation (e.g. Salomon & Shaver 2005; Lileeva & Trefler, 2010; Bratti & Felice, 2012). In an interesting study, Aristei, Castellani and Franco (2013) indicate that prior imports increase the likelihood of exports through its positive impact both on firm's productivity and product innovations. There is also evidence for firms taking decision simultaneously on innovation and export market participation (e.g. Trefler, 2004; Aw, Roberts, & Winston, 2007).

In a panel of European manufacturing companies (the FIGE dataset), Altomonte, Aquilante, Bekes and Ottaviano (2013) indicate to a positive, broad, strong and robust relationship between the extent of internationalisation, productivity and innovation activities at firm-level. Their extensive econometric analysis points to a causality going from innovation intensity to internationalisation intensity. The study will be treated as a benchmark for our analysis.

The marginal benefit of contemporaneous exporting and innovating increases with productivity (Aw, Roberts, & Xu, 2011). Cassiman and Golovko (2011) show in a panel of Spanish firms that product innovation can lead to a decision to start exporting, an effect of which is further augmented by a reported indirect impact of innovation on productivity. The significant role of product innovations is also reported by Nassimbeni (2001) and Cassiman, Golovko and Martinez-Ros (2010).

Garcia-Quevedo, Pellegrino and Vivarellic (2014) demonstrate that innovation behaviour changes with firm's age. Younger firms' innovation conduct is to a large extent unpredictable, less persistent and driven mostly by demand-pull variables. Older companies' innovation activity is more persistent and driven primarily by technological and market determinants. Therefore, firm age has to be taken into account in the analysis alongside firm's size and productivity.

Wakelin (1998) shows that the determinants of internationalisation behaviour vary between innovators and non-innovators in a panel of the UK firms and the capacity to innovate changes their conduct. Basile (2001), in turn, finds in a panel of Italian manufacturing companies that innovation capabilities to a large extent explain observed heterogeneity in export behaviour. The export intensity of innovating firms is identified as systematically higher than that of non-innovators.

Additionally, Castellani and Zanfei (2007) show that Italian firms more engaged in international activities exhibit contemporaneously superior economic and innovative performance. Active FDI markers are identified to have the highest productivity premia, the highest R&D intensity, as well as better innovation performance. It is true that more productive firms self-select into international markets, but at the same time, their commitment to foreign markets is found to increase both firms' productivity and propensity to innovate.

Van Beveren and Vandebussche (2010) show in a sample of Belgian firms that enterprises innovate in anticipation of entry into export markets. Monreal-Perez, Aragon-Sanchez and Sanchez-Marin (2012) tackling the problem of endogeneity and controlling for firm productivity in a panel of Spanish manufacturing companies indicate that innovation induces firms to increase their export. They find, however, no support for learning-by-exporting onto product or process innovations.

Kafouros, Buckley, Sharp and Wang (2008) argue that not all firms can reap the rewards from innovation. The ability is reported to be restricted only to companies with a sufficient degree of internationalisation to reap benefits from innovation in many markets simultaneously. They furthermore provide evidence for internationalisation to enhance a business's capacity to improve performance through innovation.

In contrast to many mentioned studies, Damijan, Kostevc and Polanec (2010) exploring the causal links between innovation, productivity and export activities of Slovenian firms, find no evidence for product or process innovations increasing the probability of becoming a first-time exporter. Past exporting, however, enhances the likelihood of a medium or large company becoming a process innovator with no similar impact on product innovation. The result could be at least partially attributed to specific features of that Balkan small-open economy.

Some evidence on the nexus has also been provided for Poland. Hegemajer and Kolasa (2011) study the effects of internationalisation on the economic performance of Polish companies, distinguishing between three modes of outward orientation: FDI, exporting and importing of capital goods. Internationalised firms are found to be superior regarding their size, productivity and productivity growth, capital intensity and wages. Cieřlik *et al.* (2014) confirm the significance of firm characteristics for export performance for Central and Eastern European companies.

Cieřlik, Michałek and Szczygielski (2016) analyse the relationship between various types of innovations and export performance in a panel of Polish firms in a relatively short period, 2008-2010. They control for human and physical capital endowment, firm size (employment size groups), the level of technological sophistication of a sector, as well as the presence of foreign capital, but are unable to control for the level of productivity. The likelihood of exporting is positively related to both product and process innovations, firm's size, human capital endowment measured by the share of university graduates in employment and foreign capital participation in the case of exporters. Also, the study by Brodzicki

and Ciołek (2016) identifies the positive impact of innovation on the likelihood of Polish manufacturing companies to export after controlling for firm productivity.

MATERIAL AND METHODS

As the access to micro-level data for Polish enterprises is restricted, we conducted a survey within the research project described in acknowledgments on a sample of exporting and non-exporting enterprises, merging it with financial data provided by Info-Credit (information on databases is available at: <http://www.infocredit.pl/en/about-company/about-us.html>) – a provider of data to the pan-European Amadeus database. The database includes detailed micro data on 125 000 enterprises from Poland.

The following selection criteria were applied:

- an enterprise has a complete five year period of data availability,
- total sales per enterprise exceed 2m PLN (roughly 500k EUR) each year,
- exports exceed 1 million PLN each year (or approx. 250k EUR).

The use of the above criteria gave a database of approx. 7000 relatively large and mature enterprises, from which randomly selected ones were surveyed. 709 enterprises were effectively questioned with a direct contact by a pollster. From the above database, a subset of manufacturing enterprises was chosen for further analysis in the present paper. It means that we deal with 536 firms out of which 374 are exporters and 162 are non-exporters. 5.72% of manufacturing companies were micro-sized (employment of 9 or less) and 46.15% had employment of below 50 (micro or small sized in terms of employment). Only 3.55% had employment above 500. The mean employment in our sample was 110 employees. At the same time, in order to obtain representative results, we calculated the shares of individual sectors in the population of all enterprises in Poland. These shares were used as weights in all calculations. Thanks to this, the results and findings can be interpreted not only as relevant for the selected group of enterprises, but also for the entire population of companies.

We have to note furthermore that our sample consists of rather large companies (the upper tail of distribution by firm size) which have at least 5-year continuity of financial reports (and thus have been active for at least five years).

We analyse internationalisation and innovation modes jointly and intensities rather than considering them separately. In their paper, Altomonte *et al.* (2013) define internationalisation intensity as a number of internationalisation modes in which a firm is active simultaneously, including the following: exporter, importer, outsourced or outsourcer status and FDI maker. The modes are non-exclusive, and thus internationalisation intensity ranges between 0 and 5.

Taking into account the nature of the survey and available data in contrast to the benchmark study we adopt to following elements into account, broadening the concept of internationalisation intensities:

- exports,
- imports,
- the presence of foreign capital,
- being a part of a multinational enterprise (corporation),

- close cooperation in sales on foreign markets,
- own sales abroad through own offices,
- exports constituting a significant share of company's sales,
- exporting on a permanent basis (not sporadically or ad hoc),
- FDI maker.

The modes considered are non-exclusive, and internationalisation extent ranges between 0 and 9.

Innovation extent is defined in the present article as the number of different innovation modes in which a particular company is simultaneously involved. We take into account the following innovation inputs and output measures:

- the introduction of new products (radical innovations),
- the introduction of improvements in existing products (incremental innovations),
- the introduction of new or improved production process (process innovations),
- the introduction of new or enhanced organisation (organisational innovations),
- the functioning of R&D unit (in-house R&D),
- acquisition of R&D from outside of the company (external R&D),
- patents and patent applications,
- acquisition of licences,
- trademark applications.

Thus, our innovation extent, similarly to the internationalisation extent, ranges from 0 and 9. Out of 536 manufacturing companies, only 23 or 4.29% have zero internationalisation intensity, and 32 or 5.97% have zero innovation intensity. They could be judged as totally passive in both dimensions.

In the empirical part of the article, we utilise formal descriptive statistical tools as well as econometric modelling – cross-sectional regression estimated with (conditional) OLS (as well as MNL, OL, and IV models, not shown here due to the article length restrictions) and in addition a logit model for the likelihood of exporting. The methodology follows the benchmark of Altomonte et al. (2013) and is fully described in Brodzicki (2016).

RESULTS AND DISCUSSION

We begin with the analysis of internationalisation intensity of manufacturing firms in our sample. Surprisingly, only 4.3% of manufacturing companies in our sample are purely domestic (please refer to Tables 1 and 3). 95.7% are internationally active in at least one dimension or mode, and 79.3% has internationalisation intensity of two or more, and at the same time 11.0% of firms of five or more. The distribution of internationalisation intensity is clearly skewed to the right in accordance with our expectations, similarly to the distribution of productivity. To account for productivity differences as postulated by heterogeneous firm's theory, we calculated a number of productivity measures, including labour productivity (LP), capital productivity (CP), TFP or total productivity (TPROD). All kernel distribution estimates of productivity are skewed to the right. Very productive firms are rare, while companies with low productivity clearly dominate. In econometric modelling, both labour productivity and total

productivity will be utilised. Due to data availability and the complexity of the measure, the use of TFP would significantly reduce the number of observations considered.

69.8% of undertakings are exporters, while only 45.3% import (please refer to Table 1). 61.6% have a high export share in their total sales, while 43.8% export on a permanent basis (permanent exporters). 21.8% have foreign capital in their capital structure. 11.4% are part of a multinational enterprise. Only 9.5% are foreign direct investment makers, while only 4.5% cooperate in international sales with foreign subsidiaries or have established their sales offices abroad.

We now turn to the analysis of innovation intensity. Having adopted a very broad measure of innovation we see that 94% of manufacturing firms are active in innovation in at least one mode. However, the overall innovation intensity is low and clearly skewed to the right, similarly to the one observed for the internationalisation dimension. 46.1% of companies have innovation intensity of two or below, and only 12.7% have innovation intensity of five or more.

During the last three years, 28.9% of companies in our sample have introduced new products (please refer to Table 2). Incremental product innovations are more frequent in accordance with our expectations – they have been adopted in 2/3 of firms. These are followed by the process (36.6%) and organisational innovations (25.7%). Around ¼ of companies in our sample obtained trademarks and 1/5 patents or licenses. 15.1% of firms reports having an in-house R&D lab while 14% commission specialised R&D activity externally.

Table 1. Dimension of internationalisation (descriptive statistics)

Internationalisation dimension	# of firms	Frequency (%)
Exporters	374	69.8
Importers	243	45.3
Own sales offices	24	4.5
Int. cooper. sales	24	4.5
Foreign capital	117	21.8
MNE	61	11.4
FDI maker	51	9.5
Permanent exporter	235	43.8
Large export share	330	61.6
Total	536	100.0

Notes: Modes of internationalisation are non-mutually exclusive.

Source: own elaboration from the survey and InfoCredit databases.

Mean firms' characteristics change with rising internationalisation intensity. Internationally active firms differ significantly from purely domestic companies (please refer to Table 3). Domestic companies are smaller in terms of mean sales or employment. They are foremost less productive (both in terms of labour productivity and total productivity). They also have lower overall innovation intensity. Purely domestic firms are on average younger than internationalised firms.

We have to note that none of the manufacturing companies in our sample attained a score of seven or above out of the possible maximum of nine. In general, internationalisation intensity increases with firms' size and age as measured by employment. Mean sales are the highest for companies with moderate levels of internationalisation coupled with average sales per employee. Average labour productivity

and total productivity show a similar pattern. We thus have to control for this in the following econometric estimates. Average innovation intensity, on the other hand, increases steadily with rising internationalisation intensity, which is indicative of the nexus.

Table 2. Dimensions of innovation activities of firms (descriptive statistics)

Innovation dimensions	# of firms	Frequency (%)
New product	155	28.9
Product (incremental)	354	66.0
Process	196	36.6
Organisational	138	25.7
Own R&D unit	81	15.1
External R&D	75	14.0
Patents	107	20.0
Licenses	99	18.5
Trademarks	131	24.4
Total	536	100.0

Notes: Modes of internationalisation are non-mutually exclusive.

Source: own elaboration from the survey and InfoCredit databases.

Table 4 illustrates, in turn, the changing firms' mean characteristic with increasing innovation intensity. In contrast, the patterns are less sharp or well-defined. Nonetheless, some can be identified. Innovation intensity increases with the increasing employment of firms and sales (with some disturbance in the relation). Innovation intensity increases with mean firm age and productivity as measured by the mean of both log total productivity and log labour productivity. Mean internationalisation intensity increases with rising innovation intensity with one major exception – firms with the highest innovation intensity.

We now turn to a simultaneous analysis of internationalisation and innovation intensities. Table 5 and Figure 1 give the frequencies in our sample of manufacturing companies. It is evident that the number of firms with zero intensities is low. On the other hand, the number of companies with low innovation and internationalisation intensities is the highest. Furthermore, moving along the diagonal (i.e. increasing internationalisation and innovation simultaneously) leads to a drop in the frequencies of firms. There are no companies present at the other extreme which is similar to the pattern observed in the benchmark study by Altomonte *et al.* (2013).

From the above, we know that one of the aspects we should control for is firm's size. Therefore, taking into account mean employment levels, we calculated the share of companies in total employment in our sample along the two intensities under scrutiny in the present paper. The result is given in Figure 2. It is evident, in comparison to Figure 1, that the shares shift towards firms with higher innovation and/or internationalisation intensities but not to a significant extent. It is clearly in contrast with the results obtained by Altomonte *et al.* (2013). Poland clearly lacks large firms with high innovation and internationalisation intensity – with size significant enough to induce an upward shift in higher overall international competitive potential. It can be mostly attributed to merely a recent shift in systemic paradigm – economic transition only started 27 years ago and more time is simply required for enterprises of that kind to emerge in the volatile market economy.

Table 3. Internationalisation intensity and firm characteristics

Intensity	No of firms	%	Cumulated %	Avg. Sales (m PLN)	Avg. Sales per employee	Avg. Employ.	Mean Age	Avg. In (TPROD)	Avg. In(LP)	Avg. Innovation intensity
0	23	4.3	4.3	8.1	210.6	38.5	18.2	2.535	4.924	2.174
1	88	16.4	20.7	33.4	584.9	57.1	17.6	2.701	5.613	2.557
2	122	22.8	43.5	39.5	513.8	76.9	21.0	3.000	5.591	2.697
3	149	27.8	71.3	313.7	2139.2	146.6	23.5	2.846	5.717	2.752
4	95	17.7	89.0	121.1	599.1	202.2	18.6	2.665	5.715	2.895
5	52	9.7	98.7	97.8	564.3	173.3	20.5	2.691	5.592	3.173
6	7	1.3	100.0	70.8	291.8	242.7	12.6	2.751	5.483	3.714
7-9	:	:	:	:	:	:	:	:	:	:
Total	536	100.0	-	122.0	967.7	126.0	20.4	2.795	5.625	2.761

Notes: Modes of internationalisation are non-mutually exclusive.

Source: own elaboration from the survey and InfoCredit databases.

Table 4. Innovation Intensity and firm characteristics

Intensity	No of firms	%	Cumulated %	Avg. Sales (m PLN)	Avg. Sales per employee	Avg. Employ.	Mean Age	Avg. In (TPROD)	Avg. In(LP)	Avg. Intern. intensity
0	32	6.0	6.0	63.6	533.6	119.3	19.8	2.628	5.552	2.344
1	86	16.0	22.0	32.0	449.4	71.3	19.4	2.725	5.542	2.523
2	129	24.1	46.1	80.5	589.4	136.6	21.7	2.797	5.648	2.527
3	115	21.5	67.6	335.2	2339.7	143.3	17.2	2.815	5.670	2.922
4	106	19.8	87.4	85.9	644.8	133.2	20.6	2.841	5.693	2.811
5	46	8.6	95.9	70.5	511.8	137.7	21.2	2.796	5.349	3.043
6	17	3.2	99.1	62.9	660.5	95.2	29.8	3.035	5.981	3.412
7	5	0.9	100.0	146.3	608.1	240.7	38.8	2.678	5.745	2.200
8-9	:	:	:	:	:	:	:	:	:	:
Total	536	100.0	-	122.0	967.7	126.0	20.4	2.795	5.625	2.726

Notes: of innovation activity are non-mutually exclusive.

Source: own elaboration from the survey and InfoCredit databases.

Table 5. Internationalisation vs. innovation intensity (frequencies in the sample, %)

		Innovation intensity										Total
		0	1	2	3	4	5	6	7	8	9	
Internationalisation intensity	0	0.37	0.75	2.43	1.31	1.12	0.00	0.00	0.00	0.00	0.00	5.97
	1	1.31	2.80	3.54	4.85	1.87	1.49	0.19	0.00	0.00	0.00	16.04
	2	1.31	4.85	5.97	5.78	4.10	2.05	0.00	0.00	0.00	0.00	24.07
	3	0.37	3.54	3.36	7.28	4.29	2.24	0.37	0.00	0.00	0.00	21.46
	4	0.75	3.73	3.36	5.60	3.73	2.24	0.37	0.00	0.00	0.00	19.78
	5	0.00	0.56	2.80	2.05	2.24	0.75	0.19	0.00	0.00	0.00	8.58
	6	0.00	0.19	0.75	0.93	0.37	0.75	0.19	0.00	0.00	0.00	3.17
	7	0.19	0.00	0.56	0.00	0.00	0.19	0.00	0.00	0.00	0.00	0.93
	8	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	9	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		4.29	16.42	22.76	27.80	17.72	9.70	1.31	0.00	0.00	0.00	100.0

Source: own elaboration from the survey and InfoCredit databases.

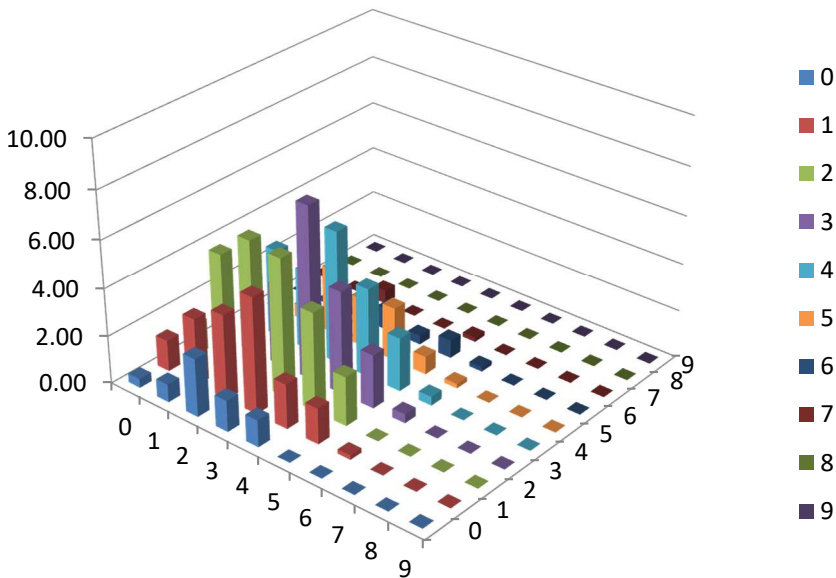


Figure 1. Internationalisation and innovation intensity (frequencies)

Source: own elaboration from the survey and InfoCredit databases.

Following Onkelinx and Sleuwaegen (2010) analysis for Belgian SMEs, we want to investigate the exporting manufacturing firms in our sample from one more point of view. We classify the firms according to the observed differences in international scope (geographical dimension – narrow or wide) and the timing of internationalisation (early or late), thus obtaining four distinct groups of exporters and showing their frequencies and their basic characteristics observed in our sample. We then report on their overall innovation and internationalisation intensity – the principal aim of the present paper. Having analysed the distribution of the commencement of export activity along temporal di-

mension (from the birth of the company) and the geographical scope of exports of the companies in our sample and noting that we are not dealing only with SMEs and the operation with the EU28 internal market, we have chosen the thresholds of five years since birth and ten export markets. We thus deal with born-globals (BG) companies which internationalised shortly after being set-up and at least to ten foreign markets. Born international firms (BI) start to export early but sales to fewer than ten foreign markets. Traditional internationalisers (TI) export to fewer than ten markets and start to export late (more than five years from the moment of setting up). Finally, born-again globals (BAG) export to 10 or more markets but started exporting late in their life-cycle. Similarly to Onkelinx and Sleuwaegen (2010), we did not find the results to be proportionally vulnerable to the choice of thresholds.

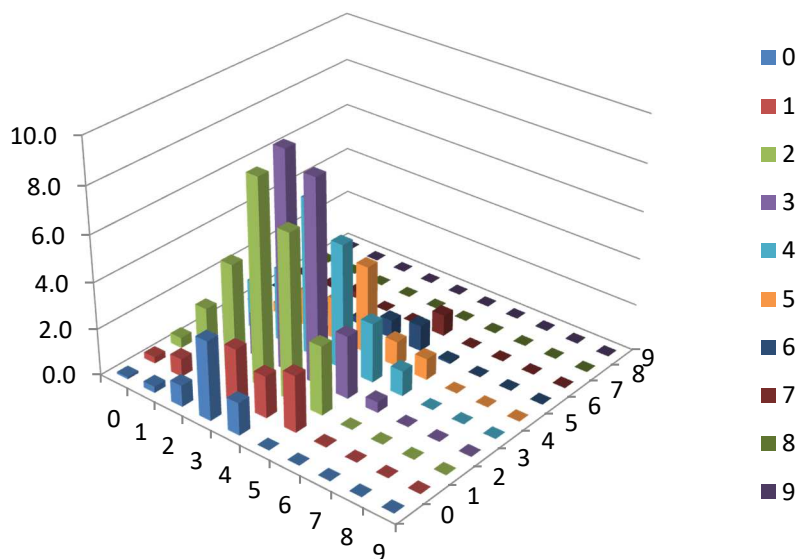


Figure 2. Internationalisation vs. innovation intensity (share in total employment)

Source: own elaboration from the survey and InfoCredit databases.

In our sample of manufacturing companies, 370 are exporters and can be thus classified along the analysed dimensions. Most of the companies in our sample entered the foreign markets late (54.3%) and 47.3% have a narrow scope (please refer to Table 6). Born internationals (31.4%) and born-again globals (38.4%) are the most frequent. Surprisingly, only 15.9% of firms are traditional internationalisers. Born global are rare (14.3%).

Born internationals and traditional internationalisers are on average the smallest regarding mean sales and employment. Born-again globals are the largest in terms of employment, while born global in terms of average sales. Born internationals are the youngest, while traditional internationalisers the oldest. Productivity-wise, as measured by total productivity, is the lowest for born internationals and the highest on average for born globals with born-again globals in the second place and traditional internationalisers not very far away. When

we measure it by labour productivity, traditional internationalisers are in the first instance followed by born globals. Born internationals are once again least productive.

Table 6. Internationalisation and innovation intensity in four types of manufacturing exporters

Type	Freq. %	Avg. Sales (M PLN)	Avg. Employ.	Mean Age	Avg. ln(TPROD)	Avg. ln(LP)	Avg. INTER	Avg. INNOV
TI	15.9	82.3	121.2	29.89	2.896	5.914	2.796	3.356
BAG	38.4	140.8	192.2	17.13	2.913	5.755	3.190	2.831
BI	31.4	75.8	138.9	15.65	2.701	5.446	3.422	2.810
BG	14.3	676.0	153.8	24.57	2.941	5.906	3.717	3.283

Source: own elaboration from the survey and InfoCredit databases.

When we turn to mean intensity of internationalisation it is the lowest, in accordance with our expectations, for traditional internationalisers (2.796) and born-again globals (3.422). It is the highest for born globals (3.717). Innovation-wise, born-again globals and born internationals have the lowest innovation intensity, while it is significantly higher for traditional internationalisers (3.356) and born globals (3.283).

Following Altomonte *et al.* (2013), we start the econometric analysis by estimating a set of simple regression models for our broadest sample with exporters and non-exporters included. Models O1, O2, O3 and O4 in Table 7 are estimations of the following equations using OLS, respectively:

$$INTER_i = \alpha_0 + \beta_1 INNOV_i + \varepsilon_i \quad (1)$$

$$INTER_i = \alpha_0 + \beta_1 INNOV_i + \vartheta_r + \gamma_e + \varepsilon_i \quad (2)$$

$$INTER_i = \alpha_0 + \beta_1 INNOV_i + \beta_2 \ln(TPROD)_i + \vartheta_r + \gamma_e + \varepsilon_i \quad (3)$$

$$INTER_i = \alpha_0 + \beta_1 INNOV_i + \beta_2 \ln(LP)_i + \vartheta_r + \gamma_e + \varepsilon_i \quad (4)$$

where:

$INTER_i$ - represents the internationalisation intensity of firm i ;

$INNOV_i$ - is the innovation intensity of firm i ;

β - is the coefficient of interest;

$\ln(TPROD)$ - is the natural logarithm of total productivity for firm i ;

$\ln(LP)$ - is the natural logarithm of labour productivity for the firm i ;

ϑ_r and γ_e - are regions and size effects; ε_i is the error term.

The regional effects reflect variation in regional innovation systems (at NUTS-2 level). Size effects are introduced by dummies for micro, small, medium and large enterprises based on their employment with thresholds at 10, 50, 250.

The results of estimation in Table 7 show that higher innovation intensity is strongly correlated with higher internationalisation intensity (O1). The relationship is statistically significant at 1% level. It holds even after control for region and sector fixed effects (O2), to account for immutable characteristics of firms which might induce both innovation and internationalisation. The relationship also holds after controlling for a firm-level total productivity (O3) or labour productivity (O4). However, the impact of total productivity on internationalisation intensity is positive but statistically insignificant. Overall, a unit increase in innovation intensity by a manufacturing firm in our sample is associated on average with an increase of around 0.12 in its internationalisation intensity.

ty. We have to note the low value of the coefficient of determination. However, the value of this indicator in micro-econometrics is usually very low. The model itself may be fairly correct, but the value of the coefficient of determination will be small – as (Wooldridge 2003; 41) puts it, *seemingly low R-squared does not necessarily mean that an OLS regression equation is useless*. The p-values of the Shapiro-Wilk W test obtained indicate that we cannot reject that residuals are normally distributed.

The further econometric analysis on the above result, with the use of MNL, OL and instrumental variables approaches where innovation intensity is estimated with appropriate exogenous instruments, not reported here due to text size limitations (but available upon request), proves the close nexus and provides some evidence for causality going from innovation to internationalisation. This is in line with most of the empirical studies and in contrast to Damijan, Kostevc, & Polanec (2010) who report learning by exporting – exporting inducing firms to innovate.

The full analysis devoted to all 709 enterprises in our sample, including service providers, and full and detailed description of the employed methodology is available in Brodzicki (2016).

Table 7. Internationalisation and innovation intensity for a sample of Polish manufacturing firms – OLS estimates

	O1	O2	O3	O4
INNOV	0.127 (0.038)***	0.114 (0.037)***	0.120 (0.038)***	0.128 (0.037)***
L_TPROD	–	–	0.029 (0.050)	–
L_LP	–	–	–	0.105 (0.046)**
Constant	2.373 (0.119)***	2.960 (0.751)***	2.824 (0.602)***	2.755 (0.778)***
Region	no	yes	Yes	yes
Size	no	yes	Yes	yes
R²	0.02	0.13	0.20	0.19
N	536	536	478	494
F	10.97	3.97	7.02	6.94

Estimated in STATA. Robust standard errors in parentheses *** p<0.01. ** p<0.05. * p<0.1.

Source: own elaboration from the survey and InfoCredit databases.

The estimation results of a logit model for the probability of exporting are presented in Table 8. We would like to analyse the impact of both internationalisation and innovation intensity on the likelihood of exporting. The dependent variable is binary with one representing success – exports, and zero representing failure – lack of exports (a non-exporter status of a given manufacturing company).

The base model, not taking innovation-related aspects into account, is estimated in the specification L1. Higher productivity (L_TPROD), as expected, has a positive impact on the likelihood of exporting. We also control for other standard features, such as firm size (measured by the log of employment, L_EMPLOY), firm age (FIRM AGE) and other aspects of greater internationalisation, such as importer status (IMPORTER), the presence of foreign capital (FOR.CAPITAL) or foreign capital investments carried out by the company itself (FDI). The coefficients on the base variables are statistically significant. Of

these, the odds ratio are highest for FDI and imports. The likelihood of exporting increases with firm size, age, as well as firm-productivity (in line with Melitz 2003 theoretical predictions and results of other empirical studies e.g. Bernard & Jensen 1999, Bernard, Jensen, & Schott 2006). Even if, as in L2, we replace log of total productivity with a log of labour productivity (L_LP), the results hold and are very close to base specification L1. The use of the log of firm-level TFP would not change the results, either.

In standard econometric modelling goodness of fit is evaluated using the coefficient of determination. For the logit model, McFadden pseudo-R2 measure is typically calculated (McFadden 1974) comparing the estimates of the full model with its reduced form. In addition, in order to assess predictive power of the models we report Akaike information criterion (AIC) and an AUC measure (Area Under the Curve) or the area under the ROC curve (Receiver Operating Characteristic), which is a measure of the ability to distinguish between firms failing to meet the specified set of criteria.

In the next step, we augment the logit analysis by introducing the concepts of innovation and internationalisation intensities defined in the methodological section of the paper. The scope of internationalisation is modified by excluding export-related aspects for obvious reasons (we thus introduce INTER_MOD with variability from 0 to 5). As it can be seen in the Table, innovation intensity has a clearly positive impact on the likelihood of exporting by a manufacturing firm whether we control for total productivity (L3) or labour productivity (L4). It is in line with studies like Monreal-Perez, Aragon-Sanchez and Sanchez-Marin (2012) or Van Beveren and Vandebussche (2010).

If, as in (L5) and (L6), we control simultaneously for the impact of both innovation and internationalisation intensities, after adjusting the base specification accordingly, it is positive and statistically significant. The impact of internationalisation intensity is, however, significantly larger. Nonetheless, a unit increase in innovation intensity by a manufacturing company raises the likelihood of exporting by approx. 37%.

In the last two specifications (L7) and (L8), we control for potential regional variation in innovation systems (Cooke 2002) by adding regional dummies for NUTS 2 voivodeships. It increases the magnitude of the impact of both key variables on the likelihood of exporting. The odds ratio increases to 1.47 and 2.05 respectively. The regional effects are positive, strong and robust in particular for dolnośląskie, śląskie, and wielkopolskie (not reported in Table 8).

CONCLUSIONS

The paper aimed at the empirical identification of the nexus between the intensity of innovation and the intensity of internationalisation in a sample of Polish manufacturing companies. Using a unique dataset combining micro-level financial data from InfoCredit and results from an extensive survey we were able to reach this goal using descriptive statistics and econometric tools.

We firstly defined the internationalisation and innovation intensities and then analysed firms' mean features along the two examined dimensions disjointly and then concurrently. In addition, we analysed it using the classification of exporters only from Onkelinx and Sleuwaegen (2010) by geographic scope of exports and the moment of commencement of exports in the life-cycle of a firm.

There is a great deal of heterogeneity in the extent of firms' simultaneous involvement in internationalisation and innovation. Most of the Polish manufacturing companies have unfortunately both low innovation and internationalisation intensity. Companies with high intensities are rare. The joint distribution along two explored dimensions shows an expected pyramidal structure with the peak at low levels of internationalisation and innovation. At the same time, mean characteristics of firms, such as employment, sales or foremost productivity, changes along two scrutinised dimensions. Furthermore, internationalisation and innovation dimensions are closely correlated. There is some evidence for the causality going from innovation to internationalisation. Rising innovation intensity allows companies to become more internationalised and in particular significantly raises their likelihood of exporting. The overall intensity of internationalisation is the lowest for traditional internationalisers and born-again global firms. It is the highest for born globals – the rarest of firms. In terms of innovation intensity, born-again globals, and born internationals have the lowest intensity, while it is significantly higher for traditionally internationalised companies and born globals.

We contribute to the body of literature mainly by using a novel methodology in terms of providing extended definitions of innovation and internationalisation intensities (extending the concept of Altamonte *et al.* 2013), using a number of statistical and econometric methods to analyse a cross-sectional dataset and finally by conducting the in-depth analysis for an interesting case study of economy at the advanced stage of economic transition – namely, Poland. From the Polish perspective, it is one of the first studies of this kind analysing the nexus between internationalisation and innovation at the level of individual firms. using the unique firm level combination of quantitative financial data and qualitative survey data gathered in direct interviews with managers of firms.

Our results firmly support the postulates of the new new trade theory of Melitz (2003) and are to a large extent in line with the outcomes of the benchmark study by Altomonte *et al.* (2013). With the confirmation of heterogeneous firms trade theory, we should expect its closer cross-fertilisation with the literature on international entrepreneurship and innovation which could advance all three theoretical and empirical literature strands.

The results, moreover, strongly support the introduction of a new type of economic policy in which internationalisation promotion and innovation promotion would be simultaneously targeted at the level of a firm in order to efficiently increase the competitive potential of an economy. For the time being, export promotion policies and innovation policies usually target two separate sets of companies. In contrast to Cieřlik *et al.* (2016), we would not limit the policy to stimulating only product and process innovations. The share of firms introducing innovations and internationalized (exporting, offshoring or active FDI-makers) in the population of firms should be efficiently increased in order to boost the overall competitiveness of the Polish economy and secondly export value per exporting firm should be raised as well.

At the same time, at the level of a firm, innovation strategy should be an integral part of a corporate strategy and the complex nexus between the two should be particularly addressed in the process of internationalisation of business activities (Wach, 2015).

Despite the promising results obtained, many issues still remain open. The major limitation of the analysis is obviously the cross-sectional nature of the dataset utilised. Panel dataset would be preferred, however, the qualitative survey was conducted only

once. The issue of potential endogeneity was addressed to some extent, however, the analysis should be performed preferably on a panel of firms observed at regular intervals over their lifetime in order to fully and extensively verify the causalities between variables. We also expect the impact of innovation to change over time from the moment of introduction – the use of lags in the panel setting should allow us to discriminate between short-run and long-run effects. In future studies, it would be desirable to use extended samples of firms over elongated periods for other case countries to test the robustness of the results and thus to draw universal conclusions.

Table 8. The impact of innovation and internationalisation intensities on the probability of manufacturing firm's exports – logit analysis

	(L1)	(L2)	(L3)	(L4)	(L5)	(L6)	(L7)	(L8)
L_TPROD	0.402*** (0.134)	–	0.379*** (0.132)	–	0.425*** (0.131)	–	0.478*** (0.134)	–
L_LP	–	0.406*** (0.109)	–	0.393*** (0.113)	–	0.419*** (0.107)	–	0.424*** (0.118)
L_EMPLOY	1.027 *** (0.153)	1.039*** (0.148)	0.972*** (0.152)	0.992*** (0.149)	0.994*** (0.140)	1.025*** (0.138)	1.071*** (0.154)	1.070*** (0.155)
IMPORTS	1.187*** (0.267)	1.244*** (0.262)	1.184*** (0.271)	1.228*** (0.266)	–	–	–	–
FOR.CAPITAL	0.024*** (0.006)	0.023*** (0.006)	0.023*** (0.007)	0.022*** (0.006)	–	–	–	–
FDI	3.656*** (0.903)	3.547*** (0.896)	3.536*** (0.948)	3.454*** (0.946)	–	–	–	–
FIRM AGE	0.042** (0.017)	0.038*** (0.015)	0.038*** (0.017)	0.034*** (0.015)	0.039** (0.020)	0.035** (0.017)	0.044** (0.022)	0.036** (0.017)
INNOV	–	–	0.255*** (0.086)	0.255*** (0.085)	0.318*** (0.086)	0.319*** (0.084)	0.387*** (0.094)	0.392*** (0.092)
INTERN.MOD	–	–	–	–	0.655*** (0.119)	0.668*** (0.123)	0.695*** (0.128)	0.718*** (0.131)
Constant	-6.036*** (0.876)	-7.108*** (1.037)	-6.341*** (0.882)	-7.421 (1.050)	-7.029*** (0.906)	-8.217*** (1.033)	-8.539*** (1.163)	-9.278*** (1.278)
Region dummies	no	no	no	no	no	no	yes	yes
No of Observations	476	492	476	492	476	492	476	492
Pseudo R2	0.3371	0.3319	0.3521	0.3471	0.2847	0.2851	0.3355	0.3305
AIC	403.02	417.16	396.22	409.99	431.77	443.41	431.96	446.02
AUC	0.8691	0.8672	0.8764	0.8734	0.8451	0.8433	0.8697	0.8655

Estimated in STATA 12. Robust standard errors in parentheses *** p<0.01. ** p<0.05. * p<0.1. - : variable not taken into account in a given specification. AIC - Akaike information criterion. AUC - the Area Under a ROC Curve.

Source: own elaboration from survey and InfoCredit databases.

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Becoming Spatially Embedded: Findings from a Study on Rural Immigrant Entrepreneurship in Norway

Mai Camilla Munkejord

ABSTRACT

Objective: The purpose of this article is to offer a nuanced understanding of (immigrant) entrepreneurship as a socio-economic and spatially embedded practice by analysing data from a qualitative study in Finnmark, in northernmost Norway.

Research Design & Methods: The article is based on a qualitative fieldwork including business visits and in-depth interviews. The transcripts from the interviews were analysed using a constructivist grounded theory approach (CGT).

Findings: The article contributes to the entrepreneurship literature in general and to the immigrant entrepreneurship literature in particular by investigating mutual connections between immigrant entrepreneurs, place and community. The article firstly reveals that immigrants may be able to successfully create and exploit entrepreneurial opportunities literally from day one in the rural community in which they settle.

Implications & Recommendations: This study notes that immigrant entrepreneurs may contribute to building the periphery. Hence, developing our knowledge of how to increase the feeling of local belonging of immigrants may be important for many rural regions. This is because, rural immigrants not only represent a much needed inflow of younger people in a typically decreasing and ageing population, but also entail cultural variation and job creation, thus contributing to place development.

Contribution & Value Added: The originality of this article is to investigate mutual connections between immigrant entrepreneurs, place and community, hence revealing how immigrants, when being supported by the rural community, may be able to successfully create and exploit entrepreneurial opportunities in rural communities, and, through entrepreneurship processes, may even contribute to (re)build the rural areas.

Article type: research paper

Keywords: immigrant entrepreneurship; local community; Northern Norway; rural context; spatial embeddedness

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A Glimpse Into the Field

Daniela¹ is a professional glass blower from Switzerland who runs *Arctic Glasstudio* in the small fishing village of Berlevåg, Finnmark. Since 1996, she and her employee(s) have produced and sold glass decoration articles of high artistic quality that are inspired by the landscapes and multicultural history of the rural north.

When I asked her why she established her workshop and store in this peripheral community, she immediately referred to the overwhelming response she received to her first small production of colourful glass balls for Christmas in 1989. At that time, Daniela and her husband Dieter had recently settled in Finnmark and were going through tough economic times. Daniela had not yet been granted a work permit, and the job Dieter had initially been offered upon their relocation in the north did not materialize due to a major fishery crisis that autumn (known as the “cod moratorium”). However, their economic troubles evaporated when Daniela decided to make glass balls for Christmas using some simple equipment she had brought when heading north:

Daniela: You know, I had brought some residual glass tubes from Switzerland, my table burner and blowtorch, so I just had to get hold of some propane and a bottle of oxygen, which I got from the hydraulics. Then, I organized a small glassblowing workshop in the kitchen, and I blew some glass balls in various colours. They became really popular!

Mai: How many did you make?

Daniela: I made a few hundred. They were sold at the local petrol station, and they just disappeared! And what was perhaps even more curious was that people sent them out to family and friends living elsewhere in the country with the greeting, ‘Look, this is *made in Berlevåg!*’

Mai: So people here were proud?

Daniela: Yes, they were proud! And this experience really started a good relationship with people in the community here.

Daniela explained that from day one in Berlevåg, she and her husband Dieter have experienced substantial support from people in the community for their various activities and engagements. As of the interview, Daniela ran the glass studio, and her husband Dieter ran the tourism office, the camping and the guesthouse in the locality. People in the community, Daniela explained, did ‘everything they could’ to make sure that she and Dieter felt at home and that they were included in various social gatherings. She said that everyone came to her store to buy things, adding, ‘I guess there is no community in the world with more glass decoration articles in the homes than here in Berlevåg!’

INTRODUCTION

This article investigates the significance of spatial embeddedness in entrepreneurship processes. Based on field visits and in-depth interviews with Daniela and 14 other immigrant entrepreneurs in the peripheral context of Finnmark, in northernmost Nor-

¹ The case about Daniela, Dieter, the camping and the glass studio is not anonymized according to their own preference. All the other cases are anonymized.

way, I analyse the mutual engagements between immigrant entrepreneurs, place and community. In fact, spatial embeddedness is increasingly recognized as an essential factor in understanding and explaining entrepreneurial processes (Anderson, 2000; Kalantaridis, 2006; McKeever, Jack, & Anderson, 2015; Riley, 2000; Welter, 2011). According to this perspective, entrepreneurs are embedded in places in ways that shape how they perceive and construct resources and opportunities.

In particular, (some of) the literature assumes that long-term residence in a certain place and deep social relations with the community might be key to entrepreneurial success (Dahl & Sorenson, 2007; Jack & Anderson, 2002; McKeever, Anderson, & Jack, 2014). Dahl and Sorenson (2007, p. 3), for instance, indicate that entrepreneurs 'have the greatest odds of success in their 'home' regions – those in which they have long histories and deep social connections.' McKeever, Anderson, & Jack (2014) support this perspective by arguing that close familiarity with local ways of doing business might facilitate entrepreneurial processes and strengthen outcomes, particularly in rural areas. This leads to the supposition that entrepreneurial opportunities are created and exploited more naturally or effectively 'by locals within the structure to which they belong than by outsiders or newcomers' (McKeever, Anderson, & Jack, 2014, p. 457).

These may be reasonable and well-founded assumptions. However, through the study of spatial embeddedness of entrepreneurial practices among immigrants in northernmost Norway, this article shows that connections among entrepreneurs, places and communities may be established in various ways. To investigate these issues, this article explores the following research question: How do immigrant entrepreneurs engage with place and community in a rural context? I draw on literature on community (Halfacree, 1995, 2004; Panelli, 2006) and embeddedness (Granovetter, 1985; McKeever, Jack & Anderson, 2015; Uzzi, 1997), and employ a qualitative approach that includes field visits and in-depth interviews with 15 purposefully selected participants living and operating in Finnmark, in northernmost Norway.

Immigrant entrepreneurship has been developed as a field of study over a long period of time (Aldrich & Waldinger, 1990; Dana, 2007; Jones, Ram, & Theodorakopoulos, 2010; Kloosterman & Rath, 2001; Morawska, 2004; Portes & Jensen, 1989; Portes & Zhou, 1996; Ram & Jones, 2008; Waldinger, 1994). However, we still know little about *rural* immigrant entrepreneurship, a few exceptions apart (Kalantaridis, 2010; Smart, 2003; Steinberg, *et al.*, 2010; Stone & Stubbs, 2007; Zarrugh, 2007). Moreover, Yeasmin (2016) has recently published a study on nascent, current and former immigrant entrepreneurs in Lapland, rural Finland. She argues that immigrant entrepreneurs in rural areas face multiple disadvantages, and she used a triple disadvantage theory to explain how, in her view, this is the case (Yeasmin, 2016). Hence, Yeasmin argues that a) immigrant (contrary to native) entrepreneurs in rural Finland are 'forced to establish businesses due to social barriers', b) immigrant (contrary to native) entrepreneurs in rural Finland are unable 'to take advantage of knowledge spillover' due to e.g. poor language skills and limited knowledge about the local culture and c) the rural region where the immigrants have settled represents a disadvantage because 'the market of ethnic consumers is small' there (Yeasmin, 2016, pp. 133-134). While Yeasmin's argument has some value, this article will reveal that the triple disadvantage perspective is not neces-

sarily valuable to make sense of the experiences of immigrant entrepreneurs in rural parts of the Nordic countries in general. I will come back to this issue in the conclusions.

This article advances our understanding of entrepreneurial embeddedness in several ways. First, it reveals that immigrants who barely know the local language may be able to successfully create and exploit entrepreneurial opportunities literally from day one in the rural community in which they settle. According to the immigrant entrepreneurs, the rural community itself plays a key role in this process. Upon their arrival, the nascent immigrant entrepreneurs are, of course, unfamiliar with local ways of doing business in the rural north, but they reported that their mishaps were forgiven, and that the local population sometimes even assisted them to successfully establish and develop their business. Second, and following the first point, spatial embeddedness through social relations is crucial to the entrepreneurial processes in the light of this study. However, in contrast to previous research, I show that social relations in a local community do not have to be long term or deep to act as a link to various local social resources. Instead, social ties may be established between persons in the local community and immigrants directly upon the newcomers' arrival. This may be even more pronounced in the case of remote and perhaps depleted communities in which in-migration in general and entrepreneurship in particular are desired. Third, this study indicates that rural immigrant entrepreneurs may be able to rebuild the rural areas. Thus, although long-term residence and deep social ties may strengthen the embedding processes of various entrepreneurs in local structures, they are not a precondition for identifying and exploiting entrepreneurial opportunities.

The remainder of this paper proceeds as follows. First, I present the relevant literature used in this paper. Next, I present the study's qualitative methodology, including data collection, analysis and the sample, as well as the choice of the geographical context. Thereafter, I present and analyse the findings before concluding and giving suggestions for future research.

LITERATURE REVIEW

Although entrepreneurship research has traditionally focused on the identification and exploitation of opportunities as an individualized and economic pursuit, an increasing body of literature investigates entrepreneurship as a socio-spatial process (Anderson, 2000; Brown, 2000; Jack & Anderson, 2002; McKeever, Jack & Anderson, 2015; Riley, 2000; Steyaert & Katz, 2004; Welter, 2011; White, 2004; Xheneti, Smallbone, & Welter, 2013). Hence, entrepreneurship is more and more viewed as a 'process contextually based in local communities' (McKeever, Anderson, & Jack, 2014, p. 455). Moreover, how women and men construct opportunities and whether and how they choose to act upon them are influenced by many factors, such as their background, identity, education, their social capital including access to various resources, and how they engage with the place(s) where they live (Storti, 2014).

Places are complex systems of materiality and sociality that offer certain possibilities and constraints (Berg & Dale, 2004; Massey, 1994). Place in this paper is hence conceptualized both as a geographical and material location *and* as social relations of women and men living there (Massey, 1994). Business location decisions may be influenced by belonging or attachment to place (Dahl & Sorenson, 2009; Stone & Stubbs, 2007). In this paper, social aspects of place and how immigrants relate to place, will be examined by focusing on the role of the local community. The rural sociologist Panelli emphasizes that 'as a mid-scale concept, community has been used to address the structural, relational

(and in some cases spatial) dimensions of a social grouping that is popularly and politically recognized between the family and regional or national groups' (Panelli 2006, 68). The local community is not a uniform or stable phenomenon (Liepins, 2000), but can be used as an analytical concept that draws attention to the situations and contexts in which enactment with people living in a certain locality are investigated.

In this article, I am particularly concerned with how immigrants engage with place and community in Finnmark through entrepreneurship and, in turn, how the community, according to the participants, engages with them. To address this issue, I employ the concept of embeddedness, which is increasingly used to refer to the manner in which economic practices – such as entrepreneurship – are contingent with respect to cognition, culture, social structure or institutions (Uzzi, 1997, p. 36). Embeddedness refers to the mechanism whereby an entrepreneur becomes part of local social structures (Jack & Anderson 2002; Granovetter, 1985; Kalantaridis & Bika, 2006). In particular, the term highlights the mutual process whereby an immigrant entrepreneur links into social relations and local structures in the rural community in which he/she has settled and the manner in which the community engages with or embraces the immigrant entrepreneur. Uzzi (1997, 37, referencing Romo and Schwartz 1995) argues that embedded actors in regional production 'shift their focus from the narrow economically rational goal of winning immediate gain (...) to cultivating long-term cooperative ties'. Moreover, Uzzi finds that embedded relationships have three main components that regulate the expectations and practices of the partners involved: trust, fine-grained information transfer and joint problem arrangements (Uzzi, 1997, 42-47): Trust requires that the entrepreneur is confident that the partner would not act solely out of self-interest and assumes the best when interpreting the partner's motives and practices. Likewise, fine-grained information transfer refers to the sharing of important information, such as strategy and tacit information about local ways of doing business. Joint problem arrangements involve mutual adjustments and assisting in finding a solution when a problem or challenge occurs.

Thus, the concept of embeddedness, as developed by Uzzi (1997) and others, is important because it provides knowledge about local values and enables the entrepreneur to identify and use local resources to create or exploit business opportunities. The concept emphasizes entrepreneurship as a social and spatial process and may explain how engagement with place and community can shape various perceptions and enactments of opportunities among differently situated entrepreneurs (McKeever, Jack & Anderson, 2015).

MATERIAL AND METHODS

A qualitative, interpretative approach was thought to be most appropriate for this study to provide a better understanding of various dimensions of the spatial embeddedness of entrepreneurship processes (Charmaz, 1995; Gartner, 2007). Narratives are frequently used within interpretative methodologies to explore how individuals comprehend their everyday life situations because telling their stories enables individuals to draw on memory and current experience and to bridge the past and the present (Cohen & Rapport, 1995). In the following, I will begin by presenting the context of this study before discussing the data collection methods, the sample and the analytical procedures.

The Peripheral / Rural Context of Finnmark

Finnmark offers an evocative locus for this study. Despite its vast area (48 637 square kilometres), only 75 000 people live in the Finnmark region, resulting in a population density of less than two persons per km². The region is located between 70 and 71 degrees north. The majority of people live along the coast in small towns and fishing villages. Fisheries have long played a crucial role in the region, along with small-scale peasant farming. Within the national context of Norway, Finnmark as the rest of northern Norway was long represented in public records as a 'suppressed and exploited backyard' and within a perspective of 'victimization and subordination' (Kraft, 2008, p. 222). More recently, however, other dimensions of the rural north have been highlighted. It is for instance argued that many places in Finnmark seem to have what she terms a coastal rural competence in coping with change, entailing a "particular sense of inclusiveness, open gendered spaces, and flexible place identities" (Munkejord, 2014, p. 38). Although Finnmark still relies on the primary sector and has a low population size and density, various changes are occurring in the region. First, transport improvements and communication technologies have reduced travel time and the sense of distance among the inhabitants in the region. Second, the area is undergoing a re-industrialisation process with the establishment of the petroleum industry in Hammerfest in 2002 and the re-establishment of the mining industry in Kirkenes in 2009. Hence, skilled employment has become increasingly important to both industrial mega-projects and to the public welfare sector. Third, after decades of decline, Finnmark's population has stabilized since 2007 and has even begun to show an upward trend. This growth is primarily due to national and international in-migration to the four largest towns in Finnmark. There are currently 6773 immigrants in Finnmark, originating from Russia, Finland, Poland, Lithuania and Sweden as well as Somalia, Thailand and other countries. Hence, the number of international in-migrants is increasing, as is the number of immigrant firms (Special Tables Statistics Norway). Whereas immigrants who arrive in the US, Canada, Australia or the UK can frequently choose to become part of large ethnic communities, this is not the case in the thin and scattered population of Finnmark as discussed in (Munkejord, 2015a).

Fieldwork in Finnmark

Fieldwork was conducted in Finnmark in 2012 and included business visits and semi-structured in-depth interviews with immigrant women and men who had started their own businesses and hence were self-employed. At the time of data collection, I had lived in Finnmark for 8 years and was therefore quite familiar with some of the local communities in which the selected participants had settled. I identified some of the participants through my personal networks, and others through social media and contact persons in business associations and in the municipal administration of the selected field sites. In total, there were 170 immigrant entrepreneurs in Finnmark at the time of the interview (special table, Statistics Norway). I initially decided to get in touch with approximately 30 of these, aiming at interviewing participants of various ages and of various migration backgrounds in order to reflect the greater picture of immigrant entrepreneurs in this particular region. I used personal contacts and the snowball method to identify potential informants, and ended up with interviewing 20 women and 9 men purposefully selected on the basis of their education, family situation and business sector. All participants gave their informed consent.

In the interviews, I questioned the participants about their upbringing, education, previous work experience and migration history, and asked them to share their new everyday life experiences in the north with an emphasis on family, business, community and place. Most of the interviews took place at the participants' workplaces, although some preferred to be interviewed at home or in a café. The interviews were generally conducted in Norwegian because most participants spoke the Norwegian language very well, whereas a couple of the interviews were conducted partly in English. The interviews lasted from 35 to 130 minutes, with an average of 75-80 minutes. In addition, we frequently had an introductory chat over a cup of coffee, and in many cases, I visited the business premises. I conducted and transcribed the interviews myself.

Data analysis by Use of Constructivist Grounded Theory

The transcripts were thematically analysed using a constructivist grounded theory (CGT) approach (Charmaz, 1995). Charmaz (1995) recommends two phases of coding. The first is an initial line-by-line coding (naming each line of the data material). This helps in assuming an analytic stance towards the interview material while remaining close to the data to understand what the participants are saying. The initial line-by-line coding was accomplished partly during the data collection period, which helped me to direct my focus in the next interviews. The second phase consists of focused coding, which is more directed and conceptual and aims to establish and try out categories for capturing the data in relation to various research questions (Charmaz 1995, p. 40). In the second round of coding for this article, I conducted a systematic analysis of the interviews to identify statements about the mutual connections between immigrant entrepreneurs, place and community.

The Sample: Background Information About the Participants

For the purpose of this article (Table 1), I have analysed the stories of 15 immigrant entrepreneurs, six refugees and nine 'lifestyle migrants' (O'Reilly & Benson, 2009). The refugees, with one exception, did not initially select Finnmark as a region of particular attraction but were settled there by Norwegian authorities after obtaining a residence permit. After completing the 2-year compulsory introductory programme, however, they decided to remain in the north. The lifestyle migrants, on the other hand, who came from Western Europe or from Russia, had moved to Finnmark because they desired to experience something 'different' and 'exotic' or 'arctic'. Both the refugees and the lifestyle migrants were primarily married with a partner from their country of origin. The 15 participants, six women and nine men, comprised 11 households. The informants had started a number of businesses, including a garage, an architectural firm, a painting company, a spa, cafes, restaurants and shops, and firms providing massage therapy and acupuncture as well as a nature-based tourism firm. Some of the participants ran several (related) firms. The businesses varied in terms of their size, income provision, and the hours that the entrepreneurs worked, but in general, the firms were very small, with 0-10 employees.

To preserve confidentiality, the names are fictitious and the ages given are approximate. It should be noted that although I have spoken to several members of the local population in various communities in Finnmark about different aspects of immigrant entrepreneurship, the analysis in this article is based solely on my interviews with the immigrant entrepreneurs.

Table 1. Overview of respondents

Respondents	Migration & family situation	Time in rural bef. start-up	Business	Time in rural	Children	Role of spouse	Why becoming entrepreneur?	Background and experience
Daniela (50)	Married to Dieter, both lifestyle migrants from Switzerland. They are copreneurs.	First production: just after arrival. <i>Glasstudio</i> : after 8 years. After 1 year: tourism office and, later, camping and guest house	She: <i>Arctic Glasstudio</i> He: Camping and guest house	23 yrs	–	Full partner	Never the plan, but got the opportunity in Finnmark, meaningful	She: professional glassblower. After arriving in Finnmark together with Dieter, worked in the fish processing industry and later ran a café. She currently runs <i>Arctic Glasstudio</i> , producing and selling artefacts of glass. He: engineer. After settling in Finnmark, started a local tourism office; still runs this + the camping and guest house. They have taken courses in entrepreneurship and business (gründer school).
Hans and Hilda (55)	Lifestyle migrants and copreneurs from Western-Europe	At arrival	Café offering local food	3 yrs	(adult)	Full partner	Doing something meaningful, creating pride in local food	Both of them have degrees in economics. They worked as self-employed economic consultant before migrating to Finnmark. They developed the concept of the café and the menu in close collaboration with locals.
Vibeke and Vidar (35)	Lifestyle migrants and copreneurs from Western-Europe	After 6 yrs	Architectural firm, including landscape architecture	10 yrs	2 children, kindergarten	Full partner	Autonomy, to contribute to place development / make a difference in the North, and to have an opportunity to be creative	Both have degrees in architecture. Both were employed as architects in Finnmark before taking over and developing their architectural firm. They have approximately ten employees and they run several local community projects.
Eeva (30)	Lifestyle migrant and entrepreneur from Western Europe, married to a Norwegian	After 5 yrs	Paint and surface decoration firm	10 yrs	2 children, kindergarten and school	Initially of great support, now also employed in the firm	Autonomy, flexibility, doing something “challenging”, “nice” and “stable”	Eeva has a craft certificate (“mesterbrev”) in painting and surface treatments. She worked in the fishing industry in Finnmark and later as a painter before starting her own business.

Vladimir and Villia (40)	Lifestyle migrants from Russia. He is the entrepreneur.	After 11 yrs	Nature-based tourism firm	12 yrs	2 children, kindergarten and school	Of great support (emotionally and practically)	Being outdoors in the nature, sharing the fascinating arctic landscape with interested tourists	Both have university degrees from Russia. He has long worked in Finnmark, employed in a firm offering nature-based tourism experiences such as ice diving, fishing, and king crab safari. He is in the start-up phase of his own nature-based tourism firm targeting the upper class Russian market. During the start-up phase, Villia assisted him a lot. She recently obtained a new job in the private sector.
Lars (45)	Lifestyle migrant together with his wife from Western Europe. He is the entrepreneur.	At arrival	Acupuncture / Chinese medicine	10 yrs	3 children, kindergarten and school	Of great support. At times main breadwinner and care taker in the home	Autonomy, meaningful to help others through acupuncture	Both have university degrees from their country of origin. They originally came to Finnmark for a year to experience something different, but later decided to stay. He started his firm shortly upon their arrival. She obtained relevant employment when they decided to prolong their stay in the Arctic.
Ahmed (45)	Refugee to Norway, but lifestyle migrant to Finnmark. Married to Anaïs. Copreneurs from Asia	At arrival in Finnmark	Restaurant (pizza, fast food)	5 yrs	1 baby	Full partner	Autonomy, always a dream, meaningful, create a meeting place	He: no formal qualifications. She has a craft certificate as a cook. He obtained employment after finishing the compulsory introductory education for refugees in Oslo (2 years) and thereafter took over a corner shop there. He fell in love with Finnmark when river fishing salmon there. He and his wife moved northwards soon after when they found available restaurant premises.

Respondents	Migration & family situation	Time in rural bef. start-up	Business	Time in rural	Children	Role of spouse	Why becoming entrepreneur?	Background and experience
Ali (30)	Refugee from Asia	After 4 yrs	Restaurant (fast food and local Norwegian food)	9 yrs	–	Recently got married	Autonomy, flexibility, more income, doing something meaningful	No formal qualifications. He soon obtained (informal) employment in a pizza restaurant. After learning some Norwegian and basic cooking skills, he started a kebab cart. He later started a restaurant serving both fast food and traditional Norwegian dishes.
Julius (45)	Refugee from Asia. Married to a woman from same country	After 15 yrs	Restaurant (fast food and local Norwegian food)	23 yrs	3 children, kindergarten and school	Great emotional support	Meaningful, work-family balance, show that immigrants are not freeloaders	He worked in the fish processing industry and in different stores before taking a 1-years education in massage therapy and starting his own business. His wife: no formal qualification and does not work outside the home.
Mehmet (35)	Refugee from Asia. Married to a Norwegian woman	After 12 yrs	Garage	14	1 baby	Great emotional support, main care taker at home	Autonomy, more money, flexibility	Craft certificate (mechanics) from country of origin and from Norway. Worked as a mechanic for several years before starting his own garage in Finnmark together with a Norwegian partner.
Paul and Pia (45)	He: refugee from Africa. She: dependent migrant. Copreneurs	After 3 yrs	Corner shop and café	8 yrs	4 children, school and older	Full partner	Making other immigrants feel more at home in the north, creating arenas for intercultural communication	Both: No formal qualifications, but they ran a book shop in the refugee camp before migrating to Norway. After the introductory course, he obtained part-time jobs in the church and as a care worker. He later started a corner shop. After family reunification, his wife joined the business full time, and they started a café together in addition to the food shop.

Source: own study.

RESULTS AND DISCUSSION

In this section, I will present the stories of three selected immigrant couples who started businesses in Finnmark. These stories illustrate processes and practices common to most of the participants. Whereas the two first couples came to Finnmark as lifestyle migrants, the last couple, Paul and Pia, came as a refugee and (some years later) as a dependent migrant, respectively.

Found the Perfect Premises on the Internet and had to Go North

Hilda and Hans came to Finnmark as lifestyle migrants from Western Europe. Since the 1990s, Hilda had regularly visited Norway, and since she met Hans in the early 2000s, they had spent several summer holidays together in the north of Norway². Hilda explained, 'For many years, I felt that I *had to* go north during the summer holidays. If for some reason I couldn't go one year, my heart really hurt!' In 2007, they made a first attempt to move to Norway, but neither of them found a job. However, as they already ran a small consultancy business together in their country of origin, they started to think of self-employment as a strategy that would allow them to settle in Finnmark and make a living there. As Hilda was 'good with people' and had some experience working in cafes and Hans excelled at cooking, they decided that running a small restaurant together as copreneurs was the option they would choose. One day they found the perfect restaurant premises for rent on the Internet. They responded to the advertisement, received the rental contract, and completed all the paperwork regarding the business start-up before relocating to Finnmark a few months later.

Although the transition from a city in Western Europe to a coastal community in Finnmark was significant, they immediately knew they had done the right thing in moving northwards. They felt at home in the north. They continued to work long hours as they did before, but they found their new lives enjoyable, not least due to the way they were received by people in the community. Only a couple of days after their arrival, local people began stopping by the restaurant premises to ask if they could help with anything. Hilda and Hans enthusiastically reported that the owner of the premises suggested they could decorate the restaurant with musical instruments, and when this idea was accepted, he had brought old musical instruments that were used for decoration. Another person suggested that they could organize occasional musical evenings, which turned out to be quite successful: 'You know, many people are so talented here', the smiling couple reported.

Some women in the community, moreover, assisted Hans, the chef, in developing the menu. From day one, Hilda and Hans had decided that they wanted to use local fresh fish and meat and to serve primarily traditional dishes from the region. Hans explained that before starting the business, he had purchased a Norwegian cookbook with traditional recipes and started experimenting. However, in the beginning, he noticed that the guests were not always quite happy with the dishes he served, making comments such as, 'That fish soup is from Bergen (in the south); we don't eat it that way here'. One of their regular guests, an elderly woman, offered help. She went through the cookbook together with Hans and explained what she believed people in the community would like

² Although they had visited northern Norway, they had never visited Finnmark and they did not know any people in Finnmark before moving northwards.

and dislike. In addition, she brought old recipes from her own family and even showed Hans how to make some of these local dishes. For some days, Hilda laughed, Hans and the local elderly woman were in the kitchen together, experimenting and tasting. This mutual engagement was clearly another key to success. Hilda concluded, 'People are so open here. You can ask about anything, and they help if they can'.

We Were Asked to Take Over the Firm

Vidar and Vibeke were also lifestyle migrants from Western Europe and came to Finnmark ten years before our interview to do 'something exotic and different'. Vidar obtained employment in a private architectural firm in Finnmark, and Vibeke obtained a position in the municipality; a couple of years later, Vibeke took a job in the same firm as Vidar. One day, the owner of the firm revealed that she was planning to retire and invited Vidar and Vibeke to take over the firm, an invitation they accepted some months later.

At the time of the interview, they had run the firm together for a few years. Vidar explained that in addition to drawing houses particularly adapted to a northern climate, they were designing outdoor spaces in relation to kindergartens and elderly homes. Moreover, the couple had initiated several community projects in which they linked persons and activities related to northern cultures and landscapes by organizing cultural events and concerts in an abandoned industrial area. Another community project focused on the northern lights as a resource for outdoor experiences during the dark winter. Vidar, Vibeke and some of their employees had worked on that initiative in several ways, including by offering education to municipal advisors with regard to what type of artificial lighting should be used to prevent 'blinding' people. In addition, they participated in the construction of various 'gazing spots' in the community where tourists and other interested people could enjoy the northern lights particularly well.

The motivation for their engagement in the place through various place-making projects was to 'give something back to the people here', as Vidar phrased it. Moreover, Vidar and Vibeke were concerned about the value of *knowing* the northern culture to make houses and buildings that would 'fit into the communities'. Vidar explained:

'As architects, we think it is important to be close to people and cultures here, to know something about the north. In principle, you can sit anywhere designing buildings according to the guidelines of Norwegian law for housing and property, but in practice, it is of great value to be close to the people you are designing for in terms of knowing the place, the local culture, and not least the local climate.'

I Finally Got the Loan and Could Make a Difference

Paul is originally from Africa. After fleeing war in his home region, he lived for several years in a refugee camp, where he ran a bookstore with his wife. Approximately ten years before our interview, he came to Finnmark with his oldest son, who was ten years old at the time, through the United Nations' (UN) refugee quota system. His wife, Mary, and their younger children were not given the same status in the UN system and had to remain behind. Arriving in Finnmark during the winter shocked Paul. He recalled:

'It was really hard in the beginning. I came in March. It was snowy, it was dark. It was a new experience. I came from a city of one million inhabitants directly to

this small town with an unfamiliar language, an unfamiliar climate, and an unfamiliar culture; everything was unfamiliar. That was so hard.'

Paul explained, however, that he immediately began to make an effort to enjoy his new life in the North. He wanted to earn a good income so that he could apply for family reunification as soon as possible. He also wanted to improve the lives of other refugees in the community. Only weeks after his arrival, he launched an association for refugees and organized a gospel choir and a band. After a while, he also initiated a women's group in the church. These activities became popular with the refugees, local people and the local authorities. Quite often at seminars and meetings, Paul and his band or the choir would be invited to perform by the local and regional authorities.

Paul learned Norwegian and completed the compulsory introductory programme for refugees. He obtained part-time employment as a social care worker and a part-time position in a local church. Additionally, he wanted to start a retail shop that would serve other immigrants as well as the native population. Obtaining the loan to finance the start-up was the main challenge. With the help of a clerk in the municipality, however, he finally received a small loan from the bank. Paul opened his shop while keeping (but reducing) his two other jobs. His life was 'only work' at that time. However, although it was tiring, he enjoyed it. After four years, he fulfilled the economic requirements to apply for family reunification. Upon her arrival in Finnmark, Pia learned Norwegian and began to work in the international food shop; a couple of years later, they started a café that was intended to be a meeting place for immigrants and local people. As an entrepreneurial couple, Paul and Pia felt supported by local people and by other refugees. They had several part-time employees in their café and shop, including both their own adolescent children and local ethnic white youth. Paul's community engagement was appreciated and even rewarded with a local culture prize from the municipality. According to the local newspaper, Paul was the first immigrant ever to receive this award.

Interpretation and Analysis

The participants gave various reasons for having chosen to settle down in Finnmark. Several mentioned aspects related to the particular geographical setting. They talked about the calm environment, the clean and wild nature, the long and light summer, the northern lights, outdoor recreation opportunities, and feeling free and at home in the northern landscape. Daniela, for instance, said, 'Here, you have the ocean, the horizon, the infinity. You feel very free'. Eeva said that the open fjord made a 'fantastic impression' on her when she arrived in Finnmark as it was completely different from her previous experiences. Ahmed, who moved to Finnmark with his wife to start a pizzeria after having lived some years in Oslo, explained:

'I was on vacation here in 2007, and I really liked what I saw. In addition, some of my friends lived here, and what's more, there was a pizza restaurant for sale here that I was interested in. So I bought the pizzeria, we sold everything in Oslo and settled in Finnmark. It was not only the business opportunity that made us move. We also like the natural environment and landscape here, both summer and winter. (...) Personally, I love fishing, I do that a lot (he particularly enjoyed salmon fishing in the river, he explained later in the interview). Otherwise, I just find it

easier to live here than in the city. It's close to the wild nature here; it's easy to have fun outdoors and relax. I prefer that to the stress of a city such as Oslo.'

Creating and exploiting business opportunities in Finnmark typically involved doing something meaningful, interesting, fun and challenging. Some participants in addition talked about securing a steady income for themselves and their families. Moreover, entrepreneurship was about creating values not only for their family but also for other immigrants to make them feel at home in the north (Paul). It was about creating values for tourists by helping them experience the northern landscapes through ice diving, boat trips, fishing, king crab and whale safari (Vladimir) and for the local community by creating new meeting places (Ahmed, Paul, Vidar and Vibeke). Starting a business also involved aspects such as contributing to new understandings of immigrants as contributors to local development (Julius), offering something new and useful to the local community such as Chinese medicine and Asian holistic massage (Lars, Julius), and creating pride in local food (Hans and Hilda). These motivations may be partly explained by the social ties that the immigrants were about to develop with people in the local community in which they had settled.

The Community Supporting the Immigrant Entrepreneurs

As discussed in the introduction, the literature often assumes that long-term residence in a certain place and deep social relations with the community may be key to entrepreneurial success (Dahl & Sorenson, 2009; Jack & Anderson, 2002; McKeever, Jack & Anderson, 2015). In this study, as opposed to most other studies that have explored the relationship between community/place and entrepreneurship processes in rural contexts, none of the participants (with one exception) were members of local families, none had attended local schools, and few had any social relations to people in the rural north before settling there. Nevertheless, upon their arrival in Finnmark, most participants were soon able to activate various resources. In fact, among the 11 households in this study, three started their businesses upon or shortly after their arrival, three of them within one to four years, and five of them after having stayed five years or more in Finnmark. The participants brought along their own human and economic capital, and a short time after settling in Finnmark, the local community embraced them and enabled them to act on their intentions by offering various kinds of support. Hence, both the entrepreneurs' own enactment with place and community and the community's engagement with the newcomers contributed to shaping and facilitating the process of becoming an entrepreneur in the rural north.

Immigrant entrepreneurs may not create the greatest economic value in Finnmark, and they may not employ many people, but in rural and sometimes depleted communities, they represent hope. By moving against the tide, these immigrants signal that they have faith in the future of Finnmark. Hence, the act of moving northwards and starting a business there seems to be interpreted in some communities in Finnmark as a gesture, or even as a gift. This finding may explain why some of the participants in this study were so well received, encouraged and supported as suggested in the case stories presented above. This article thus reveals that newcomers from a different cultural background even with limited acquaintance with the local language may be able to successfully create and exploit entrepreneurial opportunities, and that a key role in these cases is played by the rural community itself. Acceptance by the local community was apparent in many ways. The most evocative example is the story presented by Hans

and Hilda, who settled in Finnmark to start a restaurant but with no clear concept. Once they arrived, various persons in the local community helped them with doing the decorations, developing the social programme (musical evenings) as well as the menu, and showed them where to purchase the best local fish. The other stories in this study are also quite intriguing in their own right. Several of the participants spoke about receiving assistance from people in the municipal administration (Daniela, Paul, Eeva). Moreover, Paul received the municipal culture prize for his various engagements, and Daniela was invited to produce the new mayor chain in her municipality some years ago. In general, the participants spoke of local approval and loyalty from the population who were interested in what they offered through their businesses, whether it was alternative treatments (Julius and Lars), new or familiar tastes through various cafés or restaurants (Ali, Ahmed, Paul and Pia, Hans and Hilda), painting and surface treatments (Eeva), or architectural services (Vibeke and Vidar). Thus, spatial embeddedness through social relations is crucial to entrepreneurial processes in this study of immigrant entrepreneurship in northernmost Norway. However, in contrast to some studies in the previous literature, I have shown that social relations in a local community do not have to be 'long term' or 'deep' to link the entrepreneurs to various local social resources.

Immigrant Entrepreneurs Building Rural Regions

Place and community were important to the participants in this study. Not only had the immigrants developed a sense of belonging in the north, but they also wanted to take part in local place development. Some started several firms, such as Daniela and Dieter, who ran not only the Arctic Glasstudio in Villa Borealia but also the local tourism office, the campground and the guesthouse in the community. The other participants also engaged in their new local community in various ways: they started a choir, a musical band and a women's group (Paul), and they started several community projects related to the reclaiming of abandoned locations (former industrial sites), cultural productions and viewing spots for northern lights (Vibeke and Vidar). They also engaged with the place on a personal basis using the northern landscapes for outdoor activities and recreation alone or together with family or friends, which seemed to strengthen their sense of belonging in the north (e.g., Vladimir, Eeva, Ahmed, Daniela). Hence, the participants gradually became spatially embedded in Finnmark through various social bonds, some of which were established upon their arrival whereas others developed over time. The participants were thus engaged in the community in various ways. Hence, as suggested by McKeever, Jack & Anderson (2015, 59), the outcomes of rural entrepreneurship are not only 'extracting the community for self-serving purposes' but also entail a 'building process' of the rural place/community, both physically and mentally. As also found in McKeever, Jack & Anderson (2015), my participants understood their relationship with the community in which they had settled in terms of mutuality or reciprocity. Thus, the participants engaged in the community and the place they had settled through entrepreneurship and other local practices and projects, and at the same time, the community engaged in them.

CONCLUSIONS

The literature exploring the spatial embeddedness of entrepreneurial processes in rural areas has often focused on 'local' or 'native' entrepreneurs who have lived in the region

for long periods of time (Dahl & Sorenson, 2009; McKeever, Jack & Anderson., 2015). However, there is currently a growing strand of research that reveals how various groups of in-comers, including immigrants, become embedded and create businesses and thereby contribute to place development in the host society (Baycan-Levent & Nijkamp, 2009; Jones, Ram, & Theodorakopoulos, 2010; Miera, 2008; Ram, 1997). Whereas most of this research is based in highly urban contexts, a few recent studies explore immigrant entrepreneurship processes in rural contexts (Steinberg *et al.*, 2010; Stone & Stubbs, 2007; Zarrugh, 2007). In much of the entrepreneurship literature, however, the important connection between the entrepreneurs and the place in which they live and operate is generally not well understood, as also argued by Welter (2011). As mentioned in the introduction, Yeasmin (2016) argues for the relevance of using a triple disadvantage theory to make sense of immigrant entrepreneurship in Lapland in northern Finland. As this study is located in Finnmark in northernmost Norway, which is very close to Lapland, one could assume that the triple disadvantage theory would be relevant to analyze the findings in the present study, too. As I see it, this is not the case. The first disadvantage that Yeasmin puts forward is that immigrant entrepreneurs are pushed into entrepreneurship by necessity (Yeasmin, 2016, p. 133). In my study, however, the modes of entry are quite diverse as indicated previously (Munkejord, 2015a). Moreover, even in Yeasmin's study, it is an exaggeration to state that immigrant entrepreneurs in Lapland are 'mainly driven by necessity' as only 10% of her sample reported that they had been pushed to start a business due to unemployment (Yeasmin, 2016, p. 131). The second disadvantage that Yeasmin puts forward is that immigrant entrepreneurs, due to lack of local knowledge and poor skills in the native language, are not able to take advantage of their competence and capacities (Yeasmin, 2016, p. 134). This may very well be the case, and in this article, I have addressed this issue in terms of immigrants' lack of spatial embeddedness in the new region where they settle. However, this article shows that, in some cases, social relations and collaboration between the immigrant entrepreneur and people in the local community may overcome this initial disadvantage. The third advantage that Yeasmin puts forward is that rural regions (such as Lapland and Finnmark) in themselves represent a disadvantage for immigrant entrepreneurs because there are so few immigrants from each country there, so that the immigrant entrepreneurs cannot easily make a living out of serving their ethnic community only (Yeasmin, 2016, p. 134). As I see it, Yeasmin is right about the fact that many rural areas in the West are sparsely populated, and that immigrant populations there are thin and dispersed. But, it is a misunderstanding to assume that immigrant entrepreneurs are only interested in serving their ethnic community. Munkejord (2015a) on the contrary reveals that some immigrant entrepreneurs in rural Norway are interested in serving the mainstream market from day one, and hence that a thin and dispersed immigrant population does *not* necessarily represent a disadvantage for nascent or operating rural immigrant entrepreneurs. Rather, as this article indicates, the majority population may be interested in supporting immigrant entrepreneurs who settle in sparsely populated areas and their start-up initiatives may be interpreted positively as a contribution to local place development. Hence, when being supported by the rural community, immigrants may be able to successfully create and exploit entrepreneurial opportunities in rural communities, and, through entrepreneurship processes, they may even contribute to (re)build rural regions.

Future Research

This article examines immigrant entrepreneurship in what can be considered an extreme case. Although similar patterns may emerge in other rural or remote contexts, it would be useful for future research to examine the same research questions among different groups of immigrant entrepreneurs in rural and urban, as well as in depleted and prosperous contexts. There are limitations to this study in relation to the geographical focus (one rural area in one country) and the limited number of participants. The findings, however, offer suggestive insights into connections among immigrant entrepreneurs, place and community and how the spatial embeddedness of entrepreneurship processes may take shape.

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Distinct and yet not Separate: Revisiting the Welfare Models in the EU New Member States

Helena Tendera-Właszczuk, Michał Szymański

ABSTRACT

Objective: The objective of this paper is to evaluate the welfare state models in the EU countries and to start the discussion if the new member states (NMS), i.e. those EU member states that joined the EU in 2004/2007, fit the Sapir typology (Nordic model, Continental model, Anglo-Saxon model, Mediterranean model). The second objective is to examine the labour market situation, reduction of poverty and social inequalities in the EU countries. The third one is to open the issue if the public spending can be managed both justly and effectively.

Research Design & Methods: The linear regression function and correlation has been used to present effectiveness of social expenditures to reduce poverty, as well as evidence that public spending can be managed both justly and effectively.

Findings: This paper demonstrates more similarities can be drawn across the NMS and the EU-15 than within the NMS and EU-15, respectively. The typology of welfare state models is applied to the NMS and their effectiveness is tested. Accordingly, we classify the Czech Republic, Slovenia and Cyprus as countries of the Nordic model; Hungary, Slovakia and Malta as the Continental model; Lithuania, Latvia and Estonia as the Anglo-Saxon model and, finally, Poland, Croatia, Romania and Bulgaria as the Mediterranean model.

Implications & Recommendations: Recent data suggest that the global crisis has caused an increase in the level of poverty and social spending in the EU countries. However, this is just a temporary situation and it does not reflect the solutions of models.

Contribution & Value Added: The NMS tend to be examined as a separate group of countries that – as the literature suggests – depict different qualities of the welfare models than those pursued in the EU-15.

Article type: research paper

Keywords: welfare state; European Social Model (ESM); New Member states; labour market; poverty reduction

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INTRODUCTION

In the following decades after the Second World War (WW2), the countries of Western Europe have adopted a special socio-economic model, known today as the welfare state or the European Social Model (ESM). The model can be considered as a specific example of social policy implemented in Europe¹. However, it is worth noting that despite many similarities, over time considerable differentiation within that model of welfare state emerged. The new member states (NMS), i.e. those EU member states that joined the EU in 2004/2007, tend to be examined as a separate group of countries; frequently referred to as the “catching-up countries”. In fact, however, as this paper suggests, the NMS cannot be treated as a harmonious group and comparisons should be drawn not within the NMS, but across the NMS and the EU-15. The objective of this paper is to evaluate the welfare state models in the EU countries and to start the discussion if the new member states (NMS), i.e. those EU member states that joined the EU in 2004/2007, fit the Sapir typology (Nordic model, Continental model, Anglo-Saxon model, Mediterranean model). The second objective is to examine the labour market situation, reduction of poverty and social inequalities in the EU countries classified to above mentioned models and to start the discussion on the effectiveness and the social justice of those models. The third one is to open the issue if the public spending can be managed both justly and effectively. The linear regression function and correlation has been used to present effectiveness of social expenditures to reduce poverty, as well as evidence that public spending can be managed both justly and effectively.

The argument is structured as follows. In the first step the basic concepts and definitions pertinent to the question of welfare state models are discussed. Next, the specificities of the different welfare state models that have evolved in the EU-15 are discussed. An assessment of their effectiveness follows. In the fourth part, the typology of welfare state models is applied to the NMS and their effectiveness tested. Conclusions follow.

LITERATURE REVIEW

Basic Concepts and Definitions

The ESM is not easy to define as the EU member states have adopted many different variants of the model within their national policy frameworks. This is mainly due to the differences in traditions, cultures, and experiences, as well as the level of economic development across those countries. However, certain similarities among the different national models exist. Consequently, it is possible to propose a general and coherent definition of the ESM by enumerating its most important features.

The Treaty on the functioning of the European Union (TFEU) emphasizes that:

- “In order to promote its overall harmonious development, the Union shall develop and pursue its actions leading to the strengthening of its economic, social and territorial cohesion” (art. 174)

¹ For this reason, the terms ‘social policy’ and the ‘European social model’ will be used interchangeably.

- “In defining and implementing its policies and activities, the Union shall take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health” (art. 9)

Other important articles related to the ESM are articles 151-161 of the TFEU, which form part of the chapter on the EU’s social policy. The latter outlines the goals of the European social policy, specific areas of activity, and the competences of individual European institutions and member states. Provisions concerning these issues can also be found in the Basic Rights Charter.

In the debate on the ESM several competing standpoints have evolved over time. For instance, Giddens (2006), distinguished the following general features of the ESM: relatively high taxation and wide scope of state interventionism, compulsory and free education, generous welfare system, fight against inequalities. In contrast, Boeri (2002) defines the ESM by reference to labour market protection, limiting poverty and social (income) inequalities, supporting professional activity. From a different angle, Rosati (2009), defines the four main goals of the ESM as follows: full employment and protection against labour market risk, i.e. protection of jobs and worker rights; financial support for those permanently out of the job market or unable to work for reasons such as illness, disability, or age; reduction of social inequalities; universal access to basic social services (education, healthcare, culture).

In order to achieve the above-mentioned objectives, a set of policies and instruments has been introduced across the EU member-states. These include: labour market regulations, incl. minimum wages, working time and conditions, unemployment benefits; social security systems, incl. disability benefits and pensions, other welfare benefits, e.g. family allowances; income redistribution policies, i.e. taxes and money transfers as part of the social security system; free services or services offered at a reduced price, i.e. education, healthcare, culture, leisure (Rosati, 2009). Table 1 presents the general ESM’s objectives and instruments of their implementation.

Table 1. ESM’s objectives and instruments

Objectives	Instruments
Employment and protection against labour market risk (e.g. decreasing wages or redundancy)	Labour market regulations (e.g. labour code)
Ensuring an income for those unfit for work (e.g. youth, the elderly, the disabled, pregnant mothers)	Social security system (disability pensions, retirement pensions, allowances)
Limiting social exclusion, poverty, and reducing income inequalities	Income redistribution (e.g. progressive taxation, social transfers)
Universal access to basic social services	Social service policy (e.g. free education)

Source: own elaboration based on (Rosati, 2009).

Undoubtedly, the objectives of the ESM have set the EU member-states distinctly apart from non-members. However, in practice, regardless of the commonalities that the EU members share, substantial differences in how the ESM is implemented across the EU exist. The disparities are related mainly to the instruments of social policy, as well as the detailed objectives and the scope of social security services. There are also differences with respect to the degree of state intervention in the economy, including taxation levels and labour laws.

The most popular typologies of welfare state are elaborated by Titmuss (1974), Furniss and Tilton (1977). Titmuss distinguished three major models of social policy, including the residual welfare state; the industrial achievement – the performance model; the institutional – redistributive model. Alternatively, Furniss and Tilton have introduced the following typology of welfare state: the positive state; the social service state; the social security state; the social welfare state. Another quite popular typology of welfare state by Esping-Andersen (2010), presented in 1990 makes the distinction between liberal regime, conservative regime, and social democratic regime. Still, it is a rather general typology and it does not account for specific European circumstances. Other classifications have been proposed as well.

Several typologies of the welfare state have been devised and contributed to the debate on regimes: Hall and Soskice (2001), Art and Gelissen (2002), Sapir (2005) have gained particularly wide currency in the academic debate. Sapir distinguished four major models of social policy (ESM) implemented in contemporary Europe, i.e. Nordic, Anglo-Saxon, Continental and Mediterranean. In this context it is worthwhile to mention that Bonoli (1997), Ferrera (1996) and Leibfried (1993) have also offered insights into social policy models implemented in the South European countries. The Sapir's typology has been chosen for the investigation because Sapir was the first one who applied the general typology of the welfare state regimes to the specific European circumstances.

Features of Welfare State Models as Described by André Sapir

The Nordic model, often referred to as the social democratic welfare state, is characterized by high levels of taxation, generous benefits, and low income disparities. Labour unions have an important role to play, but the legal protection of employment is relatively moderate. This model allows for the greatest degree of state intervention in social policy. Specialized social security covers basically all types of social risk, and its extent is not dependent on previous income or paid contributions. The Nordic-model countries boast a free education and healthcare system; disability benefits and pensions are available to all citizens without exception. There is a special system of allowances for large families, the disabled, and the elderly. The essence of the Nordic system lies in the assumption that it is primarily the role of the state to ensure social security; the family and the free market are deemed unable to guarantee social welfare. The model aims to provide not only the existential minimum to the poorest, but the most comprehensive assistance possible to all citizens (regardless of their income, health, and life situation); the premise is that every individual has the right to a life on a decently high level. Countries which have adopted this model include Denmark, Sweden, Finland, and the Netherlands (see also Szymański & Tendera-Właszczuk, 2015).

The Anglo-Saxon model is distinguished by relatively low taxation levels and a social welfare system targeted at the poor and the socially excluded (e.g. the sick and the elderly). The role of labour unions is limited and income stratification relatively high. Public services are underdeveloped and citizens often have recourse to private companies offering social services on the free market, as well as to various foundations and family help. State services are only used as a last resort (Biegański & Jackowicz, 2008). For this reason, the model bears the hallmarks of the minimal state. It is mainly implemented in Great Britain and Ireland.

The Continental model is an example of a typical welfare state harking back to the Bismarckian solutions of the 19th century. It is characterized by extensive social security

services and insurances against all kinds of labour market risk, as well as high and universally available welfare benefits. The income structure is flat and the role of labour unions substantial. The labour market protection is high and its main role is to ensure the employment of people with many years of experience. Compared to the Nordic model, the state offers only modest social services. Moreover, these functions are often taken over by the so-called “third sector”, i.e. private companies, foundations, and other non-governmental organizations (Biegański & Jackowicz, 2008). The Continental model is prevalent in Germany, France, but also in Belgium and Austria.

The Mediterranean model is characterized by an elaborate pension system that allows an earlier retirement than in other models. It is very costly, and, consequently, the source of high public debt. Job protection is high and labour unions play an important role. The primary responsibility of the state is to protect existing employment. Labour market policy seldom takes on an active role. Apart from paying pensions, the state does not actively engage in the benefits and allowances system. Social security allowances, such as unemployment benefits or single-parent benefits, are relatively low. For this reason, an important role in this area is played by non-governmental and religious organizations (mainly the Catholic Church) and the family. This model is typical of Spain, Portugal, Italy, and Greece. According to some sources, some of its elements can also be found in Ireland (Biegański & Jackowicz, 2008). Table 2 presents the main features of each model. It should be kept in mind, however, that the typology builds on generalizations and hence significant differences can be observed even within individual systems.

There is a tendency in the literature to argue that, of all the models, the Nordic system performs the best in practice. It is both the most effective, as measured by the employment level, and the most socially just, as measured by the percentage of people affected by poverty. There is a tendency in the literature to consider the Mediterranean model as the least effective; it is not only ineffective, but also unjust. The Anglo-Saxon model is described as effective, but not just, and the Continental model as just, but ineffective. The latter two, i.e. the Continental model and the Anglo-Saxon model are treated as intermediate solutions.

Table 2. Social policy models in Western Europe and their main features

	Nordic model	Anglo-Saxon model	Continental model	Mediterranean model
Labour market Policy	Active	Diversified	Passive	Passive
Employment protection	Moderate	Low	High	High
Income structure	Flat	Diversified	Flat	Flat
Social welfare	Universal	Limited (mainly the poor and the sick)	Universal	Limited, mainly retirement pensions
Access to social services	High	Low	Rather high	Medium
Taxation	High	Low	Medium/High	Medium

Source: own elaboration based on (Rosati, 2009).

MATERIAL AND METHODS

Assessment of the Welfare State in EU-15 Countries (2005-2015)

Rosati (2009) classified the four models in terms of two criteria: social justice and effectiveness. The results of his analysis are shown in Table 3.

Table 3. ESM's effectiveness vs. social justice

Justice/Effectiveness	Low	High
High	Continental countries	Nordic countries
Low	Mediterranean countries	Anglo-Saxon countries

Source: own elaboration based on (Rosati, 2009).

Taking Rosati's typology as a point of departure, we attempted to verify the hypotheses that it (implicitly) entails. To this end, the employment levels and the risk of poverty in each of the EU-15 countries were examined. Then, the data were matched to relevant country groups. In order to make the outcomes of the examination more transparent, the analysis focused not on individual year values of the indicator, which could disrupt the general trend, but on their arithmetical means. For employment, the analysis covered the 2005-2015 period. The poverty level analysis also took account of social transfers (Figure 1).

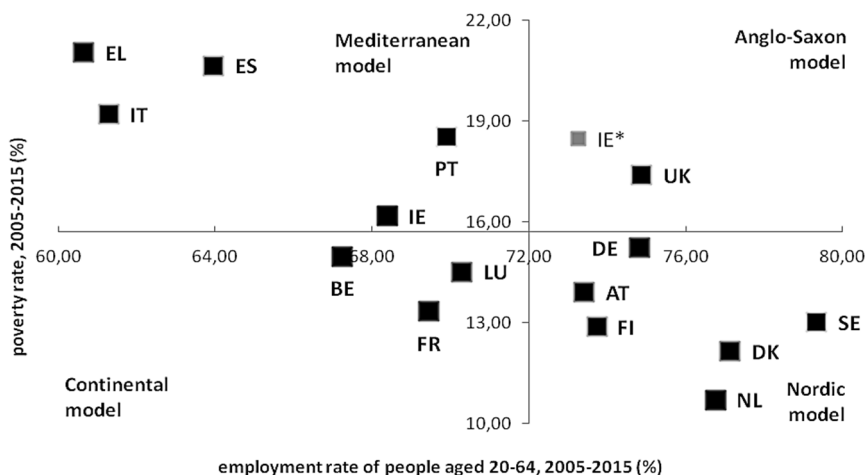


Figure 1. Employment and Risk of Poverty Rates, EU-15

Notes: *Ireland's placement before financial crisis

data for IE: without 2015, data for IT: without 2015, data for LU: without 2015

Source: own calculation based on the Eurostat database:

http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=t2020_10

<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tespm010&plugin=1>
[access: 08.10.2016]

The observations drawn from the examination² confirm that the Nordic countries (the lower right-hand corner) show the best economic and social performance, while the

² The data presented in the article are not fully comparable, but they include last available data.

Mediterranean countries (the upper left-hand corner) perform the worst. The remaining countries (the upper right-hand and the lower left-hand corner) achieve intermediate results. Simultaneously, the continental countries are more effective at ensuring social justice, while Anglo-Saxon countries lead the way in economic effectiveness³.

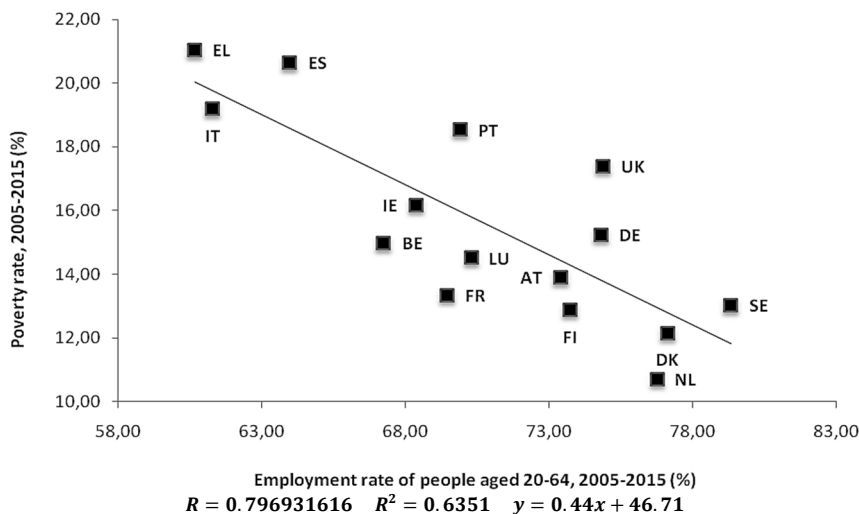


Figure 1a. The negative correlation between Employment and Risk of Poverty Rates, EU-15

Source: as for figure 1.

Figure 1a presents the negative correlation between employment and poverty in the years 2005-2015. The strength of the correlation expressed by R square shows, that the proposed method, linear regression, can be used to start the discussion on the effectiveness and the social justice of those models.

RESULTS AND DISCUSSION

Classification of NMS According to Sapir's Typology

There has been a tendency in the literature to regard the NMS as a distinct group of countries. Accordingly, in order to account for the specificity of the NMS and the welfare state models implemented therein, Fenger (2007) added an European post-communist model of welfare state to Sapir's typology. Indeed, Cerami and Vanhuse (2009) as well as Farkas (2011) suggest that the NMS constitute a separate group in the social policy regimes classification. In fact, we suggest that the NMS cannot be treated as a harmonious, homogenous group of countries.

It should be kept in mind, however, that the point of departure for the welfare state formation process in the post-communist countries was completely different than in

³ It is worth observing that not all the countries could be unequivocally matched to specific models. For Ireland, this is mainly due to the impact of the global crisis. Without the crisis, Ireland would fall within the Anglo-Saxon model. Germany, Austria and Portugal are also problematic; it is assumed that these two countries have partially evolved: the former in the direction of the Nordic, and the latter in the direction of the Mediterranean model. <http://www.krakowski.us.edu.pl/?p=ue-06>, retrieved on: 26.09.2016.

Western Europe. The historical framework of the welfare state models in the New Member States was extremely important, especially the forty-five years experience of the communist regime and the shift towards the market economy.

The former post-communist countries have not yet fully caught up with the rest of the continent, but the gap has been steadily shrinking. The NMS also represent different approach to social policies. This is due not only to cultural differences, but also to the post-communist point of departure and the specific decisions taken by leading politicians during the transformation period. This suggests that substantial differentiation among the NMS exists. Therefore, it is worthwhile to examine to which extent the NMS fit the Sapir typology, rather than constitute a group of its own.

To this end two indicators listed above have been considered, i.e. employment level and poverty risk. Along these lines, the NMS have been divided into the following four groups of countries: countries with high employment rate and low poverty risk (the Nordic model); countries with low employment rate and high poverty risk (the Mediterranean model); countries with high employment rate and high poverty risk (the Anglo-Saxon model); countries with low employment rate and low poverty risk (the Continental model).

For the post-communist countries, however, the division takes on slightly different values. Due to economic backwardness, economic effectiveness in these countries is lower than in the EU-15 (the vertical effectiveness line moves to the left). The poverty rate division is also less rigorous than for the EU-15 (the horizontal line moves up).

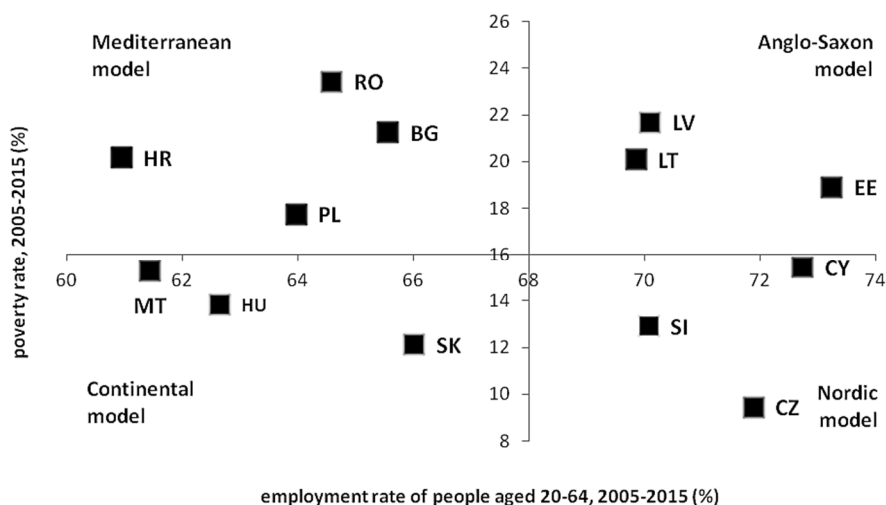


Figure 2. Employment and Risk of Poverty Rates, NMS

Notes: data for HR: 2010-2014, data for BG: without 2005, data for RO: without 2005 and 2006

Source: own calculation based on the Eurostat database:

http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=t2020_10

<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tespm010&plugin=1>
[access: 08.10.2016]

The study shows that the Czech Republic, Slovenia and Cyprus rank highest both in terms of effectiveness and justice. The social models implemented in those countries are characterized by low poverty rate and high employment. Therefore, they fall within the

Nordic model. The Baltic countries, incl. Lithuania, Latvia and Estonia belong to Anglo-Saxon model. The employment rate is relatively high and at the same time the poverty rate is high. Slovakia, Malta and Hungary belong to the Continental model. They have a relatively low poverty rate but their employment level is lower than in the Nordic system. Poland, Bulgaria, Romania and Croatia display inferior performance, ranking together with Spain, Italy, and Greece among the countries with the lowest level of economic effectiveness. For this reason, they are included in the Mediterranean model.

Assessment of the Welfare State in the NMS as Compared to the EU-15 Based on Selected Indicators

The most important index used to measure the level of economic development is the *per capita* GDP at purchasing power parity. According to Eurostat data⁴, in 2015, the index exceeded the EU average in all the old member states, except Spain, Portugal, and Greece. The NMS were significantly poorer. When examining the different ESM models, it is possible to observe that the *per capita* GDP is highest in the Nordic model countries (129-108% of the EU average). As shown before, the continental countries are less effective and the index there stands at 117-106% of the EU average. Great Britain, the leading example of the Anglo-Saxon model, achieves the *per capita* GDP of 110% of the EU average.

The situation of the NMS seems much more instructive to examine. The Czech Republic ranks as the most developed post-communist country (85%). The dominance of the Nordic model is even more evident in this case; the Czech Republic outranks the poorest EU-15 countries, i.e. Greece and Portugal. It is worth noting that also Slovakia (77%, Continental model) has already outpaced Greece and caught up with Portugal. Hungary and Poland, representing, respectively, the Continental and the Mediterranean model, achieved the similar index result (68% and 69% of the EU average). The poorest countries – Bulgaria (46%), Romania (57%) and Croatia (58%) represent the Mediterranean model.

The analogy between the old and the new EU countries with regard to their *per capita* GDP is very strong. It holds not only for the most, but also for the least developed countries.

The presented values of this indicator for separate models are comparable as well. The study also included the HDI values, i.e. the human development index. The goal of the indicator is to neutralize the imperfections of the GDP measure, as the HDI takes into account not only the *per capita* GDP (at purchasing power parity), but also measures such as life expectancy and education level. Thus, it goes beyond macroeconomic data to focus on the citizens' quality of life.

As it was the case with the GDP, the EU ranking is headed by the Nordic countries. Slovenia and the Czech Republic have significantly outpaced other NMS (as well as some of the EU-15). Continental countries also rank very high. This illustrates the fact that, unlike the GDP measure, where economic effectiveness is paramount, the HDI ranking also gives weight to extra-economic values, which are promoted in the Continental model.

However, it is impossible to conclude that the countries of any one model perform significantly better in this ranking, as was the case with the GDP measure. Alongside Nordic and continental countries, Anglo-Saxon countries, especially Ireland, also rank very high.

⁴ <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00114>, retrieved on 26.10.2016.

Table 4. HDI in the EU countries versus welfare state models in 2014

Position in the EU ranking HDI	Country	Position in the world ranking HDI	Scores	Welfare state model (by A. Sapir)
1	Denmark	4	0.923	Nordic
2	Netherlands	5	0.922	Nordic
3	Germany	6	0.916	Continental
3	Ireland	6	0.916	Anglo-Saxon
5	Sweden	14	0.907	Nordic
5	United Kingdom	14	0.907	Anglo-Saxon
7	Luxemburg	19	0.892	Continental
8	Belgium	21	0.890	Continental
9	France	22	0.888	Continental
10	Austria	23	0.885	Continental
11	Finland	24	0.883	Nordic
12	Slovenia	25	0.880	Nordic
13	Spain	26	0.876	Mediterranean
14	Italy	27	0.873	Mediterranean
15	Czech Republic	28	0.870	Nordic
16	Greece	29	0.865	Mediterranean
17	Estonia	30	0.861	Anglo-Saxon
18	Cyprus	32	0.850	Nordic
19	Slovakia	35	0.844	Continental
20	Poland	36	0.843	Mediterranean
21	Malta	37	0.839	Continental
22	Lithuania	37	0.839	Anglo-Saxon
23	Portugal	43	0.830	Mediterranean
24	Hungary	44	0.828	Continental
25	Latvia	46	0.819	Anglo-Saxon
26	Croatia	47	0.818	Mediterranean
27	Romania	52	0.793	Mediterranean
28	Bulgaria	59	0.782	Mediterranean

Source: own elaboration based on Human Development Report 2015.

Another important indicator is the Gini index, which represents the degree of social stratification in a given state. The higher the index, the greater the income inequalities in the country. When the index is equal to 1 (which is impossible in practice), it means that all the possible wealth in the country is owned by a single person and the rest have nothing. When it is equal to 0 (which is also impossible), everyone in the country owns the same amount of wealth.

The data show a number of relationships. The highest rate of inequality can be observed in the Anglo-Saxon and the Mediterranean model. This lends support to the earlier research that suggests they are characterized by the lowest level of social justice. Accordingly, the greatest disproportions are attested in Estonia, Latvia, Bulgaria, Lithuania, Cyprus, Spain, Romania, Greece and Portugal. The Gini index there is the highest.

The smallest disproportions are observed in the Nordic and the Continental countries, which supports the earlier conclusion that they show a high level of social

justice. The Gini index is lowest in Slovenia, the Czech Republic, Sweden, Finland, Belgium, Slovakia, and the Netherlands.

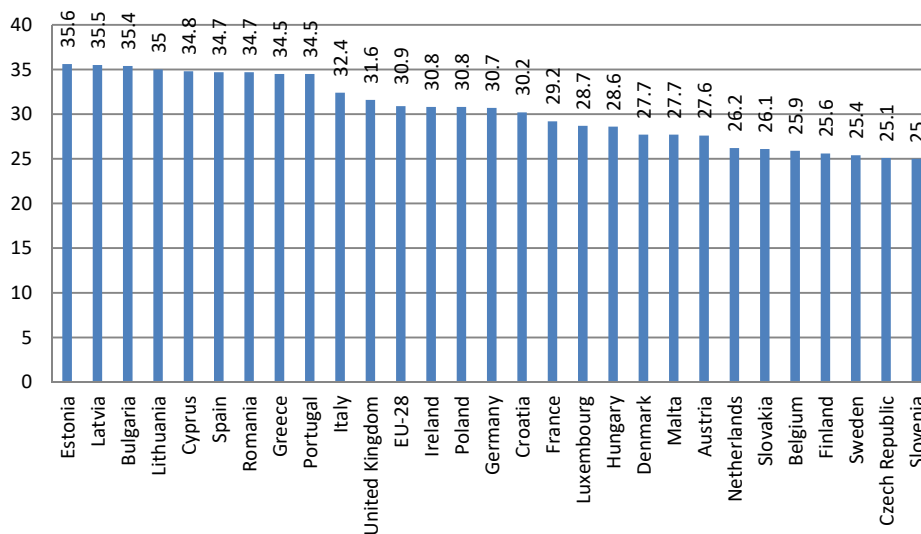


Figure 3. Gini index in the European Union countries in 2014

Source: own calculations based on the Eurostat database:

<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tessi190&plugin=1>
[access: 17.09.2016]

Labour Market Performance

One of the key issues in the debate about the effectiveness of the European Social Model is the performance of the labour market. Accordingly, the remaining part of the article will attempt to compare the labour market situation across the EU and examine the relationship between the level of employment and the social policy model adopted in each country.

Table 5 shows the unemployment rate across the EU member states. Between 2004 and 2015, the lowest unemployment rate was observed in Luxembourg and Austria (5.1%), the Netherlands (5.5%), Denmark (5.8%), and United Kingdom (6.4%). The highest unemployment rate was recorded in Spain (17.1%), Greece (15.8%) and Slovakia (13.5%). It is impossible to determine which social policy model brings the best and the worst results, since both groups include countries that belong to at least two different models.

Data on the average unemployment rate among young people (under 25 years old) over the period 2004-2015 was also analysed. Numerous EU countries have had a hard time keeping unemployment low in this age group. Mediterranean countries perform the worst. In Spain and Greece the index stood at 36% in the analysed period. It was also high for Croatia and Slovakia. It is worth noting that the indicator was high even in Sweden and France. The lowest unemployment rate in the age group was attested in Austria (9.9%), Germany (10.4%), Denmark (10.9%) and the Netherlands (11%).

It can be concluded that the unemployment rate among the young is lowest in the Nordic countries and highest – in the Mediterranean countries. There are, however,

certain exceptions to the rule, since the highest-ranking countries also include some Continental states, while Sweden ranks relatively low.

Table 5. The average unemployment rate over the period 2004-2015

Country	The average unemployment rate (%)	The average youth (aged 15-24) unemployment rate (%)	Welfare state model (by A. Sapir)
Luxembourg	5.1	16.8	Continental
Austria	5.1	9.9	Continental
Netherlands	5.5	11.0	Nordic
Denmark	5.8	10.9	Nordic
United Kingdom	6.4	16.8	Anglo-Saxon
Malta	6.5	13.8	Continental
Czech Republic	6.6	16.5	Nordic
Romania	6.9	21.2	Mediterranean
Slovenia	7.3	15.8	Nordic
Germany	7.4	10.4	Continental
Sweden	7.5	22.3	Nordic
Belgium	8.0	21.0	Continental
Finland	8.1	19.8	Nordic
Cyprus	8.4	20.1	Nordic
Hungary	8.7	21.9	Continental
Italy	8.9	29.3	Mediterranean
Estonia	9.1	18.6	Anglo-Saxon
France	9.2	22.5	Continental
Ireland	9.5	19.3	Anglo-Saxon
Bulgaria	9.8	21.1	Mediterranean
Lithuania	10.6	21.0	Anglo-Saxon
Poland	11.0	26.1	Mediterranean
Portugal	11.5	27.6	Mediterranean
Latvia	11.9	21.8	Anglo-Saxon
Croatia	13.2	34.8	Mediterranean
Slovakia	13.5	29.2	Continental
Greece	15.8	36.8	Mediterranean
Spain	17.1	36.5	Mediterranean

Source: own elaboration based on the Eurostat database:

<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=1&pcode=tipsun20&language=en>

<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=1&pcode=tipslm80&language=en>

[access: 17.09.2016]

In terms of unemployment, the Nordic welfare state model appears to perform the best. This stems mainly from the labour market policy adopted in the Nordic countries, i.e. *flexicurity*. The solution combines labour market flexibility (economic effectiveness) through constructing flexible forms of employment (suited to current labour market needs and the economic situation) and easy hire and fire policies with the guarantee of generous social security benefits (unemployment benefits). An important role in the model is also played by an active labour market policy targeted at unemployed citizens, e.g. skill or career transition trainings (e.g. for older people), loans for the unemployed who wish to start their own enterprise, and subsidized internships and employment

opportunities for recent graduates entering the job market. These solutions have worked very well in all the Nordic model countries, and especially in Denmark .

As demonstrated in table 6, Denmark has devoted more than 1.5% of its GDP to the purpose, compared to 1.3% in Belgium, and 0.8% in Finland and Sweden. These solutions have been marginal in Great Britain (0.04%), on Malta (0,05%), in Romania (0,021%) and Estonia (0,146%). An important trend can be seen in the high level of spending on active job market policy in the Nordic countries of the old EU, as well as in Belgium, Ireland, and Spain, even though in the latter two, its share in general labour market policy spending is much lower.

Table 6. Expenditure on labour market in the EU countries in 2011 (% of GDP)

Country	Labour market services	Active labour market policy	Passive labour market policy	Total
Denmark	0.543	1.541	1.646	3.730
Belgium	0.212	1.379	2.091	3.682
Finland	0.124	0.857	1.475	2.456
Sweden	0.248	0.805	0.631	1.684
Ireland	0.137	0.714	2.640	3.491
Spain	0.106	0.708	2.881	3.695
Holland	0.373	0.700	1.641	2.714
France	0.252	0.682	1.402	2.336
Austria	0.186	0.571	1.286	2.043
Luxemburg	0.053	0.459	0.638	1.150
Portugal	0.116	0.458	1.336	1.910
Germany	0.340	0.446	1.022	1.808
Hungary	0.010	0.350	0.662	1.022
Poland	0.084	0.333	0.304	0.721
Latvia	0.036	0.332	0.318	0.686
Cyprus	0.033	0.311	0.686	1.030
Italy	0.032	0.307	1.365	1.704
Slovenia	0.105	0.252	0.870	1.227
Greece	0.011	0.224	0.726	0.961
Slovakia	0.072	0.223	0.496	0.791
Lithuania	0.081	0.182	0.295	0.558
Czech Republic	0.097	0.178	0.281	0.556
Estonia	0.082	0.146	0.492	0.720
Bulgaria	0.039	0.132	0.422	0.593
Malta	0.112	0.050	0.321	0.483
United Kingdom	0.341	0.040	0.303	0.684
Romania	0.027	0.021	0.247	0.295

Source: own elaboration based on Eurostat, Labour market Policy – Expenditure and Participants. Data 2011.

A general conclusion can be drawn that the active labour market policy used in the Nordic countries is much more effective than passive policy, as it effectively reduces unemployment and has a positive impact on employment rate. This is one of the factors which explain the good performance of Nordic labour markets. On the other hand, it must be noted that this is not a universally valid rule (Tendera-Właszczuk *et al.*, 2010). In 2013,

the employment rate in Belgium was lower by 7% than in Great Britain, even though the country spent approximately 20 times more of its resources on active employment policy.

Public Spending and the Reduction of Poverty

Another important issue that deserves attention in context of the discussion on the ESM is the level of public spending in the EU countries. Countries where public spending accounts for the highest percentage of the GDP include the EU-15, especially those of the Nordic and the Continental model. The average public spending in France and Denmark between 2008 and 2015 accounted for 56% of the GDP and were the highest in the entire European Union. Other countries with high public spending include (Figure 4): Finland (55%), Belgium and Greece (54% each). The lowest budget spending was attested in Bulgaria and Romania (38%), Lithuania and Latvia (39%) and Estonia (40%). When data from before the crisis (i.e. the 2000-2007 average) is considered, however, the lowest values are observed for the Anglo-Saxon model, and particularly Ireland (33% of the GDP) and the Baltic countries (35%).

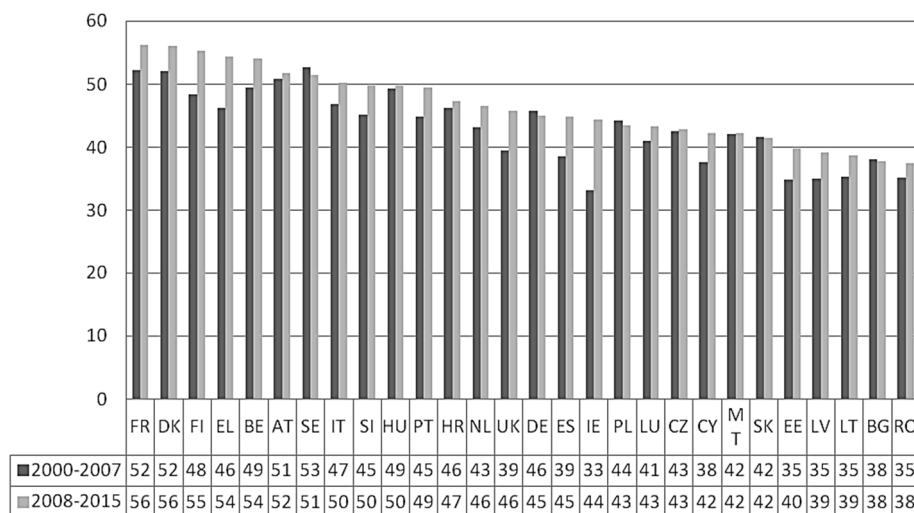


Figure 4. Public spending in the EU countries (average level for 2000-2007 and 2008-2015 as % of GDP)

Source: own elaboration based on the Eurostat database:

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00023>
[access 17.09.2016]

Another important issue of public spending analysis is the share of social expenses in the GDP (Figure 5). Just as above, the greatest spending (in terms of the 2008-2011 average) was recorded in the Nordic countries – Denmark (34% of the GDP), the Netherlands (31%), and Sweden (30%), as well as the Continental countries, such as France, Germany, Belgium, and Austria (more than 30%). The NMS devoted a much lower share of their GDP to these purposes.

Figure 6 shows the relationship between public spending and the HDI. In the analysed group, a moderate positive correlation ($R=0.519$) was observed between the two variables; the coefficient of determination was $R^2 = 0.269$. This shows that, to a certain extent,

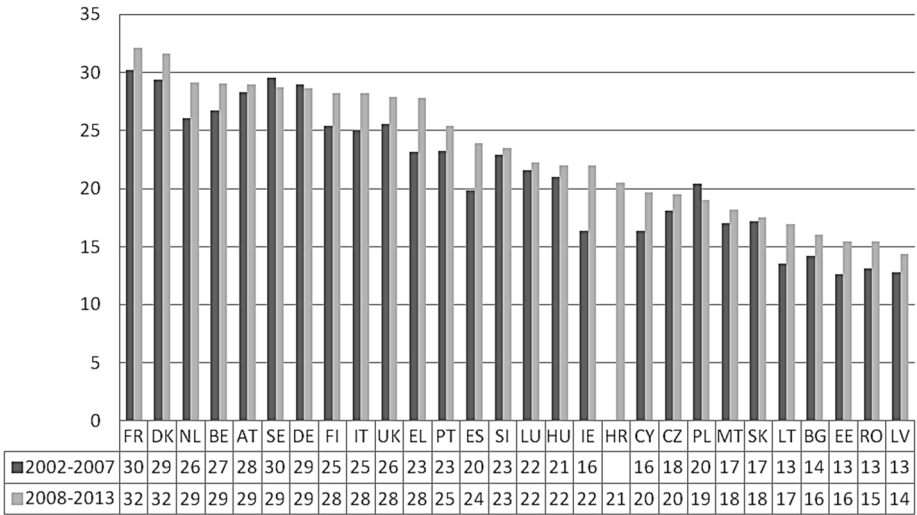


Figure 5. Public spending on social expenses in the EU countries (average level for 2002-2007 and 2008-2013 as % of GDP)

Notes: data for HR: without 2002-2007, data for EL: without 2013, data for PL: without 2013

Source: own elaboration based on the Eurostat database:

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tps00098&plugin=1> [access 17.09.2016]

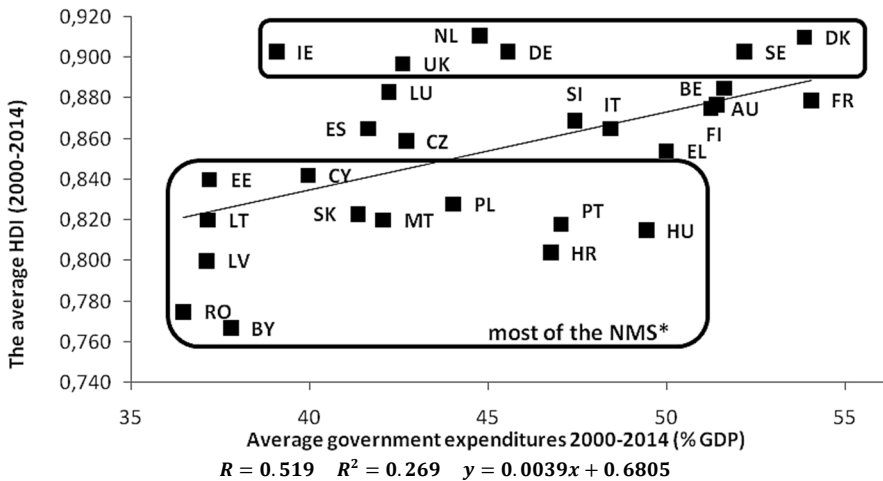


Figure 6. Government Expenditure to Quality of Life, EU-15 and NMS

Notes: *without Slovenia and the Czech Republic, which present a higher rate of socio-economic development, but with Portugal with the lowest socio-economic development in EU-15

Source: own calculations based on data from the Eurostat database and the UN database:

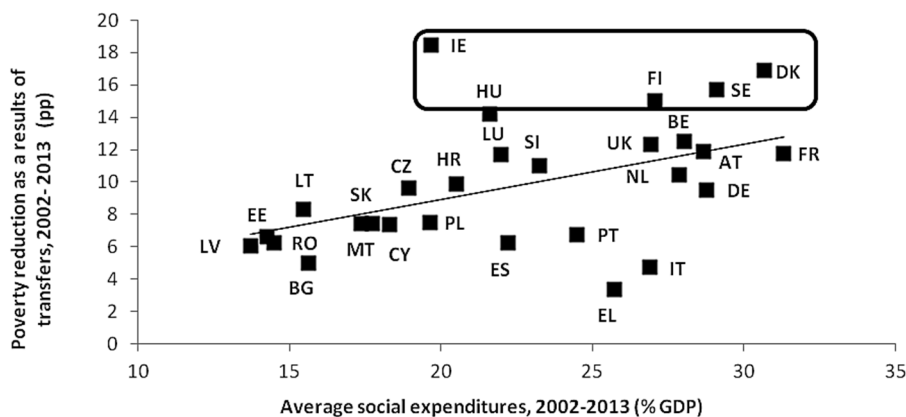
<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&plugin=1&language=en&pcode=tec00023>

<http://hdr.undp.org/en/countries> [access: 17.09.2016]

the HDI is determined by the level of public spending – the greater the expenditures, the higher the human development index. However, it should be noted that even though Ireland and Sweden are similar in terms of the human development level measured by the HDI, their public spending policies differ greatly. In recent years (1995-2012), public spending in Ireland accounted, on average, for only 39% of the GDP⁵, as compared to more than 55% in Sweden, which suggests that the extra spending in Sweden (a difference of more than 15%) does not produce desired results. The global economic crisis started in 2007-2008 had a significant influence on the discussed issues.

A moderate positive correlation exists between the amount of social spending and the reduction of poverty $R = 0.476$, with the coefficient of determination of $R^2 = 0.227$, which suggests that the countries which spend more reduce poverty to a greater extent than those which spend less. The linear regression function demonstrates that with each 1 pp increase in public spending poverty reduction rise by an average of 0.34 pp. It should be noted, however, that it is possible to reduce poverty by as much as the Nordic countries with much less spending in the public sector. A case in point, for instance, is Ireland, which only spent an average of 16% of its GDP on social purposes over the period 2002-2007, and still recorded a poverty reduction rate of 16%. Similar results (approx. 17%) were observed only in the Nordic countries, where the average public spending level stood at 30% of the GDP. Therefore, despite the moderate positive correlation, it is still possible to reduce poverty with a relatively low level of public expenditure. This confirms the law of diminishing returns with regard to the public sector.

Figure 7 presents even more evidence that public spending can be managed both justly and effectively.



$$R = 0.476 \quad R^2 = 0.227 \quad y = 0.3389x + 2.1481$$

Figure 7. Effectiveness of social expenditures to reduce poverty, EU-15 and NMS

Source: own calculations based on data from the Eurostat database:

<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsdsc280>

<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tps00098>

http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_li10&lang=en [access: 08.10.2016]

⁵ If not for the crisis, Irish public spending would be even lower and the HDI even higher.

CONCLUSIONS

The discussion in this paper demonstrates that the Nordic system performs the best among all the welfare state models in terms of the principal assessment criteria that include the labour market situation, as well as the reduction of poverty and social inequalities. However, the Nordic social policy model, based on the assumption that the state is designed not only to preserve, but also to expand the welfare of its citizens, though widely admired, is not without flaws. In theory, the Nordic countries have been successful in reducing poverty. However, their policies have not been very cost-effective; public spending exceeds 30% of the GDP, and the global crisis has increased it even further. The example of Anglo-Saxon Ireland shows that public expenditure can be used more effectively to fight poverty; Ireland has managed to reduce poverty by almost as much as Sweden, Finland, or Denmark, but at a much lower cost.

It is true that the baseline poverty level (before social transfers) in the Nordic model is lower than in Ireland and that even the high effectiveness of Anglo-Saxon solutions will not succeed in bringing poverty down to a level lower than, for instance, that of Denmark. It is, however, highly probable that at least a partial approximation to the Anglo-Saxon model could give a boost to economic recovery, and lower taxation would help create new jobs, thus enabling an effective reduction of poverty.

There has been a tendency in the literature to regard the NMS as a distinct group of countries. Some authors suggest that the NMS constitute a separate group in the social policy regimes classification. In fact, we suggest that the NMS cannot be treated as a harmonious, homogenous group of countries. It should be kept in mind, however, that the point of departure for the welfare state formation process in the post-communist countries was completely different than in Western Europe. The historical framework of the welfare state models in the New Member States was extremely important, especially the forty-five years experience of the communist regime and the shift towards the market economy.

The former post-communist countries have not yet fully caught up with the rest of the continent, but the gap has been steadily shrinking. The NMS also represent different approach to social policies. This is due not only to cultural differences, but also to the post-communist point of departure and the specific decisions taken by leading politicians during the transformation period. This suggests that substantial differentiation among the NMS exists.

This paper demonstrates more similarities can be drawn across the NMS and the EU-15 than within the NMS and EU-15, respectively. The typology of welfare state models is applied to the NMS and their effectiveness is tested. Accordingly, we classify the Czech Republic, Slovenia and Cyprus as countries of the Nordic model; Hungary, Slovakia and Malta as the continental model; Lithuania, Latvia and Estonia as the Anglo-Saxon model and, finally, Poland, Croatia, Romania and Bulgaria as the Mediterranean model. In the analysis, the NMS, and the Czech Republic (the Nordic model) and Slovakia (the Continental model) in particular, achieve satisfactory results across all indicators.

Today the situation is different. That is, recent data suggest that the global crisis has caused an increase in the level of poverty and social spending in Ireland. However, this is just a temporary situation and it does not reflect the solutions of the Anglo-Saxon model. Assuming that all citizens are eligible to receive the benefits of the welfare

state, it is extremely difficult to keep public spending at a prudent level. A better allocation of capital without compromising the effectiveness of social welfare should be a good solution. It is necessary to further develop this research.

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Determinants of MNE Activity in Poland: The Case of Firms from EU-15

Andrzej Cieřlik

ABSTRACT

Objective: The main purpose of this paper is to validate empirically the theoretical predictions of the modified knowledge capital model of multinational enterprise and identify the main reasons for undertaking international production in Poland by foreign firms from the EU-15 countries.

Research Design & Methods: Our theoretical framework refers to the physical capital augmented knowledge capital model that combines both horizontal and vertical reasons for foreign direct investment. The empirical implementation of the theoretical framework is based on the negative binomial model and the bilateral dataset covering 15 old EU member states over the period 1989-2014 which yields a total of 390 observations.

Findings: Our estimation results indicate that the extent of multinational activity in Poland is positively related to both differences in relative factor endowments and similarity in the relative country size which confirms the importance of both reasons for undertaking foreign direct investment in Poland.

Implications & Recommendations: The empirical evidence confirms the predictions of the modified knowledge capital model and points to the horizontal as well as vertical motives for undertaking foreign direct investment in Poland. These findings suggest that government should not try to attract only one type of FDI.

Contribution & Value Added: The originality of this work lies in the empirical implementation of the theoretical framework that allows distinguishing between horizontal and vertical reasons for foreign direct investment.

Article type: research paper

Keywords: count data, European Union, foreign direct investment, negative binomial model, multinational enterprises, Poland

JEL codes: F14, P33

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INTRODUCTION

In the recent years, considerable attention has been devoted to studying the factors that determine the inflows of foreign direct investment (FDI) to various countries and regions of the world. The vast literature documenting the emergence of multinational enterprises (MNEs) shows a variety of different approaches. The theories of international production that have been proposed to explain the determinants of multinational activity can be broadly categorized into three main stands, namely: the neoclassical literature, the international business literature and the new trade theory (NTT) literature. However, one of the fundamental questions that they all aim at answering concerns the motivation of firms behind the choice of affiliate production rather than exporting or licensing arrangements as the way of servicing a foreign market.

For many years research on the determinants of the extent of MNE activity was purely theoretical. Empirical studies that attempted to validate the predictions of the competing theories of multinational enterprise were relatively scarce. Especially, the empirical tests of the MNE theories that belong to the NTT strand in the literature have not started until the early 1990s. Initially they were focused almost entirely on American multinationals, while MNEs from other countries until recently received much less attention. In particular, the empirical evidence on multinational activity in the new member countries of the European Union (EU) still remains relatively scarce.

This paper aims at filling a part of the existing gap in this empirical literature by focusing on the determinants of the multinational activity in Poland – the biggest of the new EU member states which attracted most FDI in the region. With over 174 billion euros in FDI at the end of 2014 Poland has emerged as one of the most attractive host countries for the location of MNE activities among the new EU member states in the last several years (National Bank of Poland, 2015). However, the distribution of FDI in Poland according to the country of origin is skewed towards several main source countries. The vast majority of FDI in Poland originates from the old EU-15 countries that differ in terms of their size as well as in relative factor endowments. The three main source countries in 2014 were: the Netherlands (29.9 bln), Germany (28.1 bln) and Luxembourg (19.9 bln), respectively which accounted for almost 45% of inward FDI stock in Poland.

The main purpose of this paper is to validate empirically the theoretical predictions of the modified knowledge capital (KC) model of the multinational enterprise, that belongs to the NTT strand in the MNE literature, and identify the main reasons for undertaking FDI in Poland by multinational firms originating from the old EU-15 countries. Extensive citations and significant previous empirical research for other countries suggest that the KC model is regarded in the mainstream economics as the most general theory of the multinational enterprise that is currently available as it combines both horizontal and vertical reasons for undertaking FDI (Markusen, 2013). The empirical implementation of this theoretical framework for Poland is based on the bilateral dataset on multinational firms from the EU-15 countries and covers the period 1989-2014 which yields a total of 390 observations. The negative binomial model is used as the preferred estimation technique compared to the simple Poisson model due to overdispersion present in the dataset. The paper contributes to a better understanding of determinants of multinational activity in Poland and its contribution of this paper to the

MNE literature is mainly empirical. In particular, in contrast to previous empirical studies that were based on the original KC model, in addition to differences in GDP per capita, the statistical data on differences in both physical and human capital per worker that come from the most recent edition of PennWorld Table 9.0 are employed as the actual measures of differences in relative factor endowments.

The remainder of this paper is organized as follows. In the next section we survey the relevant literature on the theory of multinational enterprise that derives from the NTT. Then, we describe the analytical framework, discuss the research hypotheses, present definitions and sources of our explanatory variables and describe the empirical methodology. Finally, we discuss our estimation results. Concluding remarks, policy guidelines and directions for future research are provided in the last section.

LITERATURE REVIEW

Early theoretical studies based on the neoclassical assumptions viewed FDI as a part of the portfolio theory of international capital flows. According to this view these flows were driven by international differences in return on capital. The early theoretical studies on FDI, such as MacDougall (1960) or Kemp (1962), viewed the expansion of multinational firms as the transfer of financial or physical capital. According to these studies capital should flow from capital-abundant to capital-scarce countries and between countries with the same factor endowments capital flows should not be observed. However, the predictions of these studies were not in line with reality as the largest share of multinational activity occurs between developed countries that are similar both in terms of their relative factor endowments and economic size. The traditional neoclassical approach was also criticized because of relying on the set of very unrealistic assumptions, such as constant returns to scale (CRS) and perfect competition, which were not in line with the key industry-level stylized facts on FDI.¹

The shortcomings of the formal neoclassical approach led to the rejection of the neoclassical strand in the MNE literature by international business economists and the development of an alternative eclectic strand in the literature. The major early representative of this strand is Dunning's (1977) OLI conceptual framework that later became the convenient point of departure for more formal theoretical modeling.² However, the developments in the NTT provided a set of models that proved very useful in studying the emergence of multinational enterprises and foreign direct investment in a formal way. In this strand in the MNE literature two main reasons why a firm should go multinational were identified: efficiency-seeking and market-seeking. According to the first, firms internationalize produc-

¹ For example, Markusen (2002, p. 6) noted that: i) "large differences exist across industries in the degree to which production and sales are accounted for by multinational firms", ii) "multinationals tend to be important in industries that a) have high levels of R&D relative to sales, b) employ large number of professional and technical workers as a percentage of their total workforces, c) produce new and/or technologically complex products, and d) have high levels of product differentiation and advertising", iii) "multinationals tend to be firms in which the value of the firms' intangible assets is large relative to its market value". Moreover, another problem was that in the neoclassical perfectly competitive constant returns approach firms were infinitely small and it was not possible to study directly the investment decisions that took place within the firm.

² In the subsequent years a variety of alternative informal conceptual frameworks were proposed by international business economists. However, as this paper relates to the NTT strand in the MNE literature hence summarizing the international business strand in the MNE literature goes beyond the scope of this paper.

tion and become MNEs in order to get access to inputs at lower costs. FDI undertaken with the aim of reducing production costs is referred to as vertical FDI as it involves fragmenting the value chain internationally and locating various stages of production in countries where factors used intensively in particular stages are relatively cheap. According to the second approach, MNEs are vehicles to overcome distance and lower costs of foreign markets access. FDI undertaken to serve local markets is often horizontal FDI and refers to producing abroad similar goods and services as in the home country.

Horizontal FDI constitutes so far the largest fraction of MNE activity in the contemporary world economy. It occurs mostly between developed countries that are similar in terms of their relative factor endowments as well as their economic size. To explain this phenomenon a number of NTT models of horizontally integrated MNE have been developed. The central plank of these models is called the proximity-concentration tradeoff according to which FDI occurs when the benefits of producing in the foreign market outweigh the loss of economies of scale from producing exclusively in the firm's home plant [Neary, 2009]. The early examples of this approach are the models developed by Krugman (1983) and Markusen (1984). Initially, their models were extremely simple assuming identical factor endowments across countries and were based on partial equilibrium frameworks. These models were subsequently extended and modified by a number of authors including, *inter alia*, Horstmann and Markusen (1987), Smith (1987), Motta (1992), Brainard (1993a), Markusen and Venables (1998, 2000), Helpman *et al.* (2004), Sinha (2010), Collie (2011), and more recently Cieřlik (2013; 2015a,b; 2016). In their models firms had different channels of entering a foreign market and each of them incurred different costs. Although particular models differed with respect to assumptions concerning the market structure, the main prediction was as follows: firms were more likely to enter the foreign market via FDI rather than via exporting the higher the trade costs and the lower fixed costs of entry and the size of economies of scale at the plant level compared to the firm level.

With the falling transportation and communication costs between developed and developing countries an increasing part of multinational activity is explained by the efficiency-seeking motive. The first models of a vertically-integrated multinational enterprise were developed by Helpman (1984,1985) and Helpman and Krugman (1985). These models can be regarded as extended versions of the Chamberlin-Heckscher-Ohlin NTT models in which differences in relative factor endowments between trading partners were so large that trade alone was not sufficient for achieving factor price equalization. For example, if one country had a much higher endowment of capital per worker than the other then it would be profitable for the firm to split up the value chain by locating capital intensive parts of the production process in the capital abundant country and moving labor intensive segments to low cost destinations. According to this approach parent firms from the capital abundant country exported capital intensive products, such as headquarter services and intermediate inputs, to its subsidiaries located in the labour abundant country while subsidiaries exported a substantial fraction of their output back to the home country.

Throughout the 1980s and 1990s horizontal and vertical models of multinational enterprise were treated as two separate strands in the literature. The next step in the development of the theory of multinational enterprise aimed at combining the horizontal and vertical approaches into a hybrid framework in which firms can choose between national, horizontal and vertical strategies. This has been done by Markusen

(2002) who called this integrated framework the knowledge capital model. The KC model allows national firms, horizontal multinationals and vertical multinationals to emerge endogenously in the equilibrium, depending on various combinations of home and host country characteristics. In the later years the knowledge capital model has been extended by various authors in many directions. These extensions include, *inter alia*, the theoretical studies by Bergstrand and Egger (2007, 2013), Markusen and Strand (2009), Markusen and Stähler (2011), Chen *et al.* (2012), and most of them are summarized in Markusen (2013). In particular, one of the most important recent extensions of this framework is the incorporation of physical capital in addition to the human capital that allows the direct comparison of the knowledge capital model with the horizontal and vertical models of the multinational enterprise in which differences in relative factor endowments were determined by the capital to labour ratios.

Empirical studies that attempted to validate the predictions of the new theories of multinational enterprise have not started until the early 1990s. Initially they were focused almost entirely on American multinationals while firms from other countries received much less attention. These studies were initiated by Brainard (1993b, 1997) who tested two alternative hypotheses: the proximity-concentration tradeoff for horizontally integrated MNEs and relative factor endowments for vertically integrated MNEs. She found that the majority of American MNEs were integrated horizontally, and not vertically. However, Carr, Markusen and Maskus (2001) estimated specifications directly derived from the knowledge capital model and found that American MNEs were integrated not only horizontally, but also vertically. Subsequent studies by Braconier *et al.* (2006) and Davies (2008) found more evidence in favour of vertical production.

Since then the determinants of foreign direct investment flows have been widely investigated also in other countries. In particular, the opening of the economies of Central and East European countries (CEECs) to FDI in the early 1990s stimulated interest in studying determinants of FDI into those countries. Initially, empirical studies for those countries were conducted treating all the countries in the whole region jointly. Examples of such studies include Lansbury *et al.* (1996), Brenton *et al.* (1999), Benacek *et al.* (2000), Resmini (2000), Garibaldi *et al.* (2001), Bevan and Estrin (2004), Carstensen and Toubal (2004), Cieřlik and Ryan (2004), Baniak *et al.* (2005), Gorbunova *et al.* (2012), and most recently also Wach and Wojciechowski (2016). Subsequently, studies for individual CEECs started to appear. In particular, determinants of inward FDI in Poland were studied by Cieřlik (1996, 2006), Witkowska (1996), Przybyłska (1998, 2001), Liberska (1999), Polak (2002), Markowicz and Mięszewicz (2007), Ancyparowicz (2009), Lizińska (2012), and more recently Jasiniak (2014) and Owczarczuk (2014).³

The above literature review clearly shows that substantial research was done on the determinants of foreign direct investment location decisions of multinational corporations in Central and Eastern Europe. In particular, considerable attention has been paid especially to the factors influencing the volume of inward FDI in transition economies that

³ In many cases previous studies presented simple analogies based on the research results for other countries or were limited to case studies and survey evidence for a relatively small number of firms which did not allow making generalizations based on a large number of cases. In addition, only in a very limited number of studies more formal econometric evidence on FDI determinants was presented. However, the majority of these econometric studies were based on *ad hoc* regressions without firm references to the theory which made the interpretation of estimation results difficult.

recently became member countries of the European Union. In each of the papers the focus of analysis was on the country specific determinants of foreign direct investment location decisions. What seems to be even more important, all the described studies aimed at comparing the sets of explanatory variables identified as significant for the amount of FDI flows received by various countries due to a willingness to explain the differences in foreign capital distribution among the CEECs. However, with the exceptions of the early studies by Cieřlik (1996,2006) who approximated differences in relative factor endowments with GDP per capita differences, none of the aforementioned studies tried to test empirically the predictions derived directly from the formal models of the multinational enterprise that belong to the NTT strand in the MNE literature and distinguish between horizontal and vertical FDI. Therefore, in contrast to the previous empirical studies, in addition to studying the differences in GDP per capita in the current research we will also study the role of differences in relative human and physical capital endowments.

MATERIAL AND METHODS

In order achieve our research goal and identify the main reasons for undertaking FDI in Poland by foreign firms from the EU-15 countries in this study we derive a number of research hypotheses on the basis of the modified KC model. This model is based on the general equilibrium approach that incorporates both horizontal and vertical reasons for FDI. There are three main assumptions that allow different types of firms to arise endogenously in equilibrium (Markusen, 2013). First, the KC model assumes that, like in the pure vertical model, creation and services of knowledge-based assets, such as R&D, could be geographically separated from production and supplied to foreign subsidiaries by the headquarter at a fairly low cost. Second, it assumes that headquarter services are more human-capital intensive than production units. Third, it assumes that these knowledge-based services have a joint-input characteristic. In other words, they could be simultaneously used by multiple production facilities, giving rise to firm-level scale economies, like in the pure horizontal model. The first two assumptions provide incentives for the international fragmentation of production and locating various segments of production process where the factors used intensively in each segment are relatively cheap. The third assumption motivates horizontal investment that replicates the production of the same goods or services in different countries.

Unfortunately, the KC model cannot be solved analytically. The analytical difficulties imply that most results have to be derived from numerical simulations. These simulations generate predictions on the relationship between the extent of multinational activity and country characteristics. For example, national firms exporting to each other's market would be the dominant type when countries are similar in economic size and relative factor endowments and trade costs between them are low. Horizontal multinationals would dominate when countries are similar in economic size and relative factor endowments and trade costs are high. However, if countries are dissimilar in either size or in relative factor endowments one country will be favoured as a location of both headquarters and production activities or one of these two activities.

In particular, if countries are dissimilar in size but similar in relative factor endowments then national firms located in the large country would be favoured as they could avoid installing costly capacity in the smaller market. On the other hand, if countries are similar in

size but dissimilar in relative factor endowments vertical multinationals would be the dominant type as there is an incentive to split the production process and concentrate headquarters in the human-capital abundant country and production in the labor-abundant country, unless trade costs are high. The extent of multinational activity in the KC model is the largest when the parent country is moderately small and highly abundant in human capital.

Even though most findings of the KC model derived from numerical simulations, the model generates a number of testable predictions, relating the extent of multinational activity to country characteristics. The predictions of the KC model can be tested using statistical data on FDI from old EU-15 countries to Poland. However, it should be noted that Markusen (2002) and his followers in their theoretical frameworks analyzed bilateral multinational activity, while in our study, we take into account only unilateral multinational activity, i.e. our dataset includes one-way FDI only, i.e. FDI from EU-15 countries to Poland. Therefore, our research hypotheses on FDI from EU-15 to Poland derived on the basis of the modified KC model can be formulated as follows:

- H1:** Total income and the similarity in market size between EU-15 countries and Poland are associated positively with multinational activity as they motivate horizontal FDI.
- H2:** The differences in relative factor endowments between EU-15 countries and Poland are associated positively with multinational activity as they motivate vertical FDI.
- H3:** Higher trade costs between EU-15 countries and Poland discourage vertical FDI and encourage horizontal FDI so the overall effect is unclear and must be determined empirically.

The KC model predicts how multinational activity on a bilateral basis can be related to combined market sizes, differences in economic country size, relative factor endowments and trade costs. In order to validate empirically the theoretical predictions of the KC model we use a panel of cross-country observations for Poland over the period 1989-2014. Country characteristics determining the extent of multinational activity between countries in the KC model appear also in pure horizontal and vertical models although their expected impacts differ across models. Therefore, checking whether the market access motive or the production cost motive better explains the cross-country pattern of FDI in Poland can be done by evaluating the signs and significance of the estimated coefficients on various country-pair characteristics obtained from the single empirical setting.

The two key variables that allow distinguishing between competing reasons for FDI are the measures of similarity in relative factor endowments and economic size between the home and the host countries. In particular, the horizontal reason predicts that the involvement of multinational firms in the host country would decrease with increasing differences in relative factor endowments while the vertical reasons predicts an opposite relationship. Therefore, if the estimated coefficient on the measure of differences in relative factor endowments between the home and the host countries turns negative, then the market access motive should be more important, while if it turns positive, then the production cost motive should be more important.⁴

⁴ In the KC model, there is some non-monotonicity in the relationship between the measure of involvement of MNEs in the host country and differences in relative factor endowments. The rise in human capital per worker in the human capital-scarce country, that reduces differences in relative factor endowments between countries, leads to a fall in the foreign involvement in the host country for a relatively similar countries but increases

Despite ongoing convergence between Poland and the EU-15 the differences in relative factor endowments between these countries are still substantial, hence we should expect a positive sign of the coefficient on differences in relative factor endowments if the production cost motive were to dominate. In this study we use two ways of measuring differences in the relative factor endowments between countries. First, to assure comparability with the previous studies we proxy for differences in relative factor endowments between Poland and its investment partners with the per capita difference in GDP (GDPPCDIFF) calculated using output-side real GDP at chained PPPs and expressed in constant 2011 US dollars.

Then, in order to calculate cross-country differences in relative factor endowments we also use the actual factor data on human as well as physical capital. The differences in human capital endowments (HLDIFF) are calculated using the human capital index, based on years of schooling and returns to education. The differences in physical capital endowments (KLDIFF) are calculated using the capital stock expressed in PPPs in constant 2011 US dollars and the number of people employed. The data necessary to calculate differences in relative factor endowments come from the PennWorld Table (PWT) 9.0 available on www.ggd.net/pwt.

The second key explanatory variable is similarity in economic size between the home and the host countries. Both the pure horizontal and the hybrid knowledge capital model predict a negative relationship between differences in the country size and the extent of involvement of multinational firms in the host country, while in the pure vertical model similarity in country size does not play any role. Therefore, we can expect a positive sign of the estimated coefficient on this variable if the market access motive is important and no relationship for the production cost motive. To measure similarity in relative country size we use the size dispersion index proposed by Helpman (1987). The value of this index is positively related to similarity in size of investment partners and is maximized when both the home and the host countries are of equal size. In order to calculate the size similarity index (SIMILARITY) data on output-side real GDP at chained PPPs and expressed in constant 2011 US dollars for Poland and particular EU-15 countries is used. This data also comes from the PennWorld Table (PWT) 9.0.

In addition to the measures of differences in relative factor endowments and similarity in economic size that are used for model identification we also include a number of additional variables in our estimating equation in order to control for other effects. To control for the absolute economic size of investment partners we include the sum of Poland's and the home country's GDP (GDPSUM). In the theoretical models that were surveyed in the previous section the absolute economic size of investment partners is positively related to the extent of foreign involvement in the host country. Therefore, a positive sign on the GDPSUM variable should be expected. To calculate the sum of investment partners' GDP we use the same data on GDP that was used previously to calculate the GDP similarity index which comes from the PennWorld Table (PWT) 9.0.

In order to control for the effects of transport and other distance related costs such as communication and monitoring we include geographic distance (DISTANCE) between the home country and Poland. The economic theory, however, does not yield clear predictions about the exact impact of distance on the extent of foreign involvement in the host country. On the basis of previous empirical studies we can expect a negative sign of

FDI when the host country is very human capital-scarce. However, the theory cannot exactly predict where the turning point is (Carr *et al.*, 2004).

the estimated coefficient on the DISTANCE variable. We choose to measure distance in the simplest possible way by calculating a “as the crow flies” distance between European capitals and the capital city of Poland – Warsaw and express it in kilometers. This data is available on line from <http://www.indo.com/distance>.

Finally, to control for business cycle and policy changes effects such, as joining the EU in 2004, we also include individual time effects and to control for cross-country heterogeneity we include country-pair fixed effects. The inclusion of individual country-pair fixed effects allows also controlling implicitly for other forms of distance stressed by international business economists, such as cultural distance, and other country specific factors that are constant over time such as common historical background.

The definitions of the dependent and explanatory variables and their summary statistics are shown in Table 1.⁵

Table 1. Definitions and summary statistics of dependent and explanatory variables and their expected signs

Explanatory variable	Definition	Mean	Std. dev.	Min	Max
MNE	Number of firms with foreign capital	764.91	1242.63	0	6303
GDPPCDIFF	Per capita GDP difference between parent country and Poland	17870.64	7452.43	235.21	46666.89
HLDIFF	Human capital per worker difference	0.2636	0.2138	0.0009	0.8998
KLDIFF	Capital per worker difference	183962.90	72660.18	50610.21	421443.30
SIMILARITY	Helpman GDP dispersion index	0.3731	0.1032	0.0624	0.4999
GDPSUM	Sum of parent country and Poland's GDPs	1368554	933535.60	309587.30	4694847
DISTANCE	Geographic distance of each parent country's capital city from Warsaw	1292.27	609.75	515	2756

Source: own calculations performed in STATA 11.

Our measure of the extent of foreign involvement in Poland's economy is the number of operational entities with foreign capital participation obtained from the Polish Central Statistical Office (CSO).⁶ According to the most recent CSO (2015) data in 2014 there were 26464 operational firms with foreign equity and 18517 of this total (70%) reported equity that belonged to investors located in the EU-15 countries. The top three source countries were, respectively, Germany with 6041 firms (22.8%), the Netherlands with 2575 firms (9.7%), and the UK with 1384 firms (5.2%). The majority of multinational enterprises as well as the foreign equity were concentrated in service and manufacturing activities and foreign involvement in the primary sector was negligible.

Our dependent variable assumes non-negative integer values and the distribution of firms is skewed towards a few EU-15 source countries. The preponderance of zeros and small values in the sample, as well as the clearly discrete nature of the dependent variable, suggest

⁵ The calculated values of the correlations between all the variables used in the empirical study are reported in Table A1 in the Appendix.

⁶ CSO, 2015, The economic activity of firms with foreign capital participation, Zakład Wydawnictw Statystycznych, Warszawa.

that we can improve on traditional estimation techniques, such as OLS for example, with a specification that accounts for these features. Therefore, in order to validate the theoretical predictions of the modified KC model of multinational enterprise and identify the main reasons for undertaking FDI in Poland by foreign firms from the EU-15 countries, the use of count models in this study seems to be the most suitable choice. The Poisson and negative binomial (NB) models are two most popular count models. In the Poisson model the probability of observing a count of foreign firms from country i y_i that operate in Poland is:

$$Pr(y_i|x_i) = \frac{e^{-\lambda_i} \lambda_i^{y_i}}{Y_i!} \quad (1)$$

where:

$$y_i = 0, 1, 2, \dots, N;$$

λ_i is the expectation of the number of multinational firms from country i operating in Poland, assumed to be log-linearly dependent on the vector of country characteristics x_i :

$$\ln \lambda_i = \beta' x_i \quad (2)$$

where:

β is a parameter vector that needs to be estimated.

The crucial assumption of the Poisson model is the equality of conditional variance and conditional mean. However, count data very often exhibits overdispersion. This problem can be easily avoided by using the NB model which is a generalized version of the simple Poisson model that introduces an individual unobserved effect into the conditional mean:

$$\ln \lambda_i = \beta' x_i + \varepsilon_i \quad (3)$$

where:

ε_i reflects either a specification error or some cross-sectional heterogeneity with $\exp(\varepsilon_i)$ having a gamma distribution with a unit mean and variance α .

The expected value y_i in the negative binomial model is exactly the same as in the Poisson model but the variance is bigger than the mean and equals:

$$var[y_i|x_i] = E[y_i|x_i]\{1 + \alpha E[y_i|x_i]\} \quad (4)$$

The negative binomial model approaches the Poisson model as overdispersion approaches zero. When the estimated parameter α is not statistically different from zero, the conditional mean becomes equal the conditional variance and the negative binomial model simplified to the Poisson model. Hence, the Poisson model is nested in the negative binomial model. In order to make the comparison between these two models the standard likelihood ratio test can be used. In this study we estimated both the Poisson and NB models. However, it turned out that in all cases the estimated parameter α was statistically different from zero and the likelihood ratio test always favored the NB model versus the Poisson model. Therefore, in the next section we report only the negative binomial model estimates.

RESULTS AND DISCUSSION

In this section we report two sets of our estimation results. First, in order to achieve comparability with the earlier studies, in Table 2 we report estimation results obtained for the specification in which we use GDP per capita as a measure of relative factor en-

dowments. Then, in Table 3 we report estimation results obtained from the specification in which we use the actual human and physical capital per worker data.

Table 2. Estimates of the NB model for the period 1989-2014: GDP per capita data

Explanatory variable	(1)	(2)	(3)	(4)
GDPPCDIFF	0.000087*** (12.33)	0.000069*** (10.65)	0.000078*** (7.84)	0.000043*** (5.20)
SIMILARITY	3.759283*** (9.34)	3.575377*** (10.55)	-6.201976*** (4.92)	2.853520*** (2.92)
GDPSUM	1.10e-06*** (23.34)	1.01e-06*** (14.65)	1.77e-06*** (19.83)	-6.99e-07*** (4.34)
DISTANCE	-0.000663*** (13.65)	-0.000935*** (14.65)	0.000599*** (3.86)	-0.002912*** (11.92)
Constant	2.261137*** (6.81)	0.483792 (1.58)	2.527454*** (6.11)	6.975686*** (13.80)
Time-specific effects	NO	YES	NO	YES
Country-specific effects	NO	NO	YES	YES
Loglikelihood	-2648.633	-2539.198	-2551.608	-2372.102
Pseudo R2	0.096	0.133	0.129	0.190
Alpha α (z-stat)	0.532090 (14.36)	0.320132 (13.89)	0.329316 (13.58)	0.129663 (12.61)
LR test (p-val)	7.7e+04 (0.000)	6.2e+04 (0.000)	4.7e+04 (0.000)	1.1e+04 (0.000)
Chi2 test for time effects (p-val)	–	361.02 (0.000)	–	629.30 (0.000)
Chi2 test for country ef- fects (p-val)	–	–	251.82 (0.000)	548.78 (0.000)

Notes: Dependent variable: the number of multinational enterprises; N = 390 in all specifications; * significant at the 10% level of significance, ** significant at the 5% level of significance, *** significant at the 1% level of significance.

Source: own estimations performed in STATA 11.

The baseline estimates obtained via the traditional NB approach on the pooled dataset without controlling for individual time and country-pair specific effects are presented in column (1) of Table 3. It turns out that almost all estimated coefficients are statistically significant already at the 1% level and display expected signs with the exception of differences in human capital per worker. In particular, the positive signs of the estimated parameters on both the measure of differences in capital-labor ratios and on the measure of similarity in terms of market size suggest that both vertical and horizontal reasons are important for multinational activity in Poland. These findings are in line with the estimation results reported in column (1) of Table 2. However, they do not fully support the original knowledge capital model where differences in human capital abundance play a key role in determination of the extent of multinational activity. Nevertheless, they are in line with the results of the modified KC model in which the physical capital is also included as an important factor of production.

In column (2) we control for individual time specific effects by including dummy variables for particular years of our sample. Similar to the estimates reported in column (2) of Table 2, the estimated coefficients on time effects are jointly statistically significant, as indi-

cated by the high value of χ^2 test. Their inclusion improves the accuracy of our baseline estimates, reported in column (1), which is reflected in the higher value of the loglikelihood and pseudo R^2 suggesting a better fit of the empirical model. However, the inclusion of individual time effects makes the capital-labour ratio statistically not significant. This would suggest that only the horizontal reason for multinational activity in Poland is important.

In column (3) we control for individual country-specific effects by including dummy variables for particular countries in our sample. Similar to the estimates reported in column (3) of Table 2, the estimated coefficients on country-specific effects are jointly statistically significant, as indicated by the value of χ^2 test. Their inclusion improves the accuracy of our baseline estimates, reported in column (1), which is reflected in the higher value of the loglikelihood and pseudo R^2 suggesting a better fit of the empirical model. Compared to the baseline results from column (1), the inclusion of country-specific effects does not change much statistical significance of the estimated parameters on our explanatory variables with the exception of the human capital differences variable which becomes statistically significant but only at the 10% level. Our previous conclusions concerning the impact of differences in capital to labor ratios on the extent of foreign involvement in Poland remain unchanged as the estimated parameter on this variable displays the positive sign and is statistically significant already at the 1% level. In addition, the inclusion of country-specific effects changes the sign of the estimated parameter on the measure of similarity in terms of the market size which now becomes negative and statistically significant only at the 5% level.

Finally, in column (4) we include both country-specific effects and time-specific effects. These estimation results differ from the baseline results reported in column (1) as now both measures of differences in relative factor endowments become statistically significant already at the 1% level and display the expected positive signs. The estimated coefficients on similarity in market size also displays the expected positive signs and is statistically significant already at the 1% level. However, this time the sign of the estimated parameter on the absolute market size now becomes negative and statistically significant at the 1% level. These estimation results suggest that both differences in relative factor endowments as well as the market access are important for multinational firms based in the EU-15 countries that undertake FDI in Poland. These empirical findings are generally in line with the predictions of the modified knowledge capital model of multinational enterprise and support the significance of both horizontal and vertical reasons for undertaking FDI in Poland by firms from the EU-15 countries. These results are also quite similar to the results of several previous empirical studies for other countries, discussed in the literature review section, that supported both reasons for FDI.

CONCLUSIONS

The purpose of this paper was to validate empirically the theoretical predictions of the modified knowledge capital model of multinational enterprise that combines horizontal and vertical reasons for FDI using bilateral panel data on EU-15 MNE activity in Poland during the last 26 years. According to this model multinational enterprises arise endogenously in response to country characteristics such as differences in relative factor endowments, relative economic size, as well as trade costs. The assembled empirical evidence pointed to the horizontal as well as vertical motives for undertaking

foreign direct investment in Poland. In addition, differences in both relative human capital endowments and physical capital to labour ratios were found to be important for determining the extent of MNE activity in Poland. These findings suggest that government should not try to attract only one type of FDI.

The empirical evidence reported in this paper concerns, however, only the case of the old EU-15 countries which is a major limitation of the current study. Therefore, in future studies the robustness of the empirical findings for the old EU-15 countries should be verified on the extended sample of countries that would include also those countries that did not invest much or did not invest in Poland at all to address the problem of zero observations in the dataset. Another important limitation of the current study is the focus only on one type of distance – geographical distance while many recent studies in the international business literature stress the role of other forms of distance such as cultural or psychic distance. These other forms of distance should also be taken into account in future studies of FDI determinants in Poland, in particular when non-European source countries are considered.

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Appendix A1:**Table A1. Correlations between variables**

variable	MNEs	GDPPCDIFF	HLDIFF	KLDIFF	SIMILARITY	GDPSUM	DISTANCE
MNEs	1.000	0.1931	0.1426	0.1079	-0.1391	0.7085	-0.3974
GDPPCDIFF	0.1931	1.000	-0.0932	0.1124	-0.4985	0.5097	-0.0903
HLDIFF	0.1426	-0.0932	1.000	-0.1152	-0.0347	0.2443	0.2223
KLDIFF	0.1079	0.1124	-0.1152	1.000	-0.5118	0.0332	-0.1235
SIMILARITY	-0.1391	-0.4985	-0.0347	-0.5118	1.000	-0.4680	0.1553
GDPSUM	0.7085	0.5097	0.2443	0.0332	-0.4680	1.000	-0.2267
DISTANCE	-0.3974	-0.0903	0.2223	-0.1235	0.1553	-0.2267	1.000

Source: own calculations performed in STATA 11.

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The Internationalisation of Family Firms: the Role of the Ownership Structure and the Composition of Top Management Team

Aleksandra Wąsowska

ABSTRACT

Objective: The objective of this paper is to investigate the determinants of family firm internationalisation, focusing on the roles of ownership (i.e. concentration of ownership, foreign ownership) and management (i.e. involvement of nonfamily managers, owner-CEO).

Research Design & Methods: We test our hypothesis using linear regression models and logistic regression models, based on a sample of 6,957 family firms from seven European countries (Austria, France, Germany, Hungary, Italy, Spain, UK).

Findings: The concentration of ownership within the family hinders the propensity to export, but it has no effect on export intensity and export scope. Foreign ownership contributes to firm performance and that the impact of minority foreign ownership is more pronounced than the controlling foreign ownership. The involvement of non-family managers enhances internationalisation, and that owner-CEO hinders internationalisation, but only in terms of global exporting.

Implications & Recommendations: The inclusion of outsiders (both in terms of ownership and management) enhances family firms' internationalisation. This finding is particularly relevant to family business planning to expand abroad. We encourage further research investigating the relationships between different dimensions of 'familiness' and firm internationalisation, preferably in a multi-country context (e.g. advanced versus emerging economies).

Contribution & Value Added: The originality of this work lies in treating family firms as a heterogeneous group and investigating the impact of different dimensions of 'familiness' (i.e. ownership structure, composition of TMTs) upon an internationalisation strategy.

Article type: research paper

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INTRODUCTION

Family businesses (FBs), playing a crucial role in both developed and emerging economies (LaPorta *et al.*, 1999), are increasingly active in international markets. Benavides-Velasco *et al.* (2011, p. 51) notice that “the traditional family business model of growing organically within a geographic region is rapidly becoming outdated as customers, suppliers and even employees spread across the globe”. Therefore, it becomes important to study the phenomenon of family business internationalisation in order to understand how the specific features of family firms, such as their ownership structure and the composition of top management team (TMT), shape the internationalisation process.

Family business literature has been traditionally focused on issues related to succession planning and professionalisation of management, such as intergenerational conflicts, leadership and power transfer or the impact of the owners’ characteristics on the outcome of the succession process (Benavides-Velasco *et al.*, 2011). Compared to these prominent topics, internationalisation of FBs has received relatively less attention, as evidenced by recent reviews conducted by Kontinen & Ojala (2010) and Pukall & Calabro (2014). The extant literature on family firms’ internationalisation yields ambiguous results, which can be explained by a number of factors. First, due to the relatively early stage of development of this domain, research is fragmented, with most studies exploring the differences between family and nonfamily businesses, taking into consideration variables, grounded in different theoretical frameworks. These studies often do not account for the fact that ‘familiness’ is a heterogeneous concept, with family (versus nonfamily) ownership and family (versus nonfamily) management being two dimensions which need to be studied independently (Carney, Van Essen, Gedajlovic, & Heugens, 2015).

Second, although the contributions from International Business (IB) and family business literature overlap, they are not integrated, as studies in family business internationalisation often ignore IB theories (Kontinen & Ojala, 2010). Moreover, they do not differentiate between different dimensions of internationalisation, typically focusing only on export intensity (Calabrò *et al.*, 2013).

The objective of this paper is to close the research gaps in the extant literature, by answering the following question: How do the ownership structure and the management configuration of family firms contribute to different dimensions of firm internationalisation? In order to answer this question we conduct a quantitative study of family firms from seven European countries (Austria, France, Germany, Hungary, Italy, Spain, UK), based on a EU-EFIGE/Bruegel-UniCredit dataset (Altomonte & Aquilante, 2012).

The paper is structured as follows. We first discuss the theoretical framework and research hypotheses. In the following section, we outline the method of the study. Next, we present the results of the quantitative analysis. The paper concludes with a discussion on the implications and limitations of the findings.

LITERATURE REVIEW

The Role of ‘Familiness’ in Firm’s Strategy

‘Familiness’ may have both positive and negative effects on firm’s competitive position, including its ability to compete in foreign markets. Four theoretical lenses (De Massis, Frat-

tini, Pizzurno, & Cassia, 2015): resource-based view, agency theory, stewardship theory and behavioural theory provide an understanding of how 'familiness' matters to firm strategy.

Under the *resource-based view (RBV)*, family firms are a unique bundle of resources and capabilities (Barney, 1991), arising from "the interaction between the family, its individual members and the business" (Habbershon & Williams, 1999, p. 11). This interaction shapes human, social and financial capital of family firms (Colli, García-Canal, & Guillén, 2013; Sirmon & Hitt, 2003).

On a negative side, family firms have a preference towards employing family members, regardless of their competence. The lack of international experience of family managers and resistance towards entering foreign markets have been considered to be important barriers to internationalisation (Gallo & Pont, 1996). Moreover, the financial capital of family firms is often limited, which may pose a significant barrier to internationalisation.

On a positive side, human capital family firms may be enhanced by extraordinary commitment, intimate relationships and effective mechanisms to transfer tacit knowledge (Sirmon & Hitt, 2003). In a study of Spanish and Italian multinationals, Colli *et al.* (2013) found that the family acted as a "repository of (...) accrued experience" (Colli *et al.*, 2013), thus enhancing the internationalisation process. While the financial capital of family firms may be limited, it is also 'patient', i.e. it does not require short-term results and therefore it enhances strategies which may bring results in the long run (Sirmon & Hitt, 2003). Moreover, a unique characteristic of family firms is their ability to leverage the family structure for the sake of the business.

Agency theory analyses the outcomes of the separation of ownership and control functions. In companies run by hired managers, divergent interests and asymmetric information of owners and managers create agency problems (Jensen & Meckling, 1976). Hired managers are more inclined to focus on short-term goals and often act for the sake of acting, just to signal their managerial competences to the owners. The agency problem can be mitigated through a high level of the ownership concentration and the participation of managers in the capital structure (Shleifer & Vishny, 1997). The extant literature reveals that the concentration of ownership facilitates control over the management and protects the firm against excessive diversification (Amihud & Lev, 1981), but at the same time, it reduces managerial initiative (Aghion & Tirole, 1997) and decreases risk propensity (Burkart, Gromb, & Panunzi, 1997). Moreover, a high level of concentration of ownership in family firms may create incentives for large shareholders to use their controlling position in order to extract private benefits at the expense of smaller shareholders (Arosa, Iturralne, & Maseda, 2010).

In owner-managed firms the agency problem does not exist, since ownership and control functions are aligned (Jensen & Meckling, 1976). This is often the case of family firms, where business and personal goals overlap. Moreover, the agency theory argues that family businesses are risk-averse, since a significant proportion of the owner's / family's wealth is invested in the business and the investment is typically not diversified (Fama & Jensen, 1985).

Stewardship perspective argues that managers do not necessarily act in an opportunistic, individualistic and self-serving way (Davis, Schoorman, & Donaldson, 1997). Instead, this perspective depicts managers as "collectivist, pro-organizational and trustworthy" (Davis *et al.*, 1997, p. 20). The stewardship orientation is determined by three individual dimensions: motivation (i.e. people motivated by higher-order needs and intrinsic factors are more inclined to act as stewards); identification (i.e. people who have high identification with their

organisations are more inclined to act as stewards) and power (people who use personal power instead of institutional power are more inclined to act as stewards). Moreover, the emergence of stewardship relationship is more likely in involvement-oriented situations (as opposed to control-oriented situations). Extant studies reveal that family firms often develop stewardship relationships, materialised in participative decision-making, sharing of control in firm governance and reciprocal altruism (Eddleston & Kellermanns, 2007).

Behavioral theory, emphasising the psychological drivers of firm strategy, adds another perspective to the debate on the motivation and risk-propensity of family firms. Gomez-Mejia *et al.* (2007) revealed that family firms were willing to bear financial losses and a greater probability of failure in order to maintain family control. Therefore, they may be risk-willing and risk-adverse at the same time, since their main motivation is the preservation of socioemotional wealth, defined as “non-financial aspects of the firm that meet the family’s affective needs, such as identity, the ability to exercise family influence, and the perpetuation of the family dynasty” (Gómez-Mejia *et al.*, 2007, p. 106).

This section outlined theoretical reasons to argue that family firms have unique characteristics which may affect their strategic actions, including their internationalisation process. In the next section we provide an overview of studies on internationalisation of family firms and we formulate research hypotheses.

The Internationalisation of Family Firms

IB literature points to the fact that firms entering foreign markets face a “liability of foreignness”, that is an additional cost arising from the unfamiliarity of the local environment. The Uppsala model describes internationalisation as a series of incremental decisions driven by experiential learning (Johanson & Vahlne, 1977). The internationalisation develops along two dimensions: commitment to foreign markets (i.e. firms start their international expansion with low-commitment modes of entry, subsequently increasing their involvement abroad, a pattern labelled “establishment chain”) and distance (i.e. firms start their international expansion with countries close to the domestic market in terms of psychic distance, defined as “factors that make it difficult to understand foreign environments” (Johanson, Vahlne, 2009, p. 1412). In an updated version of this model, Johanson & Vahlne (2009) point to the importance of networks in the internationalisation process, arguing that a firm which enters a foreign market where it has no network connections, suffers from the “liability of outsidership”, which adds to the “liability of foreignness”.

A number of studies compared the internationalisation process of family and nonfamily businesses. This stream of research showed that the former have lower export intensity and propensity (Fernández & Nieto, 2005) and that they internationalise later and more slowly (Gallo & Pont, 1996). In an early study on Spanish firms, Gallo and Estape (1992) reveal that compared to nonfamily firms, family firms are less prone and slower to enter foreign markets. A similar result was obtained by Okoroafo (1999) who studied family firms from Ohio. He finds that family businesses are reluctant to actively engage in foreign markets. They do not monitor foreign markets, rarely source from foreign markets and, if they do not get involved in foreign countries in the first or second generation, they are unlikely to do it later on. However, there are studies revealing that there is no difference in the internationalisation performance between family- and non-family businesses (Crick *et al.*, 2006; Graves & Thomas, 2006). There is also a substantial group of studies indicating a positive impact of “familiness” on firm internationalisation. These studies support

the notion that family businesses have entrepreneurial drive, since their owners and managers are inclined to take risks (Calabro, Mussolino & Husse, 2009). Zahra (2003), based on a sample of 409 U.S. manufacturing firms, finds that family ownership has a positive impact on the scale and scope of foreign sales. Wach (2015), based on a sample of 355 internationalised firms from Poland, revealed that family firms internationalised faster than non-family firms. Daszkiewicz & Wach, based on a sample of 216 Polish firms, observed that family firms had a more active attitude towards foreign markets and that their main motivation in internationalisation was market-seeking. They were also less prone to use advanced modes of foreign market entry than non-family firms.

Inconsistencies in the research focused on comparing family and nonfamily businesses may result from the fact that the concept of “family business” is heterogeneous (Carney *et al.*, 2015). Two dimensions: family ownership and family involvement in management are typically used to assess the ‘familiness’ of a firm.

A number of studies have examined the relationship between family ownership (measured with a percentage of shares possessed by a family) and internationalisation. The ownership structure is important to firm’s strategy for at least two reasons: it influences the firm’s access to resources (Shrader & Simon, 1997) and it has an impact on the firm’s propensity to take risks (Thomsen & Pedersen, 2000).

Graves & Thomas (2008), based on a study of Australian firms, conclude that large stakes in the capital may enable families to finance foreign expansion from internal funds, generated from the domestic market. On the other hand, in their study of Indian automotive and pharmaceutical companies, Bhaumik *et al.* (2010) provide evidence on the negative influence of 100% family ownership on the internationalisation. In his study of US manufacturing firms, Zahra (2003) finds that closely held family businesses had a lower level of internationalisation, but this was not the case for other types of family businesses. Sciascia *et al.* (2012), based on a study of US family firms, reveal that the relationship between family ownership and internationalisation is curvilinear (J-shaped), with export intensity attaining the highest level at the moderate level of family ownership. Arregle *et al.* (2012), based on Swedish family firms, revealed that external involvement in governance (i.e. external ownership and external boards of directors) enhances internationalisation. Lin (2012), based on a study of publicly listed firms in Taiwan, revealed that a high level of family ownership was negatively associated to the scope of firm internationalisation, as well as the regular rhythm of firm internationalisation. Naldi & Nordqvist (2008), based on a sample of Swedish family firms, found that external ownership was positively associated with both the scale and the scope of internationalisation. Transferring part of the equity to owners unrelated to the family (i.e. nonfamily ownership), provides families with new resources and often disrupts stability, enhancing more risky strategies (Naldi & Nordqvist, 2008). Therefore, we formulate the following hypothesis:

H1: There is a positive relationship between the inclusion of non-family ownership and internationalisation of family firms.

While the extant literature suggests that the presence of shareholders from outside the family influences firm strategy, including firm internationalisation (e.g. Fernandez & Nieto, 2005), the very nature of this influence depends on the type of the external shareholder. For example, owners with a predominantly financial perspective, although not involved in strategic decision-making, bring a ‘professionalization impetus’ to the company,

as they require high reporting standards (Kaplan & Stromberg, 2001). Strategic investors, in turn, bring intangible resources (e.g. know-how). Foreign investors enhance the knowledge and understanding of international markets. Moreover, they provide access to business networks and facilitate communication with other local stakeholders in the foreign markets. This may be particularly relevant to family firms, which often suffer from the lack of resources and capabilities, as well as foreign experience (and network ties in foreign markets). Calabrò *et al.* (2013), based on a sample of Norwegian firms, find that foreign investors' ownership positively relates to the level of foreign sales and that this relationship is further moderated by family involvement, so that it is stronger for family businesses compared to non-family businesses. We argue that foreign ownership, that is the inclusion of foreign investors in the capital structure, can help family firms to increase their international orientation and to obtain resources necessary for internationalisation.

Therefore, we formulate the following hypothesis:

H2: There is a positive relationship between foreign ownership and internationalisation of family firms.

Owner-CEO in family firms may be motivated by the preservation of the socio-emotional wealth (Gómez-Mejía *et al.*, 2007), thus avoiding risks that would endanger the family's control over the business. Moreover, according to the stewardship perspective, owner-CEO would have a long-term orientation and a strong identification with the firm as a social entity. Extant studies reveal that owner-CEOs are unwilling to take actions which would endanger the firm's reputation for the sake of short-term results (e.g. Zapkau, Schwens, & Kabst, 2014).

Zahra (2003) reveals that owner-managers of family firms are reluctant towards aggressive entering many foreign markets. Instead, they prefer to maximise revenues from a limited scope of markets. Calabro *et al.* (2013) find a negative relationship between the CEO ownership and the internationalisation of Norwegian firms. They argue that owners-CEO favor a conservative approach to internationalisation, since they aim at protecting their wealth and minimise competitive and income stream uncertainty. Therefore, we formulate the following hypothesis:

H3: There is a negative relationship between the CEO ownership and the internationalisation of family firms.

Professionalisation of management is one of the main challenges for family firms. Family firms have a strong preference towards employing family members, regardless of their competences. Family managers often do not have international experience and are resistant towards entering foreign markets (Gallo & Pont, 1996). In one of the first studies on the internationalisation of family firms, Okoroafo (1999) argued that lower levels of the internationalisation of family firms result from lower managerial capabilities of family business leaders. In family business literature, the inclusion of nonfamily managers in the TMTs has been regarded as a sign of bringing new and unique knowledge to the team (Vanderkhof, 2015). Naldi & Nordkvist (2008) found that increased representation of external (i.e. non-family) board members enhanced the scope of internationalisation. Therefore, we formulate the following hypothesis:

H4: There is a positive relationship between the inclusion of nonfamily managers and the internationalisation of family firms.

The hypothesised relationships are presented in Figure 1.

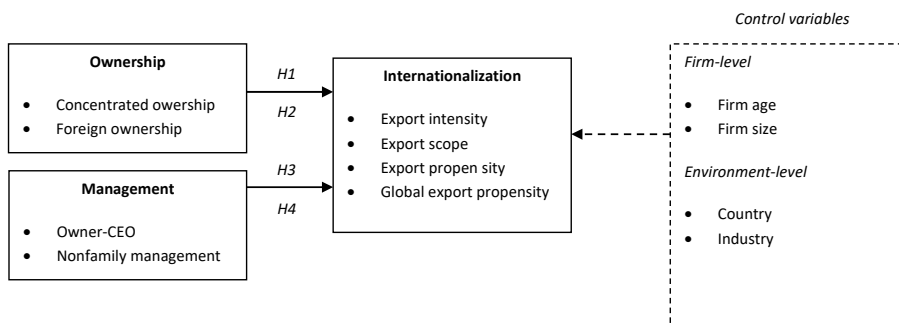


Figure 1. Analytical framework

Source: own elaboration.

MATERIAL AND METHODS

Data Collection and Sample

We use the EU-EFIGE/Bruegel-UniCredit dataset, a firm-level database constructed within the project European Firms in a Global Economy: internal policies for external competitiveness (EFIGE). This project was carried out by a number of academic institutions¹, in cooperation with national central banks and OECD and received support from the Directorate General Research of the European Commission through the 7th Framework Programme. The database includes 14,750 companies (above 10 employees) from 7 countries (Austria, France, Germany, Italy, Spain, Hungary, UK) and covers approximately 150 items, divided into six areas: structure of the firm, workforce, investment & technology, internationalisation, market structure, financial structure. The country-level samples are representative for manufacturing firms. Data were collected in 2010 by a specialised agency (GFK Eurisko), using the CATI method. The questionnaire covered data for 2008, with several recall questions concerning three previous years (2005-2007) (Altomonte & Aquilante, 2012). This comprehensive dataset was used in prior studies to examine a number of strategic choices made by European firms (e.g. Brzozowski & Cucculelli, 2016).

In the extant literature there is no consensus on the definition of the family firm (Benavides-Velasco *et al.*, 2011). Following previous studies (Pukall & Calabro, 2014), we define family business as a firm with family control and a significant involvement of family in the top management team. Therefore, from the EFIGE dataset we select firms which meet two criteria: 1) the firm responds 'yes' to a question 'Is your firm directly or indirectly controlled by an individual or family-owned entity?' and 2) the firm provides a value other than 0 to a question 'Entrepreneurs/Executives (included middle management) who are related to the family which owns the company'. We identify 6,957 family firms in the dataset (see table 1), of which 4,472 are exporters.

¹ Universidad Carlos III de Madrid, Centre for Economic Policy Researcher (CEPR), The Institute of Economics of Hungarian Academy of Sciences, Institute for Applied Economic Research (IAW), Centro Studi Luca d'Agliano (Ld'A), UniCredit, Centre d'Etudes Prospectives et d'Informations Internationales (CEPII)

Table 1. Sample characteristics

Number of employees	Country							Total
	AUT	FRA	GER	HUN	ITA	SPA	UK	
Above 250	3	17	23	2	20	39	47	151
50-249	31	184	186	24	195	226	172	1018
10-49	132	1013	948	187	1492	1220	796	5788
Total	166	1214	1157	213	1707	1485	1015	6957

Source: own elaboration based on EFIGE dataset

Measures

In this study we focus on export, which requires a relatively low commitment and risk (Johanson & Vahlne, 2009), and therefore constitutes the most common mode of entry to foreign markets among family firms (Fernández & Nieto, 2005). Following Pukall & Calabro's (2014) call for a multidimensional assessment of the internationalisation of family firms, we use four variables, corresponding to different dimensions of the internationalisation process. First, we study *export propensity*, using a dichotomous variable (denominated 'exporter' in the EFIGE dataset) which takes value of 1 if the firm is a direct exporter in 2008 or has been exporting in years before 2008. Second, we study *export intensity* with a continuous variable measured with the percentage of sales outside the home country. Third, we study *export scope*, i.e. the number of countries to which the company exports its products. Fourth, we study the propensity to export to distant countries, using a dichotomous variable *global export propensity*, which takes value of 1 if the firm is exporting to China, India or other Asian countries, or USA, Canada or Central or South America.

As indicated in the research hypotheses, the study investigates the impact of four dimensions relating to the ownership and management in family firms: the concentration of ownership, foreign ownership, owner-CEO and the involvement of nonfamily managers in firm management. The concentration of ownership is measured as a dichotomous variable (*concentration*), taking value of 1 if the family controls 100% of the capital. Foreign ownership is measured at two levels, with two dichotomous variables: *minority foreign ownership* (foreign ownership above 5% and below 51%), *controlling foreign ownership* (foreign ownership above 51%). Owner-CEO is a dichotomous variable, taking value of 1 if the CEO is 'the individual who controls the firm or a member of the controlling family'. Following the extant family business literature (e.g. Vanderkhof *et al.*, 2015), we measure the involvement of nonfamily managers with a dichotomous variable (*nonfamily managers*) taking value of 1 if at least 1 TMT member does not belong to the controlling family.

The study employs four control variables. First, we control the country, using the following dummy variables: Austria (*AUT*), France (*FRA*), Germany (*GER*), Hungary (*HUN*), Italy (*ITA*), Spain (*SPA*), United Kingdom (*UK*). *ITA* is not included in the regression models, as it represents a reference level for the interpretation of the results for other country variables. Second, we control for industry effects, using the following dummy variables: *traditional*, *high-tech*, *specialised*, *economies of scale*. This classification, offered in the EFIGE dataset, follows Pavitt's taxonomy (Pavitt, Robson, & Townsend, 1989) and it is based on the NACE code of firm (3-digits). *Traditional* is not included in the regression models, as it represents a reference level for the interpretation of the results for other

industry variables. Third, in order to account for size-related effects, we control for firm size and we measure this variable using the natural logarithm of the number of employees. Fourth, we control for firm age, since previous studies provide evidence that the older the family firm, the higher its internationalisation level and that new generations of family managers positively influence the internationalisation process (Menendez-Requejo, 2005). In order to preserve anonymity of firms, the EFIGE dataset provides only categorical variables for the year of establishment (<6 years; 6-20 years; >20 years). Therefore, we use the following dummy variables: *young* (less than 6 years); *middle-aged* (6-20 years); *old* (more than 20 years). *Middle-aged* is not included in the regression models.

Below we present descriptive statistics and correlation matrix for continuous variables included in the study. As we can see from the table, on average, the family exporters included in the sample derive 29.48% of sales from foreign markets and export to 10.35 countries.

Table 2. Correlations and descriptive statistics

	Export intensity (only exporters)	Export scope (only exporters)	Size (full sample)
<i>r-Pearson correlations</i>			
Export intensity	1	–	–
Export scope	0.435*	1	–
Size	0.153*	0.330*	1
<i>Descriptive statistics</i>			
Mean	29.477	10.349	3.321
SD	26.730	14.337	0.755
Minimum	0.000	1.000	2.302
Maximum	100.000	150.000	6.215

*p<0.05

Source: own calculations in SPSS.

RESULTS AND DISCUSSION

A regression analysis was performed to test the conceptual model (Figure 1). In order to test our research hypotheses, we used regression analysis.

For continuous dependent variables (i.e. export intensity and export scope), we used linear regression models. We chose linear regression, without trying to fit curvilinear relationships, for three reasons. First, since the tested independent variables are dichotomous, we are unable to model different shapes of our relationships between, for example, family ownership and export intensity. Second, we obtained a reasonable model fit, and we concluded that linear regression was good enough. Third, in choosing linear models, we followed other studies investigating the relationship between the ownership structure, the composition of TMTs and the internationalisation of FBs (e.g. Lin, 2012; Naldi & Nordqvist, 2008).

Table 3 presents linear regression estimates for export intensity and export scope. We examined potential multi-collinearity problems by calculating the value inflation factors (VIF's). The VIFs for all the variables were below 1.60, that is lower than the recommended threshold (Neter *et al.*, 1996). We therefore conclude that multi-collinearity is not a concern in this study. Moreover, we tested the autocorrelation of residuals (Durbin-Watson test)

and the normality of residuals (Kolmogorov-Smirnov test). We analysed the plots of residuals versus predicted values to check the assumptions of homoscedasticity and linearity.

Both models have a relatively low coefficient of determination (adjusted R²). We explain these results by the fact that both export intensity and export scope are influenced by many other factors, such as firm performance, product diversification or export experience (e.g. Lin, 2012). Due to the unavailability of data, we were unable to control many of these factors. However, despite a low level of determination, both models are statistically significant, thus indicating that the goodness of fit for both models is sufficient for the purpose of hypotheses testing.

Table 3. Linear regression analysis for export intensity and export scope

	Model 1. Export intensity (only exporters)					Model 2. Export scope (only exporters)				
	Beta	T	Sig.	Tolerance	VIF	Beta	T	Sig.	Tolerance	VIF
AUT	-0.024	-1.258	0.208	0.906	1.104	-0.054	-2.864	0.004	0.906	1.104
FRA	-0.144	-6.868	0.000	0.769	1.300	-0.078	-3.866	0.000	0.770	1.299
GER	-0.148	-6.467	0.000	0.643	1.556	-0.030	-1.353	0.176	0.643	1.554
HUN	0.029	1.501	0.133	0.878	1.138	-0.090	-4.740	0.000	0.878	1.139
SPA	-0.166	-7.383	0.000	0.671	1.490	-0.093	-4.266	0.000	0.671	1.489
UK	-0.129	-5.627	0.000	0.647	1.546	-0.028	-1.285	0.199	0.656	1.525
Scale	-0.020	-0.997	0.319	0.869	1.151	0.050	2.642	0.008	0.871	1.148
Specialized	0.100	5.090	0.000	0.873	1.145	0.097	5.111	0.000	0.874	1.144
High-tech	0.021	1.094	0.274	0.941	1.063	0.094	5.100	0.000	0.941	1.063
Old	0.024	1.200	0.230	0.840	1.191	0.083	4.250	0.000	0.839	1.192
Young	0.015	0.777	0.437	0.891	1.122	0.001	0.066	0.947	0.891	1.122
Size	0.117	5.970	0.000	0.879	1.138	0.259	13.627	0.000	0.878	1.139
Owner-CEO	-0.010	-0.556	0.578	0.966	1.036	-0.027	-1.496	0.135	0.965	1.036
Concentration of ownership	0.029	1.474	0.141	0.884	1.132	-0.006	-0.340	0.734	0.884	1.132
Nonfamily managers	0.059	2.536	0.011	0.632	1.582	0.061	2.732	0.006	0.634	1.578
Minority foreign ownership	0.051	2.759	0.006	0.989	1.011	0.079	4.396	0.000	0.989	1.012
Controlling foreign ownership	0.074	3.956	0.000	0.976	1.025	0.02	1.458	0.145	0.975	1.026
Model summary										
R ²	0.070	–	–	–	–	–	0.134	–	–	–
Adj R ²	0.064	–	–	–	–	–	0.129	–	–	–
F	12.219	–	–	–	–	–	24.909	–	–	–
Sig. Of F	0.000	–	–	–	–	–	0.000	–	–	–

Source: own calculations in SPSS.

Hypothesis 1 predicts a negative relationship between the concentration of ownership and the internationalisation of family firms. We find strong support for this hypothesis in relation to export propensity (model 3), i.e. the concentration of ownership in family firms negatively influences export propensity ($p < 0.001$). We also find some support for this hypothesis, although at a low significance level ($p < 0.1$) in relation to global export propensity (model 4). We find no significant relationship between the concentration of ownership and export intensity (model 1) and export scope (model 2).

Hypothesis 2 predicts a positive relationship between foreign ownership and the internationalisation of family firms. We measure foreign ownership at two levels (minority versus controlling ownership), using two dichotomous variables. We find support for the relationship between minority foreign ownership and all dimensions of internationalisation: export intensity ($p < 0.01$) (model 1), export scope ($p < 0.001$) (model 2), export propensity ($p < 0.05$) (model 3) and global export propensity ($p < 0.01$) (model 4). We find support for the relationship between controlling foreign ownership and: export intensity (model 1) ($p < 0.001$) and export propensity ($p < 0.01$) (model 3). We find no significant relationship between controlling foreign ownership and export scope (model 2) and a weak relationship ($p < 0.1$) between controlling foreign ownership and global export propensity (model 4).

For two other dimensions of internationalisation: export propensity and propensity to enter more distant markets (global export propensity), we use binary logistic regression analysis. This technique is suitable if the dependent variable is dichotomous and is widely used in IB literature for modeling export propensity (e.g. Zhao & Zou, 2002). Table 4 presents binary logistic regression estimates.

Table 4. Logistic regression analysis for export propensity and global export propensity

	Model 3 – export propensity (full sample)			Model 4 – global export propensity (full sample)		
	B	Exp(B)	Sig.	B	Exp(B)	Sig.
AUT	0.037	1.038	0.863	-1.376	0.253	0.000
FRA	-0.937	0.392	0.000	-1.050	0.350	0.000
GER	-1.031	0.357	0.000	-1.068	0.344	0.000
HUN	-0.423	0.655	0.023	-2.088	0.124	0.000
SPA	-0.621	0.538	0.000	-0.863	0.422	0.000
UK	-0.937	0.392	0.000	-0.409	0.665	0.001
Scale	-0.010	0.990	0.888	-0.064	0.938	0.463
Specialized	0.884	2.422	0.000	0.829	2.292	0.000
High-tech	0.673	1.960	0.000	0.802	2.230	0.000
Old	0.403	1.496	0.000	0.417	1.517	0.000
Young	-0.202	0.817	0.120	0.134	1.144	0.404
Size	0.382	1.465	0.000	0.492	1.635	0.000
Owner-CEO	-0.154	0.858	0.311	-0.341	0.711	0.030
Concentration	-0.339	0.712	0.000	-0.173	0.842	0.060
Nonfamily managers	0.491	1.634	0.000	0.418	1.519	0.000
Minority foreign ownership	0.995	2.704	0.012	0.812	2.252	0.004
Controlling foreign ownership	1.021	2.776	0.005	0.490	1.632	0.098
Stala	-0.788	0.455	0.005	-2.163	0.115	0.000
Omnibus Tests of Model Coefficients						
Chi-square	546.049	–	–	548.332	–	–
Sig.	0.000	–	–	0.000	–	–
Hosmer and Lemeshow test						
Chi-square	12.178	–	–	3.252	–	–
Sig.	0.143	–	–	0.918	–	–
Model summary						
-2 Log likelihood	6637.644	–	–	5464.471	–	–
Cox & Snell R Squared	0.095	–	–	0.095	–	–
Nagelkerke R Squared	0.130	–	–	0.143	–	–
% correctly classified (Step 0)	63.600	–	–	76.200	–	–
% correctly classified (Full model)	66.600	–	–	77.1	–	–

Source: own calculations in SPSS.

Hypothesis 3 a negative relationship between the CEO ownership and the internationalisation of family firms. Our findings support this relationship in terms of global export propensity $p < 0.05$ (model 4), i.e. owners-CEO are less prone to engage in global exporting. We find no support for the relationship between CEO ownership and internationalisation in terms of export intensity (model 1), export scope (model 2) and export propensity (model 3).

Hypothesis 4 predicts a positive relationship between the involvement of external managers and the internationalisation of family firms. We find support for this hypothesis in terms of all studied dimensions of internationalisation: export intensity ($p < 0.05$), export scope ($p < 0.01$), export propensity ($p < 0.001$) and global export propensity ($p < 0.001$).

CONCLUSIONS

To broaden our understanding of the determinants of family firm internationalisation, we examined the roles of ownership (i.e. the concentration of ownership, foreign ownership) and management (i.e. the involvement of nonfamily managers, owner – CEO). The general conclusion which can be drawn from the study is that external influences within both ownership and management enhance firm's internationalisation efforts. This conclusion is consistent with the most recent publications addressing the heterogeneity of family firms (Calabro *et al.*, 2012; Sciascia *et al.*, 2012).

Our findings have a number of theoretical implications. While we find support for the notion that the inclusion of outsiders (both in terms of ownership and management) enhances internationalisation, we shed more light on the specific effects of this mechanism on different dimensions of internationalisation. First, we find that the concentration of ownership within the family hinders the propensity to export, but it has no effect on export intensity and export scope. Therefore, we may conclude that concentrated ownership constitutes at first an important barrier to internationalisation, preventing family firms to enter foreign markets. However, concentrated ownership does not affect export performance of family firms which are already active abroad.

Second, we find support for the notion that foreign ownership contributes to firm internationalisation. Interestingly, the impact of minority foreign ownership is more pronounced than the controlling foreign ownership. While the former affects all the dimensions of internationalisation, the latter has no effect on export scope and global export propensity. We may explain this result with the subsidiary mandate framework, offered in IB literature (e.g. Birkinshaw, 1996). This framework suggests that the nature of subsidiary responsibilities depends on the MNE overall strategy, and more specifically, its expectations as to the role of this subsidiary in the MNE value chain (Young, Tavares, 2004). Thus, subsidiaries of MNEs have different strategic mandates, which often include an export mandate (Filatotchev, Stephan, & Jindra, 2008). Filatotchev *et al.* (2008) argue that the ability of local managers to undertake export is dependent upon the foreign investors' ownership and control over decisions made by the subsidiary. In a study of foreign invested firms in CEE, they find that export intensity of local firms is influenced by foreign investors' ownership and strategic control and that these two attributes complement each other in terms of their impact on export behaviours. In relation to our findings we may conclude that while local subsidiaries of MNEs actively engage in export they do not expand to distant locations, as it would probably not be coherent with the MNE overall strategy.

Third, in line with the results of previous studies (e.g. Naldi & Nordqvist, 2008), we find support for the notion that the involvement of nonfamily managers enhances internationalisation. Fourth, we find that owner-CEO does not necessarily hinder the internationalisation efforts, as the significance of this variable is observed only in relation to global exporting. We may explain this result by the unwillingness of owner-CEO to enter psychically distant markets. Miller, Le Breton-Miller and Scholnick (2008) found that family firms differed from non-family businesses in terms of the type of connections they developed with both employees and customers. In family businesses these relationships are very close, which may be particularly demanding in an international context, especially psychically distant markets (Kontinen & Ojala, 2010).

Based on our findings, we are able to formulate some recommendations to family business managers. Our results indicate that in order to expand abroad, family firms should consider including outsiders (i.e. nonfamily investors and nonfamily managers) in their ownership structure and TMT external influences. While nonfamily ownership is particularly relevant in the initial phase of internationalisation, influencing export propensity; nonfamily managers enhance all dimensions of internationalisation (i.e. export propensity, scope and intensity, as well as exporting to distant markets). Therefore, a practical implication of our study is that in order to accelerate the internationalisation of their businesses, family firm owners should not only seek for external (i.e. nonfamily) capital, but also be open to nonfamily influence in the management team.

Our findings are tempered by some limitations. First, as we use cross-sectional data, we are unable to test the effects of the ownership structure and management on internationalisation in a strict sense. While there are conceptual arguments in favor of these variables affecting internationalisation, the other causal direction is possible. For example, as family firms decide to expand abroad, they may seek the professionalisation of management, thus opening their management teams to non-family managers. Second, as we aimed at providing cross-country evidence, we used a large dataset developed within the EFIGE project. While this approach has many advantages, allowing for the use of fully comparable, representative data, it does not allow for a nuanced measurement of variables, due to the unavailability of data. We therefore encourage further research investigating the relationships between different dimensions of 'familiness' and firm internationalisation, preferably in a multi-country context (e.g. advanced versus emerging economies), using more refined measures, reflecting more detailed structure of firm ownership and management.

Some recent studies have dealt with the influence of the national context upon the performance of family firms (e.g. Dow & McGuire, 2016). Moreover, there is some evidence that patterns of the internationalisation of family firms may be country- or region-specific. For example, Chung (2014) investigated the phenomenon of semi-globalisation of Asian firms, linking it to specific governance structures of family business groups. We believe that research into the national-level (e.g. cultural, institutional) contingencies of family business internationalisation is a promising area for further research.

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Operational Work System Design and Staff Performance in the Nigerian Construction Industry

Emmanuel Ejikeme Isichei, Isaac Ayanyinka Ayandele

ABSTRACT

Objective: The study investigated the impact of operational work system design on staff performance in selected construction firms in Nigeria.

Research Design & Methods: The study used primary data gathered with the use of a 5-point Likert scale questionnaire format administered to 138 respondents. A hypothesis was postulated to test the significance of the research problem. Data analysis was carried out using correlation and multiple regression analysis which proved the significance of the alternative hypothesis as a result of testing the hypothesis.

Findings: The findings show that there is a significant relationship between operational work system design and staff performance. The study concludes that operational job design can be advanced as a motivation tool, which is non-monetary in nature, to improve staff performance.

Implications & Recommendations: A key drive to improve performance is the satisfaction of staff coupled with an outstanding operational job design which takes into consideration the total physical and mental well-being of staff and its interaction with other organisational factors. The study recommends, among others, that there should be active participation of staff in the design of work in the organisation.

Contribution & Value Added: The study provides an empirical approach to enhancing performance in the construction industry and thereby developing an indigenous firm to compete favourably on a growing market.

Article type: research paper

Keywords: operational work system design; staff performance; organisation; construction industry

JEL codes: M1, M11

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INTRODUCTION

The need to drive increased performance from staff starts with an organisationally focused approach which seeks to establish the expectation of the organisation towards staff; by determining what it wants them to do, how it wants them to do it and how it intends to communicate the expectation (Stevenson, 2012, p. 291). This makes performance measurement easy and creates the possibility to identify and take corrective measures on the basis of the observed deviations. The drive for improved performance should not be purely a management affair, as there is a need to carry employees along so that they got to understand the need for accomplishing an expected task and possible ways of having it done for the good of the organisation (Rathnakar, 2012, p. 10). This is the core of operational job design, as it seeks to take into cognisance the operational structures of the task and its impact on the staff performance and well-being.

Job Design theory has become relevant due to the failure of scientific management and the quest to handle employees' issues from a different perspective. Job design is centred on creating jobs which demand skills and some level of employee's initiative (Mbadou & Mbohwa, 2013, p. 234). It argues that boring and monotonous jobs with little worker discretion are counter-productive, both to individuals and organisations.

In the view of Slack, Chambers and Johnson (2007, p. 173), job design encompasses the process by which the job of an individual, the environment where the individual works and the technology in the organisation interface to achieve the set organisational goals and objectives. This definition broadens the scope of job design, as it introduces the human relation perspective of management in strict compliance with environmental and social events within the purview of the organisation which can affect staff performance and hinder the set organisational goals and objectives. This system envisages employees having detailed knowledge of the organisation's expectation, as it does not give any room for complaint and complacency. Operational job design can be also viewed as work structure which takes into consideration anticipated challenges for every human and offered as a future standard to measure or monitor performance for organisational effectiveness.

In Nigeria, the construction industry has witnessed quite a relative boost with the entrance of new organisations and the increasing development of indigenous construction companies, owing partly to the establishment of the Local Content Bill for construction services passed in April 2014 (NBS, 2015). The industry which was mainly dominated by foreign organisations is now open to all, as indigenous companies are now given big constructions and projects to handle, which has increased the workforce of most of the local construction companies. The federal government of Nigeria remains the major investor in the Nigerian construction industry with the industry contribution of 3.05% to the country's gross domestic product (GDP) and the workforce of 6 913 536 as of 2012 (NBS, 2015). In spite of enormous government effort, indigenous construction companies are faced with a pyramid of challenges coupled with raising employee turnover and the low level of the development of human resources required for planning, designing, constructing and handling government projects (Isa, Jimoh & Achuen, 2013, p. 4).

Therefore, this study seeks to examine the impact of operational work system design on staff performance in the Nigerian construction industry. This study is divided into 5 sections which cover the existing literature on the variables identified in the study, the materials and

methods adopted to carry out the study, discussion of the result , conclusions, recommendations for implementation. The study is quantitative in nature and it adopted a survey research method using a questionnaire. The objective of this paper is to investigate the impact of operational job design on staff performance. The hypothesis of the study to be tested in the paper is as follows: Operational job design does not influence staff performance.

LITERATURE REVIEW

Conceptual Framework

Work system design and job system design are used interchangeably. Stevenson (2012, p. 292) defined job design claiming that it “involves specifying the content and methods of jobs”. This simply analysed job design as encompassing the structural outline of the basic requirement and expectation attached to a job. This makes a job designer focus on performance, productivity, safety of employees and the quality of worklife (Stevenson, 2012).

Job design ensures that all organisational activities, both human and material resources are aligned to suit the organisational goals and objectives, as it seeks to specify the proportion of work for an individual, a team or a group in the organisation (Reid & Sanders, 2011). Job design is an operational activity tailored towards restructuring work to achieve a balance between machinery and a human in order to achieve set organisational goals and objectives. A compulsory operational and management responsibility determines who does what, when and how with the sole intent to align work to staff for organisational benefit.

Job design is the “process of laying out job responsibilities and duties and describing how they are to be performed” (Andrew, 2012, p. 224). A key factor in job design is that the job should seek to decrease the chances that it will physically harm the incumbent. When the job takes cognizance of the physical and mental challenges which the job may pose to their employees, it further strengthens the goal of the design. The willingness to want to do more and increase performance on a career path based on the satisfaction derived from the workplace structure and system is the key principle and the core of work system design.

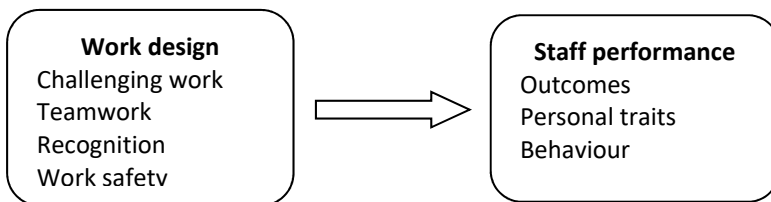


Figure 1. The conceptual framework for work design and staff performance

Source: own elaboration.

The Elements of Job Design

Slack, Chambers and Johnson (2007, p. 198) state that the elements of job design are the critical criteria and organisational questions which should guide job design. These elements are the bases which form the operation of people, machinery and organisation,

environment (both internal and external). The elements and the fundamental questions which border on job design in any organisation are:

1. What are The Environmental Conditions of The Workplace?

This emphasises the condition or state of affairs with respect to the environment of the organisation. The condition of the workplace will greatly influence the performance of the employees. This environmental condition can be both internal and external, which affects the well-being of the organisation's employees. Job design in the organisation must show a favourable ergonomic environmental design, as the well-being of the employees should be of utmost priority when designing.

2. What Technologies are Available and how Will They be Used?

This identifies the organisation's technological needs which, if acquired, will improve and increase performance and reduce stress. The acquisition of the technology has to match individual or human appropriateness, so that instead of helping it did not turn out to be a source of stress to employees. There is also a need to understand the procedure of the application of the technology in line with the ability of the available human resource to apply it. This makes training of the users or employees pertinent, irrespective of how complicated or non-technical the job is.

3. What Tasks are Allocated to Each Person in The Organisation?

In the job design process, there is a need to consider every unit, department, team and group present in the organisation. The organisation should focus on defining the task and ensuring effective presentation, allocation and communication to those expected to carry out the activities. The allocation should consider the specialisation and division of labour. There should be an emphasis on considering what an individual specialises in and what he/she is able to do, considering both physical and mental abilities.

4. What is the Best Method to Perform Each Job?

There should be an emphasis on the best or most appropriate methods of performing a task, which should be approved. However, it is worth stating the fact that in determining the best and approved method to complete the task there should be the consideration of all factors, both human and material factors, which can influence negatively the task completion. The best method has to match the job, time, resources, customers and employees, while ensuring that it will not affect other jobs to be carried out and vice versa.

5. How Long will it Take and How Many People will be Needed?

This involves the measurement of work and is used to determine the time required to do a job and then to determine how many people will be required to carry out the work. However, it is quite difficult to measure work in the service industry, yet, the emphasis would be placed on ensuring that the pressure of work does not overwhelm employees and also ensure that redundancy is not encouraged because of employing more people than it is required to carry out the task, as this may affect the profitability and performance of employees.

6. How do we Maintain Commitment?

This critical focus has the tendency to affect the organisation and its existence. The idea of critically establishing that point of satisfying employees remains a duct of challenges. However, in designing job system there should be an effort to consider how to ensure that employees will remain focused and dedicated to the organisation's goals and objectives. Job design should drive dedication, sacrifice and commitment to the duty.

According to Reid and Sanders (2011, p.261), the following are the critical factors to consider in the process of job designing, among many others:

1. **Technical Feasibility:** it is the critical analysis of the physical and mental ability of employees to carry out the assigned task. This survey seeks to know the individual's ability with respect to their other special abilities which may be applicable to the accomplishment of the job.
2. **Economic Feasibility:** it simply evaluates the cost implication of job design over the benefit to the organisation. It shows a cost benefit analysis which seeks to protect the interest of the organisation while weighing other variables available to the organisation. It measures the ratio of the value a job adds to the cost of having the job done and how it contributes to the profit of the organisation.
3. **Behavioural Feasibility:** An employee-focused study seeks to unravel what will contribute to make them committed and increase contribution to the organisation mentally and physically. It seeks to show the degree to which an employee derives intrinsic satisfaction from doing the job.

Ilesanmi (2010, p.7) stated that the following factors affect job design:

- Technology of the organisation.
- The process of intrinsic motivation.
- The characteristics of the task structure.
- The motivating characteristic of jobs.
- The implications of group activities.

Slack et al. (2013) stated that the following are the techniques of job design:

1. Combining tasks means increasing the number of separate elements or activities allocated to individuals.
2. Forming natural work units means putting together activities which make a coherent (preferably also a continuing) whole.
3. Establishing client relationships means that staff make contact with their internal customers directly rather than exclusively through their supervisors.
4. Vertical loading means including 'indirect' activities (such as the maintenance, scheduling and general management of the job) in the tasks allocated to the individual.
5. Opening feedback channels means ensuring not only those internal customer feedback perceptions of performance directly to staff but also that staff are provided with information regarding their overall performance.

Job design does not seem to have a well-stated procedure of implementation; however, it is based on the nature and structure of the organisation, which is also dependent on the organisational goals and objectives. Therefore, applying it in the construction industry requires a more dedicated approach, structured and articulated, to provide the

needed information required for the implementation. In Volunteer Canadian Handbook (2001), five steps were identified in implementing and understanding job design. The implementation involves five-step processes, which are to:

1. Review the mandate or mission of the organisation.
2. Look at how various functions/components/tasks are carried out to achieve the mission/mandate.
3. Consider current and potential staff, and establish the qualities which will be needed to perform various components or tasks, as defined (skill analysis, skill variety, and autonomy).
4. Identify and describe discrete volunteer assignments (job descriptions).
5. Match volunteers to jobs or assignments.

Staff Performance

Staff performance can also be referred to as employees' performance and Jex (2002) defined employee performance as "all the behaviours employees engage in while at work". This definition shows that employee's set of actions is what directly or indirectly forms its performance in the organisation. Therefore, the attitude of an employee held to the organisation or task performance can hinder the organisation. However, there have been problems of manager's inability to manage staff performance and align individual goals to a common organisational vision (Ayandele & Isichei, 2013, p.2). Milkovich and Wigdor (2001) stated that historically, there have been three approaches to define the dimensions of job performance, perceived:

- as a function of outcomes,
- as a function of behaviour,
- as a function of personal traits.

Theoretical Framework

Oldham's Job Characteristics Model and Herzberg's Two Factor Theory are the two major theories mostly used in explaining work system design (Marwa & Muathe, 2014, p.48). This study will however rely on the Herzberg theory as the framework for the analysis of work system design and staff performance due to the focus of the study.

Frederick Herzberg developed Herzberg theory and the theory was named after him. He conducted studies of employees to identify what satisfied and dissatisfied them in their work. The theory is also known as the *two-factor theory* (James, Brad and Kenneth, 2008).

The theory is anchored on two major factors that the research discovered. Herzberg called them hygiene factors and motivators. He discovered that some factors of a job give people a chance to satisfy higher-level needs (Andrew, 2012, p.399).

Hygiene factors are job factors which dissatisfy when absent but do not contribute to satisfaction when they are present. Examples of hygiene factors are the amount of pay and fringe benefits, work conditions, rules, and the amount and type of supervision. Hygiene factors can create dissatisfaction but cannot improve satisfaction (Andrew, 2012, p.340).

Motivators are factors which increase job satisfaction. The study discovered that employees were motivated by factors such as positive comment, challenging work, recognition, achievement, accomplishment, increased responsibility, and personal development (Andrew, 2012).

Andrew (2012) stated that “the two-factor theory thus underlies the philosophy of job design through job enrichment and the job characteristics model” which explains the view of Richard (2014) that “Job design is the application of motivational theories to the structure of work for improving productivity and satisfaction”.

Empirical Framework

Nisbat and Muhammad (2014, p. 75) carried out a survey which affirms that there is a significant relationship between job design and staff performance and which invariably will lead to employees’ retention in an organisation. Ngirande and Musara (2014, p. 25) discovered that well-designed jobs determine employees’ retention and commitment to the organisational goals and objectives while reducing labour turnover. This shows that individuals’ personal interests do not conclude what their ability or inabilities are but all depends on what makes them happy as this is a long way to trigger inner strength in them.

Mam and Macf (2010, p.11) confirmed that the nature of a job is a critical factor in organisational work system design for enhanced employee’s performance and stated that the key variables of job design are not just highlights but necessary tools to serve as motivators which can be a non-monetary motivator to propel increased performance. Amina and Shehla (2009, p. 9) in a similar vein stated, “Comfortable and ergonomic office design motivates the employees and increases their performance substantially”. Mbadou and Mbohwa’s (2013, p. 236) study on the impact of work design and stress on employees’ productivity at a call centre empirically demonstrated and discovered that work design is a silent influencer of an employee’s productivity.

Saeed, Lodhi, Mussawar, Igbal, Hayab and Yassen (2013) carried out a survey on 200 employees to examine the factors affecting their performance in the workplace. Job content as a variable in the study proved to be positive and significant. In a similar study Lookman and Jacobs (2005) confirmed that task characteristics has significant effect on job performance in the study carried out on 500 public accountants.

MATERIAL AND METHODS

As it was mentioned above, the objective of the study is to investigate the impact of operational job design on staff performance. Therefore, the following research hypothesis was adopted to be tested:

H: Operational job design does not influence staff performance.

In achieving the above stated objectives, this research adopted a survey research design due to the research problem and the objectives of the study. The survey research design provides a quick, efficient and accurate means of assessing information about a population.

The population of the study consisted of the major construction companies in the federal capital territory in Abuja, Nigeria. Abuja was chosen because FCT is the capital city of Nigeria and there are many ongoing construction works daily, both from the government and private individuals. In addition, most construction firms in Nigeria have their head office in Abuja as the capital city, since all major government functional agencies are in the city.

The sample frame is a probability-based technique and equal chance given to each selected sample from the population of the study. Thirty major construction compa-

nies registered with the FCT and the equal number of local and foreign construction companies participated in the study and simple random sampling technique was used to select them. A self-developed questionnaire was administered to five supervisory staff, each randomly selected of the 30 construction firms. Out of one hundred and fifty (150) questionnaires administered to the construction firms, 138 were completed and returned. This represents the 92 percent response rate.

The study used both secondary data and primary data. Secondary data were obtained from journals, textbooks and newspaper columns. Primary data were obtained through a questionnaire survey as the research instrument. This is due to the belief that the questionnaire serves as the foundation for both empirical and behavioural research.

The study employed a self-administered questionnaire consisting of 20 close-ended multiple choice questions for the survey. The instrument comprises 15 questions related to the constructs of this study and 5 questions related to demographic variables. All the questions were prepared in the English language. The questionnaire survey was designed in the Likert scale format ranging from Strongly Agree (5), Agree (4), Undecided (3), Disagree (2), to Strongly Disagree (1). Multiple regression analysis and t-test were adopted for the study. The study used statistical package for social sciences (SPSS). Given the nature of the structure of the research instrument used for the study, and to make it suitable for a parametric purpose, we justified reliability and validity of the instrument. This made it possible to transform the variables of individual items into semi-continuous data using the arithmetic mean, thereby making it suitable for a parametric analysis (Brown 2011, p.12; Brown, 2001, p. 41; Allen & Seaman, 2007 as cited by Wach, & Wojciechowski, 2016).

Operationalisation, Measurement and Validity of Variables

The dimensions to measure work design in this study are challenging work, teamwork, recognition and work safety. The study used a 5-point Likert scale. Three items each were on the scale to measure the subscales. The theoretical framework of the study supports this dimension. The study adopted Cronbach alpha coefficient to test the reliability of the work design scale. Coefficients alpha of the subscales are ranging from 0.835 to 0.865.

The study operationalised and measured staff performance using a performance scale comprising three performance criteria derived from Milkovich and Wigdor (2001). The criteria are: outcomes, behaviour and personal traits. Three items were on the scale of 5 points to each of the outcomes, behaviour and personal traits. The study adopted Cronbach alpha coefficient to test reliability of staff performance. Coefficients alpha of the subscales are ranging from 0.65 to 0.70.

The study used content validity to evaluate the instrument for appropriateness. The researchers subjected the instrument to review by reviewers who understand work design just to determine the extent to which the empirical measurement reflected the content of the study and ensure that the survey items include the core of the study.

RESULTS AND DISCUSSION

Serkaran and Bougie (2010) recommend that the score of less than 2.33 is low level, 2.33 to 3.67 are moderate level and 3.67 and above are regarded high level. The table below presents the variable used in the study. Challenging work has the highest mean ($M=4.15$,

SD=.830), on the other hand, work safety recorded the least mean ($M=3.51$, $SD=1.026$). Eventually, the entire variable means were on the high level as evident in Table 1 below.

Table 1. Descriptive Statistics of the variables showing the impact of work system design on staff performance in the Nigerian Construction industry

	Mean	Std. Deviation	N
Staff Performance	4.0870	0.72975	138
Challenging Work	4.1594	0.83050	138
Team Work	4.1377	0.85600	138
Recognition	4.0290	0.80093	138
Work Safety	3.5145	1.02690	138

Source: Field survey (2015), SPSSv20 output.

Test and Restatement of the Hypothesis

The study used regression analysis to investigate the influence between the independent variable and the dependent variable, which are operational work system design and staff performance of construction companies in Nigeria. For the successful conduct of regression analysis, the study used a considerable number of responses and all the assumptions of one-way ANOVA and linear regression were fulfilled.

The table below shows that the analysis of variance of the fitted regression equation is significant with F value of 23.992. This is an indication that the model is a good one. Since the p-value is less than 0.05, it shows a statistically significant relationship between the variables at the 95% confidence level. The results also indicate that operational job design actually influences staff performance of construction firms in Nigeria. Therefore, the null hypothesis of no significant impact is rejected. Thus, job design has a significant impact on staff performance.

To examine the relationship among the variables, the study conducted a regression analysis. Four predictor variables including challenging work, teamwork, recognition and work safety were examined to see their contribution towards staff performance. The results below show that $R=0.647$, $R^2=0.419$, adjusted $R^2=0.402$. The multiple correlation coefficient between the predictors and the criterion variable was 0.647; the predictors accounted for 64.7% of the variance in staff performance. The value of R^2 is large and the generalisation of this model to the population was 0.419.

The beta values helped in comparing the contributions of various independent variables (challenging work, teamwork, recognition and work safety) to explaining the dependent variable (staff performance). From the table below, the variable with the largest beta value coefficient challenging work (0.267) is the variable with the strongest unique contribution to explaining the dependent variables, when the variance explained by all other variable in the model are controlled for. The variable with the least beta value coefficient (recognition=0.097) has the least contribution to explaining the dependent variable (staff performance). Therefore, the null hypothesis of no significant impact is rejected. Thus, job design has a significant impact on staff performance.

Table 2. Model Summary result showing the impact of work system design on staff performance in the Nigerian Construction industry

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.647(a)	0.419	0.402	0.56447

Source: Field survey (2015), SPSSv20 output.

Table 3. ANOVA result showing the impact of work system design on staff performance in the Nigerian Construction industry

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	30.579	4	7.645	23.993	0.000(a)
–	Residual	42.378	133	0.319	–	–
–	Total	72.957	137	–	–	–

Source: Field survey (2015), SPSSv20 output.

Table 4. Coefficients (a) table presenting the impact of work system design on staff performance in the Nigerian Construction industry

Independent variable	Standard error	Beta	t-value	P
Challenging Work	0.078	0.267	3.012	0.003
Team Work	0.069	0.233	2.876	0.005
Recognition	0.066	0.097	1.327	0.187
Work Safety	0.054	0.252	3.297	0.001

Source: Field survey (2015), SPSSv20 output.

Correlation is significant when the value is less than 0.05. The result below shows that there is high correlation between job design and staff performance as given by the R-value = 0.647 or 64.7%. As a result, job design correlated with staff performance at the value of 0.000. Therefore, the null hypothesis is rejected and the alternative one is accepted, which implies that there is a significant relationship between job design and staff performance. Further, the results are significant and there is a positive relationship between challenging work and staff performance with a correlation value of (0.555).

The results below also prove that teamwork correlated with staff performance at the value of 0.000. The results are significant and show there is a positive relationship between teamwork and staff performance with a correlation value of (0.495).

In addition, recognition correlated with staff performance at the value of 0.000. The results are significant and show that there is a positive relationship between recognition and staff performance with a correlation value of (0.345).

Finally, the significance level of work safety with staff performance is 0.000. The results are significant and show that there is a positive relationship between safety and staff performance with a correlation value of (0.485). Staff performance correlated with organisational work challenge, recognition, work safety and teamwork and they proved significant.

The hypothesis findings show that the analysis of variance of the fitted regression equation is significant with F value of 23.992, indicating that the model sufficiently explains the dependent variable. Given the *p*-value is less than 0.05; hence, it indicated a statistically significant relationship between the variables at 95% confidence level, thus, leading to the rejection of the null hypothesis and indicating that job design has a significant impact on staff performance. This finding is similar to the findings of Saeed, et al. (2013) who car-

ried out a survey on 200 employees on the factors affecting their performance in the workplace. The multiple regression analysis result showed that job content as a variable in the study proved positive and significant to employees' performance. The findings also agreed with Burchell, Mankelov, Day, Hudson, Ladipo, Reed, Noan, Wichert and Wilkinson (1999), as cited by Marwa & Muathe (2014, p. 47) that job design significantly influences employees' performance. Garg and Rastogi's, (2006) study on the influence of a new model of job design to motivate employees' performance showed that a well-designed job has the capacity to influence positively employee satisfaction and the quality of work performance. The findings support the theoretical framework discussed earlier that the hygiene factors have the tendency to improve performance. However, this finding differs from the findings of Oghojafor and Adebakin (2012) as their study on job design and job satisfaction conducted among 167 doctors and nurses in Lagos hospitals using regression analysis shows that job design does not contribute in more than 5% to explaining job satisfaction and there cannot be increased performance without an appreciable level of satisfaction.

Table 5. Correlation results showing the impact of work system design on staff performance in the Nigerian Construction industry

Variables and Correlations		Staff Performance	Challenging Work	Team Work	Recognition	Work Safety
Staff Performance	Pearson Correlation	1	0.555(**)	.495(**)	.345(**)	.485(**)
	Sig. (2-tailed)		0.000	0.000	0.000	0.000
	N	138	138	138	138	138
Challenging Work	Pearson Correlation	0.555(**)	1	.575(**)	.377(**)	.468(**)
	Sig. (2-tailed)	0.000		0.000	.000	.000
	N	138	138	138	138	138
Team Work	Pearson Correlation	0.495(**)	0.575(**)	1	.271(**)	.326(**)
	Sig. (2-tailed)	0.000	0.000		0.001	0.000
	N	138	138	138	138	138
Recognition	Pearson Correlation	0.345(**)	0.377(**)	.271(**)	1	.337(**)
	Sig. (2-tailed)	0.000	0.000	.001		0.000
	N	138	138	138	138	138
Work Safety	Pearson Correlation	0.485(**)	0.468(**)	.326(**)	.337(**)	1
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	
	N	138	138	138	138	138

Source: Field survey, (2015) SPSSv20 output.

CONCLUSIONS

To sum up, the study has established a relationship between job design and employees' performance and that job design can be advanced as a motivation tool for employees' enhanced performance. All variables of the independent proved contributory to growing and sustaining improvement of employees' performance.

The study reached a number of conclusions based on the research, as the instruments for measuring work system design and staff performance are reliable and valid, and other researchers can adopt it to test the effects of operational work design on other areas of staff performance. We may conclude that there is a significant relationship between operational job design and staff performance. The impact of operational

job design is significant; therefore, it is a good predictor of staff performance. The study discovered that operational job design can be advanced as a motivation tool which is non-monetary in nature to improve staff performance.

However, the study had a number of limitations, namely, the sample size is small, the data used for the study were gathered using a structured questionnaire while another method could be used for collecting data for the study and the number of variables in the consideration could be expanded.

The following recommendations, if considered and implemented, will enhance staff output, behaviour at work and commitment to organisational goals and objectives.

1. There should be active participation of staff in the design of work in the organisation.
2. Work design should take into consideration the physical and mental ability of staff.
3. A practical balanced managerial approach which encourages staff to work and meet their higher-level needs.
4. There should be a technology -human fit in the organisation.

The study provided relevant implications for management implementation, as it identifies that a key drive to improve performance is satisfaction of staff coupled with an outstanding operational job design which takes into consideration the total physical and mental well-being of staff and its interaction with other organisational factors. It is worth stating that if our local construction companies want to compete favourably with the international companies in the country, their managers must develop a strategic organisational work design which ensures human and technological fit for the good of all.

Further study should consider a larger sample size to give a clearer picture for the proper understanding of how the variables interplay. Also, there is a need to take into consideration other variables of operational work system design, not captured in this study, and how they interplay to determine the improved performance of the organisation.

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Beyond Stability vs. Change Dilemma: Everyday Practices and Routines as Sources of Organizational Life

Zofia Patora-Wysocka

ABSTRACT

Objective: The aim of this paper is to present the problem of everyday organizational practices and routines as loci of organizational persistence, novelty and transformation. Base on qualitative research the article argue that that spontaneous actions are important factors that introduce organizational change.

Research Design & Methods: The article presents results of a comparative case study. The methodological choice included interviews and non-participant observation. Sample selection was purposive. The enterprises were selected from creative and textile-apparel industries.

Findings: The research illustrates how entrepreneurs respond to everyday phenomena and unplanned situations that co-create their business reality. It turns out that the way of practice reproduction may be of twofold nature: radical and spontaneous or evolution-like and emergent.

Implications & Recommendations: Perceiving organizations through day-to-day processes offers an opportunity to understand the concept of organizational change. The field of practice theory is open to more management issues.

Contribution & Value Added: Elaborating on the practice-based view within organization studies, the concept of everyday practices and routines offers a promising approach within change management.

Article type: research paper

Keywords: actions; organizational routines; practice-based study; processual approach; organizational change

JEL codes: L20, L21, L26

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INTRODUCTION

The field of the *Practice Turn* in management grew out of a concern for locating organization within the texture of everyday practices and routines. The business world involves a continuous flow of human activities, situations, resources, services, commodities and artefacts. Organizational change is thus experienced by entrepreneurs and managers on a daily basis. Business practitioners respond to these everyday phenomena in a routine, spontaneous and unplanned manner. In fact, this is the way the organizational life takes place most of the time. However, organization studies tend to be still affected by the dominant discourse within the management theory, which views enterprises as structures regulated by systemic mechanisms focused on increasing the organization's effectiveness. Explanations of processes are often based on striving after objective, universal, and quantifiable truth. Such an approach "gives ontological priority to the organization (...) as a context for action and thinking" (Hernes, 2014, p. 13). The processual stream of thought in management places more emphasis on getting to know *how* the organization operates in a turbulent markets. Unlike the dominant approach, it assumes *that the actions are what make the organization* (Hernes, 2014, p. 13). Thus, it can be assumed that exploration of processual categories of change can contribute to understanding organizational reality. The aim of this paper is to present the concept of everyday organizational practices and routines as loci of organizational persistence, novelty and transformation. The thesis, illustrated with case study research, posits that routines are important factors that introduce organizational change.

The article consists of two parts: theoretical and empirical. The theoretical part shows the practice view on the organization and organizational phenomena. It explores issues mainly related to everyday practices and routines. The empirical part is based on case study research into organizations operating in the textile and apparel industry.

LITERATURE REVIEW

Routines and Daily Practices: when Unwanted Categories Become Basic Units of Organizational Analysis

For a long time routines occupied an inglorious position of a "black box" within the organization and management theory (Howard-Grenville, Rerup, Langley & Tsoukas, 2016; Salvato & Rerup, 2011). This infamous phrase has become a kind of a denotative expression in recent literature on organizational routines.

In fact, routines used to be almost invisible categories in organizational research. Their existence was knowable *a priori* in the dominant economic discourse in management. Hence, organizational routines were persistent and "somehow innate" in an organizational structure, and therefore the purposes of research lied behind of routines. The management theory that springs from functionalism and radical structuralism is mainly aimed at observing a system and its effectiveness (Kociatkiewicz & Kostera, 2013). The deterministic way of thinking developed a series of conceptions that strive as being predictive, general and objectivistic. This line of understanding was present even in the works of Nelson and Winter (1982), who put a milestone in a process orientation and routine dynamics. However, management and organization indulge in day-to-day human

activities. If daily performances and routines are used as viewpoints on organizational processes, one can find the explanation of how that life is carried out. Observing mundane organizational problems requires a careful methodological choice. In the literature, it is denoted as practice-based study (Gherardi, 2012). In disciplinary terms, practice perspective is constituted. Its purpose, however, is not to neglect the legacy of the dominant thought. Instead, it offers the lenses of practice, micro-ontology, routines, and daily activities etc. Kociatkiewicz and Kostera (2013, p. 13) consider humanistic methodology from the perspective of a wide array of “action research aimed at education and improving the fate of an individual in an organization”. I believe that the Practice Turn can be put under the umbrella perspective of humanistic management.

The practice-based orientation focuses on observing organization and management “thrown into everydayness” (Heidegger, 1962). Using the phrase of Tor Hernes, it is not aimed at “comparing states of being in time or space. It is about how something persists and changes in view of becoming otherwise possible” (Hernes, 2014, p. 3). It is about perceiving organization and management through minute details of the way resources, tools, technology, knowledge and human relations are used. Thus, reviewing different lines of theoretical contribution to the practice approach in management, one sees that there is a clear agreement in terms of crucial inner categories of practice, i.e.: actions, daily routines, human individuals, norms and rule-governed activities, goals, artefacts, symbols, discourses, understanding, situatedness and embeddedness etc. (Gherardi, 2015; Guzman, 2013). Thus, organization cannot be understood separately from doing. As Parmigiani and Howard-Grenville (2011, p. 443) note, this is a basis for a critical path within the processual perspective on routines: “perhaps somewhat ironically, studies from the practice (process) perspective are so concerned with situated action – specific actions of specific people in specific organizations” – that they may overlook the organization itself. I believe that observing routines in the realm of everyday organizational life may lead to research awareness. Routines produce, preserve and are at the core of change of each and every aspect of management i.e.: decision-making processes, work coordination, acquiring and distribution of power, and resource allocation. Gherardi adds here “working, learning, innovating, communication, negotiation, conflict over goals, their interpretation, and (organizational) history” (Gherardi, 2012, p. 200). Routines are performed and recreated in a given context and they may overlap across organizations, professions and industries. Howard-Grenville (2005) develops here a wide spectrum of organizational and market categories such as “cultures, hierarchies and technologies” (Howard-Grenville, 2005, p. 619). Feldman and Pentland (2003, p. 95) in their early works assumed that routines are “repetitive, recognizable patterns of interdependent actions, carried out by multiple actors”. Further studies of these authors put forward different approach to a problem by focusing on performative and ostensive aspects of routines. According to Feldman and Pentland view procedural way of reproducing routines collides with ostensive aspects of everyday performance. A key question in this view “is the nature of the relation between actions and patterns” (Feldman, 2016, p. 25). In the centre of this view stands the problem of the way the activity is performed and changed, not the agential forces of its accomplishment (i.e. its collective or individual character). Elaborating on this concept one may see that individuals and sub-systems interact on a daily basis to create and recreate everyday practice.

Routines may extend beyond organizations and institutions. They are reproduced by individuals as well as organized groups and they can diffuse through various levels of the organisational structures. Mechanisms of everyday reproduction assume not only stability, but also changeability of routines. The cognitive psychology perspective deems activities derived from explicit knowledge to be performed automatically (Beck, 1976). However, they may be changed if they are affected by human reflexivity. People act as agential forces of routine change (Sewell, 1992). People in organizations have the ability to make a cognitive effort, to assess the situation, and to modify the way the activity is performed. Lazaric (2010) uses this idea to furnish the theoretical presentation of the process of routine change. Thus, this is the declarative knowledge that constitutes an important element of creating new routines based on the old ones (Lazaric, 2010, pp. 205-227). The study of routines is about processes of change and stability. It is about the organizational texture of daily activities, interrelations between them, and cognitive constraints and opportunities of transformation. Routines are performed in the organizational, cultural and historical setting. Thus, observation of routines calls for a humanistic field of study. It is important to note that the basic units of analysis are not people operating in organizations, but routines and daily recreated activities that may be changed in-use.

Stability vs. Transformation – a New Twist to an Old Problem

The main reason for putting the concept of routine in the centre of an old dilemma of stability and change is its contradictory nature. Routines preserve schemas of organizational being, at the same time remaining embedded in human activity. Norbert Elias, a key process sociologist, provided the following metaphor: “The wind is blowing”. “We say [then] as if the wind were separate from its blowing, as if a wind could exist which did not blow” (Elias, 1978, pp. 111-112, as cited in Feldman, 2016, p. 29). The categories of wind and blowing are mutually co-existent. In fact, this is the logic behind Martha Feldman’s theory of routine as practices (Feldman, 2000). In the world we live in, we can see the effects, i.e. waving flags. People do not “see high and low pressure of the wind”. But people can observe ostensive and performative aspects of routines. Both categories are constitutive for routine, but it is possible to differentiate them in empirical studies. Feldman’s theory concerns ostensive aspects as typical ways of doing, using and working. It can be applied to technology, decision-making, operating etc. Ostensive aspects are very close to the colloquial meaning of routine and they can be represented in written manuals and procedures, often referred to in the literature as SOP (standard operating procedures). Ostensive aspects are institutionalized in the formal structure of the organization. Performative aspects refer to the changeability of routines. As they are located *in-use*, they are supposed to impose a new form on the ostensive ones. Performative aspects occur within the daily reproduction of routines, provided that people use alertness and reflexivity in ordinarily performed activities (Feldman, 2000; Pentland & Feldman, 2003).

Change of recreated routines may be deliberate or spontaneous and unplanned. The market change creates opportunities for enterprises. However, as Simpson and Lorino (2016, p. 55) assume, routines are context-dependent, so they should not be “theorized as either purely individual or purely organizational endeavors”. By bringing organizational routines closer to the institutional and market context, one sees whether entrepreneurs and managers are more willing to change or not. To put it simply, the more turbulent the environment is, the more radical routine transformations become. Thus, as liter-

ature searchers show, there is a plethora of works that focus on observing routines put under industry pressures (Orlikowski, 2000; Wenting, 2009).

Pentland and Ju Jung (2016) propose a framework for the crucial elements of rapid change of organizational routines. They adapted the concept of narrative network by Pentland and Feldman (2007). The concept illustrates schemas (practice patterns) of using a technology. There were “nods” incorporated into the framework that were meant to provide information on who does what. Pentland and Ju Jung furnished this basic framework with elements such as:

1. Actions (what).
2. Actants (who).
3. Narrative Network (pathways for possible routines).
4. Recombination and repetition.
5. New routines.

Actions form the active tissue of what the processes are about. Actants are people or machines that recreate fragmented processes. Actions and actants are “narrative fragments(...) in that story” (Pentland & Ju Jung, 2016, p. 104). The narrative network is the place where ostensive and performative aspects of routines collide. There are many possibilities (pathways) for acting. They can mix and produce a new processual order (Pentland & Ju Jung, 2016, pp. 103-110). I think that the conceptual framework of recombination and repetition of pathways by Pentland and Ju Jung (2016) could be divided into two possible types of routine reproduction. One could be based on slowly “emerging” patterns of actions, and the other on the radical or advert change connected with what has been institutionalized up to a given time. The added value of this conception would be the exploration of differences in the way practice evolves.

Schatzki (1996) denotes three fundamental notions of practice. The first one promotes the idea of a practicing as a process of gradual learning or ability to do something strictly by “working at and carrying it out” (Schatzki, 1996, p. 89). That concept can be associated with such examples as practicing the piano. In the second view practice is perceived as “nexus of doings and sayings” that is dispersed in time and space (Schatzki, 1996, p. 89). In order to brighten up this understanding, Schatzki uses such examples as: “voting practices, industrial or market practices, recreational practices, cooking practices etc.” (Schatzki, 1996, p. 89). Practice then is a widespread schema of action. Individuals know what to do in order to achieve results. Their activities are guided through widely known instructions or principles. Whereas this view of practice emphasize its casual character, the third conceptualization puts forth performing and actual activity into the understanding of the notion (Schatzki, 1996, p. 89). Practice comes into being when it is performed. This is the basis of constituting and transforming of social structures and institutions. In that sense routines are designated as recursive elements of everyday human actions.

However, in colloquial language routine is still a pejorative term. Elaborating on the Weickian logic, evolutionary economists have made a dynamic sense of this notion (Weick, 1979). Thus, the practice theory put processual brackets around the notion of routine. Routines are locus of the organizational life. They are the carriers of practice, as they contain written or implied rules, norms, patterned schemas of acting, obeyed order of individual roles, and the way resources are deployed. Simultaneously, they are the carriers of change forming a basis for transformation. This process may have path-

dependent character as well as a radical way of deviating from what was cultivated. Routines are twofold categories and, as Gherardi said, they can “constitute a good or beautiful practice”. If they are sustained, it may be assumed that there is some internal logic behind their reproduction (Gherardi, 2012, pp. 2-3).

MATERIAL AND METHODS

The article presents results of a comparative case study. The aim of the study was to grasp the context and micro-aspects of everyday practice. Thus, the methodological choices made included interviews and non-participant observation. The enterprises operate in creative and textile-apparel industries. Sample selection was purposive and its aim was to compare cases in terms of different routine reproduction processes. The cases were supposed to be compared, thus the interviews were semi-structured. However, some significant topics were brought up spontaneously by the collaborators (interviewees). The interviews were recorded, transcribed and supplemented with notes. Additional notes were taken during the observation of everyday practices and organizational entourage. Collaborators were the owners of Alfa and Beta respectively. In the case of Alfa also a co-owner and a worker took part in the interviews. As a result of the study it was possible to show diverse routine reproduction processes. The framework of Pentland and Ju Jung (2016) was partly used to trace key categories of the phenomena observed.

RESULTS AND DISCUSSION

Everyday Practice as Loci of Organizational Persistence and Transformation

The Alfa enterprise has operated in the denim industry for over ten years and it is located in Łódź. It manufactures finished products for domestic and foreign customers. Their core products are jeans, however, it is possible for them to produce other denim clothes as well as furniture covers. The enterprise has a qualified staff and modern machines. Alfa has a wide spectrum of cooperators and customers (see Patora-Wysocka, 2016).

The Beta company is a young and not yet renowned brand from the creative industry located in the WI-MA zone in Łódź. At the moment, its core product is print on textile. The vision of the product is unique, as it involves implementing photographs on a transparent material. The enterprise consists of only one person (owner). The owner is a young woman whose educational background ranges from medicine and industrial design to film scenography. Beta sometimes provides services of designing and producing clothes. The future plan includes jewellery design.

Employing fragmentarily the concept of Pentland and Ju Jung (2016), one sees that actions and actants in the case of Alfa form “narrative fragments” of daily routine patterns in the denim apparel market (Table 1). They operate within two schemas of reproduced practice: the first one consists in delivering finished products, while the other one in sewing services using the fabrics provided. The fabric is usually already pre-shrunk. The capabilities of the Alfa enterprise involve cutting, sewing, organizing the outside pre-shrinkage process, collecting the products, and finishing them. One can get the impression that these activities take place in an almost sequential way. The activities are of repetitive character.

Table 1. Actions and actants in Alfa

Actions and Actants	Opinion
Actions (examples of daily action patterns in the case of Alfa. Alfa operates in the denim apparel industry)	“(...) in fact, there are two methods: we either produce them as finished products, which means that we buy fabrics, we sew, we launder, I mean we have them laundered because we don’t have our own laundry, so we just give them to a partner laundry, we preshrink them and then they are sold as finished products, or the customer provides us with fabrics and we only sew them.” “(...) There is fabric, we buy fabric, it’s generally already fixed, we cut it and sew, and we give them to be pre-shrunk. Then the products return to us and we finish them.”
Actants (There are at least: 1. Machines and seamstresses who can use them, 2. Partner laundries, 3. Regular business partners – orderers 4. Top designers)	“(...) It’s not exactly an automatic machine, but it’s a machine that attaches waistbands to trousers. You can sew them manually, so seamstresses can press them down with their hands, but you can do it using those special rollers, as they are called, and then such a waistband is really even across and, most of all, this is much quicker, because manually, let’s say, how many waistbands can you attach? Seven an hour? And the machine can sew, for example, forty an hour, so it saves a lot of time.” “(...) we give them to a partner laundry (...)” “(...) in fact, the first one we had, we’ve been cooperating for a number of years now, and the first company was Delta company, which now operates under the Zeta brand.” Comments on some of the designers: “(...) well, they make a fuss about everything they can because they simply don’t know, that’s it. That’s why they wear it with other clothes, those more elegant ones, while it’s not really the point, you know, jeans have their own world following their own rules.”

Source: own study.

Actants are parts of all routine schemas (Table 1). In the case of Alfa there is no point in assessing the priority of one actant over another. Actants and actions are mutually constitutive. Machines and people who operate them are inseparable categories of a daily life in the organization. Actants are also present in the local environment of the enterprise. These actants are crucial for a continuum of daily routine reproduction (laundry and regular co-operators). However, there are also important factors that stand for defining recombined ways of patterned actions when it comes to top designers. Alfa has seized the opportunity to create a product with designers. However, the owner recalls it as a tough time full of problems in terms of communication and reciprocal understanding. Nonetheless, one should bear in mind that the ‘top designers’ actant is an anchor for the nod of making unique denim clothes different from the ones produced on a daily basis.

The institutionalized schema of everyday practice reproduction was radically recombined (Table 2). The core pathway forked into two separate ways: the traditional one, which adheres to the production of denim clothes, and a completely new branch of jeans furniture covers. Alfa jumped at the opportunity to render untypical services for a foreign customer spontaneously. The owner of Alfa recalls that situation as a complete novelty: “Well, frankly speaking... we didn’t have a clue how to do it”. Using Pentland and Ju Jung terminology, the “narrative fragments (...) of actants and actions” collided and mixed to create a new pathway of doing the practice (Pentland & Ju Jung, 2016, p. 104). Alfa succeeded and therefore it extended the scope of its services. However, a new actant appeared, i.e. a new customer. This narrative fragment – a new actant and spontaneous (re)action of Alfa – is developing a node: “Now they found some customer from Russia, who ordered a lot of this from them (...)”. Therefore, new practice becomes institutionalized.

Table 2. New practice institutionalization through radical routine recombination in Alfa

Routine reproduction and new practice	Opinion
Radical change of routines (new opportunity, spontaneity and novelty of activity)	“(Now) we make jeans sofas, I mean covers, and we cooperate with a company manufacturing furniture, and we simply sew such covers for the sofas and then they put it on the frame, and you can buy a jeans sofa, right? (...) Yes, yes, they found us through fabric suppliers, you know? They went to a fabric wholesale company, they asked someone... and this person recommended us.” “(...) Well, frankly speaking... we didn’t have a clue how to do it, I mean... The first time. They were completely different, some structures, huge... and then you just put it on.”
New practice institutionalization (radical recombination of routines resulting in new schemas of action)	“This year they went to some fair because we manufactured a lot... Then there was something like that, I mean we produced for them all the time (...). Now they found some customer from Russia, who ordered a lot of this from them, so we had a good beginning of the year with them, really good. We all thought for some time that everyone got bored with this, but surprisingly a new market appeared.”

Source: based on Patora-Wysocka (2016, pp. 113-126).

Table 3. Actions and actants in Beta

Actions and Actants	Opinion
Actions (examples of daily action patterns in the case of Beta. Beta operates in the creative industry: nowadays, the owner mostly deals with artistic textile printing)	“(...) I started [in relation to the short film tutored by prof. J.Gajos in Lodz Film School] playing with printed textiles, as I based the whole set on transparent printed textiles. (...) [I’m making] paintings, I mean I’m printing on canvas, but I do everything using the printing technique.” “(...) it’s as if photography has always accompanied me more like a hobby, for many years, so... I started as if combining them, you know? Well, I use photos for all kinds of photo collages, I just make them and then I print. And so (...) paintings, all these things you saw there, curtains, other things, those are actually some old works of mine, some of them are even unfinished.” “I’ve got a number of ideas and in order to do it differently than others I don’t start with the textile, I start with an idea which then sort of evolves because I add textile to it, the whole design evolves, so in the end it’s something completely different (...) but at the moment I think that, unfortunately, for a longer period of time I’ll be doing this only when ordered.”
Actants (There are at least: 1. A3 printer; 2. Press; 3. Printing shop; 4. Seamstresses; 5. Website; 6. PC Computer.)	“I have a printer but it’s only an A3 printer, and that’s it, and a press. And it all looks like that: up to the A3 format, which means that I can do these small things you can see here on my own, right? But if I need larger textiles, I have to outsource. I simply order them in a printing shop, and they print it on exactly the textile I give them, and in this case I can get it in any format I want, because this is a meter sixty, just like the length of the roll, right? The width. And they’ll print as much as I want.” “(...) I have those two seamstresses I trust who just sew what I need (...).” A comment on showing designs on the Internet: “There will be (...) designs on my website.”

Source: own study.

Narrative network in the case of Beta is grounded in print on textiles (Table 3). However, this is a unique printing technique based on photography. There is a diverse texture of actions and actants. The owner of the enterprise is a talented and creative person. She demonstrates many abilities that form the basis for recreating routine patterns. Artefacts and other actants extend the performative aspects of possible routines. And this is partly the way the daily entrepreneurial life is going: “I start with an idea which then sort of evolves because I add textile to it, the whole design evolves, so in the end it’s something

completely different”. Paradoxically, the creative way of following the practice is a routine schema. At first, one only sees creative chaos. However, activities stem from goals and business logic, and then they evolve in order to achieve even better results. There is an order of routine reproduction. The owner refers to: 1. Proven ways of accomplishing products: “if I need larger textiles, I have to outsource. I simply order them in a printing shop”, 2. Known partners: “seamstresses I trust”, 3. Dissemination of information about the product in the same way: “there will be (...) designs on my website”.

Table 4. In search of practice: emergent routine reproduction in Beta

Routine reproduction and new practice	Opinion
Emergent routine reproduction (a wide array of routines and dynamic capabilities are the bases for emerging new practice pathways)	A: fragment concerning the production of clothes: ZP-W: “So you’re going to suggest a pattern? And the customer will propose a design, right?” B: “I mean no, I offer a specific item, right? For example, I don’t know, a dress, and it’s complete, the way it looks, but you can, for example, come to me and then I measure you, me or my seamstress, and depending on this, because, you know, not everyone looks good in everything, right? You like the dress but I have some education in this field and know how to change it, so, I don’t know, I shorten it or make it a bit longer, and this is how clothes are as if adjusted to each person. So, in fact, there’s only a minimal chance that two identical items will be created, right? They are all based on the same design but there is also this freedom, the design can be changed a bit, it’s all about talking to customers and finding out what they really expect.”
Searching for practice (mixing routines, actants and actions may result in new practice institutionalization in the future)	“You had some questions concerning, for example, fashion, well, I’m not dealing with fashion at the moment (...).” “(...) But I’d like to make some things connected with jewellery, for example, and so on.”

Source: own study.

The repetition of ostensive routines stimulates the performative ones (Table 4). The network has many nodes of actions and actants. They are supported by dynamic capabilities and openness to searching for actions of a new kind. A young brand in the creative environment recognizes new possibilities. However, they are not institutionalized yet. There are no grounded schemas of acting besides the core practice of printing on textiles. The case of Beta exemplifies emergent routine reproduction that may be referred to as a starting point for practice institutionalization.

CONCLUSIONS

Business world is characterized by widespread change and temporality of knowing of what should be done. This concerns market, technology, culture, and institutional order. I believe that paying attention to the daily practice, practitioners, context and situations as well as resources and material tools makes it possible to understand organizational change. It is of significance as far as practice is located in past and future activities of an organization. The research presented in this study illustrates how entrepreneurs respond to everyday phenomena that co-create their business reality. In fact, there are plenty of

unplanned situations in the day-to-day organizational life. Using them as the basic context for research means in fact observing the fundamentals of managerial and organizational processes. It turns out then that the way of acting may be of twofold nature: radical and spontaneous or evolution-like and emergent. In this respect, the research introduces the processual and micro-ontological approach into the field of management. However, it tackled only one of the problems present in the management and organization theory, i.e. change management. I think that the field of practice theory is open to more issues, such as innovation and technology, strategic management, internationalization, marketing, work studies, conflict management, organizational culture etc. The practice turn in management may be perceived as a promising approach that does not stand in opposition to the dominant strand, but rather offers a complementary perspective.

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