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Global Entrepreneurship from the European Perspective

edited by
Krzysztof Wach



Centre for Strategic and International Entrepreneurship
Faculty of Economics and International Relations
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Global Entrepreneurship from the European Perspective

edited by

Krzysztof Wach

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Editorial: Global Entrepreneurship from the European Perspective

International entrepreneurship or global entrepreneurship specifically examines and prioritises the role of the entrepreneur as a key factor in the internationalisation process of the firm or non-profit organisations (Wach & Wehrmann, 2014). Thus, research in international entrepreneurship emphasizes the 'human factor'.

International entrepreneurship describes internationalisation as a "combination of innovative, pro-active, and risk-seeking behavior that crosses national borders and is intended to create value in organizations" (McDougall & Oviatt, 2000, p. 903). Entrepreneurship done on worldwide basis is known as the **global entrepreneurship**.

International or global entrepreneurship is reported to be a research domain at the intersection of two fields, which are entrepreneurship theory and international business (McDougall-Covin *et al.*, 2014). Zucchella & Sciabini (2007) add one more very important fundamental pillar, which is strategic management. However, strategic management is included also in entrepreneurship (strategic entrepreneurship) as well as in international business (business strategy approach). Nevertheless, its rich productivity and influence can also be analysed separately.

Doing business in Europe or even within the European Union has special peculiarities, thus international business from the European perspective is worth focusing on and being investigated. Firms operating under conditions of progressive European integration as well as globalisation of the world's economy should effectively use all existing possibilities, which are created by integration and globalisation processes (Wach, 2014). Businesses should search for their competitive advantage by introducing the Europeanisation or internationalisation (and even globalisation) strategies. Entries on foreign markets can improve the competitive advantage of the firm. It is very crucial that the possibilities, which are created for Central and Eastern European (CEE) as well as South and East European (SEE) businesses by the process of political and economic integration in the frame of the European Union (EU), become fully embraced (Klich, 2013). The Europeanisation of activities of a firm is one of such possibilities.

This issue includes six very interesting papers focusing on global dimensions of entrepreneurship.

Andrzej Cieřlik, Jan Michałek (both from Warsaw University, Poland) and Anna Michałek (from European Central Bank) analyse the Influence of firm characteristics on export performance on the example of Visegrad, Baltic and Caucasus countries.

Jörg Freiling and Mareike Zimmermann discuss the driving forces for learning in ‘Born Transnationals’.

Marian Holienka, Anna Pilková (both from Comenius University in Bratislava, Slovakia) and Michal Munk (Slovakia) using the data of Global Entrepreneurship Monitor, (GEM) analyse business restart in all four Visegrad countries.

Andrea S. Gubik and Sándor Karajz from Miskolc University (Hungary) analyse the role of resources and industrial driving forces in the selection of foreign market entry modes.

Abderrezzak Benhabib, Amina Merabet, Mohamed Benachenhou, Yamina Gari, Fouzi Boudia, and last but not least, Hadjira Merabet from Tlecman University (Algeria) present interesting study results on determinants of female entrepreneurship in Algeria.

Finally, Janusz Fudaliński from Cracow University of Economics (Poland) discusses the global context of NPOs and NGOs by conducting some international comparisons.

On the behalf of the Editorial Board, I would like to give my special thanks to all people involved in the editorial and publishing process, especially both linguistic editors Agnieszka Żur and Radosław Rybkowski as well as the layout editor Marek Szarucki.

Krzysztof Wach
Editor-in-Chief

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The Influence of Firm Characteristics and Export Performance in Central and Eastern Europe: Comparisons of Visegrad, Baltic and Caucasus States

Andrzej Cieřlik, Jan Michałek, Anna Michałek

ABSTRACT

Objective: In this paper we study the firm-level determinants of export performance in three groups of countries: the Visegrad, Baltic and Caucasus countries.

Research Design & Methods: Our analytical framework refers to the most recent strand in the new trade theory literature based on the Melitz (2003) model that stresses the importance of firm productivity in entering the export markets. The empirical implementation of the theoretical framework is based on the probit model and the BEEPS data set.

Findings: Our empirical results confirm the importance of firm characteristics for export performance in the CEE countries. Also heterogeneity between different country groups within the region has been reported.

Implications & Recommendations: Export competitiveness of firms from the CEE countries can be improved through the development of modern educational systems allowing to accelerate the accumulation of human capital. The financial support to research and development and innovation activities should also have a positive impact on the export performance of firms from the CEE countries.

Contribution & Value Added: We take into account labor productivity and other firm characteristics that may affect export performance such as the age and the size of the firm, the use of human capital, and the degree of firm internationalization.

Article type: research paper

Keywords: export activity; firm heterogeneity; Central and Eastern Europe

JEL codes: F14, P33

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INTRODUCTION

In the recent years a new strand in the new trade theory literature that stresses the firm heterogeneity in terms of productivity and export performance has emerged. In contrast to the previous international trade literature which assumed that firms are symmetric this new literature stresses the firm heterogeneity in terms of productivity and export performance. The existing empirical evidence based on firm-level data suggests that only a small fraction of the most productive firms accounts for the majority of exports and most firms do not export, concentrating their activities on domestic markets only (EFIGE, 2010).

The majority of empirical studies are conducted mainly for developed and a limited number of developing countries while the empirical evidence for the post-transition economies of Central and Eastern Europe is still rather scarce. Therefore, the main goal of this paper is to investigate the role of individual firm characteristics for their export performance. In particular, we are interested in studying the relationship between labor productivity and exporting, having controlled for other firm characteristics in three groups of Central and Eastern European countries: Visegrad (V-4) group, the Baltic states and the Caucasus countries. In the early 1990s these countries faced transition from non-market to market economies and liberalized their trade policy. Our study is based on the BEEPS firm-level data for the post-transition period starting in 2002 and ending in 2009.

First, we start with estimating probit regressions for the pooled dataset that includes all three country groups, and then we disaggregate the sample into particular country groups. Our estimation results obtained for the whole sample indicate that the probability of exporting increases with the higher firm productivity, having controlled for the share of university graduates in productive employment, spending on R&D activities, the use of foreign technology licenses, the foreign ownership, and the firm size. The results obtained for particular country groups reveal some degree of heterogeneity among them.

The structure of this paper is as follows. In Section 2 we review the relevant literature. In Section 3 we discuss the dataset and the empirical methodology. In Section 4 we discuss our empirical results. Section 5 summarizes and concludes with directions for further studies and policy recommendations.

LITERATURE REVIEW

Following the recent developments in the empirical trade literature a new strand in the new trade theory literature has emerged. This new strand in the trade theory was initiated by the Melitz (2003) model. In particular, Melitz (2003) relaxed the key assumption of the firm symmetry in the Krugman (1980) monopolistic competition model and introduced firm heterogeneity in terms of labor productivity. In this model the relationship between the level of labor productivity and exporting has been placed in the center of analysis. Melitz (2003) model assumes that productivity differences among firms are exogenously given and each firm has to pay fixed costs of entry into domestic

and foreign markets. The model predicts that only the most productive firms with lowest marginal costs can cover the fixed cost of entry and become exporters¹.

The majority of empirical studies find support for the theoretical prediction of the Melitz (2003) model, i.e. that more productive firms self-select into foreign markets. This has been demonstrated, for example, by Bernard and Wagner (1997) for German firms, Bernard and Jensen (1999) for US firms, Clerides et al. (1998) for Columbia, Mexico and Morocco, and Castellani (2002) for Italy. The extensive summary of recent empirical evidence on the relationship between the productivity and export performance is provided by Wagner (2007, 2012).

The importance of the firm productivity for exporting has also been confirmed by the EFIGE (2010) report. In this report it has been demonstrated that firm export performance in seven EU countries depends on labor productivity and other firm characteristics. Unfortunately, these studies did not include the countries of Central and Eastern Europe with the exception of Hungary.

Similar studies for the Visegrad countries (i.e. the Czech Republic, Slovakia, Hungary and Poland) and separately for Poland were conducted by Cieřlik, Michałek and Michałek (2012; 2013a; 2013b). Their analysis showed that the productivity of the labour force was positively related to the probability of exporting. In addition, in their empirical studies, other factors such as spending on R&D, size of the firm, internationalization of the firm, and the stock of the human capital that may affect export business decisions were examined. These results were similar to the results presented in the EFIGE (2010) report.

The firm-level evidence on export performance for the Baltic economies is still rather scarce and limited to country studies based on firm surveys. The notable exception is the recent study by Putniņš (2013) who employed an international business approach to study the determinants of export competitiveness of Latvian firms. He finds that exporters are larger, younger, faster growing and pay higher wages compared to non-exporters. His findings regarding wages are consistent with the view that exporters have higher labor productivity or utilize more skilled labor. Especially, direct exporters tend to be more innovative, proactive and risk taking, and therefore have higher entrepreneurial orientation. Moreover, foreign-owned companies reveal a higher propensity to export compared to domestic-owned firms. His findings are generally in line with the findings of other empirical studies based on most recent strand in the new trade theory literature that focuses on the relationship between the level of labor productivity and exporting. To the best of our knowledge no evidence on the Caucasus countries is available.

The new strand of trade theory provides a useful tool for the analysis of trade performance at the firm-level. In this study we focus on the determinants of firm decisions to export which is an equivalent of studying the extensive margin effects which means a positive effect on trade through an increase in the number of exporting firms or products exported. In particular, we examine empirically the nexus between firm-level

¹ Helpman *et al.* (2004) extended the Melitz (2003) model to show that the internalization of firms can take place not only through exporting but also via horizontal foreign direct investment (FDI). In their model the most productive firms become multinationals, firms with intermediate level of productivity and lowest productivity firms operate only in domestic market.

productivity and exporting postulated by the Melitz (2003) model in three groups of Central and Eastern European countries: Visegrad (V4) group, the Baltic states and Caucasus countries.

In addition, we try to take into account other firm characteristics that may affect export performance such as the age and the size of the firm, the use of human capital proxied by R&D spending and the share of university graduates in total employment, and the degree of firm internationalization proxied by the use of foreign technology licenses and the role of foreign ownership. Internationalization of firms can generate technology transfers that improve firm productivity. In particular, productive knowledge can be purchased from external suppliers or can be transferred between subsidiaries of multinational firms.

MATERIAL AND METHODS

Data Description

Our analysis is based on “EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS)” data collected by the World Bank and the European Bank for Reconstruction and Development in the post-communist countries located in Europe and Central Asia (ECA) and Turkey. The main objective of the BEEPS survey was to obtain feedback from enterprises in the aforementioned countries on the state of the private sector. The survey examined the quality of the business environment as determined by a wide range of interactions between firms and the state. The surveys covered manufacturing and services sectors and are representative of the variety of firms according to sector and location within each country. The data were collected for years 2002, 2005, and 2009.

Our study focuses on three groups of Central and Eastern European countries: the Visegrad Group (V4), the Baltic states and the Caucasus countries. The Visegrad countries include: the Czech Republic, Hungary, Poland and Slovakia. The Baltic states include: Estonia, Latvia and Lithuania. The Caucasus countries include; Armenia, Azerbaijan and Georgia. The Visegrad countries and the Baltic states were the leaders in multilateral and regional trade liberalization in the early 1990s. Already in December 1991 the Visegrad countries signed the Europe Agreements creating free trade agreements with the European Union (the European Communities at that time) and the Baltic states in 1994-1995. The Caucasus countries participate in the Eastern partnership agreements but still have not signed the free trade agreements with the European Union.

Given the positive changes in the international institutional environment and deepening integration with the EU of the Visegrad countries and the Baltic states one can expect that firms from these regions are also the leaders in export activity. Therefore, it is worth comparing the propensity to export of firms in these countries with the Caucasus countries and other countries covered by the BEEPS.

The export activity is defined as the situation when at least one percent of sales revenue comes from the sales made abroad. In Table 1 we present the export propensity of firms from the Visegrad countries, the Baltic states and the Caucasus countries as well

as other former communist countries treating Turkey as a benchmark – a market economy from the region free of the communist past.

Table 1 reveals a great degree of heterogeneity across the firms in the whole region. It can be noted that on average firms in Turkey are the most export-oriented among the firms in the region. The high share of exporting firms is also typical for the countries that emerged from the former Yugoslavia. Those countries were more market-oriented and had more liberal trade regimes in the past compared to the other communist countries. The share of exporting firms from the former Soviet Union is the lowest. The exception are the Baltic states while the Caucasus countries confirm this regularity. The Visegrad countries are located in the upper-middle of the group. However, a great deal of heterogeneity in export performance cannot be explained by the country characteristics only and it is worth studying also the role of firm characteristics in determining the export performance.

Table 1. Comparison of the propensity to export among the firms from Central and Eastern European countries and Turkey

Export (national sales less than or equal 99% of establishment's sales)		
Country	Mean	Frequency
Turkey	0.57896874	2463
Slovenia	0.55167394	687
Croatia	0.41551724	1160
Serbia	0.37222222	900
Slovakia	0.36555891	662
FYRMacedonia	0.36005435	736
Estonia	0.35454545	660
Lithuania	0.35441176	680
Hungary	0.35099913	1151
Czech Republic	0.34458673	859
Bosnia	0.34366577	742
Bulgaria	0.31840259	1853
Latvia	0.28527607	652
Albania	0.27459016	732
Poland	0.27253886	1930
Belarus	0.25825472	848
Moldova	0.2356257	887
Ukraine	0.21819138	1902
Romania	0.21345876	1382
Armenia	0.18994413	895
Russia	0.18341232	2110
Kyrgyz Republic	0.1704918	610
Georgia	0.1689008	746
Montenegro	0.13636364	154
Uzbekistan	0.12526998	926
Tajikistan	0.11836735	735
Azerbaijan	0.11	900
Kazakhstan	0.10079768	1379
Total	0.28795883	29341

Source: own calculations based on the BEEPS data.

The probability of exporting of firms from the analysed country groups can be related to the explanatory variables on firm and sector characteristics. These variables are based on the survey questions regarding identification of firm, sector of activity, legal

and economic status, characteristics of managers and size of the firm are assembled, the infrastructure of services in analysed country, economic performance and key characteristics of reviewed firms, as well as stakeholders, e.g. employers organizations, employees organizations, local government, central government, ICT industry, SMEs, academics, etc.

The key explanatory variables stressed by the Melitz (2003) model – labor productivity is expressed as the total amount of annual sales per full time employee (*prod*). Other factors that may affect export activity include the level of innovation proxied by the R&D spending (*R&D*), the stock of human capital proxied by the percentage of employees with university degrees (*univ*). In addition, we control for the foreign ownership (*foreign_cap*), the use of foreign technology (*foreign_tech*), the age (*firm_age*), and the size of the firm (*firm_size*).

The sample used in our econometric analysis includes cross-section data for firms located in three groups of Central and Eastern European countries: the Visegrad (V-4) group, the Baltic states and the Caucasus countries for which explanatory variables were available in all analysed years. The exact definitions of firm characteristics used in our study are presented in Table 2.

Table 2. Description of variables used in empirical study

Variable Name	BEEP input Name	Description
Export	d_d3a	binary variables, that takes the value 1 if the establishment is exporting and 0 if not
prod	prod=log(lprod) prod=d2/l1	logarithm of productivity expressed as total amount of annual sales per full time employee
firm_size	l1	logarithm of no. permanent, full-time employees of this firm at end of last fiscal year
Firm_age		logarithm of number of years since start of operations
Foreign_tech	e6	binary variable, that takes the value 1 if the establishment uses technology licensed from a foreign-owned company and 0 otherwise
Foregin_cap	b2a	binary variable, that takes the value 1 if shares owned by private foreign individuals, companies or organizations and 0 otherwise
R&D	R&D=(ECAo4/d2)*100	logarithm of % of total annual sales spent on research and development
Univ	IECAq69	logarithm of % employees at end of fiscal year with a university degree

Source: BEEPS dataset.

Empirical methodology

We use the probit model to study the relationship between labor productivity and exporting, having controlled for other firm characteristics. Building on the previous theoretical literature we develop an empirical model to investigate the effects of various firm characteristics on their export performance. Our variable follows:

$$Y^{i*} = X_i \theta + \varepsilon_i \quad (1)$$

Where X_i is vector of firm characteristics affecting profits, θ is the vector of parameters on these characteristics that needs to be estimated, while ε_i is an error term which is assumed to be normally distributed with the zero mean.

Instead of observing the volume of exports we observe only a binary variable indicated the sign of Y^{i*} .

$$Y^i = \begin{cases} 1 & \text{if } Y_i^* > 0 \\ 0 & \text{if } Y_i^* = 0 \end{cases} = X_i\theta + \varepsilon_i \quad (2)$$

The probability that a firm exports as a function of firm, industry and country characteristics can be written as:

$$\Pr(Y_i = 1|X_i) = \Phi(X_i\theta) \quad (3)$$

RESULTS AND DISCUSSION

In this section we present two sets of the estimation results. First, we discuss the pooled estimation results obtained jointly for all three groups of countries. Then, we discuss the results for the individual country groups.

Results for all Country Groups

In column (1) of Table 3 we report baseline results that come from the specification that includes the productivity variable, having controlled for standard factors mentioned in other studies. These include the R&D spending (*R&D*), the stock of human capital proxied by the percentage of employees with university degrees (*univ*), the foreign ownership (*foreign_cap*), the use of foreign technology (*foreign_tech*), the age (*firm_age*), and the size of the firm (*firm_size*).

Our estimation results reveal that the estimated parameter on the measure of productivity displays an expected positive sign and is statistically significant at the 10 per cent level. This means that the higher level of productivity is positively related to the probability of exporting. This result is in line with the main prediction of the Melitz (2003) model concerning the positive nexus between productivity and exporting. The majority of control variables are statistically significant at the 1 per cent level with the exception of the firm age which is not statistically significant. The estimated signs of parameters on our explanatory variables are also in line with the expectations and results of other studies discussed in the literature review section.

In particular, the firm size variable displays a positive sign indicating the importance of economies of scale for exporting. The estimated parameters on the human capital variables also display positive signs. This means the level of R&D and the share of workers with university degrees in total employment are positively related to the probability of exporting. Both variables measuring the foreign ownership and the use of foreign technology display the expected positive signs which means that the probability of exporting increases with the internationalization of the firm.

In column (2) we control for the country specific effects by including the regional dummies for the Baltic states and the Caucasus countries, while the Visegrad group is treated as the reference group. The inclusion of the regional dummy variables does not affect the signs and statistical significance of the other variables in a major way with the exception of the productivity variable which now becomes statistically significant at the 1 per cent level.

Table 3. Results for all country groups

VARIABLES	(1)	(2)	(3)	(4)
Prod	0.0133*	0.0334***	0.0337***	0.0308***
	(0.00703)	(0.00801)	(0.00759)	(0.00635)
firm_size	0.284***	0.278***	0.248***	0.243***
	(0.0218)	(0.0219)	(0.0209)	(0.0168)
age	-0.000921	-0.000844	.	.
	(0.00179)	(0.00182)	.	.
foreign_cap	0.00943***	0.00897***	0.00937***	0.00813***
	(0.00117)	(0.00119)	(0.00119)	(0.000919)
foreign_tech	0.668***	0.754***	0.00155	.
	(0.168)	(0.172)	(0.198)	.
R&D	0.125***	0.157***	0.176***	0.135***
	(0.0429)	(0.0439)	(0.0459)	(0.0306)
univ	0.0391***	0.0555***	0.0608***	0.0662***
	(0.0102)	(0.0107)	(0.0106)	(0.0102)
d_baltic	.	0.108	.	.
	.	(0.0849)	.	.
d_caucas	.	-0.733***	-0.808***	-0.703***
	.	(0.0919)	(0.0935)	(0.0701)
Constant	-1.699***	-1.930***	-0.835***	-1.795***
	(0.132)	(0.150)	(0.197)	(0.120)
time effects	No	no	yes	Yes
sectoral effects	No	no	no	Yes
Observations	2,305	2,305	2,314	3,065
Log likelihood	-1185	-1148	-1119	-1551
Pseudo R2	0.172	0.198	0.222	0.202

Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

Source: own estimations based on the BEEPS data.

The estimated coefficient for the Baltic group displays a positive sign but it is not statistically significant which means that the firms from these countries do not differ significantly from the firms from the Visegrad countries, having controlled for their individual characteristics. The estimated coefficient for the Caucasus group displays a negative sign and it is statistically significant already at the 1 per cent level. This means that the firms from these countries differ significantly from the firms from the other two groups of countries. This result is in line with the results of our descriptive analysis from the previous section which reveals that firms from the Caucasus countries are less export oriented.

In column (3) we show estimation results obtained for the specification in which we control for the time specific effects by including the dummy variables for specific years of the sample and exclude the statistically not significant age variable. The inclusion of the time dummy variables does not affect the signs and statistical significance of the other variables in a major way with the exception of the use of foreign technology variable which loses its previous statistical significance.

Finally, in column (4) we report estimation results obtained for the specification in which, in addition to time specific effects, we also control for the sectoral effects by including the dummy variables for specific industries and exclude the statistically not

significant variable measuring the use of the foreign technology. However, the inclusion of sector-specific dummies does not affect the statistical significance of the other explanatory variables.

Results for Individual Country Groups

The estimation results obtained for the individual groups of countries are reported in Table 4. In column (1) we report estimation results obtained for the Visegrad countries. In column (2) we present estimation results obtained for the Baltic countries and in column (3) we report estimation results obtained for the Caucasus countries.

Table 4. Results for individual country groups

Country groups	Visegrad	Baltic	Caucasus
VARIABLES	(1)	(2)	(3)
Prod	0.0415*** (0.0100)	0.0468* (0.0261)	0.0189 (0.0190)
firm_size	0.234*** (0.0258)	0.327*** (0.0516)	0.648*** (0.0909)
age	-0.000602 (0.00228)	-0.00786* (0.00430)	0.00324 (0.00448)
foreign_cap	0.00880*** (0.00153)	0.00858*** (0.00237)	0.00367 (0.00366)
foreign_tech	0.809*** (0.272)	0.677** (0.298)	0.458 (0.348)
R&D	0.167*** (0.0587)	0.136 (0.0858)	0.201* (0.113)
univ	0.0599*** (0.0118)	0.0696** (0.0296)	0.0306 (0.0615)
Constant	-1.941*** (0.182)	-2.029*** (0.362)	-3.597*** (0.563)
Observations	1,496	419	390
Log likelihood	-776.1	-220.0	-135.0
Pseudo R2	0.173	0.219	0.282

Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1;

Source: own estimations based on the BEEPS data.

In column (1) we display the estimation results for the Visegrad group. These results are very similar to the results obtained for the whole sample of countries reported in column (1) of Table 3 and also to the results obtained for the old EU members discussed in the literature review (EFIGE, 2010). Furthermore, the level of statistical significance for the productivity variable is statistically significant already at the 1 per cent level. This means the estimated relationship between the level of productivity and the probability of exporting in this groups of countries is more pronounced than in other country groups.

In column (2) we display the estimation results for the Baltic group. These results differ significantly from the results obtained for the Visegrad group. The estimated parameter on the productivity variable displays a positive sign but it is statistically significant only at the 10 per cent level. This means that the link between the level of productivity and the probability of exporting in the case of the Baltic countries is weaker. Moreover, the age variable displays a negative sign and is statistically significant at the

10 per cent level. This surprising finding is in line with the recent study by Putniņš (2013) for Latvian firms who finds that younger firms are more dynamic and export oriented. In addition, the estimated parameters on the R&D variable is not statistically significant while the share of university graduates in total employment and the use of the foreign technology variables are statistically significant only at the 5 per cent levels.

In column (3) we report estimation results for the Caucasus countries. In the case of this country group the link between the level of productivity and the probability of exporting is not significant. Moreover, almost all control variables are not statistically significant. The few exceptions include the firm which is statistically significant at the 1 per cent level and the R&D variable which is statistically significant at the 10 per cent level. These results show that the major variable which affects the export performance is the firm size.

CONCLUSIONS

In this paper we investigated the determinants of export activity of firms in three groups of countries: the Visegrad countries, the Baltic states and the Caucasus countries. The study covered Armenia, Azerbaijan, the Czech Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, Poland and Slovakia. The study was based on firm level data for the period starting in 2002 and ending in 2009. First we started with estimating probit regressions for the pooled dataset that included all three groups of countries, and then we disaggregated the sample into particular country groups.

Our estimation results obtained for the whole sample indicated that the probability of exporting increases with the higher level of productivity and the measures of human capital, including the share of university graduates in total employment and spending on R&D activities. Moreover, the internationalization of the firms proxied by the use of foreign technology licenses, and the foreign ownership was positively related to the probability of exporting. Finally, the firm size was also a significant variable for the probability of exporting.

The results obtained separately for specific country groups revealed a similar pattern in the case of the Visegrad countries and the Baltic states although a smaller number of explanatory variables were statistically significant. In the case of the Caucasus countries only two explanatory variables were statistically significant: the firm size and the R&D variable, while the link between the level of productivity and the probability of exporting was not significant. Thus, the firm size was the only explanatory variable which was statistically significant in the case of all groups of countries. This confirms the importance of economies of scale for exporting. In further studies it would be desirable to complement this empirical evidence by including also firms from other successor states of the former Soviet Union. Moreover, it would be also useful to control for country characteristics which would allow to take into account macroeconomic determinants of exporting.

Our empirical results allow us to formulate a number of strategic policy recommendations for the development of the export promotion strategy for the authorities of Central and Eastern European countries. In particular, the export competitiveness of firms from the CEE countries can be improved through the development of modern educational systems allowing to accelerate the accumulation of

human capital. The financial support to research and development and innovation activities should also have a positive impact on the export performance of firms from the CEE countries. Finally, the export performance can be improved by attracting export-oriented FDI which can generate positive spillovers onto domestic firms.

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Internal and External Learning Races in 'Born Transnationals': What are the Driving Forces?

Jörg Freiling, Mareike Zimmermann

ABSTRACT

Objective: This paper investigates an under-researched type of 'born transnationals' as young transnational companies. 'Born transnationals' are equipped with specific governance structures that may accelerate the internationalization process based on organizational learning. In this vein, the research question of the paper is: What are the core drivers of organizational learning in case of 'born transnationals'?

Research Design & Methods: Based on a model of organizational learning, we present and check a model-based set of structured research propositions of the learning process of 'born transnationals'. The propositions undergo a first reality check by developing two case studies based on semi-structured interviews.

Findings: Empirical evidence challenges the role of some factors (e.g. the role of international experience and proactivity of entrepreneurs) well-elaborated in literature and examines whether others (e.g. transactive knowledge) play a pivotal role. Against this background, some of the proposed causalities were to be modified and specified.

Implications & Recommendations: The findings suggest that organizational learning in born transnationals requires social capital and a particular type of learning culture. Moreover, entrepreneurs are well advised to foster the transfer of knowledge among the people in the company as far as possible to turn the 'wheel of knowledge'.

Contribution & Value Added: The paper portrays a new type of born globals, introduces a new model and develops first causal structures in this context. It identifies and specifies drivers of learning processes of the 'born transnationals' archetype.

Article type: research paper

Keywords: international new ventures; born transnationals; organizational learning; absorptive capacity; transactive knowledge

JEL codes: M13, M14, M16

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INTRODUCTION

The recent dynamics of the globalization or regionalization of markets have influenced the international business environment significantly. As a result of reduced obstacles to trade, customers operate on a global scale and suppliers find themselves confronted with new internationalization challenges (Cavusgil & Knight, 2009). Considering different organizational models to implement international business activities, more and more firms depart from the multinational or global model and favour the transnational archetype due to its heterarchical organizational structure that facilitates coping with the considerable market dynamics, e.g. by fast processes of organizational learning (Bartlett & Ghoshal 1989). The transnational company is an internationally distributed network (Bartlett & Ghoshal 1989) with a limited commitment to the country-of-origin that transcends national boundaries by integrating value-added processes into heterarchical networks with multi-domestic location structures. As numerous interconnections among the local subsidiaries and between the local units and the headquarters exist, sharing information and knowledge becomes a pivotal issue.

This 'organizational blueprint' also applies to 'born transnationals' as an archetype of 'born globals'/international new ventures (INV) (Oviatt & McDougall, 1994; Knight & Cavusgil, 1996). For the sake of clarity we define 'born transnationals' as a special type of INV which is characterized by a particular governance system based on heterarchical network structures of local subsidiaries and external network partners (rather than a hierarchical system) that equips born transnationals with a high responsiveness in competition and a limited commitment to the country-of-origin based on multi-domestic, interrelated location structures in selected countries (Hedlund, 1986; Bartlett & Beamish, 2011; Rugman *et al.*, 2011). Against this definition the role of the headquarters departs from other born global firms as local subsidiaries operate more self-dependently and interact not only with the headquarters but also with other subsidiaries for the sake of organizational learning (Birkinshaw, 1997). Due to the network structure, external sources of knowledge are accessed which facilitates and speeds up organizational learning processes, as well (Coviello, 2006). What differentiates coordination of born transnationals from other INV is furthermore the less formal way of adjustments among different central and decentralized units of the heterarchical network (Bartlett & Ghoshal, 1989). This ensures responsiveness in connection with internal coherence. Moreover, these 'born transnational' firms are highly entrepreneurial and often have global mind-sets (Harveston *et al.*, 2000; Knight *et al.*, 2004). Nevertheless, 'born transnationals' are newly founded firms with limited foreign business and institutional knowledge and no domestic operations as a backup. If foreign experience relevant to business issues is available, it is typically bound to the entrepreneur(s) so that it is not institutionalized, yet (Madsen & Servais, 1997; Knight & Cavusgil, 2004). The problem arises how to accumulate and how to translate knowledge as a lever to successful establishment on international markets. The core goal of this paper is to investigate this issue.

Due to the particular profile of 'born transnationals' this paper pinpoints the role of organizational learning as a core driver of internationalization. Literature very often highlights the role of internal learning sources (Crossan *et al.*, 1999). Besides that,

organizational learning may rest on absorbing external knowledge and giving meaning to it, as well. In this vein, the absorptive capacity as introduced by Cohen and Levinthal (1990) plays a pivotal role in the process of organizational learning. Insofar, the research question of the paper is: What are the core drivers of organizational learning in case of 'born transnationals'?

To better understand the peculiarities of 'born transnationals', notably in terms of external and internal learning processes, we start by employing a conceptual approach in the follow-up section. This approach is theory-driven for the sake of identifying core causalities and developing research propositions that undergo a first reality check in later steps of the paper. We employ the Crossan *et al.* (1999) model of organizational learning and the Freiling and Fichtner (2010) extension of the model to consider the debate on absorptive capacity. Based on this, we introduce the basic methodological approach in section 3, followed by a presentation and discussion of the results (section 4) and conclusions (section 5). The paper advances the current state of research by portraying 'born transnationals', employing a newly developed theory-based model of learning processes within 'born transnationals', and a first reality test of the research propositions.

LITERATURE REVIEW

Basics of Organizational Learning

Among the models of organizational learning (Easterby-Smith & Lyles, 2011 for an overview) Crossan *et al.* (1999) directly address organizational learning on and between organizational layers (individual, group, and organization) and shed light on the dynamic interrelationships. The '4I framework' consists of four learning processes across these three layers and distinguishes between stocks at each level and flows of learning between them (Crossan *et al.*, 1999; Bontis *et al.*, 2002; Jansen *et al.*, 2009). The two learning flows (feed-forward and feedback) explain learning cycles and express the tension between exploration and exploitation (Crossan & Bedrow, 2003). Exploration involves search, variation, risk taking, and experimentation, whereas exploitation includes refinement, selection, efficiency, and execution (March, 1991).

Mintzberg, Ahlstrand and Lampel (1998, p. 212) describe the learning processes as follows:

"Intuiting is a subconscious process that occurs at the level of the individual. It is the start of learning and must happen in a single mind. *Interpreting* then picks up on the conscious elements of this individual and shares it at the group level. *Integrating* follows to change collective understanding at the group level and bridges to the level on the whole organization. Finally, *institutionalizing* incorporates that learning across the organization by embedding it in its systems, structures, routines, and practices."

The 4I model provides insight into internal drivers that facilitate the transfer of learning from the individual to the group and then to the organizational level as well as back by the interplay of the feed-forward and the feedback process (Sun & Anderson, 2008). Feed-forward means the development and embedding of new knowledge and ideas that pass the test of usefulness to people, groups, and/or organizations. At the

same time, the feedback process works the other way round and regenerates what has already been learned from the organization to the group and individual level (Crossan *et al.*, 1999). Thus, feedback refreshes and deepens what previously has been learned. In the context of transnational firms, the feedback process allows distributing knowledge internally across national boundaries which is decisive in the race to learn.

Freiling and Fichtner (2010) refine the Crossan *et al.* (1999) model by adding that the source of knowledge can also be outside the firm. External knowledge needs to be found, accessed and integrated. For the sake of identifying and utilizing externally generated knowledge, an ‘absorptive capacity’ (Cohen & Levinthal, 1990; Zahra & George, 2002; Todorova & Durisin, 2007) is required. The absorptive capacity in its original version is “[the] ability to recognize the value of new information, assimilate it, and apply it to commercial ends” (Cohen & Levinthal, 1990, p. 128). According to this understanding, the absorptive capacity is composed of three components: acquisition, assimilation, and exploitation.

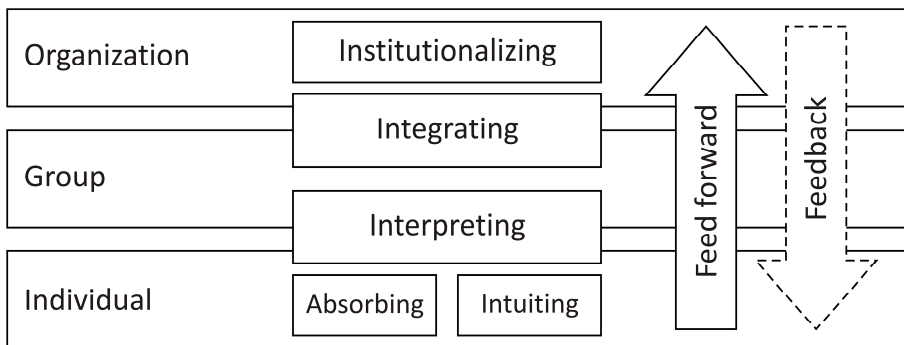


Figure 1. The Extended Learning Process of Crossan *et al.* (1999)

Source: (Freiling & Fichtner, 2010, p. 161).

Against this background, the question arises how far the absorptive capacity as a construct is already considered in the ‘4I framework’ mentioned above. Crossan *et al.* (1999) deal within their model at least implicitly with assimilation and integration activities. For the acquisition and particularly the recognition of the value of external knowledge this model does not apply. The 4I framework does not comprise the ‘recognizing the value’-step according to Cohen and Levinthal (1990). Hence, we consider this as a separate element of organizational learning and call it, according to Freiling and Fichtner (2010), absorbing. Figure 1 illustrates this extension.

Developing Research Propositions

Having outlined the learning process, we examine the factors that are supposed to drive organizational learning of born transnationals. Intuiting is the basic step of organizational learning on the individual level. There are two types of intuition: *expert intuition* as the recognition of patterns that have been learned in the past and are now tacit knowledge and *entrepreneurial intuition*, where new connections and possibilities are discerned (Crossan *et al.*, 1999). Both types of intuition are relevant in the context of born transnationals whereupon the entrepreneurial intuition is, due to the liabilities of

newness, a matter of particular importance. In the start-up phase the entrepreneurs are confronted with many managerial issues: e.g. products, organizational structures, and processes that have to be developed (Gartner *et al.*, 1992). This may create problems when establishing a new venture on a global scale so that a lot of creativity and imagination is required (Gartner *et al.*, 1992). The expert intuition, instead, will be more relevant during later stages of professionalizing the venture.

McDougall *et al.* (1994) argue that INV are usually founded by entrepreneurs who benefit from a significant amount of international experience and are particularly alert to opportunities in international markets. Gaglio and Katz (2001) define alertness as a distinctive set of perceptual and cognitive processes which direct the opportunity identification process. Alert individuals may easier or earlier perceive environmental signals and realize that appropriate behaviour at that moment requires reassessments of the situation and the environment (Gaglio & Katz, 2001). Cooper (1981) suggests that entrepreneurs intuitively perceive market opportunities, so that we propose a direct relationship between alertness and intuition.

Proposition 1. Alertness is positively related to the intuition of the entrepreneur of the 'born transnational' and stimulates organizational learning.

By the process of interpreting individuals refine and develop intuitive insights. This process connects the individual and group level but without impacting the organizational level, yet (Crossan *et al.*, 1999). Whether and how far new ideas and concepts penetrate groups and local units in host countries depends on social interaction and the social integration of individual knowledge. Social interaction requires participants speaking and understanding a common language and dispose of adequate knowledge. Therefore, sharing newly developed knowledge with other people and interpreting largely depend on finding the 'right' partners to talk to. In many instances, individuals contact people they are familiar with. Not in every case, however, those people are ready and willing to make substantiated statements on new ideas. Insofar, people should be aware of the profile of other people belonging to the 'born transnational'. Due to the small size of new firms, it is much easier to be aware of these profiles. Nevertheless, research on knowledge management suggests that it takes a particular mode of knowledge to identify adequate partners, namely 'transactive knowledge' (Wegner, 1987; Brauner & Becker, 2006) as knowledge on other people, in particular colleagues, but external network partners as well. Hence, we propose:

Proposition 2. Transactive knowledge fosters the identification of adequate people to share ideas with and, thus, fosters organizational learning in 'born transnationals' via interpreting.

Following the Crossan *et al.* (1999) model, integrating—as the next step—is crucial to leverage learning processes from the group to the organizational level. In case of 'born transnationals' the transnational challenge of distributing new knowledge within the entire heterarchical network occurs. If the process works, a shared understanding evolves through collective action across national boundaries. When individuals express their opinions and beliefs or challenge other people's viewpoints, collective learning occurs (Zollo & Winter, 2002). Once the entrepreneur tries to 'dictate' individual action, the individual motivation to learn will decrease (Senge, 1990). Therefore, discretion for individual development is required. Oppositely, a lack of trust limits the exchange of

opinions and beliefs (Argyris & Schön, 1996). With growing discretion trust develops and thus the motivation to initiate projects. Taking the structure of transnational companies into account, one important mechanism for knowledge sharing is the delegation of responsibility to local subunits. Especially in dynamic environments, flexibility and responsiveness may be reduced if decisions are not made quickly and locally. Thus, we propose:

Proposition 3. The delegation of responsibility supports the integrating process and fosters organizational learning.

According to Crossan *et al.* (1999), the process of institutionalizing is located on the organizational level. Knowledge is embedded in organizational routines and structures and spreads over the whole organization. Former explicit knowledge becomes well understood, deeply embedded in people's minds and part of workaday life. Basic assumptions and beliefs that are shared by members of an organization become part of the organizational culture (Dodgson, 1993). Members of transnational firms are geographically dispersed. Geographic distance may, to some extent, go hand in hand with psychological distance. In this vein, 'born transnationals' must be adept at handling a variety of cross-cultural issues related to national cultures and corporate culture (Snow *et al.*, 1996). A synergetic organizational culture helps to align the different cultural backgrounds of the people involved. In this regard, we point to a synergetic culture (Ouchi, 1982) that facilitates learning processes.

Proposition 4. A synergetic culture fosters the institutionalizing process and, thus, facilitates organizational learning.

Above, we focussed on the feed-forward dimension of organizational learning. One conclusion is that the entrepreneur of 'born transnationals' is involved in almost every step of the feed-forward process. Besides that, young firms develop first informal structures that support organizational learning with many people involved. Next, we discuss whether and how far this holds for the feedback process as well.

The steps of the feedback process are not precisely described in the literature. Freiling and Fichtner (2010) state that feedback is used to spread institutionalized knowledge back from the organization to the individual. Crossan *et al.* (1999) point to the tension between assimilating new learning as the feed-forward part and exploiting/using what has already been learned as the feedback part – with an emphasis on the challenge of translating between institutionalizing and intuiting. The feedback flow is about refreshing and reinforcing learning to ensure that routines are neither forgotten nor neglected but operating in situations of change where a newly institutionalized routine has to be embedded in individual mind-sets (Crossan *et al.*, 1999). Feedback learning ensures that many members of the company—not only the ones who developed the routine—will learn and use it (Vera & Crossan, 2004). Due to the key role of the entrepreneur, it is up to him/her to coordinate and control this feedback process of learning. Certain management behaviour has a positive impact on this feedback flow (Vera & Crossan, 2004). Transformational leaders—as effective communicators—facilitate this flow by easily motivating their employees (Bass *et al.*, 2003). When new routines are established, transformational leaders challenge their employees to question established assumptions, look at problems from different angles, and approach familiar situations in novel ways (Sosik *et al.*, 1997). Therefore,

transformational leadership styles facilitate the feedback process when newly institutionalized insights are challenged.

Proposition 5. Entrepreneurs as transformational leaders support the feedback process and foster organizational learning.

So far, we focused on internal issues of organizational learning. Next, we address the absorption of external knowledge by highlighting the 'recognizing the value'-step according to Freiling and Fichtner (2010). Cohen and Levinthal (1990) identify key antecedents of the absorptive capacity, namely already available related knowledge (basic skills and learning experience) and organizational factors, such as the structure of communication and distribution of knowledge. Absorbing requires alertness in connection with knowledge, skills, and available selection criteria (Todorova & Durisin, 2007). Related knowledge allows recognizing new knowledge (Cohen & Levinthal, 1990). Related skills are useful because an individual with experience about one learning object is more effective in later learning processes (Ellis, 1965). Evaluation criteria are necessary to judge the value of the identified external knowledge (Todorova & Durisin, 2007).

Cohen and Levinthal (1990, p. 128) point out that "(...) the ability to evaluate and utilize outside knowledge is largely a function of the level of prior related knowledge". Prior knowledge and experience determine the (sources of) information to be accessed. The organisation's perception depends on existing search strategies that turned out to be valuable and have been in use for some time. These search strategies allow finding specific information. Although often effective and invaluable, some of them might be useless if certain information has no connection to prior knowledge. Furthermore, the prior knowledge determines how information is interpreted and used (Cohen & Levinthal, 1990; Zahra & George, 2002; Todorova & Durisin, 2007). When valuing information from external sources, an individual's prior knowledge influences the locus and the efficiency of search (Cohen & Levinthal, 1990; Lane *et al.*, 2006). Organizational learning literature identifies the need for a clear strategic focus to support the search for new knowledge and to enable change of an organization (Senge, 1990).

For 'born transnationals' are INV with limited foreign business experience and institutional knowledge as well as no significant domestic operations, search strategies do not exist on the organizational level and prior knowledge is short. If search strategies are available, they are typically bound to the entrepreneur(s). We argue that established individual search strategies for information determine the direction for organizational search strategies. Therefore, we propose:

Proposition 6. Entrepreneurs of a 'born transnational' with a clear direction of search strategies foster the absorbing process of the 'born transnational' and so organizational learning.

MATERIAL AND METHODS

Methodological Basics

The paper rests on a deductive procedure where propositions are developed based on prior research and management theory. They undergo a first reality check by case studies in order to find out whether and how far they hold and other factors not considered in prior research also play a role in explaining organizational learning. Insofar,

analytical rather than statistical generalization stands at the forefront of this paper. Between December 2012 and November 2013 two in-depth case studies were developed to gain deeper insights into practical aspects of organizational learning of born transnational firms in Germany. Germany as a country was chosen due to the high level of internationalization of firms and related push and pull factors to start internationalization early after foundation (Simon, 2009). We conducted three in-depth interviews (duration between 1:00 and 1:30 hours) with entrepreneurs. The interviews rested on a previously developed semi-structured interview guideline. The interviews consisted of a narrative part that should allow the interviewees to tell their story without being framed by the causalities of the model in use. Following Yin (2012), who emphasizes the importance of a case study research process grounded in theoretical literature, the questions in the second part of the interview were directly related to the research question and the set of propositions introduced above. The questions that were finally asked in the interviews depended on the run of the narrative part. Particularly those causalities were addressed in detail, which have not been mentioned in the narrative section. Insofar, adaptations to the findings of the narrative section have been made in every interview.

A case study protocol was used in the data collection process for reliability reasons (Yin, 2012). All interviews were transcribed. Prompts were used to stimulate discussion and to further elicit views and opinions of the participants (Creswell, 2003). As founders are deeply involved in key decision-making processes from inception, we concentrate on founders, namely a chief customer officer (F1, belonging to case C1) and two chief executive officers (F2, belonging to C1 and F3 belonging to case C2). All entrepreneurs were allowed to tell their stories frankly and to discuss the international development of their firm over time. The interviews were conducted by one researcher. Afterwards the results were discussed in a research team with the interviewer and other researchers familiar with the topic.

Case Selection

The two cases were selected based on the transnational governance structure, i.e. a heterarchical network with close interrelationships among the local subsidiaries and a limited commitment to the country-of-origin. In this vein, all the respondents were initially asked whether this transnational archetype is representative for their way of business. Being asked about this structure, F3 responded: "This is exactly the case in our company." F2 replied similarly so that the companies of the two cases can be regarded as born transnationals.

Companies of the media industry were chosen because the media business is a very international one. Knowledge exchange between local subsidiaries is part of the everyday life. Both companies are from Germany. Germany is a country with firms which are internationalized to a very high degree with subsidiaries very often not only in Europe but all over the world. Another key selection criterion was an internationalization of a case company right after inception (maximum two years after foundation). Moreover, we excluded solo-entrepreneurs and companies with a low growth rate to ensure that a larger number of people can be involved in organizational learning processes.

The C1 Company was founded in 2008 by three entrepreneurs. First international activities were undertaken in 2009. In December 2012, the researched firm employed nine full-time employees and a changing number of freelancers, and transcended national borders by network cooperation with firms in the USA, Australia, and Western Europe. These networks consist to a large extent of external partners that are used to overcome resource and knowledge constraints. This allows them acting internationally. The researched firm has a rather low commitment to the country-of-origin (Germany) and established an international heterarchical structure.

C2 was founded in 2010 by three entrepreneurs and internationalized immediately after inception – due to the fact that one founder was living in the USA and the two others in Germany. The US business developed with a successful pitch and several follow-up projects. Whereas the European part of C2's business largely rests on full-time employees, the US business is driven by the entrepreneur and predominantly freelancers. There is intensive communication between all the locations of the company.

RESULTS AND DISCUSSION

Empirical Results in the Light of the Research Propositions

Related to P1 (alertness/intuiting), literature of international entrepreneurship often deals with the notion of international entrepreneurs as people with considerable international experience, alertness, and global vision (McDougall *et al.*, 1994). In C1, the entrepreneurs did not have that much international experience and did not plan to internationalize right from inception. Instead, the interview partner F2 remarked: *"(...) it came all of a sudden!"* Not part of the firm's strategy and without a global vision of the entrepreneurs in early steps, the opportunity to internationalize came unintended and by chance. The entrepreneurs were not really profit-seeking initially and put more emphasis on creativity and uniqueness. Meanwhile, in the minds of the entrepreneurs artistic ambition and financial performance are 'balanced'. International market opportunities for the born transnational arose when a media project in the country-of-origin made it through the World Wide Web. The entrepreneurs faced an unexpected global pull for their product and the internationalization was a reaction to the perceived demand. At least at this point, alertness did not play a remarkable role. The company C1 had to deal with hundreds of requests from all over the world from one day to another. Since then, the born transnational has adopted a global market view. Independent from the country-of-origin, the young firm did no longer restrict the operations to the national market.

Besides that, the researched entrepreneurs of C1 were relatively inexperienced when starting their international business. Only one of the three founders was already self-employed and had managerial responsibility. This founder took managerial responsibility for the researched firm, while the two others cared for creativity aspects. First international experience of the entrepreneurs evolved from part-time work in different countries before founding the firm. However, they did not spend much time for living abroad and cross-cultural skills were rather low. F2 recalled: *"... internationality? Nobody of us has been abroad for quite a long time. In 2009, we had to find our feet and the right way to express ourselves in adequate English."* These two surprising facts do not

conform to the literature on international entrepreneurship. Therefore, in C1 we cannot find direct support for the propositions 1 and 6 as for absorbing new knowledge and intuition as the first step in the learning process.

In case of C2 the situation is a bit different. F3 admits that the entrepreneurs, equipped with a considerable willingness to take risks, are rather open-minded and develop a lot of new ideas. At the same time he points to the governance system of the company and the influence of investors on the possibilities to generate and unfold new ideas:

We collaborated with venture capitalists from Berlin. It was very hard because they saw things completely different. They came around with milestones that were completely out of sight for us. We thought 'Gosh, they won't leave us alone, they believe in us finally.' Bullshit! They took it seriously and expected results we couldn't deliver. We failed to fulfill their expectations so that they increased pressure intensively. As for a follow-up financing, we stood with the back to the wall.

P1 suggests that alertness may be a decisive factor for the degree of intuition of the entrepreneur. Whereas the cases do not support this directly and unanimously, the researched entrepreneurs exhibited some kind of alertness. Although their international market entry was not originally intended (C1), they were open-minded enough to understand international opportunities (C1 and C2). Moreover, their alertness developed by these discoveries of attractive business opportunities and triggered their intuition considerably.

Recalling the 'recognize-the-value' step of absorptive capacity, P6 (clear search strategies/absorbing) suggests a continuous exploration of new external knowledge in a firm's search field may increase the potential absorptive capacity. Due to the limited organizational knowledge as 'born transnationals' search strategies of INV are bound to the entrepreneur(s). The entrepreneur's prior knowledge drives searching and evaluating external knowledge. In C1, due to the limited experience in internationally activities it was hard for the entrepreneurs to find relevant information. The entrepreneurs more or less relied on instinct and intuition when screening and selecting information, as F1 stated: *"He has a keen sense of selecting information."* The 'gut instinct' seemed to replace search strategies in early times of the organizational development. Similarly, in C2 there was no clear search focus – although the company absorbed external knowledge. F3 remarks: *"There was a lot of distraction off the beaten track."* Based on this, there is limited direct support for P1 and P6 but room for specification and modification.

As for P2 (transactive knowledge/interpreting), the entrepreneurs (C1 and C2) had a strong preference for collaboration and explored potential partners whom they considered excellent at what they did. They were able to build strong networks based on familiarity, shared values, experience, and first modes of trust. Sharing new information depended on finding the right partners to talk to. The concept of transactive knowledge (Brauner, 2002) seems to be useful to explain this. Transactive knowledge encompasses the knowledge that people have about the knowledge and skills of other people (Wegner, 1987). The entrepreneurs we studied possess this kind of knowledge because they identify rather precisely who is a sound partner to talk to for different kinds of

problems. In case they do not know the partners, they seek for a recommendation by another network partner they are familiar with. Thus, the empirical findings strongly support P2 and reveal that transactive knowledge fosters learning by the identification of adequate people to share and interpret individual intuitive insights.

Distributing knowledge within the entire heterarchical network is necessary for 'born transnationals' for a common understanding and collective action. As P3 (delegation/integrating) suggests, collective learning occurs when individual discretion is granted. In this sense, one important mechanism can be the delegation of responsibility to local sub-units when quick decisions on the local level are to be made. The INV of C1 uses this mechanism just in an alleviated manner. Freelancers or full-time employees are allowed to take responsibility only partially as F2 states: *"...they were collaborators who brought in their own servers and data projectors and assumed control just for the projection part."* Still, the main responsibility rests on the entrepreneurs. Employees are welcome to bring in own ideas and projects. However, they have no sole but only assigned responsibility. In C1, the entrepreneurs delegate responsibility only if really needed: *"We are the spearheads, and then it scatters down..."* (F2). C2 supports P3 more comprehensively. F3 advocates self-dependent action of all employees.

Hierarchy does not really exist in our company. The staff has to work self-dependently – otherwise we won't get things done. ... And they do the job well enough so that they can really make decisions on their own.

All in all, the delegation of responsibility may support the integrating process, but we have no comprehensive support for P3.

Next, we focus the organizational level and the process of institutionalizing (P4: synergetic culture/institutionalizing). Taking into account that 'born transnationals' engage employees in different regions and continents, cross-cultural issues need to be considered in the process of developing corporate culture. We argued that a synergetic culture may facilitate the learning process on the organizational level. The interviews provided evidence that the entrepreneurs are aware of the different cultural backgrounds they are working in and that this makes a huge difference in the learning process. Open to get in touch with different cultures, they respect these peculiarities – be it on a regional or local scale. The empirical findings reveal that there has to be a flexible organizational culture that bridges different cultural backgrounds. In C1, the company employs project staff from diverse regions of the world. Working together with these employees, who are often replaced, calls for a sophisticated organizational culture. Indeed, the INV had to deal *"... with employees in the US that were perfectionist. Meetings with Brazilians were more laid-back"* (F1). In addition, the openness to cultural differences and the willingness to get in touch with different cultural backgrounds are prerequisites for an efficient and smooth collaboration, as F1 put it:

Although artists have some kind of jester's license, you should grapple with cultures and handle cultural differences like modes of behaviour with respect.

F3 outlines that the company is aware of the cultural differences and respects this to a large extent in order to keep learning processes going. He stresses that this increases internal coherence considerably. Regarding P4, there were several statements in the collected data hinting towards benefits of a synergetic culture to facilitate the learning process. As shown, the entrepreneur is involved in almost every step of the

feed-forward process of organizational learning. The empirical findings reveal that the entrepreneur is the pivotal point when it comes to acquire and assimilate newly developed knowledge. As the origin of new ideas and actions, he directs the way knowledge is explored. Next, we examine the feedback process and the role of the entrepreneur.

Feedback refreshes and deepens what has been previously learned. We argued that the entrepreneur coordinates and controls the feedback process. As P5 suggest, a transformational leadership style fosters feedback-oriented learning. The entrepreneurs F1, F2 and F3 showed various commonalities with transformational leaders. They encourage their employees to advance their opinion and to break with old conventions. Discussion in teams has a significant value and individual or collective experience is appreciated. F2 argued:

We tell the team we can only make it if everybody acts in concert. Out of this a discussion develops whether we can take the ethnical responsibility. Somebody said yes, another one said no. [...] I think there are not many firms where you can do something like this.

In addition, the researched entrepreneurs reflect their decisions, attitudes, and achievements. F2 states: *“Not every product is the best. And our employees may have good or bad times. We deeply acknowledge this.”* Nevertheless, the entrepreneurs significantly shape and govern the firm’s future, *“(…) but each employee impresses the firm. And that is how it is meant to be”* (F2). In sum, there is evidence within the collected data showing that a transformational leadership style supports the feedback process and fosters organizational learning in ‘born transnationals’ so that P5 is principally supported.

Discussion

The results show that the researched ‘born transnationals’ only to some extent support the traditional literature of international entrepreneurship and, thus, the proposed causalities. Based on our data, transactive knowledge, synergetic corporate cultures, and transformational leadership styles seem to fuel organizational learning processes. In particular, the empirical findings show that the network structure (number and quality of linkages) and the availability, as well as the use of transactive knowledge seem to be a pre-condition for speeding up the learning process. This implies that ‘born transnationals’ benefit from the strategic use of networks to attain competitiveness in international markets, even though their entrepreneurs possess a relatively low degree of international experience. By network activities INV can access more opportunities to acquire external knowledge and foster international expansion.

What is critical in terms of the set of propositions is especially the role of instinct and alertness, the way of searching external knowledge and the role of delegation. In our case studies, the entrepreneurs are not well-experienced in international business and they did not proactively seek for international business opportunities. Not in line with our proposition, the founders of both showed no strong initial proactive behaviour. Building on prior knowledge that influences the focus and efficiency of search, there was no sufficient support for that proposition, either. This does not conform to earlier research. An interesting and new finding is that instinct seems to replace specific

experience and elaborated search strategies – at least in earlier phases of the venture. When we think about instinct as a certain form of tacit knowledge, the instinct relates to intuition. Insofar, there is no clear contradiction to previous research but it seems to be useful to consider instinct in a much more prominent way within the causal chain. Unclear is the role of instinct in the context of alertness. Is instinct a part of alertness or an enabler? It is useful to research on this relationship more intensively before refining the research proposition.

What the cases reveal is that intuition is by no means independent from the governance system. Particularly the influence of investors can create an atmosphere that restricts personal intuition. This could be considered in the redefinition process of P1 as well.

Clear search strategies for absorbing external knowledge are obviously not the only way to trigger learning processes. The cases reveal that openness and open-mindedness without a certain focus can be beneficial to learning processes as well. It seems that these two issues go to some extent hand in hand. Whereas in early situations it can be useful not to structure search processes too much, in later phases a certain focus is vital. Insofar, P6 can be modified and specified.

P6 new. Entrepreneurs with a high openness for external information in early steps and a clear direction of search strategies in later steps foster the absorbing process of the 'born transnational' and so organizational learning.

Finally, delegation (P3) can be a strong trigger of learning processes by fostering integration. Obviously, this depends to a large extent on the employees and their skills to work self-dependently. F3 stressed that round about a half of the employees may have problems and need certain guidance. This could lead to a differentiation in the proposition system.

P3a. The delegation of responsibility in case of self-dependent employees supports the integrating process and fosters organizational learning.

P3b. Entrepreneurial guidance in connection with limited and, over time, increasing delegation supports the integrating process and fosters organizational learning.

CONCLUSIONS

The findings reveal that the basic model of organizational learning is basically useful to locate explaining factors of the learning process of born transnationals and to understand interdependencies among factors. Particularly the role of the feed-forward process of organizational learning is emphasized. What is to be considered in more detail generally is the process of organizational learning in born transnationals, i.e. the relevance of certain factors depends on the step in the learning process. Future research could illuminate these issues much more in detail. Moreover, there are factors that go beyond the set of propositions. However, in most cases they can be considered by the model in use. In later steps of researching this issue it seems to be useful to focus on the set of both internal and external factors of organizational learning to prepare more exploitative research.

This paper advances current research in various manners. First, the paper introduces and outlines an up-and-coming type of INV in more detail: the 'born transnational'. Facing globalization processes and the 'global challenge', INV are well

advised to consider the transnational option seriously in their start-up strategies. Second, we pointed to the pivotal role of learning for this specific type of international entrepreneurship and we identified important cornerstones of organizational learning by employing the Crossan *et al.* (1999) learning model in a modified version. This allows developing a structured set of research propositions pinpointing anchor-points of organizational learning. Third, we confronted the research propositions with a first reality check. The results imply that some of the proposed causalities hold while others are to be refined or modified, respectively.

What are the limitations of this paper? Guided by literature and informed by theory, core drivers of organizational learning could be identified. Although semi-structured interviews allow taking into account other factors beyond the model in use, it is still possible that other factors have a crucial impact on organizational learning as well. Besides that, this study has been limited to two cases for a first reality check. This allows a better understanding of the complex causalities but may only claim for analytical rather than statistical generalization. Insofar, much more empirical follow-up work is needed to identify core drivers of organizational learning in case of 'born transnationals'. Future studies will benefit from accessing multiple sources of information for triangulation purposes. So far, the findings solely rest on interview data from very small-scale sampling. Other limitations are potential biases, in particular an interviewer and a key respondent bias. Although the interview guideline was checked within a broader network of researchers, the interview itself was conducted by only one researcher. However, given the early state of empirical research on the causal system, this study took a first step regarding the rather new type of international entrepreneurship namely 'born transnationals' and their learning processes.

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Business Restart in Visegrad Countries

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ABSTRACT

Objective: The main goal of our paper is to analyse business restarts in Visegrad countries on an individual level and to identify key drivers of restart activity from among perceptual variables.

Research Design & Methods: The analysis is based on Global Entrepreneurship Monitor data. We employ descriptive statistics to analyse the quantitative aspect of business restart and regression modelling to identify its drivers.

Findings: Our findings proved that business discontinuation and consequent restart are both integral parts of entrepreneurship in V4 countries. Entrepreneurial self-efficacy and fear of failure, together with gender and age, proved to have a significant relationship with individual restart activity.

Implications & Recommendations: The individual perceptual variables as components of entrepreneurial potential, as well as the issue of inclusiveness, proved to play an important role in business restart.

Contribution & Value Added: Our study is the first comprehensive analysis of the under-researched topic of business restart in the V4 region. In addition to highlighting its importance as an integral part of entrepreneurial dynamics in V4 countries, it also identifies individual-level drivers of this specific type of entrepreneurial activity.

Article type: research paper

Keywords: entrepreneurship; discontinuation; restart; restart drivers; Global Entrepreneurship Monitor (GEM)

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INTRODUCTION

Entrepreneurship is viewed as an important driver of economic development and one of the keys to solve some of the most pressing current problems, such as unemployment (including youth unemployment) and economic growth. Most of the attention in understanding and promoting entrepreneurship has been paid to so-called first movers or novice entrepreneurs, i.e. individuals who enter the entrepreneurial path for the first time. However, a considerable number of entrepreneurs sooner or later come across the situation where they exit the entrepreneurial process, either after success or following a failure. These individuals stand at an important crossroads along their career path, deciding between abstaining from entrepreneurship or re-entering the entrepreneurship process again and restarting their business activity. If they decide to completely restart from new, they are able to capitalize upon previous experience and utilize the learning gained in their previous entrepreneurial activity. Restarted entrepreneurs therefore deserve at least equal attention as their novice counterparts. Better understanding of the drivers behind the decision to restart entrepreneurial activity after discontinuance can help to design support mechanisms which encourage individuals to restart, thus preserving the stock of existing entrepreneurs and developing the overall entrepreneurial potential of the economy. Therefore, when trying to understand and promote entrepreneurship in general, the focus should not only be on promoting new entrepreneurs, but also on preserving the stock of current ones, even after they exit the process. Therefore, the main research question of our article is to find out the level of business restart in V4 countries (how many discontinued entrepreneurs restart their business activities), and what are the main drivers (from among perceptual variables) of their restart activities.

The attention devoted by entrepreneurship research to the issue of business restart is rather scarce, especially compared to the scope of research focused on novice entrepreneurs or drivers of entering the entrepreneurship process in general. However, the recent studies by Hessels *et al.* (2011) or Simmons *et al.* (2014) together with our study on business restart in Slovakia (Pilkova *et al.*, 2013a) brought interesting insights to this topic as well as identified several implications. One of the latter, in our opinion, is the investigation into the quantitative aspects and restart drivers in the context of Czech Republic, Hungary, Poland and Slovak Republic, a regional group of Visegrad or V4 countries. These countries face a similar historic background as well as similar challenges in the field of entrepreneurship and overall economic development. The analysis of the business restart phenomenon in V4 is, however, still missing, as at this moment.

Our investigation of business restart in V4 countries is focused on identifying the restart rate (i.e. the percentage of restarted entrepreneurs on discontinued entrepreneurs), and mainly on identifying the individual-level drivers from among perceptions towards entrepreneurship that foster business restart among discontinued entrepreneurs. These restarted individuals play at least as important role in the country's entrepreneurial potential as first-mover entrepreneurs do, therefore they deserve the same level of attention from the communities of both researchers and policy makers. To identify the key drivers of business restart in V4 countries we studied both entrepreneurial potential and demographic aspects. As far as entrepreneurial potential is

concerned, we focused on its three basic aspects: business opportunity recognition, social attitudes towards entrepreneurship (in our case explained through the perceived social status of successful entrepreneurs) and self-assessment regarding entrepreneurship (studied through self-efficacy and fear of failure). As for demographics, we have studied two basic characteristics, gender and age.

LITERATURE REVIEW

Entrepreneurship is generally understood as a process (Bygrave, 1989; Cardon *et al.*, 2005; Reynolds, 1992) irrespective of the sequence of particular phases or their length. This process ends with discontinuation of the entrepreneurial activity, also referred to as entrepreneurial exit (DeTienne, 2010; Wennberg *et al.*, 2010); at which moment the individuals end their involvement in entrepreneurship. There are several possible reasons for discontinuation, ranging from success through neutral reasons to entrepreneurial failure. After discontinuation the individual has two basic options - s/he can abstain from entrepreneurship (either thinking of starting again or not even planning to do so) or s/he can actually start new entrepreneurial activity again; in this case s/he re-enters the entrepreneurship process from the beginning. We refer to this situation as “business restart” and we call the entrepreneur who restarts his/her activity after business discontinuation a “restarted entrepreneur”. Business restart is by nature a specific type of entrepreneurial activity. Therefore when trying to understand the restart drivers, the attention should be focused on drivers of individual involvement in entrepreneurial activity in general, while carefully considering the specific nature of business restart. Among the most frequently identified determinants of individual entrepreneurial activity are individual perceptions of entrepreneurship, such as entrepreneurial self-efficacy, opportunities perception or fear of failure, as well as individual perceptions of societal attitudes towards entrepreneurship, such as perceived social status of successful entrepreneurs (Arenius & Minniti, 2005; Bosma, 2013; Koellinger *et al.*, 2007). All these components together create the so called entrepreneurial potential of the economy (Pilkova *et al.*, 2012). Even though the relationship between entrepreneurial potential and actual entrepreneurial activity is not straightforward but rather complex, its components, including perceptions of one’s own skills, fear of failure, opportunities to start up as well as of social attitudes towards entrepreneurship, were each established as important drivers of entrepreneurial activity in both theory development as well as empirical research.

Perceived self-efficacy represents one’s judgment of one’s ability to execute an action and to produce designated levels of performance (Bandura, 1994). Therefore it has been established as a reliable predictor of a wide range of goal-directed behaviours, including also entrepreneurship. Self-efficacy is strongly related to perceived behavioural control and ability (concerning the ease with which the particular behaviour is controlled), that together with attitude toward behaviour and subjective norm affect the intention, which in turn affects the actual behaviour of an individual (Ajzen, 1991). In this case, the context-specific entrepreneurial self-efficacy represents the belief and self-confidence of an individual in having the necessary skills and abilities to start and run a business. The empirical evidence has proved high levels of entrepreneurial self-efficacy

have a positive relationship with individual entrepreneurial activity (Arenius & Minniti, 2005; Lukes *et al.*, 2013; Wong & Lee, 2005).

Perception of opportunities relates to subjective alertness of an individual to good opportunities for starting up and running an enterprise. The alertness to unexploited opportunities, as argued by Kirzner (1979), is a key perceptual characteristic of entrepreneurial behaviour and a necessary condition for entrepreneurial action. Some empirical research provided evidence that those who perceive opportunities are more likely to get involved in entrepreneurship than those who do not (Arenius & Minniti, 2005; Koellinger *et al.*, 2007).

Fear of failure represents a subjective perception regarding the risk of failure and its possible consequences. Perceived (rather than objective) fear of failure is therefore an important component of risk related to entering the entrepreneurial process. Because the majority of individuals are supposed to be risk averse by nature, increased fear of failure is expected to act as an inhibitor of entrepreneurial action (Arenius & Minniti, 2005). Empirical research has provided certain evidence supporting these expectations considering entrepreneurial activity in general (Arenius & Minniti, 2005; Wagner, 2007) as well as concerning business restart in particular (Hessels *et al.*, 2011; Pilková *et al.*, 2013a; Wagner, 2002). On the other hand, it has also revealed limitations of the risk aversion effect related to previous employment status (Caliendo *et al.*, 2009). Additionally, findings by Simmons *et al.* (2014) suggest that the micro-macro level effect of stigmatization of failure (potentially leading to a subsequent fear of failure) in failed entrepreneurs and their restart is not unambiguous and depends on institutional context as well as on individual cognitive processes.

Perceptions of social attitudes towards entrepreneurship are subjective perceptions of social norms, values, beliefs and assumptions that are socially carried by individuals and related to their behaviour. In this case we speak about informal institutions (North, 1990), or more specifically about normative institutional pillar (Scott, 1995) in relation to entrepreneurship. In the entrepreneurial context they shape the entrepreneurial activity of individuals (a context-specific type of human behaviour and interaction) by forming social attitudes towards entrepreneurship. One of these is also the status of a successful entrepreneur in a particular society. If an individual believes successful entrepreneurs enjoy a high social status, s/he is supposed to be more likely to find entrepreneurial activity desirable. S/he would perceive that his/her individual action will conform to norms and values within society, and thus s/he will, by joining the entrepreneurial path, achieve legitimacy in this society (Lonsburry & Glynn, 2001).

In addition to the above-mentioned perceptual characteristics, demographic characteristics that are intrinsic by their nature (mainly age and gender) have also been identified as determinants of entrepreneurship (Langowitz & Minniti, 2007; Lukes *et al.*, 2013). Gender studies suggest that entrepreneurial activity of men and women may be affected by differences that can be attributed to certain gender-specific characteristics (Langowitz & Minniti, 2007). The role of age as a crucial characteristic in the decision making process at the entry to entrepreneurial activity is based on the opportunity cost of time. Time is treated as a scarce resource whose availability is decreasing with age, in contrast to the decrease in the present value of a stream of potential (however uncertain) future payments possibly obtained by starting up an entrepreneurial activity.

Put simply, with increasing age the opportunity costs of choosing an entrepreneurial path generally increase (Lévesque & Minniti, 2006). Therefore, both these basic demographic characteristics might play important roles in determining entrepreneurship process entry by an individual. Where business restart is especially concerned, previous findings suggest that age plays an important role in determining business restart (Stam *et al.*, 2008; Wagner, 2002), and some studies also proved gender to have significant influence (Hessels *et al.*, 2011; Pilkova *et al.*, 2013a), with males restarting discontinued businesses more often than their female counterparts.

MATERIAL AND METHODS

In this section of our paper we present and describe the data and variables used in our analysis, its main goals, as well as the hypotheses and testing methods employed.

Data and Variables

Our analysis is based on Global Entrepreneurship Monitor (GEM) data. GEM is the largest academic study in the world focused on entrepreneurial attitudes, activities and aspirations. Every year GEM collects in each participating country using a standardized survey administered to a representative sample of adults (18 to 64 years old). In our analysis of business restart in V4 countries we created a pooled sample using GEM individual level data from years 2011 and 2012 for V4 countries, leading to a total primary sample of 14,010 individuals (2,005 for Czech Republic that participated in 2011 only, 4,002 for Hungary, 4,003 for Poland and 4,000 for Slovakia).

Firstly, using the survey data we identified individuals who experienced business discontinuation, i.e. respondents who had in the past 12 months sold, shut down, discontinued or quit a business they owned and managed. Our sample included in total 451 of such individuals (due to method requirements we have excluded individuals with missing values for independent variables). Secondly, we identified early-stage entrepreneurs as individuals in the process of actively starting a business or running a new business less than 3.5 years old. Thirdly, by overlapping the aforementioned categories we were able to identify restarted entrepreneurs as those individuals who restarted their individual entrepreneurial activity after business discontinuation. This group represented the main sample for our analysis of business restart drivers.

Since our analysis is aimed at investigating the drivers of restart activity, we employed the following independent variables representing the particular underlying phenomena from among perceptions towards entrepreneurship and demographic characteristics: 1) self-efficacy: respondents were asked whether they believe they had the knowledge, skill and experience required to start a new business (yes=1, no=0), 2) fear of failure: respondents were asked whether fear of failure would prevent them from starting a business (yes=1, no=0), 3) opportunities perception: respondents were asked whether in the next six months there would be good opportunities for starting a business in the area where they live (yes=1, no=0), 4) perceived high status of successful entrepreneurs: respondents were asked whether in their country those successful at starting a new business have a high level of status and respect (yes=1, no=0), 5) age: respondents provided their age, 6) gender: respondents provided their gender (male=1, female=2). Besides the above mentioned independent variables we also controlled for

the effect of education (variable coding was based on UN harmonized educational attainment) and country affiliation.

Hypotheses

In addition to unveiling the quantitative aspects of business restart in Visegrad countries (such as the restart rate or share of restarted entrepreneurs on early-stage entrepreneurs) we investigated the potential drivers of individual restart activity. Building on the above-reviewed theory, empirical research on entrepreneurial activity determinants in general and determinants of business restart, as well as on our previous work in this field, we propose the following hypotheses on business restart drivers in Visegrad countries:

H1: Entrepreneurial self-efficacy positively affects restart activity, i.e. entrepreneurial self-efficacy is a significant driver of business restart in V4 countries.

H2: Alertness to entrepreneurial opportunities positively affects restart activity, i.e. alertness to opportunities is a significant driver of business restart in V4 countries.

H3: Fear of failure negatively affects restart activity, i.e. fear of failure is a significant driver of business restart in V4 countries.

H4: Belief in high social status of successful entrepreneurs positively affects restart activity, i.e. belief in high social status of successful entrepreneurs is a significant driver of business restart in V4 countries.

H5: Business restart is mainly dominated by men, i.e. gender is a significant driver of business restart in V4 countries.

H6: Business restart activity declines with the age of discontinued entrepreneurs, i.e. age is a significant driver of business restart in V4 countries.

Methods

To investigate the quantitative aspect of business restart in Visegrad countries we analyzed the situation in each country for each year individually using descriptive statistics. We calculated frequencies for discontinued entrepreneurs within the adult population, restarted entrepreneurs within discontinued entrepreneurs, and restarted entrepreneurs within early-stage entrepreneurs. To search for potential business restart drivers a binominal logistic regression modelling was applied on a pooled sample of discontinued entrepreneurs from the analysed V4 countries. Binominal logistic regression estimates the probability of an event happening. In our case this event was restarting an entrepreneurial activity after discontinuation. To estimate the parameters of individual level data we used Statistica Generalized Linear/Nonlinear Models. Requirements of the method (no missing values for any of the independent variables) implied the exclusion of certain cases, resulting in a final sample of 451 individuals. The significance of parameters was tested using Wald statistics. Maximum likelihood estimations were used to calculate the logit coefficients denoting changes in the log odds of the dependent variable. Correlations between independent variables were tested and proved not to be problematic. Residual analysis was used to identify cases with the greatest contribution to model inaccuracy. After their elimination the analysis was repeated, resulting in the final regression model. The goodness of fit of the model was assessed using the Pearson's Chi-square test and log-likelihood function.

RESULTS AND DISCUSSION

This section of our paper presents and discusses the results of our analysis. Firstly, we describe the issue of business discontinuance and restart in V4 countries. Secondly, we present results about the individual characteristics related to business restart and to its potential drivers.

Business Restart in V4 Countries

The business discontinuance rate, represented as the percentage of the adult population that personally experienced business discontinuance in last 12 months, varied among V4 countries from 2.7% (Czech Republic) to 7.0% (Slovakia) in 2011 and from 3.8% (Hungary) to 4.7% (Slovakia) in 2012 (Table 1). In both years Slovakia showed the highest figures in this indicator. The results also show that restart rate in V4 countries was ranging from 6.9% (Hungary, 2011) to as much as 29.3% (Poland, 2012). From the opposite perspective, looking at the share of restarted entrepreneurs among all early-stage entrepreneurs (those individuals starting new enterprises less than 42 months old) revealed that from 2.5% (Hungary, 2011) to as much as 13.9% (Slovakia, 2011) of early-stage entrepreneurs were actually restarting their business after exiting another one.

Table 1. Business discontinuation and business restart in V4 countries in 2011 and 2012

Country	Discontinued entrepreneurs (% of adult population)		Business restart (% of discontinued entrepreneurs)		Restarted entrepreneurs (% of early-stage entrepreneurs)	
	2011	2012	2011	2012	2011	2012
Czech Republic	2.7	NA	14.9	NA	5.3	NA
Hungary	2.3	3.8	6.9	24.1	2.5	9.9
Poland	4.2	3.9	10.4	29.3	4.8	12.2
Slovakia	7.0	4.7	28.3	22.3	13.9	10.2

Source: own calculations based on GEM 2011 and 2012 data.

The above mentioned findings suggest that in all V4 countries a considerable part of the adult population exited the entrepreneurship process, representing the decline of those countries' actual entrepreneurial potential in terms of quantity. On the other hand, despite the observed differences in figures for particular countries, business restart proved to be an integral part of the entrepreneurship process in V4 countries as well. 2012 restart rates in particular showed a relatively consistent pattern among the three analysed countries (the Czech Republic was not analysed in 2012 due to missing data), suggesting that approximately every fourth entrepreneur who experienced business discontinuation restarted his individual entrepreneurial activity. In addition, from the opposite perspective, analysing the number of restarted individuals out of all early-stage entrepreneurs further proved the importance of the business restart phenomenon, since it underlined that a considerable share of early stage entrepreneurial activity can be attributed to business restart. Similarly to the previous perspective, also in the last indicator the 2012 figures were more homogeneous than in previous year. They suggest a common pattern existed among the analysed countries showing that approximately every tenth early-stage entrepreneur was a restarted

entrepreneur, i.e. an individual who experienced business discontinuation in last year and restarts his individual entrepreneurial activity again.

Business Restart Drivers in V4 Countries

The binomial logistic regression conducted in order to identify the potential drivers in relation to business restart suggested that four out of six analysed variables were significant (Table 2). Both demographic characteristics (age and gender) together with entrepreneurial self-efficacy and fear of failure proved their significance in relation to business restart. Therefore we can consider our hypotheses H1, H3, H5 and H6 to be supported. On the other hand, since our analysis showed no significance of alertness to opportunities and belief of high social status of successful entrepreneurs, we found no support for our hypotheses H2 and H4. As far as control variables are concerned, their effect was also found not to be significant, suggesting that our results are not influenced by the year of data collection or by country affiliation.

Table 2. Business restart drivers in V4 countries (logistic regression results)

Drivers	Coeff.	Std. error	Wald	p
Gender (1=male, 2=female)	-1.20057	0.29703	16.33725	0.000053
Age	-0.03760	0.01093	11.83166	0.000582
Self-efficacy (1=yes, 0=no)	3.26245	1.02498	10.13118	0.001458
Fear of failure (1=yes, 0=no)	-1.11268	0.28997	14.72394	0.000124
Df				439
LR stat.				381.772
Pearson Chi-sq. stat.				382.679
LR stat./df				0.869641
Pearson Chi-sq. stat/df				0.871706
Log-likelihood				-190.886

Source: own calculations.

According to our findings regarding entrepreneurial potential components, entrepreneurial self-efficacy and fear of failure are significantly related to business restart in V4 countries. However, alertness to opportunities and belief in the high social status of successful entrepreneurs showed no significance. On the other hand, both demographic characteristics included in our analysis, i.e. age and gender, proved significant in relation to business restart.

Our findings are in line with the theory-based expectations and the results of previous empirical research suggesting that (often subjective) perceptions towards entrepreneurship play significant roles in affecting entrepreneurial propensity. Self-efficacy was identified as having the strongest relationship with business restart from the variables included in our analysis, with the belief in having the knowledge, skill and experience required to start a new business increasing the chance of restart by 3.26 times. On the other hand, having a fear of failure that would prevent an individual from starting a new business showed a negative relationship to business restart, decreasing its probability by 1.11 times. This finding corresponds with the previous findings in this field (Hessels *et al.*, 2011; Pilkova *et al.*, 2013a; Wagner, 2002), supporting the robustness of considering the fear of failure as an important driver of business restart. However, we did not expect that the relationship of opportunities perception and the perception of

the high social status of successful entrepreneurs showed no significant relationship to restarting a business after entrepreneurial exit.

As for demographic characteristics, our findings suggest that with increasing age the probability of restart after business discontinuation decreases. This corresponds not only with the general pattern of decreased probability of entrepreneurial entry with increasing age, but also with the findings of other studies on business restart (Pilkova *et al.*, 2013a; Stam *et al.*, 2008; Wagner, 2002). Here we might conclude that generally occurring descending activity with rising age due to increasing opportunity costs of entrepreneurship applies also to business restart as a specific type of entrepreneurial activity. Similarly, gender-specific factors affecting entrepreneurial activity in general seem to influence the business restart in V4 countries as well, because as our results suggest, male exited entrepreneurs show a higher restart propensity than their female counterparts. These findings are in line with previous research in business restart (Hessels *et al.*, 2011; Pilkova *et al.*, 2013a) as well as in line with underrepresented inclusion of women (compared to population distribution) in early-stage entrepreneurial activity that is characteristic throughout all V4 countries (Pilkova *et al.*, 2013b). This pattern might be explained by differences in self-assessment between men and women, since women in general show a higher fear of failure and lower self-confidence regarding entrepreneurship (Pilkova *et al.*, 2012; Weclawska *et al.*, 2013).

The potential implications of our research include an improved understanding of business restart in Visegrad countries, not only limited to a quantitative view, but also going deeper in search of perceptual variables and entrepreneurial potential influence. As far as implications for further research are concerned, we propose that further attention should be paid to comparing the business restart patterns with overall (non-restart) activity to explore other potential universal as well as restart-specific drivers, and challenge the robustness of existing findings. Also, a relationship between business restart and entrepreneurial context (represented by business environment) should be established. Both these streams would however require considerable samples and time-series data. At this place, longitudinal studies with panel samples would be beneficial in this field of study. Further research should also focus on multi-level analysis, considering the simultaneous effects of both micro- and macro-level potential drivers of business restart.

Regarding implications for policy makers, the strong positive relationship between self-efficacy and business restart implies the need for supporting and educational programs that would develop the knowledge and skills of future and existing entrepreneurs, not only by increasing the hard skills themselves, but also by fostering self-confidence in their application. Also in this area entrepreneurial role models could play an important role as important sources of social capital, transferring knowledge and experience, as well as important enhancers of entrepreneurial self-efficacy (Holienka *et al.*, 2013). Secondly, policy makers should also pay attention to factors influencing the level of fear of failure among entrepreneurs as well as among the overall population in general. In this field both cultural as well as practical aspects play roles. Therefore moderating the fear of failure should include influencing social attitudes and norms (through e.g. education or success stories) as well as an effort to improve the legislative and bureaucratic aspects of honest bankruptcy and business restart. Finally, the uneven

inclusion of genders and age groups in business restart should be addressed by eliminating both individual-level as well as environmental barriers of inclusiveness, to reach the situation where business restart after discontinuation would be equally accessible to everyone willing to restart, irrespective of age or gender. Therefore specific support programs aimed at groups lacking in restart, together with creating favourable conditions to restart in general should be priorities for policy makers. Underrepresented groups in business restart are usually also underrepresented in entrepreneurship in general. By supporting restart among these groups policy makers could therefore contribute not only to their inclusion in restarting after discontinuation, but also to protection of the overall stock of entrepreneurs from these groups and therefore to improving the issue of inclusiveness in general.

The main limitation of our approach is due to the nature of GEM data. Since they provide a static view at the moment of data collection, we are not able to uncover the timeline of key events (business discontinuance, involvement in early-stage entrepreneurial activity) and avoid their overlapping in certain cases. Also, the GEM variables do not allow for an unambiguous distinction between success and failure as reasons for entrepreneurial exit. However, harmonized methodology, scope and representative characteristics of the sample and focus on individuals (rather than corporate entities) make GEM the best available data source to understand the issue of business restart in Visegrad countries. To improve the robustness of the findings, a repeated analysis should be done in the future with pooled data and controlled influence of year and country affiliation.

CONCLUSIONS

Our analysis of business restart in V4 countries proved that this phenomenon is an integral part of the entrepreneurship process and its dynamics in the V4 region. In 2012, approximately every fourth discontinued entrepreneur restarted his/her individual entrepreneurial activity, representing around 10% of total early-stage entrepreneurial activity. Our further investigation on drivers of this restart suggested that individual perceptual characteristics (in particular entrepreneurial self-efficacy and fear of failure) together with demographic characteristics (age and gender) are important drivers in relation to business restart in V4 countries. Therefore, of the entrepreneurial potential components, only self-assessment regarding entrepreneurship proved important in influencing business restart by discontinued entrepreneurs, while the other two components (i.e. business opportunity recognition and social attitudes towards entrepreneurship) showed no significance in our analysis. The findings of our study represent the first systematic view on the business restart phenomenon in the V4 region, contributing to the understanding of entrepreneurship and entrepreneurial propensity in our region's context.

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The Choice of Foreign Market Entry Modes: The Role of Resources and Industrial Driving Forces¹

Andrea S. Gubik, Sándor Karajz

ABSTRACT

Objective: The objective of the paper is to analyse the effects of corporate resources, attitudes of owner/entrepreneur/manager to internationalisation and the characteristics of the business industry on the entry mode choice.

Research Design & Methods: Based on factor and cluster analyses the authors highlight the latent structure lying behind different variables and find typical groups of companies matching the identified factors.

Findings: Providing physical resources and access to appropriate information is necessary, but not sufficient. The attitude of the owner/entrepreneur/manager to internationalisation should be improved as well so that they will be able to appear and operate successfully in international markets.

Implications & Recommendations: Giving the right place to subjective matters in promoting internationalisation may contribute to the increase in corporate participation in different support programs.

Contribution & Value Added: On the basis of the obtained findings, different ways of how support programs can promote the companies' international activities and strengthen their commitments to achieving higher added values can be defined.

Article type: research paper

Keywords: Internationalisation; resources for internationalisation; attitudes for internationalisation; industrial driving forces

JEL codes: M16

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INTRODUCTION

Companies engaged in international activities perform better, grow faster and are more innovative than those without international activities (EC, 2010). In addition, they invest more in fostering knowledge development of the employed, mainly in the form of internal and external training programmes, courses, and language learning (Gubik, 2011).

International business activities enable companies to enter larger markets, obtaining larger economies of scale, decrease costs, raise capital and get access to advanced technologies, which results in the increase of their competitiveness. Overcoming larger geographic distances is getting easier and easier due to shorter supply periods, a wider range of possible solutions and increased communication effectiveness and efficiency. Thus, entering international markets has become easier. In addition, the listed factors create international competitive environment and affect companies without international activities in every sector of industry. It is obvious that the geographic distance is not the only distance that has to be considered. Mention should be made of other dimensions like cultural differences, language barriers, differences in educational and political systems (Johanson & Wiedersheim, 1975).

It is a well-established fact that the larger the company size is, the better opportunities this company has to enter international markets and the more complex solutions it is likely to apply (Observatory of European SMEs, 2007; EC, 2010). The scale and the scope of company's business activities also influence its internationalisation. However, its boundaries are continually changing. For instance, the retail sector used to have a fixed place of business but e-commerce activities have completely changed the situation.

Both the size of the domestic market and the company's proximity to a national border also affect the company's level of international activity. The probability of international activities even of the smallest firms with a market power of several kilometres increases if these firms are located close to the national border. The proximity of companies to the national border increases their international exposure, whereas their international activities are not restricted to the neighbouring country (Dimitratos, 2002). The smaller a country is, the more internationalised its companies are (EC, 2010). The proximity of the national border can be considered a competitive advantage that can be utilised more efficiently by ensuring appropriate resources and creating an international business environment (Gubik, 2011).

LITERATURE REVIEW

There are several basic models of the internationalisation process. One group of models emphasize the gradualism in the internationalisation process. This perspective includes Uppsala model (Johanson & Vahlne, 1977; 1990) according to which the engagement in international activities evolves gradually and is a cumulative and coherent, path-dependent process (Eriksson *et al.*, 1997). In the first stage, when a company has insufficient knowledge of the market and partners operating in it, it chooses a simple form of appearance in the market (for example, export). Later, due to its accumulated experience, the company transforms into a more complex form (for example, sets up

a subsidiary). This model cannot be applied to large companies, since they have an easy access to all types of resources (including managerial experience and knowledge). The export development models, such as the Reid export behaviour model (Reid, 1981), also emphasize the gradual character of the company's internationalisation process. However, they primarily analyse decision-making processes in terms of export activities and main factors related to this.

The results of empirical research conducted in this issue indicate that Hungarian companies adopt gradual internationalisation (Antalóczy & Éltető, 2002; Szerb & Márkus, 2008).

In the 1990s alongside the Uppsala and export models of gradual internationalization, a new group of companies emerged, which rapidly broke into international markets (born-global enterprises). Born global firms exist mainly in new knowledge-intensive industries (Rasmussen & Madsen, 2002; Criado *et al.*, 2002). As for their size, they are mostly micro- and small-sized enterprises. About one-fifth of young enterprises in Europe are born globals but with considerable differences among countries (Eurofound, 2012), in Hungary this rate is less than 10%.

According to some researchers, it would be a mistake to examine companies outside the context they operate in (Granovetter, 2005). As for internationalisation, there is a general consensus that apart from personal experience and professional knowledge of company managers, social and economic networks created around companies also play a key role in decision-making processes. The results of the conducted research encompassing large companies indicate that apart from corporate human capital, the relationship capital also plays a crucial role in internationalisation (Hitt *et al.*, 2006). Some researchers think that the number of decision makers is of determining importance in terms of internationalisation as well (Clercq & Bosma, 2004). They consider that the more decision makers are involved, the more networks they can access to, the more experience they can gain and the more knowledge they can generate.

MATERIAL AND METHODS

The data were obtained from empirical research within the framework of the Visegrad Fund project "Patterns of business internationalization in Visegrad countries - in search for regional specifics" (standard grant no. 21310034) conducted in the late 2013 and early 2014. The questionnaire was available online.

The Sample

The Hungarian database contains responses of 104 companies out of which 74 were active in international markets. Approximately 26% of companies were micro-sized enterprises, 30% were small-sized enterprises, and 21% were middle-sized companies and 23% were large companies. The sample does not represent Hungarian companies since this was not the purpose of the data collection. This is because a sample with the same ratio of different company size groups would have encompassed mainly micro-sized enterprises, which were less active internationally and would have been less suitable for achieving the goals of the research. The purpose of this survey was to include the same amount of companies of different sizes in the research, that's why large and

internationally active companies are over-represented in it. When evaluating the results of this paper we have to consider this fact because it may decrease the generalizability and applicability of the results.

In our database 87 companies are owned by Hungarian investors and 8 companies are in foreign ownership with 100% share. As for the business activities of the surveyed companies, almost half of them are industrial companies (49%), 35% are service providers, 14% are trading companies and 2% are involved in agricultural activities. Almost 44% are actively present in the EU and other international markets. Out of 49% companies which are without international activities, 17% conduct business activities in the local markets (Figure 1).

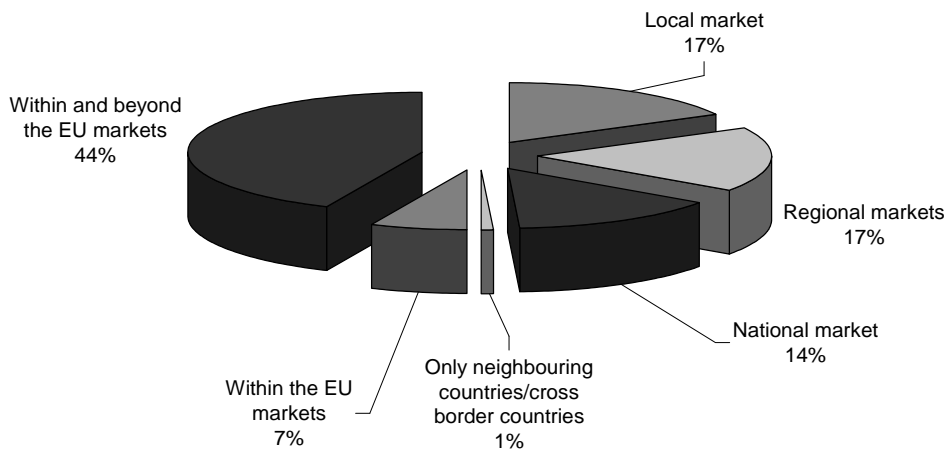


Figure 1: Firms' territorial scope

Source: own elaboration ($n = 104$).

Conceptualisation and Operationalisation

Internationalisation is a process of direct or indirect involvement of enterprises in international transactions. International activities can have several modes, the most simple of which is export.

There are two ways of exporting, namely, indirect exporting and direct exporting. Indirect exporting does not involve direct contact of the company with its buyers, sellers or business partners. A typical example for this is the service provided by export agents, export/import brokers, export management companies or companies involved in export trade.

- An export agent is a firm (or an individual) in the country of the exporting company that assists in locating customers, conducting negotiations, etc.,
- an export/import broker provides assistance in concluding business deals without being directly involved in sales or purchasing,
- an export management company is an independent intermediary that specialises by product, countries or regions and manages export activities of companies in a complex way,

- export trading company is also an independent intermediary and provides similar services to those of an export management company, but it operates primarily on a demand-driven basis and offers customer-tailored supplies.

In case of direct exporting companies utilize the assistance of their own foreign agents, distributors and branch offices in order to manage exporting processes.

Cooperative exporting is implemented via export consortium, clustering and piggybacking. Piggyback exporting is a practice when one company gets access to an export market using the distribution channels of another company.

Contractual solutions encompass contract management solutions, assembling contracts (e.g. repairing, maintenance, training programs, product consultancy and installation of machine parts), manufacturing contracts (e.g. supply), turnkey contracts, international licenses and international franchise.

Another mode of internationalisation is direct investment, which enables companies to get access to international markets whilst retaining control. One of the solutions of this can be opening an office in another country, setting up a joint venture or establishing a wholly-owned subsidiary.

Different foreign market entry modes are diverse in many respects, like: scope of capital commitment, scope of management commitment, scope of control, scope of risk, scope of potential profits, scope of input costs (Daszkiewicz & Wach, 2012).

Decisions about foreign market entry mode depend on several aspects which are influenced by objective company characteristics (the size and scope of business activities), environmental characteristics (industry characteristics, networks, nature and strength of competition, etc.) and objective and subjective factors related to decision-makers (attitudes, motivations, experience, plans, etc.).

The purpose of this paper is to find out whether the following factors affect the mode of entry choice into foreign markets and in what way they work:

- the amount and type of available corporate internal resources,
- the attitude of owner/entrepreneur/manager to internationalisation,
- basic characteristics of business industry in which the firm operates.

Two questions related to the mode of international activity of companies from the questionnaire were used to investigate this issue: 'What kind of international activities are you engaged in? (more than one answer is possible)' and 'If you implemented more than one entry mode, what was the pattern of their implementation?'

The availability of resources, the attitude of owner/entrepreneur/manager to internationalisation and the market characteristics were mapped with a rating from one to five on the Likert scale. As for the resources, the respondents evaluated the available financial resources for internationalisation (e.g. equity and venture capital, credits), human resources for internationalisation (the employees' appropriate foreign language knowledge, experience gained in foreign markets, awareness of different business cultures and cultural differences), physical resources for internationalisation (e.g. equipment, know-how, innovation) and the necessary information resources for internationalisation (knowledge of international markets).

When the respondents evaluated the attitude of owner/entrepreneur/manager to internationalisation, they scored their motivation to go international, cosmopolitanism

and international openness, knowledge of international markets, experience gained in international markets and their professional business experience in general.

When the respondents evaluated the basic characteristics of the business industry in which their firm operated, they scored the company's vulnerability towards internationalization (e.g. the local kiosk is certainly local, some hi-tech industries are certainly global that is internationally vulnerable), the level of competitiveness in general (Do firms compete strongly?); intensiveness of foreign competitors (Are there many foreign competitors in your industry?); intensiveness of foreign capital (Is your industry dominated by foreign capital?); level of innovation (Do the firms in your industry implement much innovation?)

Research Hypotheses

Theories on internationalisation justify the determining role of resources in internationalisation. The transaction cost theory can help companies to choose a foreign market entry mode (Anderson & Gatignon, 1986). The importance of human resources, like the employees' appropriate foreign language knowledge and experience in foreign markets (Hitt *et al.*, 2006) and experiential knowledge (Barkema *et al.*, 1996; Erramilli, 1991) is also indisputable. The required physical (e.g., equipment, know-how, innovation) and information resources also play an essential role in decision-making processes on internationalisation and especially on foreign market entry modes.

H1: The type and scope of corporate resources affect the foreign market entry mode. The more resources raised from international activities a company has, the more complex solutions it applies.

If a company wishes to evaluate business opportunity, first it should be able to identify this opportunity. The attitude of owner/entrepreneur/manager to internationalisation considerably determines the material and physical aspects of the decision (e.g., the availability of financial resources). Presumably, elements determining professionalism, competence and expertise (e.g. experience) weigh more in corporate internationalisation. The ability to understand and adopt unfamiliar values and expectations of different cultures is also essential (Horská & Krasnodębski, 2009).

The attitude to internationalisation can be explained by internal and external factors (Perlitz, 2004). Besides internal personal commitments to internationalisation, external market forces have a considerable impact on this process. A good example is the principle of 'follow the market leader' developed in the theory of oligopoly markets (Stackelberg, 1952) that affects and determines the international orientation of the owner/entrepreneur/manager. Thus, the attitude of decision makers to international activities plays a determining role in the internationalisation process.

H2: The attitude of owners, entrepreneurs and managers to internationalisation (motivation, approach and knowledge) channels internationalisation in a positive direction.

We suppose that the stronger competition the sectors of economy experience and the more market competitors they have, the more likely they are to become active in the international market and the more complex solutions they are interested to implement.

Abrahamczik (2012) justifies the impact of competition intensity on internationalisation and corporate success in the international market.

The availability of foreign capital in the sectors under investigation also has a favourable effect on internationalisation. Finally, a high level of innovation considerably contributes to the company's becoming international and to implementing more and more complex solutions (EC, 2010).

H3: Sector characteristics (competition intensity, number of foreign competitors, intensiveness of foreign capital, level of innovation) affect modes of international activities.

RESULTS AND DISCUSSION

The figures obtained in the survey show that 71% of the surveyed companies are present in the international market in some form. Approximately 51% are engaged in importing; 25% conduct indirect export activities; 38.5% are involved in direct exporting and a low proportion of them (12.5%) have cooperative export activities. The rate of those who seek contractual solutions such as: supply, license or franchise amounts to 41.3%. There are some (21.5%) who have foreign investments (Figure 2).

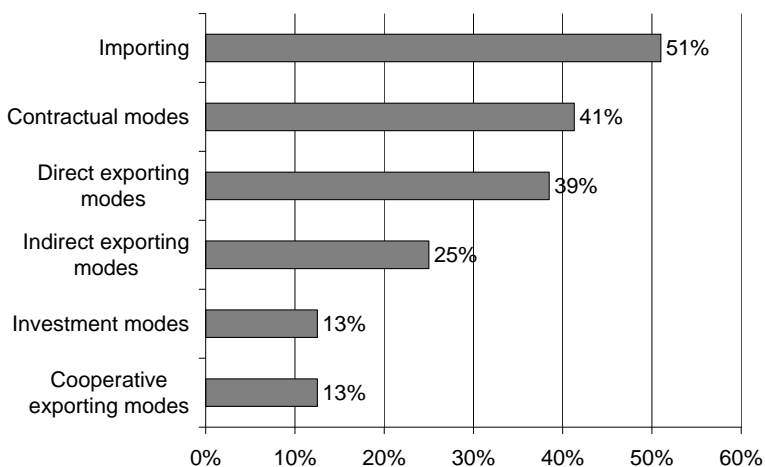


Figure 2. Modes of international activities

Source: own elaboration ($n = 104$).

A considerable proportion of companies are engaged in more than one international activity. An intensity indicator has been elaborated to measure internationalisation. It indicates how many possible foreign market entry modes a company has utilised during its international activities. The indicator ranges from 0 to 1, where 0 means that the company does not conduct activities in international markets and 1 means engagement in all activity types (import, direct export, indirect export, cooperative export, contractual modes and investment). The indicator mean of 0.3 indicates that companies utilise about one-third of their opportunities for internationalisation.

There are divergences in terms of size and activity areas. There is no clear direct relation between the growing corporate size and the increasing internationalisation intensity. Small and medium-sized enterprises are the most active with a 0.35 intensity indicator, in contrast to large and micro-sized companies with 0.28 and 0.22 indicators respectively.

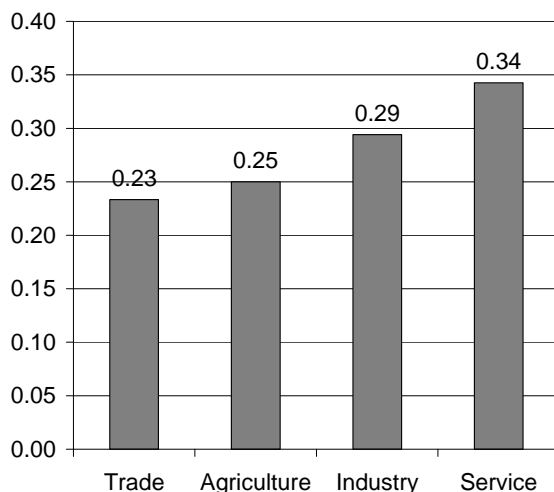


Figure 3. Internationalisation intensity by activity areas

Source: own elaboration ($n = 104$).

As for their activity areas, there are only slight divergences. Trading companies are characterised by the lowest intensity which are followed by industrial companies and service providers (Figure 3). Only two companies are engaged in agricultural activities.

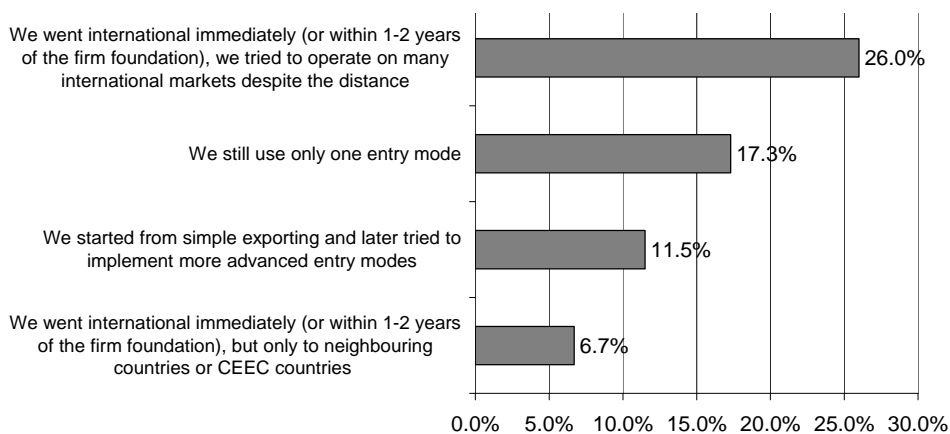


Figure 4. Patterns of foreign market entry

Source: own elaboration ($n = 104$).

While 17% of respondents chose only one foreign market entry mode, 12% focused on gradual internationalisation (Johanson & Vahlne, 1990), during which the more complex types in entering international markets appeared gradually and followed simple solutions. The proportion of companies which became immediately active accounts for 33%. Only 7% of them were present in the markets of neighbouring countries or Central and Eastern Europe, whereas 26% targeted distant international markets (Figure 4).

First, the impact of resources related to international activities were analysed with the intensity indicator elaborated for measuring internationalisation. The first table clearly illustrates the significant correlation between the availability of resources for internationalisation and the internationalisation intensity indicator (Spearman's Rho values exceed 0.45, $p=0.000$). The more resources are available, the more intensive internationalisation is. The marked resource types (financial, human, physical and information) also correlate with each other. The companies either have a sufficient amount of them or lack all of them.

Table 1. Relationship between foreign market entry modes and corporate internal resources

Variables of internal resources	1	2	3	4	5
1 Intensity of internationalization	1				
2 Financial resources for internationalization	0.502**	1			
3 Human resources for internationalization	0.501**	0.687**	1		
4 Physical resources for internationalization	0.464**	0.736**	0.706**	1	
5 Information resources for internationalization	0.502**	0.496**	0.507**	0.578**	1

** Correlation is significant at the 0.01 level (2-tailed).

Source: own elaboration ($n = 104$).

Figures show that there is a significant difference in the evaluation of resources by companies of different sizes, since larger companies gave a more favourable description of their resources. Companies which were active in the international markets in general ('Does your firm run any international activities...?') also gave higher than average scores to particular factors than did those without international activities.

The correlation regarding attitude of owner/entrepreneur/manager to internationalisation is similar to the one of resources. The growing size of companies is closely correlated to the increase in motivation, knowledge and experience related to internationalisation. Similarly, active participation in internationalisation improves attitude of owner/entrepreneur/manager.

Internationalisation intensity and the attitude of owner/entrepreneur/manager are also in interdependence with each other. The weakest connection is experienced in the case of general business experience (Spearman's $Rho=0.25$, $p=0.011$). Similar to resources, the different factors of attitude are also in interdependence with each other (Table 2).

There are no significant divergences in the evaluation of sector characteristics by companies of different sizes. However, companies with international activities gave higher than the average scores to all factors than those without international activities. They believe the sector they operate in, experience a strong foreign competition. As a result of this, they think they operate in a strong competitive environment and face strong innovation challenges. Table 3 shows that there are two variables (Level of competitiveness in general, Level of innovation) that do not show significant correlation

with the intensity indicator. Further items of the questionnaire provide bases for an objective evaluation of the role played by innovation in internationalisation². Vulnerability towards internationalisation and intensiveness of foreign capital are only significant at 0.05 level.

Table 2. Relationship between foreign market entry modes and attitudes of owners, entrepreneurs and managers to internationalization

Variables of Attitudes	1	2	3	4	5	6
1 Intensity of internationalisation	1					
2 Motivation to go international	0.449**	1				
3 Cosmopolitanism and international openness	0.433**	0.765**	1			
4 Knowledge of international markets	0.421**	0.667**	0.695**	1		
5 Experience with international markets	0.505**	0.719**	0.699**	0.814**	1	
6 Professional business experience in general	0.253	0.438**	0.478**	0.522**	0.516**	1

** Correlation is significant at the 0.01 level (2-tailed); * Correlation is significant at the 0.05 level (2-tailed).
Source: own elaboration (n = 104).

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Similar to resources and attitudes, the different characteristics of the business industry also correlate with each other (Table 3).

Table 3. Relationship between foreign market entry modes and the basic characteristics of the business industry

Variables of the business industry	1	2	3	4	5	6
1 Intensity of internationalization	1					
2 Vulnerability towards internationalization	0.218*	1				
3 Level of competitiveness in general	0.170	0.528**	1			
4 Intensiveness of foreign competitors	0.405**	0.466**	0.514**	1		
5 Intensiveness of foreign capital	0.226*	0.414**	0.387**	0.754**	1	
6 Level of innovation	0.054	0.313**	0.254**	0.476**	0.536**	1

* Correlation is significant at the 0.05 level (2-tailed); ** Correlation is significant at the 0.01 level (2-tailed).
Source: own elaboration (n = 104).

² We experienced that the companies which have been committed to innovation in the past three years have higher intensity indices (0.33) than the non-innovative ones (0.24).

³ We experienced that the companies which have been committed to innovation in the past three years have higher intensity indices (0.33) than the non-innovative ones (0.24).

The variables which are in close correlation with each other enable us to explore the latent structure behind the 14 observed variables by a factor analysis. Within the framework of principal component analysis (PCA), the three factor groups under investigation (resources, attitudes, and sector characteristics) were jammed into two factors (Kaiser-Meyer-Olkin test (KMO)=0.855, total variance explained is 60.4%). Table 4 shows the factor weight of the variables and the factor a particular variable is the most suitable for. It is clearly seen that variables measuring internationalisation resources and attitudes of owner/entrepreneur/manager to internationalisation constitute one factor. Thus, the subjective characteristics of owner/entrepreneur/manager (openness and motivation) are as critical resources of internationalization as objective ones (previous international experience, general business experience and possession of appropriate information). The other factor contains the variables that evaluate the basic characteristics of the business industry.

On the basis of the two elaborated factors, a hierarchical cluster analysis was performed and five groups of companies were identified. Two companies (Cluster 4 in Figure 5) turned out to be outsiders, even when a lower cluster number was selected. These two companies considered their resources to be over the average. However, they feel that the business environment they operate in fail to promote internationalisation. The rest of the paper investigates only clusters with more cases.

Cluster 1: Successful world citizens

Respondents of this cluster consider their resources to be high. They feel that business environment they operate in promotes their internationalisation. The intensity of their international activities is over the average. About 92.5% of them are present in the international market (their intensity indicator is 0.42). They employ 441 people on the average, so it is more than likely that they don't have any problems with acquiring the resources required for their international activities. They are mostly large and middle-sized companies operating in processing industry, construction and service industry. Their innovation activity is above the average. About 77.4% of respondents have implemented innovation in the last 3 years and 17 % of them were involved in innovation at a global scale.

They are unlikely to require any direct support to promote internationalisation. However, every move that affects international rating of Hungary and shapes its image as well as the economic policy the country follows in supporting competitiveness of companies (cutting red tape) can indirectly contribute to successful internationalisation ($n = 53$).

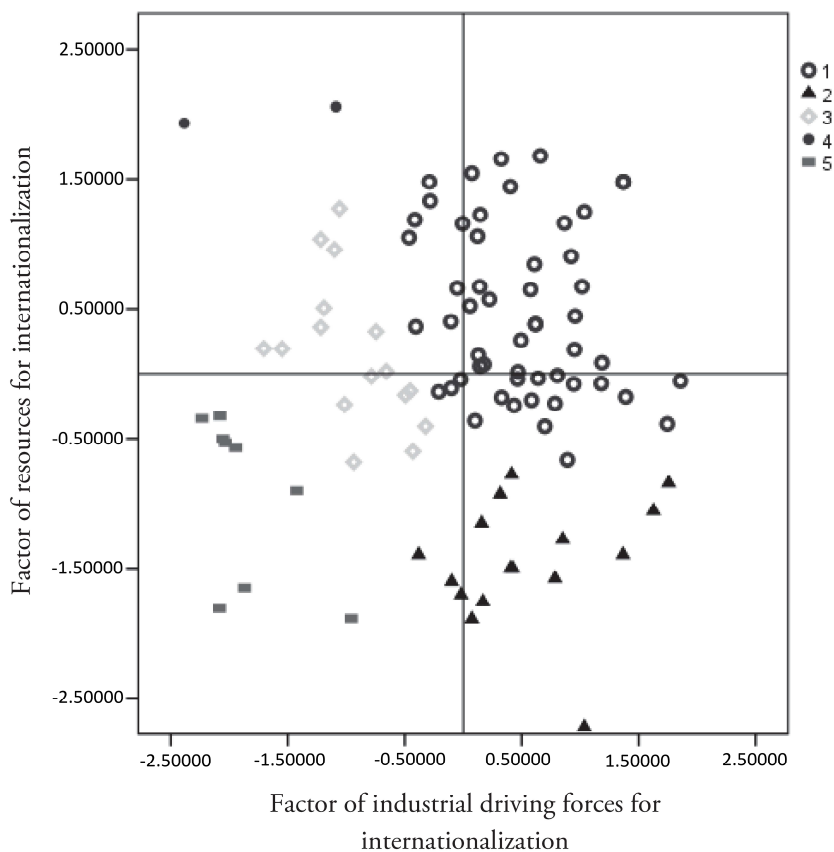
Cluster 2: Emerging way-out seekers

Companies belonging to this cluster are mostly micro- and small-sized family enterprises (81.3%) operating mainly in construction and service industry. Only half of them are present in international markets and are primarily engaged in importing. The majority of the firms in this cluster do not conduct any innovation activities (56.3 %). Even if they do, the scope of implemented innovation is limited (firm scale). They consider the competition in their sectors to be fierce and the foreign capital and foreign competitors to be dominating. However, they lack resources required for their successful internationalisation. In their case, internationalisation would be a way to move forward

Table 4. Rotated component matrix of the factor analysis

Variables	Factor 1: Internal Resources	Factor 2: Driving forces of the industry
Knowledge of international markets	0.882	0.020
Experience with international markets	0.858	0.090
Human resources for internationalization	0.811	0.176
Information resources for internationalization	0.803	0.163
Cosmopolitanism and international openness	0.769	0.243
Motivation to go international	0.766	0.342
Physical resources for internationalization	0.757	0.348
Professional business experience in general	0.593	0.091
Financial resources for internationalization	0.586	0.134
Intensity of foreign competitors	0.201	0.839
Intensity of foreign capital	0.123	0.837
Level of innovation	-0.024	0.729
Vulnerability to internationalization	0.322	0.585
Level of competitiveness in general	0.202	0.571

Source: own elaboration ($n = 104$).

**Figure 5. Company clusters**

Source: own elaboration.

and to increase their competitiveness, since they experience strong international competition even in national markets because of the characteristics of the business industry, which the firms operate in ($n = 16$).

The factor analysis highlighted the fact that it is necessary to own physical resources and to have an access to appropriate information, but it is insufficient. The attitude of the owner/entrepreneur/manager to internationalisation should be improved as well so that they will be able to break into international markets. The channels leading to increase their subjective and objective resources need to be identified.

Cluster 3: Ordinary people

Enterprises making up this cluster are primarily small- and middle-sized service providers. They feel that their available resources for internationalisation are average and the sector they operate in fails to promote their internationalisation. However, 75% are active in international markets with different entry modes (contractual, investment, exporting and importing modes). They are also active in innovation, 75% of companies (12 firms) implemented some innovation in the last 3 years. However, only one respondent reported innovation at a global scale. Taking into consideration their intensity indicator of 0.32, they seem to utilize the available resources ($n = 16$).

Cluster 5: Local patriots

Only 9 enterprises make up this group: 4 large companies and 5 small- and middle-sized enterprises. All but one operate only in the national market. They have little opportunities to break into international markets. They lack subjective and objective resources for internationalisation. In addition, the characteristics of their business industry they operate in fail to contribute to their becoming international ($n = 9$).

CONCLUSIONS

This paper analyses corporate internationalisation by applying an intensity indicator. The analysis concentrated on three areas and investigated the role of resources, managerial attitudes and industrial driving forces in internationalisation process. According to technical literature, these factors relate positively to international activity. This paper has analysed their effect on the internationalisation intensity. Findings show that the more resources for the internationalization process a company has, the more complex solutions it applies. The attitude of owner/entrepreneur/manager to internationalisation (motivation, approach and knowledge) shows the same results. Driving forces of the company's sector (intensiveness of foreign competitors and foreign capital, vulnerability towards internationalisation) also affect modes of international activities.

By applying a factor analysis we came to the conclusion that the attitude of corporate owner/entrepreneur/manager to internationalisation is as critical resource in terms of internationalisation processes as other objective resources owned by companies. The obtained results show that providing physical resources and access to appropriate information is necessary, but not sufficient. The attitude of the owner/entrepreneur/manager to internationalisation should be improved as well, so that they will be able to appear and operate successfully in international markets. Giving the right place to subjective matters in promoting internationalisation and giving more

support apart from financial ones in this area (with coaching, consulting, etc.) may contribute to the increase in corporate participation in different support programs.

By conducting a cluster analysis, we managed to identify some specific groups of companies and determine which companies require external assistance for fostering their internationalisation. The cluster analysis showed that companies need tailor-made support in their internationalisation process which should depend on their preparedness and the characteristics of their business industry.

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Environmental and Individual Determinants of Female Entrepreneurship in Algeria: Applying the Structural Equation Modeling

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Yamina Grari, Fouzi Boudia, Hadjira Merabet

ABSTRACT

Objective: On the basis of the seminal work of Fishbein and Ajzen (1975), we try to clarify how individual and environment factors influence the students' attitudes towards Entrepreneurship and Entrepreneurial Intention.

Research Design & Methods: After a short review of literature, we present the results of an empirical study conducted among a sample of 290 final year students by using a structural equation modeling validated through the use of a two-stage analysis of Anderson and Gerbing (1988) and a factorial confirmatory analysis and a measurement adjustment (Hair *et al.* 1998).

Findings: Attitude driven from individual variables is negative while that derived from environmental variables is positive. Our results show furthermore, that the role of media and institutions is still Limited and needs redeployment.

Implications & Recommendations: Woman is now recognized as one of the sources of economic growth (Arasti 2008). Although female entrepreneurship is attracting more and more researchers, it is still considered as an understudied field of research (De Bruin *et al.* 2006, 2007; Brush, De Bruin, & Welter, 2009).

Contribution & Value Added: Research on female entrepreneurship has intensified since the early 80s, but few have explored the influence of environmental and individual factors related to female entrepreneurship.

Article type: research paper

Keywords: entrepreneurship; female; Algeria; individual; environmental

JEL codes: M13, C52

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INTRODUCTION

In developed countries (e.g. Canada, United State, France), research addressing the issue of female entrepreneurship have expanded since the early 80s (Bruyat, 1993; Fillion *et al.* 2008; Constantinidis & Cornet, 2006). Most research conducted have focused mainly on four areas – finance, networks, management styles and performance (Brush 1992; De Bruin *et al.*, 2007; Carrier *et al.*, 2006; Carter *et al.*, 2003); other studies have analyzed the motivations of women entrepreneurs, their personal characteristics, their relationship with the environment, difficulties encountered by women during starting up of their project (Bruyat 1993; Fillion *et al.*, 2008; Constantinidis & Cornet, 2006), and few have focused on the process leading to the creative intention in its entirety. Unfortunately, such studies on female entrepreneurship are rather rare in Algeria. Our study extends both the individual characteristics of the female entrepreneur (personality, motivations, perception and risk-taking), and the environment with its specificities, constraints and expectations (culture, religion, education, social structures, family, institutions and support organizations, reference groups and media).

LITERATURE REVIEW

Individual Factors

Personality

Several approaches have attempted to introduce personality characteristics of entrepreneurs, namely Lyer (1995) that argues that men interviewed during his investigation have less fear of failure and are more confident than women though some studies have shown that there are some similarities between the men's and women's personalities since they both seek to be dynamic, independent and goal-oriented (Hisrich 1985; Klofsten & Jones-Evans, 2000). However, other studies claim that there are differences between the sexes from the point of view of their personality traits (Sexton & Bowman-Upton, 1990). For example, according to some authors, women entrepreneurs adopt leadership behaviors (Eagly *et al.*, 2003); Seet *et al.* (2008) have synthesized the results of comparative studies between the personality traits of men and women entrepreneurs and noted some differences as far as female traits are concerned with such characteristics as: sociable, decisive, authoritarian, leader (Seet *et al.*, 2008) goal-oriented, confident and anxious, risk taker (Arch, 1993).

Risk-taking

Risk-taking is a psychological characteristic that emerges as a discriminating variable in entrepreneurship research. Every contractor must take risks (Tounes, 2004) in all its decisions that could be founded a posteriori (Persais, 2003). Brockhaus (1982) divides the entrepreneurial risk into three components: (1) the propensity for risk-taking in general, (2) the perceived probability of failure, (3) the perceived consequences of failure.

The feeling of taking a significant risk by creating a company is dominant for both men and women, nevertheless, most of the studies indicate that women generally do not take significant risks (Arch, 1993; Brush *et al.*, 2006). They seek more information to mitigate potential risks in business (Eckel & Grossman, 2003).

Motivations

According to Capo-Chihi *et al.* (2012, 2013), motivation may begin by giving way to weariness and exasperation and thus, one can never be safe from a fall or a drop in activity. Motivation is an energy source, but is also crucial to know how to manage projects and manage a team. According to Le Duff and Novelli (2011) you create your business because you want a successful project. If there are good reasons to start a business, there, however, are many other motivations that may constitute a handicap. Each of these motivations can be useful if they are accompanied by other aspirations and other skills. According to a study by Chakroun Marzouki (2007) it appears that women in Algeria live in a context of a society where social differences between genders are strongly imposed and framed by culture in its widest sense. Traditional representations and social practices strongly influence the position of women in the Algerian society.

Perception

The woman entrepreneur adapts to her environment by trying to obtain the necessary knowledge to solve the problems at hand. She chooses, makes decisions, and evaluates opportunities based on what she perceives in the environment (Darpy & Volle, 2003). A motivated individual is ready for action, which depends on his/her perception of the situation (Kotler & Dubois, 2002). The evaluation of the risk associated with a situation is not objective: it depends on the woman entrepreneur's personality and the available information (Pettigrew *et al.*, 2002).

Environmental Factors

Culture

Women entrepreneurs look for original ideas, and try to work differently with more effective methods. The entrepreneur shall not limit her knowledge but must expand her vision by working with people in the field (Pettigrew *et al.*, 2002). As thus, women entrepreneurs should be "Activating and producing, investing more, be curious, anticipating things with different groups or ethnics that are respectful of specific cultural practices" (Solomon *et al.*, 2005).

Social structure

It is easier to be entrepreneurial when we live in an environment that pushes us and encourage us to begin a life in the business world. A born entrepreneur, however, is a person who is not only influenced by the society around him (Darpy & Volle, 2003). The entrepreneur should not mix his/her personal with professional life, and when she makes a choice, she must take it to the end. Beginning a creative business is not an easy task; the woman entrepreneur must build her work upon a sacrifice in order to succeed. "She takes over responsibilities upon those around her" (Solomon *et al.*, 2005).

Religion

Whilst religion approves women's initiative in business activity, there are many people who do not value the entrepreneurial spirit of women who have clearly exhibited their persistent courage and abnegation towards intimidation from rigid and unfounded religious pressures. A woman entrepreneur who continues to work by trying to seek solutions to problems and "creating her own project, contributing to reducing poverty and helping society, is a real and true value to society" (Darpy & Volle, 2003).

Reference Groups

The literature review proves that women entrepreneurs are part of different groups who often influence their decisions. Generally we refers to a group as any set of at least two individuals who share common values, beliefs and attitudes and establish relationships between them and adopt behaviors interrelated with each other (Solomon *et al.*, 2005; Lewi, 2005). Groups whose opinions or behavior are particularly important for women entrepreneurs are reference groups (RG). These are groups of people, real or fictional, that influence the beliefs, opinions, values, and behaviors of individuals (Lewi, 2005). According to Kotler and Dubois (2002), in his/her daily life, an individual is influenced by many primary groups (family, neighbors, friends, coworkers) and secondary (associations, clubs, etc.), it may be a group she would like to belong to (Kotler & Dubois, 2002). The impact of the influence of RG is affected by factors such as the relevance of RG, the flow of information within the group, its usefulness and influence which expresses values (e.g. image, respect) important for women entrepreneurs. Reference groups influence female entrepreneurship in three ways: the information level, expectations, and the influence which expresses values (Solomon *et al.*, 2005).

Institutions and Organizational Support for Business Creation

The Algerian government has established number of institutions and devices to support business creation. The institution like ANGEM (National Management Agency for Micro Credit) began its activities in October 2004 and has been very active until now; the second institution CNAC (National Unemployment Insurance Fund) created in 2003, supports project activities for the unemployed aged 35-50; the third institution ANSEJ (National Agency to Support Youth Employment) that supports the creation of micro-enterprises for youth seems to have attracted special attention of the authorities. Through the ANSEJ device, ANSEJ female entrepreneurship has grown, especially as compared to outcomes of CNAC activity. ANSEJ contributes effectively to women's entrepreneurship training as it has provided a guide. According to ANSEJ director, Fatima Seddaoui, 232 508 projects were funded by the end of 2011, 11% of which were prepared by women 24 487 projects. According to ANGEM director of communication, Mourad Oubbad, 60% of the institution's beneficiaries are women and ANGEM's most requested areas are small industry (food, sewing, and clothing and crafts). However, the results of the international symposium organized on 17.9.2012 in Algiers on the entrepreneurship among the Algerians, show that female entrepreneurship in Algeria is still in its infancy, registering a rate of 6% out of the total number of entrepreneurs. This rate remains insufficient even though it doubled from 2005.

Family

Defined as “a community of people united by kinship”, family is an important determinant of women’s entrepreneurship in a particular sociocultural context such as that of Algeria. In fact, the woman entrepreneur is the result of her environment_(family, school, businesses, social groups). Changes in social conditions seem also to be important. Parents, brothers, spouse, family environment, friends have strong influence on women entrepreneurs. Referring to the theory of layers, according to Ballereau (2006), the influences of the support network are prioritized according to the proximity of link with the owner-manager. Different spheres comprising the support network of the leader of SME are represented by : family, friends, relatives employees, expert advisors , business contacts (customers, suppliers) professional networks. Bridge *et al.* (1998) believe that the closest layers have the greatest influence. The family is thus the most important driver for women entrepreneurs; for long it was the school in which the entrepreneur has learned the basics of entrepreneurship.

Entrepreneurs are not bowling alone; they are integrated into their households and family backgrounds whose impact is greater on women than their male counterparts in the entrepreneurial process (Brush *et al.*, 2009).

The family is the first to be mobilized when the daughter wants to set up her business and therefore remains one of the most important links in the chain of project implementation.

In general, the initial capital for launching a new business by an entrepreneur comes from personal income and equity in the family social capital, human capital, financial capital and the capital of survival (Miller, 1983).

Media

Media are also part of the environmental factors that develop and stimulate female entrepreneurship. Many psychosocial theories have been applied to media and some of these theories have been utilized to study the effect of media on entrepreneurial attitudes. The social learning theory of Bandura has been confirmed by many researchers (Wood, 1989; Major *et al.*, 1991; McCombs & Shaw, 1972). This theory assumes that most human behavior is learned through observation and modeling. Entrepreneurial literature has confirmed on numerous occasions the influence of role models on the intention to undertake entrepreneurial activities. Scott and Twomey (1988) showed that exposure to repeated patterns role is likely to contribute decisively to the genesis of a positive behavioral intention. Researchers suggest that women in particular, require greater exposure to successful women entrepreneurs. However, studies on the presence of women entrepreneurs in the media show clearly a lack of their representation in media (Baker *et al.*, 1997); In addition, according to Reiser (2008) media conform to stereotypes that do not reflect reality and are often anachronistic relatively to the status the woman now occupy in society.

The Mediator Variable: Attitude

Attitude is considered as a commitment that we have towards something, it is a judgment we make about an idea or a person and even how we distinguish things. The

entrepreneur agrees to take risks (financial risk, family) without involving anyone. The entrepreneur will not venture for fear of having problems. She withstands the stress, so that stress becomes a positive stimulus for success. Then the action and time are two fundamental characteristics for the successful entrepreneur in his/her entrepreneurial act.

MATERIAL AND METHODS

The Theoretical Model and Research Hypotheses

In Algeria many researchers are more interested in entrepreneurship as a phenomenon (Benhabib, 2000; Tounes, 2004) researched from different angles such as conceptualizing the entrepreneur, starting a business, defining Algerian entrepreneurs, highlighting cultural influence, etc. It is quite clear that the academic work addressing the theme of female entrepreneurship is rare, and most of it is based on descriptive approach. This may result in an incomplete understanding of this phenomenon.

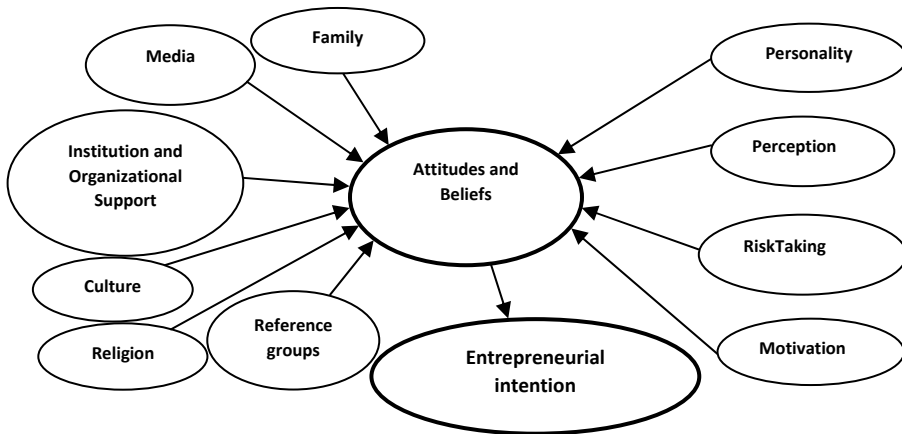


Figure 1. The global conceptual model

Source: own study.

Our conceptual framework integrates recent contributions that have questioned the central part played by environmental and individual factors that shape the creation of an enterprise. From the global conceptual model of Figure 1, we try to grasp these two groups of fundamental factors that may contribute to the understanding of Algerian female entrepreneurial intention.

Even though, these two factors seem to be integrated, we separate them in Figures 2a-2b for the convenience of our analysis in order to highlight the best explanatory variables for each major factor.

During the analysis the following hypotheses have been assumed:

- H.1. There is a causal link between Environmental Factors and the attitudes and beliefs (Att-Blf) of Women Towards Entrepreneurship (WTE).**
- H.1.1. There is a causal link between the family and the Attitudes and Beliefs of **WTE**.
- H.1.2. There is a causal link between the media and the Attitudes and Beliefs of **WTE**.
- H.1.3. There is a causal link between the Institution and Organizational Support and the Attitudes and Beliefs of **WTE**.
- H.1.4. There is a causal link between culture and the Attitudes and Beliefs of **WTE**.
- H.1.5. There is a causal link between religion and the Attitudes and Beliefs of **WTE**.
- H.1.6. There is a causal link between the reference groups & Attitudes and Beliefs of **WTE**.
- H.2. There is a causal link between Individual Factors & Attitudes and Beliefs of Women Towards Entrepreneurship (WTE).**
- H.2.1. There is a causal link between personality and Attitudes and Beliefs of **WTE**.
- H.2.2. There is a causal link between motivation and Attitudes and Beliefs of **WTE**.
- H.2.3. There is a causal link between risk taking and Attitudes and Beliefs of **WTE**.
- H.2.4. There is a causal link between perception and the Attitudes and Beliefs of **WTE**.
- H.3. There is a causal link between Attitudes and Beliefs of Women Towards Entrepreneurship (WTE) and Entrepreneurial Intention.**

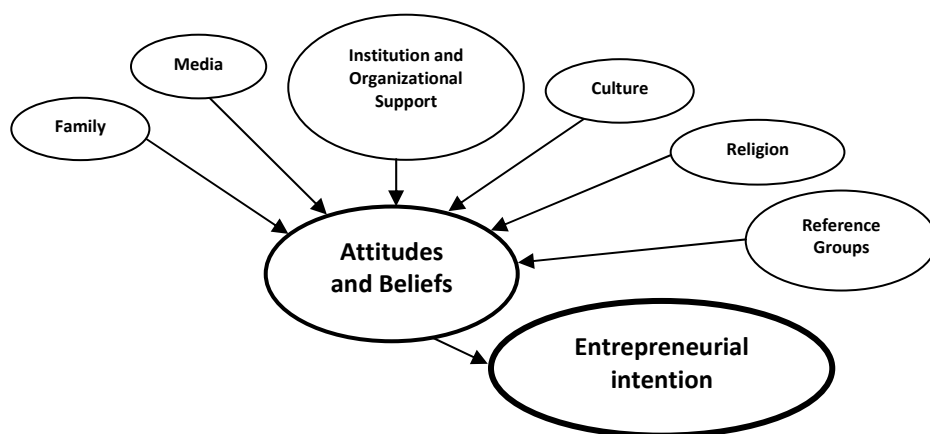


Figure 2a. The Conceptual Model for Environmental Factors

Source: own study.

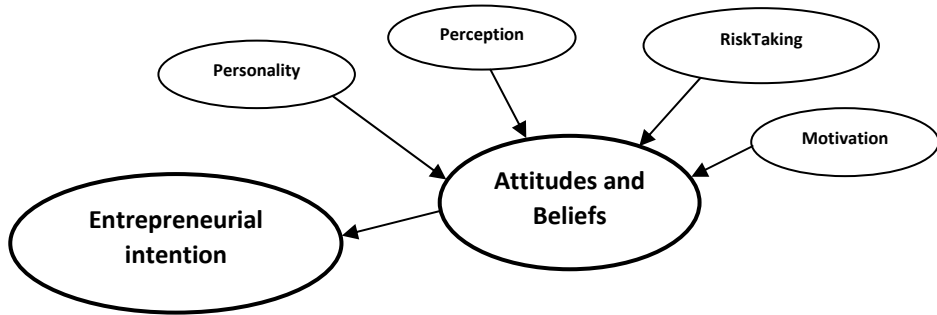


Figure 2b: The Conceptual Model for Individual Factors

Source: own study.

We apply the following three steps: data collection, scale measurement and exploratory analysis through a PCA (principal component analysis and finally the presentation of the structural equation modeling.

Data Collection

Depending on the familiarity of our target with the brands chosen, it was decided to administer a questionnaire to 290 final year students at Tlemcen University (Algeria) aged 20-27.

Our sample reflects the distribution of the population within an educational environment. In order to compare the metrics of entrepreneurship intention, we selected ten variables (components) that we tested empirically and then we proceeded to compare their psychometric properties to detect which one keeps its factor structure.

Scale Measurement and Exploratory Analysis through (PCA)

The questionnaire consists of two parts. The first covers the nominal variables (MSDS). The second consists of 157 items measuring our twelve research variables. The administration of the questionnaire took place in early April 2013. Data collection was performed through self-administered questionnaires.

The questionnaire was primarily intended to measure ten components of female entrepreneurship intention. More conventional measures were taken into account: personality constructs (24 items), perception (8 items), motivation (10 items), risk-taking (14 items), attitude and beliefs (38 items), media (20 items), reference group (11 items), family (8 items), culture (4 items), religion (6 items), institutions and support organisations (3items) and entrepreneurial intention (3 items). Some items are taken from literature; others are specifically elaborated for the analysis. Through these components, respondents were asked to give their views on entrepreneurship and specify their degree of agreement or disagreement on the 5 Likert scale.

Table 1. Results of PCA (Principal Component Analysis)

Variables	Number of items	KMO	Approximate Chi-square	Crombach α
Personality	14	0.670	1483.800	0.772
Perception	7	0.561	190.773	0.594
Risk taking	8	0.612	870.748	0.715
Motivation	5	0.536	525.143	0.728
Media	6	0.706	785.154	0.779
Family	8	0.815	2746.595	0.881
Reference groups	6	0.844	1168.930	0.720
Institutions and Support Organization	3	0.683	205.773	0.717
Culture	4	0.617	691.830	0.774
Religion	6	0.747	615.994	0.633
Attitudes and Beliefs	17	0.710	2040.431	0.781
Business Creation Intention	3	0.623	120.345	0.640

Source: own elaboration using SPSS version 20 software ($n = 290$).

A first exploratory analysis was conducted through a factor analysis in several common and specific factors. This allowed us to eliminate several items that are 'Defective', i.e. those poorly correlated factors whose presence may deteriorate the internal consistency of scales construction by using Cronbach's alpha as well as the results of factor analysis with varimax orthogonal rotation. Exploratory analyzes were performed on all the scales used in the IBM SPSS 20 software. Several ACP with varimax rotation were conducted on the scales.

The results shown in Table 1 indicate:

- For all scales, the data are adequate to the factorization (all KMO are greater than 0.6 and Bartlett's test of sphericity is significant).
- The percentage of explained variance exceeds 60% for the different constructs.
- Commonalities and factor loadings of the items are also high (>0.5).
- The scores are satisfactory with Cronbach's α indicating good internal consistency of the scales.
- The results of this analysis that are satisfactory in terms of tests of internal consistency (commonality, KMO and Bartlett's test, and the alpha of Crombach), remain for the selected dimensions (see Table 1, for the selected scales of Principal Component Analysis, PCA).

RESULTS AND DISCUSSION

Evaluation of the Measurement and Structural Model

To test our theoretical model, we used a structural equation analysis. All treatments were performed with the Statistica SPSS version 20 software. To validate the structural model (Figure 1), we used the two-step approach of Anderson and Gerbing (1988): first, the validation of the measurement model by a confirmatory factor analysis (Hair *et al.*, 1998) and second, a structural link evaluation between the theoretical latent variables during the evaluation of adjustment measures of the integrated model (Hair *et al.*, 1998).

The objective of this evaluation is to validate by checking the unidimensionality, reliability and factor contributions constructs using confirmatory factor analysis. The results of the fitting of the measurement model as well as the structural model are summarized in Tables 2, 3, and 4. We may note that sequential tests of chi-square difference were performed to check the discriminant validity of each construct as well as their degree of freedom. Results show that (χ^2 / df) are still acceptable with a value of 9.17.

Table 2. The measurement and structural absolute model fitting

Measure	Fitting measures		Structural fitting	
	Individual variables	Environmental variables	Individual variables	Environmental variables
Chi ² (χ^2)	7155.698	14533.284	7155.698	10954.918
Steiger and Lind RMSEA Index	0.130	0.154	0.145	0.175
Joreskög and Sorböm GFI	0.562	0.478	0.535	0.484
Joreskög and Sorböm AGFI	0.512	0.425	0.485	0.415

Source: own elaboration using SPSS version 20 software ($n = 290$).

The overall absolute fit indices shown in Table 2 exhibit, firstly an acceptable RMSEA which is not far from 0.08, and secondly some values superior to 0.5 that can be considered as good whether with classical statistics calculated on the values of the sample (GFI, AGFI,) or with model fit indices of population estimates (Population Gamma Index (PGI), Gamma Adjustment Population Index (GAPI)). The same evaluation can be formulated as to Parsimonious and incremental fits with values exceeding 0.5. Thus we can say that the constructs used to examine the measurement and the structural models are acceptable and justify our evaluation of the structural model. Therefore, it is possible to perform the model analysis.

Table 3. The measurement and structural parsimonious model fitting

Measure	Fitting measures		Structural fitting	
	Individual variables	Environmental variables	Individual variables	Environmental variables
James-Mulaik-Brett Parsimonious Fit Index (PNFI)	0.558	0.544	0.611	0.554
Bollen's Rho	0.569	0.664	0.599	0.622
χ^2 / df	9.170	14.680	9.170	20.747
Bollen's Delta	0.656	0.691	0.631	0.577

Source: own elaboration using SPSS version 20 software ($n = 290$).

To test the hypotheses, we conducted a structural equation analysis over 290 female students. The meaning and value of the parameters such as contribution factors, and Student's t -statistic ($t \geq 1.96$), show a good significance. Moreover, the factorial contributions of the manifest variables on the latent variables whose values are usually between 0 and 1 exhibit values greater than zero and allow for hypotheses testing through the correlation coefficient.

Table 4. The measurement and structural incremental model fitting

Measure	Fitting measures		Structural fitting	
	Individual variables	Environmental variables	Individual variables	Environmental variables
Bentler and Bonett Normed Fit Index (NFI)	0.598	0.617	0.519	0.560
Bentler and Bonett Non-normed Fit Index (NNFI)	0.629	0.574	0.577	0.525
Bentler Comparative Fit Index (CFI)	0.654	0.680	0.621	0.633

Source: own elaboration using SPSS version 20 software ($n = 290$).

The goodness of fit results presented in Table 5, show that all correlations between latent variables (either positive or negative) sound significant with values ranging from 0.29 to 0.799 for all variables except those between risk-taking and attitudes and beliefs with 0.099, and institutions and support organization relatively to attitudes and beliefs with 0.167.

Findings: Hypotheses Testing

The first hypothesis (Table 5) proposed that personality influences the attitudes and beliefs of women entrepreneurs. This analysis shows that the contribution of personality on attitudes and beliefs is significant (H 1.1: $\beta = - 0.29$, $t > 1.96$, $p < 0.05$). This shows that the personality of future women entrepreneurs, who would normally play an important role in the formation of attitudes and beliefs, which is not reflected in this result, could be explained not only by an attitude of avoidance but also paradoxically as a kind of opposition to the intention of creating a business.

The second hypothesis states that the perception negatively influences the attitudes and beliefs of women (H 1.2: $\beta = - 0.531$, $t > 1.96$, $p < 0.05$) and increases the negative effect of personality.

Consistent with hypothesis H1.3 we observe that risk-taking has no influence on the attitudes and beliefs of women (H 1.3: $\beta = 0.099$, $t > 1.96$, $p < 0.05$). This shows that risk-taking hardly plays a role in shaping attitudes and beliefs of women. The probable explanation may stem from the Algerian institutional context of low risk towards investment. Actually, the Algerian State has implemented very loose investment policy measures for the youth in order to boost the creation of small- and micro-sized enterprises. This result confirms the low level of perception previously recorded.

As the second hypothesis related to perception and motivation (H 1.4: $\beta = - 0.58$, $t > 1.96$, $p < 0.05$), not only has no influence on the attitudes and beliefs of women, but negatively contributes to attitudinal predispositions as to the intention of starting a business. Probably close environmental variables, including the family can help enlighten us on this entrepreneurial passivity.

The effect of attitudes and beliefs on the intention of starting a business woman (H 1.5 : $\beta = - 0.653$, $t > 1.96$, $p < 0.05$) confirms the results observed previously on the influence of individual variables on attitudes and beliefs.

Table .5 Correlations between latent's variables

	Relationships between latent's variables	correlation Coefficient β_i	Student's t-statistic	Error type ξ	p-value
Individual Variables	(PER)-1->(ATTE)	-0.290	-6.398	0.045	0.000
	(PERT)-2->(ATTE)	-0.531	-11.552	0.046	0.000
	(MOTI)-3->(ATTE)	-0.582	-14.567	0.040	0.000
	(RIS)-4->(ATTE)	0.099	2.354	0.042	0.019
	(ATTE)-5->(INT)	-0.653	-11.900	0.055	0.000
Environmental Variables	(IMAG)-6->(ATTE)	0.059	21.700	0.027	0.030
	(GRP)-7->(ATTE)	0.799	36.200	0.022	0.000
	(IST)-8->(ATTE)	0.167	5.133	0.033	0.000
	(FAM)-9->(ATTE)	-0.232	-8.080	0.029	0.000
	(CULRE)-10->(ATTE)	0.526	17.06	0.031	0.000

Source: own elaboration using SPSS version 20 software ($n = 290$).

Hypothesis 5, which argues that media influence attitudes and beliefs cannot be validated (H 2.1: $\beta = 0.059$, $t > 1.96$, $p < 0.05$). This indicates the reluctance of the media to influence the spirit of entrepreneurship among women.

According to the sixth hypothesis, the effect of reference groups has a positive influence on attitudes and beliefs (H 2.2: $\beta = 0.799$, $t > 1.96$, $p < 0.05$), and with $\beta = 0.799$ it appears that the influence of friends, colleagues at work, social networks, cultural clubs, and sports clubs has a major influence on the attitude towards entrepreneurial intention. The seventh hypothesis test considers that institutions and funders influence attitudes and beliefs. After analysis it is found that this relationship is not significant (H 2.3: $\beta = 0.167$, $t > 1.96$, $p < 0.05$), indicating along with the media that our institutions work timidly, but must leave their passivity to positively inspire women to start a business.

The results show that the effect of family attitudes and beliefs is a constraint for single women and negatively influences the entrepreneurial intention (H 2.4: $\beta = -0.232$, $t > 1.96$, $p < 0.05$). This may indirectly affect the perception of women about their potential entrepreneurial project.

After analyzing the results, it appears that culture and religion have a significant impact on attitudes and beliefs with $\beta = 0.526$ (H 2.5: $\beta = 0.526$, $t > 1.96$, $p < 0.05$). This reinforces the effect of reference groups that seem to be the cultural backbone of women. The correlation coefficient $\beta = 0.553$ (H 2.6: $\beta = 0.553$, $t > 1.96$, $p < 0.05$) exhibits a positive value between attitudes towards environmental variables and the intention to create a business. This shows that the impact of reference groups as well as culture reacts positively on entrepreneurial intention.

CONCLUSIONS

The results show that individual variables have a negative impact on the attitude towards entrepreneurship whilst environmental variables exhibit positive values. The negative

impact is related to the role of the family that influences the perception and motivation. Conversely, the positive impact is affected by the role of reference groups as the dominant external culture. The study also shows that the role of media and institution is still limited and requires some redeployment.

It is quite clear that the academic work addressing the theme of female entrepreneurship is rare in Algeria and most of it is based on descriptive approach. Few seek to integrate environmental and individual factors that influence the intention of starting a business. This gap may result in an incomplete understanding of this phenomenon. Thus, our research show that on the contrary to what is conveyed, the individual variables have a negative impact on the attitude towards entrepreneurship whereas environmental variables exhibit positive values. It appears that the most important individual variable that may trigger female towards enterprise creation is the weakness of risk-taking; however, paradoxically, this lack of risk characterizes the investment climate for the youth in Algeria. Actually, the Algerian State has implemented very loose investment policy measures for the youth in order to boost the creation of small and micro size enterprises.

In addition, the family is a major handicap in the entrepreneurial intention of Algerian women. This can probably be explained by the heritage status of women object of study, to the extent that the single woman is still locked in a passive family straitjacket. On the other hand, it seems that our results support the idea rampant within our students that they see the culmination of their training in the public service.

The main conclusions that could be drawn from this study and may also result in recommendations:

- The Algerian institutional context of low risk towards investment should be readjusted for a better resource allocation.
- The family remains a constraint in the entrepreneurial intention.
- External and reference groups are necessary but not a sufficient advantage in entrepreneurial intention.
- The institutions and the media in Algeria remain passive towards entrepreneurial intention.

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Dysfunctions of NPOs and NGOs in Poland in the Global Context: Some International Comparisons

Janusz Fudaliński

ABSTRACT

Objective: The purpose of the article is an initial diagnosis of the level of internationalization and globalization of non-profit organization sector in Poland, as well as indication of possible differences in this respect, reflected in selected well-developed countries.

Research Design & Methods: The article is based on the literature review as well as the synthetic review of the conducted research and data in the field of NPOs and NGOs.

Findings: On the basis of western models, which can be treated as benchmarks, dysfunctions of NPOs and NGOs in Poland can be reduced. It will lead to more dynamics of non-profit organizations growth in Poland. It will result in greater level of internationalization of this sector in Poland.

Implications & Recommendations: Indication of directions of activities for stimulating internationalization and globalization of organization's operations in the third sector in Poland seems to be an important issues as it is a gradually revealing and growing tendency in this respect.

Contribution & Value Added: It also requires an analysis, especially with regard to the Polish conditions, of potential dysfunctions of non-profit organizations whose existence may slow down or even limit the possibility of operations in an international or global scope.

Article type: research paper

Keywords: NPOs; NGOs; internationalisation; globalisation; non-profit

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INTRODUCTION

The non-profit organizations (NPOs) and non-governmental organizations (NGOs) sector in Poland has been substantially developing and expanding research on international and global aspects of NPOs activity is a natural consequence of the growth (Fudaliński, 2013; Bogacz-Wojtanowska, 2011; Drucker, 1990). It should be noted, however, that due to the specific character of third sector organizations, the process of globalization and internationalization they experience differs from standard (or classic) pattern of development (Courtney, 2002). This is why research on determining factors is so important. It requires a thorough analysis, especially with regard to the Polish conditions, of potential dysfunctions of non-profit organizations which might slow down or even limit the possibility of their operations in an international or global scope. Therefore, it seems that indication of directions of activities for stimulating internationalization and globalization of organization's operations in the third sector in Poland is vital because Polish NPOs gradually reveal a growing tendency in this respect (Fudaliński, 2013).

MATERIAL AND METHODS

Therefore, the adopted purpose of the article is an initial diagnosis of the level of internationalization and globalization of non-profit organization sector in Poland, as well as indication of possible differences in this respect, reflected in selected well-developed countries. The proposed hypothesis assumes that the presence of potential development disproportions may be the result of existence of some dysfunctions whose identification is a starting point for activities initiating progress on the way to internationalization and globalization of NPOs sector in Poland.

The paper is based on a literature review as well as the synthetic review of the conducted research and data gathered in the field of NPOs.

LITERATURE REVIEW AND DISCUSSION

The Essence of Internationalization and Globalization Processes

Globalization and internationalization of organization's operations appears currently as a normal and rather common phenomenon (Breński & Oleksiuk, 2008; Przybylska, 2005; Daszkiewicz & Wach, 2012; Wach & Wehrmann, 2014). It is worth paying attention to the reasons of the globalization and internationalization processes since not in every area (business domain) they took similar dynamics. The main reasons of the emergence of globalization include: technical, political, social and economic forces (Przybylska, 2013).

The reference to the roots of the globalization processes (Wach, 2012; Przybylska, 2005) reflects rather the specific nature of non-profit organization sector than just their imitative characteristics. In general, though not always, changes are initiated in the field of widely understood business¹ and then the results are diffused into the two remaining sectors of economy. Therefore, phenomena of diffusion, globalization or imitation have

¹ At this point of the paper, the existence of three basic sectors of the economy is assumed: (1) the sphere of public organizations sector, (2) business sector and (3) non-profit organization sector.

also influenced supranational activities of third sector organizations, although their importance and impact were slightly modified on the one hand, but on the other hand, they have also their specific, different effect on development dynamics of NPOs sector. This is particularly reflected in the changes of technological nature related to the occurrence of information society (Szczepankowska, 2011; Szymański, 2004).

The globalization can be also referred to as a revolution in communication and transportation, thanks to which goods, services, people and information can be transferred at long distances at much lower costs. Coordination of worldwide activities of both entire states and single companies was possible thanks to the development of information and communication technology (phone, fax, Internet and e-mail) (Szymański, 2004, p. 41). And IT development, apart from social changes, to a large extent determined the development of NPOs sector (Bebington *et al.*, 2007, p. 3). Thanks to the changes of political and legal framework the flow of both goods and people is no longer restricted by burdens of unnecessary documents and permits. Economic reasons, on the other hand, are the basis for creation and development of globalization, but in case of third sector mostly resulting social inequalities are emphasized and discussed. All above mentioned factors are becoming visible, which is exemplified in the emerging social movements initiated and integrated by realized on unusual so far scale exchange of information (Arab Springtime or African Springtime of the Peoples as sometimes it is called, or the case of ACTA).

Information society is a society in which information is a product perceived as a special intangible asset, perceived as equally or even more important than a traditional tangible asset (Wach, 2014). Information society development can be treated both as the cause of globalization (it is exactly because of it that internationalization was possible) and its result (as a result of globalization, more and more people were forced to use services related to storage, transmission and processing of information). Information processing and communication are the basis for creating national income in the information society and are the source of livelihood for most of the society. It is assumed that the term "information economy" can be used when at least 50% of national gross income is created within the IT sector.

Therefore, the society becomes an information society when it reaches the degree of development and scale and complication of social and economic development requiring the use of new techniques of gathering, processing, transferring and using huge amount of information generated by these processes (Breński & Oleksiuk, 2008, pp.65-67).

At present, Poland, with its third sector, is not ready to pass to the phase of information society or is rather at the beginning of the transition. Our country is at the 34th position among countries which are best adapted to transform into information society. Expenses in total (public and private) on technologies in our country are growing very slowly, they constitute approximately 3% of the GDP, which additionally delays the progress of globalization in Poland. Common access to the Internet is also an important aspect of information society, and in 2006 only 36% of households had Internet access, but this ratio is systematically growing and in 2011 it amounted to 66.6% (GUS 2012, p. 99). This proves large dynamics of Internet availability, but also progress on the way to reach the status of information society, and also to a large extent to civil society.

Non-profit Organizations in the Global Context

In the literature it is rare to encounter complex methods of measuring the process of globalization. There is, however, an index assessing the level of global integration, known as Globalization Index, or Kearney Index. In the broadest division the index distinguishes such factors as: economic integration (e.g. foreign direct investment), personal contacts (travels and international telephone conversations), technology (number of users of the Internet, number of safe servers), and political commitment (membership in international organizations, the number of embassies in a particular country). Thus it is assumed that the higher index value, the greater level of globalization of a given country is (Table 1).

Table 1. Ranking of regions according to Kearney index in the period 1995-2000

Region	Economy	Contacts	Technology	Policy	Kearney Index
Western Europe	1.7	1.3	1.1	4.6	6.0
North America	1.0	0.9	2.1	4.6	5.8
South-East Asia	1.6	0.7	0.3	3.0	3.8
Central-East Europe	0.8	0.7	0.3	2.5	2.9
North Africa	0.5	0.7	0.1	2.3	2.6
Latin America	1.0	0.2	0.1	2.0	2.5
East Asia	0.6	0.2	0.6	2.0	2.5
Central and South Africa	0.6	0.6	0.5	2.1	2.3
South Asia	0.2	0.3	0.0	1.9	1.9

Source: own study based on (Rybiński, 2009, p.25).

In the years 1995-2000, in the ranking of countries the first five according to weighted Kearney index are: Ireland, Singapore, Switzerland, Sweden, Canada. Studies conducted in 2010 show the globalization index (Table 2) for selected countries in the world.

Table 2. Globalization index in 2010 by state

Place	State	Globalization index 2010
1	Hong Kong	7.48
2	Ireland	7.34
3	Singapore	6.78
4	Denmark	5.93
5	Switzerland	5.86
6	Belgium	5.82
...
25	Poland	4.48
...
56	Indonesia	3.00
57	India	2.96
58	Venezuela	2.85
59	Algeria	2.82
60	Iran	2.27

Source: own compilation based on (Ernst & Young 2010).

The need for changes in organizations is related to the dynamics of environment in which they operate. These changes occur in all sectors of the economy, including public benefit organizations (Gerencser *et al.*, 2008, p. 77) and they contribute to a much greater level of flexibility due to competitiveness requirements (Dworecki & Romanowska, 2008, pp. 13-14; Kiendl-Wendner & Wach, 2014), which more and more often also refer to non-profit organization sector. In other words, inevitably, the third sector and organizational formations will not only face the need to accept a flexible formula of activities, but also to adapt a broader view, comprising the professionalization of the management process (Fudaliński, 2013). It should be rather agreed that globalization has a tremendous impact on the society and at the same time it shows both positive and negative aspects. In this sense we can notice the specific role of third sector organizations which focus also on levelling its pejorative effects.

Along with globalization there appeared some important challenges for NGOs and NPOs. Among them we can mention: collapse of abilities of national governments, weakness of global institutions, new challenges of financial competition, new pressure on greater activities and responsibility, new forms of global poverty and crises (Domański, 2008, p. 247). At present, there is rather no other choice but to follow and struggle with trends of international or global nature, the core of the problem lies in properly diagnosing and assuming instruments of activities resulting in the capability of an organization to pursuit the adopted goals and then to survive and grow. And what is important, this does not relate only to the sphere of business, but also third sector organizations.

In Germany the third sector is characterized by large impact of the principle of subsidiarity, which in the local conditions is expressed as relative priority of non-governmental organizations over public administration (Leś, 2010). Currently the sector of non-governmental organizations in Germany faces many problems. From the national point of view it should be mentioned that large disproportions appear between ever growing social needs and decreasing public resources. The increase in expenses on public goals has a strong effect on increased public debt. From the European perspective, on the other hand, the most important issue concerns full or partial exemption of social services from the EU regulations on freedom of competition (Balon, 2013). Another important issue is also the problem of inflow of social services from other EU countries, especially those newly approved (Domański, 2008, p. 247) and differences referring to globalization factors (Table 3).

At the moment of accession to the European Union in May 2004, Poland also entered a new stage of internationalization of the environment of non-profit organizations. The EU affected the process classified as elements of internationalization and globalization (Najda & Wach, 2005); among the issues it influenced we can mention: opening uniform European market for entrepreneurs, building information society and information technology development, the ageing of societies and professional stimulation for older people, levelling differences in socio-economic development of regions of new EU member states by means of, among others, structural funds (financing), life-long education or other attempts at European integration (Tyrakowski, 2013, pp. 188, 250). Currently every eighth new work posts created in such countries as France or Germany is located within the third sector, which proves its importance.

Table 3. Globalization factors: A comparison between Poland and Germany

Globalization factor /Country	Poland	Germany
Organization objectives	mainly goals related to the core of globalization: respect for energy sources, environmental protection, animals protection and protection of personal rights and freedoms; actions for the benefit of children, fight against social pathologies; help for third world countries, help for the victims of natural disasters;	first of all activities for own country, actions for the benefit of levelling social differences; one of the priorities is commitment to helping children and teenagers; on the basis of the principle of subsidiarity;
International operations	first of all actions within larger organizational structures; participation in humanitarian missions, aid programmes for poorer countries;	participation in humanitarian missions, support for poorer countries;
Partnership	cooperation with organizations with a similar profile of operations in other countries, large role of foundations, often activities of organizations established under agreements between countries;	long history of non-governmental organizations in Germany resulted in the fact that there have been developed a broad network of relations of German organizations with those operating in other countries, especially belonging to the European Union, also with Poland (the result of such co-operation is for instance the Foundation for Polish-German Reconciliation)
International personnel	non-governmental organizations created in Poland benefit from help of foreign employees or volunteers, especially these organizations, occupied with provision of services in other countries (e.g. humanitarian operations in Third World countries);	thanks to membership of Germany in the European Union there is smooth flow of human capital from other countries, which is visible also in non-profit organizations;
Foreign sources of financing	above all European funds; and also other foreign financial means acquired, among others, from embassies (British, U.S., Canadian, Dutch), from Visegrad Fund, from European Youth Foundation;	European funds, limited primarily to means of European Social Fund; situations in which non-governmental organizations directly try to obtain funds from the EU are rare;
Supranational information policy	still developing 3rd sector in Poland has also impact on the development of efficient supranational information flow, though still much remains to be done (e.g. bilingual websites are still not a rule);	developed communication network; long traditions of existence of non-governmental organizations in Germany result in the fact that Germany is an important element of information flow, especially in the European Union;
International structure	non-governmental organizations created in Poland most often are national, however, there are branches of many organizations from outside the boundaries of Poland;	non-governmental organizations created in Germany have their branches, especially in neighbouring countries;

Source: (Balon, 2013).

Determinants of Operations of Polish NPOs and NGOs

The extent to which the organization has adapted to challenges resulting from globalization defines the level of globalization of a NPO/NGO. Determinants used to measure this process are: objectives of an organization, international actions, partnership with foreign organizations, international personnel, supranational information policy and international structure. Gumkowska and Herbst (2006) focus on globalization factors in their research findings based on a group of 100 randomly selected Polish public benefit organizations from the database kept by the Klon/Jawor Association. The largest number of indications – 31 cases of the examined NPOs/NGOs indicated goals of the organization (Figure 1), which are related to problems caused by globalization in response to hazards arising in connection with it. Among goals adopted by the organizations most common were those related to environmental protection; other organizations defined themselves by supporting and maintaining democracy processes, such as: co-existence of nations and mutual tolerance, protection of civil liberties, care for equal treatment of women and men, protection of the rights of children, fight with tumours and other lifestyle diseases as well as help for victims of natural disasters and military conflicts (Domański, 2008, p. 252).

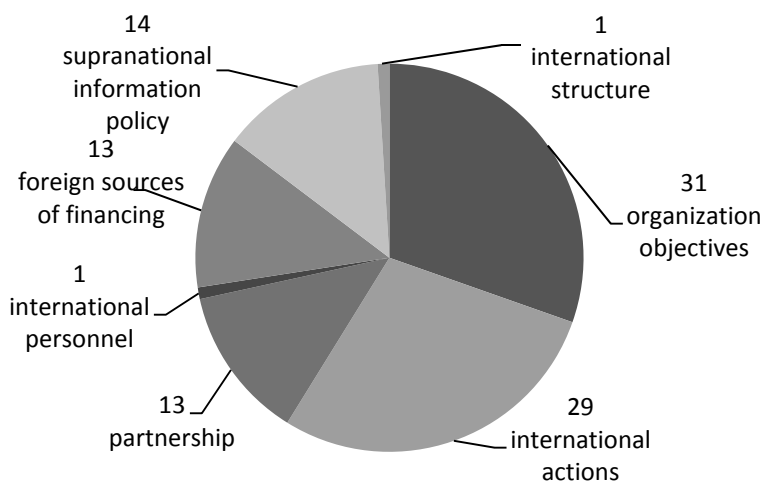


Figure 1. Presence of determinants of globalization in Polish non-governmental organizations

Source: own compilation based on (Gumkowska & Herbst, 2006).

29 times international actions were indicated, manifested in participation in internationally inspired and directed campaigns, projects and undertakings. Most often in this case the activity was connected with participation in conferences and trainings, constituting the basis for exchange of experiences on various dimensions (international flow of information). An organization can be both the organizer of such meetings and a participant. The determinant to classify them to this category is their international nature. In addition, we can mention cooperation with foreign partners: internships for students, foreign internships and teaching programmes. The next in line of most

numerous indications is supranational information policy. Thanks to it, the recipients of message are not only local citizens, but thanks to multilingual websites or brochures and other printed documents people of other countries. Information policy was a little less frequently mentioned (13%). In this context it was represented by the agreements concluded with different non-governmental organizations from abroad or membership in international organizations and associations. These international interactions mainly form the basis for implementation of common goals. The same percentage as for the information policy was assigned to acquiring financial sources. Gaining foreign sponsors still is not the forte of Polish non-profit organizations, but surely their actions in this field has been intensifying (Fudaliński, 2013). The lowest degree of globalization of Polish third sector organizations is represented by international personnel and structure. According to the research, the problems of globalization do not apply even to half of the Polish non-profit organizations. So, it can be concluded that the national third sector is in the initial phase of globalization. It is still, above all, focused on national needs where gradually problems of global nature occur, which are noticed by the organizations.

Little experience, resulting from the short time of existence of Polish organizations, must be named as one of the most important reasons for such a state of affairs. It is also influenced by limited amount of funds, resources, and volunteers. Certainly, along with the paying more attention to non-profit organizations in a holistic way, the degree of their globalization will increase. Such a holistic approach, will cause improvement in financial situation of the society, which, in turn, in the future will affect creation a realistically measurable model of NPOs and/or NGOs operating in the global dimension.

Table 4. Division of identified dysfunctions of non-governmental organizations in Poland

Internal factors	Factors related to implementation of activities at the contact organization - environment
Lack of competences and skills of organization management and ignorance of one's rights and obligations	Failure to comply with the law, especially concerning taxes, business operations and contracting with donors
Using the reactions of compassion and solidarity of the society in order to get donations	Vague connections with sponsors, lack of transparency in relations
Criminal activity of some managers, aiming at their own benefits (focus on profit)	Establishing non-profit organizations only to gain privileges offered by the legal system (state) to non-governmental organizations
Failure of an organization to comply with NPOs/NGOs legal regulations, nepotism	Proceedings inconsistent with the principles of corporate social responsibility (CSR)
Payment of high remuneration to organization members	Excessive orientation of non-governmental organizations on commercialization
Corruption	Using free advertising and promotion in mass media without proper correlation with activities conducted at an appropriate level of professionalism
Failure to comply with the existing obligations related to preparing financial and substantive statements	Blurred boundaries between non-profit and business sectors, through rivalry with business units about financial means
Establishing non-governmental organizations in order to implement private initiatives and gain related benefits	Reversed structure of settlements and operating costs of an organization – their greater part is internal costs (e.g. wages), which results in lack of funds for implementation of activities aimed at external recipients

Source: own study.

Pathologies and Dysfunctions of Non-Profit Organizations

The sector of non-governmental organizations experiences many development limitations and encounters barriers, not only in Poland, but also in other countries. In many cases they are related to the nature of the three sectors and the roles and tasks assigned to them (Fudaliński, 2013, p. 39; Szymankiewicz, 2013). These problems also result from differences of organizational cultures, legal barriers and relate to the nature of activities performed (Wygnański, 2008, p. 7). The irregularities are also related to increasing commercialization with regard to the third sector in Poland and abroad (Table 4).

Dysfunctions of operations of non-profit organizations in Poland result from irregularities occurring both inside and outside an organization, and are associated with unethical relations with external environment. Problems that occur in the third sector are related mostly to the lack of knowledge and ignorance of the law, which contributes to the growth in abuses. Failure of organizations to comply with obligations related to preparing annual financial statements and failure of its members to comply with the provisions included in the Act also affects the development of the third sector. An important problem of the organization's dysfunctions of the non-profit sector is also activities bearing the signs of corruption when the founders act only for their own benefits. Blurred boundaries between sectors, competition for cash funds also adversely affect the development of non-governmental organizations in Poland.

Dysfunctions reported in table 5 show the existing development gap between the third sector in Poland and well-developed countries. Often it would be enough to apply simple mechanisms based on benchmarking methodology to avoid emergence of some dysfunctions and preventive actions would reduce the probability of specified pathologies. Undoubtedly their restriction may be stimulating for the dynamics of internationalization of operations of non-profit organizations and at the same time cause implementation of the broadly understood standards recognized as basic in countries, which in this respect already have much greater experience. At the same time it should be stated that non-profit profit organizations activities in well-developed countries also encounter numerous barriers and irregularities.

Sample dysfunctions of the third sector organizations in the international dimension, based on the example of Great Britain (Hayday, 2010; Gabrusewicz, 2008), include:

- non-profit organizations becoming similar to commercial companies, both in terms of management process and culture of work;
- large competition of social entities with business organizations, mainly for cash funds;
- merger of contracted organizations into consortiums to increase their liquidity, which cause smaller units are excluded from cooperation system;
- instability of the services system for the society, constant changes of contractors and subcontractors, which leads to dehumanization of support;
- disappearing of boundaries between the non-governmental and governmental sector.

The main dysfunctions present in the third sector in Great Britain include mainly excessive commercialization of social entities. Public services are contracted by the non-profit organizations and business entities in the tender procedure. Therefore, non-

governmental organizations, in order to acquire financial support, must compete with businesses (Kaim, 2011, pp. 297-300). The comparative analysis concerning differences in the scope of development of the non-profit organizations sector in Poland and Great Britain is informative (Bednarz, 2010; Edwardes, 2010; Leś, 2010), especially when comparing basic criteria showing the level and formula of their development (Table 5).

Table 5. Comparison of British and Polish model for NPOs/NGOs

Properties	Great Britain	Poland
Applying the subsidiarity principle	The principle does not refer only to the possibility to obtain subvention, but regulates, above all, division of responsibilities between the public and the private sector with regard to providing social services.	In Poland this principle is applied to a smaller extent, but readiness for common action is also present.
Transparency of the organization's functioning	There is high transparency in non-governmental organizations' operations; an important element is efficient, reliable conduct of control and making reliable financial statements.	Not always transparency of the organization's functioning is maintained, due to failure of the organization to keep reporting obligations; there is often no transparency in this respect.
Cooperation between sectors	High involvement of the state in helping non-profit organizations, trust between sectors is present.	The state to a smaller extent is involved in non-profit organizations activities, low trust between sectors is present; awareness in this scope is still being built.
Commercialization	Non-profit organizations to a large extent became similar to commercial companies, aiming at profit and rivalry for cash funds.	Non-governmental organizations more and more often aim at commercialization.
Professionalism and competencies of management	Larger experience and traditions taking account of the special character of non-profit organizations management	Poland lacks in able manager, there is frequent ignorance of basic canons of management process; awareness in the need of professionalization of the management process is slowly growing and is fragmentary; there is strong sense of implementation of the adopted mission, without taking into account professional management to a sufficient extent.

Source: own study based on (Hayday, 2010; Edwardes, 2010, pp. 123-128).

Although, as it is determined, sometimes excessive commercialization of the third sector in Great Britain is not a favourable phenomenon, nevertheless it is estimated that Polish non-profit organizations may be more exposed to commercialization than the British ones because Polish society is not comparably rich and still does not have sufficiently well-developed philanthropic culture. It is also important to notice that Great Britain has its high level of non-profit organizations operations thanks to proper cooperation with public administration.

In this sense Poland should seek benchmarks in order to construct model solutions for optimizing the process of the third sector development, but also for avoiding

mistakes (Table 6). From this point of view, you can optimize solutions stimulating the development not only in quantitative sense but, first of all, in qualitative sense.

Table 6. Specification of pathology of non-profit organizations in Poland and other countries

Country	Pathologies in the organizational field	Pathologies in the financial field	Pathologies in the social field,
Poland	<ul style="list-style-type: none"> – not undertaking actions caused by the lack of structures and financial possibilities, – lack of proper equipment, – aversion to improve the quality of provided services, – operations in the mode of temporary contracts – contracts of employment are rare, – operations in areas that are subsidized, not in those that require assistance, – lack of full respect of the Act on public benefit activities and voluntary service, – alienation of the third sector – activities on their own account. 	<ul style="list-style-type: none"> – lack of appropriate, fully standardized financial statements, – disproportions in received assistance, – no revenue or its minimum level in the case of some organizations, – disproportions in the size of budgets, – relatively large part of funds spent on administrative costs and wages (which sometimes means a way of negative financial drainage of organizations). 	<ul style="list-style-type: none"> – decreasing popularity of voluntary service, – low prestige of work, – periodical (occasional) charitable drives of the Poles (WOŚP) – lack in this respect of well-established, permanent patterns of behaviour, – uncritical assessment of the representatives of organizations.
The United States of America	<ul style="list-style-type: none"> – too many court trials, – too many legal regulations, – using the law to exercise pressure, – sometimes incorrect measurement of results of operations. 	<ul style="list-style-type: none"> – corruption, – lack of proper financial reporting in private foundations. 	<ul style="list-style-type: none"> – treating activities for the benefit of non-profit organizations as sometimes an obligation, and not an expression of natural willingness.
Countries of the former USSR	<ul style="list-style-type: none"> – lack of appropriate structures, – lack of qualifications, knowledge in the scope of running non-profit organizations. 	<ul style="list-style-type: none"> – shortage of financial measures to continue operations, – using non-profit organizations for illegal financial flows. 	<ul style="list-style-type: none"> – reluctance of citizens towards social activities caused by experiences from the previous political system, – lack of developed standards of conduct and cultural support in this respect.

Source: own study.

Cooperation of non-profit organizations sector with the state is undoubtedly an important element which helps to improve and advance the society. Non-governmental

organizations operating in Poland should refer to well-developed countries while looking for good practices. In Poland we need social contracts which would regulate contacts of public administration with civil initiatives. In addition, an important goal of formalization of cooperation of the state with the third sector would be the improvement in efficiency and effectiveness in providing social services. Increase in cooperation of Polish social organizations with governmental administration would strengthen the culture of interdependence of the non-governmental sector with the state, which would have a positive impact on the development of financial and political institutionalisation of Polish civil initiatives. Non-profit organizations in Poland undoubtedly require some support from government administration, which will enable non-governmental organizations to achieve important social goals, and hence the state should show the willingness to help and support non-profit entities. While seeking solutions concerning improvement in operations of non-governmental organisations in Poland, we also should take into consideration the ways of control exercised over these organizations in other countries.

CONCLUSIONS

Summarizing, the development of non-profit organization sector in Poland undoubtedly depends on the possibility of opening to international aspects and aiming at global dimension. In this context, internationalization and globalization are determinants of third sector development and any dysfunctions in its operations should be eliminated. Therefore, it is advisable to adopt a special algorithm based on elements concerning:

- monitoring present pathological phenomena,
- undertaking preventive actions in this respect,
- creating mechanisms of their elimination,
- seeking benchmarks with regard to solutions verified in the whole world,
- creating a code of good practices related to non-profit organizations operations,
- supporting initiatives stimulating internationalization of the third sector,
- building awareness of the civil society in the international dimension.

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