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PROCEEDINGS OF

# The International Business Conference 2016:

## Searching for Innovative and Creative Business Solutions



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Searching for Innovative and Creative  
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## FOREWORD

On April 28, 2016 over forty Conference presenters from all over the world came together to Vilnius to present the most leading-edge insights and scholarly discussions related to innovative and creativity-driven business solutions at the *International Business Conference 2016: Searching for Innovative and Creative Business Solutions*. The Conference aimed to represent the most leading-edge insights and scholarly discussions related to innovative and creativity-driven business solutions that may have a high impact on the business of tomorrow. Conference participants had an opportunity to listen to the leading-edge research insights and ideas presented by the scholars representing many foreign universities and research institutions from Belgium, Portugal, the United Kingdom, Georgia, United States, Ukraine, Bulgaria, Russia, Finland, Poland, Lithuania and others.

The Conference was organized and hosted by the Faculty of Business Management at Vilniaus Kolegija / University of Applied Sciences to mark its 70<sup>th</sup> anniversary since the establishment of the Faculty. The Conference welcomed papers from a variety of disciplines and perspectives that could potentially contribute to the Conference discourse: theoretical, conceptual, empirical, managerial, case-study or methodological research perspectives. The call for papers was initiated along the following five thematic tracks: 1) Innovative and creative business solutions in international business; 2) Innovation and creativity management; 3) Innovative and creative business management models and approaches; 4) Creative and innovative marketing, branding and business communication approaches; 5) Innovative and creative hospitality and tourism. This multi-directionality of paper calls gave us an opportunity to gather insights on innovative and creative business solutions within different domains of business and perspectives.

The Conference proved to be an important networking event, and created an international platform for the exchange of ideas and research findings on contemporary issues and trends facing the rapidly changing global business environments. Indeed, Conference presentations strongly supported the fact that creativity and innovation are the driving forces not only for adapting to changing business contexts, but also for proactively making an impact on existing markets and industries, and exploiting new opportunities and trends. Faced with complex, ever-changing challenges and opportunities, businesses realize that constant, ongoing innovation and adaptive creativity are essential to stay ahead of the competition and gain a competitive advantage.

Indeed, this Conference inspired us towards launching an annual conference on the creative and innovative aspect of business; therefore, Vilnius is projected to be a hot spot of creativity and business innovation for the upcoming years. I would like to express great appreciation for all the Conference presenters and participants who made this Conference a great event and supported our further commitment to advance business creativity and innovation. In turn, we will seek to do our best to operate as a transitioning and transforming platform for creative business ideas and innovative approaches.

Giedrė Brazdauskaitė, Editor.

# INNOVATIVE THINKING AS A REQUIREMENT FOR EMPLOYEES OF MODERN ORGANIZATIONS

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## Abstract

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The development of a knowledge-based economy and the knowledge-based industries forced some employers to change employment requirements. One of the new requirements for employees is innovative thinking which is usually defined as the ability to create, implement and promote new ideas and products. Despite the numerous references to innovative thinking in job advertisements, corporate codes and competency models, its nature and role in staff performance is not fully revealed, each employer invests its own sense and meaning to the concept of innovativeness.

The justification of introducing innovative thinking among the requirements for employees in modern organizations, and the clarification of its features and content, and the identification of vacancies which demand applicants to think innovatively are the main tasks of conducting survey among HR-specialists in Moscow, Russia. The research program was launched by the author in October 2015. The first results of the survey have been already received. The respondents' answers enable to refine the concept of innovative thinking, to find the differences between creative and innovative thinking, and to confirm the relevance of the requirements for innovative thinking of, at least, several categories of staff which are senior managers, project managers, IT and R&D specialists. One of the main results of the survey is related to the fact that the majority of organizations do not manage the innovativeness of staff. The respondents noticed that many employers did not have any experience in building the system of assessment, stimulation and development of innovative thinking of employees and formulated the guidelines for its creation.

**Keywords:** creativity, innovative thinking, innovativeness, development of innovative thinking, personnel requirements, a survey of HR-specialists.

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## Introduction

The development of a knowledge-based economy and the knowledge-based industries, the rapid growth of innovative enterprises, and the increasing number of members of the creative class on the Russian labor market determined the changes in requirements of employers to the staff and job applicants. The new requirements include both knowledge of specific software products and technologies and possession of special skills and abilities – one of them is innovative thinking. The last requirement is gradually replacing the requirement for employees' creativity, actively promoted by the companies a few years ago. The aim of our study is to specify the role of innovative thinking in the requirements for employees of modern organizations operating in Russia, as well as to define the grounds for distinguishing creativity and innovative thinking as the competencies of staff.

## Creativity versus innovative thinking

The Russian employers' interest to creative thinking of employees increased at the beginning of 2000s, and could be traced back to at least several reasons. The *first* global reason was concerned with the escalation of the reform processes and innovative transformation in Russia and abroad. The organizational environment was characterized as unpredictable, changeable, risky and competitive at that period. Many experts confirmed

that the only way to meet the challenges of the organizational environment successfully was to exploit the creative potential of organizations, the creative solutions of personnel, and the original, frequently based on intuition strategies and models of organizational behavior. The famous sayings of Vaill and I. Ansoff which are 'if we want to succeed in the world of constantly boiling water', 'we need a new level of understanding of managerial work' (Vaill, 1989) and that 'unpredictable external environment must be coped with by a creative response' (Berezhnov, 2005) were widely spread in Russia that time and regularly cited both by theoreticians and practitioners. That fact meant the acknowledgement of creativity as a significant competency of personnel.

*The second* and no less important *reason* for the interest of employers to creativity of staff was the desire to increase the efficiency of organizations by maximizing the potential of employees. The studies on personal traits and abilities that influenced the staff performance enjoyed great popularity in Russia in the early 2000s. The works on management, human resources, organizational behavior and sociology, published in Russia that time, widely reflected the views at the factors of personnel performance belonged to the classics of management H. Fayol, A. Gastev, Drucker, R. Marr and G. Schmidt, and also to the scientists working at the turn of XX-XXI centuries – K. Mainzer (Meinzer, 2006), S. Frolov (Frolov, 2001), D. Klementiev (Klementiev, 2006), A. Prigozhin (Prigozhin, 1995). The latter ones appealed to the results of the conducted studies and demonstrated that *creativity as the ability to create something new* significantly affected the efficiency of workers in modern organizations; first of all it influenced managers' performance. These results, backed up by the numerous practical examples from the books by Cook (Cook, 2007), R. Florida (Florida, 2005) and others, translated and published in Russia, found a certain response among the employers. The articles on creativity as a competency of staff started to appear in the proceedings of industry conferences and specialized magazines on management and human resources. Moreover, the requirement to creativity was firmly entrenched in job offers; the training programs aimed at creativity development were highly demanded by the employers.

*The third reason* for the interest of employers to creativity of employees was an increase in the number of companies specialized in development of new technologies and operating in Russia. All of them treated the ability of staff to generate new ideas and to find new creative solutions as the main resources.

Finally, *the fourth reason* was acknowledgement of creativity as a factor of successful professional development by the working professionals. Creative thinking turned into a symbol of professional success, promising future, and an interesting professional life. Moreover this idea penetrated into the student environment. This fact is partly evidenced by the results of anonymous survey on the subject 'The role of creativity in the work of modern managers' that we conducted in February – March 2005 and 2006.

The study was based on the following assumption: 'The creativity is an important determinant of managerial activity'. The main objectives of the study were measuring the importance of creativity for managerial work and identifying opportunities for the development of managers' creativity by the means of training.

The participants of the conducted survey were 235 students, including 46 students studied at the Faculty of Management in Moscow State University of Railway Engineering (MIIT), specialized in human resources management and management consulting, 119 students studied at School of Public Administration (SPA MSU) and 70 students studied at the Faculty of Computational Mathematics and Cybernetics in Lomonosov Moscow State University (CMC MSU). The students from CMC MSU were considered as a control group. Their participation in the survey was expected to reveal the differences in understanding the role of creativity in managerial work by the students of the core and non-core departments. The survey was conducted in class time in the auditoriums of the universities.

The study found that the respondents highly scored creativity as a factor of managerial success. Even the control group of students, not properly aware of the specifics of managerial work, highly appreciated the role of creativity in the performance of modern managers and expressed a desire to participate in training activities aimed at creative thinking development.

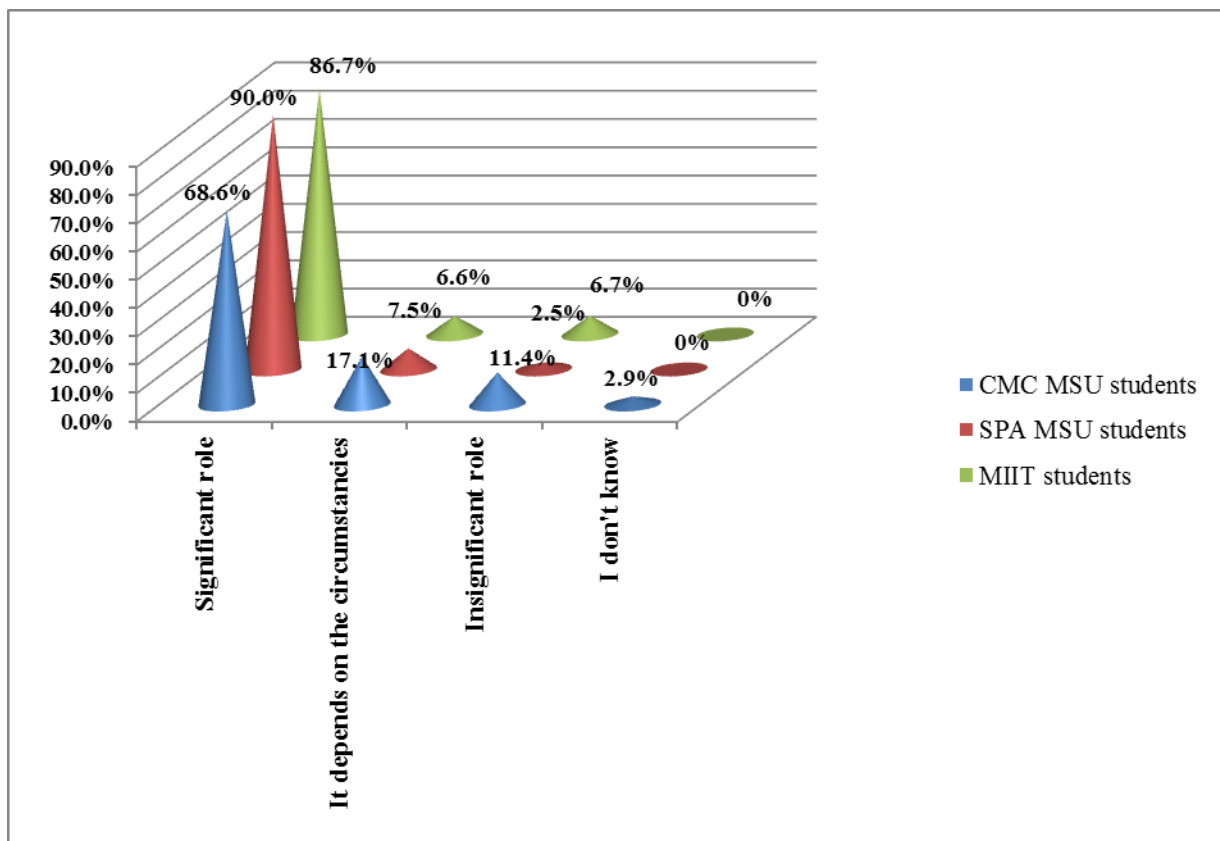


Diagram 1. A comparative analysis of respondents' views on the role of creativity in the managerial work.

The recognition of creativity as a factor of professional success by the students and working professionals determined the emergence of new conceptions. These are the conceptions of creative education – for example, the one by S. Alieva (Alieva, 2004), the conceptions of creative organization – for instance, the conception of creative enterprise by G. Berezhnov (Berezhnov, 2005), the conceptions of creative management. Most of the mentioned conceptions tend to be humanistic and direct employers to enhance staff creativity that is expected to affect the future success of organizations.

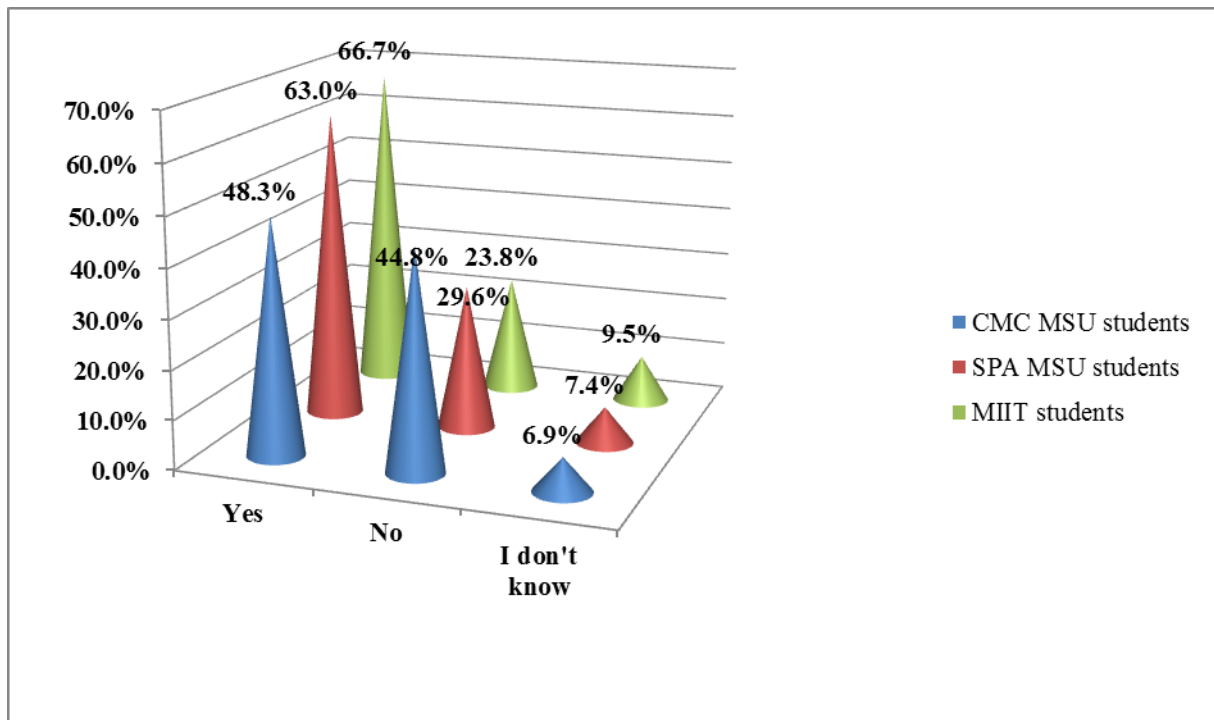


Diagram 2. A comparative analysis of the respondents' willingness to take part in training activities aimed at creativity development (Would you like to take part in creativity training program?)

The perception of creativity as a requirement for workers by the companies operating in Russia was changed a few years ago. Since 2011 and 2012 the interest of the employers to staff creativity has been replaced by the interest to innovative thinking of personnel. From the employers' point of view, in contrast with creativity innovative thinking has more to do with the practice as it allows solving specific practical problems. This trend is reflected in scientific publications. For example, N. Fersman writes that 'in a period of the fundamental structural reforms only 'the leaders of change' survive, as they are able to think innovatively, the ability of innovative thinking helps them to respond to changes instantly and to use the new opportunities for their benefit' (Fersman, 2010). D. Rodin and O. Pankina argue that 'development of innovative potential of staff is one of the main tasks of modern organizations based on the necessity to accelerate the innovative changes in the economy' (Rodin, Pankina, 2013).

In the context of the requirements for employees innovative thinking is interpreted broadly. So, it is defined as 'an activity resulted in successful solutions of a new problem that previously has never been solved, in creation, implementation and promotion of the new original product' (Kubrushko, Nazarova, 2012); and as 'a type of thinking aimed at innovation activities carried out on the instrumental and cognitive levels' (Usoltsev, Shamalo, 2014); and as 'a creative thinking objectified in a real innovative product' (Salikhov, Antipova, 2014).

The proposed definitions of innovative thinking seem to be similar to the interpretations of creativity at the first sight. However, the similarity is very deceptive. A comparative theoretical analysis of the concepts of innovative thinking and creativity (creative thinking) based on the study of Russian-language and English-language scientific literature on the considering subject revealed the following foundations for distinguishing these types of

thinking: nature, specific traits, product, result, conditions for cultivating, dependence on personal background, motivation, etc.

The analysis (see Table 1) suggests that innovative thinking is significantly different from creativity (creative thinking) on almost all mentioned grounds. The decisive difference of innovative thinking from the creative one is its applied nature. Innovative thinking is result-oriented, highly connected with the personal professional activity and training. Thus, it can be defined as a special type of thinking that promotes creation and implementation of new tangible and intangible products in a particular sphere of human activity; it is inextricably linked with the highflying ambitions and intentions of a person involved in innovation activity to develop as a professional.

Table 1. Differences of creative and innovative thinking.

Criteria	Creativity (creative thinking)	Innovative thinking
<i>Nature</i>	Generating a new idea	Generating a new idea and its successful implementation
<i>Product</i>	Idea	Idea + technology, methods of its implementation
<i>Characteristics</i>	<ul style="list-style-type: none"> <li>– Intuitive, irrational;</li> <li>– Spontaneity, inclusiveness, no boundaries for originality</li> </ul>	<ul style="list-style-type: none"> <li>– The combination of intuition and logic, more rational;</li> <li>– Pragmatic, result-orientation, a close connection with the main field of personal professional activities</li> </ul>
<i>Result</i>	Unexpected, unpredictable	Expected, projected
<i>The conditions for cultivating</i>	Imagination, fantasy	Imagination, fantasy + logic, knowledge, experience
<i>The influence of personal background (first of all training) on cultivating these types of thinking</i>	Requires no special training	Requires special training
<i>Dependence on personal professional life and experience</i>	No connection	It is inextricably connected with a specific professional activity.
<i>Motivation</i>	The main impetus is a creative process itself. Man enjoys creative activities, often without giving any special significance to the results.	The main stimulus is the pursuit of achievement. Man is pleased by the result, not by innovative process itself.

Source: Batovrina, 2014.

The theoretical analysis allows acknowledging the requirements of employers for the innovative thinking of employees: it has an applied nature, it is connected with professional activities; it also contributes both to generation of new ideas and also to their implementation. However, it is clear that in practice the differences between creativity and

innovative thinking are usually not so obvious; the requirements for the latter one are traced back not only to the specifics of professional activities and the real functions of employees, but also to the employers' desire to be in the trend. In order to specify the role of innovative thinking in the structure of requirements for personnel on the Russian labor market we have conducted a sociological survey among HR-specialists.

### **Before the study**

Before preparing a program of sociological research and a questionnaire for HR-specialists we tried to collect general information on the requirements for innovative thinking of job applicants and employees declared by the companies operating in Russia. Our purposes were to assess the severity of employers' interest to innovative thinking of staff and to identify the wide-spread trends in this field. It was assumed that the results will facilitate the preparation of the questionnaire for HR-specialists, and will enable us to formulate specific, 'point' questions. The sources of information we used were the following ones:

- Leading Russian recruitment websites (www.rabota.ru, www.zarplata.ru, www.hh.ru, www.superjob.ru) (we analyze information placed on the websites at the period from August 25, 2015 to September 25, 2015 in Moscow region);
- Websites of the training companies operating on the Russian educational market, and also Internet portals on personnel learning and development issues (www.trainings.ru, www.vsetreningi.ru) (information on October 2015);
- Corporate codes available in Internet.

The analysis of the mentioned sources allowed identifying the following trends:

1. The requirements for innovative abilities of job applicants were found in job advertisements at all considered websites. The number of vacancies with the relevant requirements was small (53 positions in Moscow during the month on the website www.rabota.ru), but steadily. Thus, the number of positions with the requirements for innovative thinking ranged from 50 to 60 per month at all four considered websites.

2. Formulating the requirements for the innovative abilities of job applicants, the employers appeal directly to innovative thinking and also to its varieties. Here are some examples of the requirements found on the mentioned websites: 'an innovative approach to ongoing projects', 'an ability to turn on quickly and to adjust to innovative space', 'an ability to generate innovative ideas', 'an ability to find new and innovative approaches', 'an ability to innovate', and others.

3. The positions that require innovative thinking are very different and connected with the various professional spheres. These are education (a teacher of Geography, a teacher of French, a seller of educational services, a training manager), marketing and advertising (a marketing manager, a marketing director, an advertising manager), business development (a business development manager), engineering and construction (a senior project manager, an architect), information technologies (a system engineer, a senior network engineer), research and development (a head of innovative team, a head of R&D department). As a general rule, the requirements for innovative thinking of employees are declared by the large well-known companies that have a good market share and are interested in the further development.



4. The training programs aimed at the innovative thinking and innovative capacity development are widely offered on the Russian market. That is one of the arguments for the employers' demand for these educational products. The examples of the proposed training programs and workshops are 'Enhancing the innovative activity of the managerial team', 'The innovative and problem-oriented thinking tools for the bank managers', 'How to develop innovativeness', 'Original innovative thinking', 'Development of innovative strategic thinking' and many others. However, some individual trainers and training companies tend to develop the innovative thinking and creativity of staff by means of similar training program. This trend indicates a lack of clear understanding the differences of innovative thinking and creativity, and the opportunities of implementing them in practice both by developers and potential customers.

5. Many large companies operating in Russia included innovative thinking of employees (as a synonym for which some employers use the term 'innovativeness') in the texts of corporate codes. The innovative thinking and innovativeness are primarily viewed as corporate values that are expected to be cultivated, maintained and developed by the employers themselves. For example, the corporate code of 'Bank of Moscow' promises 'to create a system in which the generation, development and implementation of innovative ideas and approaches by all stakeholders will be fully supported and encouraged'. The telecommunication company 'Rostelecom' declares innovativeness as one of five key corporate values (in addition to innovativeness they include professionalism, responsibility, openness and continuity), and notes that all of them were taken as a foundation for a code of ethics. According to the website of 'Lukoil-Perm' company all employees regardless their position or profession are obliged to have six competencies including professionalism, *innovativeness*, loyalty, teamwork, responsibility and adaptability.

Thus, the conducted analysis revealed a fairly high interest of the employers operating in Russia to the innovative thinking of staff. The seriousness of interest to the innovative thinking of employees is also confirmed by the willingness of some companies to invest in its development (for example, to buy trainings programs and workshops). One of the evidences is also a penetration of the relevant concepts (innovative thinking, innovativeness) in corporate codes and other organizational documentation. However, a number of facts (which are sometimes unjustified requirements for the innovative thinking of employees, purchase of training programs aimed at simultaneous development of creativity and innovativeness, etc.) reveal the difficulties with understanding the role and specifics of innovative thinking as the staff competency.

### **Research methodology**

The research program was prepared in October 2015. The research participants were determined by the main purpose of the conducted research – to find the place of innovative thinking in the structure of personnel requirements of modern organizations in the Russian labor market. We proceeded from the assumption that the HR-specialists participating in the daily procedures of recruitment, assessment, training and development of personnel, are well informed on our issue. The objectives of the study were:

- To identify the differences between creativity and innovative thinking as the competencies of employees;
- To find the positions that require innovative thinking;

- To explore existing management practices that stimulate innovative thinking of employees;
- To reveal the opportunities to improve the human resources management system in order to cultivate the innovative thinking of employees.
- We selected a survey as a method of sociological research. The choice of a method led to its advantages which are concerned with the possibility of comparing the obtained data, the saving of time resources required for processing and interpreting the research results, and others. The tool of sociological research thus became a questionnaire.
- The questionnaire for HR-specialists consists of 10 questions, including the ones about:
  - the inclusion of innovative thinking in the range of requirements for applicants and its importance for personnel;
  - the feasibility of identifying the concepts of staff creativity (creative thinking) and innovative thinking;
  - the positions that require applicants to think innovatively;
  - the measures taken by the employers to manage the innovative thinking of employees;
  - the methods used for measuring and developing the innovative thinking of employees, and also the methods that stimulate personnel to appeal to innovative approaches and innovative thinking during decision-making.

Given the necessity of surveying HR-specialists from different organizations, it was decided to use the electronic form of questionnaire posted on the *SurveyMonkey* website. The respondents were informed on the possibilities of access to the questionnaire by e-mail. In mid-January 2016 the questionnaire was filled out by 25 HR-specialists occupied in the commercial organizations in Moscow. HR-managers, HR-directors, HR-generalists, Recruitment consultants, Training and development managers are among the respondents of conducted survey. Despite the small number of respondents (the research is still going on), the obtained results allow to highlight interesting trends.

### **The main results of the conducted research**

*The validity of the requirements for innovative thinking of personnel: HR-specialists' points of view.*

In the understanding of the most of respondents (66.67%) the requirements for innovative thinking of personnel are justified. It helps employees 'to keep up with the times, to solve their tasks', 'to be effective in a crisis period'. The innovative thinking of staff makes organizations to improve business processes successfully, 'to obtain competitive advantage'. Some research participants have interesting associations with innovativeness. Thus, according to one of them, people with innovative thinking are talented; therefore, the requirements for innovativeness can be assimilated to the demand for a talented workforce.

However, not all research participants agreed with the importance of innovative thinking as a staff competency. According to 33.33% respondents, the presence of innovative thinking in the list of requirements to employees is inappropriate. They appealed to the fact that 'the concept of innovative thinking has not been defined clearly'; 'it can be interpreted differently by the employees and employers, so to put it as a requirement is not fair'. The

second reason lies in the specifics of work of the employees occupied in the various fields: 'Innovativeness is not always necessary'.

#### *The essence of innovative thinking, its difference from creativity*

According to 66.67% respondents the innovative thinking as the competency of personnel is significantly different from creativity. Creativity is 'closer to the fantasy', innovative thinking is 'closer to intellect'; creativity is associated with the creative work, innovative thinking is usually connected with scientific achievements and new technologies; creativity is aimed at creating something new, the goal of innovative thinking is not only to generate a new idea or to create a new product, but also to solve specific tasks. In general, trying to determine the content of innovative thinking, the respondents identified the following characteristics of it:

- the focus on solving specific problems ('the ability to create, apply, use new tools and equipment to solve specific problems');
- the effect on the willingness of employees to make decisions (the ability 'to make the right decision in any situation', 'to find original solution');
- the applied nature (the ability 'to develop and implement something new');
- the influence on high motivation of staff and the desire of employees to improve their knowledge (the innovative thinking is associated with 'the severe interest to work, the understanding of importance of work, the willingness to learn').
- However, some respondents (16.7%) complain that the employers do not realize what lies behind the concept of 'innovative thinking': 'it is a tribute to fashion, most of the people don't understand it properly', 'and every employer invests his own sense and meaning to the concept of innovativeness'.

#### *Positions requiring applicants to think innovatively*

The analysis of the questionnaire responses allowed making a list of positions which require applicants to have innovative thinking. The first places in it were occupied by the following references:

- Senior managers (mentioned by 58.3% respondents);
- R&D specialists (mentioned by 50.0% respondents);
- Project managers and product managers (mentioned by 41.67% respondents);
- Marketing managers, Advertising managers and PR managers (mentioned by 40.0% respondents);
- Engineers, IT specialists (mentioned by 33.3% respondents).

Some participants also referred to the sales directors and sales managers, HR-specialists, designers, account managers and consultants worked in consulting companies in their responses. In justifying the relevance of innovative thinking for the people holding these positions, the respondents appealed to the specificity of their professional activities, the necessity to make difficult decisions, to act in an unpredictable, rapidly changing environment. In addition, some respondents cited the need to 'develop strategy for the entire organization', to 'competently manage the staff' and to 'optimize business processes' as the arguments.

### *Managing the innovative thinking of personnel*

The research participants admit that the innovative thinking of staff is not regularly managed in their organizations: 'there is no system'. However, it does not mean that the employers do not work in this direction. Thus, one of the most popular measures taken in organizations is to encourage employees to use innovative thinking in solving professional tasks (mentioned by 66.67% respondents). Slightly less popular measures are improving organizational culture that promotes innovative thinking of employees, and testing innovative thinking during the staff assessment procedures (mentioned by 41.67% participants). The most 'failure' measures, according to respondents, are testing innovative thinking of job applicants and developing of innovative thinking of employees. They are implemented by employers of only 16.7% research participants.

The respondents confirm that the employers interested in innovative thinking of employees should do their best to assess the job applicants' innovativeness ('before they are hired'), to develop innovative thinking of staff, and to motivate the employees to implement innovative approaches in professional activities.

As the main diagnostic tool that facilitates measuring the innovative thinking of job seekers the research participants (77.78%) offer the case study. They also recommend using the tests (22.22%). The development of innovative thinking can be successfully fulfilled by the means of workshops, brainstorming sessions, and also by cultivating free, open atmosphere in organizations that promotes exchange of views and experiences among the peers, and delegation of authority.

As for the employees' motivation to use innovative thinking the most effective measures are the following ones:

- Creating a favorable climate in the working teams, facilitating close communication and exchange of experience among their members (mentioned by 83.33% respondents);
- Encouraging trusting relationships between senior managers and employees (mentioned by 75.0% respondents);
- Conducting training activities within organization (workshops, seminars, conferences, etc.) (mentioned by 66.67% respondents);
- Practicing the tools of career management ('to create career opportunities for personnel') (mentioned by 58.33% respondents);
- Holding competitions of the best ideas and know-hows among the employees (mentioned by 50.0% respondents);
- Granting autonomy and independence in decision-making (mentioned by 50.0% respondents).

Interestingly, according to research participants, the least effective ways to motivate employees to think innovatively are to offer them flexible schedule, as well as to organize corporate events including festivals, celebrations and others.

## Conclusions

To sum up, it should be noticed that innovative thinking as the competency of staff is firmly entrenched in the life of modern organizations. In some cases – it is a tribute to fashion, in most cases – it is the need. Innovative thinking affects performance of employees whose professional fields are connected with new developments and technologies, management of personnel and organizations. Thanks to innovative thinking, the workers do not only make the right decisions and generate unique ideas, but also implement them. Thus, considering innovative thinking as a requirement for applicants of a variety of jobs is fully justified; managing innovative thinking at the organizational level is demanded.

However, the further research of creative thinking is required; it is expected to clarify the concept of 'innovative thinking'. From our point of view, its precise definition and delimitation with the notion of 'creativity' will significantly reduce the number of cases of unjustified references to innovativeness in the requirements for employees.

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# THE ANALYSIS OF CREATIVITY-FRIENDLY ORGANISATIONAL ENVIRONMENT FROM THE PERSPECTIVE OF KNOWLEDGE POTENTIAL: CASE STUDY ON SMALL ENTERPRISES

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## **Abstract**

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Expansion and development of an organisation is inevitable to survive the today's competitive battle. One of the possible options to do this is to enable the employees to reveal their creativity in the workplace and to use their accumulated knowledge potential. An organisation should create conditions for employees to share this knowledge, i.e. an organisational environment should encourage them to cooperate voluntarily and ingeniously, to generate new knowledge creatively and to accumulate their own knowledge potential. The goal of this article is to review scientific literature and to analyse creativity-friendly organisational environment in the context of knowledge potential. To achieve this goal the following objectives were set: to analyse the concept of knowledge potential, to analyse the importance of creativity in the structure of knowledge potential, to clear up characteristics of organisational environment, to review scientific literature critically from the perspective of creativity concept, to conduct a research in small enterprises and to discuss the research results. The generalised findings of the questionnaire are presented in the article, as well as the applied methods of scientific literature analysis, abstraction and synthesis.

**Keywords:** knowledge, knowledge potential, creativity, organisational environment, synergy.

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## **Introduction**

The most important role in the development of humanity so far was played by the ability to learn and use acquired knowledge (Kloudová, Chwaszcz, 2011). The greatest value in the next millennium will be creativity, the ability to create new knowledge (Dacey, Lennon, 1998). The increasing role of creativity in the modern society is proved by a growing share of working people (scientists, engineers, artists and designers). It accounts for about one-third of the modern society (Florida, 2002). The growth of this part allows the society to become dynamic, modern technologies-using, creative and mostly individualistic. With the changing society each organisation is forced to look for new business development opportunities related to the organisation's ability to develop and manage knowledge. If used systematically and purposefully, knowledge gives an advantage to the organisation, while employees' knowledge, ideas and skills are the driving force behind the success of the organisation (Skačkauskienė, Katinienė, 2015). Each organisation should know that a creative employee helps it to develop, improve and remain competitive in the market, and an employee with unique and specific knowledge is able to develop their creativity. This is particularly evident when creativity becomes a part of the organisation's culture and employees are allowed to look at certain things in a non-stereotypical manner.

Scientific publications not only analyse factors that affect the development of creativity, but also discuss characteristics of macro- and micro-environments. Macro-environment is characterised by historical, cultural, social, religious and economic aspects which drive the public interest in creative activities, their initiation and support. Even though it is believed that

the impact of the macro-environment is more felt by famous artists or groups of artists, these factors create a background of the favourable or unfavourable environment for all people. This background does not depend on their activities and either stimulates or blocks their creativity. The biggest impact on human creativity, however, is made by a close environment, the so-called micro-environment (family, school, work).

The goal of this article is review scientific literature and to analyse creativity-friendly organisational environment in the context of knowledge potential. To achieve this goal, the following objectives were set:

- analysing the concept of knowledge potential and the importance of creativity in the structure of knowledge potential;
- reviewing scientific literature critically from the perspective of creativity concept and clarifying the definition of creativity;
- clearing up characteristics of the organisational environment, important for the development of creativity;
- conducting a research in small enterprises to determine the suitability of the environment for creativity;
- To this end, the article employs methods of scientific literature analysis, abstraction, synthesis, and questionnaire survey.

### **The importance of creativity in the structure of knowledge potential**

Knowledge as the object of investigation goes back to the times of Socrates (469–399 B.C.), Plato (427–347 B.C.) and Aristotle (384–322 B.C.). Kriščiūnas and Daugėlienė (2006) point out Plato's characteristics of knowledge, explaining the philosopher's definition of knowledge: knowledge must be accurate and true; a man cannot know and not know at the same time; symbols without understanding cannot be treated as knowledge; knowledge is created for the sake of other knowledge.

The modern perception of knowledge is associated with works of Drucker, Peter (1969), Bell (1973), Toffler (1980), Ackoff (1989), Argyris (1993), Nonaka, Takeuchi (1995) and other scientists, many of whom have a similar perception and definition of knowledge (Skačkauskienė, Katinienė, 2015). The concept of knowledge is wide and covers a variety of fields (philosophy, mathematics, management, mechanics, architecture, etc.). Knowledge has many different purposes (domestic, learning, professional development) (Bivainis, Morkvėnas, 2008).

Knowledge is based on data and information. Data processing creates information, and information processing gives knowledge (Figure 1). Knowledge used by a person requires data which are transformed into information (data are input and information is output) and have a greater value in solving problems, formulating, evaluating, adopting and implementing decisions (Raudeliūnienė, Račinskaja, 2014).

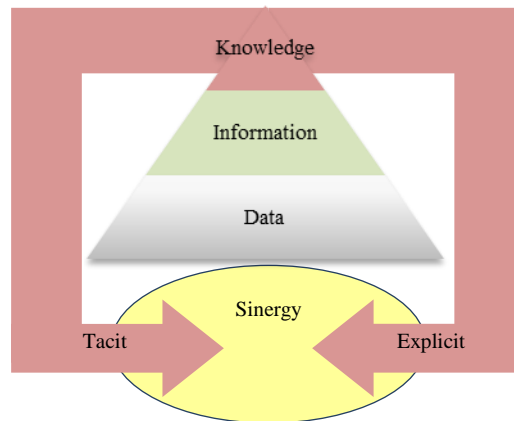


Figure 1. Knowledge model (designed by Skačkauskienė and Katinienė, 2015).

In scientific literature many researchers of knowledge, including Polanyi (1962), Nonaka, Takeuchi (1997), Bradburn, Coakes (2005), Morkvėnas (2006) and Bivainis (2006), rely on two types of knowledge distinguished by Nonaka and Takeuchi (1995):

- explicit knowledge, i.e. documented knowledge (specialty, cultural, domestic, etc.). One of the central factors in its management is information technology;
- tacit knowledge, i.e. undocumented knowledge in an organisation (staff skills, experience, talent, etc.).

Explicit knowledge is easy to manage, describe and present. It is also easy to disseminate. Tacit knowledge, however, cannot be managed by conventional methods. Creating and disseminating this type of knowledge requires creativity, innovation, understanding and collectivism (Spender, Eden, 1998). Tacit knowledge is difficult to describe and copy (Table 1).

Table 1. Characteristics of knowledge (designed by the author based on Morkvėnas, 2010).

Explicit knowledge	Tacit knowledge
Formally expressed	Lies in the subconscious
The holder is aware of it	The holder may be not aware of it
Fixed	Hard to copy
Systematised	Based on experience, reflexes
Documented (education diploma, certificates)	Undocumented
Protected storage (databases)	May be observed, but is intangible
May be viewed or heard (in writing, audio and video recordings, digitally)	Held inside and transferred by direct communication
Easy to disseminate	Difficult to disseminate
Practice-based	Creativity-based

Analysis of staff activities usually includes the terms of competence, qualification and education. Unfortunately, they do not express the full content of knowledge, which is why Bivainis and Morkvėnas (2008) suggest using a wider concept of knowledge potential. It includes both explicit (education, culture) and tacit knowledge (skills, abilities, experience, creativity). Knowledge potential consists of blocks of explicit and tacit knowledge (Figure 2).



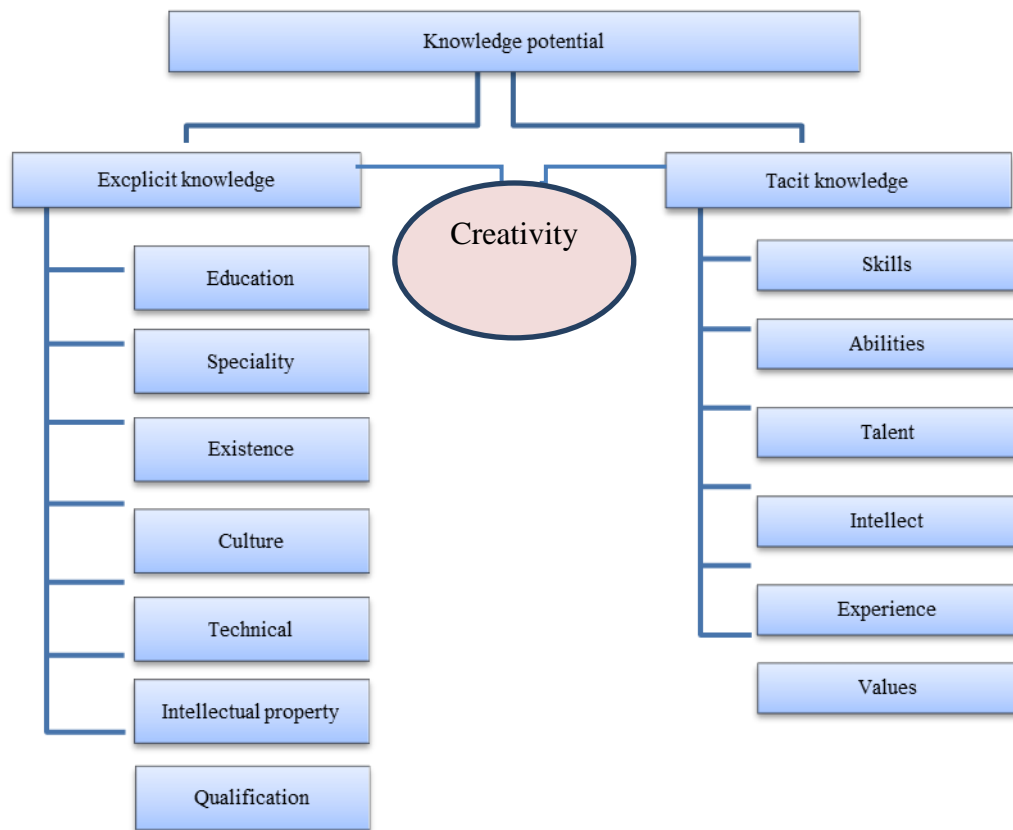


Figure 2. The structure of knowledge potential (designed by the author based on Morkvėnas, 2010).

The main characteristic of knowledge is the fact that when combined it creates a great potential for synergies, resulting in expressions of creativity, irrespective of the type of knowledge. This combination allows focusing on the management of employee's fundamental and exclusive competences and the accumulation of knowledge potential, while organisations must make a full use of the accumulated knowledge potential and create new knowledge at the lowest cost. Thus, each person has unique knowledge, i.e. experiences, and unique values. In the context of direct communication between members of the organisation, this unique knowledge can be transmitted simultaneously to several persons, and the combination of new explicit and tacit knowledge enables to develop new ideas, i.e. encourages creativity.

### **The concept of creativity: researchers' approach**

The phenomenon of creativity is explored by multiple sciences, including the psychology of creativity, behavioural, social and cognitive psychology, educational science, philosophy, history, economics, management, cybernetics, etc. Studies look at manifestations of creativity in daily human activities, artistic, scientific, engineering and other creations, as well as at the creativity of animal and artificial intelligence.

Contemporary concepts of creativity and creative thinking are associated with works of the 20<sup>th</sup> century scientists, such as Ribot (1906), Wallas (1926), Duncker (1945), Jung (1946), Hadamard (1954), Koestler (1964), Cattell (1965), Horn (1968), Guilford (1968), Simonton (1975), Newell (1981), Torrance (1987), Taylor (1988), Csikszentmihalyi (1996), Vygotsky (1999), Amabile (2001), Runco (2004), Cropley (2006), Maslow (2006), Sternberg (2006), J. Ponomarev (2006). Although the concept of creativity is rather broad and multifaceted,

covering the entire personality and its development, many researchers have a similar perception and definition of it (Table 2). Creativity is associated with psychological characteristics that help to create and discover something new and valuable. The effectiveness of problem solving depends on a special ability to use the available information quickly and in different ways rather than on knowledge or skills. This characteristic has been named creativity (Grakauskaitė–Karkockienė, 2002).

Table 2. Definitions of creativity (compiled by the author).

Year	Author	Definition
1926	Wallas	Creativity is a legacy of the evolutionary process, which allowed humans to quickly adapt to rapidly changing environments.
1958	Kubie	The arrangement of things and ideas in a new way.
1959	Guilford	The term creativity can describe human thoughts, ideas, decisions and behaviours which can also be characterised by the terms 'abundance', 'flexibility', 'originality' and 'particularity'.
1961	Parnes and Harding	Creativity is intelligent or useful behaviour, satisfying by a significant group of people at some point in time.
1962	Mednick	Creativity is the forming of associative elements into new combinations that meet some requirement or are useful.
1970	Prince	Creativity is an arbitrary harmony, an expected astonishment, a habitual revelation, a familiar surprise, a generous selfishness, an unexpected certainty, a formable stubbornness, a vital triviality, a disciplined freedom, an intoxicating steadiness, a repeated initiation, a difficult delight, a predictable gamble, a unifying difference, a demanding satisfier, a miraculous expectation.
1984	Botwinick	Creative personalities are original and unique, yielding extraordinary results and at the same time meeting the social needs and aesthetic requirements.
1989	Feldman	Creativity is the purposeful transformation of a body of knowledge, where that transformation is so significant that the body of knowledge is irreversibly changed.
1995	Epstein, Dilts	Creativity is a domestic term. It is usually used to describe new behaviour with social value.
1995	Sternberg and Lubart	Creativity is the ability to create new (e.g. original, unexpected) and appropriate (e.g. useful, consistent with the requirements) things.
2003	Grakauskaitė – Karkockienė	Traditionally, creativity is defined as the ability to discover something new, original, unexpected.
2004	Pudmenzky	Creativity is a phenomenon that has three attributes: exploration, novelty and usefulness.
2006	Maslow	It is a fundamental trait of human nature, potency given to people when they are born.
2007	Jovaiša	Creativity is a complex of personality traits, enabling by productive work to achieve original, socially significant and qualitatively new results.

Boden (2004) distinguishes two broad categories of creativity: improbable and impossible. The first type of creativity includes new and positively viewed combinations of known ideas: operations with existing objects, phenomena and constructs are often carried out by using different heuristic techniques. The second type – heightened creativity – includes the exploration, expansion and transformation of conceptual spaces, resulting in brand new ideas. Pudmenzky (2004) evaluates creativity by three attributes: exploration, novelty and usefulness. Exploration is like elevation to the heights opening new horizons. Maslow (2006) divided creativity into three types: primary creativity, secondary creativity and integrated creativity. Primary creativity requires no efforts. It is a spontaneous expression of integral personality. Secondary creativity is an intense, persistent, hard work, improvement of skills and accumulation of materials. Integrated creativity combines both primary creativity and secondary creativity (Karkockienė–Grakauskaitė, 2006).

Many scientists (Gruber 1974, Katz & Thompson 1993, Simonton 2003) define creativity and creative thinking as a final work product. If the result of work is recognised as creative, the capacity and activities of the man can be seen as creative. However, even though the examination of the final product reveals many valuable insights, individual creativity cannot be judged based on the examination of products alone (Beresnevičius, 2010).

The definition of creativity depends on the field of creative work in question, the main focus, psychological or philosophical conceptions followed by the researcher, etc. Ribot (1906) understood creativity as thinking by analogues. According to Maker (1993), giftedness includes intellect, creativity and ability to solve problems. The author gives the following definition of giftedness: a basic element of giftedness or high competence is the ability to solve the most complex problems in the most efficient, effective or economical way. A gifted person is characterised by both a high level of intelligence and creativity. Such person is able to understand and clearly define problems, use the most effective problem-solving methods and find the most appropriate solutions based on knowledge and thinking (Beresnevičius, 2010).

Jovaiša (2007) argues that creativity is not just a characteristic of intellect. It is the ability of a personality as a whole to think and feel in an original way. He associates creativity with the structure of personality (Figure 3). This structure includes full knowledge potential and clearly shows the chaos of explicit and tacit knowledge in a personality. For example, explicit knowledge (experience) in the block of a purposefulness and tacit knowledge (ideals, interests, motives) interact with each other and therefore it can be argued that combining different knowledge creates synergy processes, which in turn enable the creation and formation of creativity.

Creativity is the ability to present new ideas, think independently and outside the box, quickly respond in difficult situations, easily find untraditional solutions (Psichologijos žodynas, 1993). The concept of creativity is defined in multiple ways, but most authors agree that it is a person's ability to discover something new. Woolfolk (1980) claims that every field of creative work includes the concept of 'invention'. The author believes that *creativity is the totality of qualities and knowledge of a person, allowing that person to think originally, to be able to discover new and unusual solutions in a qualitative manner, to achieve new results and to create new knowledge.*

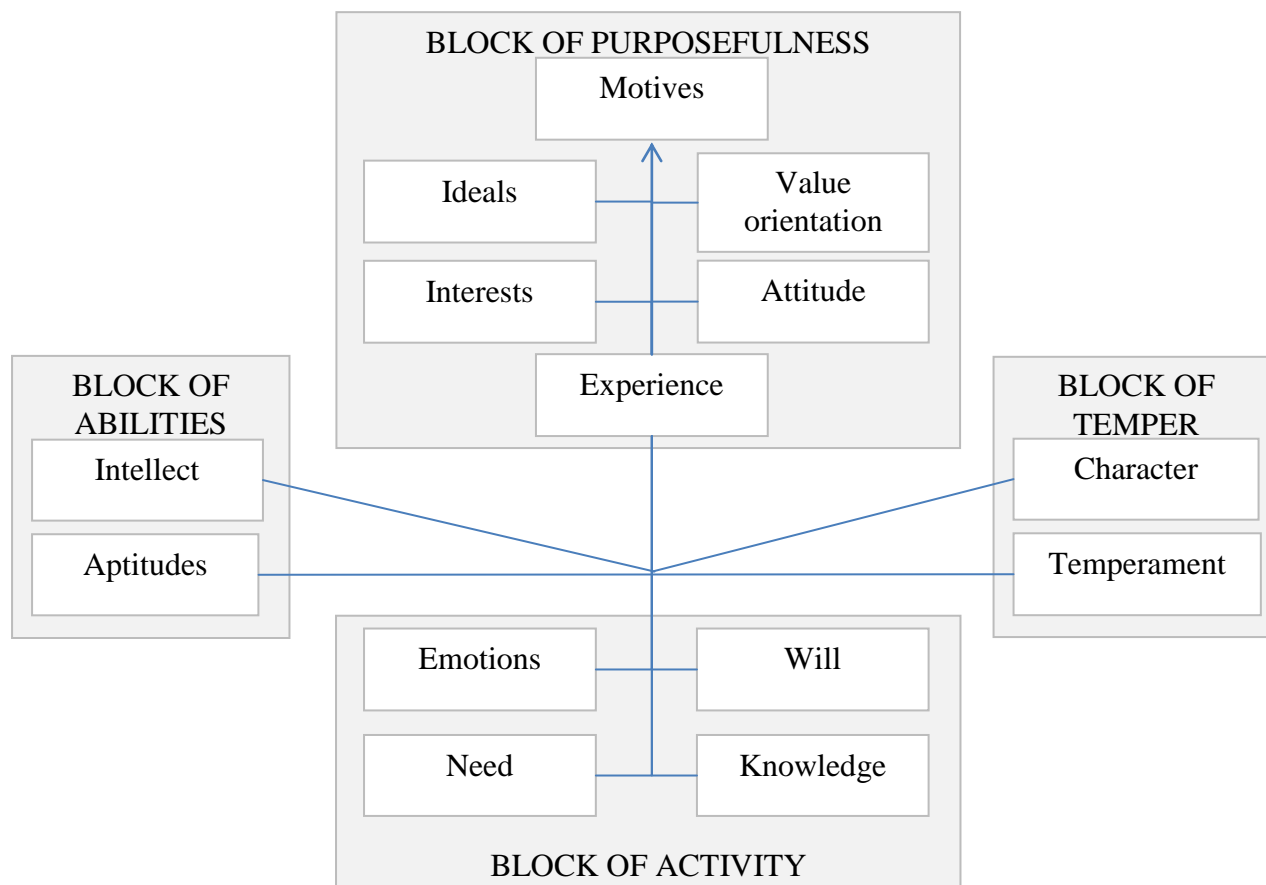


Figure 3. Holistic approach to the structure of personality (Jovaiša, 2001).

Almonaitienė (2000) argues that knowledge is important in the creative process since there is a certain starting point to creation as such. Knowledge on creative problem solving strategies and the ability to use these strategies in dealing with real-life problems can also be considered as a certain type of knowledge. Creating means making independent decisions. Decisions are usually made by confident, creative individuals. Creative people are not afraid of changes and innovation, they adapt easily and quickly. Analysis of the concept of creativity content shows that most authors unanimously agree that creativity depends on the person's character, values, knowledge and thinking. They also agree that creativity can be developed.

**Characteristics of organisational environment conducive to the development of creativity.**

When analysing factors that affect the development of creativity, scientific publications point at external (macro-environment) and internal (micro-environment) characteristics of the environment. An organisation can exist and develop if the external environment is sufficiently favourable for its operations, and the internal environment is properly developed and nurtured as well as complies with the requirements of rationality and optimality (Ginevičius, Sūdžius, 2005).

Today, rapid changes in the external environment have a significant impact on organisations and their management (Appleby, 2009). Macro-environment may be brought out by new aspects, in particular given the fact that current globalisation and integration processes cause significant changes in the business environment. The external environment of an organisation

consists of factors and trends operating outside the organisation and affecting its ability to meet users' needs (Assaelis, 1999). Bagdonienė (2009) argues that the external environment is all events happening outside an organisation, which may operate potentially or factually.

The main external factors (macro-environment) that directly and indirectly affect creativity in an organisation are as follows:

- historical factors (creativity depends on social attitudes of the time, available information, its accessibility, the development of individual activities and hierarchical position);
- economic factors (creativity depends on investment into research and artistic activities);
- social factors (creativity depends on the social structure of a country, the nature of governance and the dynamism of the society);
- cultural factors (creativity depends on traditions prevailing in various cultures, the concept of a person's role in the society);
- religious factors (creativity depends on the professed faith and the concept of a person's spiritual life in a particular religion).

These factors drive the public interest in creative activities, their initiation and support. Even though it is believed that the impact of a macro-environment is more felt by famous artists or groups of artists, these factors create a background of the favourable or unfavourable environment for all people. This background does not depend on their activities and either stimulates or blocks their creativity.

Everyone works within a clearly defined social environment, in which creative initiatives are supported or not supported, decisions are accepted or not accepted and a person is encouraged to look deeper or is met by resistance from others. It is therefore the greatest influence on human creativity is made by a close environment (micro-environment). It is more difficult to describe the internal environment (micro-environment) of an organisation. All organisations are different. They are all unique in terms of structure, traditions and management style.

When knowledge is combined, the biggest impact on human creativity is made by a close environment, i.e. the environment of an organisation in which the person works. The environment of an organisation is a totality of active entities and internal and external objects, operating within and outside an organisation (Ginevičius, Sūdžius, 2005). Creativity-friendly environment is a complex and multi-dimensional phenomenon. Analysis of research papers published in the recent decade shows that when creativity is fostered, regardless of the area of expression or the nature of work, creativity-friendly environment is described by similar characteristics, only authors provide different combinations of those characteristics (Table 3).

Table 3. Characteristics of the environment conducive to creativity and creative thinking (Girdzijauskienė *et al.*, 2011).

Author, year of publication	Aspect of the creativity-friendly environment	Characteristics
De la Torre, 1987	Working environment conducive to creativity	Confidence Absence of fearfulness Productivity Freedom of expression Interdependence of group members Operational productivity/efficiency
Wermke, 1989	Creativity-friendly environment	Freedom of operation Possibility of exploring daily life and discovering new perspectives Incentives to create a dream world Possibility of questioning stereotypical communication and overcoming its limitations.
Meissner, 1989	Atmosphere at creative organisations	Significant objectives Open communication Regular official meetings Information conductivity
West, 1990	Creative environment	39 claims divided into four categories: vision security of participation support to innovation orientation to goals
Ekvall, 1997, Dackert, 2001, Sahlin, 2001	Creative climate	Warm atmosphere Openness and generosity Sense of togetherness and belonging Confidence and tolerance Intellectual curiosity, a sense of freedom when everyone is not obliged to comply with the formalities Competent colleagues Knowing what is known and what is unknown Sense of security and intellectual friendship Support to those who have ideas Regular meetings and exchange of ideas
Solar, Segure, Dominguez, 1998 Penavos, 2000 Fleith, 2002	Creativity-friendly environment	Peer support Optimal organisational structure and culture Proactive and supportive administration Personal connections

Druzhinin, 1999	Nearest to creativity-friendly environment	Tolerance of uncertainty Possibility of applying various points of view Examples of creative behaviour and results Multifaceted environment Possibility of presenting results of creative work and realisation of different approaches
Gebert, 2002 Krause, 2004	Creative atmosphere	Promotion of curiosity, thinking and actions by stimulating learning and working processes Orientation to goals and internal motivation Atmosphere of openness and trust Promotion of personal freedom and non-conformism Incentives for change Acceptance of change Professional stimulation
Grakauskaitė–Karkockienė, 2006	Psychological climate	Positive approach to participation, initiative, innovation, work Meaningfulness of life Tolerance of otherness (personality, ideas, activities, aspirations) Respect for personal independence: recognition of the right to opt out, deal with yourself and have your own view Freedom to experiment, try, make mistakes, start again, and not be condemned or ridiculed for it Playfulness, humour
	Physical properties of the environment	Abundance of visual elements Images of nature outside the window or their compensation by house plants, paintings Natural finishing materials Predominance of warm colours or nice contrasts
Stepanossova, Grigorenko, 2006	Creative environment	Integrated activities that promote curiosity, creative activity, self-learning, a holistic understanding of the world Examples of creativity and insignificant formal regulation Promotion of emotional expression Sufficiency of educational material No requirement to deliver creative results

In summary, Girdzijauskienė *et al.* (2011) propose the following subcategories:

- positive approach to changes (support for innovation, incentives for change, acceptance of change, positive approach to pro-activeness, initiative, ingenuity, work);
- trust- and respect-based interpersonal relationships (respect for personal independence, tolerance of otherness (personality, ideas, activities, aspirations), openness and generosity, tolerance and a sense of security, absence of timidity);

- freedom of operation and independence (support for self-expression, possibility of applying different approaches, tolerance of uncertainty, promotion of personal freedom and non-conformism, freedom to experiment, try, make mistakes, start again, and not be condemned or ridiculed for it);
- cooperation (assistance to those who have ideas, open communication, regular meetings and exchange of ideas, interdependence of group members, peer support, a sense of togetherness and belonging);
- flexible performance assessment strategy (possibility of presenting several creative results and realising different approaches, no requirement to deliver creative results);
- examples of creativity (competent colleagues, creative personalities in a team, examples of creative behaviour and results);
- appropriate physical environment (natural finishing materials, predominance of warm colours or nice contrasts, abundance of visual elements).

The subcategories are repeating. The first two subcategories are similar as positivity is based on trust and vice versa. It is appropriate to merge these subcategories into a subcategory of *Positive Trust*. Cooperation usually includes sharing experiences and examples of creativity, therefore such categories as cooperation and examples of creativity can be merged into a subcategory of *Creative Cooperation*. This subcategory would have the characteristics of the previous two. A detailed analysis of characteristics of the environment revealed the need for another subcategory – *Medium of Knowledge Potential* (knowing what is known and what is unknown, intellectual curiosity, a sense of freedom when everyone is not obliged to comply with the formalities).

An in-depth analysis of characteristics of the creativity-friendly environment gives a scientific justification for creativity in the knowledge potential accumulated by an organisation, while the identification of subcategories allows for the construction of a complete instrument for assessing environmental studies and continuing them in this direction.

### **Results of the research on creativity-friendly organisational environment**

The results of the analysis of literature on knowledge potential, creativity and characteristics of the creativity-friendly environment serve as a basis for empirical study 'Analysis of Creativity-Friendly Organisational Environment'. The study was conducted between September and October 2015. The purpose of this study was to reveal characteristics of the environment, which are conducive to creativity, and identify activities which should be at the centre of attention at an organisation. The object of the study was business environment. To find out what a creativity-friendly environment is, IT-related companies were randomly selected for a questionnaire survey. They all had up to 50 employees employed under the law of the Republic of Lithuania and their financial data met at least one of the following conditions: (1) the annual income does not exceed EUR 7 million; (2) the value of assets in the balance sheet does not exceed EUR 5 million. The companies were sent a questionnaire by e-mail. It was completed by executives, administrative staff and other staff from 17 business companies. There were 255 respondents in total. The average age of the respondents was 41 years old. Most of the respondents were male with 16 to 20 years of experience in business (Table 4).



Table 4. Details of the respondents involved in the study.

SEX (%)		POSITION (%)			
Female	Male	Executive	Administrative staff	Other staff	
38%	62%	34%	13%	53%	
PERIOD OF SERVICE					
1–5 years	6–10 years	11–15 years	16–20 years	21–25 years	26 and more
6%	25%	28%	34%	5%	2%

Analysis of the literature helped to answer the question of what characteristics are typical for creativity-friendly environment. The study aimed at assessing organisational environment.

Information was collected by measuring characteristics in a quantitative and qualitative manner. The respondents were given open-ended and closed-ended questions. Statements for closed-ended questions were selected based on the assumption that the environment consisted of a many different aspects, which were divided into subcategories. The questionnaire consisted of six blocks of closed-ended questions, aiming at finding out the following: how much respondents know about creativity; whether, in their opinion, employees respond positively to changes; whether their organisation allows for the free expression of creativity; whether their organisation has a favourable physical environment; what, in their opinion, assessment measures should be implemented to induce creative behaviour; whether the psychological climate in their organisation is favourable to sharing knowledge.

Researchers Weisberg (1989), Sternberg and Lubart (1999) argue that the ability to act creatively requires information about objects and phenomena, individual work moments and methods of operation. The respondents were, therefore, asked to specify where and how they learned about creative thinking and its development. Most of the respondents learned a lot about creativity and creative thinking from personal work experience (36%) and communicating with colleagues (54%), but not from educational institutions (1%) (Table 5). It suggests that direct communication and work give the necessary knowledge to achieve objectives and results, while educational institutions do not put much emphasis on creativity yet.

Table 5. Respondents' responses about their knowledge on creativity.

Where did you get information on or learn about creative thinking and the benefits it brings?	A lot	Much	Average	Little	I didn't get any
At a higher education institution	0%	1%	20%	46%	33%
From courses, seminars, lectures	25%	25%	14%	17%	19%
By reading, self-studying	22%	23%	34%	10%	11%
From conversations, discussions with colleagues	13%	54%	17%	11%	5%
From personal experience	31%	36%	28%	5%	0%

Many researchers, including Ferrari, Cachia, Punie (2009) and Beghetto (2007), emphasise that the development of creativity is strongly influenced by the general context of the

organisation's activities. Thus, the respondents were asked whether they thought the environment at their organisation was conducive to creativity. They were given six statements and asked to agree or disagree with them (response options: totally agree, agree, neither agree nor disagree, disagree, strongly disagree). Responses to the statement 'your organisation willingly implements innovation' were divided almost equally (totally agree (23%), agree (22%), neither agree nor disagree (25%), disagree (26%) and strongly disagree (4%)). A reverse, but even distribution was in case of the statement 'your organisation tolerates unusual creative behaviours and chaos during the creative process' (totally agree (4%), agree (34%), neither agree nor disagree (11%), disagree (25%) and strongly disagree (26%)). Analysis of the responses to other statements leads to a conclusion that many organisations are refocusing on the improvement of creative thinking and creative knowledge dissemination processes, and are creating an environment that enables employees to work creatively and to spread and share the existing knowledge (Figure 4).

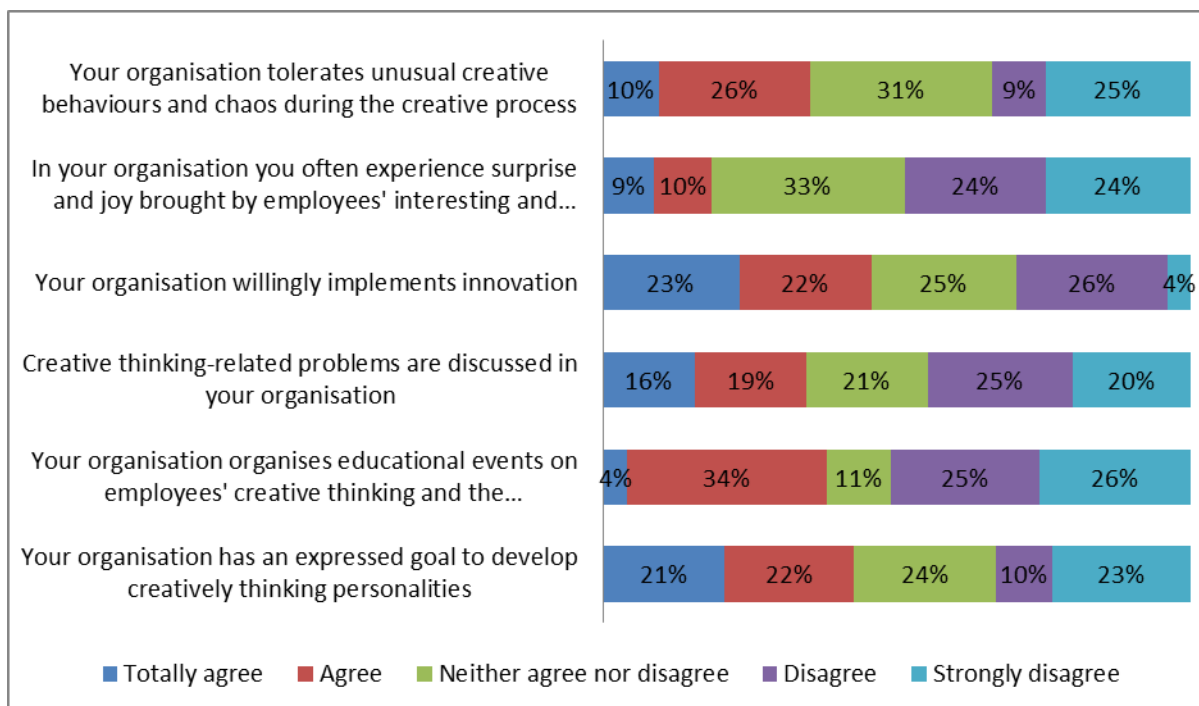


Figure 4. Respondents' responses about changes in the organisational environment when creativity is present.

Analysis of the dependency of responses on the respondents' sex, position and length of service showed no significant differences. However, the comparison of average responses revealed that organisational environment in terms of creativity was slightly more positively viewed by male executives than female executives and those with 16 years of service.

To learn about expectations for more open and direct cooperation, the respondents were asked what they expected from their managers and co-workers to help them open up their creativity, collaboration and knowledge sharing. The responses show that the respondents mostly expect understanding (17%), goodwill (16%) and tolerance (15%) from their executives, while executives expect motivation (15%), initiatives (12%), openness to innovation (12%), pro-activeness (10%) and courage to act (8%) from their employees (Figure 5).

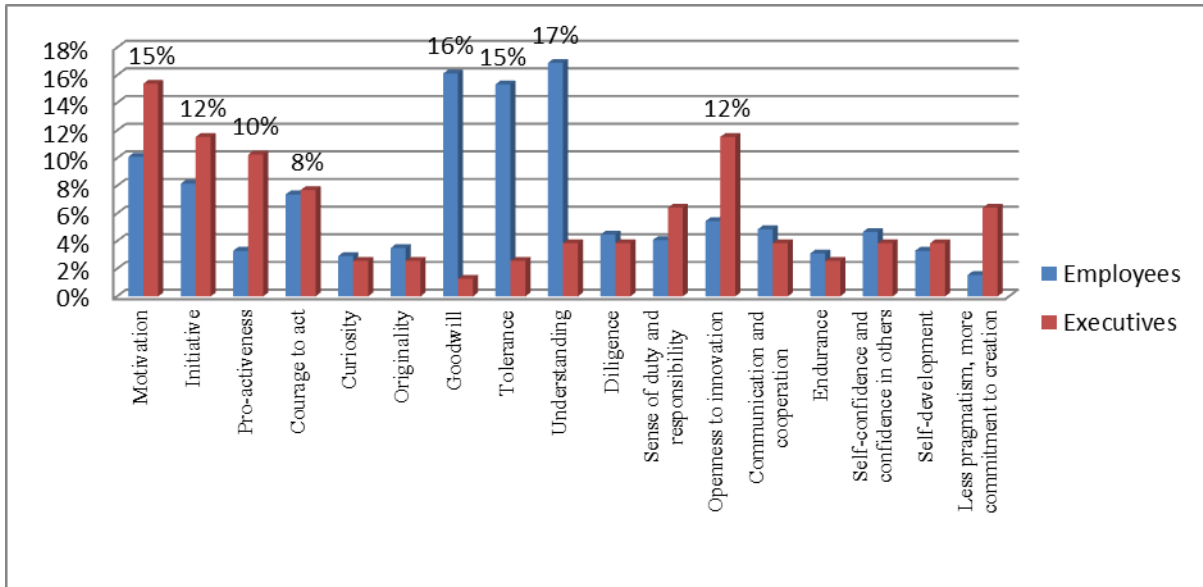


Figure 5. Distribution of expectations between executives and employees.

The study was based on the assumption that the development of creativity is strongly influenced by the employee’s approach to personal qualities and confidence in their creative powers. The questionnaire included nine qualities of a creative personality: curiosity and thirst for knowledge, flow of ideas, openness to new experiences, ability to orient yourself in new situations, originality, confidence in your own creative powers, endurance, rich imagination, and courage to take risks and take on new activities. The respondents were asked to evaluate these qualities in a 10-point scale, where 0 means that this quality is not important and 10 means that this quality is very important. Meanings were given only to the extreme values, while intermediate values were described by points. A more detailed data analysis confirms that many of the respondents had a rather high opinion of such qualities as openness to new experiences and need for innovation, curiosity and thirst for knowledge, confidence in their own creative powers (Table 6). A fifth of the respondents gave average or lower than average points to imagination, endurance, ability to orient yourself in new situations.

Table 6. Assessment of creativity qualities.

Qualities	Points									
	10	9	8	7	6	5	4	3	2	1
Curiosity, thirst for knowledge	14%	6%	22%	12%	13%	8%	7%	7%	6%	5%
Flow of ideas	9%	6%	6%	19%	20%	21%	7%	6%	4%	2%
Openness to new experiences	17%	21%	21%	15%	3%	5%	4%	4%	6%	4%
Ability to orient yourself in new situations	0%	7%	11%	13%	15%	13%	17%	16%	8%	0%
Originality	2%	5%	13%	26%	24%	11%	9%	3%	4%	2%
Confidence in your own creative powers	5%	6%	13%	22%	15%	19%	14%	4%	2%	0%
Endurance	4%	7%	7%	9%	20%	18%	13%	13%	5%	4%
Rich imagination	6%	5%	13%	17%	20%	22%	11%	7%	0%	0%
Courage to take risks and take on new activities	4%	5%	13%	20%	19%	22%	4%	8%	5%	0%

The respondents were asked to indicate what actions and measures encouraged creativity at full capacity (the question was put as follows: what actions or measures would you propose to display creative thinking in an organisation at full capacity?; see Table 7). Many of the respondents pointed at the adjustment of work schedule, but did not specify how exactly it should be done. 28% of the respondents believed that changes should be made in workload and salaries. Here, the respondents were more active and indicated that salary could be based on an employee incentive system, taking into account the performance, participation in action groups, the number of internships, collaborative networking.

Table 7. Proposals made by employees.

Work schedule adjustment	30%
Workload and salary	28%
Creativity-friendly, non-traditional environment	17%
Increasing financing for work equipment	16%
Innovation of work organisation	9%

Knowing that a person's creative expression is only possible in a certain social environment and that creativity depends to a large extent on the type of environment in which a person is operating, organisations must refocus their business processes and concentrate their attention on the environment and the promotion of employees' creativity.

### Conclusions

Analysis of the concept of knowledge, types of knowledge and knowledge potential has revealed that a person who has unique knowledge and directly shares it with other members of the organisation facilitates the combination of explicit and tacit knowledge, resulting in new ideas, i.e. expressions of creativity.

Analysis of scientific literature on the concept of creativity has provided definitions by different researchers and specified the concept of creativity: *creativity is the totality of qualities and knowledge of a person, allowing that person to think originally, to be able to discover new and unusual solutions in a qualitative manner, to achieve new results and to create new knowledge.*

Purified characteristics of a creativity-friendly organisational environment have been divided into the following subcategories: a positive approach to change, trust- and respect-based interpersonal relationships, freedom of operation and independence, cooperation, flexible performance assessment strategy, examples of creativity. Some of them have repetitive elements and therefore could be combined, e.g. positive trust and creative cooperation. A new subcategory of *Medium of Knowledge Potential* could be added, considering that the characteristics of environment are examined in the context of knowledge potential. This subcategory has such characteristics as knowledge of what is known and what is unknown, intellectual curiosity, a sense of freedom when a person is not obliged to comply with formalities, personal connections.

Analysis of scientific literature has served as a basis for a questionnaire and an empirical study in small businesses 'Analysis of Creativity-Friendly Organisational Environment'. The study has found that not all companies pay attention to improving their environment and favourable

climate, which obstructs the expression of creativity. Many companies are refocusing on the improvement of creative thinking and creative knowledge dissemination processes, and are creating an environment that enables employees to work creatively and to spread and share the existing knowledge.

Creating a more favourable organisational environment that promotes creativity requires certain actions and measures. The surveyed respondents indicated that salary could be based on an employee incentive system, taking into account the performance, participation in action groups, the number of internships, collaborative networking.

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# SUPPORTING ENVIRONMENTAL SENSITIVITY IN SMALL ENTERPRISES AS A TRIGGER FOR INNOVATION

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## **Abstract**

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The purpose of the ongoing research described in this paper is to gain insights in how to inspire small enterprises (less than 50 employees) to innovative behaviour triggered by the macro-environment.

In recent years 'innovation' has become a buzz word. In Belgium, as in many other countries, governments and other organisations support enterprises in innovation activities. Despite these efforts, Belgian small and micro enterprises tend to show less innovative behaviour than larger enterprises. Moreover, previous research done by Vanhaverbeke and Vanderzande (UHasselt, 2014), revealed that small Belgian enterprises are extremely focussed on their own, internal processes, denying opportunities offered by open innovation. Picking up on new definitions, innovation is about 'connecting the dots', as described by David Brier (2013). Despite management tools to unlock and diffuse environmental and societal knowledge, the implementation in SME's proves to be non-existing for most of the small enterprises.

Through literature study, case studies and in-depth interviews with SME's we gain insights in barriers and leverages to pick up 'signals' that can act as innovation impulses in SME's. The approach is user-centred. These findings will be checked on a larger scale in a quantitative survey. Eventually, supportive elements or tools that can help SME in capturing external impulses as innovation triggers will be described.

The final results will function as a basis for the development of genuine, user-friendly and user-adapted supporting tools or activities.

**Keywords:** open innovation, behavioural change, macro-environment, monitoring, SME, Flanders, absorptive capacity, contextual multiple helix innovation model.

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## **Introduction: innovation in Flemish small enterprises**

In Europe, SME encounter specific innovation problems. According to the EU, small enterprises are particular targets for innovation policy. The smaller the company, the more it faces constraints to innovation or to the commercialisation of its innovations. About 63% of companies with between 1 and 9 employees declared having introduced at least one innovation since 2011, compared to 85% of companies with 500 employees or more (European Commission, 2014).

This paper focuses on small businesses (less than 50 employees) in Belgium, and more specific in the Northern and Dutch speaking region of Flanders. Though Belgium is an innovation follower and is thus ranking relatively high in the EU Innovation Scoreboard, there is a lack of entrepreneurship and dynamics (European Commission, 2014). This becomes even more obvious in SME, where the term 'innovation poverty' adequately describes the situation. According to the Flemish Regional Indicators, only 56 % of Flemish enterprises are innovative. Larger companies and industrial enterprises perform better in innovation scores than SME (VRIND, 2014). Government support for innovation is demand-driven: only those companies who are actively seeking guidance or partnerships are supported (Goeman & Rutten, personal communication, December 14, 2015).



Unlocking and diffusing environmental and societal knowledge is seldom executed by Flemish SME. Especially those SME with a very low innovative behaviour facing cash flow problems rarely monitor which external opportunities could lever their business, although this input across traditional borders and activities is important for the development of new products or processes. Leuwagen and Boiardi (2014) mention creative industries and arts as a very useful partner for innovation. Tidd and Bessant (2009) describe an innovation management process as a process that comprises different phases. In the first stage, firms need to be able to scan and search for their internal and external environments to detect potential innovation signals. This first step of monitoring and gathering ideas is the basis for further stages such as selection of potential innovation projects, providing resources and implementation. Several others (Koops 2009; Van Ormondt & Der Voort, 2011) mention external challenges and knowledge as a factor for innovation. Research has showed that small Belgian enterprises are extremely focused on their proper internal processes and are thus denying opportunities offered by a more open view towards innovation (Vanhaverbeke & Vanderzande, 2014). It seems that monitoring both the issue arena (Luoma-Aho & Vos, 2010) and DEPEST-analysis are not embedded in daily routines of Flemish small enterprises.

Especially in the macro-environment, uncontrollable external factors influence the SME's existence. The classic DEPEST model to analyse the demographical, economic, political, ecological, social and technological facts and trends having an impact on an organization's present and future modality, is still very valuable (Allaert & De Klerck, 1998). As this external view is nowadays underused as an innovation trigger, this research project focuses on the stage prior to the actual innovation process. How and by which factors are SME triggered in the ideation step? Which tools or activities can stimulate SME managers to pick up signals of the macro-environment, instead of merely looking at the 'in-crowd' of their own field and competitors as an innovation catalyst?

### **Research Method**

Through desk research insights in interesting tools concerning the ideation step and the innovation barriers and leverages were gained. Case studies covering innovative SME (less than 50 employees) in retail, textile industry, chemicals and social economy in the region of Flanders were analysed.

Expert interviews were carried out with people in charge of governmental innovation centres and the Flemish centre for SME in need. A large-scale quantitative survey will be conducted to validate or assess the first insights, especially preliminary assimilations concerning the environmental sensitivity of SME managers. Insights in the innovation profile of the respondents, ideation triggers, media use, and the actual network are aimed for by the survey. In addition to this survey, further in depth-interviews with volunteers and employees helping Flemish SME in need provide information on necessary tools or activities to help especially those SME in need of new ideas to restart their business. Based on elements of the 'CB-link-tool', initially developed by Otten, Stox and Weyts to integrate communication and policy making in a multi-stakeholder setting, the exercises will be adjusted to a commercial setting (Otten, Stox & Weyts, 2014).

### **Connecting the dots: a specific view on innovation**

Innovation, as outlined by the research project, is regarded and defined as a type of behaviour. Innovation is about connecting the dots, as described by David Brier (2013). One shows innovative behaviour when not only 'the dots' but also the lines are seen. True innovators are good at connecting these lines and see opportunities and links others did not notice. While making new connections, a certain 'unexpectedness' and extra value are created. The new connection is appreciated and regarded as new by the user or target group. In short, innovation is the noticing and linking of aspects overlooked by others. This behaviour can be a starting point for an innovation management process.

### **Barriers and leverages for innovation**

Although Gaspersz (2009) is convinced that companies must focus on creating the right innovation climate as for him innovation is behaviour, more than a process, Koops (2009), based on his study on innovation-determinative factors, describes different factors for success and failure in innovation. According to him, the premise that a targeted stimulus, for instance a determinative factor, is likely to provoke and stimulate innovative behaviour, can be maintained (7). Koops discovered that there are far more factors for failure (17) than for success (8).

Factors for success:

1. Urgency: not just a sense of urgency but a factual urgency;
2. Leadership: positively stimulating executives and target audiences;
3. Nature of the Innovation: the nature of the innovation must be very clear from the early beginning of the process;
4. Culture of praxis: a learning process and context as culture;
5. Integrality: all relevant aspects of innovation must always be approached in mutual and reciprocal consistency of all relevant aspects;
6. Prototyping: concretize innovation during the process;
7. Consolidation: building on performed efforts and plans and pursue them;
8. Success: successfully perform intermediate steps, achieve positive intermediate results, secure the progress made and build on it.

Factors for failure:

1. Routine: the opposite of change;
2. Lack of or wrong assessment of internal talents and competences;
3. Complexity: through their complexity, structure may seem different than they are. Koops refers to the theory of streaming sand where an apparently fix structure like sand can still be permeable;
4. Disorder: the right balance between order and disorder is needed;
5. Impose: forced innovation does not work;
6. Mentality: the right mentality is required;
7. Identity: the people concerned must be able to share or sense identification with the innovation purpose;
8. Vision: strategy demands vision;
9. Rationality: decisions that require a lot of information and data, should made on (gut) feeling. Koops refers to social and evolutionary psychology;
10. Fear: fear triggers risk avoiding behaviour and conservatism;

11. Aping: a copy cat is possible but to a limited extent;
12. Intellectual shortage: competent personnel in theory and practice is required;
13. Money: not too little (limits possibilities) nor too much (limits sense of creativity);
14. Price: high margins on existing offers brake to innovation need;
15. Methods: when the means becomes the end;
16. Insufficient idiocy: failure must be possible as well as trial and error
17. One reality: every level within a company has its own truth in which light the innovation should be seen and considered; there cannot be one truth for all levels;
18. According to Koops these 8 success factors and 17 fail factors are not only relevant for innovation but also for change processes (15).

### **Adaptive organisations**

Aalbers & de Valk, J. (2013) describe those organisations that embrace the open innovation principle (Chesbrough, 2003; 2006) and use knowledge flows from outside the organisation as adaptive organisations. Those organisations able to implement open innovation in the normal organisation process perform better in innovation and client involvement. The main issue is to find a proper way to define and frame ideas and knowledge provided by external actors towards the internal innovation process (Vanhaverbeke, 2006). Gommer (2004) advises to map relevant trends by talking to frontrunners in order to not just know the externals of it but to understand the underlying meaning. Leadbeater (2010) encourages conversation with users of different feather as the difference in ideas and viewpoint enriches the ground for innovation.

According to Aalbers & de Valk, three types of 'idea brokers' are necessary: explorer, connector and sponsor. The interaction of these three roles provides great opportunities to close the gap between external knowledge needed for innovative solutions and the final step towards a genuine adaptive organisation.

### **From absorptive capacity to connecting capacity**

This definition is strongly related to the term 'absorptive capacity'. Absorptive capacities can be described as the ability of firms to recognize, assimilate and apply new knowledge for the benefit of their business performance. These are key elements to a firm's ability to innovate. The nature of the concept involves three basic capacities in relation to new knowledge: recognition of its value, its assimilation and its application for commercial purposes (Innovation Policy Platform, 2015). As Chesbrough (2010) suggests, open innovation poses particular challenges for SME because of their relative lack of capacity to both seek and absorb external knowledge. Also Roper & Dundas (2015) found evidence from studies of innovation in small and medium enterprises emphasizing the importance of external knowledge in contributing to firms' innovation success (Vahter, Love, and Roper, 2013). This emphasizes the role of absorptive capacity and firms' capabilities of integrating external and internal knowledge in successful innovation (Roper & Dundas, 2015).

In addition to the concept of absorptive abilities, the term 'connecting capacity' can be added. Connecting capacity involves not only the abilities to seek and absorb external

knowledge, but also to cross-connect this knowledge. These ‘extra company zone’ links can be the start of a new innovation or innovation process.

### **From multiple helix innovation models to a contextual helix innovation model**

This term also adds a new dimension to the existent description of innovation systems. Traditionally, innovation systems consist of the helix enterprises – universities – government. This point of view was elaborated by adding a fourth helix (society/media) and a fifth one, socio-ecological transition (Carayannis, 2012).

Our research suggests a ‘multiple helix innovation approach’, adding even more ‘contextual’ elements to the Carayannis quintuple helix innovation model. The known partnerships between industries and enterprises, academia, government and civil society are embedded in a context in which demographical, economic, political, ecological, social and technological factors play a significant role.

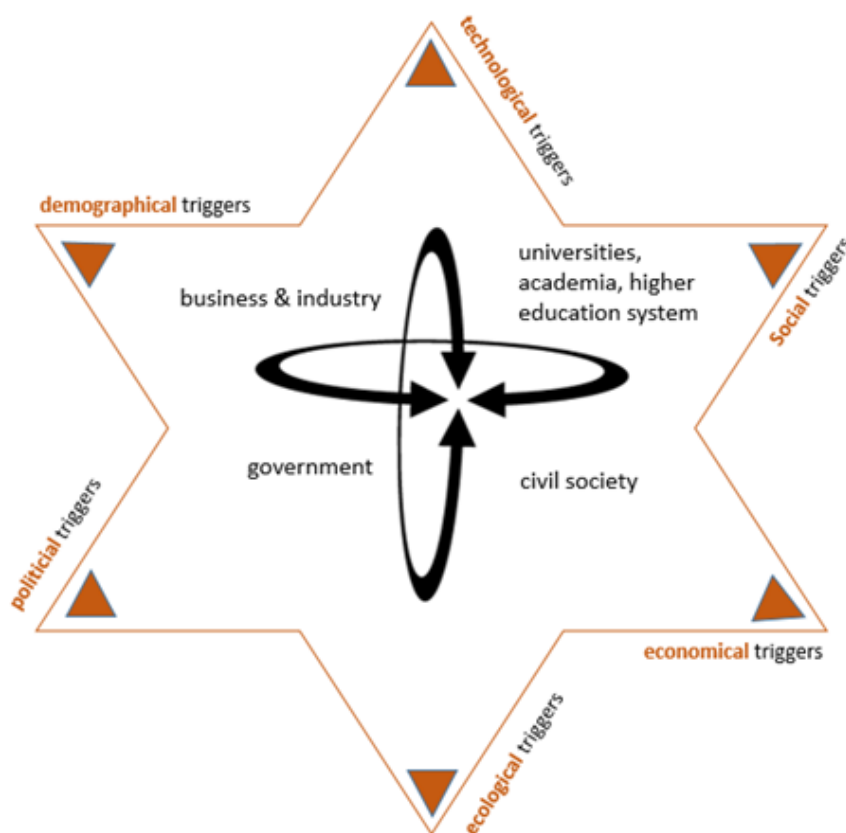


Figure 1. Contextual multiple helix innovation model.

### **Innovation tools**

Desk research and bench marking have revealed that various European players offer a wide variety of innovation tools for SME. The European Commission (eg. the Eco-Innovation Observatory and the Interreg V Programme on Innovation & Research), cross-border innovation platforms (eg. OECD), national and governmental organisations as well as private organisations have created, tested and implemented innovation tools and other methods to help SME face the DEPEST and additional innovation challenges. The tools and strategies are rather varied and take the form of workshops, boot camps, consultancy sessions, fact-

finding tours, network sessions, idea pitch assessments, financial guidance, online toolboxes and many more. Best practices can be found in the innovation leading Scandinavian countries (eg. the Innovation Centre Denmark) and in innovation follower Britain (Innovate UK). Yet, the ten in-depth interviews have preliminary revealed that innovation is a type of behaviour. Managers of innovative SME stated that tools, no matter how accessible, are not used by innovation-driven managerial profiles. Connecting the dots is rather based on managerial behavioural aspects like perseverance, bravery, obstinacy, the ambition to fight against the tide, trendsetting attitude, open minded, ... Consequently, it was also stated that managers who do not want to innovate or who do not believe in it, will never be stimulated to take up any innovation tool, no matter how accessible this tool or method is.

The large-scale quantitative survey mentioned earlier will be conducted to validate or assess these first insights, especially preliminary assimilations concerning the environmental sensitivity of SME managers. Insights in the innovation profile of the respondents, ideation triggers, media use, and the actual network are aimed for by the survey.

### Research results

In this first explorative phase, ten *innovative Flemish small businesses* (-50 employees) were interviewed by means of face-to-face in-depth interviews. According to these innovative small businesses, they have the capacity to absorb new information easily. Gathering new ideas for business is mainly by travelling and by having an open view on the world. Innovative SME seem to have no problems being their own 'boundary spanner': they combine the ability to run their business while bridging to the outside world.

The following *innovation triggers* (Table 1) were mentioned by business managers of innovative Flemish SME:

Table 1. Innovation triggers.

External triggers	Internal triggers
<ul style="list-style-type: none"> <li>-Sense of urgency due to new legislation</li> <li>-Need of differentiation with competitors</li> <li>-Insights from trend watchers</li> <li>-Innovative ideas in other fields</li> <li>-Demands of clients</li> <li>-Best practices (colleagues, other countries)</li> <li>-Foreign competitors</li> <li>-Administrative work load</li> <li>-Conversations within formal or informal networks</li> <li>-Job or study experience in other countries</li> <li>-Artists</li> <li>-Travelling</li> </ul>	<ul style="list-style-type: none"> <li>-Personality of the business manager: driven, eager, dedicated, competent, opinion leader</li> <li>-Cash overflow</li> </ul>

Some authors, like Paul Iske (Koops, 2009) presume innovation can only be stimulated in a situation in which entrepreneurs must, will, can, dare and may innovate. Our respondents did not always agree with these boundary conditions. The 'must' presumption was often denied by innovative entrepreneurs as the sense of urgency, commonly considered as an

innovation trigger, was not always considered to be an issue. Other respondents confirmed that at least one of these presumptions had been present and influenced the innovation process.

Besides innovation triggers, business managers also mentioned innovation barriers. The answers generally reflect their feeling of doing business in the region of Flanders. Respondents mentioned the following innovation barriers (Table 2):

Table 2. Innovation barriers.

External barriers	Internal barriers
<ul style="list-style-type: none"> <li>-Administrative burden - a lot of paperwork</li> <li>-High cost of social security</li> <li>-Legislation</li> <li>-Flanders is a risk-avoiding society</li> <li>-The Flemish educational system is theory-based. Taking initiatives and taking action is not strongly supported in schools.</li> </ul>	<ul style="list-style-type: none"> <li>-Financial risk/uncertainty</li> <li>-Fear amongst employees</li> </ul>

Business managers *think lowly of non-innovative enterprises*. According to our respondents, fear is the main reason why some SME perform badly with regard to innovation. Innovative business managers consider themselves courageous and brave enough to encounter unforeseen circumstances and unknown future scenarios. The non-innovators are rather seen as 'cowardice'.

**SME in need: innovation is no priority**

An expert interview with the Flemish organisation that helps SME in financial need ("DYZO") provided further insights regarding small businesses performing very badly in innovation: SME in need face so many problems that innovation is not a priority. Business managers are struggling to survive. The main problem is that managers of those SME do not take the time to carefully think out their business. Most of them lack the competences to start an innovation process. Moreover, managers in need have a very small formal and informal network.

Supporting environmental sensitivity as a trigger for innovation could be very helpful for these enterprises, but a lot of additional support will be necessary. Volunteers of the organisation and accountants are mentioned as the most adequate persons to make business managers of small businesses in need aware of macro-environmental opportunities and triggers. They act as boundary spanners for SME in need. These first insights give way to further research among volunteers and consultants of this organisation. Moreover, these preliminary insights might pave the way for the creation of proper support tools for environmental sensitivity as an innovation trigger for those SME willing to restart or rethink their business.

## Conclusions

Although this research is still ongoing and progressive results will refine our first findings, preliminary results show that Flemish SME, especially those facing problems, are still facing major challenges in terms of monitoring external factors as an innovation trigger. More than half of the Belgian enterprises do not innovate at all, and small enterprises are even subject to more inferior results. Governmental innovation support is demand-driven and hence aimed at the 'stronger' and more innovative enterprises.

Interviews with innovative small enterprises reveal a very open view towards the world, especially by travelling and intensive networking activities. Managerial behavioural aspects are dominant key factors to connect the dots.

The large network that defines innovative enterprises is often absent in SME in need. Extra tools to support innovation are regarded as unnecessary by the stronger enterprises, whereas in the case of SME in need, the supporting tools or activities, in cooperation with the guidance of accountants or consultants, can be of major value for non-innovative small enterprises. Fear and a lack of absorptive capacity are strong factors to be taken into consideration while developing genuine tools or activities to trigger innovation are valuable assets. In the contextual multiple helix innovation model, the connection between partnerships and the DEPEST-analysis is evaluated as a necessary innovation system for SME.

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# THE INTERFACE BETWEEN THE STUDENTS' PERSONALITY TRAITS AND THE COMPONENTS OF PERCEIVED CREATIVITY

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## Abstract

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Personality traits are the strongest predictors of creative achievements. *Research objective*: to investigate the distinctive features of creativity and personality traits of Lithuanian higher school students and identify their interfaces. Comparative analysis of the estimates of components of students' creativity and personality traits was carried out using a table of values from *Student's t* criteria. The analysis of estimates of the interfaces between the components of students' creativity and personality traits is provided when using the Pearson correlation coefficient. *Research methodologies*: NEO FFI questionnaire (NEO Five Factor Inventory, Costa, Mc.Crae, 1992) was used to identify the student's personality traits delineated by these scales: extraversion, agreeableness, conscientiousness, neuroticism and openness. The student's creativity was explored using the Personality creativity questionnaire (Петрулис, 1988) and following these sub- scales of creativity: intuition, fantasy, prone to creativity and innovation, flexibility, originality, criticism, inversiveness and childishness. *Research results* will have an enduring value in discussions on the interface between the student's personality traits and the expression of components of perceived creativity, their practical significance for higher schools in developing the learner's creativity and improving the quality of studies.

**Keywords:** personality traits, creativity, students.

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## Introduction

In recent years, a rapid economic growth has been increasing the role of creativity in every sphere of life. As noted by J. R. Šinkūnienė (2011), a creative personality affects economic, political and educational decision making and is considered as an indicator of public welfare and innovation. Creativity is becoming the guarantee of success in the professional sphere, it helps solve everyday problems more effectively, ensures the labour market flexibility and helps quickly adapt to changes; therefore the aspects of a creative personality are more often becoming a major theme of researches. Scientific literature states that creativity and creative achievements depend on personality traits to a great extent. However, until recently there have been discussions on distinctive features peculiar to creative people when trying to identify, which personality traits most strongly impact creativity, and explain the impact of major personality traits on various creativity aspects. On the other hand, it is asserted that personality traits of people of different occupations that affect the expression of components of creativity might differ.

Over the last few decades numerous Lithuanian and foreign researchers explored the distinctive features of creativity and personality traits in various aspects. D. Grakauskaitė – Karkockienė (2006, 2010, 2013), G. Beresnevičius (2010), В. Петрулис (1988, 1991), А. Petrulytė (2001, 2007, 2011), R. J. Sternberg, T. I. Lubart (1999), Е. Е. Туник (2002), Е. Torrance (1986), Т. Kriščiūnaitė, А. Perminas (2011) and other researchers emphasized certain characteristics of a creative personality. Some authors analysed various factors and environmental impacts influencing the creative expression of individuals (Hemlin, Allwood, Martin, 2008; Grakauskaitė – Karkockienė, 2006, 2010). Nevertheless, researchers lay

emphasis on analysing personality traits of a creative individual and discerning the factors influencing creative activities. However, in Lithuania personality traits, as the most important factors for creativity, are insufficiently explored. Considering the existing situation, the need and relevance of researches on the interface between the student's personality traits and the components of perceived creativity is apparent. More detailed researches on the distinctive features of components of perceived creativity and personality traits, embedded in Lithuanian higher school students, as well as their interfaces should be encouraged and maintained. The research results would help more clearly perceive the distinctive features of the student's personality traits and the manifestation of components of creativity as well as their interfaces and would enable to improve the quality of studies in higher schools when developing the student's creativity.

The article reveals the distinctive features of components of perceived creativity and personality traits of Lithuanian higher school students and identifies the estimates of the interface between the components of creativity and personality traits. The research *problem* is defined by the following questions: what are the distinctive features of personality traits and the perceived creativity of Lithuanian higher school students? How do personality traits and the expression of components of creativity vary in males and females, the students of different years of study? How do such personality traits as neuroticism, extraversion, conscientiousness, agreeableness and openness interface with the components of students' perceived creativity?

**Research object** – the distinctive features of components of perceived creativity and personality traits, identified in Lithuanian higher school students, their differences and interfaces.

**Research purpose** - to explore the distinctive features of creativity and personality traits of Lithuanian higher school students, to identify how they vary in males and females, the students of different years of study and different specialities, and reveal the interface between the components of creativity and personality traits.

**Research objectives:**

1. To carry out the analysis of scientific literature related to the theme analysed and provide a theoretical substantiation of personality traits as the most important drivers of creative expression.
2. To identify the distinctive features of creativity and personality traits of Lithuanian higher school students.
3. To investigate and compare the estimates of creativity and personality traits of males, females, the students of different years of study.
4. To reveal the estimates of the interface between the components of creativity and personality traits.

**Research methodology**

*Research participants:* Research participants were the students of Lithuanian higher schools (N =285) (aged 18 - 40), 201 of whom (70.5 percent) females and 84 (29.5 percent) males, 82 of whom (28.8 percent) the first year students, 74 (26 percent) the second year students, 103 (36.1 percent) the third year students and 26 (9.1 percent) the fourth year students.

135 (47.4 percent) students, the research participants, align their studies with work, while 150 (52.6 percent) students do not work while studying. The average age – 20,6 year old individuals.

*Research methods:*

- *Analytical descriptive method* was used when analysing the distinctive features of creativity and personality traits and the importance of personality traits to creative expression.
- *Quantitative research* was carried out when identifying the components of the student creativity and the distinctive features of personality traits using *NEO FFI questionnaire* (NEO Five Factor Inventory, Costa, Mc.Crae, 1992). The questionnaire consists of 60 statements designed to measure five personality traits: The questionnaire consists of five subscales: Extraversion, Agreeableness, Conscientiousness, Neuroticism and Openness. The statements were assessed using a 5 point Likert scale – from 0 ("strongly disagree") to 4 ("completely agree"). The respondent chooses one option that best aligns with his/her view. F. C. Worrell, W. E. Cross (2004) describe every separate feature pointing out that extraversion covers such traits as sociability, activeness, positive emotionality. Neuroticism is defined in terms such as unwanted behaviour, negative emotions, anxiety and disturbing emotions (uneasiness, hostility, insecurity, guilt, etc.) Conscientiousness is defined in terms such as achieving goals, the ability to control impulsiveness, orderliness, self-discipline and the postponing of satisfaction until a later time. Agreeableness is described as caring for people, which is the manifestation of altruism, affection, compassion, calmness and maintaining relations. Openness is described as the ability to accept new ideas and experience, without giving the priority for practical things. The permission to use NEO FFI questionnaire was obtained from the Laboratory of Special Psychology of Vilnius University. Students' creativity was investigated using *the Personality creativity questionnaire* (Петрулис, 1988). The questionnaire consists of 64 statements, which the respondent assessed by ticking "Yes" or "No". The results were analysed using 9 subscales: intuitiveness, fantasy, prone to creativity and innovation, flexibility, originality, criticism, inversiveness and childishness. Following theoretical "keys" of the Personality creativity questionnaire a general creative indicator was identified.
- *Statistical method* Statistical analysis methods were used to process the obtained data: descriptive statistics (statistical averages, standard deviations); Student's *t* criterion (to compare two independent samples) was used to identify differences in several independent populations. The Pearson correlation coefficient was used for statistical data analysis seeking to assess the interface of such major personality traits of the research participants as neuroticism, extraversion, conscientiousness, agreeableness and openness with the components of perceived creativity. The obtained results are considered statistically significant if they correspond to the significance level Statistical data analysis was carried out according to SPSS version 17.

**Theoretical substantiation of the interface between creativity and personality traits**

The concept of creativity in scientific literature is rather ambiguous due to its complexity and changes in it. Generally, researchers define creativity as the ability to create new, original, unexpected, quality and appropriate, that is, useful items that meet the provided requirements (Amabile, 1983 quoted by Tierner et al., 1999; Guilford 1950, 1968; Sternberg,

Lubart, 1999). According to the holistic approach, creativity covers a variety of factors affecting the creative process: abilities, skills, personality traits, motivation, creative experiences, etc. E. Torrance (1986) describes creativity as a process in which a person reacts to problems, is able to perceive the knowledge gap, to search for solutions to problems, to guess, raise questions, formulate the hypothesis, assess, control, correct, generalize results and submit them. Other authors (Sternberg, 1990, 2006) related creativity to thinking or the abilities such as the ability to discern and define the problems, to foresee their solution strategies and tolerate their ambiguity. The author admits that creativity depends on the knowledge, individual characteristics, motivation and a favourable external environment. L. Jovaiša (2007) defines creativity as the personality structure, which consists of motives, interests, moral values, experiences, abilities, feelings and needs. L. Jovaiša (2007) admits that creativity is a set of personality traits that enable to achieve original, significant and high quality results through productive activities. T. M. Amabile (1988) (quoted by Tierney et. al., 1999) considers creativity as an innovative cognitive style, which M. Kirton (1976) (quoted by Tierney et al., 1999) defines as an innate orientation or the selection of priority measures for problem solving ranging from innovative (seeking to integrate diverse information, redefine emerging problems and generate the ideas that differ from standard ones) to adaptive ones (using data of a well-known sphere and taking existing problems that generate ideas, which coincide with the accepted conventional opinion). According to V. Prabhu et al. (2008), creativity is influenced by external motivation (especially when it is kind of a reward) (Eisenberger, Rhoades, 2001) and internal motivation (quoted by Amabile, 1988). In his research V. Prabhu et al. (2008) found out that creativity determines creative activities, internal motivation, self-openness, self-efficacy and perseverance. Some authors admit that creativity is related to cognitive (Johnson, Bouchard, 2014) and emotional (Sanchez-Ruiz et al., 2011) intelligence.

A large number of researchers relate creativity to these personality traits: volatile imagination, ingenuity, inquisitiveness (Gage, Berliner, 1994), emotionality, self-confidence, diligence, curiosity and general intellectual activity, criticism, boldness, tendency to individual work and independence (B. Петрулис 1991; Petrulytė, 2001, 2011), information receptivity, dominance, initiative (Jacikevičius, 1999), seeking for personal freedom, non-conformism, prone to experiments and risk, the ability to see things from a different perspective, which requires to choose more than one answer (Grakauskaitė-Karkockienė, 2006, 2010, 2013; Beresnevičius, 2010). Some researchers admit that a creative personality is sensitive to problems, original, ingenuous, freaky, has a flexible mind (Torrance, 1986), open to challenges, is able to provide new and original ideas and can quickly solve problems (Sternberg, 1990). As noted by M. Csikszentmihalyi (1996), a creator, as a mature personality, has some childish traits: sincerity, naiveness, emotionality, impulsiveness, volatile imagination, openness and sensitiveness. Therefore, personality traits are the most important factors determining creative expression of an individual and his creative achievements.

Searches for personality traits that determine creative expression encouraged to carry out the research analysing the interface between the Big Five personality traits and the estimates of the components of creativity. Most often the assessment covers the following traits of the Big Five personality traits (Goldberg, 1992, quoted by Žukauskiene, R. Barkauskiene, 2006): *openness to experience, extraversion, conscientiousness, neuroticism*

*and agreeableness.* Most researchers admit that personality traits are major factors determining creative achievements of an individual (Wolfradt, Pretz, 2001; Huang, Zhang, 2001; Leung, Chiu, 2008; Pociūtė, Išiūnaitė, 2011). Researchers mention such personality traits as autonomousness, openness to new experiences, doubts on accepted norms and standards, self-confidence, motivation and impulsiveness. They also include prone to non conformism, originality and individuality.

When analysing the impact of personality traits on creative expression it should be noted that one of the major traits determining creativity is *openness* (Wolfradt, Pretz, 2001; Huang, Zhang, 2001; Leung, Chiu, 2008). Openness signifies innovation receptivity, inquisitiveness, interaction with the surrounding environment, creative thinking, using unconventional methods, openness to challenges and the ability to generate new ideas (Barrick, Mount, 1991). However, open-minded people are less reserved, they boldly express their opinion, are not afraid to take unconventional decisions, are creative when performing typical tasks, like to deepen their knowledge and apply them in certain activities (King et al., 2005) and are oriented to diverse activities. The research results show that in terms of statistics openness is significantly related to creativity and can be significant when forecasting its manifestation. We can make a presumption that individuals who have higher level estimates of openness are distinguished for higher creativity, unconventional thinking and original solutions. This was proved by the research results obtained by B. Pociūtė and V. Išiūnaitė (2011), which show that open-minded individuals usually creatively seek information and use various tools and measures to gain new information, they seek the freedom of expression in their activities (as well as in their creative processes) and are prone to self-expression. N. Entwistle (1988) (quoted by Prabhu et. al., 2008) discovered that openness to experience is related to creativity, since it encourages an individual to see things from a different perspective, which as a result stimulates the task performance and an intrinsic motivation of an individual. Some authors emphasize that everyday creativity particularly closely interfaces with intelligence and openness to experience (Grucza, Goldberg, 2007), while the latter one is related to divergent thinking and the results of creative activities (Sanchez-Ruiz et. al., 2011). When analysing the impact of *extraversion* on creative expression the research results show that extraversion is related to searches for information, a socially active lifestyle and the involvement into activities (McCrae, Costa, 1991; Costa, McCrae, 1995). However, extroverts spend more time communicating with others, they use various activity methods and techniques, are not afraid of risks and seek for the highest result. This allows us to make a presumption that extraversion is important in some particular creative activities when seeking for self-expression in a creative process. According to the research results, it is evident that individuals with a higher level of extraversion are more creative (Pociūtė, Išiūnaitė, 2011). However, since creative expression of an individual is related to his activeness (social as well) it should be noted that during creative activities extroverted individuals can be characterized by a positive emotionality and focusing on the information causing positive emotions (Pacevičius, 2005), which impacts their active engagement in creating and generating new ideas, original thinking and making unconventional solutions. W. Johnson, T.J. Bouchard (2014) asserts that the interface between creativity and extraversion is possible due to divergent thinking and fluency (Batey, Furnham, 2006), which are respectively interfaced with intellectual abilities, the desire and ability to think and get involved into experiences exceeding the limits of conventional thinking. However, when assessing the impact of extraversion on the

creative activity results it is impossible to make unambiguous conclusions, since the results of some researches show that creative individuals are prone to individual activities and are more introverted. When analysing the impact of neuroticism on creativity it should be noted that the obtained results demonstrate that individuals with strongly expressed neuroticism have a higher level of anxiety, emotionality, sensitiveness, strong feelings and self-doubt in their own abilities and skills, which restricts creative expression and original thinking. According to J. Pacevičius (2005), neuroticism is a result of a constant feeling of unhappiness, while individuals with a high level of neuroticism experience negative emotions in their activities, the fear of failing to comply with standards and norms, which affects the results of creative activities of an individual. The results of some researchers show that individuals with a higher level of neuroticism are less motivated to act and take decisions, they unwillingly engage themselves in activities, do not search for different methods for problem solving and are less stress resistant (Wang et al., 2006). According to the research results obtained by R. Gomez, A. Gomez and A. Cooper (2002), it is apparent that neurotic individuals are prone to negative information, have a low opinion of their abilities, knowledge and certain personality traits necessary for creative activities, original thinking and making unconventional solutions. On the basis of the obtained results we can make a presumption that individuals with a high level of neuroticism more often experience negative emotions in their activities, have difficulties in solving problems, rarely generate new ideas, are less engaged in creative thinking and make conventional solutions. The research carried out by M. J. Sanchez-Ruiz et al. (2011) identified statistically significant positive interfaces between neuroticism and creativity. The above mentioned results could be explained considering the fact that creativity encompasses the elements of uncertainty, which can evoke stress and anxiety of an individual (Feist, 1999) or a creative individual consciously seeks the state of tension and uses his creative abilities to overcome difficulties (Runco, 1994). Therefore, stress can be the factor stimulating creativity through the prism of perseverance. Whereas the research carried out by U. Wolfradt and J. E. Pretz (2001) found out that the estimates of creativity and neuroticism are not significantly interfaced in terms of statistics. However, there is a lack of researches analysing the impact of agreeableness on creative expression of an individual; we can make a presumption that it interfaces with the ability of an individual to perform creative activities. *Agreeableness* is defined as the inclination of an individual to help others, to understand and pity them as well as establish and maintain successful relations with others. It could be asserted that a higher level of agreeableness is related to a favourable self-assessment and the performed activity as well as designing creative activities. On the basis of the obtained results it could be assumed that there is no unambiguous answer regarding the interface between agreeableness and creative expression. The results of some researches show a positive correlation between agreeableness and creativity (Sung, Choi, 2009), which allows us to assert that individuals who have a higher level of agreeableness are able to create and generate new ideas and boldly meet challenges and innovations. However, according to other researchers (Wolfradt, Pretz, 2001), the impact of agreeableness is not significant to creativity. When analysing the impact of *agreeableness* on the level of creative expression it should be stated that this trait reflects an individual's mood and his perseverance to continue his chosen activity, self-regulation peculiarities (Hoyle, 2006), the achievement motivation, diligence and perseverance (Judge, Ilies, 2002). As stated by M. R. Barrick and M. K. Mount (1991), conscientious individuals are more committed to what they are doing and persistently pursue their set goals. As noted by G. Genevičiūtė-Janonienė and A. Endriulaitienė (2008),

individuals with strongly expressed conscientiousness more appreciate their professional achievements. The research results obtained by R. McCrae (1987) (quoted by Wolfradt, Pretz, 2001) show that conscientiousness and creativity strongly interfaced with each other when individuals assessed themselves. The research results obtained by M. J. Sanchez-Ruiz et al. (2011) identifies the interface between the elements of conscientiousness and creativity (fluency and flexibility), which means that responsibility and perseverance can be very important in the process of creative thinking (De Dreu et al., 2008). Therefore, we can make a presumption that for individuals who have a high level of conscientiousness the assessment of their own achievements positively affect creative expression, their inner desire to be exceptional, to reach the heights of their capabilities and aspirations, create new plans and expand the boundaries of their opportunities. Considering the research results it is evident that conscientiousness interfaces with creative expression of an individual, since an individual possessing this trait is prone to discover his own abilities and talents, seeks high achievements, generates new ideas and pursues his set goals. However, the results of some researches show that the estimates of conscientiousness do not interface with creativity (Wolfradt, Pretz, 2001). Thus, when analysing the interface between conscientiousness and creativity the obtained results were rather contradictory.

A large number of researchers assert that creativity can be affected not only by the entire personality traits but also by other characteristics (Tierney et al., 1999 and others). Over the last few decades the number of researches on creativity phenomenon has increased while the emphasis was laid on investigating non cognitive components of the creative personality. However, it should be noted that researches on the interface between creativity and personality traits, especially in adult persons, in the works of Lithuanian researchers are scarcely detected, whereas the research results of foreign authors regarding the distinctive features of creative personalities are fairly contradictory: some research results show that the interface between creativity and personality traits exists, while others - does not exist. Considering the above mentioned issues, the article seeks to identify the interface between creativity and personality traits.

## Results

*Distinctive features of personality traits.* NEO-FFI Five -Factor Inventory (Costa, McCrae, 1991) was used to identify the distinctive features of the research participants. In the course of the research performance the following trait sub-scales were used: *neuroticism, extraversion, agreeableness, conscientiousness / integrity and openness to experience.*

The highest average estimate of the research participants (see figure 1) was identified under the sub scale of neuroticism (M=54.86), which shows a strongly expressed tendency to experience negative affects, such as fear, sadness, anger, sensitivity to psychological exhaustion, less possibilities to control one's impulses and overcome stressful situations. Under the extraversion sub scale (M=51.7) a particularly high average estimate was identified, which shows that students have a high level of activeness, energy and optimism and are prone to communicate with others. The lowest estimates were observed in the conscientiousness/integrity sub scale (M=46.9), which allows us to assert that the traits measuring volition, such as determination and pursuing one's aims, were weakly expressed. Furthermore, particularly low estimates were observed in the agreeableness sub scale

(M=48.3), which shows that such traits as sympathy, the inclination to help others, a higher level of hostility to others and egocentrism were weakly expressed.

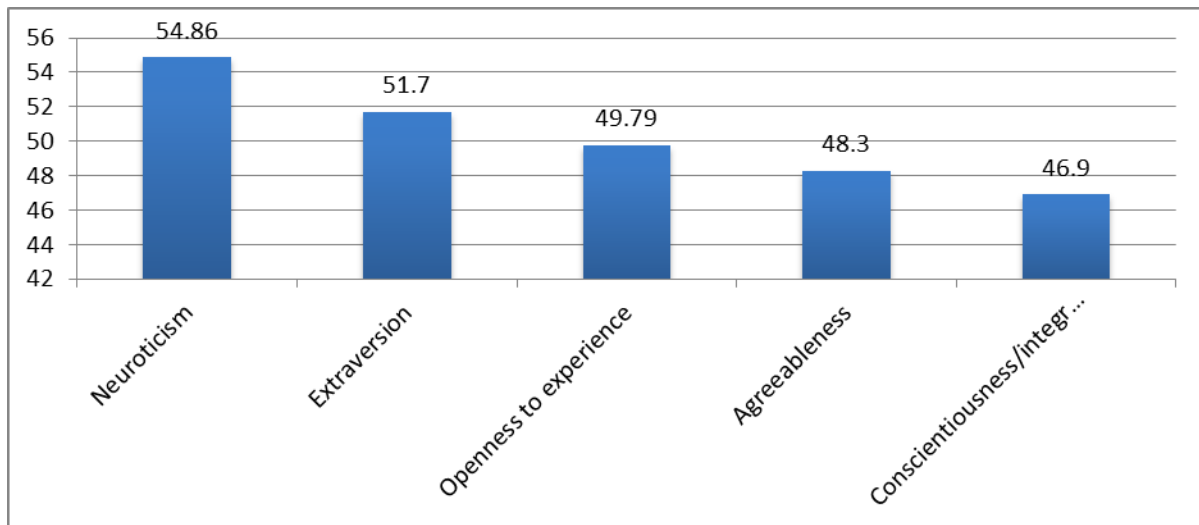


Figure 1. The average estimates of personality traits of Lithuanian higher school students.

A comparative analysis of personality traits based on gender aspects (see Table 1) shows that the average estimates of males and females in the sub scales of neuroticism ( $t=-1.35$ ,  $p=0.178$ ), extraversion ( $t=0.143$ ,  $p=0.886$ ), agreeableness ( $t=0.064$ ,  $p=0.948$ ) and conscientiousness / integrity ( $t=1.867$ ,  $p=0.063$ ) do not differ significantly in terms of statistics. Statistically significant average differences were identified only in the openness to experience sub scale ( $t=-3.703$ ,  $p=0.001$ ), which shows that males are prone to take a greater interest in the inner and outer world; moreover, they feel more relaxed in social situations and new idea fostering ( $M=53.3$ ,  $SD=10.0$ ) compared to females ( $M=48.3$ ,  $SD=10.4$ ).

Table 1. The average estimates (M) of male and female personality traits, standard deviations (SD) and differences in the level of significance.

Name of the scale	Females		Males		t	p
	M	SD	M	SD		
Neuroticism	54.3	10.4	56.1	10.6	-1.35	0.178
Extraversion	51.7	9.8	51.5	9.1	0.143	0.886
Openness to experience	48.3	10.4	53.3	10.0	-3.703	<b>0.001</b>
Agreeableness	48.3	11.0	48.2	10.3	0.064	0.948
Conscientiousness/integrity	47.6	10.6	45.0	10.8	1.867	0.063

\* $p<0,01$ ; \*\* $p<0,001$ ).

When investigating personality traits of students of different years of study (see Table 2), statistically significant average differences between the first and the second year students were not identified. When using Student's t-test, significantly higher estimates in terms of statistics were identified in the groups of the third year students in the sub scales of extraversion ( $t=-2.842$ ,  $p=0.005$ ) and openness to experience ( $t=-4.1$ ,  $p=0.001$ ) (respectively: extraversion ( $M=53.8$ ) and openness to experience ( $M=52.3$ )) compared to the average estimates obtained in the group of the first year students (respectively: extraversion ( $M=49.8$ ), openness to experience ( $M=45.9$ )). Significantly higher average estimates in terms



of statistics were identified in the group of the fourth year students ( $t=-3.634$ ,  $p=0.001$ ) in the openness to experience sub scale ( $M=54.3$ ) compared to the data obtained in the group of the first year students ( $M=45.9$ ), while in the latter group significantly ( $t=3.193$ ,  $p=0.002$ ) higher estimates ( $M=48.2$ ) in the conscientiousness/integrity sub scale were identified compared to the data obtained in the group of the fourth year students ( $M=40.7$ ). After carrying out a comparative analysis of personality trait estimates in the groups of the second and the third year students when using Student's t criteria, statistically significant higher estimates were obtained in the group of the third year students in the sub scales of extraversion ( $t=-2.377$ ,  $p=0.019$ ) and openness to experience ( $t=-2.184$ ,  $p=0.03$ ) (respectively: extraversion ( $M=53.8$ ) and openness to experience ( $M=52.3$ ) compared to the average estimates obtained in the group of the second year students (respectively: ( $M=50.3$ ) and ( $M=48.9$ )). Moreover, the research results show that in the group of the fourth year students significantly ( $t=-2.481$ ,  $p=0.015$ ) higher estimates were identified in the openness to experience sub scale ( $M=54.3$ ) compared to the average estimates obtained in the group of the second year students ( $M=48.9$ ), while in the latter group significantly higher average estimates were identified in the sub scales of agreeableness ( $t=2.325$ ,  $p=0.022$ ) and conscientiousness/integrity ( $t=2.968$ ,  $p=0.004$ ) (see Table 2). After using Student's t criteria, statistically significant difference ( $t=2.164$ ,  $p=0.032$ ) was identified, which shows that the fourth year students have significantly lower level of conscientiousness/integrity ( $M=40.7$ ) compared to the third year students ( $M=46.2$ ).

Table 2. The average estimates (M) of personality traits in groups of students of different years of study.

Name of the scale	First year	Second year	Third year	Fourth year
Neuroticism	54.2	53.9	55.3	57.6
Extraversion	49.8	50.3	53.8	53.2
Openness to experience	45.9	48.9	52.3	54.3
Agreeableness	48.3	50.0	48.0	44.7
Conscientiousness/integrity	48.2	48.4	46.2	40.7

*Generalizing* the results obtained in the groups of students of different years of study it is evident that senior students (the third and the fourth year) more than junior students (the first and the second year) are inclined to take interest in the inner and outer world, they are more relaxed and ready to foster baldly new ethical and social ideas, establish new contacts and communicate with others. However, junior students (the first and the second year) are more inclined to pursue their goals, are strong-willed and determined, as well as compassionate and helpful compared to senior students.

When comparing personality traits of students who align their studies with work and those who do not work while studying, statistically significant differences were identified in the sub scales of extraversion ( $t=-2.685$ ,  $p=0.008$ ) and openness to experience ( $t=-3.457$ ,  $p=0.001$ ). As it is evident from Table 3, students who align their studies with work are more extroverted ( $M=53.3$ ,  $SD=9.9$ ) and open to experience ( $M=52.0$ ,  $SD=11.1$ ) compared to those students who do not work while studying, the estimates of whom in these sub scales are lower (respectively: extraversion ( $M=50.2$ ,  $SD=9.12$ ) and openness to experience ( $M=47.7$ ,  $SD=9.6$ )). We can draw conclusion that students who align their studies with work

are more interested in the inner and outer world, they like variety, seek knowledge, are less reserved, do not trust in authorities, are ready to foster new ideas, are friendly, active, energetic and optimistic compared to those students who do not work while studying and who are less interested in the inner and outer world and are introverted individuals.

Table 3. The average estimates (M) of personality traits, standard deviations (SD) and differences in the level of significance of students who do not work while studying and those who align their studies with work

Name of the scale	Students who do not work while studying		Studying - and working students		t	p
	M	SD	M	SD		
Neuroticism	55.2	9.46	54.4	11.5	0.578	0.564
Extraversion	50.2	9.12	53.3	9.9	-2.685	<b>0.008</b>
Openness to experience	47.7	9.6	52.0	11.1	-3.457	<b>0.001</b>
Agreeableness	48.5	10.3	48.1	11.3	0.25	0.803
Conscientiousness/integrity	46.4	11.1	47.5	10.2	-0.842	0.401

\*p<0,01; \*\*p<0,001)

*Distinctive features of creativity.* Personality Creativity Questionnaire (Петрулис, 1988) was used to identify the distinctive features of personality traits of the research participants. In the course of the research performance the following sub scales were used: *intuition, fantasy, seeking creativity, seeking innovation, flexibility, originality, criticism, intensity and childishness*, as well as the total estimate of the assessment of one's creativity.

The total estimate of the Creativity Questionnaire (see figure 2) showed that the highest average estimates were identified in the sub scales of seeking innovation (M=5.73) and childishness (M=5.67). These results show the student's inclination to innovation, new idea generation and willingness to work with them, as well as the inclination to experiments and self-testing. Total average of sub scales - 33.21

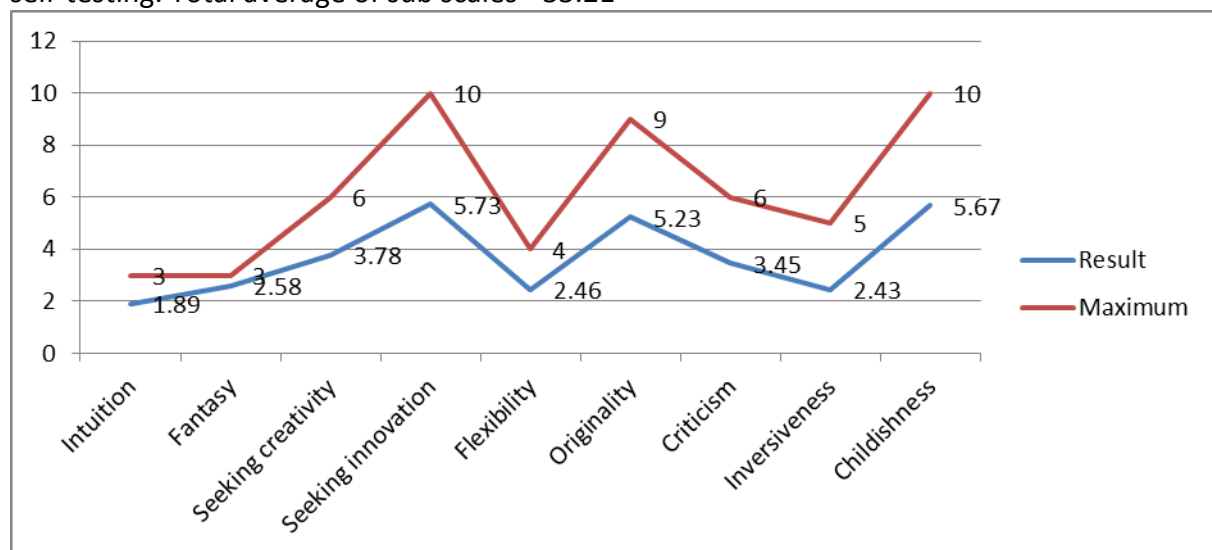


Figure 2. The average estimates of creativity subscales of Lithuanian higher school students.

When analysing the data of the Creativity Questionnaire in the groups of males and females, statistically significant differences in the sub scales of seeking innovation ( $t=-5.023$ ,  $p=0.001$ ), flexibility ( $t=-2.354$ ,  $p=0.019$ ), originality ( $t=-4.324$ ,  $p=0.001$ ), criticism ( $t=-2.516$ ,  $p=0.012$ ) and inversiveness ( $t=-5.115$ ,  $p=0.001$ ) were identified. Males assess their creativity with statistically higher scores in these spheres (see Table 4), whereas the total estimate of the entire creativity sub scales of males is significantly ( $t=-5.306$ ,  $p=0.001$ ) higher ( $M=36,13$ ,  $SD=6,91$ ) compared to females ( $M=31,99$ ,  $SD=5,53$ ) in terms of statistics.

Table 4. The average estimates (M) of male and female creativity sub scales, standard deviations (SD) and differences in the level of significance.

Name of the scale	Females group		Males group		t	p
	M	SD	M	SD		
Intuition	1.85	0.93	1.99	0.91	-1.147	0.252
Fantasy	2.58	0.65	2.59	0.78	-0.092	0.927
Seeking creativity	3.73	1.06	3.92	1.1	-1.353	0.177
Seeking innovation	5.39	1.76	6.57	1.89	-5.023	<b>0.001</b>
Flexibility	2.38	0.97	2.67	0.88	-2.354	<b>0.019</b>
Originality	4.96	1.61	5.89	1.77	-4.324	<b>0.001</b>
Criticism	3.32	1.35	3.75	1.25	-2.516	<b>0.012</b>
Inversiveness	2.2	1.13	2.96	1.16	-5.115	<b>0.001</b>
Childishness	5.64	1.63	5.77	1.96	-0.602	0.548
Total average	31.99	5.53	36.13	6.91	-5.306	<b>0.001</b>

\* $p<0,01$ ; \*\* $p<0,001$ )

When investigating the sub scales of the student's creativity and the total average estimates according to the years of study no statistically significant differences were identified when comparing the results of the first year students with the second and the third year students' results, as well as the results of the second and the third year students (see Table 5). Comparing the results of the first and the fourth year students (see Table 5) significant differences were identified in the sub scales of total creativity ( $t=-3.539$ ,  $p=0.001$ ), intuition ( $t=-2.11$ ,  $p=0.039$ ), seeking innovation ( $t=-2.16$ ,  $p=0.033$ ), flexibility ( $t=-3,505$ ,  $p=0.001$ ) and inversiveness ( $t=-2.625$ ,  $p=0.01$ ). Hence, it is apparent that the fourth year students assess their creativity with significantly higher scores than the first year students in terms of statistics. After estimating Student's t-test in the group of the fourth year students significantly higher estimates in terms of statistics were identified in the sub scales of the total creativity average ( $t=-2.58$ ,  $p=0.011$ ), seeking innovation ( $t=-2.222$ ,  $p=0.029$ ), flexibility ( $t=-1.998$ ,  $p=0.049$ ), originality ( $t=-2.357$ ,  $p=0.02$ ) and inversiveness ( $t=-2.532$ ,  $p=0.013$ ) compared to the data obtained in the group of the second year students. Therefore, it should be noted that the fourth year students assess their creativity with significantly higher scores in terms of statistics than the second year students. After comparing the creativity estimates of the third and the fourth year students using Student's t criteria, significantly higher estimates in terms of statistics were obtained in the sub scales of intuition ( $t=-2.094$ ,  $p=0.038$ ), seeking innovation ( $t=-2.221$ ,  $p=0.028$ ), originality ( $t=-3.052$ ,  $p=0.003$ ),

inversiveness ( $t=-3.345$ ,  $p =0.001$ ) and the total creativity average ( $t=-3.016$ ,  $p=0.003$ ) compared to the data of the third year students (see Table 5). Therefore, it should be stated that the fourth year students assess their creativity with significantly higher scores in terms of statistics than the third year students.

Table 5. The average estimates (M) of creativity sub scales in groups of students of different years of study

Name of the scale	First year	Second year	Third year	Fourth year
Intuition	1.83	2.01	1.78	2.19
Fantasy	2.54	2.68	2.56	2.58
Seeking creativity	3.76	3.78	3.77	3.88
Seeking innovation	5.67	5.65	5.62	6.58
Flexibility	2.4	2.45	2.43	2.85
Originality	4.96	5.32	5.12	6.23
Criticism	3.3	3.42	3.51	3.69
Inversiveness	2.4	2.42	2.27	3.12
Childishness	5.68	5.65	5.64	5.85
Total average	32.55	33.38	32.66	36.96

*Generalizing* the results of the students of different years of study we observe higher estimates of senior students (the fourth year) in most subscales of creativity, which means that the fourth year students assess their creativity higher than junior students (the first and the second year).

After estimating Student's t test, statistically significant differences in the creativity sub scale between the students who did not work while studying and those who aligned their studies with work were not identified (see Table 6).

Table 6. The average estimates (M) of creativity, standard deviations (SD) and differences in the level of significance of students who do not work while studying and those who align their studies with work

Name of the scale	Students who do not work while studying		Study and work		t	p
	M	SD	M	SD		
Intuition	1.87	0.89	1.92	0.95	-0.473	0.636
Fantasy	2.63	0.66	2.53	0.72	1.255	0.21
Seeking creativity	3.86	1.13	3.69	1.01	1.302	0.194
Seeking innovation	5.67	1.88	5.8	1.88	-0.569	0.57
Flexibility	2.46	1.01	2.47	0.88	-0.059	0.953
Originality	5.16	1.79	5.31	1.62	-0.717	0.474
Criticism	3.41	1.38	3.49	1.28	-0.519	0.604
Inversiveness	2.39	1.2	2.46	1.17	-0.49	0.624

Childishness	5.77	1.79	5.46	1.66	1.016	0.31
Total average	33.23	6.67	33.2	5.77	0.044	0.965

\*p<0,01; \*\*p<0,001)

*The interface between the student's personality traits and creativity.* In order to identify the interface between the student's personality traits and creativity the statistical data analysis was carried out and the Pearson correlation coefficients were estimated. Correlation analysis data is provided in Table 7.

After analysing the total estimates of the interface between personality traits and creativity, a weak correlation of the total creativity estimates and the entire personality traits, except for neuroticism, were identified (see Table 7).

The research identified a particularly strong positive correlation between the total estimates of creativity and openness to experience ( $r=0.32$ ,  $p=0.001$ ) and a weak positive correlation with extraversion ( $r=0.156$ ,  $p=0.009$ ). This allows us to assert that students, who are prone to diversity, are not reserved, seek new ideas, are active and energetic and their total creative personality estimates are higher.

Particularly interesting and important results were observed after identifying a fairly strong negative interface between the total creativity estimates and agreeableness ( $r=-0.318$ ,  $p=0.001$ ), while a weak negative significant correlation with conscientiousness/integrity ( $r=-0.188$ ,  $p=0.002$ ). This means that the more creative person is, the lower level of agreeableness and conscientiousness he has, which in, our opinion, are not distinctive features of a creative personality.

A correlation analysis of personality traits and creativity sub scales of certain students revealed a weak positive interface between extraversion and such creativity sub scales as intuition ( $r=0.18$ ,  $p=0.002$ ), fantasy ( $r=0.154$ ,  $p=0.009$ ), seeking innovation ( $r=0.198$ ,  $p=0.001$ ) and childishness ( $r=0.185$ ,  $p=0.002$ ). Accordingly, active, joyful, energetic and optimistic individuals who like to communicate with others assess their own intuition, fantasy, seeking innovation and childishness with higher scores. The research participants had particularly strong positive interfaces between openness to experience and originality ( $r=0.337$ ,  $p=0.001$ ), criticism ( $r=0.218$ ,  $p=0.001$ ), fantasy ( $r=0.202$ ,  $p=0.001$ ) and flexibility ( $r=0.194$ ,  $p=0.001$ ), whereas somewhat weaker though significant correlations with intuition ( $r=0.166$ ,  $p=0.005$ ), seeking innovation ( $r=0.159$ ,  $p=0.007$ ) and inversiveness ( $r=0.14$ ,  $p=0.018$ ). Therefore, students who are open to experience have a higher level of intuition, fantasy, originality and flexibility, criticism in performing tasks and the need to seek innovation.

Weak negative interfaces between agreeableness and creativity of the research participants were identified in the sub scales of seeking innovation ( $r=-0.189$ ,  $p=0.001$ ), flexibility ( $r=-0.179$ ,  $p=0.00$ ), originality ( $r=-0.155$ ,  $p=0.009$ ), criticism ( $r=-0.155$ ,  $p=0.009$ ), inversiveness ( $r=-0.466$ ,  $p=0.001$ ) and childishness ( $r=-0.175$ ,  $p=0.003$ ). It shows that students who have a stronger expression of sympathy and helpfulness assess their flexibility, originality and criticism with lower scores and have a lower level of seeking innovation, intensity and

childishness; and on the contrary, have a strongly expressed personal animosity towards others, egocentricity, scepticism towards other persons' wishes and interests, a lower level of flexibility, originality, criticism, childishness, seeking innovation and intersiveness.

A weak negative correlation was identified between neuroticisms and intuition ( $r=-0.217$ ,  $p=0.001$ ), whereas positive correlations with flexibility ( $r=0.143$ ,  $p=0.016$ ), inversiveness ( $r=0.284$ ,  $p=0.001$ ) and childishness ( $r=0.198$ ,  $p=0.001$ ); thus, the students with a higher level of neuroticism are more flexible, inversive and childishness, while the intuition of the students with a higher level of neuroticism is weak.

Analysis of the interfaces between the student's personality traits and creativity showed that conscientiousness/integrity significantly negatively in terms of statistics correlate with flexibility ( $r=-0.26$ ,  $p=0.001$ ) and inversiveness ( $r=-0.306$ ,  $p=0.001$ ), while interfaces with originality ( $r=-0.172$ ,  $p=0.004$ ), criticism ( $r=-0.146$ ,  $p=0.014$ ) and childishness ( $r=-0.184$ ,  $p=0.002$ ) are a bit weaker. According to the results of the obtained data, it should be noted that a manifestation of weaker resistance to impulses and temptation as well as the lack of moral principles, perseverance and determination to achieve one's goals interface with a higher level of flexibility, originality, criticism, inversiveness and childishness, while on the contrary, the ability to pursue goals, a strong determination, perseverance and the ability to resist temptation and impulses determine a lower level of flexibility, originality, inversiveness and childishness.

Table 7. Correlation analysis results on the interface between the student's personality traits and creativity

	Neuroticism	Extraversion	Openness to experience	Agreeableness	Conscientiousness /integrity
Intuition	<b>-0.217**</b> <b>0.001</b>	<b>0,18**</b> <b>0.002</b>	<b>0.166**</b> <b>0.005</b>	-0.102 0.087	0.088 0.141
Fantasy	-0.041 0.495	<b>0.154**</b> <b>0.009</b>	<b>0.202**</b> <b>0.001</b>	0.024 0.69	0.088 0.139
Seeking creativity	-0.08 0.18	0.044 0.464	0.091 0.126	-0.068 0.251	0.1 0.094
Seeking innovation	-0.087 0.147	<b>0.198**</b> <b>0.001</b>	<b>0.159**</b> <b>0.007</b>	<b>-0.189**</b> <b>0.001</b>	-0.011 0.85
Flexibility	<b>0.143*</b> <b>0.016</b>	-0.066 0.271	<b>0.194**</b> <b>0.001</b>	<b>-0.179**</b> <b>0.003</b>	<b>-0.26**</b> <b>0.001</b>
Originality	0.093 0.119	0.028 0.641	<b>0.337**</b> <b>0.001</b>	<b>-0,155**</b> <b>0.009</b>	<b>-0.172**</b> <b>0.004</b>
Criticism	0.042 0.483	-0.008 0.892	<b>0.218**</b> <b>0.001</b>	<b>-0.136*</b> <b>0.022</b>	<b>-0.146*</b> <b>0.014</b>
Inversiveness	<b>0.284**</b> <b>0.001</b>	-0.037 0.53	<b>0.14*</b> <b>0.018</b>	<b>-0.466**</b> <b>0.001</b>	<b>-0.306**</b> <b>0.001</b>
Childishness	<b>0.198**</b> <b>0.001</b>	<b>0,185**</b> <b>0.002</b>	0.06 0.317	<b>-0.175**</b> <b>0.003</b>	<b>-0,184**</b> <b>0.002</b>
Total average	0.088 0.14	<b>0.156**</b> <b>0.009</b>	<b>0.32**</b> <b>0.001</b>	<b>-0.318**</b> <b>0.001</b>	<b>-0.188**</b> <b>0.002</b>

\* $p<0,01$ ; \*\* $p<0,001$ )

Generalizing the obtained results it should be admitted that the correlation analysis revealed statistically significant interfaces between the student's personality traits and the assessment of their own creativity; however, correlation differences are not significant. Since the interfaces are comparably probable and expressing a more or less statistically probable tendency, as well as showing a certain approximate compatibility of two variables (Vaitkevičius, Saudargienė, 2006), in the future it should be appropriate to carry out a regression analysis, which would enable to forecast predictive options of some (dependent) variables by means of the regression equation considering other (independent) variables. It is recommended to carry out a repeated research to confirm the data validity and compare it using another creativity method.

## **Discussion**

The analysis of scientific researches related to the theme analysed showed that personality traits of individuals are key factors determining their creative achievements. The object of our research was the interface between personality traits and creativity components of Lithuanian higher school students. The research outcomes helped perceive the expression of the students' personality traits and the components of perceived creativity, as well as their interfaces.

Considering the fact that the data of scientific researches was usually based on gender aspects, our research analysed the data obtained in male and female groups. The research results revealed that the expression of the following personality traits in all students was almost the same: extraversion, neuroticism, agreeableness and conscientiousness/integrity. Findings regarding gender aspects coincided with those made by certain authors (Costa et al., 2001, quoted by Chapman et al., 2007) who stated that the estimates of conscientiousness/integrity in males and females did not differ significantly; however they contradicted the data of other authors (Weisberg et al., 2011) who admitted that statistically significant differences in males and females were identified in the sub scales of neuroticism, agreeableness and extraversion. When assessing the expression of personality traits with regard to gender aspects, our research has identified statistically significant differences in the openness to experience sub scale, i.e. males have a higher level of openness to experience than females. A. Feingold (1994) (quoted by Chapman et al., 2007) had a similar opinion about the male extraversion and openness to experience. The author also found out that those results could be determined by the interface between openness to experience and intelligence elements, e.g. males have higher estimates in the intelligence area that is related to openness to experience (Feingold, 1994, quoted by Weisberg et al., 2011), whereas females - in the area that is related to openness to aestheticism and the expression of feelings.

When analysing the data of students' creativity components / subscales with regard to gender aspects, our research has found out that all the males, research participants, had statistically more significant estimates in the sub scales of seeking innovation, flexibility, originality and criticism compared to females. The total creativity estimate of males was significantly higher than of females. However, the research results have some limitations, since the number of males, the research participants, was smaller than females; besides, in scientific researches there is no obvious evidence about the differences in adult males and females creativity. Nevertheless, the obtained results are in line with somewhat different

expression of creativity by separate components, which was revealed in the course of the research performance, e.g. school-age boys have strongly expressed idea-generating and originality, whereas girls - idea - specifying and completeness (Petrulyte, 2007). Thus, when estimating the expression of creativity components with regard to gender aspects, we can not make unambiguous conclusions, neither interpret the results of other researches as fully complying with (or not complying) the results of our research.

When comparing the estimates of personality traits by the year of studies, our research has identified that the estimates of senior students (the third and the fourth year) are significantly higher in terms of statistics in the sub scales of extraversion and openness to experience, compared to the estimates of junior students (the first and the second year). This data coincides with the data of other researchers (Weisberg et al., 2011), which shows that the expression of personality traits is impacted by age. J. Rantanen et al. (2007) also asserts that the average estimates of extraversion and openness to experience increase when a person gets older. However, our research results showing that agreeableness and conscientiousness / integrity are higher in junior students (the first and the second year) do not coincide with the research outcomes of J. Rantanen et al. (2007) who states that agreeableness and conscientiousness / integrity increase when a person gets older.

When comparing the expression of creativity components in students of different years of study it was found out that the estimates of the fourth year students in the sub scales of intuition, seeking innovation, flexibility and inversiveness are significantly higher in terms of statistics compared to the estimates of the first, the second and the third year students; moreover, statistically significant differences were not identified when comparing the results of the first year students with the second and the third year students, as well as comparing the results of the third and the fourth year students. The obtained results are favourable with regard to the opportunities of creativity development / self-development and they also contribute to the discussion whether creativity is innate and/or acquired, what age is the best age for creativity dissemination and a creative product creation. According to humanistic psychology (Rogers, Maslow), creativity is inherent in all of us, whereas the most favourable age for creativity revelation and cultivation is young adult life (quoted by Grakauskaitė-Karkockienė, 2006, 2010). The increase in the creativity expression estimate of our research participants - senior students of Lithuanian higher schools - is in line with these scientific findings. The obtained results show that it is necessary to foster the students' (beginning with the first year of study) creative thinking in the process of studies when involving them in various activities, project work, problem-solving, etc., which would develop creative imagination, divergent and critical thinking and encourage them to search for solutions using new, original and unconventional ways. Thus, creativity development / self-development in higher schools is of major importance since the first days of studies.

Despite the fact that there are a large number of researches, which analyse personality traits of students and their expression, there is a lack of researches, which would analyse personality traits of students who do not work while studying and those who align their studies with work. When comparing personality traits of students who do not work while studying and those who align their studies with work, the research found out that students who align their studies with work are more extroverted and open to experience than students who do not work while studying. Presumably, a higher level of extraversion and



openness to experience in students who align their studies with work is a natural tendency, since working experience fosters them to develop communication skills and the ability to solve complex and unconventional situations, which influence their personality changes. When comparing the creativity expression of students who do not work while studying with those who align their studies with work, statistically significant changes were not identified. Considering the fact that differences of personality traits and creativity of students who do not work while studying and those who align their studies with work have been scarcely investigated, this sphere should be the object of future researches.

There is no unambiguous opinion about distinctive personality traits of a creative personality or the interface between personality traits and creativity components, besides, different data contradicts each other. Analysis of the interface between personality traits and creativity carried out in our research has supplemented the results of other researchers on the interface between personality traits and creativity components. The research results have demonstrated that students who are open to experience have a higher level of intuition, fantasy, originality and flexibility, criticism in performing tasks and the need to seek innovation. This coincides with findings of most researchers regarding the interface between the person's creativity and openness to experience, beginning with the authors of humanistic psychology (Maslow, Rogers) and continuing until the present day (McCrae, Costa, 1997; Петрулис, 1988, 1991; Petrulytė, 2001 and others). According to some authors, openness to experience is to a great extent interfaced with creativity and is one of key features of a creative personality (Wolfradt, Pretz, 2001; Leung, Chiu, 2008; Garkauskaitė-Karkockienė, 2013; Pociūtė, Isiūnaitė, 2011).

The results of our research have revealed positive interfaces between the students' extraversion and intuition, fantasy, seeking innovation and childishness. It is asserted that activeness in communication, maintaining contact, energy and optimism are more characteristic to a creative personality. However, when investigating the interface between extraversion and creativity, the results of different authors are controversial. For example, MacKinnon admits (quoted by Wolfradt, Pretz, 2001) that creative personalities have a higher level of introversion. The research of D. Grakauskaitė-Karkockienė (2013) did not identify statistically significant interfaces between extraversion and creativity.

Our research has identified significant correlations: a particularly strong negative interface between the total creativity and agreeableness, as well as a negative agreeableness interfaces with flexibility, originality, criticism, inversiveness and childishness. These results do not coincide with the results obtained by Sung, Choi (2009), which show strong interfaces between creativity and agreeableness (in the group of individuals with a lower motivation); however, they are in line with the conclusions of D. Grakauskaitė-Karkockienė (2013) and U. Wolfradt, J. E. Pretz (2001), who admit that agreeableness does not interface with creativity. The latter interfaces could be investigated in future researches.

Our research has identified negative interfaces between conscientiousness / integrity and flexibility, originality, criticism, inversiveness and childishness. The aforementioned data not always coincides with other researches of a similar type, for example, showing that conscientiousness/integrity and creativity are not interfaced with each other (Grakauskaitė-Karkockienė, 2013). R. R. McCrae (1987) (quoted by Wolfradt, Pretz, 2001) also refuted the

hypothesis that creative individuals should be conscientious; however, the latter author identified a strong interface between conscientiousness and creativity only when the research participants assessed themselves. Whereas according to St. Wolfradt, J. E. Pretz (2001), conscientiousness / integrity is weakly interfaced with creativity. We assert that very important personality traits – conscientiousness / integrity and agreeableness - are not distinctive traits of a creative personality. Particularly creative individuals can understand moral norms differently than others, they do not always have a high level of agreeableness and are helpful to others.

When investigating the interfaces between neuroticism and creativity we have identified that this trait is negatively interfaced with intuition and is positively interfaced with flexibility, inversiveness and childishness. When analyzing the results of a negative interface between neuroticism and the creativity component - intuition, we found out that, in our opinion, neuroticism inhibits creativity. Some authors emphasize this factor as well. J. Pacevičius (2005) admits that when the level of neuroticism is higher an individual experiences negative emotions during his activities and the fear to stray from norms and rules. The latter has a negative impact on a creative process and activity results. According to the findings of other researchers, individuals with a higher level of neuroticism are less motivated to act, to take decisions, to involve themselves into activities and make solutions (Wang et al, 2006), which undoubtedly are creativity aspects. Other authors (Grakauskaitė-Karkockienė, 2013; Wolfradt, Pretz, 2001) did not identify statistically significant interfaces between creativity and neuroticism. In summary, it should be admitted that our research has supplemented the results obtained by other authors.

## **Conclusions**

1. When comparing the estimates of personality traits by means of equation, it was found out that the estimates of openness to experience in males was significantly higher in terms of statistics than in females, whereas other estimates of trait sub scales (neuroticism, extraversion, agreeableness and conscientiousness/integrity) did not differ significantly in males and females.
2. When comparing the estimates of personality traits according to the year of study, it was found out that the estimates of senior students (the third and the fourth year) were significantly higher in terms of statistics in the sub scales of extraversion and openness to experience, compared to the estimates of junior students (the first and the second year); in the latter groups agreeableness and conscientiousness/integrity were expressed at a significantly higher level. Furthermore, it was found out that students who aligned their studies with work were more extroverted and open to experience compared to those who did not work while studying.
3. When comparing the estimates of creativity of males and females it was found out that the estimates of all males, research participants, were statistically higher than of females in the sub scales of seeking innovation, flexibility, originality and criticism and in the total creativity sub scale.
4. It was identified that the estimates of the fourth year students in the sub scales of intuition, seeking innovation and flexibility were significantly higher in term of statistics compared to the first - third year students. No statistically significant differences were identified when comparing the estimates of the first year students with the second and

- the third year students, as well as comparing the results of the second and the third year students.
5. Correlation analysis of the students' personality traits and creativity shows that those students who were open to experience, extroverted, had a higher level of agreeableness and conscientiousness / integrity had higher estimates of the total creativity.
  6. The following correlations between personality traits and creativity components of the research participants were identified: extraversion has a positive correlation with intuition, fantasy, seeking innovation and childishness. Openness to experience was positively interfaced with intuition, originality, criticism, fantasy, flexibility, seeking innovation and inversiveness.
  7. It was found out that agreeableness and conscientiousness/integrity was negatively interfaced with creative flexibility, originality, criticism, inversiveness and childishness. The students' neuroticism was negatively interfaced with intuition, whereas positively with flexibility, inversiveness and childishness.

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# CREATIVITY: THE WHOLE OR THE HOLE IN THE BUSINESS CURRICULUM

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## Abstract

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This paper explores the view that a 'hole' exists in business education where creativity should be. The 'creative graduate' is essential in an increasingly competitive market. (IBM 2010) However, creativity is not seen as being part of the mainstream university curriculum as executives fail to see its importance (Jackson, 2014). Creativity should be characterised by openness and freedom, but until policy makers like QAA explicitly include creativity into subject benchmarks, little will change (Jackson and Shaw, 2006, 2015). The 'machinery of targets, measurement and control' minimises creativity (Simmons and Thompson, 2008) and creative pedagogy is all but killed by standardization and stringent performance targets (Banaji and Burn, 2007). This research focused on 3 groups of students from a NE England university through and beyond a creativity intervention. There were two phases of data gathering. In the first phase, before the intervention, their opinions about creativity and its value/role in business were collected. Throughout the programme, feedback was gathered around specific sessions and an evaluation of the research themes was collated. Phase 2 took place 6-12 months later and consisted of semi-structured interviews. Participants related their experiences about whether the intervention was being translated into actions and behaviours at work. Despite being a small-scale single university study, it provides rich detail of the experience of a creativity intervention. A novel feature is the consideration of the longitudinal impact. The results provide support for the growing literature which calls for creativity to become a mainstream element in the curriculum (Foresights 2015).

**Keywords:** creativity, higher education, business curriculum, personal creativity, organisational creativity.

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## Introduction and background

This paper explores the view that a 'hole' exists in Business Education where creativity should be. Jackson (2008) Creativity has many definitions but is defined simply by the author as a unique and novel approach or outcome. Creativity is omnipresent and exists in every discipline (Jackson, 2008). The idea that creativity is a 'good thing' is not radical or new. However its true value and contribution within business community is only just starting to be recognised. Livingstone (2010) believes that all '*humans are inherently creative*' and suggests we should not try to teach it, but rather understand, harvest and generate a motivation to embrace it. Whilst the author is not asserting here that all people are inherently highly creative, she believes that what creativity does exist can be built upon and developed, but developing a motivation and self-efficacy to do so must be encouraged.

Cardoso De Sousa's research in 2007 found that in the classroom creativity was seen as the outcome of a successful communication between teacher and student, where each was allowed to express themselves fully in the course of their tasks. Neither accepted responsibility for good outcomes rather they tended to attribute to each other why the outcome product resulted well from their interaction. Cardoso De Sousa suggests that; '*creativity lies not in the teacher, nor in the student, but in the interaction between the two*' (pp. 21). He believes that there is little agreement on what sits within the construct and Woodman and Schoenfeld (1990) state it can be seen as a social concept, expressed by peoples' implicit theories, or as a theoretical construct as developed by field researchers.

Csikszentmihalyi (1991) concurs and on a similar theme believing; *'creativity is located in neither the creator nor the creative product but rather in the interaction between the creator and the fields' gatekeeper who selectively retains or rejects original products'*.

In 'A whole New Mind' the seminal book by Daniel Pink, he states that in a twenty first century workplace, 'collaborative thinking and interacting' are considered essential skills. He refers to young students of creativity as 'informational omnivores' that can be prepared to seek challenging situations that require change and creative unique solutions. Bandura (1991) postulated the benefits of self-efficacy and synergy in collaborative decision making. Livingston (2010) believes that every student should participate in team problem solving games and then from there develop the key skill of collaborative learning. Teachers must work out not how to 'teach' creativity but how to understand, harvest and build up the creativity that every student possess'.

Recent years have seen Business Schools' increasing their focus on 'employability skills' as a core part of their business curriculum (Bridgestock , 2009). This coupled with the notion that 'creative graduate' is essential in Business today, has led the author to explore why creativity is so often all but missing in the Business Curriculum (Jackson, 2008). Yet while creativity is recognised as an essential 'graduate attribute' in an increasingly competitive market (Foresights 2030 Report); however, in reality creativity appears to be all but absent in most mainstream university curriculum, the reason reported by Jackson in 2014 is that University executives fail to see its importance.

Creativity flourishes in an open and free environment (Csikszentmihalyi, 1996). The whole notion of creativity is it grows, develops and flourishes without boundaries. This in itself is problematic as the UK education system is characterised by boundaries normally in the business curriculum under the guise of highly prescriptive programme learning outcomes (Banaji and Burn, 2007). This is a contradiction in itself as when an individual is creative they are searching for a new, unique non prescribed outcome. However the stringent requirements of agencies such as the QAA who need to oversee the achievement of prescribed learning outcomes find creative programmes awkward and problematic (Jackson and Shaw, 2006, 2015). It is hardly a surprise; therefore to discover creativity is not an expressed criteria within the Business subject benchmarks it could be argued that until creativity is expressed as an essential business skill, there is unlikely to be any significant change (QAA subject benchmarks).

Simmons and Thompson (2008) have described the current system of quality assurance in UK Universities as a 'machinery of targets, measurement and control which minimises creativity'. As a result they believe that any attempts to achieve a creative pedagogy are doomed. Banaji and Burn (2007) concur and add that the potential for creativity in the classroom is killed by standardization and stringent performance targets.

This research stemmed from the author teaching an undergraduate Creativity module. Following studying the module, several students reported anecdotally that the module appeared to have positively influenced the way that they viewed and interpreted workplace scenarios and problems. They reported a change in their thoughts and actions and the students were attributing this to the creativity module. They reported both thinking and

acting differently at work directly as a result of studying creative thinking, and had solved problems that had existed for some time. The author was curious about this and wished to discover whether or not this was a spurious occurrence.

### **The research and the creativity intervention**

This research focuses on tracking 3 cohort groups of Post Graduate Business students from a North Eastern UK university. The course offered is optional and in addition to the mainstream post graduate curriculum. The study captures the student experiences (thoughts, and feelings) through and beyond a creativity intervention and ascertains any potential influences / changes that are evident back into the workplace in a longitudinal study which could in part be attributable to the course. The study aims to discover whether students perceive that attending the creativity intervention has impacted on their thoughts and actions once they are back at work. If so, this would then provide some support for previously reported anecdotal evidence of students experiencing and reporting changes in their actions and behaviours at work following attending a creativity intervention. If this is the case it would suggest that the changes evident could at least in part be attributable to the creativity intervention. This study is based upon the collection of gathering rich qualitative data (Leavy, 2015) at several points of the students' creative journey.

The creativity module examined is 4/5 days in length taught as a single block followed by an assessment, which requires students to design a creative unique 30 minute learning session which they then pilot on the peers and then can modify as a result of peer feedback. The idea behind the assessment is that the students experience a variety of different creative learning sessions and experience a wide range of creative scenarios and also have the opportunity to facilitate one of them.

The programme begins with a general introduction into what is creativity and why it may be an important skill both for the individual and also for business. It developed from the premise that all individuals have the capacity to be creative (Livingston, 2010) however by the time students have progressed through a traditional route of education, an adults creative capacity can be reduced to as low as 2% of its potential (Robinson, 2005).

Then the programme explores the definition and traditional problem solving. Followed by an opportunity to explore and experience Creative Problem Solving techniques, starting at the most basic, classic Brainstorming, before trying out variants such as Round Robin (in the participant group students follow one another to give an idea in order), Stop Start, (Brainstorm for 5 minutes then have 2 minutes silent thought), Brain Writing (a silent brainstorm where all ideas are written on post-it notes and made visible to the group) and Gordon Little variation. A variety of Human Resource, Business and Financial workplace scenarios are used as a focus topic in all exercises.

The next session is Attribute Listing - this requires students to break down everyday items into their component parts. For example a Torch, made of metal case, switch, battery, lighting device, glass front etc. Then students start thinking about how this could be modified, adapted and changed to be different, not only regular identifiable products, but radical and new outcomes are encouraged. Morphological analysis is then introduced and practice exercises undertaken.



Pictures, imaging, perception and metaphors are the next focus of study and how we perceive and view things and how this is unique to each individual. Students define themselves metaphorically based on the characteristics, nature and disposition. Images are then used as Force Fit Triggers, students then brainstorm and list all the ideas and characteristics of a given picture, its features, its function(s), the thoughts, and emotions generated by the images. The students are then given an unrelated problem to solve with their list of words, at this point wildest idea variant is encouraged.

Storytelling (Polkinghorne, 1995) as a creative technique is then introduced and practiced and the use of digital media combining images and music is explored to communicate key messages and emotions. The use of imaging and music are powerful tools and can be really effective as creative communication media by which to portray important messages. The use of colour and theming are all explored as it the use of shock and unpleasant images are sometimes used to create emotional responses. The use of unexpected and surprise media is encouraged and supported. Several creative play exercises are developed here. The emotions theme is further developed by introducing the creative technique of synectics.

Synecotics is a technique where inanimate objects can be 'brought to life' and by attributing them with human qualities we can observe and so we can analyse their characteristics. For example if a bottle of red wine is placed on a table in front of students; they are asked to initially describe and record their thoughts on the bottle of wine, they are encouraged to think about its features and attribute, and its positive and negative characteristics and associations etc. After this is recorded students are then they are asked to 'personify' it. The facilitator then says something like, 'If you were that bottle of wine, how would you feel sitting there?' Students then discuss and record their personified images and emotions. Several exercises of this nature are then undertaken before students are finally introduced to a synectic excursions, In the use of synectic excursions students are required to envisage and hypothetically 'go and experience another reality' describing and recoding their thoughts, feelings and emotions while in their realities. The 'reality' is usually another world such as 'hot sunny beach, perhaps on the moon, or in the arctic circle. Students then describe and record the imaginary environment that they are in. They are encouraged to record what the environment looks and feels like, what attributes if any it has or are associated with it, and also to record their feelings emotions whilst in their imaginary reality. This stage can last up to about 40 minutes in my experience, and whilst brainstorming the students should be left to work undisturbed. After which time when all the brainstorming ideas have been recorded, the facilitator will introduce an unrelated work problem that they can address using the descriptions and language they have recorded. This is the most advanced out of all the techniques use in the module and students need to be appropriately briefed and prepared for it. The extent of immersion will vary group to group but when these techniques are effectively facilitated the participation and extent of complete immersion in the task is both fascinating and enlightening to observe. Students must be carefully debriefed and given the opportunity to withdraw from any excursion at any point should they feel uncomfortable or vulnerable.

A session on the importance of the environment (Csikszentmihalyi, 1996) and its influence and in creating an environment that is conducive to creativity and the creation of a creative culture is of prime importance, as without a supportive safe environment and the freedom

to take risks creativity will fail. It is essential that students know that in the classroom trying anything new which is legal and non-offensive to others is acceptable even if it is not a recognised practice. Finally the students are given instruction on how to design and deliver a short training session. Things such as aims and outcomes, structure, participation and ARCS model (Keller 2008) are used to prompt students to the audience motivation etc. Finally the evaluation and feedback of the pilot session are considered and students are asked to design a training evaluation form (based on the Kirkpatrick (Kirkpatrick 1994) evaluation model or similar) which they will use to gain feedback on their individual sessions. The assessment is usually carried out a week after the end of the course giving students time to consider what they have learned and time to create a new learning session for which they will have communicated their learning aims and objectives.

The whole course is extremely interactive and practical, theoretical academic underpinning is included but as a secondary to the main purpose of participating in as many different creative sections as possible and experiencing as many of the creative techniques as possible.

### **Methods - data collection and analysis**

The research is Interpretive in nature (Crotty, 1998) meaning that the context of the research is subjective and based on an individual's perception of their reality. The approach used is one of social construction which enables the creation of a safe learning environment to enhance creative potential. This environment will vary dependent on the nature of the participant individuals, their context, task and interactions. The method adopted in the research is phenomenological, this was chosen as it allows the author to observe and understand the social interactions that are being present, and record the students' experience, both acknowledging and considering their thoughts and feelings. Data is collected before, during and after the intervention. Phenomenology allows the author to consider other factors that may impact on human thoughts and behaviours such as the environment, the exercises undertaken and the teaching aids that are utilised during the course. This is an important consideration in the research. Phenomenology has been widely used by other authors observing similar scenarios in the literature. (Klienman, 2008; Jackson 2008, 2014).

A key consideration in this type of research is the role of the author/facilitator, and the influence of author in the research. Wertz (2011) believes it is important to evaluate the effects of the researchers' values, emotions and experiences and acknowledge their impact on the participant outcomes. He goes on to say that where the experience/ intervention (in this case) intends to change the status quo and is doing so is using an unequal balance of power and resource, (i.e. knowledge and techniques and exercises are provided and taught by the researcher) and where it is central to change it is termed 'radically relational' based research. Ponterotto (2005) acknowledges that often the researcher is a key in bringing about that shift. The author believes that the students are subject to the influence her own passion and a belief that Creativity is a massively overlooked area in business and one that is largely omitted from mainstream curricular. The ethical concept of University staff using students for research whilst not unusual is worthy of consideration. All research in this case is voluntary and additional to their postgraduate programme of study. All research

participants had given their consent and the research was conducted in line with ethical standards (Ethical research guidelines, University of Sunderland).

The knowledge acquired in this type of research is socially constructed rather than objectively determined (Carson et al., 2001, 5) and comes from the thoughts and observations of both the researcher and the participants (Hirschman, 1985; Berger and Luckman, 1967; Hudson and Ozanne, 1988). Its key characteristic is that it is based upon an individuals' 'social reality,' which results in it being highly subjective and takes many forms (multiples). Therefore any social reality experiment is affected by those students who participate in the research and or those such as facilitators that can manipulate the research in any way. This type of research involves uses an 'interpretive understanding' of the social phenomena it represents (Collis and Hussey, 2014). Therefore the act of investigating a social reality is receptive to capturing the meanings of social interactions not just the interaction itself (Black, 2006). This requires the researcher to make sense of what is perceived not just what is obviously visible and apparent, including the researcher's perceptions and views of the reality.

Data has been collected in the first instance via a series of qualitative questions put to student participants as an open questionnaire. The questions selected were open ended and space was left to encourage respondents to provide detailed, rich data responses. The questionnaire addressed the key areas of interest in the research such as 'what did they understand by the term creativity' Did they believe they were creative? Had they studied creativity before? Did they believe creativity was inherent or taught? Is creativity important in Business? If so, how and why? And did they believe that creativity should be in the mainstream business curriculum or as an additional option to add on?

In line with our University Code of Ethics, the above questions were put to the students before commencing the course along with and written explanation of the research, a University ethical consent form and the author discussed the ethical considerations of the research fully prior to engagement. Participation as stated above was voluntary and in no way connected with the current Master degree study programme. Home contact details were also sought along with their private email address as the final longitudinal stage of the research is undertaken at least 6 months after they have returned to the workplace. In addition to this daily feedback evaluation forms asking about the specific creative techniques used during that day were used, names were supplied so that all responses could be tracked for specific students from beginning to end. At the end of the intervention another questionnaire was issued that asked similar questions to the initial pre-course questionnaire to track any shifts or changes in opinion as a result in their participation in the course.

### **Initial findings**

Currently the author has recently undertaken initial thematic analysis on the 3 cohorts of data in line with the research aims. Initial results are suggesting that students are reporting a shift in their attitudes towards creativity. Several reported prior to the course that they initially didn't believe it was necessary for creativity to be part of a mainstream business curriculum, however having undertaken the experience, the majority said it should definitely be part of the mainstream business curriculum. Only 1 student out of the final

cohort believed it should be an optional bolt on extra-curricular activities. Others said they did not believe they were creative but they had discovered that with the right supportive environment they could be creative. The full and final conclusions will not really be known until after the author does the workplace follow up interviews later this summer. However if the study finds support for the proposition that creativity should be part of the mainstream curriculum, it will add support to several other key researchers who are coming to the same conclusions.

Despite being a relatively small-scale single university study, the research will provide rich details of the experience of a creativity intervention on business students. To the authors' knowledge, no other longitudinal study of this nature exists and it is anticipated that this will constitute a small contribution to existing knowledge. This is the novel element evaluating the longitudinal impacts of the intervention if such effects exist. If, as the author suspects, the results do provide support for added value in the workplace and the inclusion of creativity in mainstream business; then the study could join the growing list of authors who are supporting the idea that creativity should become a mainstream element in the curriculum (Foresights, 2015).

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## **ENTREPRENEURSHIP AND CREATIVITY: TWO IMPORTANT SKILLS STUDENTS NEED FOR THEIR FUTURE**

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### **Abstract**

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Creativity, initiative and entrepreneurship will help young people to develop the capacity to think creatively and innovate, take initiative, be flexible and independent, manage projects and deliver the results. Such creative and innovative society will be able to easily and quickly adapt to a changing world conditions and will have economic and social advantages. In the near future the largest number of jobs will be found in the services sector, including IT, insurance and consulting. Employers are increasingly looking for candidates with transversal competences, such as the ability to solve problems, critical thinking, organize their work and communication. The set of such competences can be called non-routine skills. Vilniaus Kolegija / University of Applied Science carries out the program 2014–2016 of Applied Science and Art activities. There is provided the research of entrepreneurship and creativity for all students, which goal - to find out and evaluate the students' attitude to analytic thinking, independence and creativity and the importance of education issues, revealing young people's attitudes towards necessary qualities of entrepreneur and the motivation to do business.

The purpose of article is to define the concepts of creativity and entrepreneurship, evaluate the results of the students' survey. The objectives of article - to define the importance of education in developing students' entrepreneurial and creativity skills, generalize the results of the students' survey carried out at Vilniaus Kolegija / University of Applied Science.

**Keywords:** entrepreneurship, entrepreneur, individual characteristics of the entrepreneur, creativity, creative people, business environment.

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### **Introduction**

Research of entrepreneurship and creativity was carried out at Vilniaus Kolegija / University of Applied Science in December, 2015 and January-February, 2016. Questionnaire consisted of 18 closed and open questions. Respondents were students in the third academic year at Vilniaus Kolegija / University of Applied Science. The number of respondents was 471, more than half of all students in the third academic year.

The purpose of the research is to reveal the students' attitude towards entrepreneurship and creativity. Research objectives are to evaluate the respondents' attitude to analytic thinking, independence and creativity and the importance of education issues, revealing young people's attitudes towards necessary qualities of entrepreneur and the motivation to do business. Research methods are these: questionnaire, qualitative and quantitative data analysis.

### **The concepts of entrepreneurship and creativity**

Entrepreneurship is the practice of starting new organizations, particularly new businesses generally in response to identified opportunities. Entrepreneurship is often a difficult undertaking, as a majority of new businesses fail. Entrepreneurial activities are substantially different depending on the type of organization that is being started. Entrepreneurship is

the ability to transform the existing human and material resources into the production that is demanded and required by other people. The choice, frequency and stability of consumption point to the production demand and its competitive advantages on the market.

The concept of entrepreneurship has a wide range of meanings. Joseph Schumpeter (1961), one of the most well-known theorists on entrepreneurship, defined an entrepreneur as one who reorganizes economic activity in an innovative and valuable way. His definition of entrepreneurship placed an emphasis on innovation, such as new products, new production methods, new markets and new forms of organization. J. Schumpeter defined innovation, creativity and discovery as the vital core subjects [6].

Economic literature provides many definitions of entrepreneurship. Entrepreneurship can be defined as an initiative of the organization, including the risk behaviour, increasing the value of the development process, and using innovations. The word entrepreneur originates from the French word, *entreprendre*, which means “to undertake”. In a business context, it means to start a business [1]. The concept is derived from English word entrepreneurship, which is associated with the ability to discover new opportunities, the opportunity to realize ourselves and the creation of economic or social value.

Entrepreneurship refers to a characteristic of people who assume the risk of organizing productive resources to produce goods and services; a resource [2]. Entrepreneurship as people’s propensity and ability to take the economic activity by combining capital, labour and other economic resources, in order to obtain a profit and assuming all of the activities associated risks. Entrepreneurship in a narrow sense is understood as the creation of added economic value, the ability to make money, attract investment, and make that the business subject's activities are of interest to potential consumers of goods or services. Entrepreneurship in a broad sense includes inborn or acquired personal characteristics, which allow create economic value, but also the creation of social value. Entrepreneurship is personal, social, managerial excellence, allowing the adaptation of existing knowledge in everyday life, the specific skills, providing the opportunity not only to organize business, but also to take the risk for the decisions.” Entrepreneur - somebody who has the idea and enterprise to mix together the other factors of production to produce something valuable. An entrepreneur must be willing to take a risk in pursuit of a profit [3].

In the educational services market young people are provided by the unique opportunities, where they use practical experience and theoretical knowledge in small and medium-sized enterprises. Promoting youth entrepreneurship is one of the most important objectives of the educational institutions.

Innovation brings something new or unusual in the market and exacerbates the competitive process, and generates wealth. New companies, new products and new opportunities for business development increase the gross added value and improve the quality of life. Therefore, in the learning process young people must deliberately use their inborn characteristics and acquire the characteristics which are necessary for their business development. An entrepreneur is a person who undertakes and operates a new enterprise or venture and assumes some accountability for the inherent risks. Individual characteristics

of the entrepreneur are these: ability to take the lead, self-sufficiency, innovative skills, *creativity, enthusiasm, push*, persistence, be a leader, overcome cumpers and communicativeness.

Traditionally, creativity is not only linked to the arts and culture, but also to inventions, which belong to the field of research, industry, manufacturing, commerce, management of organizations. These definitions are used in different ways: creativity applies not only to the creators in the sphere of art or literature, but also for entrepreneurs and managers, who are flexible, independent, who are able to adapt and take initiative.

Creativity is the complex of personal characteristics, allowing achieve original, socially relevant results. This is the mental and social process consisting of the generation of new ideas and concepts or new relationship and interaction of the known ideas and concepts [5]. Traditional concept of creativity is related not only with art and culture but also with inventions and discoveries, as well as business development and management. Encyclopedia of Creativity distinguishes the following types of creative people: adaptors and innovators, creators of ideas and concepts, who are able to optimize and implement them, inventors, single introverts and sociable extroverts [4]. There are many types of creativity. Expressive spontaneity refers to the free development of ideas without worrying about their usefulness. Technical creativity refers to the creativity based on excellence of the performance. Creativity of adaptation refers to the innovative adaptation of known things. Innovative creativity refers to the extension of known principles. Creativity of inventions refers to the offering of new principles. Creativity can be understood as an improvisation, as well as a product development in various fields: art, inventing and engineering, science, management and business of daily life.

### Results of the research of entrepreneurship and creativity

Figure 1 shows that 90 percent of respondents think that it is important to develop entrepreneurship skills. Most students at the Faculty of Arts and Creative Technologies, Faculty of Economics, Faculty of Business Management and Faculty of Health Care pointed to the importance of developing of students' entrepreneurship skills (96.3, 95.1, 94.1 and 94.1 percent). The largest number of the respondents who chose answers "absolutely not important", "not important" and "don't know" was at the Faculty of Electronics and Informatics (27.3 percent) and Faculty of Agrotechnologies (26.9).

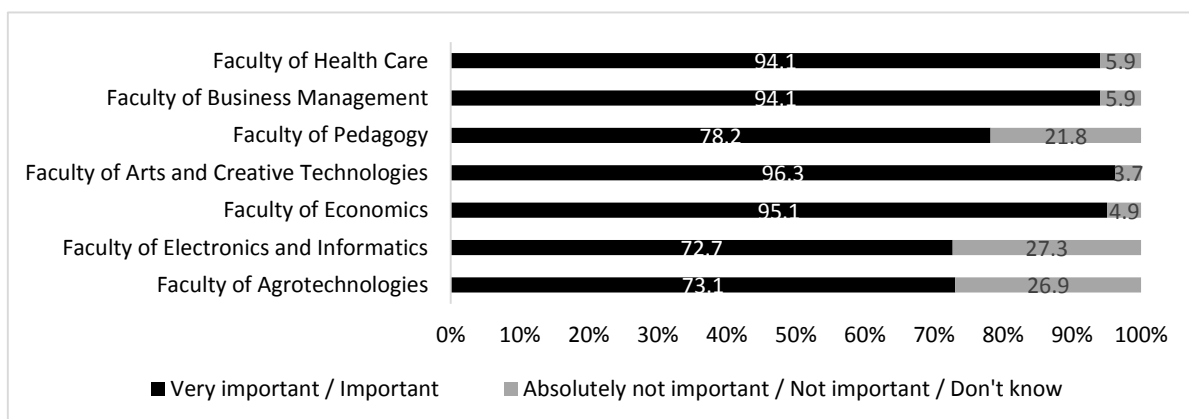


Figure 1. The importance of developing students' entrepreneurship skills.



Almost 70 percent of the students in the third academic year who responded to the questionnaire pointed out that their knowledge of entrepreneurship was of the average or low level. The largest number of the respondents who stated the best knowledge of entrepreneurship was at the Faculty of Arts and Creative Technologies (33 percent) and Faculty of Health Care (44.8). A feature of the Lithuanian business is that there are no family business traditions. There are not so many young people who gain knowledge and skills of doing business while working at their family business.

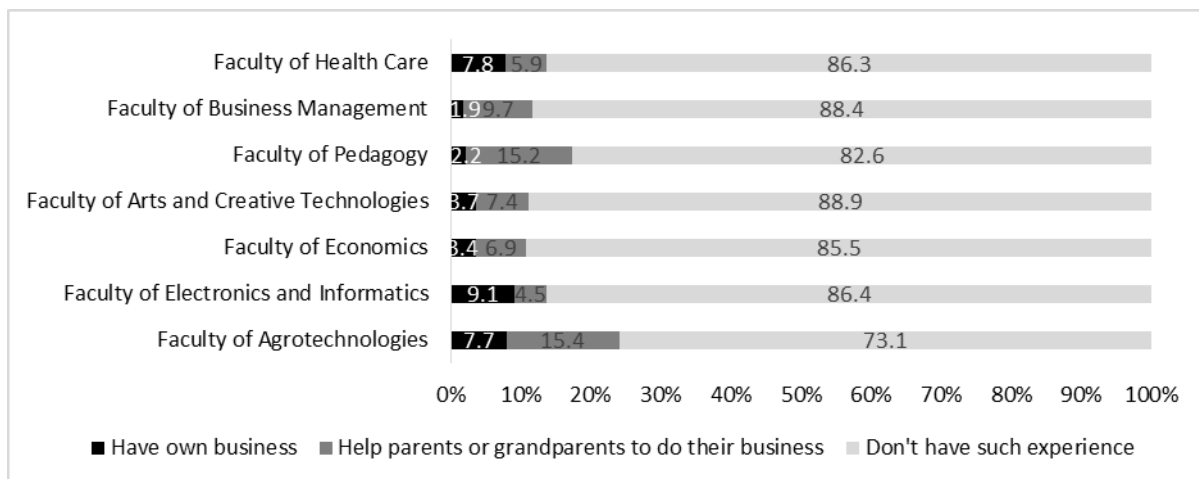


Figure 2. Experience of doing business.

The results of the research show that most students don't have experience on how to create business and manage an enterprise. More than 85 percent of respondents answered that they didn't try to create business and their parents and grandparents didn't have business. There is a small number of young people in all faculties who have their own business. 9.1 percent of the respondents at the Faculty of Electronics and Informatics have own business. 15.4 percent of the respondents at the Faculty of Agrotechnologies and 15.2 percent at the Faculty of Pedagogy have experience of working in their family business. It should be noted that successful entrepreneurs have certain personal characteristics, so students were asked to evaluate their personal characteristics associated with entrepreneurship. The students chose their communication, planning and organizational skills, as well as responsibility, ability to take risks for decisions and adaptation to changes. Students supported the idea of socially responsible business and the use of innovations. For the students it isn't difficult to bring together people to new activities, and it's good, because the ability to take risks and teamwork are some of the most important characteristics of an entrepreneur. The study revealed that the least number of respondents noted the ability to learn and work even during the holidays, not to give up and start a new business after the collapse of the previous one. Most students didn't have business experience and they found it difficult to decide whether they would dare to start a new business after the collapse of the previous one. The answers of the students show that it is difficult for them to predict the future.

The results show that students at the Faculty of Economics (76.6 percent) and Faculty of Business Management (65.5) have knowledge about the principles of market economy and the importance of business. The least number of such students is at the Faculty of Pedagogy (10.8 percent) and Faculty of Agrotechnologies (46.2).

Figure 3 shows that 86.2 percent of the respondents at the Faculty of Economics and almost 80 percent of the respondents at the Faculty of Business Management have knowledge about business processes: planning, management, marketing, accounting, cost accounting and financial analysis. This is not surprising because most students of these faculties are studying more or less these subjects depending to the study program. The least number of the respondents at the Faculty of Pedagogy (17.3 percent) and Faculty of Health Care (15.7) have knowledge about these subjects.

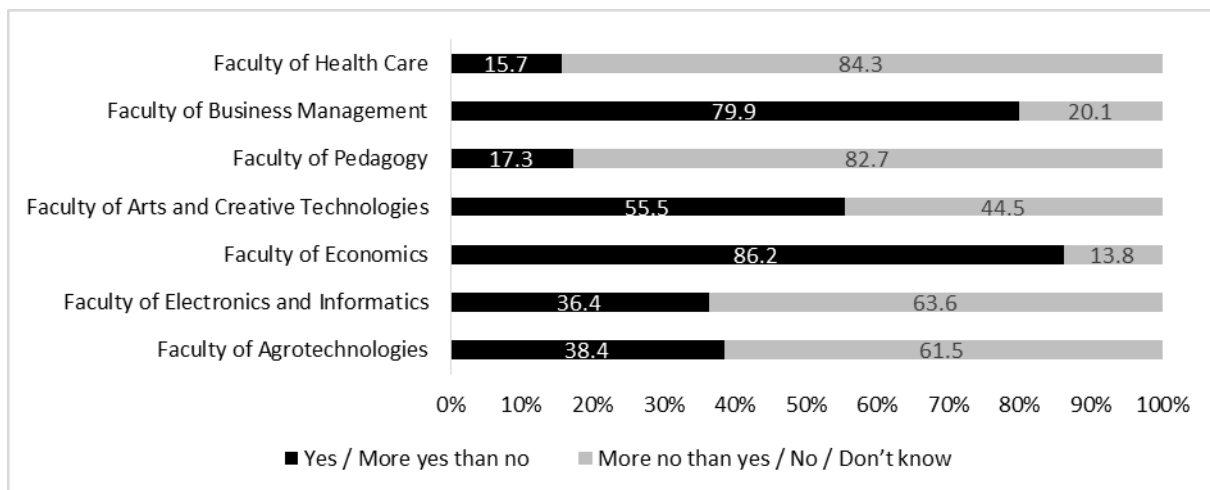


Figure 3. Knowledge of business processes.

The subjects often mentioned by the students studying in all faculties except the Faculty of Pedagogy and Faculty of Health Care as the most useful to developing students' entrepreneurial and creativity skills are Business Plan, Marketing Project and Business Economics. It should be stated that the students also mentioned the role of business simulation firms. The students studying in the Faculty of Pedagogy and Faculty of Health Care pointed to the following subjects: Law and Management; the students also mentioned preparation and implementation of projects. A large number of the respondents at the Faculty of Business Management, Faculty of Economics and Faculty of Pedagogy know that Vilniaus Kolegija / University Applied Sciences has Entrepreneurship Development Centre. Almost 4.3 percent of the respondents at the Faculty of Pedagogy and 1.3 percent at the Faculty Business Management used the services of the centre. However, most respondents at some faculties, for example, the Faculty of Health Care (92.2 percent) don't know about the existence of such centre.

There are several methods of developing students' entrepreneurial and creativity skills incorporated into the study process. It should be mentioned lectures, practice works, analysis of case studies, debates, projects, etc. The answers of the students to the questionnaire helped to find out which of them are the most useful. The results allowed to state that business simulation, business games and meeting successful businessmen were the most useful for developing students' entrepreneurial and creativity skills. According to respondents, the least useful are course projects and preparation and presentation of papers for the audience.

The respondents studying at the Faculty of Business Management, Faculty of Pedagogy and Faculty of Economics noted that the tasks where they have to show the ability to combine skills and knowledge and their creative application are included in the study subjects (72.1, 65.2 and 64.2 percent). The least number of such students is at the Faculty of Agrotechnologies (34.6 percent) and Faculty of Health Care (41.2).

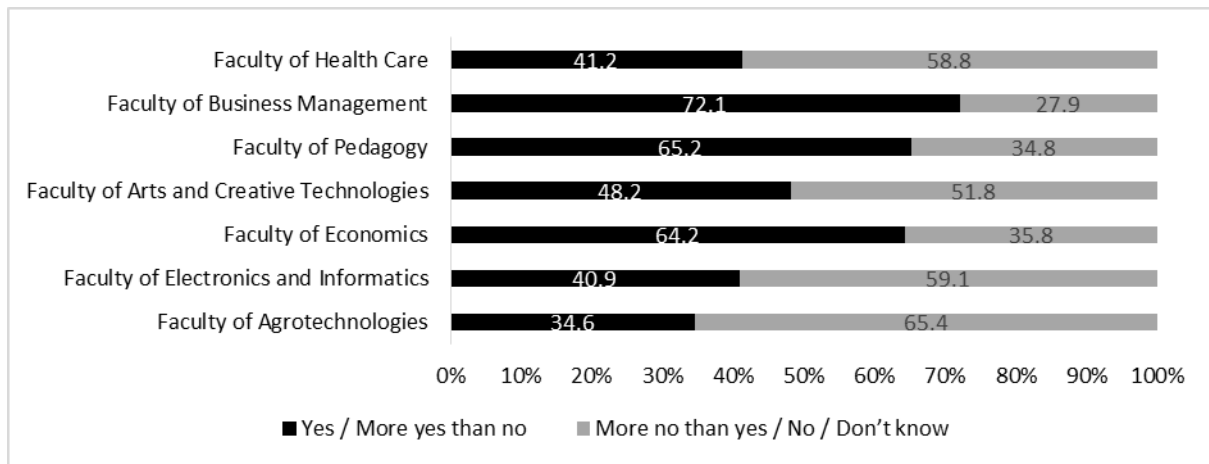


Figure 4. Ability to combine skills and knowledge and their creative application while doing the tasks.

Almost 64 percent of respondents prefer the tasks consisting all the information which is needed to achieve a goal. However, a large number of students at the Faculty of Agrotechnologies (65.4 percent) and Faculty of Arts and Creative Technologies (48.1) prefer to gather all the information about the problem given in the task by themselves and then formulate an idea on how it could be solved. Such tasks are the least preferable for the students at the Faculty of Economics (31.1 percent) and Faculty of Health Care (25.5).

Figure 5 shows that 92.6 percent of the respondents at the Faculty of Arts and Creative Technologies and 76.1 percent at the Faculty of Pedagogy are interested in engaging in applied sciences, art and other creative activities. A half of the respondents at the Faculty of Agrotechnologies noted that they aren't interested in such activities or they don't know. It should be stated that 13.7 percent of the respondents at the Faculty of Electronics and Informatics don't know if they are interested in engaging in applied sciences, art and other creative activities.

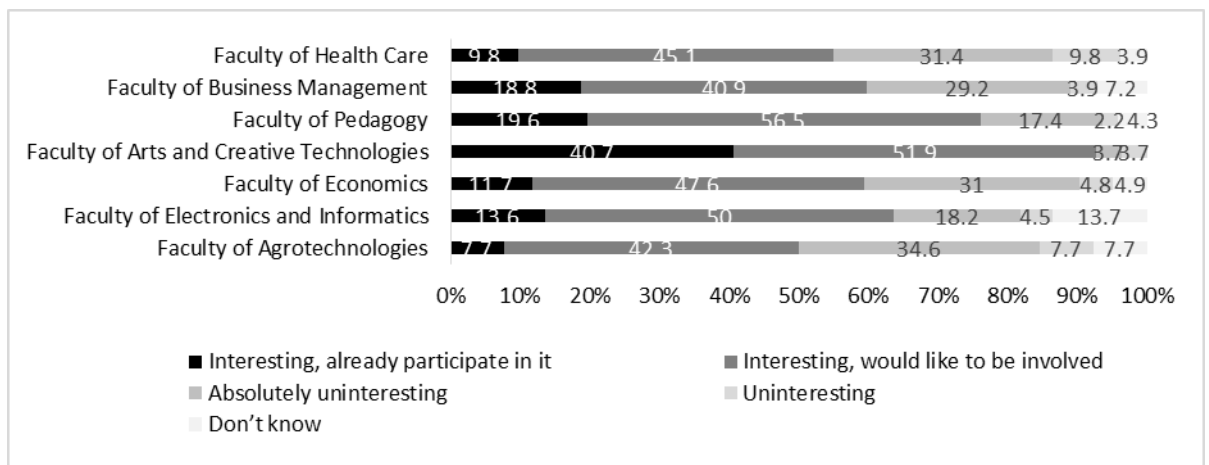


Figure 5. Engagement in applied sciences, art and other creative activities.

The respondents studying at the Faculty of Business Management and Faculty of Arts and Creative Technologies noted that their studies were contributing to developing students' entrepreneurial and creativity skills. The competences highlighted by the students studying in all faculties are the ability to communicate in Lithuanian language and use technologies. However, social and political competences are not developed enough in all faculties. The questionnaire included a question about innovations and the study process. The students studying in all faculties agreed that they learn using different computer programs, electronic databases and innovative teaching methods. A large number of respondents didn't know if innovations were used at the Faculty of Health Care and Faculty of Arts and Creative Technologies. The survey was aimed to find out whether the faculty organizational culture encouraged openness and creativity of students. More than half (55 percent) of respondents chose answers "strongly encouraged" or "encouraged". A strong support to be more creative and open are felt by the students at the Faculty of Business Management (64.9 percent) and Faculty of Pedagogy (63.1). However, only 34 percent of the respondents studying at the Faculty of Agrotechnologies thought that their faculty organizational culture encouraged openness and creativity. Students were asked to propose the way how to effectively develop creativity skills. There were found the following suggestions: use more business simulation, business games, more often analyse specific business situations, closely communicate with successful entrepreneurs, develop creative tasks for teamwork, and organize more discussions, competitions and other events where students could express themselves (for example, "the night of ideas", "marketing days" and so on). To summarize, there could be a suggestion that respondents emphasized the importance of openness in order to create conditions where creativity is not suppressed.

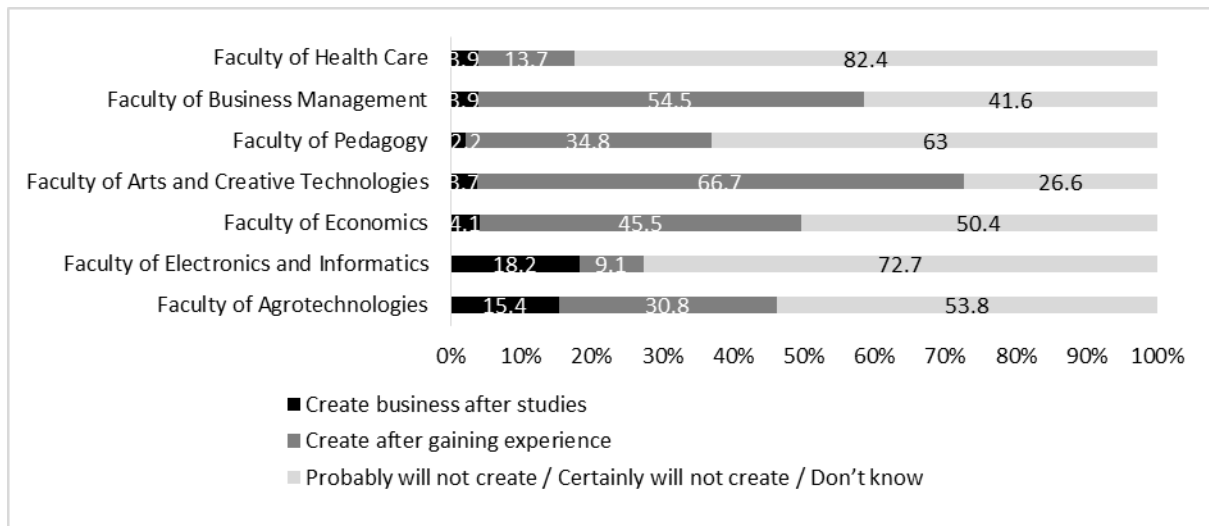


Figure 6. Willingness to create business.

The respondents studying at the Faculty of Electronics and Informatics (18.2 percent) and Faculty of Agrotechnologies (15.4) are willing to create business after studies. However, the students studying in all faculties would like to gain experience first and then create their own business. The largest number of such respondents is at Faculty of Arts and Creative Technologies (66.7 percent) and Faculty of Business Management (54.5). 82.4 percent of the respondents studying at the Faculty of Health Care probably will not create their own business or they don't know. There should be emphasized the distribution of answers at the Faculty of Electronics and Informatics because of a large number of students comparing

with other faculties who are willing to create business after studies and, at the same time, one of the largest numbers of respondents who probably will not create their own business or they don't know (18.2 and 72.7 percent).

## **Conclusions**

1. The concepts of entrepreneurship and creativity have a wide range of meanings. Entrepreneurship as people's propensity and ability to take the economic activity by combining capital, labour and other economic resources, in order to obtain a profit and assuming all of the activities associated risks. Creativity is the complex of personal characteristics, allowing take initiative and achieve original, socially relevant results. Traditional concept of creativity is related not only with art and culture but also with inventions and discoveries, as well as business development and management.
2. The results of the research carried out at Vilniaus kolegija/University of Applied Science highlight the importance of developing students' entrepreneurial and creativity skills. Most students at the Faculty of Arts and Creative Technologies, Faculty of Economics, Faculty of Business Management and Faculty of Health Care emphasized their communication, planning and organizational skills, as well as responsibility, ability to take risks for decisions and adaptation to changes. Students supported the idea of socially responsible business and the use of innovations. Most respondents prefer the tasks consisting all the information which is needed to achieve a goal. However, a large number of the students at the Faculty of Agrotechnologies and Faculty of Arts and Creative Technologies prefer to gather all the information about the problem given in the task by themselves and then formulate an idea on how it could be solved.
3. The respondents studying at the Faculty of Business Management and Faculty of Arts and Creative Technologies noted that their studies were contributing to developing students' entrepreneurial and creativity skills. The competences highlighted by the students studying in all faculties are the ability to communicate in Lithuanian language and use technologies. However, social and political competences are not developed enough in all faculties. More than half of respondents noted that the organizational culture of their faculty encouraged openness and creativity of students.
4. Comparing with other faculties, a large number of the respondents studying at the Faculty of Electronics and Informatics and Faculty of Agrotechnologies are willing to create business after studies. However, the students studying in all faculties would like to gain experience first and then create their own business. Students were asked to propose the way how to effectively develop creativity skills. There were found the following suggestions: use more business simulation, business games, more often analyse specific business situations, closely communicate with successful entrepreneurs, develop creative tasks for teamwork, and organize more discussions, competitions and other events where students could express themselves.

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# INNOVATIVE AND CREATIVE ICT SOLUTIONS – THE BORN TO BE GLOBAL PERSPECTIVE

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## **Abstract**

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The early internationalization of businesses has become a significant phenomenon, which emphasizes the importance of the born-global concept and the need for researchers and practitioners to find the factors that influence the success of global technology start-ups. The scientific purpose of the study is to present a discussion of the theoretical framework concerning the born-global enterprises. The attention was focused on the interpretation of the term and the multidimensionality of this phenomenon. The author suggests that the process of creating global technology-based companies is relevant to the concept of technological entrepreneurship understood as a process involving greater practical usefulness of scientific research findings on modern technologies. The activities of entrepreneurs relate to the identification of potential entrepreneurial opportunities arising from technological developments, and the exploitation of these opportunities through the successful commercialization of innovative products in the rapidly changing global business environment. The empirical part of the paper indicates the key attributes of born-global enterprises using the case-study of a technology start-up. The application of this empirical method has made it possible to characterize the essence of global technology start-ups and illustrate the progress and development of the studied phenomenon in business practice. The cognitive aim of the paper is to present innovative and creative ICT solutions as well as interactive devices designed and commercialized by the analyzed technology start-up on the international market. The paper concludes with practical recommendations and directions for the future development of the company. Considerations of the study may provide a starting point for an in-depth empirical research and contribution to the discussion on the methodological dilemmas associated with conducting research of born-global enterprises.

**Keywords:** born-global enterprises, early internationalization of businesses, innovative ICT solutions, creativity, fog screens, technological entrepreneurship, technological innovation, technology start-ups, interactive communication.

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## **Introduction**

Creative and innovative entrepreneurship involves processes through which organizations generate value from their intellectual capital and knowledge-based assets. An important problem in the process of developing and increasing the competitiveness of companies is the level of technological innovativeness and uniqueness of products and services. Innovative companies recognize the importance of effective knowledge management, which constitutes an essential and dominant element in the entire innovation process. It is also important to enrich internal knowledge resources (which constitute the innovative potential of enterprises) with the external ones. There is a close relationship between an innovative potential and activity in this area and the quantity and the quality of knowledge resources accumulated by the company. The creativity, capabilities, dynamism, and innovativeness of the entrepreneurs in a country are important aspects of the absorptive capacity, which is such a distinctive characteristic of successful development experiences (Szirmai, Naudé, & Goedhuys, 2011). The global economy provides the opportunity for internationalization from birth for the new technology-based companies. The global entrepreneurs must take advantage of the Global Intellectual Property as a competitive advantage, and access global

markets through the ways that another have learned and created (Etzkowitz, Solé, & Piqué, 2007).

Information and communication technologies (ICT) today constitute one of the most important factors shaping the way knowledge on business activities and offers is created and diffused. For companies with innovative solutions based on ICT, the internet has become a way to communicate, sell and provide services and products in the global environment. Furthermore, solutions tailored to individual customer needs have become an indispensable condition for the development of competitive advantage.

The authors of the International New Ventures theory, Oviatt and McDougall (1994) and McDougall et al. (1994) define the new global ventures 'as a business organization that from inception seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries.' Innovative and internationally oriented companies, so-called 'born globals,' face the challenge of developing a global value proposition, and attending global markets. The current empirical literature note several trends that contribute to an increasingly early internationalization of new technology-based companies. The ways to be global can include platforms that another has used or experience of other companies or managers.

The process of creating innovative business solutions is conditioned largely by endogenous factors of organizations, including primarily the qualifications and expertise of employees and their ability to implement new technological solutions into business practice. A significant impact on the development of innovative entrepreneurship is also made by business ecosystem covering a wide spectrum of cooperation with business environment institutions (Badzińska, 2014) and by external factors that influence the formation of technology firms (Bailetti, 2012). It is important to ensure optimal conditions for the commercialization of research results and their usage in enterprises in the form of new products and services through effective collaboration with research centers and the business-related sphere.

Creative entrepreneurship which must be combined with innovativeness is an ability to allocate resources efficiently. It can be argued that competitive advantage of technology firms is derived from their employees' unique knowledge, skills and especially the ability to implement them in practice, as well as specific organizational competencies and research experience. These companies successfully bridge the gap in the creation of innovative business solutions with the support of ICT and, above all, seek to obtain global market acceptance for their offer. The creation of new technology-based companies with global reach becomes a key tool in generating wealth in international business environment. However, the young ventures need the support groups such as chambers of commerce and other institutions that promote the internationalization of entrepreneurship. Therefore, it is necessary to skillfully combine innovative ideas with effective governance and relevant funding sources. It is undeniable that creative global entrepreneurship and the accompanying innovativeness have been and will be the driving forces in the rapidly changing global business environment.



The author suggests that the process of creating new technology-based companies with global reach is relevant to the concept of technological entrepreneurship understood as a process involving greater practical usefulness of scientific research findings on modern technologies. An essential element of this process is effective cooperation between research institutions, research and development centers, capital market institutions, business-related sphere and enterprises in order to diffuse knowledge and scientific potential into commercial solutions regarding technological innovations (Badzińska, 2015, 2016). All the activities of this phenomenon relate to the identification of potential entrepreneurial opportunities arising from technological developments, and the exploitation of these opportunities through the successful commercialization of innovative products (Petti, 2012).

The modernity of products and services provided by Polish technology start-ups depends largely on the creating of entrepreneurship culture, which is the basis for the development of innovativeness by people with funds, who are able to take risks. The key competences of technology firms are undoubtedly located in the resources of knowledge and skillful use of these resources to create added value and value for customers. Indeed, creative people are capable to recombine multiple knowledge and domain areas in different and unique ways from one discipline into another (Brazdauskaite & Rasimaviciene, 2015). Moreover, the expert knowledge is a fundamental resource that controls the processes of reconfiguration and multiplication of other resources, constitutes a platform of shared values and is fundamental for building trust in a company.

The scientific purpose of the study is to compile the views of scholars on born-global enterprises. The attention was focused on the interpretation of the term and the multidimensionality of this phenomenon. The empirical part of the paper indicates the key attributes of born-global enterprises using the case-study of a technology start-up. The application of this empirical method has made it possible to characterize the essence of global technology start-ups and illustrate the progress and development of the studied phenomenon in business practice. The cognitive aim of the publication is to present innovative and creative ICT solutions as well as interactive devices designed and commercialized by the analyzed technology enterprise. The purposeful selection of the company resulted from the clarity of the explained phenomenon and was aimed at identifying cases relevant to the research objectives. Considerations of the study may provide a starting point for an in-depth empirical research and contribution to the discussion on the methodological dilemmas associated with conducting research in this area.

This paper is organized into five sections. The first part presents a discussion of the theoretical framework concerning the born-global enterprises. The paper then describes the methods used for carrying out the study. The next section exemplifies the theoretical background using a case-study of the technology start-up – Leia Display System. The study provides the examples of how to use the potential of endogenous factors of organization to create and implement innovative ICT solutions in the rapidly changing global business environment. Then the unique and modern technology solutions of Leia will be presented. The paper concludes with practical recommendations and directions for the future development of the company.

### **The born-global perspective – theoretical background**

The early internationalization of businesses has become a significant phenomenon, which underscores the importance of the born-global concept and the need for researchers and practitioners to understand the factors that influence the success of global technology start-ups. It is a complex phenomenon that encompasses not only multiple disciplines and levels of analysis to be investigated using different perspectives, but also a case-by-case approach for the analysis to be meaningful.

The discussion of the theoretical framework is based on international literature review concerning the born-global enterprises and related concepts, to compare different definitions and the views of scholars on this research object. A new method of the process of internationalization and a type of company were identified by a study (Rennie, 1993), which proved that many firms began to export within a couple of years of their establishment due to globalization and technological advances (Cavusgil & Knight, 2009). Such findings contradicted the traditional internationalization theory categorized as gradual and evolutionary – the ‘stages theory’ (Johanson & Vahlne, 1990). They contributed to further research on this topic.

Being a relatively new concept, there is no single, generally accepted definition of born-global enterprises in the subject literature. They are referred to as ‘born globals,’ international new ventures (Oviatt & McDougall, 1994), global start-ups (McDougall et al, 1994), infant multinationals (Madsen & Servais, 1997) or innate exporters (Mettler & Williams, 2011). The vast majority of the reviewed literature sources assume that such entities are micro, small or medium-sized firms. For this reason they are also referred to as ‘micro multinationals’ in some publications (Varian, 2011; Mettler & Williams, 2011). There is also some literature classifying born-global firms into those set up by ‘born industrialists’ (industrial practitioners starting their business with an innovative product) and those set up by ‘born academicians’ (researchers developing the product) whose common denominator is the fact that they are located close to academic centers or in IT regions, accentuating their technology orientation (Nordman & Melén, 2008). However, this is a rather controversial issue in the literature (Zucchella et al, 2007). For simplification and readability reasons, the term ‘born-global enterprises’ will be used in this study.

The available research suggests that a born-global enterprise is a venture launched to exploit a global niche soon after inception. It is established with the capability to compete internationally and coordinate resources across countries (Coviello, McDougall, & Oviatt, 2011). Furthermore, it is a growth-oriented business with a strong innovative capacity that achieves high export shares in several foreign countries. The born-global enterprises are likely to be considered global innovators or companies following an innovative way of doing business at a global level from the very early stages of their business activity (Oviatt & McDougall, 2005; McDougall et al, 1994; Cavusgil & Knight, 2009). They fill important gaps in global value chains, are strongly driven by the global mindset of their managers and the need to attract more business than they can achieve in their domestic markets. As a consequence, they could be considered as helping to stabilize economic development and recovery (Mettler & Williams, 2011). The intensity of the way in which these firms undertake international business can differ. Varying definitions of born-global enterprises applied in selected research differ in their maximum time spent before starting international

activity (e.g. between two and three years (Rennie, 1993; Knight & Cavusgil, 1996; Madsen et al, 2000), in minimum share of foreign sales as a percent of total sales (Luostarinen & Gabrielsson, 2006; Loane et al, 2007), and in the number and location of the markets served (Pla-Barber & Escriba-Esteve, 2006; Gabrielsson and Kirpalani, 2012).

The research mainly investigates the specific features of this type of enterprises, the reasons for their emergence and the main challenges they face. Attention is given to their survival and growth potential, knowledge intensive business services, global vision of management from the outset, and global growth path. One of the most commonly accepted features of born global firms is that they are founded and managed by highly proactive, risk-taking entrepreneurs who are eager to discover and exploit opportunities abroad in order to pursue competitive advantage (Pock & Hinterhuber, 2011; Harveston et al, 2000). Some reports focus on the efficiency of their internationalization model (Lejko & Bojnec, 2011), and some have compared them with other enterprises' internationalization pathways (Harris & Li, 2007; Mettler & Williams, 2011; Cavusgil & Knight, 2009). Most of the studies follow a qualitative approach (interviews, case studies) or include small sample sizes for standardized questionnaires. Due to the lack of a uniform definition of 'born-global' and standardized data dealing with this enterprise form, it is possible to provide only an approximation of their extent and their contribution to the economy.

Because of their young age, born-global enterprises tend to be mainly micro or small in size. They can be found in all sectors of the economy, but their product or service portfolio is characterized by a high level of innovation, modern technology and exclusive design. Irrespective of their type of activity, such companies are found to possess high innovation capacity and the ability to serve customers in an innovative way (Leonidou & Samiee, 2012). Furthermore, they are observed to possess high job creation potential. It is widely acknowledged that it is mainly small and young innovative companies that create most jobs. Born-global enterprises are heavy users of internet-based services like Google Apps, Skype and Amazon delivery (Mettler & Williams, 2011; Schneur, 2012) in their communication, distribution, marketing and knowledge management. A social capital build up through networks is essential for such companies, as well as networking and online collaboration tools that provide new opportunities for multinational cooperation (Renda, 2011). Consequently, born-global enterprises are embedded in international networks, and such well-functioning cross-border relations are an important factor for their success. Moreover, such companies are customer-oriented enterprises that determine the breadth of their product offering and the standardization of their marketing strategy across several foreign markets by taking into account the dynamics of their target market (Gabrielsson et al, 2012).

The author emphasizes the important role of technology entrepreneurship for the development of the complex phenomenon of born-global enterprises. Technology start-ups with academic origin represent the mainstream of innovative entrepreneurship and one of the active mechanisms of the commercialization of research results. The owners and employees of these enterprises are able to turn interdisciplinary knowledge into practical use, to perceive gaps and market opportunities, achieve forward-looking, search for change and respond to it and use it to implement innovative solutions in various areas of global environment (Badzińska, 2014, 2016). Current expertise and interdisciplinary knowledge in

conjunction with the skill necessary for their development constitute a basis for shaping competitive advantage on the international market.

### **Research design and methods**

The first part of the study is both theoretical and analytical. A review of scientific literature has been conducted along with the analysis of secondary research results on the nature of born-global enterprises. Attention has been drawn to the concept and the characteristics of this phenomenon. The following methods were used: defining, comparing, attribute analysis, inference. A further part of the study is empirical in its nature as it is based on a case study. The cognitive aim of this research is to identify and analyze the qualitative functionality of the innovative ICT solutions, designed and commercialized by the analyzed technology enterprise Leia Display System.

In order to ensure the reliability of data, the triangulation principle was adopted. The confrontation of multiple data sources justifies the cyclical nature of data collection procedures in the case under examination. Qualitative data was obtained from in-depth interview conducted with the owner of the analyzed enterprise, who is responsible for interaction development. An interview questionnaire was prepared. Semi-structured interview guide contained the following (i) general questions about the company and its organizational structure, (ii) questions about all innovation products and projects, (iii) questions about idea generation, idea selection and project development, (iv) questions about the sources of financing innovative projects and the cooperation with business environment institutions and different enterprises. To expand the database on the company an analysis of materials from the available secondary sources was also conducted. They included websites, publications and opinions of Internet users.

The wide problem area of creative and innovative entrepreneurship requires the acceptance of the limitations of the study area. The empirical method makes use of a case study involving the analysis of processes implemented in the selected enterprise (Dyer & Nobeoka, 2000). The rationale for the use of a case study is its usefulness related to the timeliness of the analyzed phenomenon and the dynamism of its effects. There is a need to conduct a practice-oriented empirical research for better understanding of reality and to help managers choose their own path (Czakon, 2011). The analyzed technology start-up and its innovative ICT solutions were selected with a purposeful sampling technique (Merriam, 1998; Maxwell, 2005). The purposeful selection of Leia Display System resulted from the following (i) the pragmatic criterion of availability of data, (ii) clarity of the explained phenomenon of born-global enterprises, (iii) the diagnosed innovative and creative ICT solutions. The above criteria lead to the conclusion that a single case study would help to attain the objectives of the research. The applied case study has helped to recognize the analyzed phenomenon under real conditions (Yin, 1984), and its purpose has been practical orientation (executive research) of the concept of born-global enterprises. Both descriptive and explanatory techniques were used in the presented case study.

To exemplify the innovative entrepreneurship in the born-global perspective, the following research question was erected: how is the required potential of the technology start-up to create and implement innovative ICT solutions in the rapidly changing global business environment. The obtained quantitative and qualitative data were the basis for creating the

characteristics of innovative ICT solutions of Leia Display System. The diagnosed functionality and uniqueness of Leia Display S-95 and X-300 were presented in a synthetic way in the following part of the paper.

### **Research results and discussion**

The subject of the study is the technology Start-up Leia – a young Polish company manufacturing innovative multimedia devices and interactive applications. Leia Display System is a technology patented by the company. It enables a display of an image in the air on a thin layer of water vapor, which acts as a carrier (LeiaDisplay.com). The founders (two men) of the technology start-up, who, on the basis of interdisciplinary knowledge and experience related to the IT industry, have created a modern business model. The technology Start-up has been on the market since 2013. In its solutions the company uses modern tools of interactive communication and focuses on the customization of services dedicated to individual business customer needs. The solutions offered by Leia are distinguished in the global market by their ingenuity and the quality of applied technology. Entrepreneurs from Leia are characterized by an innovative approach and the use of latest technology. The involvement of the team, a shared vision of the present and the future of the company, the focus on technological innovations and paying attention to customer satisfaction constitute the basis for the development of the organization and directly translate into global market success.

### **The key attributes of born-global enterprises in the studied company**

In order to obtain an answer to the research question on the kind of potential necessary for a company to create and implement innovative ICT solutions in the rapidly changing global business environment, an attempt has been made to diagnose such a potential and the born to be global attributes in the analyzed company. The competence of the company to compete internationally depends on a set of endogenous as well as exogenous factors. The very important role is played by the human factor and, more precisely, by the potential of staff members based on professional knowledge and international experience. The creativity of the team facilitates the generation of new ideas and solutions and improves adaptation to the changing business environment. The young entrepreneurs from Leia Display System (LDS) attach great importance to building their own developmental base (both physical and intellectual one) and to the commercialization of solutions and applications designed by employees. An innovative approach to seeking better solutions along with the implementation of the latest technology and great determination of managers to reach their objectives, constitute the challenges for Leia.

The concept of early internationalization is permanently inscribed in the strategy of the company. They generally had, from the outset, a plan for engaging in intensive international activities, which implies a good level of strategic thinking and willingness to take risks. The main purpose of the team of young entrepreneurs is to create and promote innovative projects that will explore new opportunities and offer unique solutions with the support of ICT in the global business environment. The mission of the team is to break standards, avoid boilerplate solutions and undertake interesting challenges. The basis for the creation of new ICT solutions is to build a climate of dialogue, partnership relations and free flow of information and technological knowledge. A significant role is played by relationships between the local operation of the enterprise and its foreign sales representatives.

Ultimately, it is not about the number of networks or contacts, but about their quality in terms of good relationships (mutual trust) with clients, suppliers, facilitators or partners (Gruber-Mücke, 2011). The company uses external, independent intermediaries for distribution in foreign markets. Such networks are important sources of knowledge from professionals that are spread out internationally. Since the launch of the devices in 2014 the company has managed to acquire distributors on foreign markets in such countries as: Benelux, France, India, Saudi Arabia, United Arab Emirates, South Korea.

The offering of high-quality services to satisfy the specific needs of global customers is one of the attributes of born-global enterprises. An important aspect here is also the consistency of operations and customer-oriented employees, who pay high attention to the quality of services. A common vision of development strategy shared by the managers in Leia concerns the creation of new ICT solutions per requests of different groups of consumers, freely customized and designed in accordance with customer needs. The devices are manufactured to order and the company uses differentiation strategies by developing specialized and customized applications. By building a global oriented organizational culture the analyzed enterprise creates its own patterns of behavior and patterns of action, thus gaining unique expertise and the ability to cope with changing environment. The basis of organizational culture is the awareness of the importance of knowledge, commitment to shared values and the creation of an attitude of cooperation with external partners. These are the necessary conditions to create a culture of creative thinking to support the development of innovative business solutions on the international market.

An important aspect in the rapidly changing global market is to study the environment in terms of demand for new ICT solutions and look for external sources of information to fill gaps in intellectual resources. In this context, the significant role is played by cooperation with selected research institutions and organizations supporting technology transfer. The external environment potential determines the development of technological innovations in the analyzed company. Company managers attach great importance to building a network for the exchange of information, to creating an attitude of openness to new solutions and to the dissemination of information and communication technologies. The pro-innovation attitude is something more than just a search for new solutions in a changing environment. Among the activities undertaken by the company in the field of cooperation with the business ecosystem to support the transfer of technology and the commercialization of innovative solutions, it is necessary to mention the participation in prestigious competitions e.g. Internet Beta 2013, LBA Start-up Meeting Point 2014 or Investor Presentation Contest – Lewiatan Business Angels. In February 2015 Leia reached the final of the II edition of Think Big UPC Business contest, where it scored 2nd. This is a special award for entrepreneurs who, through their creativity and openness to new technological thought, bring innovative solutions to the market. The cooperation with the institutions of business environment in consulting, organizing and financing innovative ICT solutions constitute for the company the condition for global development. These examples confirm that endogenous factors and external environment undoubtedly play the important role in building of entrepreneurial orientation and in the process of early internationalization.

## Innovative and creative business solutions of Leia Display System

Leia Display System is a unique technology solution on a global scale. The very idea of fog screens is not new, but the method of producing a laminar stream of steam is quite innovative and has been patented by its inventor. This innovative technology – based on solutions in the field of aerodynamics and computer science – allows the projection of any media content on a thin layer of water vapor. Very thin projection surface (about 6mm) makes possible to project hi definition pictures. The use of unique applications to enable screen interactivity is also innovative. The official premiere of Leia Display System took place in October 2014. Approximately six months later the company was able to acquire distributors in eight countries.

Existing solutions display a picture on steam using a curtain of dense smoke. The projected image is displayed, but remains fuzzy and unreadable. Leia is the first system with a truly transparent and stable image carrier (Leiadisplay.com). The chief designer and Co-owner of Leia developed and patented a unique solution for producing a laminar stream of water vapor. Leia technology makes the emitted mist beam laminar even at a distance. The row of neighboring jets of water vapor produces a very thin, large screen, which remains almost invisible and it perfectly captures even the smallest details of the image. In turn, the Co-founder and Lead Developer at Leia created interactive applications. The image displayed on a thin layer of steam is interactive due to the use of motion sensors that observe the object within the plane of the screen, or in front of it. This allows the interaction with the image suspended in space by means of movements and gestures (see Figure 1).



Figure 1. The Leia screen – hologram effect

This technique is the most similar to film holograms. But it is not a classic three-dimensional hologram as the technology used is based on a flat surface where an image from a projector is displayed. However, it is displayed in the air and forms an illusion of three dimensions (hologram effect). The company makes use of the following solutions: Microsoft Kinect, Leap Motion, and Intel + Creative. The function of tracking user profiles makes it possible to ‘draw’ wings or a ‘fiery’ circle while passing through the screen or to ‘release’ a bird from hand. It is also possible to interact with the objects shown on the screen, for example by opening closed doors with a touch, or call an animal’s response by command. Depending on the sensitivity of sensors, a signature can be made in the air or something can be drawn on the screen (see Figure 2). Better and more accurate sensors of these types appear around the world, thus opening up new possibilities for Leia technology.



Figure 2. Interaction with the Leia screen.

Available versions of Leia Display screens are S-95 and X-300. LDS S-95 is a screen with dimensions of 95cm x 65cm mounted on a mobile base, so the picture remains at viewer's eye level. The screen blows vapor from the bottom and it is possible to display i.e. a virtual assistant, a 3D model or an interactive game. S-95 is primarily addressed to the advertising market, where innovative formulas of communication are particularly appreciated. This innovative solution perfectly complements the offer of interactive devices used at trade fairs, promotion of products or cultural events at museums. In turn, Leia X-300 generates a screen size of 3 x 2.5 m, which is suspended from the top and blows vapor downwards. This is a screen through which one can literally walk and drive out of it with a car by smashing a virtual glass pane (see Figure 3). But this is not a three-dimensional projection. LDS X-300 screens can be combined with each other using their shorter side and in practice form infinite surfaces. This allows an extensive use on event, entertainer, and theater markets and other events related to new technologies.



Figure 3. Leia Display X-300.

As mentioned above, the projection surface is composed of water vapor, and demineralized water is used for its production. Leia S-95 consumes approximately 400ml of water per hour, and in the case Leia X-300, it is 4l per hour. Projection surface is protected by special curtain airbags, but it is not recommended to use the device in drafts or directly under air blowers. The image becomes visible using rear projection. There is no single recommended



type of projector. Its type and capacity depends on the brightness of the place where it is to be used. The projector should be turned in the direction of the viewer. The image can be seen from both sides, but for this purpose two projectors must be used. There are some limitations resulting from the technology. The main barrier for using Leia technology is light that must be muted. Moreover, wind can interfere with the picture. The optimum operating temperature for Leia is room temperature (18-30 degrees), but the system also works at lower and higher temperature ranges.

Leia Display screens are the ideal solution wherever viewing experience counts and where businesses want to be distinguished by the originality of their media and engage their customers – at fairs, premieres, fashion shows, shopping centers and cultural and sporting events. Due to their originality and uniqueness, Leia screens allow brands to differentiate themselves in a competitive environment and among the audience build a sense of communing with the technology of the future. This technological solution can find numerous applications in the promotional activities of companies.

### **Conclusions and recommendations**

Inventions, discoveries and new technologies – as a result of the implementation and development of the commercial market – form technological innovations that determine further development of products and processes. The application of the empirical method of a case study has made it possible to characterize the essence of born-global enterprises and illustrate the progress and development of the global technology Start-up – Leia Display System. The study has confirmed that innovation and adaptive creativity are essential to stay ahead of the competition and gain a competitive advantage in the rapidly changing global business environment. Entrepreneurship of young global start-ups is seen as a process of searching for global market opportunities and knowledge-based resources necessary to exploit these opportunities in order to gain results on a long term. It can be distinguished as independent risk taking ability to achieve the gains on the international market. Aiming to develop their own technological and innovative facilities, they seek access to valuable resources of knowledge. Equipment and authorial applications created by Leia support interactive and engaging business communication, creating new customer needs and setting trends in the global business environment. With their specialized products and unique technological solutions the company can fill important gaps in the value chain of other firms and exploit economies of scope. Effective teamwork implies synergism between all team members that are willing to combine and recombine their expertise, sharing knowledge, ideas and skills in order to generate creative solutions for emerging problems and new global opportunities.

Despite the fact that the research is based on a single case study, there are some interesting implications for business practice. A team of young entrepreneurs working for Leia is currently planning more innovative business solutions and applications for their devices. However, external funding is necessary for further development of the innovative technology. The company is seeking investors who are interested in the establishment of a company and in the development and the acceleration of the project. Entrepreneurs are willing to set up an R & D department in order to improve their solutions. Entrepreneurs from Leia are working to achieve the better stability of the screen, which aims to further increase the quality and detail of the image. The image has to be much more pronounced,

and the screen even more unified than ever before. The development of technology for obtaining a homogeneous screen will contribute to this along with the development of small and high-performance projectors. Interaction with humans shall also be sophisticated by building advanced touch interfaces. The applications will interpret movements, voice, intentions, and not only touch.

Leia believes in the technology it has commercialized, but continues to search for new solutions by experimenting with different kinds of liquids, gases and methods of display. At the moment, however, steam works best. The second major challenge is the development of the system in the direction of three dimensions that would enable new areas of application. Engineers are working on '3D cinema without glasses' technology. This solution has numerous disadvantages, but it will display images in a way more interesting than before. Displaying in 3D requires many years of further study.

There is a need for framework conditions fostering the reasons for the emergence of Polish born-global enterprises. However, their pioneering character in terms of young age, newness of ideas and lack of established presence on the market also presents significant challenges for their capacity to survive. International entrepreneurship demands local and global externalities. The development and implementation of innovations require cooperation with the institutions of business environment, including those that provide funding for such projects. In this respect, technological entrepreneurship is related to the basic pillars of knowledge-based economy. A special role should be played here by business ecosystem, namely a wide range of cooperation ranging from consortia or research centers, through consultancy, organizational, funding and infrastructure services, up to relations with business environment institutions in the field of incubation. Science and technology parks, public administration and financial systems should contribute to the maturing of entrepreneurial initiatives. Furthermore, competitions and prizes for new companies that recognize the entrepreneurial spirit could be an additional source of motivation for the creation of new global initiatives. A comparatively high level of capital is needed for global start-ups to unlock and use their full potential – difficult for a company which has limited resources and which faces the reluctance of external investors to finance its untested business idea. This requires high levels of technical and managerial expertise, familiarity with procedures and markets and a high level of commitment and engagement. Consequently, innovative financing instruments acknowledging the specific characteristics of born-global enterprises, by providing them with sufficient funds without limiting their future growth, seem to be needed. Case studies in the field of global technology start-ups should develop the existing theory and provide explanations of the hitherto unrecognized phenomena. This paper may provide a starting point for an in-depth empirical research and contribution to the discussion on the methodological dilemmas associated with conducting research in this area.

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# BUILDING RESILIENT ORGANIZATIONS AND INNOVATION NETWORKS IN WOOD CONSTRUCTION INDUSTRY

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## Abstract

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This paper discusses how the implementation of open innovation practices and mindset can benefit companies faced with large systemic change like bioeconomy transition. The research is based on a regional case study on wood construction industry in South-East Finland.

Bioeconomies emerge through interlinked business and creation of innovation networks that are based on the use of renewable raw materials. Wood construction industry, and other industries that are already using renewable raw materials, are not threatened by the ongoing transformation. However, to benefit fully from the bioeconomy transition, companies are compelled to create new networks in order to facilitate innovation, commercialization and market growth. The adoption of innovations is often dependent on other organizations, as supporting products and services are needed. Previous research shows that open innovation is increasingly adopted in SMEs as well as in big companies, and it can increase the resilience and innovation capability of organizations. The paper concludes that a paradigm shift towards open innovation is needed in companies willing to benefit from the ongoing bioeconomy transition. Open innovation attitudes also support the creation of new wood construction innovation networks, which is found essential in terms of the industry benefiting from the emergence of a regional bioeconomy in South-East Finland.

**Keywords:** open innovation, innovation network, wood construction industry, bioeconomy transition, South-East Finland.

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## Introduction

The bioeconomy transition benefits industries using renewable raw materials like wood. However, systemic change requires emergence of new innovation ecosystems, as well as implementation of new approaches and practices in individual organizations. In this article we examine a regional case in South-East Finland to investigate how wood construction industry companies can benefit from the ongoing bioeconomy transition in the region. The open innovation paradigm provides an outlook on the innovation management and networking that are required.

Even though the creation of new co-operation has been recognized to be critical in facilitating the bioeconomy transition (Luoma et al., 2011), most research efforts are currently directed towards making technological or legislative advances. However, the abilities to network and benefit from innovation networks are extremely important from the perspective of companies. It is important to look at the situation especially from the point of view of small and medium sized enterprises (SMEs), as they form the majority of the innovation network in the emerging bioeconomy. Due to the industry structure, the features of SMEs are stressed also in connection to the open innovation theory.

Research Question: How can wood construction industry companies benefit from open innovation in the ongoing transition to bioeconomy?

## **Research background**

Construction industry has high economic significance, and it affects the quality of life in terms of housing, workspace, utilities and transport infrastructure, but it also has environmental and social consequences (Burgan & Sansom, 2006; Sev, 2009). Construction industry, together with the building material industries which supply it, has numerous environmental, social and economic impacts (Sev 2009), and causes irreversible transformations in the natural environment by exploiting natural resources and adding to the accumulation of pollutants in the atmosphere (Spence & Mulligan 1995). Globally, almost half of all materials extracted from the earth are annually transformed into construction materials and products, and construction and demolition generate enormous amounts waste (European Commission, 2008). In addition to big volumes, construction industry is especially significant due to its long lifecycles, as buildings are supposed to last for decades (Sev, 2009). Thus, there is concern about how to improve construction practices in order to minimize the harmful effects on the natural environment (Cole, 1999; Ding, 2005). As different environmental building assessment methods are implemented to ascertaining building sustainability (Ding, 2005), companies are applying life cycle analysis (LCA) to measure the environmental impacts of construction and developed ways of recycling (Ortiz et al., 2009). Wood and wood-based materials can provide a more sustainable option in many applications in the construction industry, and wooden constructs also act as a carbon sink as long as the building exists.

The European Commission (2012) has submitted a strategy and action plan for sustainable bioeconomy in Europe to promote bioeconomy transition across industry sectors. The term 'Bioeconomy' means an economy using biological resources from the land and sea, as well as waste, including food wastes, as inputs into industry and energy production; it also covers the use of bio-based processes to green industries (European Commission, 2012). Bioeconomy can be seen as a societal strategy to reach environmental, social and economic sustainability, but it requires creation of new networks and co-operation (Luoma et al., 2011).

Bioeconomy transition is a large-scale systemic change and it requires collaborative endeavor in which a critical mass of organizations alter their behavior (Senge et al., 2008). Bioeconomy transition expands the boundaries of relevant knowledge across industry fields, transforming market structures, business models and competitive relations. Innovation networks thrive in conditions where industry expertise is diverse and the knowledge base is comprehensive (Powell et al. 1996).

## **Open innovation**

Organizations are increasingly applying knowledge from outside their boundaries and engaging in innovation-related collaboration (Poot et al., 2009). The open innovation paradigm accelerates internal innovation, and expands the markets for external use of innovation, by allowing the use of purposive inflows and outflows of knowledge (Chesbrough et al., 2006). In a fully open innovation model, internal and external innovations are perceived as equally important, and the roles of internal and external sources of knowledge are balanced (van de Vrande et al., 2010).

Even though open innovation is mostly studied in the context of large organizations, its popularity and dissemination have increased also in SMEs. Although small companies do adopt open innovation practices, they are more comprehensively implemented by medium sized companies. Barriers for innovation in SMEs include lack of financial resources, limited opportunities to recruit specialized personnel, and small innovation portfolios, so that the risks connected to innovation cannot be spread. (van de Vrande et al., 2009).

SMEs rely on their networks to find missing innovation resources, and open innovation is often directed to involving customers and facilitating the commercialization of new products and services (van de Vrande et al., 2009). The adoption of innovations often requires external changes, including innovation on the part of other actors, and thus the interdependent innovations of companies surrounding the focal company within an ecosystem may be crucial in getting innovations to market (Adner, 2006). Innovation ecosystems are exchange networks that can also be characterized by simultaneous cooperation and competition (Afuah 2000). Networks where companies become dependent on other organizations include initiative risks, like problems in managing a project, independence risks in coordinating with complementary innovators, and integration risks in the value chain (Adner, 2006).

The most important motives for implementing open innovation in SMEs are market-related motives and acquiring missing knowledge (van de Vrande et al., 2009). Other motives for open innovation include necessary organizational adaptation to changes in the business environment (Chesbrough, 2003), maintaining growth (Chesbrough, 2006), creating knowledge, complementary resources of finance, spreading the risks of R&D or commercialization, enlarging social networks, reducing costs, new revenues, setting industry standards, and realizing learning effects (van de Vrande et al., 2009). The open innovation practices in SMEs are often informal and unstructured (ibid.), but a paradigm shift from a closed to an open innovation model still requires transition to open innovation culture, open innovation procedures, as well as adopting open innovation skills and motivation (Mortara et al., 2009).

### **Design and data**

For the case study presented in the next section of the article, views on the future prospects of the industry and the level of co-operation have been gathered from construction industry -related companies. Also the innovation practices and company characteristics are examined. As 70-80% of the production of wood product industry in Finland is utilized by the construction industry (Finnish Forest Industries Federation, 2013), wood product industry plays a very significant role in the wood construction innovation network, and is therefore included in the research. Without the support of engineering and design companies, the market share of wood construction is hardly going to grow, as someone has to design the buildings before they can be built. Thus, also engineering and design companies are included in the study. The paper utilizes empirical research data from contacting a total of 82 companies operating in Finnish wood industry -related companies, with an emphasis on companies operating in South-East Finland. 72 companies were contacted via phone or e-mail during the winter 2013-2014. In addition, ten company representatives were interviewed in person within the same time period. The data was analyzed by a specialist working in the Renewable Bioeconomy team of a regional

development organization to get a better insight into industry specifics. However, first-hand data that had not been altered by someone else's perceptions was needed to confirm the validity of the findings.

The paper employs as a second data source 30 responses from an internet-based survey for wood industry companies in South-East Finland in 2012. The response rate of the survey was approximately 12%, and the respondents were mostly from construction companies (31%), forest industry companies (28%) and architecture, interior design, building engineering and related consultancy companies (29%). Most of the represented companies were small (21%) or micro-enterprises (65%), and only 4% were medium sized and 10% big companies. This also reflects the size distribution of wood construction -related companies in the region.

### **Case: wood construction industry in South-East Finland**

The forest industry has an important role in the Finnish economy. The strong national forest cluster has transformed to a bioeconomy cluster and includes also cleantech currently (FIBIC, 2015). Bioeconomy is promoted with international (European Commission, 2012; OECD 2009) and national strategies (MEE, 2014). In South-East Finland, systematic regional development efforts are implemented to boost bioeconomy, circular economy and bioenergy business, and some international business has already emerged (Nieminen, 2015).

In addition to environmental goals, bioeconomy is promoted because its emergence is believed to create economic growth and jobs (MEE, 2014). In South-East Finland, the development efforts towards bioeconomy are also expected to create new business activity within the region and to reinforce the existing business networks (Nieminen, 2015). Regional bioeconomies, in other words distributed bio-based economies, are based on local closed-loop value networks in which waste from one process is raw material for another (Luoma et al., 2011) in a circular economy that restores products, components and materials at their highest utility and value (Ellen MacArthur Foundation, 2013).

Despite the strategies and development efforts, our data indicates that companies are uneasy about the future for wood construction -related SMEs. The respondents were on the average more optimistic about the future of the company they represented than the industry as a whole. The structural change in the forest industry reflects on the companies, and the recent investments in large bioeconomy-related processes in pulp and paper industry may have lifted their spirits since the time the data was collected. The ongoing and prolonged recession and uncertainty in European markets has definitely influenced the overall atmosphere as well.

Surprisingly, the respondents also stated that the region is lacking a wood industry cluster that would support their individual needs. This may indicate that the cluster is dominated by large companies, or wood construction -related topics have been far from the main goals of the cluster. According to both datasets, wood industry companies were mostly willing to participate in networks and increase co-operation.



Most of the wood construction -related companies in the region have operated for several decades and employ typically around ten people. The companies are specialized in different customized products and services. Commodity products are produced in sawmills, veneer factories and planing mills. Most companies in the region are well aware of the ongoing bioeconomy transition and feel that the general trend is a driver for biobusiness. According to the survey, the companies examined market development typically through informal networks and industry-specific magazines and publications. One third of the companies utilized customer feedback, 38.9% utilized sales situations to determine market conditions, some companies (33.3%) read industry reports, and 22.2% attended seminars. Several companies reported having unutilized product and co-operation ideas, mostly generated through their own R&D or customer feedback.

The most important strengths of wood construction-related companies in South-East Finland include flexibility and agility, good raw material supply, experience, co-operation, cost-effectiveness, location, and logistics. The weaknesses include limited resources for R&D, the focus of the forest cluster in pulp and paper industry, the networks being mostly informal and unorganized, resistance to change, many entrepreneurs being aging and retiring, and lack of knowledge in e.g. internationalization and marketing. Significant opportunities in the industry are related to bioeconomy transition. There are also opportunities in services like design, digital services and life-cycle modeling, to name a few. Environmental values and health-promoting properties can be used as marketing edge, and material development provides a basis for new product innovations (Maunula and Naukkarinen, 2014).

## **Conclusions**

The environmental impacts of construction industry have raised concerns, and using more renewable raw materials like wood can help to decrease the harmful effects of the industry. The companies in South-East Finland are well positioned with regard to availability of raw material and expertise in wood construction. Bioeconomy transition is promoted with international and national strategies and supported by regional politics. A systemic change, however, requires collaboration and emergence of new innovation ecosystems.

Small companies linked to wood construction industry in South-East Finland involve customers in their innovation practices already. SMEs also rely on their networks in the commercialization phase of the innovation process, as the adoption of innovations is often dependent on other organizations. In wood construction industry, the adoption requires that architects and / or engineers include the innovative product in the design or site, and developers and constructors know how to implement it. The solution also has to be compatible with other parts of the design and execution. The current co-operation practices in the companies are mostly informal and unstructured, and depend on personal connections. As the industry is going through bioeconomy transition and new innovation ecosystems are created, companies must seek for new partners and review their roles in networks. New business models and revenue streams can add growth and prosperity to existing business, but the emergence of new innovation ecosystems is needed, as the companies pointed out that the existing bioeconomy-cluster did not support their goals well enough.

Open innovation is increasingly applied in SMEs and bigger organizations, and a paradigm shift to open innovation can benefit also the wood construction industry SMEs greatly, as it provides ways of strengthening innovation practices and capability, and fosters the emergence of innovation networks. The data gathered in this study confirmed that the wood construction industry -related companies in South-East Finland were willing to cooperate more and were well aware of the bioeconomy transition. A paradigm shift to open innovation would significantly increase the potential of new innovation networks and innovation practices within and between individual companies. The benefits and implementation of open innovation in SMEs and in different industry sectors should be studied further, especially in connection to systemic change and creation of innovation ecosystems. Bioeconomy should be studied not only to make technological and legislative advances but also from the networking, business model and innovation ecosystem perspectives, to achieve a comprehensive view and to generate tools for companies to be able to attain benefits from the emergence of bioeconomies.

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# HOW TO MANAGE EMPLOYEES' INNOVATION POTENTIAL IN INSURANCE COMPANIES

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## **Abstract**

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The article presents the management methods used in the formation of employees' innovative potential. The paper presents the main findings regarding the theoretical and practical management of innovators in the enterprise. Based on research conducted on a group of managers of product departments in insurance companies ( $n = 120$ ), the author has prepared a catalog of recommended management techniques. Article brings important information on how to define employees' innovation potential and manage teams of innovators.

**Keywords:** innovation potential, management, insurance, techniques, employees.

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## **Introduction**

The article will show the issue of selection of methods for managing innovation potential (IP) of employees. The author is inspired by the fact that there is a need to better understand the methods of innovation potential management. Insurance companies have been selected as the research area, as it is important on the map of creating innovation – especially financial innovations. Financial innovations are still scarcely explored. Their better understanding can provide many benefits to the stakeholders of the financial market. In addition, in the article the author focuses on managing employees regardless of sex, which indicates a view that there exists no difference in the selection of management tools based on gender (statistically significant). In the further part of the article, the foundations of such inference will be presented.

In order to obtain a correct interpretation by the reader related to the described results of a research, it is reasonable to indicate applied terminology. First of all, the concept of innovation potential will be shown and an understanding of workforce management will be clarified. In subsequent parts of the article, the author will present the method of the research and its results. The summary, which crowns the publication, contains the conducted discussion and the most important conclusions of the research.

The problem of management of the innovation potential of employees is not often undertaken in such a form. While the problem of managing employees and innovation management is strongly represented, the juxtaposition of these themes is very original. In addition, in this study as a category associated with innovation, the innovation potential could be demonstrated. Such a juxtaposition of subjects enables to design a research and, in effect gain results, which may be useful in business.

First of all it is worth indicating the concept of innovation potential. Before introducing the definition of innovation potential, it is worth outlining the terminology, which is related to

the concept. Conceptual layer is common and overlaps with such terms as innovation, human capital, and creativity. In this work only essential differences between concepts will be cited, broader analysis may be found in the literature (Hippel, 2004).

The innovative potential can be regarded as the input value for the innovation process, which results in innovation (of any kind: product, service, process etc.); thereby it is one step ahead of the concept of innovation also called innovative activity. In his work, R.I. Zalewski writes about innovation activity by presenting it as certain steps (in the fields of science, technology, organization) which intention is to implement the innovation. He recognizes that part of the innovative actions that directly creates innovation, while others do so indirectly. He stresses that both types are a necessary condition for the application of innovation. Innovation in scope covers R&D, which, however, alone they are not associated with the development of any specific innovation (Zalewski, 2009). When it comes to creativity, it is a concept narrower than the innovation potential. Although, of course, a category of "creativity" could be included into the concept of innovative potential, it seems to be better to split this concept into its constituent parts such as imagination or perceptivity. On the other hand, the concept of human capital is broader and it includes the innovative potential.

Different definitions of innovation potential can be found in the literature, often the ones that are not directly related to human potential like „I understand the innovation potential as an ability to produce, diffusion and consumption of innovation by individuals" (Guzik, 2004); or equate the impact of innovation potential to environmental influences: „innovative potential is considered to be the existence of a suitable, characteristic innovation environment. It is an environment in which innovations are created, developed and implemented" (Zizlavsky, 2011). In this work, however, it is more important to explore the notion of innovation potential in terms of people (employees), for example, „the innovation potential consists of intelligence and understanding, knowledge, motivation, habits, personality and emotions" (Patterson, Kerrin, Zibarras, 2012). According to the author, a much broader definition of innovation potential is inappropriate, because it may include into the analysis some factors, which ultimately have little impact on innovation. In addition, indicators related to the innovation potential, which are based on such a broad definition (The Innovation Potential Indicator (Patterson, 2001) or Team Selection Inventory (Burch, Pavelis, and Port, 2008) and which are psychometric texts, are difficult to be quickly implemented and do not always give accurate results. For this reason introducing a separate definition of innovation potential, which, in the course of further research, could be discussed and considered as appropriate.

In this article, the term innovation potential means possession and the ability to use the band factors related to knowledge, skills and character traits, which favour the formation of innovation. Such a definition best corresponds to the area of this research.

It is interesting to point out the author's intention in entering different methods of management of men and women. Such approach is widely known as diversity management and constitutes an important trend in the modern approach to management sciences. The basis is to accept the existing differences and to treat them as business development potential. A look at the business through diversity is not accidental, and it results from

certain trends in the economy, among others: the increase in women's participation in employment, persons belonging to national minorities, immigrants, and elderly people. The development of the concept of diversity management dates back to the 70s, when the word "diversity" referred to the minorities and women as groups of workers. For a long time managers believed that diversity in the workplace is about increasing the representation of women and ethnic minorities and it refers to the employment of those groups. Afterwards the need for the reconstruction of the approach to the concept of management has been indicated (Brdulak, 2009). Among the main benefits of diversity management there are:

- strengthening the values of inter-organizational culture;
- strengthening a good opinion (reputation) of a corporation;
- help in attracting and retaining talented employees;
- Improving motivation and efficiency of existing staff;
- Increasing innovation and creativity of employees.

A research conducted in EU countries in 2010 indicates a wide area of possible use of diversity management:

- recruitment, selection of employees, the policy of maintaining them (almost 90% of responses);
- staff development and promotion (85%);
- development of leadership and management skills (85%);
- application of strategy (75%);
- policies and procedures (74%);
- cooperation of employees (68%);
- marketing and communication (35%);
- customer service (32%);
- development of products and services (25%);
- sale (22%);
- layoffs, restructuring (20%).

It is worth noticing the difference in the approach to the management of men and women. It is indicated that there is a need to adjust management methods to gender. Such action can allow for better use of the knowledge, skills and character traits of the employee - crucial for the level of innovation potential (Catalyst, 2007). Attention is drawn to the characteristics of women that allow them to achieve more and more success. It is pointed out that the "evolution in management in the direction of greater sensitivity, integration, cooperation and communication will create more chances for women (Kupczyk, 2009).

It seems that employees achieve success through such features as: a good education, ambition, intelligence and diligence, resourcefulness, persistence and consistency in action. More often, they are focused on self-development and interesting challenges, while men focus on the work environment, its prestige, possibilities of influence and the pursuit of the highest salaries. Women themselves as the most important factors that allow them to be successful to a greater extent than men, consider: knowledge, education, ability, psychological characteristics, being open to a customer, hard work and management style.

It is important to indicate the accepted concept of human resource management. Within the scope of this article is to identify the most important elements of human resource management. From their range there had been selected management activities, vital to the development of innovation potential. The elements of ZL management process includes (Armstrong and Taylor, 2014):

- human resource planning - a plan aimed at satisfying the future needs of the personnel organizations considering both internal factors and environmental factors;
- recruitment - preparation of a bank of candidates to work according to human resources plan; choice - two-way process in which the organization decide whether to offer a job to a candidate and the candidate must decide whether to accept this offer;
- implementation (adaptation of employee) - this is a program aimed at conflict-free inclusion of new employees to the organization;
- evaluation of the effects of work - a constant process of providing subordinates about the effectiveness of their work;
- training of employees (development) - a process for maintaining or increasing the efficiency of their current position;
- rewarding employees (related to their motivation);
- with the theoretical background, later in the article the assumptions and method of the conducted research can be pointed.

### **Assumptions and research method**

The research was used to indicate the directory management activities that positively affect the level of innovation potential of employees in insurance companies. As the respondents managers directing product lines geared to creative innovation were pointed out.

While preparing the research several assumptions were crucial. First of all, obtaining reliable results was the most important and in order to achieve it, it was necessary to gain the involvement of respondents. For the study 290 department product managers in Insurance companies, operating in the European Union, who have limited time, were selected. Consequently, the chosen method of research had to be low in time-consuming. It was also considered that the study should provide 10 most important management activities that have a positive impact on the IP of employed workers. As an important assumption of the research, the possibility of an easy interpretation of the results was indicated. Also important was the cost of the research.

In connection with these assumptions CATI method was chosen - that is computer-assisted telephone interview. The interview questionnaire included 6 questions, and each question referred to the best method of management, at each stage of the management process. The differences between the tools, techniques and methods of management were not mentioned – it could cause problems in the interpretation of responses. The survey was conducted on a sample of 120 managers from product departments in insurance companies at term 5.01.2015 to 27.03.2015. The responses are summarized and can be found in the next section of the article.

### **Results of the research**

The following table provides data on the respondents - gender, age, work experience in a managerial position. All participants in the study have higher professional education.

Table 1. Information on study participants.

Participants of the research in numbers				
The number of selected participants	290			
Number of respondents	120			
	female	male		
Gender	46	74		
	20-30	31-40	41-50	>51
Age	10	64	37	9
	<3	3 do 6	7 do 10	>10
Work experience in a managerial position	6	31	44	39

Source: author's research.

In the course of the study, information about management activities that have the greatest positive impact on the innovation potential of employees has been obtained. Opinions of managers of insurance companies on this question are presented in the Table 2. It contains the name of the management activities and the number of respondents who indicated it.

Table 2. Management activities selected by the respondents.

Management activity	The number of indications
E-learning	88
Usage of head-hunter in the recruitment	69
Coaching	74
Individually customized training	112
Individual career planning	49
Introduction of competence models	88
Individual bonus system	46
Flexible forms of employment	69
Creating creative groups	62
Established principles of employees' control	59

Source: author's research.

Obtained results should be discussed in terms of their usefulness and the factors that affect them. In the further part of this article the most important conclusions obtained from the research are indicated.

### Discussion and summary

It is essential to interpret the results of the study in this part of the work. However, the analysis should start with information concerning the respondents; especially in the case of this study the characteristics of the respondent may have a significant impact on the achieved result.

It is worth noticing the high representation of men in the study as it may affect the obtained results, for instance, in situations in which men are managers of women employees. Gender



relationship can have the impact on the selection of methods used, although it might seem unprofessional for such errors to be taken into account. In the course of further research the possibility of a separate analysis of the responses from men and women seems to be interesting, but for this article it is not necessary. It is worth noting that the insurance companies in Europe generally employ more men than women.

Most respondents are aged 31-40 which has to do with the high-tech industry gathering young people. This may raise doubts whether such an age provides sufficient knowledge and skills for people management. These doubts are dispelled by information about experience in a managerial position – only six managers have experience of less than three years, and more than 80 has worked on such position for more than 7 years. This seems a reasonable period to gain the necessary experience and to provide credible answers to the questions posed in the interview.

Most indications in the field of operations management preferred "individually customized training". It is not hard to guess the reason - the main criteria for IP are knowledge and skills. For this reason, the managers pointed the need for individual training as a factor positively influencing the level of IP of employees in their departments. Also, the "E-learning" received high indication – it is cheap and easy to carry out and its effectiveness may be high.

It is worth noting the numerous indications on the "introduction of competence models". Results indicate that already at the recruitment stage a company can get an employee with high innovation potential and, thus, being suitable for the position. This approach is very convenient for managers since it allows them to obtain better results of work. For similar reasons „usage of head-hunter” also received high marks.

Coaching also received high indications, as well as training, as it relates to developing knowledge and skills. As coaching shapes the use of character traits, it is an important component of the IP. A comprehensive approach to the management of the IP components may result in an additional increase in the level of potential by emphasizing such character traits that results in an increase of skills (for example, emphasizing sociability affects the ability to work in a group). High indications on „creating creative groups” were not a surprise since it was implicated by the context of the research, and, after all, elements of innovation are being researched.

The results of the research provide useful information not only for the management teams of innovators, but also for scientists studying the use of management tools. In the course of further research, it is advisable to focus on the reasons for which these management activities are preferred. Another path of the research is an analysis of the impact of the introduction of method of management in the enterprise on the level of IP. It should be noted that such a research would require the examination of the level of innovation potential before the implementation of a change and right after its implementation (preferably several times at different intervals).

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# THE USE OF TIME-DRIVEN ACTIVITY BASED COSTING (TDABC) FOR OPTIMIZING TIME-CONSUMPTION IN CONSTRUCTION SUPPLY PROCESS.

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## Abstract

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The article is a theoretical contribution of identify the need for optimization tools in supplying the construction industry. For this purpose this article presents a time-driven activity based costing as a tool in the analysis of time-consuming and the cost of purchasing process in the construction industry. The practical nature of the article was based on a study using focus groups showing the possibility of using TDABC in construction companies. The article shows the validity of the exploration and implementation tools to bring economic benefits in the management of the supplies (purchasing) sphere of construction companies.

**Keywords:** time-consuming in supply (purchasing) process, TDABC, analysis of cost and time-consuming in construction companies.

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## Introduction

Supply as an area of high cost absorption has a direct impact on supply chain management in the context of determinate construction services. Success in achieving the intended objective today depends on performance management and achievement for minimizing the amount of time and cash outlay. Optimizing the functioning of supply sphere in the enterprise is obligatory. The optimization tool is Time-Driven Activity-Based Costing (TDABC). It is an account that uses time as a carrier for the cost of supply (purchasing) process.

In view of the study, using the TDABC, 22 Polish construction service companies were asked whether TDABC could be an instrument for the analysis of the cost of supply process? The main aim of this article is to demonstrate the functionality of TDABC in the budgeting process of supply process of the construction investment. Recognizing the possibility of using TDABC as an instrument for the analysis of supply costs should be assumed that the article is just one of the voices in the discussion.

## Time-consuming of supply (purchasing) process

In modern terms, the production process is referred to as a deliberately taken action to make it work on the subject their functioning changes occur in a given order. The aim is a gradual intake of the characteristics of the desired product or service (Liwowski and Kozłowski, 2011). The undertaken actions usually fall in the manufacturing plant or the industrial. This creates a difficulty in transposing these activities into the construction supply (purchasing) management. However, the production process indicates some basic components - employment (work resources), resources (raw materials, materials and land) and time. It should be noted that the view of the management of the production process is based on fundamental components, which entails the work measures such as machinery, tools or land, raw materials, resource materials, means of production, which is a

combination of the object of labor and means of work and human work (Muhlemann, Oakland and Lockyer, 1997).

Time consumption in the production process of construction services, including construction services supply (purchasing) process, should be understood as the time spent to complete the task - services. This means that to make a change to one of these factors causes a change in the time-consuming process (Wysocki and McGary, 2005). The process of supply of construction services (pointing to the productive nature of the service) requires active resource consumption (as defined above) and resources of passive means eg. material resources (Grzyl, 2011; Ambroziak, 2007):

- active resources (technical measures)
- passive resources (material resources).

The time-consuming process, therefore, are the resources used during the time allotted for the task (execution of the service). Given the fact that the purchasing process is preceded by the vast majority of construction output, time-consuming of purchasing process and construction services is determined at the stage of planning. A display by modeling the proceedings on one task is sufficient to characterize the problem of defining time-consuming. To present the task the terms „z” is being used. To complete the task "z" there should be active resources included in the set  $R = \{r_1, r_2, \dots, r_n\}$ , for which the amount of work presented individually - in resource-hours - give the vector  $n = [n_1, n_2, \dots, n_n]$ . To complete the task "z", there should be an allocation of resources in a number of  $l(r_i)$  for  $i = 1, 2, \dots, n$ , allowing you to take a decision in determining the time, expressed in hours it takes to complete a task in the supply in accordance to *formula 1*:

$$t(z) = \max \frac{n_i \times p(z)}{l(r_i)} \quad (i = 1, 2, \dots, n)$$

where  $p(z)$  - defines the scope of the task "z". If the task "z" will be the only task performed by the resources set R, and resources will be on-site task "z" the whole duration, the allocation of the associated loss (eg. in pln) due to incomplete use working time active stocks, marked out by depending on the *formula 2*:

$$S(z) = \sum_{i=1}^n (t(z) \times l(r_i) - n_i \times p(z)) \times c_i$$

where  $c_i$  is the unit loss (eg. in pln / hr.) due to incomplete use working time  $i$  resource. Separate the losses  $c_i$  we can determine by the rules bringing them into their calculations for each resource under consideration by the *formula 3*:

$$c_i = c_i^p \times \frac{W_{kp}}{100} \times \left(1 + \frac{W_z}{100}\right) \quad (i = 1, 2, \dots, n)$$

where:  $c_i^p$  – the unit price of work of  $i$  resource,  $w_{kp}, w_z$  – percentage rates of indirect costs and profit.

The term of time consuming includes components influencing the level of consumption of time in the process. In order to determine the dynamics of losses, one must determine the percentage of the level of losses compared to waste time and resources for a particular task.

Time consumption determined in the step of planning is important for budgeting construction projects. The process of budgeting should firstly be expressed in natural units. Therefore, it is reasonable to use time in budgeting construction projects, as well as create opportunities for its control. This approach is mainly due to the tangible connection time-consuming planning of the process which translates into budget planning for supply of investment. It must be replaced by a few rules (Nowosielski, 1999):

- a basis for budgeting should adopt standards of technical use of factors of production,
- costs should be structured by homogeneous generic items,
- budgeted costs should be split into primary and secondary process,
- the costs of primary and secondary process should be divided into variable and fixed,
- to determine the extent of liability for the costs generated in terms of controlled and uncontrolled cost by the head of manufacturing.

Pricing was the time spent on tasks, usually expressed in units such as pln/hour or pln/minute. The level of time-consuming entered into the budget also determines the amount of time known as a reserve. This time is intended as a buffer possible to move from an action to an action. In practice, if there is a buffer time valued pln/hour for one of the tasks, it is possible to transfer the surplus to other action at a similar price. The aim of such proceedings in budgeting is to optimize costs over time.

It should also be noted that the time-consuming is also inextricably linked to the labor-intensity. Labor intensity is an element of time-consuming. Labor intensity is defined as the number of hours (minutes) necessary to complete action. Time consumption becomes an element of budgeting when it includes manufacturing and related factors such as (Wysocki, 2008):

- labor intensity (P),
- number of employees in the task (I),
- realizing skills (U),
- the percentage of time that employees executing the task, they can devote to its implementation (P),
- organization of work (O).

These assumptions can be represented by the following *formula 4*:

$$T = f(R, I, U, P, O).$$

Time consumption is not always measured linearly; therefore, it is worthwhile to use a variety of techniques for estimating the time-consumption (Hammer and Champy, 1993). Time consumption is a part of budget analysis, because the possibility of using enterprise budgets developed based on activity based costing it requires the use of units of time as a carrier costs and management of costs (Dylewski, Filipiak and Szczypa, 2010). Budgeting

based on the time action is particularly useful in estimating and predicting the cost of resource consumption and efficiency (Szychta, 1999).

### **Use of TDABC in the cost of supply (purchasing) - a case study.**

The supply at the time is a substantial determinant to make investments properly. Reflection to this stipulation becomes time-controlled account. The point of this bill is to include time as a carrier of costs. Time Driven Activity Based Costing is a bill specifying the cost of one minute of activity or sub-activity. It uses only the resources needed for the process but also gives the opportunity to the valuation of time of unnecessary resources and downtime. Moreover, it is a concept that allows control the number of suppliers, delivery time, cost of purchases of materials, and a model identifying and providing information to improve controlling, supply management process and significantly lifting the level of quality of service (Radziejowska, 2001). Competent forecasting of costs, included in the budget of construction, leads to changes in demand for resources resulting from improvements in processes (Leszczyński, 2012).

Time equation used in the bill is a reflection of the time estimated for the activities and sub-activities in the process of building supplies. The logical system of equations of time determines the cost items of TDABC. Using the equation of time, it is possible to construct account-specific processes, namely the purchasing process of the construction investment in this case. In 2014, there was a conducted research using focus groups of 22 Polish construction companies. One element of research was to analyze the cost and determine the catalog of costs based on the purchasing process of construction project. By studying it is possible to identify the determinants of ensuring the implementation of the TDABC as a permanent supply cost analysis of construction project. Study participants determine the following determinants of application of the TDABC model:

1. To TDABC was possible to use, the company should be able to accurately determine the quantity and quality of available resources.
2. The company should have the human resources capable of building, maintaining and operating TDABC and conduct proper inference of the management based on the account.
3. The company should have the resources to accurately estimate the duration of projects.
4. The company shall have an entity providing proper conduct of the procurement process, including purchasing, supply planning, vendor selection, making offers.
5. The company should carry out more than one project simultaneously.
6. The company must have the resources to valuation of projects, and must keep a budgeting system of projects.

Certain determinants mean that the main objective TDABC in the supply of construction services is not the possibility of eliminating stocks, but estimating the cost and time consumption of actually used resource potential. Priced unit of time (eg. one minute) is a factor influencing the cost of the project in time. Therefore, the study found a set of equations of time for purchasing process of a construction project. Equations of time are being shown in Table 1.

Table 1. The time equation of purchasing process in construction investment.

	Activity	Sub-activity	Time in min.
1	Preparation requirements in min =	gather information about the quality and quantity of material required	30
		+ check the availability of the material on the construction site	15
		+ verification of material	15
		TOTAL in min =	60
2	Establishing supplier base min =	determine the amount of local suppliers	40
		+ specify the number of suppliers of the product	60
			60
		TOTAL in min =	160
3	Generate inquiry in min =	determination of which material should ask	30
		+ determine the the volume of material on request	15
		+ prepare inquiry	15
		+ generates a inquiry	5
		+ sending inquiries	5
		TOTAL in min =	70
4	Gathering and develop offers in min =	receipt of offers	5
		+ quantitative, qualitative, cost analysis	30
		+ select the the most advantageous offer	5
		+ approve the choice of the offer	15
		+ offers additional negotiations	30
		TOTAL in min =	85
5	Supplier selection in min =	determine the quality of offers	30
		+ evaluation of the selected provider	15
		+ qualify suppliers	15
		+ additional negotiating terms	30
		TOTAL in min =	90
6	Preparation of contract in min =	generate orders	20
		+ validation of the order	5
		+ approval the order for shipment	5
		TOTAL in min =	30
7	Sending orders min =	sending the order	5
		+ waiting for confirmation of the order	5
		+ receiving confirmation from the supplier	5
		TOTAL in min =	15
8	Preparation of building site to receive delivery in min =	check the availability of the destination	20
		+ check the availability of the machine to unload	10
		+ check readiness of employees to unloading and storage	10
		+ provide information about the date (day and hour) of delivery	15
		TOTAL in min =	55

9	Receipt of delivery in min =	unloading at the construction site	45
		+ make quantitative quality control	30
		+ check the delivery documentation	10
		+ confirm the accuracy of delivery	10
		+ delivery documents confirmation	10
		+ storage of material	30
		TOTAL in min =	135
10	The allocation of material to the fronts of works in min =	determine the destination of the materials	20
		+ disposals of material for the fronts works	30
		+ internal transport of materials for the front works	120
		TOTAL in min =	170
11	Determination and allocation of costs in the place of origin =	merits of FV for delivery verification	10
		+ breakdown of costs in the place of work fronts	15
		+ FV adoption	5
		+ entry in the accounts cost	5
		+ determine the shipping cost for the project	10
		TOTAL in min =	45
		<b>The sum total of DURATION IN MIN =</b>	<b>915</b>

Source: Own study based on conducted research.

The logical system of equations of time, determines the cost items. The budget becomes a tool, not only predictor, but also analytical, enabling the conversion of general plans for specific needs. In fact, this budget should indicate the projected costs of specific actions and determine demand for certain resources. It is therefore possible (based on equations presented time) to shape forms of TDABC for purchasing process of the construction investment.

Table 2. TDABC for the supply (purchasing) of construction.

	Name of the process	estimated cost PLN	estimated duration of action in min	number of subactivities	cost of 1 min of subactivity
	The process of purchasing				
1	demand preparation	50	60	3	0,28
2	determining the supplier base	150	180	3	0,28
3	generate inquiry	200	70	5	0,57
4	gathering and offers preparation	250	75	5	0,67
5	supplier selection	100	90	4	0,28
6	the order preparation	50	30	3	0,56
7	sending the order	50	15	3	1,11
8	site preparation to receive delivery	200	50	4	1,00
9	receipt delivery	60	120	6	0,08
10	allocation of material to work fronts	50	105	3	0,16
11	determine and allocation of costs in the place of origin	40	45	5	0,18

Source: Own study based on conducted research.



In the classical approach of accounts, which is assumed as the basis for resource utilization of 100%, such as the account activity based costing, cost at the time it seems to be obvious by assuming that 100% of the resources consumed 100% of the time. This is because of the valuation of resources. The resource in the classical sense of bill is the vehicle of cost. Thus, the process will cost as much as the consumption of available resources (not really used). Research indicates that the valuation process based on the estimated time causes the possibility of movement activities provided in time. Thus, despite the change of activities in time, it does not alter the cost of the process. By using TDABC update cost at the time is measured in real time in the unit time - e.g., 1 minute. Changing the time in individual tasks can be illustrated as in Figure 1.

Time of process									<ul style="list-style-type: none"> <li>– The total cost of single minute of the process is at the expense of process duration.</li> <li>– Shift of activities at the time does not change the cost of process.</li> </ul>
Activity 1									
Subactivity 1.1.									
Subactivity 1.2.									
Subactivity 1.3.									
Subactivity 1.n...									
Activity 2									
Subactivity 2.1.									
Subactivity 2.2.									
Subactivity 2.3.									
Subactivity 2.n...									
Activity 3									
Subactivity 3.1.									
Subactivity 3.2.									
Subactivity 3.3.									
Subactivity 3.n...									
Cost of process									

Figure 1. Shot of actions during a single process.

The use of TDABC in estimating the cost and time for supply provides a rational approach to the analysis of cost in the construction project. Thanks to the essence of TDABC allows you control time within one process. This directly impacts to the use of resources necessary for the project, but at the same time enables you to analyze the cost in real time.

### Conclusions

At a time when the process is optimized for the success of the project it is necessary to search for such tools that enable management decisions in real time. In response to the need for optimization in supply of construction services, TDABC can be used. As the study found, TDABC is one of those tools that thanks to its design and use of time (eg. one minute) as a carrier of cost allow analyzing the costs of activities based on really needed resources. From the point of view of business economics, finding and using an instrument that optimizes the most cost-intensive sphere of activity, which is supply, is now not only a fashionable trend, but an obligation. But it must also be considered that improper use of optimization tools not only brings disadvantages, but it may result in financial loss, quality, and time.

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# **COSTS AND BENEFITS OF MARKETING COMMUNICATION INVESTMENTS FOR SMALL AND MEDIUM ENTERPRISES (SMEs): CREATING TOOLS FOR RETURN ON INVESTMENT (ROI) ESTIMATIONS AND CALCULATIONS OF LOCAL MARKETING (COMMUNICATION) CAMPAIGNS**

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## **Abstract**

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The digital innovation that has led to the use of digital marketing creates more opportunities to measure the results of marketing communication efforts. However, the opportunity to make digital marketing efforts measurable causes a kind of pressure to also quantify non-digital and less quantifiable marketing resources.

Although Small and Medium Enterprises (SMEs) often make use of local media (leaflets, regional newspaper, radio, sponsoring, digital marketing, ...), they are typically unaware of what customers they can or cannot 'reach', and how to use marketing actions, and they fear too small Return of Marketing Investment (ROI) of their marketing actions. SMEs often do not have (reliable) methods to measure the benefits of marketing, and they often make decisions based on ill-tested assumptions. SMEs thus need evidence-based guidelines for the possibilities and implementation of local marketing actions (purpose 1). They also need a way to calculate or track their costs and benefits (purpose 2).

In the present study administered in Flanders (Belgium), we collected (a) 13 explorative interviews with experts in the field of marketing; followed by (b) 27 in-depth interviews with locally based SMEs, and (c) a quantitative survey of 157 Business to Business (B2B) organizations.

In this contribution, we aim to offer 1) a comprehensive state of the art, integrating the most used and most cost-benefit effective marketing communication possibilities for SMEs, and 2) specific tools or templates for continuous cost-benefit and cost-effectiveness analyses of local marketing efforts (for SMEs).

**Keywords:** return on Investment, marketing, SME, costs, benefits, local, business, digital and advertising.

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## **Introduction**

Although SMEs make use of local media (leaflets, regional newspaper, radio, sponsoring, digital marketing, etc.), they do not know who they can or cannot 'reach'. They often do not know how to use marketing actions and fear a too small ROI (UNIZO, et al., 2014). Most of them do not have a marketing strategy, and if they do, many do not know how the content they want to convey to their consumers should be structured across media channels (Mediaforta, 2014). Moreover, many SMEs do not have methods to measure the costs nor the benefits of marketing, and they often make decisions on the basis of ill-founded assumptions and gut feeling (Gouden Gids, 2014). Briefly stated, SMEs struggle with marketing (communication). SMEs and especially one-man businesses thus are in great need of evidence-based guidelines for how to select the options available to them and a method to measure and evaluate them.

Knowledge concerning the costs and benefits of marketing is a universal goal for all organizations, not only for SMEs. *"According to a 2013 online study of digital marketers by*

*Adobe, 76% of survey respondents believed measuring marketing performance was important, but only 29% felt that they were doing it well*" (Lopresti, 2014, p. 6). Large companies are understandably interested with the measurement of marketing performance, as they want some "accountability" of the costs made by their marketing departments.

Moreover, the innovation that leads to the use of digital marketing creates better opportunities to measure the results of marketing efforts. But, this also causes greater pressure to make offline, or say, traditional marketing efforts more measurable too. The quest to measure ROI nowadays thus applies also on the non-digital and therefore less quantifiable marketing resources, not only for SMEs, but also for larger companies. Businesses feel the urge to use marketing as a means of investment that contributes to the growth of their business, and they feel the need to make any (offline) marketing campaign measurable both in cost and in return.

Each company shows great interest concerning the financial measures of marketing performance not only because the marketing department is expensive, but also to make the right decisions and to adjust the marketing strategy accordingly. (Chouliaras, Gazepis, & Kargidis, 2015).

According to Van Biesbroeck, "a good marketing strategy ensures growth in SMEs" (Voka Leuven, 2013). Indeed, there is a positive correlation between marketing and profit, especially in a 'weak economy' (like, for instance, in Greece) (Chouliaras, Gazepis, & Kargidis, 2015). The most important aspect of a company's success lies in its marketing, according to a study in 1997, where 500 CEOs of the most developed US companies were questioned about their strongest skills. The majority replied "marketing and sales". (Lodisch et al, 2001, in (Chouliaras, Gazepis, & Kargidis, 2015). Furthermore, a study of 40 venture capitalists (capital enterprises) investing in more than 200 new companies, revealed that "doing marketing" was evaluated as the most decisive action determining the success of a company (Lodisch, Morgan & Kallianpur, 2001, in (Chouliaras, Gazepis, & Kargidis, 2015).

SMEs, unlike big companies, do not have the budgets, time, skills, or resources to search and evaluate their marketing campaigns thoroughly. The goal of our research, therefore, is to create guidelines for launching and measuring successful marketing campaigns for SMEs. The present paper has two scopes. Firstly, we present an overview of the different sorts of marketing campaigns used by SMEs, their effectiveness and the reason why SMEs choose to use them. Secondly, we want to investigate if certain SMEs measure their ROI, and we try to identify tools to efficiently measure ROI.

### **Current research**

Our paper reports about three independent surveys. It involves (a) 13 explorative interviews with experts in the field of marketing; followed by (b) 27 qualitative interviews conducted with locally based SMEs (7 B2B, 5 B2C and 15 both B2B and B2C oriented) and (c) a quantitative survey conducted with 181 Flemish SMEs (157 were B2B oriented).

### Marketing experts

A total of 13 marketing experts were interviewed to obtain a preliminary understanding of the domain of marketing and its ROI. Table 1 reports some details about the business and expertise of the interviewees.

Table 1: Business and expertise of the 13 interviewed marketing experts.

Belgian director media market (saleshouses)	Marketing department of a large (inter)national company	Media-, advertising- or communication agencies	Marketing experts at the government or a University (College)
<b>Radio:</b> regional manager at Radio 2, Flemish radio	Brand manager Nutrilon/Danone	Before the Hype	VLAM, a governmental agency (fresh from Belgium <sup>1</sup> )
<b>Cinema:</b> marketing manager at Kinopolis	Marketing director Lotus Bakeries	Antenno	Prof. dr. at Antwerp University
<b>Magazines:</b> editor at Karaat, a regional lifestyle magazine	Marketing intelligence manager at the Zoo of Antwerp		Lecturer at Artevelde University college
<b>(regional) Television:</b> ORR, sells airtime for AVS, a regional television channel			Post doc at Vlerick Business School

#### *Radio and TV offer (less) opportunities for local SMEs*

According to the experts, classic, mass media marketing campaigns on radio, TV and print (magazines/newspapers) are very interesting, although only for (inter)national companies. Large companies may use these media channels mainly to increase their national brand awareness. The (expensive) prices for advertising space and airtime depend on different factors (time, programming, frequency, uniqueness, etc.). (Very) small SMEs and local shopkeepers mostly do not have enough budgets to spend on these media and they experience little or no added value in *national* brand awareness.

Big companies do not only rely on radio or TV spots via classical, well-known commercials, but also through many variants of paid, exchanged or negotiated product placement (such as including one's brand in a serial, movie or show). The latter channels offer some opportunity for small companies. They can go for free press coverage (earned media) or an infomercial or advertorial. If their business, event or local initiative "*is sufficiently interesting or important*" they can negotiate prices for coverage for that event or even get coverage for free. According to the interviewees from the providers of radio, TV and newspaper sector, the local success of such media attention, through "*recognition and being spoken about*", is considerable.

#### *Online is omnipresent*

The experts agree that online marketing efforts are particularly successful. There are many opportunities in online marketing, both owned, earned and paid: website, newsletters, Google advertising, bannering, *skippable* or *non-skippable* advertisements before a YouTube video, Facebook, Instagram, ... Online marketing tools are considered as positive, because an organization has ownership of its content, because these tools are fairly easy to use, and

because many online tools offer metrics which can be followed / figured. In addition, content can go viral very fast, which has a beneficial impact on the (local) brand awareness.

Newsletters were perceived as very useful, but creating one was perceived as time consuming and requires more communication skills than posting a fast, funny, informal message on Facebook.

As many SMEs often lack knowledge to fully and effectively use these tools, some roadmaps would be useful. For instance, tips and tricks about how to be covered or mentioned in a blog and how to cooperate with other SMEs, using 'affiliate marketing', which doubles the viral speed is recommendable. These alternatives are cheaper than paid ads and may also contribute to increasing brand awareness.

#### *Coupons and sponsorships are stirring up mixed feelings*

Both large and small companies use coupons, promotions, etc. Experts recognize the benefits, and the increase in sales is easily measurable: the number of coupons can be counted. However, according to our experts, many companies have no idea about the most interesting value of the voucher (*"is a reduction of 50 cent necessary, or would one of 30 cent be enough?"*). Furthermore, an increase in turnover does not necessarily cause an increase in profit or in higher customer loyalty. A coupon reduces the margin and, as a result, reduces the profit. Companies have mixed feelings about using coupons. Some customers are waiting to spend money until coupon periods and therefore customers are *"conditioned"* to postpone particular purchases. Although SMEs can quickly calculate additional sales *during* coupon periods, it would be interesting for SMEs to calculate the real cost *a priori*, taking into account cannibalization and margin loss, before they use coupons. This would enable them to decide on these strategies, just as big companies which estimate in advance whether a certain campaign is profitable or not, and then decide whether or not to introduce the promotional action.

Sponsorship is another marketing opportunity which encounters a lot of skepticism. Although a lot of organizations are using this strategy, they do it *"because they have no choice"* rather than to achieve marketing goals. SMEs sponsor because acquaintances or customers ask them for, or because they are afraid the competitors will receive more attention if they would sponsor instead. Sponsorship is not necessarily in cash, SMEs often sponsor in products (e.g., cookies, coffee, etc.). The latter is considered more lucrative (the cost is often much lower than the market value of the product). The ROI of sponsorship is hard to calculate or estimate. Sponsorship is usually done for other goals than (direct) sales. The effect of sponsorship could be measured by SMEs by questioning customers if the sponsorship has had an impact on their behavior or awareness. Moreover, SMEs could include sponsoring (events) into their online communication, which can, in turn, go viral.

#### *Trivial marketing possibilities are worth considering*

Finally, experts report the importance of small, obvious efforts that are often overlooked (except at the start-up of a SME). Things we usually do not link directly with marketing are, among others, decoration, corporate identity, logo, sidewalk sign, advertisement on bags, cooperation between SMEs, local events, vehicle lettering, local flyers, POS, fashion shows ... can certainly have a positive impact on the company's success.

### *No common rules, but facilitators*

Despite the abovementioned suggestions, experts agreed that there are no general guidelines to determine which marketing action will be successful and which will not. Even specialists (radio, marketing, regional newspaper) cannot always estimate the success or failure of their created actions in advance. Albeit there are conditions that are perceived as supportive:

- *Activation*: things that activate work: a call to action, a call to share, a game, a voucher, etc.
- *Combination*: combine offline with online strategies and create in this way buzz. If your SME or event was in the (local) newspaper, or on TV, or when you are sponsoring somewhere, just share it on Facebook, or include photos on your website or in your newsletter.
- Seek for local *recognition, engagement* and word of mouth: neighbors or local customers like to recognize their store or local SME on television and will talk to you (and others!) about it. This reasoning can also be applied on the positive effects of a striking or salient logo, sign or an attractive shop window.
- First define achievable *objectives/goals* and target the right *audience*, before choosing a marketing campaign in congruence with these goals/targets. For instance, it does not make sense to focus on extra brand awareness if you're already known by 98% of the public. Another example: if you want a younger customer base, you could organize a workshop "*making gingerbread*" for parents with young children, or give a substantial discount on the '1<sup>st</sup> birthday' cake of a young child. Putting an announcement in the local newspaper would be the right marketing action when you will have an open house day.

### *Keep track of the learnings*

Enterprises can learn a lot by actively recording "*learnings*". Large companies make their knowledge explicit and keep track of their data, expenses, gains and statistics in a sheet or document. They create a list including past successes and failures, as well as the conditions and reasons why. SMEs also possess this kind of knowledge, but rather intuitively and tacitly and on the basis of "gut feeling". They know for example that sponsorship feels as a waste of money, or a fair does not result in the expected values (turnover, new customers). They, however, do not have the money and the time to keep track of the objective data. However, according to our experts, they should write this information down at least.

### *ROI: current state*

Academics and experts have a theoretical idea about how companies could measure the profitability of their marketing campaigns with (a) tool(s). Some companies already employ such tools, whether based on a simple Excel sheet, or on sophisticated (statistical) programs such as SPSS, Tableau, QlikView or ERP packages. However, many (small) companies do not use such tools, although they keep track of some simple, concrete elements like the stack of coupons, or the actual number of visitors at a fair or open house day.

### *ROI: a jumble of elements and metrics?*

The core elements of a ROI tool are costs and revenues. However, (a) both elements result in different definitions and calculation methods. Furthermore, (b) there is no one-to-one

relationship between input and output of a campaign, external factors are involved as well: the marketing actions of competitors, running concurrently, affect the own success too. (c) Interactions between different actions take place, within the so-called marketing mix. Finally (d), costs and benefits are rarely measured in a controlled experimental setting (i.e., one group *with* and one group *without* advertising). This makes it difficult to have a view on causality: perhaps there was also an increase in revenue or customers without the action, or there might be a general decline in revenue or customers, but the decline would have been even worse without the action. Concerning the latter possibility, experts stressed the interest for SMEs to include some experimenting or A/B testing – if possible – as the first step in a simple ROI calculation. The professional marketers (of international companies) made use of A/B testing, by varying actions and codes per region, by experimenting with different coupon values (€ -0.1 vs. -0.3 €) or by sending different newsletters or Facebook images toward other segments of customers.

The *cost side* of a ROI formula could be simple. All costs can be listed: for radio spots, television commercials, advertising in newspapers, airtime, boosts on Facebook, websites, printing of flyers, the hostesses during an open house day, sponsorship or participation at a fair. However, additional hours spent by the own personnel also need to be charged, as well as the time spent into making choices by the (marketing)management team (e.g., judging several pitches, mailings & meetings in the decision process concerning a gadget) and the time spent on analyzing (ROI) marketing campaigns. The difficulty in measuring costs often concerns the allocation of the costs of the SME's personnel, coworkers and staff to specific actions.

The *revenue side* of a ROI formula most obviously includes: (more) turnover and/or (more) profit. But, other aspects than additional sales such as brand awareness or brand image, number of (new) customers, customer retention, fanbase, #likes should be included too. These variables are referred to as *soft* and *hard* metrics. Hard metrics can be directly linked to an increase in revenue, turnover, numbers of visitors buying stuff. Soft metrics lead to more brand awareness, satisfaction, likes, and are indirect influencers. Note, however, that soft metrics still need to be translated (estimated) into hard metrics, since "*likes do not pay the bills*".

The experts all stressed the importance of yet another dichotomy. Analyses can be done in *retrospect*: one measure costs and revenues of a campaign or action afterwards, and/or, *prospectively*: the effects of (several variants of) an action can be assessed in advance. In this prospective approach, it is possible and recommended to work on the basis of a breakeven analysis: "*What return is minimal necessary to recoup the investments made and is it feasible?*"

#### *Where do companies get their metrics?*

The following sources from which SMEs get (buy) metrics were mentioned:

- Measures of digital marketing activities (Google adwords, Facebook buzz, newsletters) are easier to collect than measures of offline marketing campaigns. Actually, clicks are so easy to track that this makes online marketing tools so popular (see above).



- For radio spots and TV ads, advertisers receive Gross Rating Point (GRP) data from their marketing agency, from the media channel itself or from a Belgian Centre for Information about the Media. However, experts admit that GRPs do not deliver measures on return on investment. Again, SMEs still need to deduce the additional sales and link these to the GRP delivered.
- Occasionally research agencies are consulted to measure variables like customer satisfaction or brand awareness *before* and *after* a campaign.
- Data (e.g., of sale volumes) can be bought from third parties like A.C. Nielsen and GfK.
- Marketers or the marketing department often receive support from the financial department to receive internal data of costs and revenues.

### **Locally based SMEs<sup>1</sup>**

27 local oriented SMEs were interviewed about their marketing strategies and measurement of ROI of marketing expenses and efforts. The companies selected for the interviews were active in a wide range of areas, such as the construction industry, event planning, website building, insurances, event planning, an employment agency, a bakery, a furniture shop, etc.

#### *Digital and online marketing tools are core business in the marketing strategy of SMEs*

We found that *digital marketing* strategies are nowadays at the core of nearly all SMEs we interviewed. Nearly all had a *website* and were active on *social media* (see Graph 1). Reasons for using online marketing is the relatively low threshold. If you know how to implement these tools in your overall marketing strategy and you do it well, you can have a big impact without spending too much money.

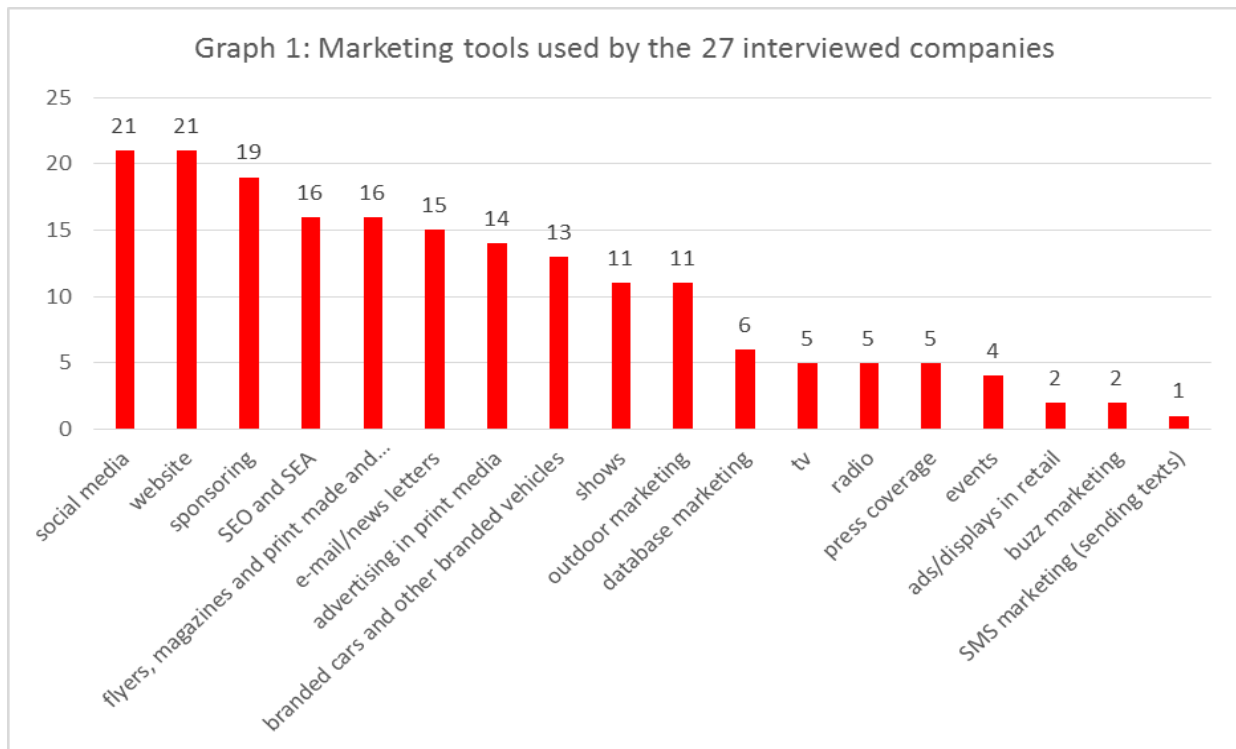
*Facebook* was the most popular social media platform used, but *Twitter*, *Instagram*, *Pinterest* and even in one case *Snapchat* were mentioned as well. Photo based social media tools, of which *Instagram* is the most popular one, were used most frequently by companies selling a visually attractive product (*like a designer*). There was only one company (*employment agency for students*) that used *Instagram* and even *Snapchat*, although it does not sell visually attractive products. This company was a start-up founded by a young person, i.e. a digital native. With his start-up, he tries to create a certain atmosphere around his business. He was very skilled in online brand building and an exception in our sample of SMEs. *"On Instagram, we have a strong presence. We pay attention to what we share. We want to spread a very particular image. We share photos of events and scenes that make work look like fun, and they encourage people to want to work with us"* (*employment agency for students*).

More than half of the companies used *SEO and SEA marketing techniques*. Only a minority of those, 6 companies, used search engine advertising. The rest of them stuck to *SEO*, since they did not want to pay for *SEA*. Although digital marketing was commonly used, not all companies were taking full advantage of the possibilities, or even did not take it seriously enough as a commercial tool. There was a very clear distinction between either the bigger

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<sup>1</sup> Interviews were conducted by students: Benoot, C., Decolvenaer, J., De Ridder, C., De Vriese, L. Fevery, L. & Van de Velde A. (2016). *PWO ROI: regionaal ook interessant. Een onderzoek naar de kosten en baten van regionale marketingacties* [bachelor dissertation]. Gent: Arteveldehogeschool.

sized companies and the smaller ones. Whereas the bigger companies clearly invested in online marketing and social media, some smaller companies were not fully exploiting all opportunities. There was even one company that did not want to post too much on Facebook, because *“it would scare off customers”* (also applicable to e-mail marketing possibilities, see further). *“We don’t post too much on Facebook. Our customers are ‘high end’ and we do not want to push them away.”* (shop for kitchen utensils). There was also an age gap. Younger companies and start-ups were fully aware of the force of social media and online marketing, and used it at full force.



Not less than 15 companies used *e-mail marketing*. *Mailchimp* was the most popular tool used for sending out newsletters. However, not all of them used all the possibilities of Mailchimp *“You can learn from a particular mailing which words were clicked on, who did what. You can track your prospects all the way until you reach the last letter that they have read it. But do we use that information? No!”* (a service company for advising SMEs on strategy). Using a *database* for e-mail marketing was also uncommon. Less than half (6) of the 15 companies using e-mail marketing used a database (CRM) to target specific audiences with their newsletter (direct marketing).

Despite their differences in the extent and quantity of use of digital, online and social media marketing, nearly all the interviewed companies using these tools measured their output and results i.e. by using Facebook insights, Google analytics or any other analyzing tool available to them. The measurability of digital and online marketing tools was perceived as a big advantage.

*For most companies the popularity of offline marketing is still unchallenged.*

Although the impact and ROI of offline marketing tools is much harder to measure; their popularity and use is still unchallenged. The most popular one is *sponsoring*. Most of the

interviewed companies were locally active and were sponsoring small events organised by local associations. The printing and distribution of *own print media*, i.e. flyers, magazines and posters is still very popular as well.

Next to that, *advertising in (local) print media* is common. Mainly because it is affordable, especially in comparison to advertising on radio and television, and has quite a big reach. Since we interviewed SMEs who were mainly active locally, only few of them had the budgets to advertise on radio or television. Other popular marketing efforts were *branded cars*, participating in *shows* and outdoor marketing such as *billboards*.

#### *Measuring of ROI of all/offline marketing efforts is exceptional*

The measuring of ROI of marketing was for most companies exceptional. The majority did not measure marketing efforts and said they based their marketing decisions mostly on gut feeling.

Only 10 of the 27 companies tried to measure the outcome of their marketing efforts and only one, the largest company (*in the bakery industry*), had a functional and professional 'return on investment' tool (which corroborates the statements made by the marketers of large companies in the previous section). The other 9 companies managed their data in Excel, but they did not use a clear method or professional tool. Asked for the reason why; they found it too expensive to develop or purchase an ROI tool and they preferred spending their budgets on marketing itself.

The companies that measured ROI were the largest ones. Small companies mostly reported that they did not have neither time, budget nor staff. Although most of the companies found it hard to measure, or did not measure their offline marketing efforts, they nearly all measured their online marketing, because it is straightforward and often built-in in the tool itself. They used Facebook insights, Google analytics, the analytics of Mailchimp and other e-mail software and by measuring the leads generated by their website. "*We will rather choose for actions on Facebook or on the website because we can measure them.*" (*DM-Line, company for custom made cabinets*)

The criteria on which SMEs based their marketing tools were: gut feeling, previous actions, costs, sometimes targeted segment and 'doing what competitors do'.

#### **Quantitative study of 157 B2B SMEs<sup>2</sup>**

A questionnaire was sent and completed digitally by 181 SMEs. SMEs that were only directed to B2C were excluded for further analyses. (final N = 157 SMEs; 65% B2B, 35% both B2B and B2C).

#### *(Marketing) characteristics of the SMEs*

The SMEs were of variable sizes (see Table 2, column 1-2). Most of the SMEs had a turnover in 2014 that was 'larger than 5 million €', followed by '1-5 million €' (column 3-4). Most of the SMEs had no employee responsible for the marketing; most frequently a coworker took this task in addition to his/her other tasks (see last 2 columns).

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<sup>2</sup> The survey was conducted by students: Anthonis, M., Cnudde, N., De Waele, S., Raes, L., & Van Damme, N. (2016). *ROI van lokale marketing* [bachelor dissertation]. Gent: Arteveldehogeschool.

Table 2. Numbers and percentages of the categories within SME Size, Revenue (in 2014) and Marketing responsible(s).

N employees	% (N)	Revenue	% (N)	Marketing responsible	% (N)
<10	32% (50)	<1 million €	22% (35)	No	34% (54)
10-50	35% (55)	1-5 million €	32% (49)	Yes, as a part of and in addition to a wider range of tasks	38% (59)
>50	33% (52)	>5 million €	46% (73)	Yes, a permanent employee	13% (21)
				Yes, a solid marketing department with several employees	15% (23)

Most SMEs make their marketing plan once a year (33%, N=59), followed by a group of SMEs that never make a marketing plan (29%, N=53). A minority, 12% of the SMEs, has a “long-term” planning (less than 1x per year) and an equally small group (12%) has meetings for marketing planning several times a year.

The larger the SME (more employees) and/or the larger the revenue (in 2014) of the SME, the more manpower is assigned to marketing. Not surprisingly, there is also a positive linear relation between the number of marketers in a SME and the frequency with which a marketing plan is developed (ranging from ‘never’ to ‘multiple times a year’). Correlations are shown in Table 3.

Table 3. 2-tailed correlation coefficients and significances of SME-size, Revenue (2014), Marketing responsible(s) and Marketing plan(s).

N=157		# Employees	Marketing responsible	Marketing plan
Revenue (2014)	Correlation	<b>,64**</b>	<b>,46**</b>	,12
	Sig. 2-tailed	<b>,000</b>	<b>,000</b>	,132
# Employees	Correlation		<b>,58**</b>	,14
	Sig. 2-tailed		<b>,000</b>	,075
Marketing responsible	Correlation			<b>,47**</b>
	Sig. 2-tailed			<b>,000</b>

Furthermore, SMEs (only!) spend 2% (in average) of their revenue on marketing. This figure might seem low, especially in comparison with B2C and larger companies (where this rate goes up to 15%), but the current research focused on B2B companies, which might explain this lower percentage.

Next, it seems that a SME *with* a marketing plan spends more money in marketing than one *without* a marketing plan, at least, expressed as a percentage of the overall turnover. And finally, larger SMEs (both in size as in revenue) spent relatively less money (% of the revenue) on marketing, than smaller SMEs. This probably means that the same marketing expenses for the same marketing actions take out a bigger bite of the (smaller) budget in small SMEs rather than that smaller SMEs actually invest more in marketing.

*(Objectives of) the most used and best evaluated marketing campaigns*

The main marketing objectives of B2B SMEs are: to obtain new customers, to increase brand awareness and to increase sales (see Table 4).

Table 4. Main goals to 'do marketing' (0=not at all a purpose, 1=rather no purpose, 2=neutral, 3=rather a purpose, 4=main purpose)

	Mean
to obtain new customers	3,07
to increase awareness	3,02
to increase sales	2,98
for profiling compared to competitors	2,51
for loyalty of existing customers	2,40
goodwill (sponsoring)	1,43

The most commonly used marketing opportunities were: e-mail, Word of Mouth, Networking, Facebook, website, investing in SEO, brainstorming with customers, LinkedIn, investing in SEA / online advertising / advertising on websites, and actively respond to comments on social media. The least used techniques in the B2B sector were mass media (TV and radio) or 'trendy actions' like flash mobs, pop-up stores or online games and apps. Using gifts, free trials, coupons, tryouts, incentives or loyalty programs, were also not commonly used techniques in these kinds of SMEs. Going to conferences, events, fairs, or festivals, were situated in between. Note that 1 means 'yearly' and 3 means 'monthly' (see Table 5).

*(Wanting to) track ROI?*

114 (72%) SMEs do not track any kind of ROI or rely on gut feeling, 43 (27%) has one or another method in order to measure it. Table 6 illustrates which techniques are most frequently used by these 43 SMSs. Online calculations (click-through rates) is the top technique, followed by the measurement of pre-determined KPIs and interviewing customers. Calculating ROI is seldom outsourced to specialists and since couponing or give-aways were hardly used, the B2B SMEs do not use this technique very often either (between never and yearly).

The other 114 SMSs who said not to track the ROI nevertheless registered their new customers (2.63/4) and/or recorded their marketing expenses (2.38/4). However, this group was on average not interested in a ROI tool if we would offer one (1.97/4) (0=not at all, 1=rather not, 2=neutral, 3= a little, 4=very much).

There was a significant positive linear correlation between size of the SME and interest in a ROI tool: SMEs with more employees were more interested in such a tool [p=.008]. SMEs with (more) marketing personnel were significantly more interested [p=.003] and the more frequently a marketing plan was used by an SME, the greater the interest in such a tool [p=.04]. See Table 7 for the correlation values.

Table 5. Most frequent used marketing (communication) campaigns or actions (0=never, 1=yearly, 2=quarterly, 3=monthly, 4=weekly, 5=daily).

	Mean		Mean
Mail	2,57	Telemarketing	0,64
The customer as ambassador (positive word-of-mouth)	2,25	Price penetration	0,63
Networking	1,96	Free trial/example	0,58
Facebook	1,94	Inviting the press	0,57
Post on the website	1,71	Flyering	0,56
SEO	1,61	Testimonials	0,54
Brainstorming with customers	1,48	Youtube	0,54
LinkedIn	1,34	Congres	0,5
SEA	1,32	Festivities	0,49
Actively respond to negative/positive comments on social media	1,29	loyalty program	0,46
Online advertising	1,18	Incentives	0,45
Meetings	1,08	Billboards	0,4
Exhibitions	1,06	Rebate	0,37
Advertising on websites	1,04	PostCard	0,36
Presentations	0,97	Chatsessions	0,34
Discounts	0,97	Gift Voucher	0,31
Demonstrations	0,97	Experiencecentres	0,31
Sponsorship of goods	0,94	Tryouts	0,28
Business events	0,93	Open house	0,22
Send a press release	0,93	SMS marketing	0,18
Post content on fora or blogs	0,92	Coupons	0,18
Free give aways	0,86	Radio	0,16
Twitter	0,78	Sweepstakes	0,15
Newspaper ad	0,73	Brandstores	0,15
Promotional items	0,72	Festivals	0,15
Google	0,71	Online games or app	0,1
Seminars	0,69	Tv	0,09
Interviews in specific dailies	0,68	Flashmobs	0,08
Charities	0,68	Popupstore	0,07

Table 6. Techniques used for tracking ROI (0=not at all, 1=rather not, 2=neutral, 3=a little, 4=very much).

	Mean
Use online calculation tools (click-through rates and time spent on a page)	1,93
Key performance indicators (predetermined parameters)	1,72
Survey/panels of customers	1,28
Self-developed integrated tool	1,28
Purchased integrated tool	0,72
Counting give-away numbers	0,63
Outsourced to marketingspecialists	0,58
Counting returned coupons	0,56

Table 7. Correlation of interest in tools to calculate ROI and (marketing) characteristics of the SMEs.

N=114		Interested in a ROI tool
Revenu (2014)	Correlation	,11
	Sig. 2-tailed	,227
# Employees	Correlation	,25**
	Sig. 2-tailed	,008
Marketing dept	Correlation	,28**
	Sig. 2-tailed	,003
Marketing plan	Correlation	,19*
	Sig. 2-tailed	,038

When we probed deeper by asking why they were not interested in a measuring tool, they mentioned that they feared that it would be too complicated and too time consuming. If the tool would be simple, easy, usable and manageable, they would nevertheless consider it.

### Conclusions

We obtained some valuable insights on the use and efficiency of marketing communication campaigns or actions of SMEs. A one-fits-all solution or recommendation does not exist, and profitable actions depend on the product, sector, audience, objective and orientation (B2B vs B2C). We formulated some valuable recommendations about marketing strategies: *activate*, *cooperate* (affiliate with other SMEs), *align* your choices with the audience and objectives you want to reach, *combine* (offline and online actions of which the latter were embraced and used by almost every SME) and *record/track/note down your learning*. True, gut feeling and tacit knowledge can be quite accurate, but holding track of successes and failures, and/or making reasoned estimates are perceived as necessary by the marketing experts and larger companies. Finally, and relevant for the further progression of our research, (B2B) SMEs are (only) interested in tools concerning marketing actions and their ROI, if they are very simple, user-friendly and manageable. In the next months we will integrate the suggestions and create several (prototypes of) user-friendly tools applicable for very small enterprises, local shopkeepers and one man businesses.

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# LEVERAGING THE SPORTING INDUSTRY TO ENHANCE MARKETING EFFICACY

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## Abstract

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This paper examines the effects of select marketing methods on a company's ability to achieve various business objectives within the sporting industry. These objectives include brand awareness, brand enhancement, increased market share, improved customer goodwill, and successful new product introductions. The chosen marketing methods include celebrity endorsement, sponsorship, product placement, advertising, and ambush marketing. Many organizations favor celebrity endorsements in the hopes of establishing an association between the company brand and the athlete. Furthermore, celebrity endorsements also have the potential to benefit such products and services as automobiles, watches, beverages, financial services, electronics, restaurants, and clothing. However, athlete endorsements, particularly those outside the sporting goods realm, contain character risk. Sport sponsorship has proven significantly beneficial in achieving-brand trustworthiness. Product placement at sporting events is often used as an extension of sponsorship deals. Advertising associated with sporting events is found to serve two potential purposes: to promote products and services to current and potential customers, and to channel communication to current and potential future investors. Finally, ambush marketing is noted as more frequently effective at reaching consumers and creating a longer lasting impression than official sponsorship.

**Keywords:** marketing, athlete endorsement, event sponsorship, advertising, product placement, ambush marketing, strategy, sporting industry, brand risk, marketing efficacy.

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## Introduction

Sports have long been a part of global culture. Today, the importance of the sports industry spans far beyond athleticism and competition. Businesses from myriad industries use global sporting events and athletes to position themselves as leaders in their respective fields.

With the cost of endorsements, sponsorships, product placement and advertising escalating significantly, corporations expect substantially valuable outcomes in return. Interpreting these outcomes in the context of the sporting industry is critical to understanding efficacy. Each method has different associated benefits, costs, and risks. Using such knowledge to increase the accuracy of decision making can greatly improve a company's competitive advantage. In this study, we looked at five prominent marketing tactics: celebrity endorsement, sponsorship, product placement, advertising, and ambush marketing. These methods were chosen based on their frequency of use and the availability of applicable information regarding their relevancy and potential outcomes. We chose to analyze these methods through the scope of a systematic review in order to obtain relevant and informative research over a range of well suited case examples for the purpose of our investigation.

We then reviewed sought-after objectives—including brand enhancement, increased brand awareness, market share growth, improved customer goodwill, and successful production introductions—and likely outcomes that coincide with the aforementioned marketing methods. We selected such outcomes based on the frequency with which they were



selected by companies amid various industries as company marketing objectives. This was accomplished through the use of a systematic review of relevant studies, to be discussed later. We analyzed the efficacy and associated risk of each method in achieving identified outcomes. We then identified resulting managerial implications of these findings.

## **Marketing Methods**

### *Celebrity Endorsement*

Celebrity endorsement is the act of publicly showing approval and use of a product or service, typically in exchange for money. Ideally, the luminary endorsement influences consumer purchase behavior through the process of identification (Dwane & Abhijit, 2001). Approximately 25% of companies engage in endorsement deals annually to create a connection between a celebrity and their product or service in order to build brand equity and drive sales (Austad, 2004; Cornwell, 2011). Endorsement is particularly popular in the athletic industry due to the desire for companies to associate their sports gear with the fastest and strongest competitors, yet, its prevalence also spans into non-sports related industries.

In 2009, endorsement contracts topped USD 4.2 billion for companies such as Nike and Adidas (Carrillat, d'Astous, & Christianis, 2014). The rivalry between these athletic-gear titans began years earlier, highlighted in 1992 with the Barcelonan Olympics.- Prior to the games, Nike targeted several players on the U.S.'s new basketball "Dream Team." For the first time the U.S. team included professional as well as college athletes. Despite Adidas's claim as official sponsor, Nike managed to employ six Olympians on the US team to endorse their brand. Robert McGee, editor of Sporting Goods Intelligence, stated: "Basketball is the largest portion of the athletic footwear business, and with Nike having these six Olympians in ads, they should increase their dominance" (Kiersh, 1992). Nike sales topped USD 1 billion for the first time in Nike history over the period from June – November 1992, directly reflecting the promotional prowess of the Olympic Games and their successful endorsements (Nike, 1992). Not only did their celebrity endorsers win the gold and create hype for the Nike brand, they also managed to diminish Reebok's presence in the event by covertly covering up the Reebok insignia on their USA team uniforms during several photo opportunities.

As of 2013 after 20+ years of embedding endorsement associations in the minds of the consumer, Nike holds a 59% share of the U.S. sneaker market (Powell, 2014). (See Exhibit 1) Nike has not only increased the size of their share, but the value as well. This can be attributed to the establishment of customer loyalty through subsequent endorsement deals. These deals have the potential to influence consumers in a way unknown to other types of broader-based marketing, due to the element of human connection. The case of Michael Jordan is one example of this successful connection. Despite his retirement, the loyalty that former NBA player Michael Jordan has built among his fan base continues to drive sales. In 2013, the Air Jordan brand earned USD 2.25 billion in sales (Badenhausen, 2014). This customer loyalty signifies a long term benefit associated with endorsement deals, and the increased brand enhancement that comes hand in hand with increased loyalty (see Exhibit 1). Interestingly, it has been reported that Jordan originally wanted to sign with Adidas coming out of college, yet the German based company turned down the opportunity.

<b>Method</b>	<u>Endorsement</u>	
<b>Company</b>	Nike	Reebok
<b>Channel</b>	1992 Barcelonan Olympics	
<b>Objective</b>	<b>Long Term:</b> to increase awareness through extensive media coverage. Achieve brand enhancement and increased goodwill through association with athletes and the event.	<b>Long Term</b> enhance brand image over the competition (Nike), and create a lasting customer base through loyalty to successful athletes.
	<b>Short Term:</b> increase global market penetration and market share growth through expansive media coverage.	<b>Short Term:</b> increase market growth and penetration due to high media coverage.
<b>Results</b>	<b>Long Term:</b> increased brand enhancement through new product lines associated with endorsers, and customer loyalty. For instance, Michael Jordan has been unique in maintaining an emotional connection with his audience for 25 years. (Badenhausen, 2013)	<b>Long Term:</b> decrease in market share to 20% of US total in three years post Olympic games, (Reebok, 1992) lack of brand enhancement due to underperforming athletes, and no increase in awareness due to non medaling athletes as their top endorsers. Reebok continued to decline overtime, eventually acquired by Adidas.
	<b>Short Term:</b> increased market growth supported by then record high sales of USD 1.6 billion from June to November 1992, directly reflecting their promoted brand image during the time around the games. (Kiersh, 1992) Increase Nike's overall market share to 50% over the competition, Adidas, who held 20% of the US market. (Kiersh, 1992)	<b>Short Term:</b> minimal returns on their USD 25 million expense to advertise the endorsement campaign. (Shaw, 2012)
<b>Managerial Implications</b>	Increased brand value when there is a positive outcome. Experience "free advertising" when strong associations are created, (Austad, 2004) and an increase in customer loyalty. Beneficial if you are open	

Exhibit 1. Endorsement.

Endorsement is also effective at helping to reduce the influence of competing brands. Archival Reebok even goes as far as to directly address the success of Nike during the 1992 Olympic Games, stating that; “Whenever we look, a Sports Illustrated cover has a guy wearing Nike cleats... We don't have the guys to get us that exposure, and it's damn irritating” (Kiersh, 1992). This supports the connection between thoughtful celebrity endorsement and increased brand awareness, due to a benefit called “free advertising” achieved when an association between a celebrity and a brand are so strong that the idea of the brand is evoked from simply seeing the celebrity without any mention of the brand (Austad, 2004). During global sporting events, this effect is further strengthened by the frequency with which athletes are covered in global media.

While athletic endorsement deals have their benefits, they can also expose a brand to substantial risk. One concern in using athletes for endorsement purposes is the possibility of injury or poor performance (See Exhibit 1). An example of this risk and the associated negative outcome comes from the 1992 Olympics. In an attempt to compete with Nike, Reebok created a then enormous USD 25 million marketing scheme featuring two prized endorsers – decathletes Dan O’Brien and Dave Johnson (Shaw, 2012). Both men were expected to contest for Olympic Gold. To Reebok’s chagrin, O’Brien did not even qualify for the Olympics. To compound the setback, Johnson failed to win the Gold as had been widely anticipated (Shaw, 2012). Just as brands benefit from the success of their endorsers when their performance can be clearly segregated and identified, brands can suffer when an endorser performs below expectations (Knittel & Stango, 2014). This concept is supported by Reebok’s decrease in U.S market share contrasted while Nike’s continued to rise. (See

Exhibit 1). This shows a clear connection between endorsements and affected market share, in both positive and negative situations (Reebok, 1999).

In a similar light of underperformance, an endorser's unsatisfactory personal also has a similar impact, as seen in the case of pro golfer Tiger Woods. Consulting company, Accenture, lost no time in cutting ties with Woods. In the 10 – 15 trading days after the Tiger Woods scandal, the full portfolio of companies that used Woods as an endorser of their brands lost more than 2% of market value, concentrated among three core sponsors – Electronic Arts, Nike, and PepsiCo (Gatorade) (Knittel & Stango, 2014). Companies experienced similar downturns when Michael Vick pled guilty to dog-fighting charges, and Lance Armstrong was exposed for association with doping. This reinforces the notion that poor consumer perception of the endorser translates into poor perception of the product or brand endorsed (Austad, 2004) (See Exhibit 1).

An additional factor to consider with product endorsement is the “fit” (Farrell, Karels, Montfort, & McClatchey, 2000) between celebrity endorser and the product or brand they are endorsing. Studies show that endorsements are not only more effective when the endorser has a desirable “fit,” or meets the expected trustworthiness, credibility, and attractiveness that consumers expect from a brand, but that there may in fact be a negative response to brands who use endorsers that exhibit little to no fit with the product or brand they are endorsing (Austad, 2004). Any company that incorporates endorsement into their marketing mix opens themselves up to this risk, yet the potential reward often outweighs this possibility for many companies.

### *Sponsorship*

Sponsorship is considered a qualitative medium, used as the financial or in-kind support of an activity—in order to reach specified business goals. It promotes a business in association with the “sponsee” (i.e., event, team, etc.) by offering unique marketing opportunities that pave the way to establishing a competitive advantage. Many events use sponsorship support to offer more exciting programs and to help defray rising costs. For the sponsor it serves as a complement to other marketing programs, in addition to having a dramatic influence on customer relations. Sponsoring events that appeal to their target market are likely to shape buying attitudes and help generate a positive reaction. Additionally, sponsorship can frequently impact short-term sales, as sponsors have opportunities to showcase products or encourage sampling of consumables.

Corporate sponsorship in the sports industry is particularly valuable due to high levels of achieved consumer engagement with teams, athletes, and participating countries. Companies view sponsorship as a chance to identify with consumers and create valuable associations with their favorite competitors in order to enhance brand image. In 2007 global investment in sponsorship expenditures rose to USD 38 billion, (Michaelis, 2012) and continued to grow to USD 53.3 billion by 2013 (IEGSR, 2013). This level of investment directly reflects the perceived value of this marketing opportunity. In the case of the 2012 London Olympic Games and the 2014 FIFA World Cup, McDonald's provides several examples of what companies strive for when entering into a sponsorship deal, such as brand enhancement, increased market penetration and increased consumer goodwill (Michaelis, 2012), (See Exhibit 2).

Method	<u>Sponsorship</u>	
Company	McDonald's	
Channel	2014 Brazilian FIFA World Cup	Olympics (2012 London Games)
Objective	<b>Long Term:</b> enhance brand perception and consumer goodwill through event association, and increase awareness by targeting a new international consumer base.	<b>Long Term:</b> grow loyal market share by increasing global presence in the European market, enhance brand image and build consumer goodwill association.
	<b>Short Term:</b> increase immediate sales and global market penetration through expansive media and on site exposure.	<b>Short Term:</b> increase sales through new physical locations in proximity to the event and extensive media coverage worldwide.
Results	<b>Long Term:</b> 20% increase in consumer goodwill through redefinition of brand image. Increase in brand awareness due to heightened brand recall from prolonged media coverage. (Ipsos, 2014)	<b>Long Term:</b> brand enhancement through association, yet negative effects of risk manifested in critics response to McDonald's "true" sponsorship motives due to misalignment of goals. (Clark, 2012)
	<b>Short Term:</b> expenses of USD 1.2 billion in advertising, questionable in its worth due to the negative responses to the discrepancy of core values. (Clark, 2012)	<b>Short Term:</b> increase market penetration and global presence supported by a 3% increase in European sales, and a 5.7% increase in the Middle East/Asia/Africa during August 2012 (London Summer Olympics). (McDonald's, Inc., 2012)
Managerial Implications	Sponsorship provides the ability to target new audiences and increase market growth, a driving factor in choosing sponsorship as a component of any dynamic marketing mix. It's not without risk, and a manager should consider the alignment of company goals with what the event represents, particularly if there is a clear disconnect.	

Exhibit 2. Sponsorship.

McDonald's FIFA sponsorship proved its worth when their improvements in perceived brand "trustworthiness" increased by 20% from June to September 2014 (Ipsos, 2014). This directly reflects the increased brand enhancement and exposure from extensive media coverage during the time of the FIFA games (See Exhibit 2). This trustworthiness helps to enhance brand image, since brand image has said to be a reflection of brand associations in consumer memory (Sonnier, G. & Ainslie, A., 2011). Additional studies support the notion that in some cases, brand enhancement is also achieved simply by being a sponsor. Prior research revealed that most consumers think an Olympic sponsor is the best company in its industry; thus suggesting that sponsorship has a strong impact on corporate reputation as well (Dolphin, 2003). This effect can facilitate brand enhancement and increase consumer goodwill (See Exhibit 2). Here, we assume that the same basic attributes of the Olympics and FIFA World Cup, including their globally collaborative and competitive nature, will lead to similar consumer response. Additionally, increased consumer goodwill is a real and definitive benefit of sponsorship (Dolphin, 2003). This can greatly influence communication strategies and enhance brand image for corporate sponsors. It is believed that some tobacco and alcohol companies engage in sponsorship in an attempt to increase consumer goodwill (Dolphin, 2003). Thus, reasons for engaging in sponsorship relationships may be to alter public perception, create goodwill, and enhance internal operations and employee morale as well (Dolphin, 2003).

Brand awareness is thought to accrue naturally from sponsorship making it a primary expectation for many companies that engage in sponsorship relationships (Dolphin, 2003). An additional attribute of sponsorship deals is extended, repetitive media coverage. Repeated exposure of a brand increases the likelihood that the target audience will be able to effectively identify and remember the sponsor (Michaelis, 2012).

The 2006 FIFA World Cup provides a valuable example of the benefits achieved through repeated exposure. Surveyed individuals showed a 14% increase in recall of the official sponsor before and after the games (from 59% - 73%), coinciding with an additional 7% decrease in false recall (initially spurred by ambush marketing and brand confusion) from 25% to 18% (Michaelis, 2012). This supports the belief that prolonged media exposure increases brand awareness. "Events like Formula One Racing, the Olympic Games, and the FIFA World Cup are fully globalized in terms of media coverage. Consequently, large international companies in particular use the FIFA World Cup as a platform for building, strengthening, and maintaining brand image" (Michaelis, 2012). Building, strengthening and maintaining brand image all directly effect company goals of increased awareness, consumer goodwill and brand enhancement. Otker and Hayes go on to state that the following association is made between food brands and the event they are sponsoring. "This sport involves energy, energy is provided by Mars bars, and Mars is sponsoring it" (McDonald, 1991). This can be transferred to the case of McDonald's, inferring that the company sponsors events like the FIFA World Cup in order to create a link between their brand and the energy levels of the successful athletes involved.

Sponsorship can also help to increase market penetration. Immediately following the London Summer Olympic games in 2012, McDonald's saw a 3% increase in European sales, and a 5.7% increase in Middle East/Asian/African sales (McDonald's Inc., 2012). McDonald's has stated they believe this short term increase was "complemented by unique value offerings and promotions highlighting McDonald's Olympic sponsorship (which) benefited the segment's performance." (McDonald's Inc., 2012) Studies have shown that this can be attributed to the increase in viewer accessibility, reaching "potential customers, present customers, general public, local community, workforce, business community, distributors, suppliers, shareholders, and governments" (Dolphin, 2003) by engaging in sponsorships (of global events).

Additionally, brands use sponsorship of global sporting events like the World Cup to send a message to stakeholders (Dolphin, 2003). Association with the values and image of the FIFA World Cup create a positive connection for the sponsor and work towards achieving increased interest from potential investors or to reassure stakeholders. Sponsorship for the World Cup may also be used as a way to reach markets at both a local and global scale, citing McDonald's as an example in their prolonged sponsorship of the World Cup (Dolphin, 2003). Studies have shown that individuals will evaluate a brand more positively over time if a brand that has previously been evaluated negatively, becomes the sponsor of a positively rated event. This investment and commitment is a sign of quality for the negatively perceived brand (Michaelis, 2012). This may be reflected in McDonald's sponsorship, which could be striving for a healthier image to promote their new line of healthy meal alternatives.

Similar examples include Anheuser Busch and Miller Coors, ranked third and eighth respectively in terms of highest levels of activity in sports sponsorship (Crompton, 2014). In 1998, prior to US sanctions imposed on tobacco involvement, the tobacco industry ranked second as primary investors in the sports industry (Crompton, 2014). This displays a clear attempt to realign brand image to coincide with a positive sporting event, providing evidence of the efficacy of sporting event sponsorship to manipulate brand image.

While sponsorship is effective in some cases of minor brand realignment, there are other cases where a brand may be too far removed from the goals of an event to redefine themselves effectively. McDonald's corporate sponsorship of the Olympic Games has driven many critics to question their intentions. Concern is growing over the suitability of McDonald's (and other brands affiliated with junk food, i.e. Coca-Cola) as an Olympic sponsor considering the growing levels of obesity in the US. (Clark, 2012) Despite their attempts at healthy lifestyle initiatives, many argue that these are small, insignificant pushes that do nothing to solve the problem McDonald's has helped to create (Clark, 2012). This same pattern of thought can be used to describe the intentions of alcohol and tobacco companies when undertaking sponsorship deals. In this way, there is the potential for significant investment risk involved in becoming a sponsor when there is misalignment in "fit" between brand and event.

#### *Product Placement*

Product placement is the practice by which companies gain exposure through strategic placement of their brand or product throughout television or high profile events. In the context of the sports industry, product placement has grown in prevalence as companies realize the impact of its strategic implementation. Today, even video games find themselves riddled with sponsored products.

Effective product placement is achieved through intentionality. When the camera pans to a Gatorade bottle in the hands of an MLB Home Run Derby All Star, one can be assured it is no mistake. In fact, Gatorade is a perfect example of the increased use of product placement in the overall marketing strategy of a corporation. Effective use of this marketing tactic can aid in the successful introduction of a new product, increase awareness, brand enhancement, and market penetration through the sports industry.

Gatorade's product placement in the NFL is a major benefit to their USD 348 million, 8-year renewed sponsorship contract (Kaplan, 2004), indicating that product placement is often an extension of a sponsorship deal. The individual act of product placement adds a level of value outside the realm of previously mentioned sponsorship benefits. For example, while DVR and various technological advancements are making it easier to fast forward through televised advertisements, the tradition of watching the head coach get drenched with Gatorade at the end of a winning game creates value for the Gatorade brand in terms of increased exposure and affiliation with a victorious team (Kaplan, 2004). For example, Super Bowl XLIX pulled in approximately 114.4 million viewers, pushing it to the top spot in most watched broadcasts in US TV history (Pallotta, 2015). When 114.4 million pairs of eyes were glued to the screen during the game's final seconds, everyone saw Bill Belichick drenched with Gatorade. The "Gatorade victory shower" is the epitome of coveted free advertising, as stated by Bill Schmidt, former Head of Sports Marketing for Gatorade. The associations with

celebration, victory and the epitome of physical success provides invaluable enhancement to the Gatorade brand (See Exhibit 3).

The influence of product placement is spreading throughout the sports industry, which can be seen through a growing presence in the interactive media industry, particularly in video games. A study conducted by Electronic Arts Games (EA) on behalf of Gatorade shows that “in-game advertising increased household dollars spent on Gatorade by 24% and offered a return on investment of USD 3.11.” (Business Wire, 2010). This study focused on six popular EA SPORTS™ video games where the Gatorade name and logo was placed on arena signs, players’ water bottles, and score updates (Business Wire, 2010).

There are also risks associated with product placement. In the 2014 Olympic Games in Sochi, Russia, Under Armour fitted the US Speed Skating Team with newly designed ‘Mach 39’ skating suits, initially marketing them as a competitive advantage for being “the fastest skating suits in the world” (Peters, 2014) (See Exhibit 3).

Method	<b>Product Placement</b>	
Company	Gatorade	Under Armour
Channel	NFL Super Bowl (XLIX - 2015)	Olympics (2014 Sochi Games)
Objective	<b>Long Term:</b> increase brand awareness and market share growth through media coverage, and brand enhancement due to association.	<b>Long Term:</b> enhanced brand image through an impactful release to actively engaged audiences.
	<b>Short Term:</b> increase awareness through repeated media exposure.	<b>Short Term:</b> increased awareness through new product introduction to mass audiences and increased brand enhancement through successful demonstration.
Results	<b>Long Term:</b> little financial or brand equity risk due to support of both sides, consistent association and increased media coverage.	<b>Long Term:</b> failed attempt at brand enhancement due to poor Olympian performance. More efforts focused on repairing brand image rather than furthering. (Robinson & Germano, 2014)
	<b>Short Term:</b> reached 114.4 million viewers over repetitive 4 hour period, increasing awareness and brand enhancement through association. (Pallotta, 2015)	<b>Short Term:</b> increased awareness associated with negative performance and therefore harmful to their brand image. (Robinson & Germano, 2014)
Managerial Implications	Product placement in terms of new product introduction in a highly publicized and valued sporting event can have great risk and reward. If the product performs poorly, it's life cycle may be stunted due to perceived notions and stigmas since consumers can become so invested in the wellbeing of their favorite team or athlete. On the other hand, product placement, when executed well is an effective tool in increasing awareness and enhancing a brand.	

Exhibit 3. Product placement.

Despite the hype associated with these new uniforms, the team performed poorly and left without a single medal. This was particularly significant when compared to the success of the US team in the 2010 games (Robinson & Germano, 2014). Under Armour was blamed

for much of this outcome. Critics cited the vents on the back of the suits as the reason skaters fell behind. Meant to release heat, these vents captured air and created lag for the skaters. This represents the risk involved with product placement in terms of new product introduction. If the product performs below standards, there is significant chance of consumer and critic backlash due to heightened media coverage.

### *Advertising*

Advertising is the act of publicly promoting a product, service, or event. It has known many forms over the years. Today in the age of technology, it has evolved into the cornerstone of television programming. Advertising has continuously adapted to changes in consumer culture and attempts to reflect the views of the audience, particularly in the sports industry. While advertising has integrated itself into all levels of athletic performance, its involvement is particularly significant in the professional sports arena.

Super Bowl commercials are more than a filler between show segments, they are an anticipated aspect of the program. Super Bowl XLIX requested approximately USD 4.5 million for a 30 – second commercial slot between game segments (Kramar, 2015). While this seems like a steep price, many experts argue that with viewership of 114.4 million viewers (Pallotta, 2015), the Super Bowl price tag is actually a bargain at only USD 0.04 per person. This mass exposure provides the perfect opportunity to reach and identify with a truly expansive audience. Apple is an example of a company who used advertising effectively in the 1984 Super Bowl XVIII game.

Apple's commercial was the first introduction to the Macintosh computer. While it explained little about the actual function or features of the product, it managed to differentiate Apple from the competition, connect with the audience on a human level, and employ cultural references to engage the consumer. Since its debut, it has been revered as the single best Super Bowl ad ever aired (Smith, 2012). From this ad, Apple was able to enhance their brand, increase brand and product awareness, and diminish the appeal of the competition by making them appear to be a "corporate drone" (Smith, 2012) (See Exhibit 4). As a company unaffiliated with the sports industry in their own operations, the Super Bowl posed an interesting opportunity to reach a new market segment. In 100 days after the release of the Mac, Apple's sales rose to 72,000 units; 50% higher than even their most optimistic sales expectations (St. John, 2012). This shows the efficacy of advertising in increasing awareness and market share growth.

Choosing the Super Bowl as their venue was a smart move for Apple executives. Some viewers watch as much for the advertisements as they do for the game. Unlike regular television programs or other pop culture events, the Super Bowl provides a unique opportunity for businesses to engage with an attentive audience.

According to a study by Leichtman Research Group; DVR, Netflix and on-Demand users rose to 76% of all US households in 2014 (Leichtman Research Group, 2015). This gives viewers the opportunity to skip through advertisements that they find boring or irritating in order to get back to their feature program. According to a study of 4,199 participants, 86% of viewers skip through advertisements (Plunkett, 2010). This makes the Super Bowl an even more attractive opportunity to businesses who have a much greater chance of actually



reaching and identifying with their audience. USA Today even created an “Ad Meter” where viewers can vote for the favorite Super Bowl ads in real-time during the game, providing statistics on the “top rated ads,” including statistics on the number of votes received and the percentage of total votes. A prime example of a company who uses this additional media coverage to their advantage is Anheuser Busch, who has increased the efficacy of their image by repeatedly “winning” top Super Bowl ad of the year. In the past 15 years, they have won the top spot 13 times with a three year winning streak as of Super Bowl XLIX (USA Today, 2015). Budweiser Vice President, Brian Perkins stated that “the month following last year’s Super Bowl marked the strongest Budweiser sales in more than a year,” (Killoran, 2014) referring to their 2014 advertising success (again, ranking on top in the concurrent Ad Meter social media contest). This exemplifies the real financial returns and growing market shares that can be expected from these initially lofty commercial investments.

Method	Advertising	
Company	Apple	Anheuser Busch
Channel	NFL Super Bowl (XVIII - 1984)	NFL Super Bowl (XLIX - 2015)
Objective	<b>Long Term:</b> effective market penetration and brand enhancement through increased exposure and differentiation from the competition.	<b>Long Term:</b> increasing brand awareness and enhancement through consistent marketing themes.
	<b>Short Term:</b> new product introduction to increase awareness of the brand.	<b>Short Term:</b> increased market share through buzz associated with "Best Ad" and increased awareness.
Results	<b>Long Term:</b> successful new product introduction with sales of 72,000 units in only 100 days after release. (St. John, 2012) Creation of a legacy, and additional brand enhancement over the competition. (Smith, 2012)	<b>Long Term:</b> increased customer loyalty and enhanced brand perception. (Killoran, 2014)
	<b>Short Term:</b> increased awareness for both product and brand, created anticipation for release date and immediate influence over the competition. (Smith, 2012)	<b>Short Term:</b> social media integration achieves increased awareness and customer contact, supported by immediate increase in market share that led to highest reported sales in more than a year. (Killoran, 2014)
Managerial Implications	Advertising has the power to engage consumers, increase awareness and promote sales, particularly when used during high profile athletic events (e.g. the Super Bowl). The Super Bowl itself is a unique opportunity to connect with record high audiences in an engaging way. The inclusion of social media can work to increase awareness and promote sales, particularly when used during the Super Bowl.	

Exhibit 4. Advertising.

Aside from the increased awareness that Anheuser Busch receives from advertising to millions of engaged viewers, the Super Bowl also poses a unique opportunity to interact with your consumers prior, during, and post game. Prior to Super Bowl XLIX, the media highlighted Anheuser Busch’s winning streak and their extensive social media usage to engage consumers in a chance to win tickets to the game in Phoenix and promote their brand. They incorporated Twitter and Facebook to market their contest, hired famous Vine

personalities to create short videos in which they “find the lost puppy,” and uploaded all previous advertisements to their YouTube channel in order to strengthen the central theme of their advertising platform: the “best buds puppy”. By investing in these initiatives, they created an engaging platform for viewers to prepare for their Super Bowl debut (Gish, 2015).

Aside from connecting with consumers, businesses also use the Super Bowl as a chance to connect with their potential investors. A study by Fehle, Tsyplakov, and Zdorovtsov shows that stock returns increased after successful Super Bowl ads, taking into consideration the USA Ad Meter rating discussed above. Similar to Apple’s attempt in putting down the competition in their Super Bowl ad, Fehle, Tsyplakov, and Zdorovtsov found that “...such messages often appear to have the sole purpose of creating a favorable image of the company among market participants,” and that companies “...use advertising not only to promote their products and services to customers but also as a communication channel to their current and potential future investors” (Fehle, Tsyplakov, & Zdorovtsov, 2005). This is a chance to increase market penetration and gain financial rewards in the form of both potential consumers and investors by relaying a message of strength and ability over their competitors.

#### *Ambush Marketing*

Ambush marketing is referred to as “the purposeful and false association by a company not sponsoring an event toward the end of deriving benefits similar to those afforded by official sponsors” (Pitt, Parent, Berthon & Styen; 2010). When analyzing marketing campaigns in the sports industry, many of the more aggressive strategies can be attributed to the use of ambush marketing (Chadwick & Burton, 2011). Despite the safeguards that local governments put in place to protect the rights of official sponsors, ambush marketers seek ways to manipulate the rules to achieve their marketing goals (Chadwick & Burton, 2011). Ambush marketing has increased in use within the sports industry due to the privatization of sponsorship programs. Many firms want to reap the benefits of sponsorship, but can no longer afford its high price, creating an aggressive marketing environment.

There is one company that stands out among the rest as a master of ambush marketing – Nike. This expertise was made clear by their activities surrounding the 1996 Summer Olympics in Atlanta, Georgia. Despite the various legal safeguards put in place to try to protect the rights of sponsorship brands, Nike’s ambush marketing campaign proved successful in spreading brand awareness, enhancing the brand, increasing market share and minimizing financial risk (See Exhibit 5). In 1996, Reebok invested USD 50 million to become the official sponsor of the Atlanta Summer Olympics (O’Reilly, 2014). Nike was able to bypass this fee while still managing to build an association with the Olympics and the successful competing athletes. Nike avoided sponsorship costs and focused on an aggressive ambush marketing initiative. They bought out every billboard in the Atlanta area to increase exposure of their logo during the games. They also ran Olympic style advertisements featuring many of their Olympic endorsers, such as Carl Lewis, in order to enhance their image and create an association between their brand and the games (O’Reilly, 2014). They also built an impressive “Nike Centre” next to the Olympic Village which overlooked the stadium and provided a space for the press, athletes, and fans to enjoy the games (O’Reilly,

2014). This worked to increase awareness in participants and attendees alike, as well as enhance the brand by creating a strong association with the games (See Exhibit 5).

<b>Method</b>		<b>Ambush Marketing</b>	
<b>Company</b>		Nike	Li Ning
<b>Channel</b>		Olympics (1996 Atlanta Games)	Olympics (2008 Beijing Games)
<b>Objective</b>	<b>Long Term:</b> to enhance the brand, increase awareness and overshadow the competition.	<b>Long Term:</b> to outperform the corporate sponsor (Adidas) by enhancing brand image and improving consumer goodwill.	
	<b>Short Term:</b> increase awareness with heightened exposure through regional and global media coverage. Increase consumer goodwill and enhance brand. Recap the benefits of the sponsor and overshadow them in the process.	<b>Short Term:</b> to increase awareness of the brand and increase market share over the competition (particularly the sponsor, Adidas).	
<b>Results</b>	<b>Long Term:</b> realized continued value from endorsement deals after the games ended. Received negative response to their unwillingness to comply with the guidelines put in place to protect the rights of official sponsors, yet this was not seen as having material impact on firm brand, or sales.	<b>Long Term:</b> brand enhancement due to association with an Olympic athlete (Li Ning himself) as well as the games themselves.	
	<b>Short Term:</b> significant financial rewards from the bypassed sponsorship fees an increased awareness from their billboards, the construction of their Nike Center, and their impressive endorsements of multiple athletes. Increased brand recognition over the competition - 22% recall and wrongful identification of Nike as the sponsor, with only 16% having correct recall for Adidas. (O'Reilly, 2014)	<b>Short Term:</b> increased awareness of the brand due to "free advertising" from Li Ning himself (who lit the Olympic torch) despite the fact that he was wearing Adidas gear.	
<b>Managerial Implications</b>	Ambush marketing is a great way to create an association with an event for companies that can't afford to pay the sponsorship fees or lack the manpower to run the event. They work well to increase awareness of the brand in (hopefully) subtle, clever ways. When those attempts become more than just subtle, risk comes into play as event officials may become involved.		

Exhibit 5. Ambush marketing.

The 2008 Beijing Olympics demonstrated a clear representation of how ambush marketing is often more aggressive and effective at reaching the consumer and creating a lasting impression than official sponsors (Pitt, Parent, Berthon & Styen, 2010). What has been coined as the "Li Ning Effect" shows how effective ambush marketing can be, with the Li Ning brand incorrectly identified as the sponsor by 67.4% of participants. This effect describes the outcome where a brand ambushes a sponsoring competitor, resulting in higher sponsorship recognition than the official sponsor (Pitt, Parent, Berthon & Styen, 2010). This increases awareness, market penetration and minimizes financial risk due to the lack of initial investment ambush marketers face versus the millions of dollars sponsors pay.

While ambush marketing may lack the financial risk of other methods, it does still retain a fair amount of image risk. According to a study by Dickson, Naylor, and Phelps, most individuals find ambush marketing “unethical and a practice that organizations should not utilize” (Dickson, Naylor, & Phelps, 2014). In addition to viewers, McKelvey, Sandler, & Snyder found that the opinion of ambush marketers was lowered for nearly 60% event participants as well, in a study conducted with NYC Marathon runners (McKelvey, Sandler, & Snyder, 2012). This indicates a clear risk to brand image when a company openly involves themselves in ambush marketing schemes.

### **Conclusions**

The business objectives examined in this research contribute to our understanding of how companies can leverage the sports industry toward advantage seeking behavior. Through attempts at brand enhancement, increased brand awareness, improve customer goodwill and market share growth, firms are seeking to shift the competitive landscape to their advantage. Efforts to introduce new products are endeavors at moving beyond the firm’s current scope. To achieve such gains, firms must understand how to manage their marketing resources to their best advantage.

The systemic review explored herein provides an understanding of what can be expected regarding the aforementioned objectives from the use of various marketing methods within the sports industry. Exhibit 6 provides a synthesis of the findings and implications of the review. Advertising associated with athletic events and/or using sport celebrities, albeit sometimes quite expensive, has been used successfully for achieving a variety of firm objectives. Product and service endorsements by athletes have been successful in brand enhancement and increasing sales, yet carry potential risks. Firms might need to consider the cost trade-off of signing less celebrated athletes earlier in their careers or arranging for non-compensated endorsements.

Sponsorships, product placement and ambush marketing are used less frequently than advertising and endorsements. The value of sponsorships and product placements can be high, although costs appear to be escalating. Firms have to have very clear objectives and a clear plan as to how they will fully leverage the potential benefits to be gained from these marketing endeavors. Effective ambush marketing can be difficult to execute. However, past results illustrate the high potential payoff that helps the firm do well and ensures a competitor does less well.

In attempting to leverage the sports industry, firms must be clear in their objectives. They must be aware of potential risks. They must be adaptable and flexible enough to adjust if short-term gains are not being obtained or if continued pursuit of the same approach includes substantial downside risk. However, the overall evidence here makes it clear that leveraging the sports industry has the potential for substantial returns for a firm’s marketing investments.

Impact of Marketing Techniques During Global Sporting Events						
Outcomes/Objectives						
Marketing Tactic	Brand Enhancement	Increased Awareness	Goodwill	Market Share Growth		New Product Introduction
				Market Penetration	New Market	
Endorsement	Supports brand enhancement, see Exhibit 1 and discussion under endorsements.	Successful athletic performance in globally recognized sporting events leads to increased media exposure and therefore, awareness. Long term endorsement deals add financial value to a firm, see discussion under endorsement.	There was no evidence to indicate that athletic endorsement had an impact on enhancing consumer goodwill.	Leads to increased sales, high market influence, see customer loyalty attributes of Nike's Air Jordan Brand in Exhibit 1.	An athlete's poor performance, injury, or personal character concerns can negatively impact an endorsed brand because of developed associations. See Reebok, Exhibit 1 and discussion under endorsements.	Through the building of associations, credibility and likeability of an endorser can lead to successful new product introductions.
Sponsorship	Effective at achieving brand enhancement, see Exhibit 2. In some cases, also effective at altering brand perception, see discussion under sponsorship.	Effective at raising brand awareness, proven by increased brand recall and heightened media exposure during and post event. See discussion under sponsorship.	In some cases, goals of a sponsor can be realigned through sponsorship to achieve increased consumer goodwill, see McDonald's, Exhibit 2.	Effective at increasing market share in both existing and new markets, through increased awareness on a global scale. Supported by evidence from McDonald's sponsorship in the London Olympics - see Exhibit 2.	When the goals of a company and the entity they are sponsoring are misaligned, there is a chance for negative response - see case of McDonald's in the London Olympics, Exhibit 2. There is also the chance for ambush marketers to steal the benefits achieved by sponsorship - see cases of Nike and U NING, Exhibit 5.	Little research or case examples were found on the efficacy of sponsorship in regards to New Product Introduction.
Product Placement	Enforces associations that have the ability to enhance brand image, like the symbolic Gatorade victory shower. See Exhibit 3 and discussion under product placement.	Increases awareness of a brand or product through highlighted placement and repetitive exposure. This is particularly useful in high visibility events, see Gatorade/Super Bowl, Exhibit 3.	Through brand enhancement, consumer goodwill can be increased, but this is not the primary focus of product placement.	Whether the intent is to market a product or brand, product placement is effective at increasing market share through increased exposure, brand enhancement, and product introductions. See Exhibit 3. In some cases, successful new product introductions. See Exhibit 3.	Minimal risk, only observed in significant amounts with New Product Introductions, see Exhibit 3.	Serves as a channel for effective new product introduction, but has the chance for significant risk associated with product performance, see Under Armour Exhibit 3.
Advertising	Particularly when aired during high visibility sporting events, advertising has the ability to enhance the brand through association and engagement (particularly when complemented with social media). See Exhibit 4.	When using events like the Super Bowl as a platform, advertising can be an effective way to reach millions of engaged viewers. See Exhibit 4.	Advertising does little to enhance consumer goodwill, unless the content of the message aims at doing so. The act of advertising only manages to facilitate the relay of content.	Ability to access new markets, particularly for non-sports related companies, as well as facilitate current market share growth. See Exhibit 4.	Risk of low consumer engagement and ability to "skip" over content. See discussion under advertising.	Effective at New Product Introduction, see Apple case in Exhibit 4.
Ambush Marketing	Able to use a myriad of channels to engage consumers and achieve brand enhancement through false association. These false associations can reap the benefits sought by corporate sponsors, including event association which enhances brand image. See Exhibit 5.	Increased awareness due to heightened media coverage and multiple channels of repeated brand exposure, see Nike, Exhibit 5 and discussion under ambush marketing.	Ambush marketing does little to increase consumer goodwill, and can actually work to achieve the opposite. A company involved in ambush marketing campaigns can gain negative consumer attitudes. See discussion under ambush marketing.	Through increased awareness and brand enhancement, ambush marketers are able to increase market share and potentially penetrate new markets. See discussion under ambush marketing.	Possible sanctions and increased negative media coverage. Also potential harms to a company's character reputation. See Exhibit 5.	Little research was found on ambush marketing as a method of New Product Introduction. Due to its informality and high risk potential, it appears few companies use this as a means for New Product Introduction.

Exhibit 6. Impact of Marketing Techniques during Global Sporting Events.

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# DETERMINANTS OF CREATING PACKAGING INNOVATIONS FOR OLDER CONSUMERS\*

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## Abstract

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The competition of enterprises for increase the competitive position significantly affects the innovation market offer. Extending the range of products is now becoming one of the key challenges for packaging industry companies. Satisfying specific consumer needs in old age through the implementation of innovations in packaging is added value significantly affecting their quality of life.

This article aims to identify factors affecting the development of innovation in the packaging of food products dedicated to older consumers.

**Keywords:** innovation, packaging, older consumer, food product.

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## Introduction

In modern society, we observed structural changes that are associated with the aging of the population. Demographic projections show that population aging will proceed in the coming decades. Eurostat data shows that in 2020. People over the age of 60 will constitute almost 25% of the population of Polish society. The problem of population aging affects both Polish and other European Union countries. The above data clearly show that the elderly are one of the larger groups of participants of the consumer market. Observing the demographic changes occurring in the market, manufacturers of goods and services are increasingly turning to older consumers adjusting products to their specific needs (Yap& Yazdanifard, 2014). These adjustments most often modify existing products and their packaging in such a way as to increase their usability and functionality for older consumers. Properly designed packaging and taking into account the needs and requirements of the elderly can not only encourage this group of consumers to purchase the product offered, but also significantly improve the quality of life of an elderly person (Moschis, 2003).

The increasing demands of older, more and more informed consumers to obtain the available tailored to their needs, the products are a major factor shaping the market for food products and related packaging industry. The dynamic development of the industry requires enterprises to continuously search for new solutions for them to gain a competitive position in the market. Hence the desire to advance customers' expectations and provide them with additional new benefits became a guarantor of innovative market offer (Solomon, 1999).

In view of the large variety of products on the market dedicated to the elderly, it is important to analyze the factors affecting the development of innovation in packaging food

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products dedicated to older consumers. This article aims to identify factors affecting the development of innovation in the packaging of food products dedicated to older consumers.

### **Trends and scope of creation and innovation of packaging**

The packaging sector producing packaging for the food industry is among the sectors whose development is very dynamic and has a great variety in terms of product innovation. This involves mainly intensify functionality, ergonomics, economic and ecological values of the offer, but also with changes in the graphic design of packaging (packaging reflect trends, define innovative product offerings, identify the brand). Modern packaging must fit into all dimensions of sustainable development, namely the social, economic and environmental (Hartenstein, Issard & Fontanet, 2011).

Development of packaging innovation is determined by many factors related both to the potential of the company (financial resources, state of the art, infrastructure), as well as the modalities of macro- and micro-environment in which the company operates. Among the trends determining the creation and innovation of packaging, including the significant ones from the point of view of older consumers, are the following: legal, technological, socio-cultural and ecological (Gawasane, Bix, Fuente, Sundar & Smith, 2011).

Unit packaging of food products belong to the group of products with high potential in the implementation of innovative solutions. Analysis of innovation of packaging of food products allow distinguish the following directions and aspects of their development: material, design, technology and marketing (Irvine, 2008).

Materials innovations in food products packaging are designed to meet the ecological needs of their users and take into account the aspect of environmental protection. The growing influence of importance of the type of material used in the production of packaging and method of disposal for the purchasing decisions of consumers encourages food producers to use less material packaging. Analysis of the results of tests carried out under a grant funded by the National Science Center entitled: "Modelling of food packaging based on the valuation of correlation functions of packaging and socio-economic needs of consumers seniors" older consumers prefer a single material packaging made mainly of glass, and paper and cardboard. The second aspect of the development of innovation in materials is a modification of the composition of packaging. Packaging in the mainstream includes bio (Shimada, 2011):

- hydro-biodegradable materials based on raw materials (eg. Cellulose), which are destined for recovery through composting and biodegradation and
- materials made from biomaterials.

Another type of packaging innovation in the field of food products are design innovations. They constitute the most numerous group among the new solutions dedicated to the older consumers. They are primarily designed to emphasize the function of promotional packaging and to expand and improve its usability and ergonomics. Currently, special attention is paid to the innovative closure of packaging of food products that do not cause difficulties when opening and closing containers. As examples specify the type of closure: Flip-top, Snap-on,

Push-pull, Twist on-off and Disc-top. Particularly important for the elderly are also design solutions for gripping and manipulation of the package.

On the other hand, technological innovations in the field of food products are intelligent packaging, which inform a consumer about the quality of the product changes. Examples of innovative solutions entering the food packaging are inter alia (Butler 2008):

- Time and temperature indicators (ang. TTI - Time-Temperature Indicators), which changes its properties as a result of a temperature higher than that considered optimal.
- Indicators of Fresh-Check, which comes to the polymerization reaction as a result of which proceeds darkening inner circle,
- TRACEO® label, which includes microbial control sample adapted to the product type, whose freshness is monitored. It is applied to the barcode. If you happen to break the cold chain or is exceeded shelf life, the label is stained and become untransparent, matte
- Leak indicators that respond to changes suitably modified, selected for the atmosphere around the product, which is essentially an undesired presence in the packaging of oxygen and carbon dioxide. An example of an oxygen detector Ageless Eye, which transmits the information to the consumer by changing the color.

The group of technological innovations includes also packaging Hot Can. They contained beverage or dish is located in the inner container. Between it and an outer layer of container is a space with a sachet of water and granular lime. Inserting a metal pin attached to the openings 3 defined in the upper edge of the can, bring about the release of the water and initiate the chemical reaction with evolution of heat. After 8-12 minutes the food is hot and ready to eat.

On the other hand, marketing innovations are primarily related to the so-called incremental innovation, which is a modification of the visual layer. The aging of the population must be reflected in the design of packaging products designed for them. Properly designed packaging of the products for the elderly are an excellent tool for marketing (Carstensen, Mikels, 2005).

The diversity of innovation for packaging food products dedicated to the elderly forces need to carry out research needs and expectations of this group of consumers. The results of the research can be a valuable source of information about the future directions of innovation in the packaging of food products for older consumers.

### **Research methodology**

A multitude of solutions for the packaging in the food industry requires an analysis of the needs and requirements of potential changes and improvements in packaging designed for older consumers. The scope of the research concerned:

- the identification of the characteristics of the packaging of food products relevant to older consumers
- determine the validity of the features and elements of packaging of food products for older consumers and their impact on product selection,
- assess the significance of innovative solutions for packaging in the food industry.

The study was conducted in November-December 2015, a group of 600 consumers aged 60 and older living in the province of Malopolska. Sampling was the nature of the quota and can be summarized as follows (Table. 1).

Table 1. The population of survey respondents.

	Village		Town to 20 thou.		Town 20-200 thou		Cracow		Total
	W	M	W	M	W	M	W	M	
60-69	75	64	20	16	32	25	47	35	314
70-79	48	32	12	8	18	12	28	18	176
80 and more	35	16	8	3	12	5	21	10	110
<b>Total</b>	<b>270</b>		<b>67</b>		<b>104</b>		<b>159</b>		<b>600</b>

Source: authors' elaboration.

Majority, 59.3% of the respondents were women. The remaining 40.7% male.

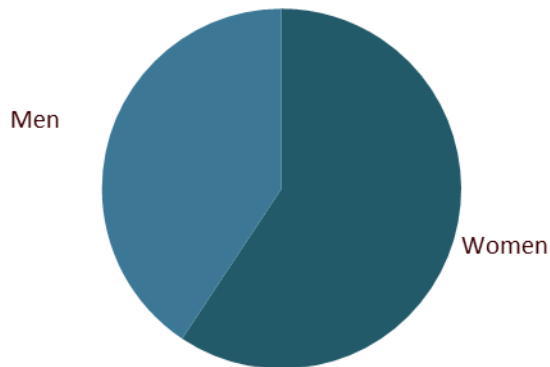


Figure 1. Distribution of respondents by gender.

Source: authors' elaboration.

More than half of respondents (52.3%) were aged 60-69 years. More rarely, because in 29.3% of cases, respondents had no less than 70 but not more than 79 years. The smallest percentage of total respondents was having at least 80 years - 18.3% of the sample.

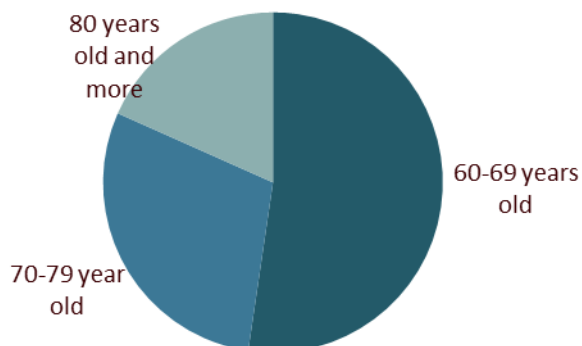


Figure 2. Distribution of respondents by age group.

Source: authors' elaboration.

The largest proportion of the sample (38.5%) was respondents with secondary education. More rarely, because in 28.5% of cases respondents, in response to a question about the level of education, pointed to higher education. One in eight recommendations of experts (12.8%) declared primary education, and one in five (20.2%) - vocational education.

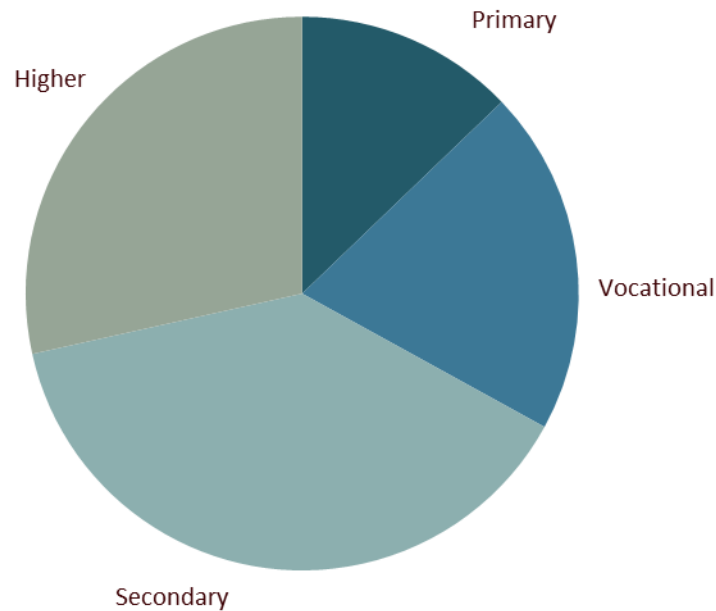


Figure 3. Distribution of respondents by level of education  
Source: authors' elaboration.

The largest percentage of respondents (45.0%) was people living in the villages. Residents of Cracow accounted for 26.5% of the group, while residents of cities with populations of between 20-200 thousand accounted for 17.3% of all respondents. Least likely, because in 11.2% of cases, respondents declared persons living in the city with a population exceeding 20,000.

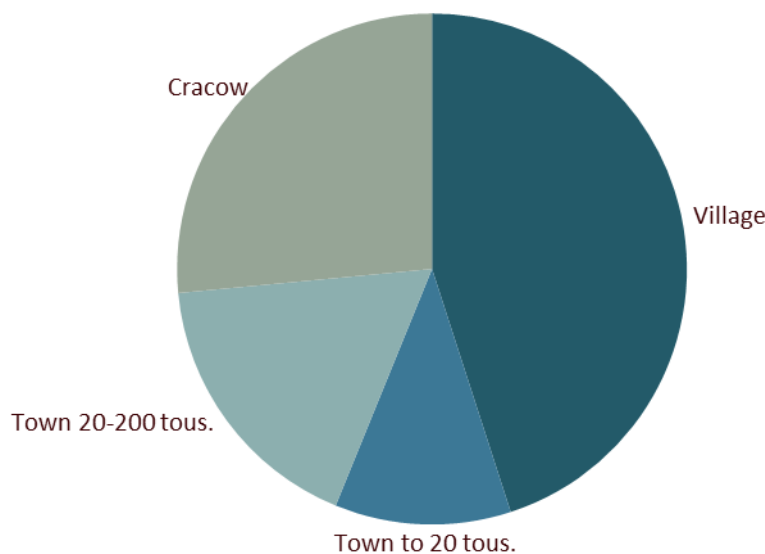


Figure 4. Distribution of respondents by place of residence.  
Source: authors' elaboration.

The study was conducted by questionnaire interview CATI. The questionnaire consisted of two parts. The first part included questions concerning the identification of needs and expectations of older consumers in relation to food packaging to determine the validity of the characteristics of the packaging influencing the choice of a food product, the benefits of food packaging, preferences concerning the choice of the type of packaging for a particular food product, as well as problems that happen to older consumers in contact with the packaging of a food product. The second part of the questionnaire included questions describing respondents.

### **Presentation of research results**

Analysis of the data in the literature on the subject was the basis for selecting the characteristics of the packaging of food products, which are important from the point of view of older consumers. Based on the results of research conducted by: (Hoyer, MacInnis, 2010; Świda, 2013; Yap & Yazdanifard, 2014)) selected features, which are then grouped according to the criterion of the functions of packaging, among which highlights (Gawanse, Bix, Fuente, Sundar & Smith, 2011):

- the protective function,
- utility function
- communication function.

As a result of the above correlation functions environments: physical, human and ecosphere, the following groups of characteristics:

- the type of opening / closing, the type of materials used, quality (no defects), safety packaging on the product (no negative interactions)
- construction form, shape, size / capacity of the packaging weight (lightness), reusability, ease of storage,
- informativity packaging, graphics / colors (aesthetics), environmental, economic efficiency.

This group features the basis for testing to determine the validity of the features and elements of packaging of food products for older consumers and their impact on product selection. The study asked respondents to rate the importance of packaging characteristics affecting the choice of food product. The results of the research were presented in the figure below (Figure 5).

In determining the validity of the features of the packaging influencing the choice of food product on a scale of 5-degree option "definitely important" or "rather important" frequently indicated for such features as environmental, ie. environmental friendliness (respectively 45.3% and 46.8 %) and ease of storage (29.2% and 63.0%). Often considered as important the quality, understood as the absence of defects in the packaging (respectively 30.5% and 59.2%). In contrast, the least important was the shape - the "very important" recommendations of experts indicated 7.2%, while the "more important" - 27.8% of all respondents.

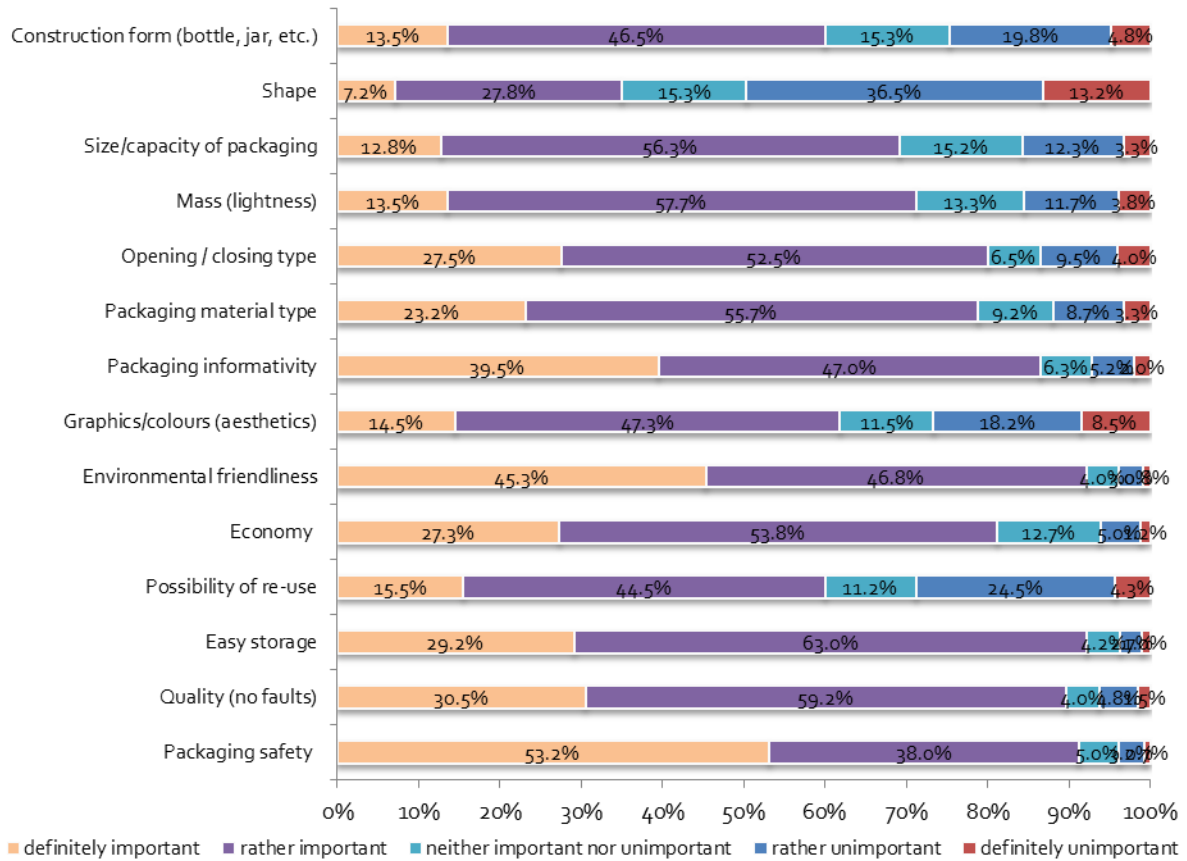


Figure 5. Validity of the package features that affect the choice of a food product.  
Source: own elaboration.

Due to the fact that for 72% of the respondents packaging is an important factor in determining the choice of a food product, the analysis of the results of studies assessing the relevance of innovative solutions for packaging in the food industry. The results indicate that the patients were very important from the point of view of older consumers innovation introduced in the packaging of food products also solutions related to: safety package about the product (53.2%), cleaner (45.3%) informativity package (39.5%).

### Conclusions

Directions and dynamics of innovation in the packaging industry are shaped primarily by trends in the socio-culture that are associated with structural transformations in society. The aging process society enforces the need to pay attention to the specific needs and requirements of consumers in older age. Identification of these needs and is also necessary in the packaging of food products. They identified needs and constitute a basis for designing innovative packaging that meets the needs of older consumers.

The study allowed us to identify the characteristics of the packaging of food products important for older consumers. Among selected to assess the characteristics of food packaging older consumers are indicated as the most important: the safety of the packaging on the product, sustainability (environmentally friendly) and informativity. In contrast, the least important feature of the package consumers received: shape, form, design packaging and graphics / colors.

The research results also showed that consumers older expect innovative solutions in food packaging in terms of:

- safety of packaging (eg. The presence of a security guarantee, and the first use of security against unauthorized opening, safety and handling, and presence information affecting the safety of the user);
- environmental packaging (for example: the type of packaging material from the standpoint of burden on the environment, the number of materials used for manufacturing the package, the use of biodegradable materials, ease of recycling post-consumer packaging);
- informativity (eg. To improve the visibility, clarity and understanding of the information placed on the packaging).

Summing taken reflections could be concluded that the market for food products is one of the fastest growing economic sectors in which the number of innovative products for older consumers will be gradually increased. The success of new innovations will depend not only on its type but also on the degree of satisfaction of the needs of consumers of these products.

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# MARKETING INNOVATION

## THEORETICAL ASPECTS

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### Abstract

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The article analyses concept innovation, marketing innovation and marketing innovation in practice. Innovation marketing is essential if you want to maintain competitive advantage and/or maximize shareholder value. Innovation marketing is a subject and a practice which is changing because the underlying knowledge in the social sciences that support it is changing. Innovation marketing consists of micro-economic data (e.g., price, quantity and behavioral data, the understanding of human behavior from psychology, anthropology and sociology).

**Keywords:** marketing, innovation, new product and market.

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### Introduction

The innovation marketing develops the marketing philosophy all across the innovation process that arises from the process of ideas that respond to the customer desires and needs as an unquestionable goal to the control of results of the innovation launching. The word "innovation" is related to the middle French territory fifteenth century word "inovacyon", which-refers to "renewal" or a new form of the granting of an existing object, as well as the upgrading and replacement of the term, equivalent to the Latin word "novara" (Thrush, & Jakubavičius, Getxo, 2003), the English version of "innovation" and "novation" terms, while Russians used the word "innovation". Dictionaries of the Lithuanian language give the term "novelty". However, as the most recent sources (Staškevičius, 2004) defines innovation as a process of change in which a given social system is created, the recognized and implemented tangible and intangible cultural elements (models), the use of new scientific knowledge and the introduction of new technologies legally enacted higher quality products manufacture seeking for the improved services. Contemporary theoretical innovation is based on the perception of a series of conceptual assumptions related to changes in economic activity. Modern innovations goal is primarily a product of various intellectual creation, assimilation and dissemination (Ginevičius, 1995). The aim of the article - analyze the marketing innovation theoretical aspects. The object of this research is innovation marketing. Research methods: comparative analysis and a-literary analysis.

### The concept of innovation

Novelty - is the object which is the axis of innovation, whereas new technical solutions - innovations is the core of innovation. The provided innovation description corresponds to the understanding of innovation researchers. There are several innovation definitions (classification), and approaches characterized by a unanimous understanding of scientific achievements of the development and practical use of the process, - which are expressed through different terminology that is related to a specific problem analysis. For example, Freeman divided innovation to seven activities, which largely match the innovation life cycle



stages. (Freeman, Soete, 2001). Kulvietis (1991) argues that innovation represents a complex creation, development, global spread and effective use of innovation in various spheres of human activity. In his opinion, innovation must be seen as a phenomenon and a process. Innovation as a phenomenon is any targeted amendment that seeks to change the state of the test object to the improvement. However, the innovation as a process includes research, development, management and stable operation in order to get a certain effect. Knowing that the process is an activity, innovative activities can be interpreted as activities aimed at scientific research results and inventions to use, develop and upgrade the production or service nomenclature, to improve their production techniques and strive to the further implementation of domestic and foreign markets. Innovation as a process in which the knowledge obtained during the study is transformed into new products or services, as well as approach and the European Union's research and the development program Eureka. The innovation process value is understood as a complex design, development, global spread of innovation and an effective application in various spheres of human activity. Business innovation program approach as a successful new technology, ideas and methods of commercial applications of placing on the market of new or improving existing products and processes. Innovation is the theory, which asserts that a deeper knowledge of the content of innovation needs to be linked to the operating concept, which is seen as the people's active approach to the reality of a specific form of action featuring the appropriateness of purposefulness and conditions of transformation. It should be noted that each activity has a specific goal, it has its own means and results, as well as describes the operation of the process. The basis of innovative activity can be regarded as a purposeful formation of innovation and adaptation. The formation of innovative technologies and their adaptation are considered, as well as innovative activities which are directed towards the creation of new efficient technologies and its effective application. In most cases, innovation is not entirely new or original product or technology, usually it is based on only part of a just and improvement officer and the expected market effect. All qualifiers for innovation diversity provide wider and more varied perceptions, refine, or flesh out the previous definitions that extend to more abstract and wider shape. This confirms that the concept of innovation as well as its nature is dynamically changing, reflecting the peculiarities of the development of civilization, lined the continuing relevance of his need for constant change, adapting to new market challenges as well as forcing to change traditional attitudes and stereotypes. It should also be noted that the innovation process involves the implementation of various innovative services organizations, public authorities, economic development agencies, educational institutions, financial institutions, customers, suppliers, business partners, consulting firms, business associations (Jakubavičius 1999; Brouwer 1999; Hax, 2001; Keras, 1994; Konopliovas, 1996). As a result, the formation of successful innovation and adaptation can only exercise the cooperation between the company and its partners and the need for the development of its capabilities. Being subject to the market demand it is strongly influenced by the innovative process of the industrial company of consumers' changing needs it must constantly improve old products and develop new ones and launch them to the market, only thus securing the survival of the modern market conditions (Гончарова 1998; Гунин, 2000; Ковалев, 2000; Николко 1991; Рудакова 1991). In short, the industry can be seen as follows: it is based on the production and production technology basis - with high innovation potential and ensures a high level of competitiveness (Янковский, 2001; Bargelis, 2002, Melnikas, 1995).

Innovation is one of the most important factors of life in today's economic, social and cultural development of society. Innovation is perceived as a direct human form of organization, and its content is innovation for new or already known product intended to better satisfy the needs of the development, distribution and use of a complex process. At the same time, it is the process involving adaptation and change resulting from this innovation in the social and substantive environment. The classification of innovation in terms of content, particularly distinguishable product innovation, includes new final products (capital goods, consumer goods, material or intellectual products, etc.), the creation, production and exploitation. The meaning of technological innovation is the creation of new technologies and their application in various fields of activity. Social innovation involves new economic, managerial, organizational and other structures and forms creation and deployment of a range of fields. Jakubavičius (2008) suggests content and other innovations classification signs of awareness and that help to understand and assess innovation as a system with the complex nature and create preconditions for the formation of innovation management techniques, as well as provide the overall innovation activities targeted niches. Due to the rapid pace of technological innovation, the product life cycle is strongly reduced (Cui, 2009), which had a direct impact on innovation in consumer behavior. Each year producers must bring to the market new or improved products in order to remain competitive, retain customers and gain economic benefits. To keep customers, it is necessary to understand how certain types of innovation affect their behavior. These scientific sources (Szmigin, 2003; Khan, 2006) are considered as distinguished three types of innovation:

1. Permanent (Eng. the continuous).
2. Dynamically constant (Eng. the dynamically continuous).
3. The non-regular (Eng. the discontinuous).

According to Szmigin (2003), the first type has a negligible influence on consumer behavior. Permanent innovation is not the result of a new product. These innovations help the existing product to be modified and delivered to the market. Permanent innovation developed products such as the new model car, a new version of a mobile phone or camera or different flavor toothpaste, experience a substantial change. For these products, novelty gives a sense of unusual size, shape and style. The user does not need to learn anything new to use the product. Szmigin (2003) asserts that dynamically continuous innovation often has little impact on consumer behavior. The innovation may be the result of both new and improved products. For example, a compact automatic film camera (Eng. Point-and-shoot) was a new consumer product that is quite different from the manual film camera. However, consumers quickly learned how to use this product for simplified management. Dynamically continuous innovation can be associated with the modified product size or shape. For example, the minimization of the music players changed from phonograph, cassette tape to CD player and ultimately to an MP3 player. The product shape can be changed by combining them, such as combining shampoo and conditioner to produce one product. Szmigin (2003) stated that a non-permanent innovation has the greatest impact on consumer behavior, which requires new models of consumer behavior. For example, camera, telephone and television appearances demanded a considerable effort and consumer perception of how to use them. Another example is a microwave oven, forcing users to rethink and understand a new cooking method. Innovation classification helps to better understand the concept. The given type of technological innovation formed a more accurate perception of the product

and process innovations and innovative activities. Summing up the abovementioned assessment of innovation and technological terms, the interpretation of the scientific literature analysis, it must be concluded that innovative technologies can be seen as successfully formed and adapted new technologies that provide new or improve the market with already existing products and processes.

Table 1. The concept of innovation.

Author	Concept
Rogers (2003)	An innovation is an idea, practice, or project that is perceived as new by an individual or other unit of adoption.
Malerba (1997)	Innovation refers to a tradable application of an invention, as a result of invention integration into economic and social practice. Innovation is regarded, therefore, being a result of a process that starts with an idea genesis and continues with its materialization.
Oslo Manual (2005)	Oslo Manual defines innovation to be an activity that produces new or significantly improved goods (products or services), processes, marketing methods or business organization.
Schumpeter (1934)	He distinguished five innovation types: new produces, new production methods, exploitation of new markets, new ways to offer products on the market and new ways of business organization.
Oslo Manual (2005)	<p>The Oslo Manual also identified and defined the following four categories of innovation:</p> <ul style="list-style-type: none"> <li>– Product innovation—the introduction of a product or service that is new or significantly improved with respect to its characteristics or intended uses. This includes significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics.</li> <li>– Process innovation—the implementation of a new or significantly improved production or delivery method. This includes significant changes in techniques, equipment and/or software.</li> <li>– Marketing innovation—the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing.</li> <li>– Organisational innovation—the implementation of a new organizational method in the firm’s business practices, workplace organization or external relations.</li> </ul>
Myers and Marquis (1969)	Innovation is concerned with commercial and practical application and it covers a process in which intellectual thought is brought into practice by means of various sub processes such as testing and prototyping, reflection on its added value among customer groups.
Trott (2012)	Innovation is the management of all the activities involved in the process of idea generation, technology development,

	manufacturing of a new (or improved) product of manufacturing process or equipment.
Kanaga. (2015)	Innovation means 'something new' or 'something different' that is not seen or experienced or understood earlier by the customer /consumer; this could possibly need new knowledge or discovery and possibly need an invention which is the technological and engineering aspect of innovations.

### **Innovation marketing concept**

Innovation marketing has been of a considerable interest in recent years. Marketing innovation can have different forms, such as the success of new products, creative marketing programs, new and better sales techniques (Suciu, 2011). Innovation marketing is a new concept that is different from other types of marketing company that deals with goods and services to the enterprise market penetration or new markets. Shergill & Nargundkar (2005) state that marketing innovation, as innovation, marketing programs and marketing methods, including 4 P: product, price, promotion and place. Harms et. al. (2002) describes the innovation as a new element of the marketing mix, which is new and tangible benefits to businesses, which, according to Chou (2009), is the most important differentiation and excellent operation. Marketing innovation is the key when you want to maintain a competitive advantage and maximize shareholder value. Innovation Marketing can be understood as a synonym for the word creativity/innovations only. Of course, executives want their companies to be of a more innovative culture and marketing reflects this. They allow the employee a certain portion of time to work on projects that are not in their territory (3M, Google). Some people think, marketing strategy is synonymous with innovation in marketing. The strategy is creative and considered a qualitative and quantitative analysis of the combination. The combination helps to identify companies with new opportunities for customers and market share. Marketing is a discipline, practice, and it is changing. In terms of marketing innovation one must not forget the feasibility study. We have to answer the question which option may create a breakthrough, innovative products and services. When looking at the success of Apple, which comes in creating new products and services, such as the iPhone, iTunes, iPad, companies want to do the same in your industry. This approach sees innovation marketing, responsible for new opportunities with new products and services in existing markets or perhaps new markets. From this perspective, marketing works with R&D throughout the innovation process, through marketing research. Marketing helps to understand the unmet needs, market segments, trends and technologies. The second approach understands innovation marketing as a traditional marketing mix through the application of the product, price, promotion, location and distribution. Marketing innovation emerged when marketing figured out how to use the Internet. For example, the Internet has made significant changes in the company's ability to distribute products; some have become redundant physical distribution points. The Internet has changed the distribution channel strategy in the company's value chain. Prices may be dynamic, and auctions have helped consumers and businesses to sell to the highest bidder or to buy at the lowest price. The Internet provides a new level of transparency, which also had a significant impact on pricing. More and more natural products are now of digital content on the Internet. With regard to the promotion of new digital technology appeared such marketing tools as SEO, PPC. Some believe that innovation is more culture or attitude, where everyone is encouraged to be creative. Innovation goals and objectives may be the

company's innovation culture. For example, setting a goal that a certain part of the revenue will come from a new product or giving employees time to work on projects outside their area. Marketing innovation occurs as a part of the culture and is seen as a better way to do what we do.

Market innovation can also be seen in commercial or advertising campaigns. Generally, due to creativity and innovation such campaigns are recognized by awards, reviews in the press and sometimes results in the form of sales. Marketing, advertising and public relations firms are hired for their ability to be creative and innovative. Some of the best ads and campaigns become viral, which many marketing specialists dream. Schumpeter (1912) describes innovation marketing as the opening of new markets. Marketing innovation is clearly separated from product innovation, because the latter includes technical specifications and functional characteristics (Mothe & Thi 2010). Marketing innovations are designed to change the company's market relations (Johns (1999). This includes changes in dealing with customers or in other words the new information flows and new measures. Other types of marketing innovation is the creation of new distribution channels to serve new markets or existing markets in a new way (Johns & Davies, 2000). According to the product design and pricing, they may be the subject of innovation attracting customers, but without changing their operation base.

Table 2. Concept of innovative marketing.

Author	Concept
LEIA Technological Development Center (2000)	The Marketing of innovation particularises the common marketing concepts into the innovating process focusing in the decreasing of risks, uncertainty and optimisation of resources. The innovation marketing develops the marketing philosophy all across the innovating process from the stabilising of the climate favourable to the arising of the ideas with the customer wants and needs satisfaction as an unquestionable goal to the control of the results of the innovation launching.
Chen (2015)	In recent years, for instance, new ways of gathering consumer information through innovative marketing programs and technologies have enabled forms to reach consumers more effectively and to use pricing strategies that were previously not feasible; new trading formats and techniques, such as online stores and Amazon.com is one-click online ordering process, have expanded the market for many forms and potentially reduced consumer transactions costs.
Hauser, Tellis (2006)	Marketing is well positioned to participate in the understanding and management of innovation within firms and markets, because a primary goal of innovation is to develop new or modified products for enhanced profitability. A necessary component of profitability is revenue, and revenue depends on satisfying customer needs better (or more efficiently) than competitors can satisfy those needs.

## **Innovation marketing in practice**

A new product introduction in the market faces numerous problems. One is looking for the most favorable financial solution, the other inquiring about the success of the product, the third to learn how to beat the competition and attract customers. Studies show that 80 percent of new products in the first year disappeared from the supermarket shelves. Marketing experts say that in order to avoid the product failure, it is necessary to create a new product design, conduct the research and create original advertising.

### *Design*

In order to attract success, it is necessary to impress the client. Cosmetic products sales are held in the form of shows, where the introduction of a new product depends on the commodity appearance. In order to make the product attractive to the buyer it is necessary to use innovation. One of our examples is a face cream. A team of designers and advertising tricks can significantly increase the sales of their products. In order to advertise the women's face cream a company may invite a Lithuanian TV star Asta Stašaitytė. The introduction of a new product is often faced with traders' claim that their store shelves are not rubber ", local is not a new product. In this case, it is necessary to fight hard for their product. The way toward the popularity of the target product can plow the field. Changing production recipe or package design can tame even larger customer base.

### *Research*

Introduction of new products into the market process will be successful after a detailed market research. The results help to predict the product sales results, to understand customer needs, requirements and preferences. During the investigation, it is necessary to interview as many of the respondents to make sure they do not lie. The experience shows that the survey participants always want to be better, smarter or more beautiful and adorn their answers. It is a natural psychological factor that leads to educational and cultural environment. Often, a number of respondents considered it necessary to buy a new product. A great example was the investigation magazine National Geographic Kids. Almost 90 per cent of respondents ticked the response will subscribe the magazine. Unfortunately, the first months of the magazine sales were much poorer than the survey showed. To avoid inaccuracies of the marketing studies, it is necessary to interview more people. Asking control questions to ascertain whether the respondent tells the truth, with the selection of those who will not lie.

### *Advertising*

One of the most effective methods regarding a successful marketing of a new product is creative advertising. It is particularly important to promote their product breaking stereotypes. A bold and innovative approach to advertising can provide new opportunities. The most important and essential tool for product advertising is creativity. Without imagination, it will be only a marketing project narration audience. Every day, all over the world there are around ten thousand of new brands and products, and one person sees more than five thousand of brands per day. For companies that have a limited budget and cannot pay the money on advertising, it is advisable to apply guerrilla marketing. It is advisable to create an original, unseen and customer focused product, which can attract advertisers and require a modest amount of money.

## Conclusions

Reviewing the definition of innovation in many authors' works, we may find a variety of analogies, which are based on innovation as a process and the results obtained identification: basically progressive novelty, which means a complex creation, development, global spread and an effective use of innovation in various spheres of human activity, which is supported by all the company's new technologies. The assessment forms of innovation (products, services, processes, situation, strategy, management), which is the basis for innovation activities, can be considered these - the product and service innovation. Innovation as the process plays an important role in the economic activity of companies - innovation is a discipline, which is focused on continuous opportunities to meet human needs, to look for more efficient ways of organizing business starting with the research work and ending with the innovative product or service commercialization that can be practiced in the company of any size. The term innovation is ambiguous: in everyday speech, it also means the process and the result. Innovation means the process, when it comes to the idea of transforming the demand for having a product or service, a new or improved manufacturing or distribution process, or a new method of social service. Innovation refers to the result, when it comes to a new and improved product, equipment or services with market demand. A new product is associated with the process of innovation. For deeper knowledge innovation, it must be linked to the performance concept. Innovative activities can be described as a complex process involving the creation of innovation, its dissemination and utilization. Innovative activity is a complex dynamic system, the efficiency of which depends mainly on innovative practices in the internal mechanism and its interaction with the external environment.

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# ONE DOWNTOWN STREET. ONE DOWNTOWN PRODUCT.

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## **Abstract**

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The purpose of this case study and research paper is to illustrate that a brand concept may contribute towards increasing the dynamism and tourist interest in a street, thus increasing the immaterial value of the street and its heritage value. Throughout this article, we will address the issue of tangible and intangible cultural heritage, in terms of the immaterial value of the street. First, we will address the issue about the meaning of culture, and the idea of reconstruction, and maintaining the memory of the past. With the resurgence of traditional forms of business, which had been replaced by large franchising companies, equal on all places, people are returning, again to live in city centers, thus keeping the memory of the place. The memory of the place, for us, is the intangible cultural value of the street. Globalization, in general sense, is positive, but if we look closely, as regards the nonexistence of cultural barriers, non-existence of local politics of historical and social protection, the strongest countries in the political point and view, and together with the major international brands can very easily invade the space of immaterial culture and material culture. The street has dimension values, which in many cases is easily measurable, but in other cases, it becomes almost impossible to evaluate them and puts them in relation to mathematical formulas and statistics, slandering a real value what is being evaluated. We will purpose a mathematical formula to evaluate the street, after and before the Brand Concept.

**Keywords:** heritage, architecture, brand, street, real estate, value, downtown, tourism, Lisbon, city, Pombalino.

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## **Introduction**

Over the years, the street has been understood as a place where buildings just line up, with shopping centers and various businesses taking place. It is also known that a city has streets where dusty, dirty and dilapidated buildings are lined on both sides of the street in the city centre. There are diverse majestic heritage buildings in various streets in a variety of nations across the globe, and there has always a wish that the street could be improved to host tourists and entertainment activities, which can also be a source of income to the nation. It seems that the higher value architecture and reconstruction of today is the cultural heritage of tomorrow.

The ability of people to interact with such vast quantity of different cultures is a privilege of every human being of this world. However, every nation has to develop strong connection with its cultural legacy for the purpose to preserve its roots and maintain healthy relationship with the world and environment around them. Nowadays, one can observe the positive outcome of globalization. The growing importance of traditional local cultures passed from generation to generation originates from the fact that local and regional interests are strengthened against the negative effects of globalization (Illes, 2004). We could promote a revitalization of old cities center, which are normally historical areas, by creating a tourism destination brand. The higher value architecture and reconstruction of today is the cultural heritage of tomorrow; thus it will be our brand concept for the street.

Cultural heritage is the essential compound of the nation. Preserving its tangible and intangible legacy binds all generations, together, creating the unique essence and spirit of every nation. In its own terms, keeping authentic nature of every culture preserves the diversity of the world, and the ability of every human being to learn from the other nations and cultures. In the context of globalization and rapid development of mass tourism the preservation of historical sites and building, in our opinion, plays one of the most important roles. *What it will be the value of the street?*

### **What to do?**

Preserving architectonic buildings with the further reconstruction and repairing is one of the most important elements of preservation of one's culture and staying connected to the identity of one's nation. The idea of reconstruction of historical buildings has been discussed by a huge amount of researchers, from historians to archeologists since the creation of the first major reconstruction project at Colonial Williamsburg in 1926 (Holland, 2011). Cities have always experienced many changes during their history. Historic urban quarters have a special place in the city's history because of their cultural, historical and architectural value. They reflect the history of the city's culture and indigenous culture with their unique forms and patterns (Kneafsey, 1999).

At first glance, the idea of restoring according to old style may appear anti-modernist, but the idea of this research paper is to explain the concept of using funds from tourism for reconstruction of old buildings, that make part of our memories. That's why we believe in the concept idea about the creation of a *Wine Street*. It will be like a mix between the present and the past; it will be like a modern heritage.

Nowadays more and more people are talking about the branding concept related to a particular place; therefore, architecture could be integrated into the conceptualization of a branded city, or in particular, a branded street. Stern measures should be developed to enhance the appearance of the street, which can aim at having tourist attraction sites, and also by making the street beautiful and a place to admire even by the community (Colyvas, 2011).

The government administrators should also ensure that individuals working in various places around the street are given guidelines that can help govern how they present themselves, as they are supposed to dress modestly and serve their clients professionally, which will also change the appearance of the street even if there is no much improvement done on the building (Huang et al, 2012). With this action in mind we could keep the memory of the place and cultural costumes, and on the other side, attract more tourists.

The various building in the street should also be renovated, and made to look more pleasing, which can make the community as well as tourists from other countries admire the street. The attraction will also lead to more tourists visiting the country, which will lead to adopting the same strategy in improving their streets by government administrators from other countries (Zhang and Hu, 2010). All buildings should also undergo a critical deterioration audit in order to get the actual cost of their restoration in terms of expertise, manpower and materials. The process would involve removal of some buildings and

construction of new ones while others would undergo major restoration (Lin and Chen, 2005).

Finally, the government administrators should work with individuals in the community in various cities, to ensure that there are improved plantations and flowers in place, which makes the streets more attractive (Bradley et al., 2013).

### **The branding concept: case study.**

Our case study it is a particular street in Lisbon downtown named *Rua da Madalena* (Madalena Street). The main goal of our research is to identify why we need to reconstruct this street? How could we reconstruct and, at the same time, reinvent the street based on its original concept? That is the objective of our research. In order to reach this objective, we have embedded our research in a broader context for systematically mapping the roots of the Pombaline Architectonic Style from the 18 century, and the traditional wine cellars. Specific architectural and urban interventions in the street provide it with a quality of a brand like the *Wine Street* concept.

Our proposal is to reclassify and stimulate the street in order to transform it as a new icon of the city by taking into consideration the increasing pollution derived the amount of cars passing through there, and on the other hand, the lack of interest that the street has at the moment in contrast with other downtown streets at about 50 meters away.

After an inquiry of some merchants from the area, and a few tourists on what they seek and what they would like to find in the Lisbon downtown, we found out that the most spoken keywords were about heritage and local culture. So, it may be concluded that it represent the product itself.

The originality of this research refers to the idea to design a new street brand as an icon, but only with Portuguese products. The street will go back in time, and shops will be organized and designed with features from the 18th century. All trades and merchandise should be traditional, bringing back the spices from India, beans and grains in bags sold by weight, the fruits of the region, the typical cellar where you eat only handmade and artisanal food made by recipes from the 18 century, and Portuguese wine shops.

All of this has to be designed in accordance with the characteristics of the street at the time, giving rise to a street, which will re-attract city people, tourists, and even those who just want to get some kind of traditional food or wine. The street may become a brand that represents time itself. Old rules turned to be new rules. With this project we hope to contribute towards maintaining traditional Portuguese products, and prevent its disappearance.

The street will be transformed into a Wine Street. It will be in Rua da Madalena (Madalena Street) where we propose to create shops with representation of the best brands of the Portuguese wine. By creating a themed street, we will continue the spirit of the original urban design from Lisbon downtown, where every street was designed for a certain type of trade and commerce. This Wine Street will have a collection of shops and offices, dedicated

only to the sale and wine marketing. So it will be a unique place for both merchants and tourists, or just to buy wine.

Based on the official surveys, we found out that there are a population of young businessmen and also students seeking this street for renting their apartments. Also, we reached the conclusion that they prefer dwelling in these apartments until creating their family. Later they will look for other locations outside the city, where they can find schools and other infrastructures that do not exist here.

### **How to maintain the memory of the street?**

Actually it seems necessary to re-think about what people would like to see in the street as an icon of Lisbon downtown: the old and first concept idea, about what it was "Baixa", and how it was done, the initial project from Marquês de Pombal time.

The comprehension of the physical structure from "Baixa" layout will address how the linguistic meanings from the Rua da Madalena (Madalena Street), and all buildings could influence our ideas and reasons about the concept of "Wine Street". This concept implies the risk of the choice that we recognize and accept it as necessary to innovate. We had reflected over the implications and consequences of our proposal, and choices, on the field of construction and economics possibilities. That's why we consider the street as a brand.

The street as a brand must address seven different questions in the working and projecting process, working together as a group of interactions. They are the following: fruition, promotion, conservation, enhancement, regulation, tourism and development. All of them are main objectives and values sharing by developers and in some way with architects. Because our proposal is based on the idea of developing and promoting a new image for Rua da Madalena, a new strategic marketing plan for Lisbon downtown must be done in such a way that the brand concept, applied in the local architecture that it is the principal focus of our research, could be transformed in a Wine Street. The wine trades are not presented in Baixa, that's why it is a good opportunity to improve and promote the Portuguese wine.

We had done a research about the localization of trade shops, and we found that there aren't wine shops on this street. We found highest concentration of people in the downtown, which is Arco da Rua Augusta (Augusta Street), Terreiro do Paço, (Paço Square), and Elevador de Santa Justa (Lift for sightseeing). In terms of projecting new hotels, different types of hotels like luxury hotels, cheaper hostels, box hotels, other kind of hotels will be projected for that street.

In the first half of 2014, Lisbon had nearly 4 million foreign tourist overnights. Tourism moves on the economy, but it also moves the city. Increasing the rate is an "extraordinary" value, says the president of Tourism of Portugal Minister, João Cotrim Figueiredo. To get an idea, from 2012 to 2013 there was a 8.5% increase. It is necessary to make the Madalena Street a more pleasant place for people who live in Lisbon and which will necessarily be more interesting for tourists, without forgetting the memory of the past or the original concept from the architectonic layout and the construction methodology. The harmonious

association of post-earthquake buildings and thematic streets, concerning the type of commerce, confers a high degree of attractiveness to the space.

Our proposal it is to maintain that atmosphere with the inclosing of the Wine Street, in Rua da Madalena, and at the same time, maintain the original layout of traditional facades from the existents buildings. By creating a branded area, it will serve as the key for success as a tourist destination, and at the same time, it will support the maintenance of the architectonic characteristics from the original "Pombalino" style<sup>3</sup>. Indeed, tourists are coming to Lisbon in search of authenticity that many cities have already lost because of standardization tendencies (Gorjão, 2013).

At this stage we are not going to show any drawings or projects that are already done about the interior design for the wine shops, but we would like to explain the concept of Lodge Shop, which is a place that offers a wide variety of wines. The Lodge shop is the best place to stock up cellar or for buying unique gift-packaged bottles and wine accessories.

Other concept is the tasting room shop which is an impressive space with high ceilings and big windows, through the city and can be fully appreciated. Sometimes expert guide could guide you through your wines. There are so many different wines in Portugal, that it is quite impossible to say how many. The wine is so important for the Portuguese economy that it is un-understandable why Lisbon does not have any Wine Street! All of these examples demonstrate that the client expects to find this kind of wine shops along Rua da Madalena (Madalena Street) as a branded area with different Wine Shops and Cellars presenting Portuguese trademarks. It will be like a very huge and important business place, and at the same time very touristic and a new heritage zone.

### **The value of the street**

The heritage buildings has dimension values, which in many cases is easily measurable, but in other cases, it becomes almost impossible to evaluate them and puts them in relation to mathematical formulas and statistics, slandering a real value, what is being evaluated. We're talking silent numbers, that the aesthetic point of view, are induced in the calculation of an assessment, through a certain sympathy, condescension or cultural interpretation, of the individual who is facing a building, and that is to be evaluated. The heritage can be viewed as a product (Kotler, 2000), but to better understand what it is a product, we will have to think of marketing in design and in architecture, since the architecture incorporates the previous. There are also intangible values (Cabral, 2011), associated directly with the cultural value of a particular detail of a set or a reading space, as a whole indivisible in that if you remove a single point of that set, it will lose in full, preventing their reading. These silent numbers can block the outcome of an evaluation. At a time when the accuracy of the numbers, associated with the business itself and the cultural value are of paramount importance, come to put the plates of the scales of sustainability (Françoise, 2012), more a weight to be considered, to be evaluated and be judged. The market value has been

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<sup>3</sup> The "Pombaline style," which was created by the Portuguese Prime Minister Pombal and his engineers in their rebuilding of the capital, was the Portuguese adaptation of the French military engineering tradition of Vauban and Belidor to the reconstruction needs of Lisbon and the modernization priorities of Pombal. In: David Kendrick Underwood, "The Pombaline style and international neoclassicism in Lisbon and Rio de Janeiro" (January 1, 1988). Dissertations available from ProQuest. Paper AAI8824801.

updated in some cases for pre-designed tables, in other cases through decree-laws, but none of them take into account the cultural value. Silent numbers could be called or classified as "Cultural Factors" relating to emotion. The subjective factors are considered, for the most part, both in more complex evaluations, as in most common assessments (Figueiredo, 2004). As described and defined some of these subjective factors, as those who fit the buyer's point of view, the seller, or the evaluator. There are still other factors, which join to previous, which are those relating to imperfection and housing market, those related to the mentality and competence of the evaluator and lastly the factors resulting from the inadequacy of the doctrine of the activity of real estate appraisal. If we build on these elements, the silent numbers understood here as Cultural Factors, are not directly parts of any of the previously described, at least directly. So if you think necessary considering its weight in an assessment.

Let's look at an example of a calculation formula for the determination of the standard market value of any building in the State again:  $V = (Vt + Cc + Cp + Ca + Ctx) \times (1 + M)$ . We propose that in order to avoid this random attitude on the application of a cultural and aesthetic sensitivity, an assessment, and for it to be fair and perfect, more applies a factor, which we call "Cultural Factor". We must enter it within the context of Depreciation: physical, functional, economic and environmental, or even in the context of accessibility, centralities, and mobilities will be here that seems more apparent that the Cultural Factor appears. This question, nowadays, may be relevant in the eyes of many of us, but be completely inappropriate for others, although judging from the outset to be relatively well accepted the idea of may these tangible and intangible aspects of culture, within the framework of a real estate appraisal. It could be considered as a reduced factor, but it can also be a factor value.

After having carried out an investigation on Rua da Madalena in Lisbon on an experimental basis, the people passing by on the street were asked background information, residence location, age, and their approval of works and interventions in the buildings within their areas of residence. Four issues were considered:

1. The residents of the street or neighborhood should participate in the evaluation of the project of architecture.
2. Local memory is necessary on a day-to-day basis.
3. Architecture is a work of art?
4. That value should be given in an equity valuation, the previously questioned intangible aspects. But to what extent: 5%, 10%, 20%, 50%? By choice, not equations, a percentage exceeding 50%. We are searching buildings with pickpockets where transaction or intervention is possible.

The results were interesting due to the differences in ages. Respondents as a whole divided into two groups. We interviewed 100 people. 50 people were aged between 18 and 30 years old, and 50 people were aged between 65 and 80 years. Already there were few who were living in this area since its origin, we found the children of the first owners, which fit with the larger group of 50 years, and we have the grandchildren of the original owners between 18 and 30 years.

After carrying out of this inquiry, it could be concluded that the general response is favorable, especially people with more than 50 years appreciate this view. As regards the second question, younger respondents consider that the memory of the place is not very important, although the weight of the "no" is not very expressive. People with more than 50 years stress the importance of local memory as highly valued with just 4 people responding negatively. The most interesting insight comes from the third issue by stating that the architecture could be perceived as a work of art. Aspects of intangible culture are also valued by two age groups chosen for this analysis, but as regards the younger group, there is almost a tie, in contrast to the older group, the answer was clearly affirmative.

The quest for the "Cultural Factor" will be a percentage, which in some situations will be positive and negative, namely enjoying or belittling a particular building or street. The question is the following: how much does the owner of a Heritage House, relative to the market, values the home? What about the buyers? Apparently there will be a certain value to add, but what we found out through some street interviews is that not always the intangible cultural heritage (classified) becomes an asset. It may raise certain issues related to selling, change, specific projects, and other situations.

After analyzing the summary of options for recovery or depreciation in order to put into the formula of calculation, the "Culture Factor" has shown that people over the age of 50 years understand and appreciate the importance of intangible culture and local memory. It represents 20% of the value of existing work or building on that street. Are those 20% corresponding to the concern demonstrated, in any amendment to existing buildings? As for the younger group between 18 and 30 years, 76% believe that the culture and the immaterial heritage associated with the memory of the place indicate 5% concern and importance related to the intervention on the street where they inhabit. To find an average by estimating the largest number of people in each group, this percentage will be 13%. There is as well a 12% difference between the two choices of 5% and 20%, with regard to the "Culture Factor".

There is also the "local memory". How much is it worth? Our interviews indicated that people between 18 and 30 years old did not give much value to the memory and the presence of a specific building in a given street, but on the contrary, people older than 50 years stressed this importance. Who evaluates a building or an intervention on a street, for example, must respond to society when thinking of the constructive characteristics and materials applied or to be applied, so that there is no "cultural rubbish". Avoiding other people will not enjoy a particular well, just why there hasn't been a concern of project at the level of importance that people have in place to intervene, nor an individual care as regards local memory or intangible heritage.

Based on the previous calculation formula related to the market value of a particular property, we consider the "crop factor" culture as a functional element designed for (Cc) construction cost, on (Cp) cost of the project and (Ca) administrative and commercial costs, since it will be reflected directly in these values, the application of the (Fc) "Culture Factor" in conjunction with the other reductions the functional, physical assessments, or even location. The costs related to fees and licenses are quantified in accordance with the

regulations in force, and the real estate profit margin, will always be proportional to the result of the sum of the previous factors.

As regards the cost of the land, the (Fc) is applied whenever the terrain has a construction site or in the case if construction does not exist, it is considered cultural heritage. For example, if there are underground constructions, if there are fossils, or whether it was an important battle site. Otherwise, it will not apply proportionality (Fc). Of course, we should take into consideration all other forms of weighting from the point of view of depreciation that will influence the homogenization of the market values for the calculation remain. The formula that serves us, for example, could be interpreted as follows:  $V = ((Vt + Cc + Cp + Ca + Ctx) \times (Fc)) \times (1 + M)$ . "Fc" corresponds to a percentage within the total percentage assigned to these weights. Corresponding to this case study, it is about 13%.

### Conclusions

The street has been a place that no one cares about, and in most cases, it has been understood to be a dirty place where there is litter everywhere and various stalls where diverse businesses take place. In most instances, the drainage of various streets has been known to be an issue of major concern. However, there are measures that have been developed by government administrators to improve the condition of the street that have helped improve the condition of various cities. Despite the fact that the streets have improved a bit from what was considered as worse, it is recommended that the street should be improved and transformed to attract tourists, which can also be used as an asset by the nation to improve economic stability and national growth as well as development.

With better conditions and with a branded concept, the street (Rua da Madalena in Lisbon) will have a higher value in the real estate market, and at the same time, it will protect the immaterial value of the street, though the memories of the past are the silent numbers in the mathematical formula to estimate the real value of the street.

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# SOCIAL MEDIA AND ITS INFLUENCES ON CONSUMER BEHAVIOR

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## **Abstract**

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Today, consumers engaged themselves with the internet much more as compared to a decade ago. The most important of these tools are social media. Social media such as Facebook, Twitter, Instagram or LinkedIn has a numerical number of the users and keeps growing every day. Consumers can not only access the information about their needed goods and services but also can share their knowledge, opinions, and experiences with one other due to the online social networks provided features and may have an impact on consumer's behavior in terms of communication and purchasing.

This is an exploratory research to determine how social media affecting the purchasing behavior of consumers in Republic of Lithuania. For this study, we took a sample of 120 Lithuanian aged 16-50 years old, using social media platform having an account with any social media networks. Questionnaire was used to collect information for study. After analysis, result shows that there is a huge impact of social media on consumer behavior in Lithuania.

**Keywords:** social media, decision-making, consumer behavior, Lithuania.

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## **Introduction**

Social Media is the hottest topic to discuss nowadays. Over the past decade social media is playing an important role in different aspects of consumer's behavior, the internet and its related technologies make what we know today's as a social media possible and prevalent. Everyday social media expands, more and more people join online community (Dryer, 2010).

Republic of Lithuania is most populous country in Baltic States, after restoring independence on 11<sup>th</sup> March 1990; Lithuania has become member of European Union on 1<sup>st</sup> May 2004. On 1<sup>st</sup> January 2015, Lithuania adopted the euro as the official currency and became the 19th member of the Eurozone. According to World Bank report 2014, the total internet users are 72.1% per 100 people [28].

According to Thompson (2005), social media have provided new opportunities to consumers to engage in social interaction on internet and the growth of Internet technology has enormous potential as it reduces the costs of product and service delivery and extends geographical boundaries in bringing buyers and sellers together.

"It took radio 38 years to reach 50 million listeners. TV took 13 years to reach 50 million users. The internet took 4 years to reach 50 million people. In less than 9 months, Facebook added 100 million users" (Tuten, Solomon, 2015).

Above stated data shows that social media offers synchronous interactions and spontaneous connection in real time. Consumers use social media, such as online platform, to generate contents and to network with others active users. Social media provides facilities to consumers to interact and contact with each other's without any physical

boundaries through email, Facebook and Twitter (Gruzed et al., 2011). This engagement is increasing day by day, people are not just joining social communities but they are contributing too. According to Youtube statistics [21], YouTube users upload more than 100 hours of video every single minute of every day. Similarly, according to (Protalinski, 2011), Facebook has more than 1.2 billion active users around the globe; approximately 4 billion pieces of contents are shared on Facebook daily.

An infographic created by Leverage [23], to highlight the facts about some of most popular social sites: (infographic in words): "Pinterest has 70 million users; users are 20% male and 80% female. Twitter has 289 million active users, Microblogging social site that limits posts to 140 characters, 9100 tweets happen every second. Facebook has 1.5 billion monthly active users, Mobile is Facebook's cash cow – 1.31 billion monthly active mobile users, Mobile ad revenue makes up 76% of all ad revenue (\$2.9 billion in Q2 of 2015) and users share 1 million links every 20 minutes Instagram has 300 million active users, Social sharing site all around pictures and now 15 second videos. Google+ has 300 million active users, Social network built by Google that allows for brands and users to build circles. LinkedIn has 380 million users worldwide, Business oriented social networking site, Brands that are participating are corporate brands giving potential and current associates a place to network and connect, 79% of users are 35 or older".

Social media is an open world for all consumers; traditional marketing channels are become clutter and ineffective as compare to social media platforms, thus social media has several advantages. Firstly, accessibility, user can get easily online access through social media channels, and this accessibility and connectivity can be in real time with friends, family, communities or companies. Secondly, on social media users can spread words fast as compare to traditional marketing channels, thanks to web 2.0 technology, spreading of information is fast now. Thirdly, social media encourages taking part in news and views, which means the communication on social media, is two-way direction. Additionally, Social media is one of the beneficial elements of promotion mix, which can help companies to increase their revenue and sales. Finally, traditional marketing become expensive today as compare to social media marketing and social media platforms are cheap for companies and free of charge for consumers.

This clearly indicates that customer involvement through social media is a key factor in marketing (Do-Hyung et al., 2007). Carrying on this viewpoint, social media is no longer just a tool for companies, but also a tool for personal marketing. It is gradually changing the way people live and touches upon many industries. A study titled, " Social Networking Sites as Advertisement Environment conducted by Haciefendioğlu (2011), suggested that consumers are influence by social media on their buying decision, while friend's comments lead them to buy particular product from particular firm.

By considering the above stated statistics, this study has objectives to explore that how prospective consumers are receiving, processing and deciding to choose the information on social networking sites prior to make a final buying decision whether opinions provided by social media communities affect consumer's behavior or not among the different age, gender and education groups in Republic of Lithuania.

## Social Media

*Definition of social media.* There are many definitions of social media according to different media experts and researchers. The Oxford dictionaries [18], define social media as "websites and applications that enable users to create and share contents or to participate in social networking". The Merriam-Webster dictionary [17], defines networking as "the exchange of information or services among individuals, groups, or institutions; specifically: the cultivation of productive relationships for employment or business."

According to Kaplan and Haenlein (2010) general definition of social media is consideration of Web 2.0 and User-Generated Content. Social media is "a group of internet-based applications that build on the ideological and technological foundations of Web 2.0 and that allow the creation and exchange of User Generated Content" (Kaplan & Haenlein, 2010, 61).

Social media is generally defined as, "Web 2.0 based sites which bring different people together in a virtual platform and ensure a deeper social interaction, stronger community and implementation of cooperation projects" (Brown, 2009). The most frequently used definition for social media is "online platforms that people use to share their ideas, experiences, perspectives and communicate with each other" (Kahraman, 2010). According to Dann and Dann (2011) Social media is based on connections between relationships, people and organizations. Furthermore, Tuten and Solomon (2015) described following four zones of social media.

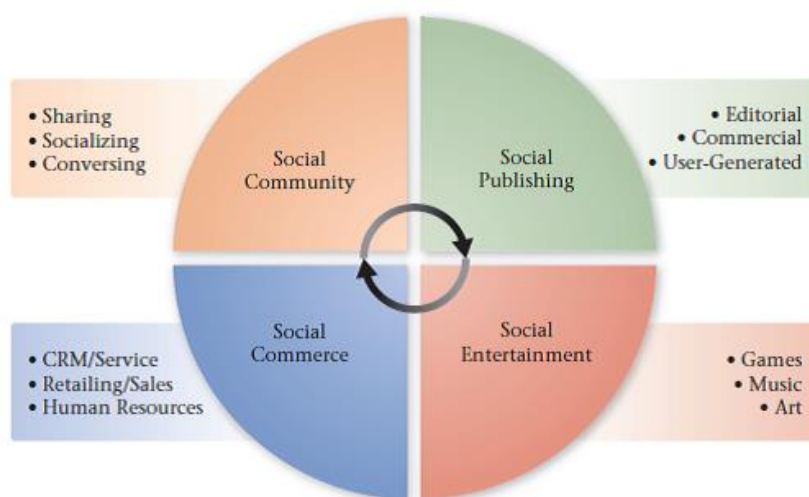


Figure 1. Social media zones (Tuten and Solomon, 2015).

*The Classification of Social Media.* Due to complexity of social media, it is difficult to give exact number of classification of social media. According to Mayfield (2008), there are basically following seven type of social media

1. Social Networks
2. Blogs
3. Wikis
4. Podcast

5. Forums
6. Content Communities
7. Microblogging

Tuten and Solomon (2015) suggested four classification, called "zones of social media", including social community, social publishing, social entertainment and social commerce. In this study, we will focus on Mayfield (2008) criterion to analyze the platforms.

#### *Social Networks*

Social networks are not only innovative, but also in terms of cost of communication. Social networks or social networking sites SNS allow people to create their personal webpages and then connect and interact with family, friends for the purpose of sharing "news and views". Nowadays, consumers have accessibility to have many different sources of information and experiences, which have been contributed on SNS by other customers' information and recommendations (Senecal & Nantel, 2004). At the time of writing this article, the biggest social networks are Facebook, Twitter, Google+, LinkedIn and Instagram. The biggest change in SNS come when Facebook born in 2004, based on 1 billion active users, Facebook would be third largest country in this world.

#### *Blogs*

Blogs have been around for more than a decade. Blogs are online websites, maintained by individual or groups to connect online debate. Blogger control the blog and blog's content. The entries are arranged chronologically backwards (the newest is always the first on the page), and most blogs allow the readers to post comments right below the published article without any strict rules, which help consumers to get to know better about desire products or services. Since 1998, weblogs or 'blogs' have gained increasing notice in the online community because even people without any programming experience can also easily develop and publish their personal websites (Blood, 2002).

#### *Wikis*

Wikis are websites that generally allows people to add, modify or delete contents collaboratively with others (Mayfield, 2008). Wikis can be about anything and everything. Usually a wiki is supported by a database that keeps track of all changes, it's fair game to correct any inaccuracies if consumer found. It is not uncommon to see any entry updated several times per day. The most famous wiki is Wikipedia, the free encyclopedia founded in 2001, which has 70000 active contributors, 70 million articles in 290 languages (Wikipedia, 2015). In fact, one of the pillars of the community is "all Wikipedia articles must be written from a neutral point of view, representing views fairly and without bias"[27].

#### *Podcast*

According to Merriam-webster dictionary a podcast is "a program (as of music or talk) made available in digital format for automatic download over the Internet", podcast can listened to or viewed at a later stage with some subscription. Although some podcasts are one-time productions, many podcasts are "serial", new episodes are produced each day, week, or month. Apple's iTunes is the most widely used podcast platform around the world. The podcast can be either listened or downloaded on computers and on mobile devices through iTunes application. According to Nigam 2014, there are 800 million iTunes accounts.

### *Forums*

Perhaps the forums came before the social media; a forum is a Bulletin Board BB, discussion board and discussion forum. They entirely focus on discussion among members, brings together a common interest in having members of the community. The discussion on the forum is called thread, usually established by members to participate by sharing news, opinions, photos and questions. Today consumers exchange their ideas in discussion forums that are offered by social networks users to community members for the purpose of asking for help if needed, information and suggestions before buying a particular product from particular firm. Research has shown that potential consumers are more interested to get other's user recommendations rather than producer information (Ridings & Gefen, 2004).

### *Content Communities*

The main purpose of Content communities is to allow users to share online multimedia material, usually users just need to create an account but not any profile page, users upload their wide range of materials, videos (e.g., YouTube), Photos (e.g., Flickr), power point presentations(e.g., Slideshare) and including text (e.g., BookCrossing). Kaplan and Haenlein (2010), suggested different classification of social media sites which can based on the structure and features of each medium, it provides a precise way to label sites like YouTube and Flickr as belonging to a distinct category, separate from SNS like Facebook and MySpace.

### *Microblogging*

According to Merriam- webster dictionary [13], Microblogging is "blogging done with severe space or size constraints typically by posting frequent brief messages about personal activities". A micro blog could share a sentence, embedded video, or clink to content residing on another website. Twitter is the best example in this field; users can send and read short messages up to 140 characters called "tweets". Many organizations have been using Twitter to tap into the business prospects, influencers, and customers; customers can choose to follow the twitter updates of anyone they want to hear from (Weinberg, 2009).

### **Social Media and Consumer Behavior Relation**

Nowadays, Internet and online communities have transformed prospective consumers, existing consumers, societies, and firms with wide spread of easy accessible information, that makes better social networking and enhanced communication abilities and no doubt this enhancement provide great importance and financial support for commercial activities. In last one decade the usage and popularity of social media has grown up, social media and its massive popularity have revolutionized marketing practices such as advertising and promotion (Hanna, Rohn and Crittenden, 2011).

Google (2014) conducted a research in major industrial countries like the U.K, U.S, France, Germany, Japan, Canada, Brazil and Australia associating with the customer journey to online search and purchase, the research has shown different marketing channels influence the customer at different level to make final purchase. In all the targeted countries, social media serves as an assisting channel in which to buying phases of awareness, consideration and purchase.

Parson (2013) suggested that networking with consumers on Social Media may facilitate prospective consumers to turn into final consumers and later then become a pro social encourager to share their views, purchasing experience and any others feedback towards their purchase to encourage others consumers. A research study done by Pookulangara and Koesler (2011) indicated that social media enable usually 25% of all consumers to update others social media users with their purchase experience to post web links about products and services. According to Miller (2010), social marketing campaign has made very positive role in inducing consumers to buy online. He found that 70% of consumers are visiting Social Media to get useful information for their products and services while 49% of them made the decision to buy certain product and 60% of consumers prefer to share pre and post purchase information about the products with others online through social media. However, only 7% consumers are made purchasing process transactions (Miller and Lammas, 2010).

Social media is very important not only for marketers but consumers too, organizations can follow their consumers and reconstruct their strategies to interact more with their consumers online, it means which reduce the "gap" between organizations and consumers. Internet and social media has changed the lives, at one stage, information was limited or only available through TV, radio, newspaper and magazines to consumers, but in recent time, there are hundreds of thousands of SNS available at consumer reach.

### **Research methodology and data collection**

In order to better understand the Lithuanian consumer behavior this study is focused on primary data collection, the primary data of this research is collected by questionnaires from social media users in Lithuania. The questionnaire is sent to colleagues, friends, family, and other persons from different socio-economic and demographic background in Lithuania which would yield the sample size to be 120 respondents, in which 55% are female and 45% male. Participation was voluntary and the questions were formulated in national language Lithuanian and English. The data collected was analyzed using Statistical Package for Social Science for Windows (SPSS for Windows).

The empirical section concentrates how the social media is influencing the consumers in Lithuania in buying behavior pattern from information search to post purchase feedback. This study is also intended to investigate how social media has interfered with the decision making process of millennials Lithuanian consumers. For the purpose of this study, quantitative data was gathered and utilized.

### **Results and conclusions**

After the data collection and analysis it is concluded that Lithuanian consumers are fairly engaged with internet services daily or weekly bases. 70% users are daily internet users, while 94% millennials Lithuanian login their at least one social media account on daily basis. 65% users used their laptop and 30% used their smartphone for internet browsing. 40 % users do shopping online, majority of consumers (62%) get to know about their goods and services through social media before purchase, Facebook, forums, reviews, company own website are on top to use for this purpose and 60% are browsing shops without any shopping. Majority of online consumer are aged between 22-40 years with college education, with average monthly earning is 450 euro, Facebook and YouTube are on top of the usage on daily basis with 94% and 90% respectively. According to consumers, they can

find 80% their prefer shops online (shops own websites), while 98% are on one of social network sites. 70% consumers prefer to use social media for intangible products. Reading news, watching video online and listening songs are more preferable activities of Lithuanian users. 30% consumers prefer to use social media for tangible products, mostly use to buying cloths and cosmetics. Result shows that 25% consumers, majority of them are female, get “some how” influence from social media to buy their desire products, for example “I like that shirt” can change their mind.

This result shows that social media is playing an important role in shopping behavior of Lithuanian consumers. With the birth of web 2.0, human life has changed, today, consumers can access internet anywhere and share their views (positive or negative), ideas, and feelings with family, friends and rest of social community members.

The distance between consumers and businesses is reduced due to social media; consumers can explore their desire shops, products or services 24/7 and share with rest of the world any time anywhere. Therefore, there are some important points which businesses should take into their account when use social media, the important points can be

- Consumers are interested to have more conversation with businesses through social media;
- pre and post purchasing experiences;
- As social media is time/cost saving method, consumers are willing to get their required information through SNS, business should dedicate their time and effort to make sure that their customers get response in good time;
- Consumers are not looking for SNS for marketing purposes but to get answer when, how, where and to whom they buy their desire product and services;
- Trust and reliability are most important factors for consumers, if consumers raise such concern than businesses should address accordingly otherwise consumer never trust on company.

Most marketers are still in transitional stage to understand their consumers better, and to utilize social media effectively. Simply posting online ads, news, creating a social network site, or hosting a blog isn’t enough. Successful social media strategy can be really meaningful if marketers genuinely involve and contribute themselves with the consumers.

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# ASSESSMENT OF DIFFERENT GENERATION NEEDS FOR STRATEGIC MARKETING

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## Abstract

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Generations represent people of different ages, but their different behavior in the market doesn't depend only on their age. Buying behavior of representatives of different generations is affected also by other factors, and among them employment situation and incomes are especially important.

In our opinion, nowadays, in Georgia, from the point of view of marketing, the following generations should be singled out:

- Confused generation. We call them so because their representatives didn't properly comprehend the essence of market economy. They are over 60 years of age.
- Disappointed generation. Despite of their middle age this generation is basically unemployed or self-employed. Their age is between 45 and 60.
- New Georgians. The representatives of this generation today in the country are employed in public institutions as well as in private business. Their age is between 20 and 44.
- Teenagers. They are 15-19 year olds; most of them are pupils or college or university students. Although they don't have their own income; they are a very active segment of the market using their parents' incomes.
- Preschool and school age children (0-14 years of age).

Matching the needs of different generations is one of the most important ways for any business to succeed. Therefore, we think that in developing their marketing strategies companies should pay great attention to studies of the generation (or generations) consuming their products.

**Keywords:** generations marketing, customer, buying behavior.

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## Introduction

Different generation use the same products in different ways. Fathers, their children, grandchildren and grand – grandchildren differ with their needs regarding usage of particular products. This factor causes different influences on the development of different industries. It is especially clear when discussing great changes in technologies. This is why we got interested in the theory of generations and generations' marketing. We also aim at using practices used in other countries in Georgian reality. First of all we decided to divide Georgian's population into generations on the basis of the marketing approach.

Generations, in the marketing context, are composed of the customers of different ages but their behavior at market is not determined by their age only. Buying behavior of the representatives of one or another generation is impacted by the other factors as well and among them, primarily, we consider employment and incomes.

## Results of the research

Generational theory was developed in the nineties of the past century in USA. Its founders are Neil Howe, the economist and demographer and William Strauss, the historian, author

and playwright (Marketing, 2011). According to their theory the following can be distinguished:

- G.I. generation – people born in 1901-1924;
- Silent generation – people born in 1925-1942;
- Baby-boomers – 1943-1960;
- Generation X – 1961-1981;
- Generation Y – 1981-2000;
- Generation Z – people born in 2001 and later.

In the scientific literature the methodology of dividing population into generations is slightly different (Marketing, 2014, William J., 2004, Shamis E., 2007), but the length of time between generations is about 20 years (Marketing, 2011). It is the very length of time when representatives of the same generation are born.

The largest age group in the USA consists of X and Y generations. They play significant role with their purchasing power, in business development. Therefore, the market researchers regard that study of their requirements is of great significance.

Generational theory is applicable in all countries, while, in our opinion, due to economic and political differences, it shows up in different ways. It is clear that in one and the same generation, differentiated on the grounds of age, the systems of values are similar in different countries, especially now, in the age of globalization. Practice shows that the representatives of one generation of different countries have more similar systems of values than different generations of one and the same country.

Based on the generational theory and the studies of the changes in Georgian economy and in the population's psychology, we attempted to break down Georgian population into the generations, in the marketing context. In identifying of the generations we relied upon not only age indicators but also changes in employment, incomes and psychology of Georgian population after gaining of independence. Therefore, our classification of Georgian population into the generations was different from the classical theory to certain extent.

The silent generation, according to the classical break-down, includes people born in 1925-1942, i.e. those who are 70-90 years old. We have not divided this generation. We regard that irrespective of age differences, they, with respect of employment, incomes, attitude towards the economy based on private property, mostly are similar to the people of 61-72 age group (those born in 1943-1954).. Therefore, we have unified people born in the periods 1925-1942 and 1943-1954 into single generation and we called them the confused generation. Absolute majority of the people in this generation, in our opinion, cannot properly understand the substance of the private property based economy.

According to our approach, the list of the generations for Georgia is as follows (Mghebrishvili B., 2013, May):

Table 1. Generations of Georgian population in the marketing context.

Generation	Year of birth	Age	Number of people as of 1 January 2014*
Confused	1925-1954	61-90	758,6
Disappointed	1955-1970	45-60	753,3
New Georgians	1971-1984	31-44	964,1
	1985-1995	20-30	654,7
Digital generation	1996-2000	15-19	361,0
	2001 and later	0-14	943,5

Sources: 1.(Geostat, 2014a); 2.(Geostat, 2014b).

Absolute majority of people of the confused generation are the pensioners, with the exception of 61-64 years old males. Most of them have no any permanent employment or they are self-employed. According to the Table 1, these are 758.6 thousand people and they do not comprise significant segment for the business. Though, there are certain exclusions. For example, in the business of pharmaceuticals this is quite significant segment. The confused generation includes the representatives of classical silent generation and baby-boomers. Reason of this is reduction of employment and purchasing power of Georgian population. Though we called them confused generation due to their unawareness in the substance of the private property-based economy. Such unawareness caused in many of them the nostalgia for the good old days.

We called the generation of 45-60 years old people the disappointed generation. Most of them are self-employed. According to the data of the Ministry of Economics and Sustainable development, 1712.1 thousand people were employed in 2013. Of them, 658.2 thousand people were hired and 1043.8 thousand people were self-employed. The sphere of employment of 10 thousand people was unclear (ME&S, 2015).

Self-employment rate is much higher in rural areas, compared with the cities. E.g. in 2013, number of the self-employed was 853.9 thousand people in rural areas while in urban areas their number was 190 thousand (ME&S, 2015).

In that year 658.2 thousand people were hired. Share of the hired urban population is 66.3% (436.1 thousand), while rural population share was 33.7% (222.1 thousand). It should be noted that to certain extent, self-employment is not regarded as actual employment for the most part of population. This can be explained by the influence of life in the Soviet Union. In the USSR the absolute majority of people were employed with the state entities and currently this opportunity is minimal. In addition, private business is not developed so that to provide employment to all desiring. Therefore, quite significant part of people is disappointed and feels some qualms about future.

The following generation in our classification includes the new Georgians. These are the people born in 1971-1995. Thus, New Georgians include the representatives of generation X (people born in 1971-1981) and generation Y (people born in 1982-1995).

We divide the new Georgians into two parts. First of them includes people of 35-44 years old. Their number in the country was 655.8 thousand people as of 2014. The other part of

new Georgians comprise of people aged 20-34. Their number is 963 thousand. Army of 1618.8 thousand new Georgians is quite attractive market for business. Currently, the people of this age are employed with the state structures, as well as in private sector. Hence, new Georgians are the most high-income population.

We categorized people born from 1996 up to present as the digital generation. We have divided this generation into two groups as well: 15-19 years old adolescents and 0-14 year old preschool and school children. Digital generation is composed of the children and grand children of the new Georgians. Most of them (15-19 years old adolescents are implied) have no their own income. Nevertheless, the digital generation comprises quite active buyers' market at their parents' expense. New Georgians spent most of their incomes for satisfaction of the requirements of digital generation. Therefore many businesses are focused on the digital generation.

### Conclusions

Certainly, our classification of generations has some weaknesses as in the marketing context it is the first attempt of generations' classification in Georgia. Further research will reveal the advantages and disadvantages of the classification suggested and will help us to improve it. We regard that the fact that we have set the issue of use of generations' marketing is of significance. In our opinion, identification of the generations' requirements and its due consideration would significantly improve operation characteristics of the country's businesses.

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# FOOD-RELATED LIFESTYLE AS AN INNOVATIVE METHOD IN PACKAGING RESEARCH

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## **Abstract**

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Innovation in food industry is a very important factor of development of the food market and building a competitive advantage of individual businesses. Nowadays innovations are led mostly by consumer needs and expectations which are linked to changes in lifestyle. There is a method of investigating a relation between a lifestyle and food choices, referred to as a Food Related Lifestyle (FRL) methodology. It is important to verify also the influence of a lifestyle on packaging preferences what could lead to better adjustment of packaging to consumer demands.

The review of FRL method has revealed a relationship between food preferences and food product packaging. However, in order to better assess consumers' needs related to packaging understanding, it is necessary to develop a new questionnaire concerning some ecological issues, to define the preferred packaging options in more detail, and their functionality and design.

**Keywords:** Food Related Lifestyle (FRL), Food Packaging Related Lifestyle, food packaging, packaging preferences, food packaging technologies, consumer acceptance.

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## **Introduction**

Food industry is constantly changing by introducing innovations in products and packaging. Innovations are recognized as a key factor for companies to build their competitive advantage. Therefore, numerous companies are interested in introducing innovations in their product what might result in individual business growth and development of the food market. The gap could be identified between what the retail chains offer to their customers and what the customers want.

Consumers have a massive influence on the product innovation. The technological barriers are very scarce, that is why consumers play a key role in communicating their expectations and leading food products innovations. One of the most important factors influencing innovations is consumers' lifestyle. The lifestyle of an individual includes all of its activities, interests, values and opinions. Lifestyle measurement has been widely used in marketing, namely for guiding advertising strategy, segmentation, and product development. Lifestyle is potentially a valuable tool for market surveillance.

The main goal of the paper is to theoretically verify the purposefulness of researching the importance of packaging in buying behaviour with the use of Food Related Lifestyle instrument. The areas of a questionnaire directly refer to packaging, and its role in maintaining quality of food.

### **Food related Lifestyle as a research method**

Although human values guide behaviour, values cannot predict behaviour directly. Consumer behaviour researchers Grunert, Brunso & Bis (1997) created an instrument that focuses on behaviour in measuring the linkages between food products and end goals. Food Related Lifestyle (FRL) is a method to investigate eating and shopping habits of food products, what might be useful for companies from food industry in understanding consumers' needs, particularly what they search in food products, how they buy food and cook it, what might affect better adjustment of market offer to specific consumer needs. FRL allows mapping consumer trends in the market, analyze changes in time and across different cultures and countries. Most research studies investigate European countries like Denmark, France, Germany, Spain, Great Britain, Ireland (Sholderer et al., 2004; Hoek et al., 2004; Ryan et al., 2004; O'sullivan et al., 2005). The studies were also conducted in Poland (Balon et al., 2015) and Croatia (Kesicc& Piri-Rajh, 2003). Some of the researches have verified this method outside Europe, especially in Asia (ChengHsi & HwangJaw, 2009; Grunert et al., 2011).

The original version of the survey has an ordered structure based on 5 areas (research constructs). Each construct consists of 2-6 dimensions (in total 23 FRL's dimensions), where each dimension includes 3 statements, in total 69 statements (Sholderer et al., 2004). The FRL dimensions were formed from statements by adding up the scores of the original variables from 1 - totally disagree to 7 - totally agree.

The collected data might be used for further analysis using the methodology proposed by the authors FRL can, among other things (Balon et al., 2014):

1. Describe the dietary habits of the study group, based on pre-defined, theoretically and practically verified areas and dimensions of FRL.
2. Identify the relationships and connections between the different aspects of the FRL, which are characteristic of the examined population.
3. Identify and define the "style of life" (FRL) to meet the nutritional needs of the population studied.
4. Make segmentation of consumers due to the declared approach to the dimensions defined by the FRL.
5. Formulate and verify hypotheses regarding the observed regularities resulting from the similarities and differences between consumers. It is the basic method for consumer segmentation. Identify strategically useful consumer food-related segments according to how they perceive value in food products (Reid et al., 2001).

Most of the studies are dividing consumers into groups (Brunso & Grunert, 2007):

- The uninvolved food consumer,
- The careless food consumer,
- The conservative food consumer,
- The rational food consumer,
- The adventurous food consumer.

Some of the research indicates also emerging groups such as (Brunso & Grunert, 2007):

- The moderate/pragmatic food consumer,
- The hedonistic food consumer,

- The eco-moderate food consumer,
- The enthusiastic food consumer.

However, some of the researchers are introducing small changes in standardized questionnaire, due to the market and consumers differences, like different market offer or different cultural attitudes (Balon et al., 2014). But Food Related Lifestyle has been a comfortable basis to changes and reconstructions, for example, Wine Related Life-Style (Bruwer et al., 2002), developed as segmentation method of wine consumers in Australia. Life-style segmentation was also used in more general research concerning alcohol in Australia conducted by Victorian Health Promotion Foundation in 2010-2012.

### **The role of packaging in Food Related Lifestyle**

Packaging plays a great role in buying decisions of food products. As important factors consumers indicate such packaging characteristics as: informativity, economic performance, the size/capacity of the package and its mass (Buckiuniene et al., 2015). In some research papers and marketing practice, special attention is drawn to packaging visual aspects (Lisińska-Kuśnierz, 2009; Towal et al., 2013; Cholewa-Wójcik & Świda, 2015). FRL is not a method developed for packaging role investigation, however, in a questionnaire some of the questions are related to it. Packaging has an important role in food preservation, convenience of food product use and delivery of proper information to consumers. Categories of dimensions concerning packaging in FRL questionnaire is shown in Figure 1.

In the section concerning “Ways of Shopping” packaging and especially its informativity plays an important role. This section considers such issues as the high importance of product information and product composition, comparison of nutrition value of products, comparison of labels to decide which brand to buy, detailed statements on Figure 2. Packaging is a medium of providing information to consumers. Visibility, legibility and proper information placing is important for consumers which are aware and are willing to search for information about the product. For that group of consumers packaging informativity might be important factor in decision making process. FRL instrument does investigate only few pieces of information which might be of interest for consumers. They are asked to express their opinion about importance of composition and nutrition value of food product. Nowadays consumer research and legal requirements regard also other information as important, for example distinction of food allergens and substances that causes food intolerance, country of origin or quality labels. In FRL questionnaire the information about expiry date is not considered at all, assuming that consumers are not eating food out of date. However some of the consumers are admitting that they do not turn attentions to this information while shopping, assuming that retailers are carrying out their duties.

The section on “Quality Aspects” focuses on the issues concerning the quality of packaging. Questions given to respondents consider the following aspects: preference of fresh products over canned or frozen food, importance of food freshness and preference of prepacked vegetable and meat products, detailed statements are shown in Figure 3. This section investigates if consumers prefer fresh food over processed one. This is related to processing of food and simultaneously of utilization of packing systems like canning or frizzing. This kind of food processing is mainly performed for extending shelf-life, sometimes it allows to

obtain different food product. One question in this set is controversial, the one “It is important to me that food products are fresh”. Nowadays there are packing systems that do not process food but allows extend their shelf-life, these systems are modified atmosphere packaging (MAP) or active packaging. That mean that without processing of food product, it might be packed in the way of exceding its expiration dates. It might bring some problems in interpreting this question to respondents and then in data analysis.

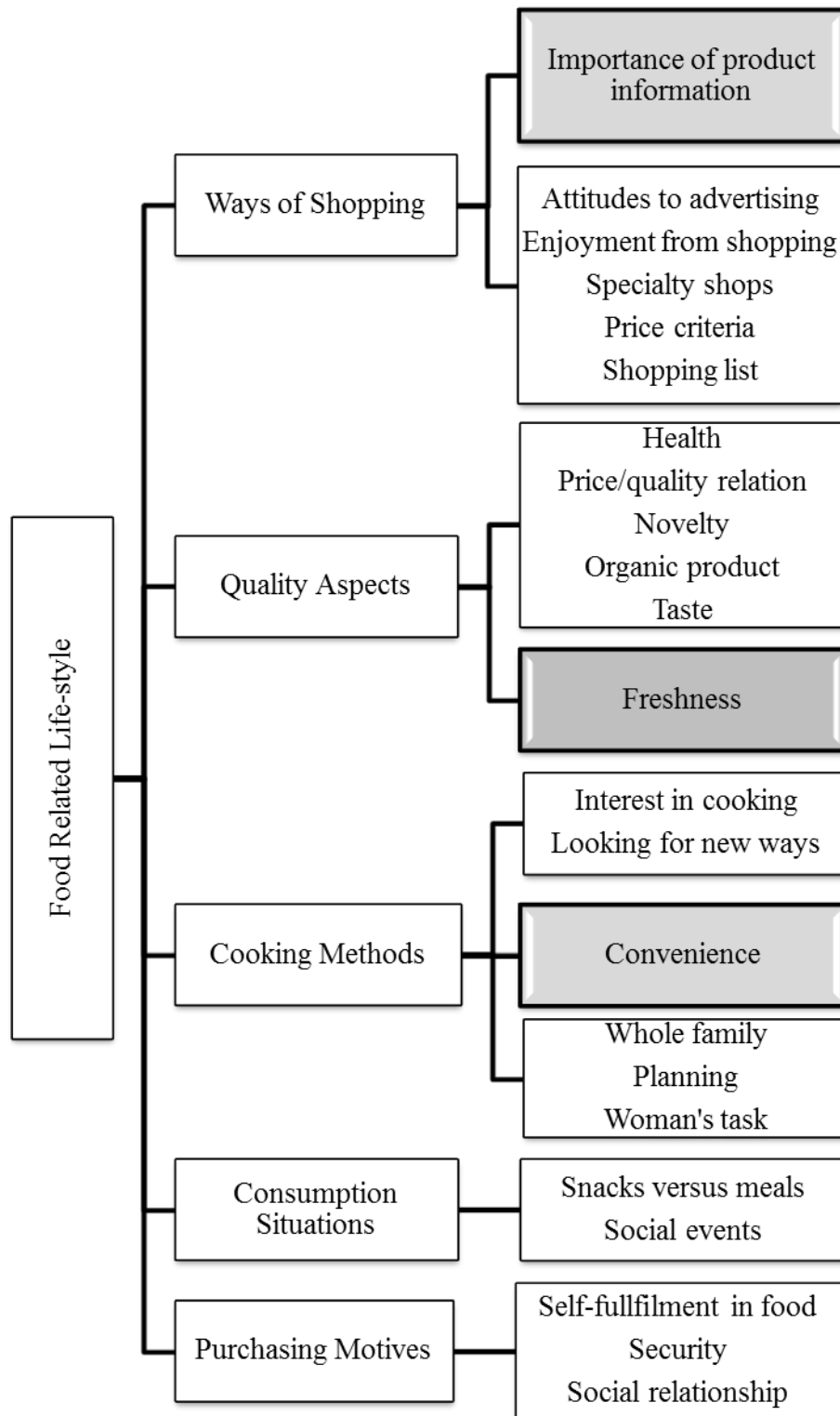


Figure 1. Distinguish of dimensions concerning packaging



Source: author's elaboration.

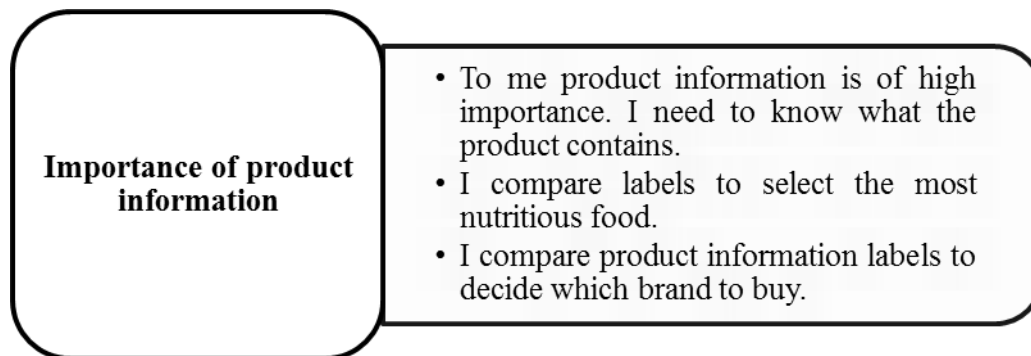


Figure 2. Statements investigating consumers approach to importance of product information. Source: author's elaboration.

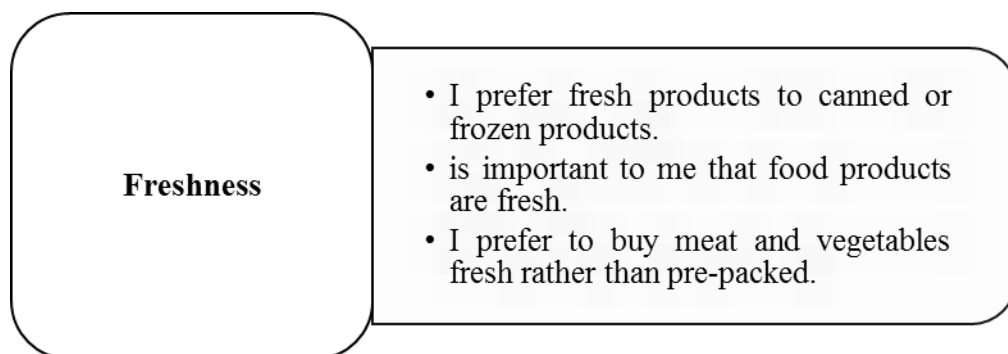


Figure 3. Statements investigating consumers approach to importance of product information. Source: author's elaboration.

"Cooking method" section contains questions loosely related to packaging. Part "Convenience" considers the use in household frozen food, ready-to-eat foods and dishes, usage of instant dishes like baking mixes and powder soups. Part "Convenience" is not clearly stating the relation to packaging issues, but it is well known, that ready-to-eat dishes, instant food and frozen food requires special packaging. Ready-to-eat dishes are mostly packed in packaging which might be use for food preparing (cooking, backing) or food consumption (bowls, plates). The issue of packaging in this type of products is also important due to the fact that these products are characterized by long shelf-life. Proper protection of the product is required by whole shelf-life, and that is why advanced packaging materials are utilized in packaging production. Packaging materials should be characterized with high barrier properties, high mechanical properties and proper construction of a packaging form.

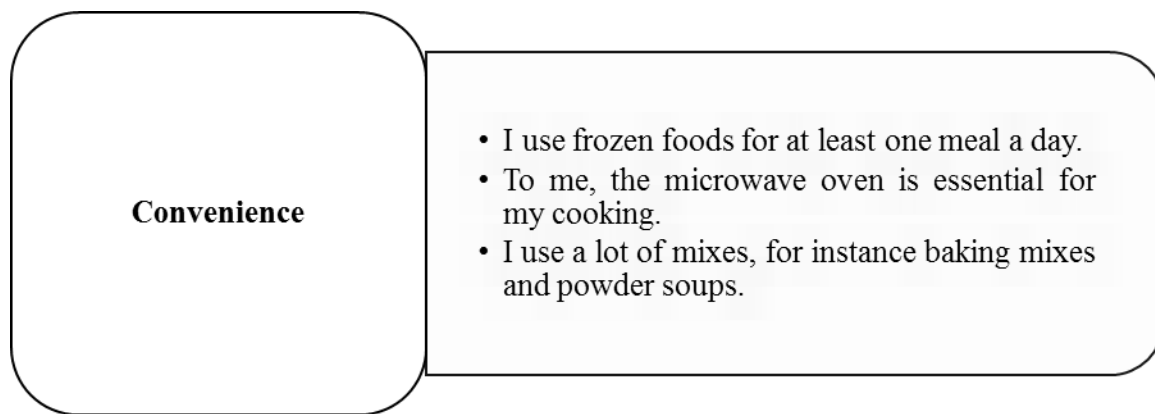


Figure 4. Statements investigating consumers approach to convenience. Source: author's elaboration.

## Conclusions

Although Food Related Lifestyle is a standardized method for eating habits and food products shopping habits investigation, used mostly for segmenting consumers, their mutual evaluation, especially for cross-cultural, cross-country comparison. Previous changes of this method has been an inspiration to make changes in a standardized questionnaire and compare buying habits closely related with packaging and packaging technologies used in food products.

Research with the use of a new method Food Packaging Related Lifestyle might allow the segmentation of consumers due to their approach to food packaging. It is interesting from a researcher's point of view to explore the relation of consumers lifestyle and packaging shape, sizes and preferred materials, to investigate consumers approach to new packaging technologies like MAP (Modified Atmosphere Packaging), intelligent and active packaging, packaging nanomaterials. It is also important to study lifestyle in relation to environmental-friendly packaging demand, namely the areas which are of interest from a Packaging Related Lifestyle point of view. This kind of study may have direct transfer to market offer and innovative changes in food packaging, better adjusting to consumer demands and needs. That may lead to positive changes and improvements in consumers' quality of life.

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# PROMOTING RESPONSIBLE ADVERTISING: ASSESSING THE IMPACT OF MISLEADING ADVERTISING ON CONSUMERS IN LITHUANIA AND FRANCE

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## Abstract

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The aim of this paper is to compare the misleading advertising effects on customers' behavior in Lithuania and France. The market saturation, often demands from companies heavily invest to marketing and advertising. Despite advertising value for all market participants, some advertisers' are reaching the consumers in a misleading way: reflects incorrectly characteristics indicate false prices, provide substandard reality, applies subjective comparisons. Misleading advertising research and prevention is very important and necessary to ensure not only the protection of consumers, but also for the moral growth of Lithuanian companies. The research analysis revealed that Lithuanians often recognize misleading advertising and identify the company's unethical behavior faster than in France. In both countries the consumers will not buy from the company if it propagates misleading information and they will not recommend to their friends, but seldom appeal with complains, especially in Lithuania. Therefore is a need to spread of adequate and legitimate information concerned with products and services, especially while shopping online.

**Keywords:** consumer research, customer, relationship, misleading, advertising, promoting responsible advertising.

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## Introduction

In the current business world with a large variety of goods and services, advertising is becoming one of the most important instruments of existing and potential customers' and visitors' information, awareness and interest in the cause of persuasion. While information declared in advertising should be objective, but it will always be presented in such a way that would affect consumers more than just knowing the fact. The phenomenon of misleading advertising is a very common practice in the current business world. Using deception the company is trying to manipulate consumers and attract as many people as possible. Consumers expect that the product will be superior then others, but usually their suspense is not satisfied. This subject is quite new, because manipulation in advertising doesn't yet have a definition.

Misleading advertising, in the most blatant of contexts, is illegal in most countries. However, advertisers still find ways to deceive consumers in ways that are legal, or technically illegal but unenforceable. In modern society it is widely considered the ethical aspects in advertising. EU tries to approximate the laws of the Member States on unfair commercial practices, including misleading advertising, which directly harm consumers' economic interests and thereby indirectly harm the economic interests of legitimate competitors. EU tries to protect people from actions or omissions which by deceiving the consumer prevent him from making an informed and thus efficient choice.

The aim of work is to analyze different misleading advertising cases in order to measure their effect on consumer behavior in Lithuania in comparison with France.

To achieve the goal, the following objectives are set:

1. Examine the theory of misleading advertising and its links to customer behavior.
2. Discuss the concepts of legal regulation of misleading advertising
3. Perform the opinion research and case study analysis of misleading advertising in Lithuania in comparison with France.

*Methods of analysis:* Lithuanian and foreign scientific literature analysis; structuring information, a summary of the comparison; questionnaire survey method; depiction research.

### **Theoretical links between misleading advertising and the consumer behavior**

Misleading advertising is such an advertising, which in any ways, including its presentation method materially distorts or could materially distort the persons to whom it is addressed or whom it reaches and which, by its deceptive nature, is likely to affect their economic behavior or which, for those reasons, affects or is likely to harm another person's ability to compete.

It is necessary to take into account three criteria: *fairness, thoroughness and presentation criteria*. It is not necessary to establish all three requirements at once, but found that advertising contravene at least one criterion, it will be recognized as misleading. (Liepinyte & Daugeliene, 2012).

According Meisterernst (2013) misleading advertising - is advertising, which contains false or incorrect information in order to that a consumer associate particular qualitative characteristics linked with specific products, e.g. because they are made of a specific raw material. Misleading advertising - unfair methods of competition in or affecting commerce, and unfair or deceptive acts or practices in or affecting commerce. The common concern is the producer's misleading representation, not the actual purchase of the goods due to the misrepresentation of the brand (Arai, 2013).

Klaus and Gherardini (2014) describes the misleading advertising as case that an economic operator "fails to identify the commercial intent of the commercial practice if not already apparent from the context, and where, in either case, this causes or is likely to cause the average consumer to take a transactional decision that they would not have taken otherwise", by the way misleading advertising describe as hidden advertising considered as a "commercial communication" and in practice intent to advertise a product is, instead, clear. Misleading advertising - advertising which in any way, including its presentation, mislead or could deceive the persons to whom addressed or whom it reaches and which, by reason of its deceptive nature, is likely to affect their economic behavior or which, for those reasons, injures or is likely to harm another person's ability to compete (The Republic of Lithuania Competition Council, 2013).

By summarizing various definitions of misleading advertising – it's advertising which contains false or misleading information, undisclosed material information that is required for consumers to make an informed decision. The essential indication of advertising is

promotion to buy goods or services. The concept of advertising fairly broad, because it's understood as essentially any content information if it relates to a person's economic, commercial, financial or professional activities and encourages purchase of goods or services.

### Impact of misleading advertising on customer behavior

Market is a motor for growth and provides customers with greater choice and better prices. As consumers thus, people have become "spoiled for choice" (Tjiptono et al., 2014), because a lot of advertising see on TV and in newspapers and other media. Marketers are continually searching for ways to make their products and services appear more attractive to customers.

Customer behavior is defined as a customer's perspective, emotional, and physical activity related to the products, which satisfy needs or solve problems, search acquisition, use, disposal and evaluation. The most common theory, focusing on the customer's attitude, influencing his decisions, consists of three components:

- emotions, sensuality (assessment, fondness);
- cognition (knowledge, comparison, awareness);
- behavior (action, trend).

The main factor, which is necessary to establish that advertising can be accepted as misleading, is its ability to influence the economic behavior of individuals – customer decisions or actions related to the acquisition of goods or services, trade, business, financial or professional activities. Figure shows the systematic interpretation of the impact of misleading advertising (Figure 1.2.1.).

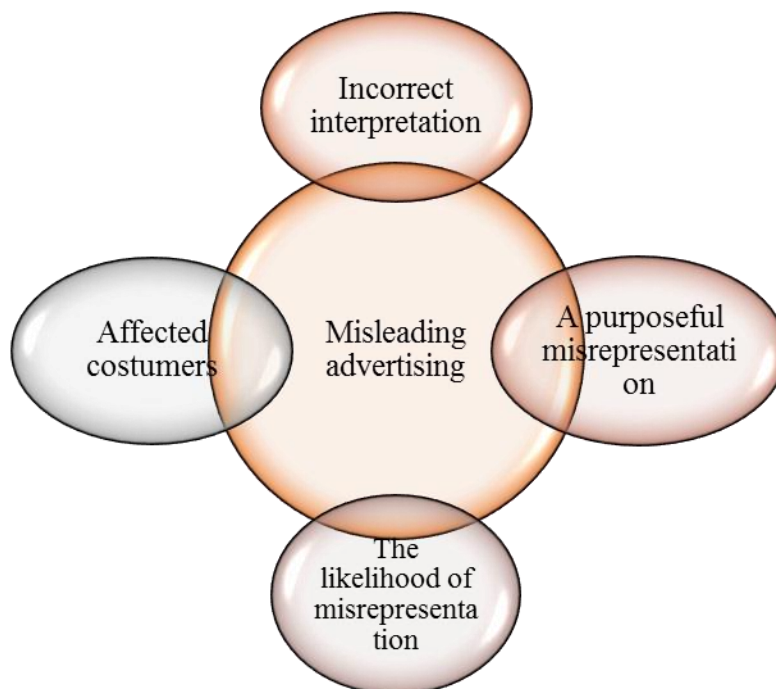


Figure 1. Impact of misleading advertising on customer behavior.  
Source: Daugeliene, R, & Liepinyte 2012, p. 197

The results of empirical research carried by Daugeliene and Liepinyte (2012) enabled to understand that customers does not have sufficient knowledge about their rights and would not be able to defend its interests. Respondents' experience with misleading advertising analysis shows that in Lithuania the number of misleading advertising is quite significant, because more than half of those surveyed are at once confronted with a variety of misrepresentation forms. However, users do not take any actions that it would stopped, they do not try to defend their rights, as well they are not very interested in the regulation of misleading advertising and customer protection mechanism in Lithuania. This requires to inform users to be more aware of their rights and what to do in order to defend themselves from misleading advertising, because this is the only way to reduce the about of the false statements.

The misleading advertising occurrence characteristics in modern society is: the criteria's of justice, integrity, and the eligibility non-compliance, the creation of a false impression, the presentation of false and inaccurate facts, the conversion of social values to products, the manipulation of impulsive costumers, the control of subconsciousness, the impact on persons economic behavior or possibility of impact.

Hastak and Mazis (2011) provides five types of misleading claims by each of them explain how customers may be misled of advertising and labeling claims (Figure 1.2.2.).

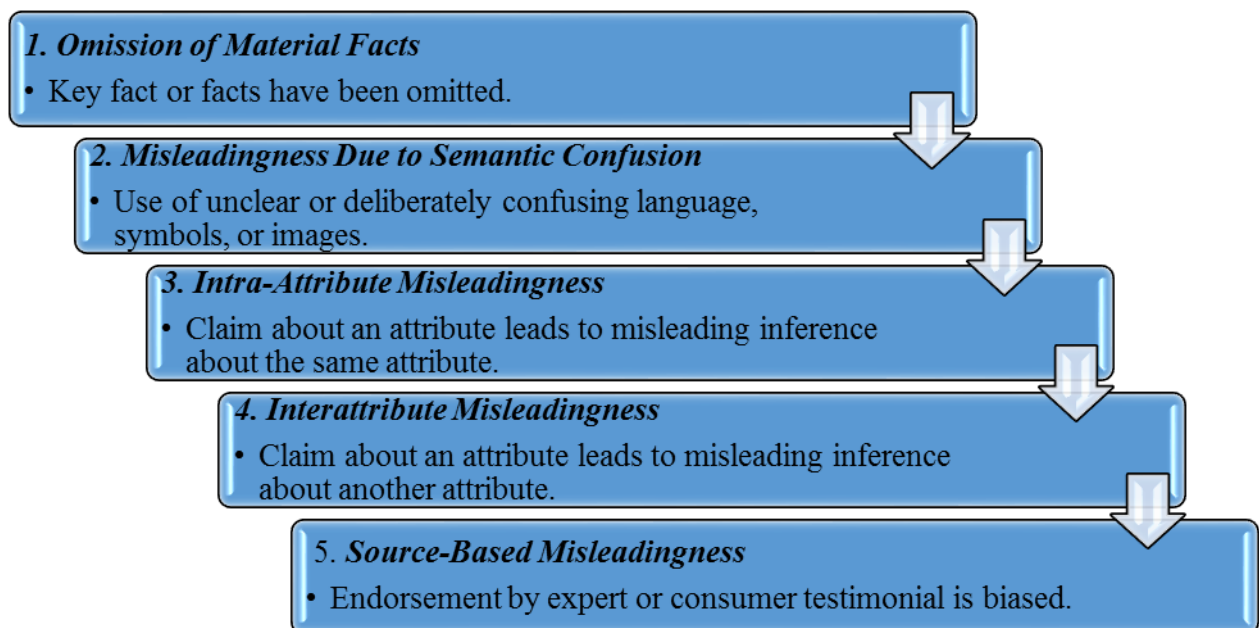


Figure 2. Types of misleading claims.  
Source: Hastak, M, & Mazis, M ( 2011), 159

These five types of misleading claims are developing a rich understanding of why customers are likely to be misled by particular types of advertising and labeling claims. Marketers sometimes make claims in advertising or on product labels that are literally true but are misleading because a material fact or facts have been omitted. Customers may be misled by the use of confusing language or symbols in advertisements or on packages. Semantic confusion can occur because a promotional claim uses a word or phrase that is similar to a

more familiar word or phrase. Such confusion is likely to cause customer to misperceive or miscomprehend the claim. Intra-attribute misleadingness refers to a situation in which a claim about an attribute leads to misleading inferences about the same attribute. Customers might generate two types of misleading intra-attribute inferences when exposed to advertising or labeling claims.

Customers may rely on a claim for one attribute to infer a claim on another attribute. The inference occurs because customers believe (rightly or wrongly) that the two attributes are correlated. To the extent that the inferred claim is false, customers are misled.

Without effective qualification, customers may draw broad inferences from a claim based on prior experience or on the physical appearance of the product (Hastak and Mazis, 2011) Following Hattori and Higashida (2012), assume that customers are naive in the sense that they always believe misinformation provided by the misleading advertising.

One may therefore assume that the European legislator founds its more recent legal provisions on different concepts of the customers. Individual provisions are addressed to different groups of customers with the aim of granting them specific protection. In this context there are provisions which benefit all 3 groups of costumers, whilst there are also provisions aimed exclusively at the protection or information of individual groups. Although the target of the legal provisions cannot always be unequivocally ascertained, the provisions can be attributed on the basis of their respective focus and objective (Meisterernst, 2013).

- 1) *Casual Customer* (concept of the confident and casual customer) information about food legally required designation, designation customary on the market; Protected geographical indications and designations of origin; Traffic light labelling system; Ban on suggestion of existence of an ingredient; Labelling of meat; Legibility.
- 2) *Empowered Customer* (concept of the informed, reasonable and critical customer) Descriptive designation; Mandatory warnings; Quid label; GDA labelling; Nutrition labelling; List of ingredients; Labelling of refined oils and fats; Legibility
- 3) *Vulnerable Customer* (who are considered to need particular protection) Traffic light labelling system; Replaced ingredient labelled on front in 75% height of name of the product; Legibility. Customers who have to be considered particularly vulnerable, i.e. “vulnerable consumers” mentioning characteristics such as “age, physical or mental infirmity or credulity.”

Misleading advertising can benefit a company in the short run, it may cause a loss in the long run (Hattori and Higashida, 2012). Such kind advertising will lead to decreasing trust in the companies and their products (Tjiptono et al. 2014). In addition, distrust occurs when customers learn advertisers have misled them, and that this form of distrust has the power to create persistent negative customer judgment towards a broad range of advertising sources in the future (Darke et al., 2011). Indeed, customers have only limited information processing abilities. Thus, in their role as customers who make choices, must distinguish between the availability and process ability of information because information must be available, easily processable and usefully.



## Legal framework

According Hattori and Higashida (2012) in many developed countries, governments regulate misleading or false advertising and encourage the provision of sufficient information to allow customers to make informed choices.

The Law on Advertising in Lithuania describe that misleading advertising means advertising, which in any way, including its presentation, deceives or is likely to deceive the person to whom it is addressed or whom it reaches and which, by reason of its deceptive nature, is likely to affect their economic behavior or which, for those reasons, injures or is likely to harm another person's capabilities in competition (LR Advertising Act 2 Art. 3 d.). In other words, it is advertising, which contains false or misleading information, veil fundamental information, which required for user to make an informed decision. The Law on Advertising in Lithuania 5 art. 1 says that is direct prohibition of using misleading and comparative advertising. Misleading advertising can lead unfair competition action, which prohibited by the Competition act, as well as one of the prohibited comparative for the rule of law, operators of advertising activity should avoid use information that might be considered as misleading advertising (Competition Council of Lithuania, 2013).

The Competition Council of Lithuania has the authority to investigate the misleading advertising cases.. The consumer can inform also non-governmental organizations in order to get objective opinion of the event. If the complaint is substantiated, the Competition Council to court, demanding to stop unfair advertising. Each year, Lithuanian businesses pay hundreds of thousands of euros for misleading advertising. But it noted that Lithuania complaints are less than the European Union countries. In addition, they have been slow in defending their consumer rights. Any perceived unfair advertising cases to the competent authorities often do not inform individual customers and competitors. Competition Council experts in 2013 examined 300 reports of possible misleading advertising and promotional activity shall be sent 119 warnings even offering modify or discontinue advertising potentially misleading dispersion (source: [www.15min.lt](http://www.15min.lt)).

Describing EU laws, in general terms, EU Member States need to ensure that adequate and effective means exist to combat misleading advertising and to enforce compliance with the provisions on comparative advertising (Directive 2006/114/EC). Advertising regulations should protect not only marginal customers from deceptive advertising rather than the actual or potential purchasers but also small businesses– the mainstay of Europe's economy – are particularly vulnerable to misleading marketing practices as they lack the resources to protect themselves.

Member States currently enforce Directive 2006/114/EC on the basis of different national systems. The crucial difference concerns the possibility of public enforcement. In some Member States, authorities can take action against rogue traders, while in other Member States only victims can seek redress. Especially in cross-border advertising such disparities substantially change the effective level of protection. Enforcement by public authorities against a trader using misleading marketing practices is possible in countries such as Bulgaria, France, Italy, Latvia, Lithuania, Romania and the United Kingdom.

Nevertheless, misleading advertising is ubiquitous because of loopholes in regulations. Hattori and Higashida (2012) *identified the different policies for regulating misleading advertising:*

1. *Taxing misleading advertising as an optimal regulation*
2. *Complete prohibition of misleading advertising* (For example, the complete prohibition corresponds to the case where some regulatory agencies, such as the FDA and FTC, regulate false or misleading advertising with very strict standards.)
3. *Educating consumers*
4. It's important that government policy not only educate naive customers, but also smart customers because it reduces misleading advertising, which, in turn, lowers the equilibrium price of a product.
5. *Taxing production*
6. The policies for prohibiting misleading advertising could consider and taxing production are more likely to reduce welfare when the degree of product homogeneity is high and/or the magnitude of advertising costs is large.
7. *Prohibiting cooperative and misleading advertising.*

The main reason prohibiting misleading and comparative advertising is because it may affect thousands of businesses worldwide. The distortion of businesses economic decision-making also gives rise to distortions of competition. In addition, misleading and comparative advertising practices have a knock-on effect on customers as they have to pay more for products and services. Misleading advertising regulation should include the obligation to introduce the possibility of legal action against non-compliant advertising, granting courts powers to order cessation or prohibition of such advertising and enabling them to require the advertiser to furnish evidence as to the accuracy of factual claims in advertising (Directive 2006/114/EC).

Arai (2013) findings show that where related customers or customers who intend to buy don't care about their understanding of advertising, a situation of moral hazard may arise. However, research show that consumers trust by their own opinion and understand all advertising. It has showed how important it is to educate customers.

In order to safeguard customers against misleading conduct and deception about the qualities, designation etc. of foods, the consumer merely has to be in a position to make the decision to buy on the basis of criteria he or she considers crucial. This can be enabled by appropriate labelling indicating the type of product sold and including information about its qualities (Meisterernst, 2013).

When misleading advertising leads customers to buy products that they would not have otherwise purchased, it seems reasonable that the government should strictly prohibit such advertising. However, when a product market is imperfectly competitive, there is the problem of under-consumption of products, which implies that a certain amount of misinformation may increase consumption and improve social welfare (Hattori and Higashida, 2012).

Research studies have showed that misleading advertising regulations could protect not only customers, but also small business, because advertising has a strong economic impact

on companies as it's a key element of any business. It can also enhance competition by providing consumers with better information and the possibility to compare products. Furthermore, it's important both identified the different policies for regulating misleading advertising and implement these regulations.

### Empirical research

The survey used an anonymous questionnaire in which respondents were asked to respond to them in advance of a questionnaire. The study contained answers from 206 respondents. The survey was distributed on the Internet and a questionnaire consisted of 11 close-ended questions, measured by a five-point Likert scale. The aim of the survey was to reveal the young people's perception of misleading advertising. The first questions were asked to clarify the respondents' demographic data, and further questions - in order to understand the views of users of advertising and their experience with deceptive advertising. Importance will be based on information provided research analysis. This study was initiated following hypotheses:

- Consumers recognize misleading advertising and identify the company's unethical behavior;
- Consumers are concerned about whether the company would behave properly, and punishes companies that behave unethically;
- Consumer opinion, misleading in advertising is often used tactic.

In order to simplify the results being compared, survey data from Lithuanian survey and the data from the French survey resulted by A. Maysonave ir N. Delorme research „Deceptive advertising and consumers reactions“ in 2013. The analysis comparative study Lithuanian and French survey results and empirical data, and see whether they comply with the hypothesis. If the results do not meet hypothesis, we will try to determine why they are different. It should be emphasized that the tests Lithuanian and French survey, the answers may vary. This may be affected by such factors as a country's level of development and the economy of the country's history, a different mentality and educational background, their experience with misleading advertising.

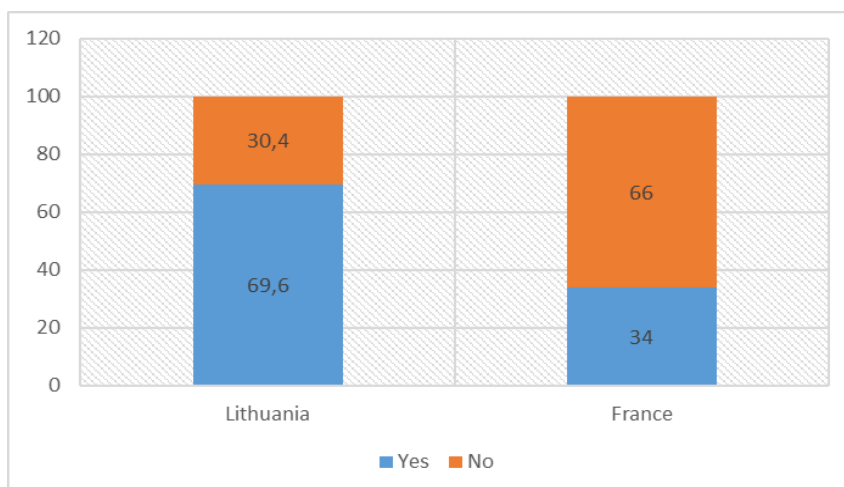


Figure 3. Recognition of misleading advertising Lithuania vs. France, 5  
Source: created by authors.

Majority of the study in Lithuania, 69.6% responded that they are not difficulties to recognize misleading in advertising and 30.4% admitted that they recognize this information is not easy. French study showed that people's responses were opposite. Even 66% said that misleading advertising is difficult to recognize, and the remaining 32% indicated that they are easy to recognize the lies in advertising.

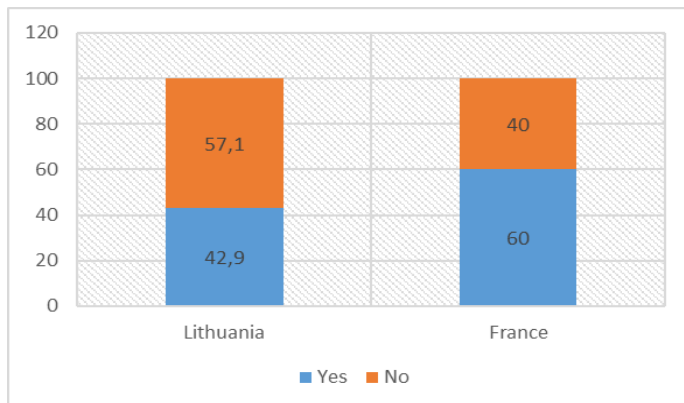


Figure 4. Reaction to misleading advertising Lithuania vs. France, %.

Source: created by authors

Lithuanian study showed that 57.1% respondents do not respond to misleading advertising, the remaining 42.9% indicated that they are likely to respond. French study showed that the respondents 60% are very reactive, and the remaining 40% are not. That proves hypothesis that consumers recognize the misleading advertising and identify the company's unethical behavior.

Customer behavior after misleading advertising was indicated also. In a case of Lithuania, 73.2% of respondents do not purchased the company's products after misleading advertising, other 14.1% inform their friends or relatives about the case, 5.6% respondents their experiences shared in social networks; 4.3% returned the product, 2.8% requested the money back. None of the Lithuanian respondents did mentioned, that writes the complaint to the responsible authorities. French study showed that 52% of respondents stop buying the product, other most part of respondents - 33%, inform their friends and acquaintances. In other cases, they ask to return the money, forward the complaint to the company or share their experiences on social networks. That is answer to hypothesis: consumers are concerned about whether the company would behave properly, and punishes companies that behave unethically is positive. So Lithuanians act as they spread the knowledge about misleading advertising campaign, but not complain, French people are more open to complain.

Lithuanian study showed that 2 x 29.8% respondents think that misleading advertising is unethical and should be banned, 29.2% said that it is a simple marketing technique, and 11.3% think that this technique is used by all companies. French study showed little difference 42% respondents thinks that it isa simple marketing technique; 28% said that misleading advertising should be banned, 16% think that all companies use misleading advertising, and 14% believe that the use of advertising is unethical. Having looked at all the results, we can conclude that hypotheses confirmed and people agree that misleading information in advertisements is not tolerated and unethical.

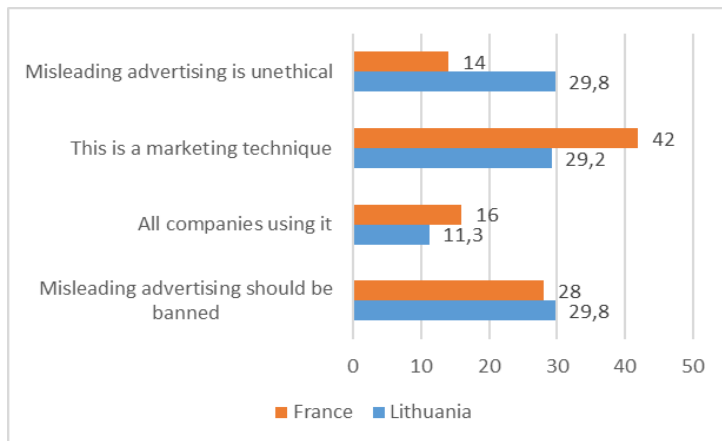


Figure 5. Opinion about false advertising in Lithuania vs. France,%  
Source: created by authors

### Conclusions and recommendations

The object of this article was investigation misleading advertising on customers in accordance with few cases of analysis in Lithuania. The definition of misleading advertising – it's advertising which contains false or misleading information, undisclosed material information and which by reason of it's deceptive nature is likely to affect consumers economic behavior and except informed decision. The concept of advertising fairly broad, because it's understood as essentially any content information if it relates to a person's economic, commercial, financial or professional activities and encourages purchase of goods or services.

The number of misleading advertising is quite significant. Costumers may be misled by using: false fact or facts have been omitted, confusing language, symbols or image, uses a word or phase that is similar to a more familiar word or phrase and etc. Customers have only limited information processing abilities; accordingly this information must be available and useful for making choices.

Besides misleading advertising can benefit a company in the short run, but cause a loss in the long run, because of the loss of reputation, occurs distrust and costumers tend to blame companies for using misleading advertising.

Research revealed that Lithuanians often recognize misleading advertising and identify the company's unethical behavior quickly. Consumers will not buy from the company if it propagates misleading information and they will not recommend to their friends, but seldom appeal with complains. Therefore is a need to spread of adequate and legitimate information concerned with products and services, especially while shopping online. Consumers admit that they do not tolerate misleading information; however they still find such instances while shopping online.

Consumers will not buy from online sales organization if it propagates misleading information and they will not recommend such online shop to their friends. However, companies may reverse its image from negative to positive if it will compensate the damage that consumer experienced due to misleading information.

*Essential recommendations for promoting responsible advertising:*

- to proceed greater consumers awareness and education;
- to promote cooperation between state, public institutions and its citizens;
- to implant fair business practices towards consumers by informing advertisers and advertisement producers about their duties and responsibilities to consumers;
- to increase publicity in relation to contradiction the misleading statements in media;
- to publish information about the entrepreneurs, whose values are high commercial honor and good business practice.

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# EVALUATION OF POSSIBILITIES TO CHANGE LOGISTICS-BASED TECHNOLOGICAL PROCESSES BY APPLYING GREEN LOGISTICS PRINCIPLES.

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## **Abstract**

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Authors analyse a mechanical pollution problem, which consist of maritime transport and port business companies – the amount (generation) of dust concentration release during and after bulk material handling processes. Most dry bulk cargoes are dusty and therefore potential sources of wind-borne dust pollution. Powders such as cast-iron, grain or fertilizers – all of which are commonly transported in large volumes in bulk form – can easily be blown by the wind a long distance from the immediate vicinity of loading or discharging processes which makes environment pollution problem. Main idea of research is to find technological innovative solutions to modernize technological handling processes and implement the conception of green logistics. The results of the research found out that using innovative technological ideas creates possibilities to reduce seaports negative impact to the environment. Especially if we would look into recent five-years, technological progress when innovative and effective technologies which helps to manage dust concentration which are generated during bulk cargo handling processes in seaport terminals are already developed and implementation of them into technological processes have strong economic benefit in other seaports specialised in bulk cargo handling.

**Keywords:** logistics, logistics-based technological processes, green logistics principles.

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## **Introduction**

Logistics is the term now widely used to describe the transport, storage and handling of products as they move from raw material source, through the production system to their final point of sale or consumption (Belova, Mickienė, 2012). Logistic processes are directly related to sales, i.e. the movement of raw materials through logistics chain to the end user and these processes are main background for a lot of business operations.

Logistics is especially well positioned to contribute to environmental and ecological control in terms of pollution control-management and energy and resource conservation, which is inevitably linked to social responsibility and sustainable development concept, even authorized and updated to ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2007. All of these international standards are tools, which work as a system and help to control environment management that outlines how to put an effective environmental management system in place. The standards are designed to help businesses remain commercially successful without overlooking environmental responsibilities. It can also help companies grow while reducing the environmental impact of this growth.

Green logistics refers to the type of logistics which economically serve the environment and have influence for sustainable development (Guo, Hui, 2013). Implementation of green logistics conception in cargo handling operations is innovative business decision, which would help to implement sustainable development aspirations' and ideas' through modernization of technological processes at the seaport. This is the main reason of idea

trying to modernize technological processes by applying innovative technologies through the viewpoint of sustainable development.

One of the most harmful substances are pollutants, which are generated in cargo handling processes. Dust is a widely recognised as industrial hazard. Capable of forming an explosive cloud, it also presents an inhalation danger for operational personnel, and can create visibility problems. Such dust release can be especially problematic in certain areas – close to urban centres which are surrounding aquatic ecosystems, for example – where there is particular sensitivity to air pollution. Controlling dust is crucial for health, safety and environmental reasons and may also be driven by economics. Dust spreading through an operating area is lost product and has an associated value. One of the routine operations capable of creating problematic clouds of dust is bulk material intake or out loading, from a lorry into a storage building, for example, or vice versa as product is released from a factory for distribution. During these operation even granular products such as grain, fertiliser can release significant quantities of dust, inhibiting the efficient and safe progress of the task. Such dust release can be especially problematic in certain areas – close to urban centres, for example – where there is particular sensitivity to air pollution. It is important to say, that involving of each logistic company to take part in implementation of green logistic concept can help to minimize the pollution of environment, including urbanized places near the seaport areas.

So it is important to find alternative innovative solutions: it is possible to implement regional policy of dust control management and different financial programs through involving of maritime logistic objects into logistics companies cargo handling technologies system's modernization activities based on innovative technological processes implementation. Partial implementation of the green logistics concept to maritime logistics business processes can lead to renewed compliance with ISO quality standard, while the same business can contribute to sustainable regional development and social responsibility. So *the object of the research* is dust concentration release during bulk material handling and *the aim of the research* – to evaluate the innovative technologies, which would help to reduce dust concentration release during bulk material handling processes.

*Objectives of the research:*

- to describe the concept of green logistics in maritime business;
- to describe the dust concentration problem in maritime logistics companies;
- to identify the areas of dust release during cargo handling operations where innovative technologies can be applied;
- to identify main technological changes after implementation of innovative technologies.

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*Research methods.* Scientific sources and a literature review allows identify the importance of research, to explain selected methods. Research application permits to define and describe the essential features of the object, SWOT analysis allows to identify environmental factors, linear trend prognosis allows to evaluate tendencies.

**Definition of the green logistics conception in maritime business**

Green logistics term covers actions of the organization in order to create energy-efficient and environment-friendly universal coherent logistics (Hua, 2013). The main target of green



logistics is to save resources, to improve competitiveness and processes efficiency by reducing the organization's negative impact upon the environment (Dong-Wook, 2012). The main aim of the green logistic is to pursue the development of sustainable logistics system through the basic logistic technology and innovative activities, the efficiency of logistics processes are increasing and the negative impact on the environment is gradually reducing (Browne, 2012). This has to become the main goal of the traditionally perceived maritime logistics processes, whose main objective is to achieve a high level of cargo operation's processes, taking just over a financial perspective but not over to the negative impact on the environment (fig. 1).

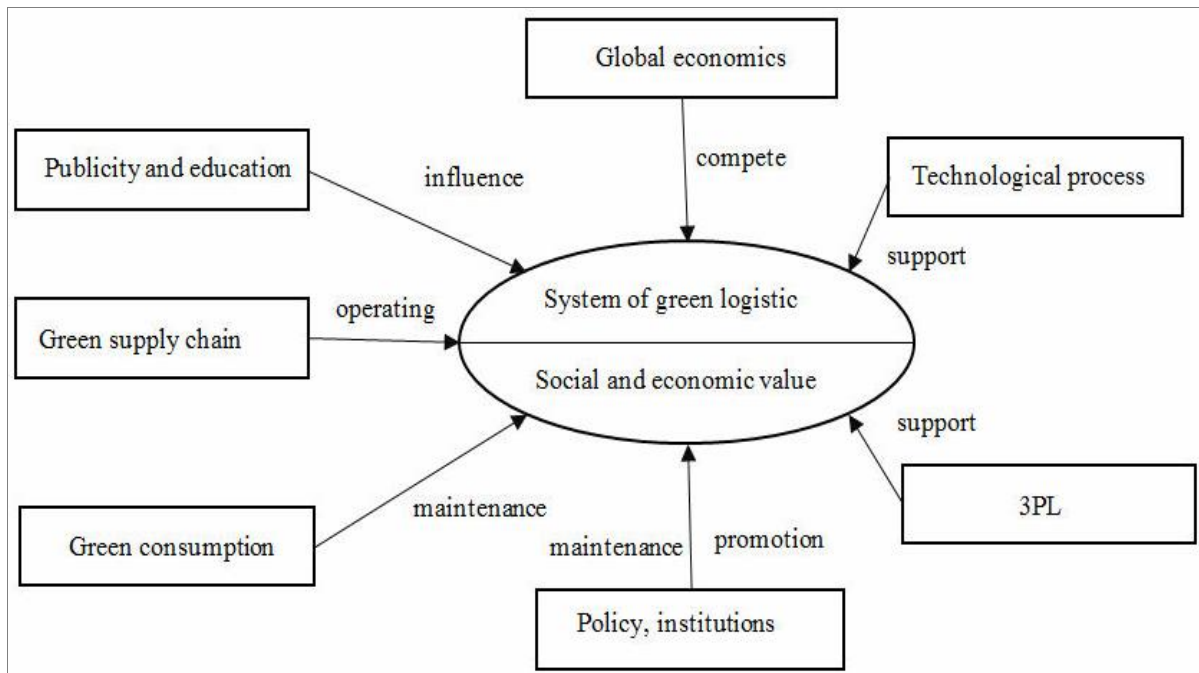


Figure 1. Model of green logistics' principles [20].

The literature analysis showed that green logistics concept is often collated with the term "sustainable development" and it is the background of this study and allows logistics' sector to be integrated into a coherent developing seaport logistics system (McLeod, 2014). Sustainable development can also be defined as an environmentally-oriented feedback logistics process which balances the logistical resources, and reduces environmental pollution by using modern innovative logistics technologies in the design and implementation of freight, handling, storage, and waste management in logistics business companies (Waters, 2010). Another factor of sustainable development implementation into maritime logistics business is technological progress. Sustainable development is impossible without the development of innovative and high-tech applications traditionally formed in logistics business (Ray, 2010). It is the same as the development of technological capacities in cargo handling processes: high technological supporting is one of the main factors of effectiveness (Cowie, 2010). If the maritime logistics company fails to assess changing environment and takes into account logistical processes transformation and orientation to the environment through innovative technologies, it will not define its potential in maritime logistics industry and will not be kept in the original "high-tech" installation level, so the interests and technology of maritime logistics company have to be controlled targets by regional legislation and promotion (Zinkevičiūtė, 2013).

For companies, sustainable development and innovations' can provide competitive advantages such as better recruitment and retention of employees, cost savings, and improved corporate image and relations with stakeholders and financial returns (Valionienė, Malūkas, 2014). Furthermore, sustainable development can open up a wider market in which to operate, and hence provide increase in sales and revenue and in number of customers. Finally, at a more general level, sustainable development and related practices also reduce the risk of natural disasters such as climate change by checking generation of dust concentration during cargo handling processes (Acharya, 2014).

The environmental problems (i.e. greenhouse warming, acid rain, air pollution in urbanized places) are sounding an alarm for the public. The environmental liabilities we are leaving behind for the next generation may be more than they can handle (Acharya, 2014). The inefficiency of dust concentration management systems in modern maritime logistical systems is the result of conceptual differences and that situation describes the problematic of sustainable development principles implementation into traditional maritime logistics processes. On the other hand, the cost of adaptation to environmental regulations can be minimized or even eliminated, through innovation, which generate other competitive advantages. This is not only a theory because here are many companies creating innovation, eliminating the harmful technologies (Dima, Grabara, 2014).

The problems, which consist with environmental pollution, are especially revealing in urbanized areas near seaports. A big part of seaports are located near the urbanized areas, or they are located in the areas of intensive shipping, cargo handling processes and increasing of pollution have a strong impact for surrounded areas. Usually, seaports strategies is to achieve a high level of technological cargo handling operation's processes but at the same time forgetting about usable technologies negative impact on the environment (Valionienė, Malūkas, 2014). From other viewpoint, most of the time, logistics companies in seaport for all negative impact that they are making to environment – has to pay fines. Because international standards require follow the rules for sustainable development, also negative impact (i.e. the amount of dust concentration and so on) cannot exceed the established norms. To address these concerns we need new economic and organizational concepts such as green logistics and practices involving innovations and modern technologies into logistic business processes.

### **Identification importance of the technological problem of the dust release sources in maritime logistics processes**

A large majority of ports is located in cities, which makes the fate of cities interlinked with the fates of their ports. There are a variety of environmental impacts related to port activity, especially if port is closely connected with city. The main impact falls on water quality, soil, biodiversity, air emissions and so on. All of these impacts combines dusts and dusts concentrations, which mostly are generated during bulk cargo handling processes. The dust concentration impact to environment can have severe consequences for the health of the population of the port-city, especially for the poorer parts of port-cities (OECD, 2014). Seaports are major hubs of economic activity and of environmental pollution in coastal urban areas. The air quality impacts of ports are significant, with particularly large generation of dusts during cargo handling processes.

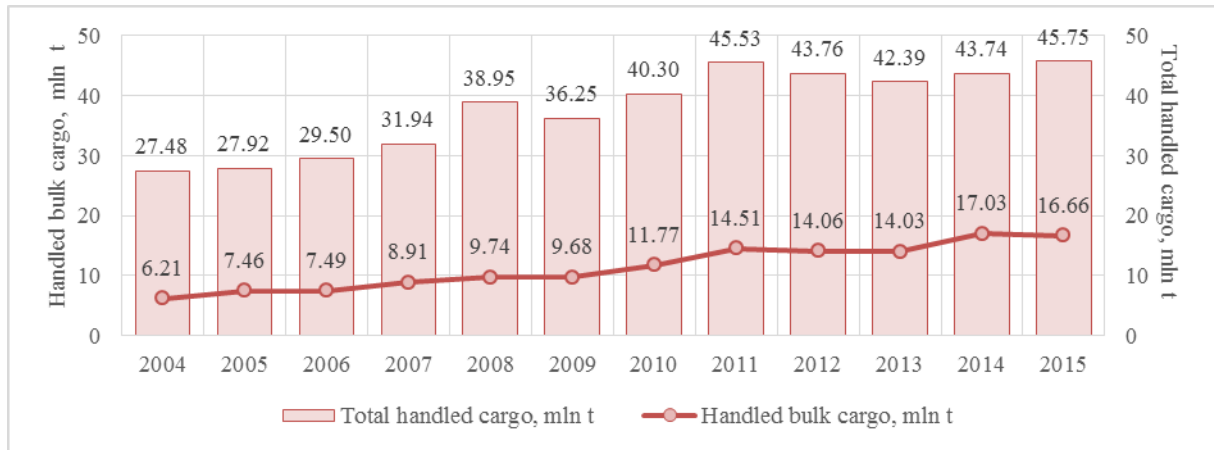


Figure 2. Review of Cargo handling in Klaipeda seaport.

According to cargo handling types in Klaipeda seaport one of the most handling cargo is dry and bulk cargo: bulk cargo amounted to 36,41% the total turnover at Klaipeda seaport at 2015 (figure 2). Seaports, which handle bulk materials are facing with critical ship-to shore transfer problems, which are far more complex comparing with ship loading or unloading of general cargo or containers. The dry bulk cargo needs to be transported from the quayside to the storage location and vice versa. A major environmental problem, common to all three of these operations and unique to dry bulk cargo handling, is that of material spillage and dust pollution. The main problem with dust pollution – it's really hard to stop bulk cargo dustability, most of seaport terminals don't pay enough attention to this problem and also don't have integrated any technical measures which would help to reduce the negative impact of this kind of pollution.

Dusty materials are susceptible to drift when broadcast applied. Bulk loading especially of grains and fertilizers is a very dusty job as the airborne dust envelops working environments, neighbourhoods, plant and machinery and the emissions cause low visibility and dirty, dangerous and very unpleasant working conditions. Fugitive dust, for example, can contribute to inhalation hazards, generate safety risks and also potentially create explosions. Many other bulk materials develop fine particles during both processing and handling and these can become airborne very easily. Some of these particles are so lightweight that they may stay in the air for long periods of time, thereby giving them the opportunity to migrate. The very nature of bulk material handling implies large volumes, so these dust-generating activities have the potential to cover massive areas if not properly monitored and managed (Portstrategy, 2013).

Cargo handling operations in seaports has two types of negative environmental implications: implication inside port area and implication outside the port area, in addition to important safety implications to port employees, which are nevertheless outside the scope of port eco management. Dry bulk cargo such as grain, coal, phosphate, sulphur, etc. may generate dust during handling. It is widely accepted that 1% of the cargo is lost in the process of transportation. It means not only a loss in financial terms, it also means an environmental threat since most of the product will end up in the port environment – not only as dust and atmospheric pollution, but also as a contamination of dredged material.

Marine logistics companies must follow environmental requirements, which are regulated by international ISO standards. Environmental problems concern among others: protection of oil terminal basins, safety in port, pollution generated during cargo handling, industrial pollution, in that storage and utilisation of wastes. In the paper reference is made to the works of the European Sea Port Organization and to international law developed by IMO. Logistics companies' environmental interests are focused on atmospheric air protection, water protection, protection against noise, waste management and rational use of natural resources. First of all, dust concentration is generating in seaport territory and lately it can be easily blown by the wind to urbanized areas, regional parks or together with wastewater access to surface waters. According to legal act's rules, logistics companies have to make accounting and control of capture emissions of substances and pollutants.

Acetone	Ammonia	Butanol	Butylacetone	Ethanol	Ethylene glycol	Iron and compounds	Particulates	VOC	Solvent	Toluene
0,0236	1,8053	0,0202	0,0186	0,0186	0,9708	0,0013	3,885	0,3029	0,0246	0,1271

Figure 3. The emission of pollutants (tones) in 2015 by one of stevedoring company in Port of Klaipeda.

According to the statistics data (fig. 3), it was found, that from one of the largest cargo handling companies which are located in port of Klaipeda the emission of pollutants almost reached 7,2 tons per one year, and the most part of these pollutants was in dust shape. It is important to assess the factor that port of Klaipeda is located in the urbanized territory. The port is also located near The Curonian Spit (Kuršių Nerija) which are in the part of the UNESCO heritage list, so the environmental problem is particularly relevant, because water, ecosystem even local people can be easily contaminated by chemicals which are abundant in the dust concentration. Dusts, as well as other pollutants released into the environment are characterized by the risk of a negative impact on the environment by chemical, physical or biological materials, also pollutants as dust are characterized by a relatively high stability and longevity in the environment. Dusts are applied to the factor of pollutant dispersion. Pollutants of dusts released into the environment are circulating in different components of the environment together affecting all the components involved in circulation (figure 4). The factor of dusts dispersion and distribution is determined by particle size and physical contaminants form (solid or liquid particles adsorbed on the surface of solid particles) and the speed of movement – meteorological phenomena. Usually during calm weather there is another problem with dusts when the most part of them are concentrating in one area and with this action the environmental pollution by particulate matter are increasing extremely fast. Depending on the cargo type it depends what kind dispersion of dust circulation are going to exists.

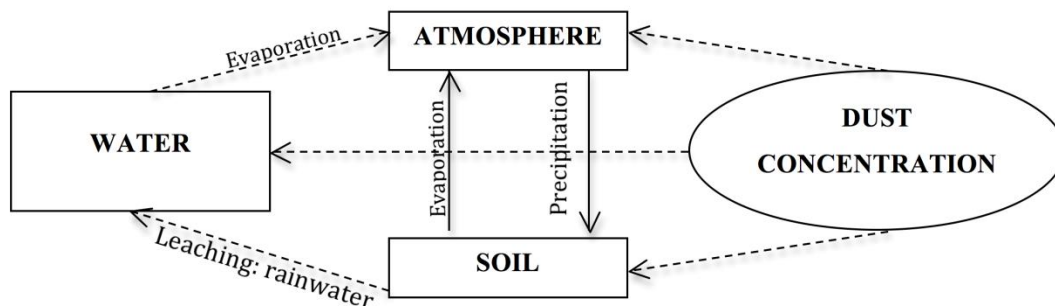


Figure 4. Circulation of dust concentration.

Air pollution passes into other spheres in many different and complex ways, most of them have not been established yet. Most important that atmosphere, perhaps as the most vulnerable part of the ecosystem, is under serious threat. An obvious example is acid rain, which leads to the formation of inefficient handling process due to the emission treatment systems. Because of that, many chemicals and other particulate matters that are being released into the environment, returns into the acid rain form by making damage to the environment and human health. As well as having more emission makes a negative impact on the company's activities, because relying on international standards and regulations, waste-emissions must seek the limits set out above them or the company has to pay penalties.

It can be concluded that it is important to analyse not only increasing of cargo handling indicators and positive tendencies for economics of region and all country, but also it is important to analyse environmental impacts of cargo handling operations in the seaport and describe importance to change technological processes by implementation of modern innovative technologies to cargo handling operations based on green logistics conception. As statistical data analysis found out, one of the biggest parts of handled cargo is bulk cargo at Klaipeda seaport and during bulk cargo handling operations dangerous pollutant is dust and its concentration in the urban territories.

#### **The identification of the areas of dust release during cargo handling operations**

The principles of dust concentration managing are relevant in the same level of importance as they are relevant in the land transportation sector. The main points of dust concentration generation in the whole logistic chain of dry bulk cargo shipping are cargo handling points: the first one is logistics business operational region (the point where cargo handling-traveling process starts and ends), second one in the marine logistics area (includes such points as: cargo unloading points, conveyers, warehouses, dry bulk cargo loading points where cargo is loaded onto ships and so on). Many logistics companies even do not have enough technological principles to manage dust concentration, which is generated at these identified bulk cargo-handling points.

Usually cargo-handling equipment is oriented towards highest loading performances. For economic reasons vessels need to be loaded as quickly as possible. A ship loader itself is normally a fairly straightforward machine consisting essentially of a belt conveyor supported by a boom structure, which is capable of traversing, slewing, luffing and telescoping to allow bulk cargo to be transferred from the quayside, and dropped into the hold of the vessel. Despite high performances of ship loaders, this type of cargo handling equipment has one negative side – when material is allowed to free fall at an uncontrolled rate it accelerates owing to the forces of gravity and as the velocity increases dust particles within the material separate out and are ejected from the ensuing fast moving airstream. Ship loading in particular represents a major problem since the boom conveyor is often positioned 20m or more above the hold floor, resulting in high material terminal velocity and that makes a perfect condition for processes of dust concentration formation.

At ports, the majority of dry bulk handling operations involves the loading and unloading of free flowing dry products to and from ocean going vessels. Both operations necessitate a

number of transfer points as well as a discharge point and it is these that are responsible for the main escape of dust out into the environment (Portstrategy, 2013).

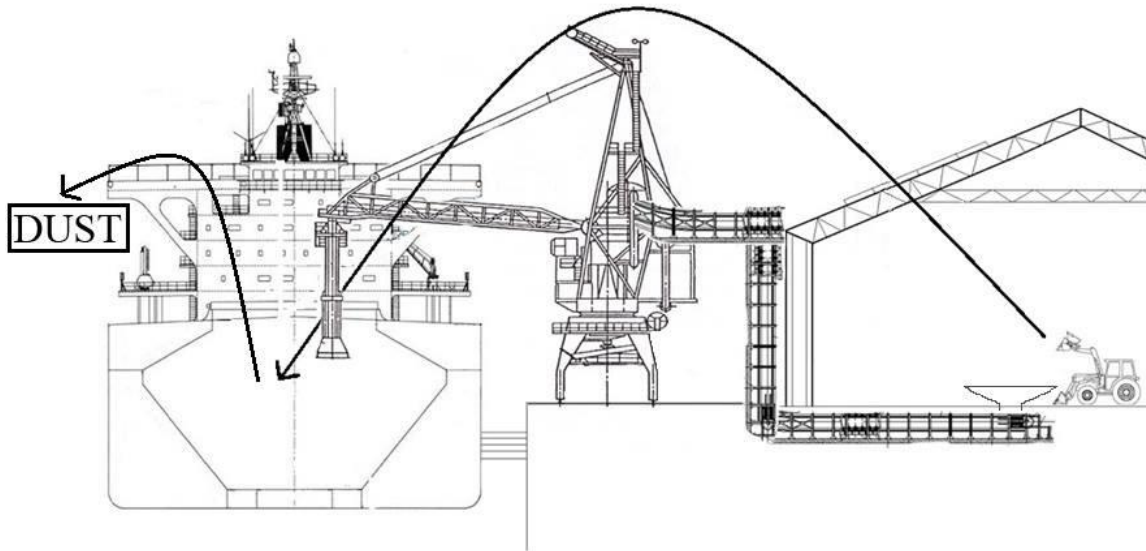


Figure 5. Dust concentration formation principles.

Many bulk cargo feeds may be transported in an 'as harvested' state that includes significant quantities of fine dusty dirt. In each case, as the material flows, these fine particles escape from the bulk, spreading into the surrounding environment on air currents induced by the bulk flow, and any prevailing wind. The result is a dust cloud that can present difficulties for a number of reasons like: explosion hazard, operator safety, damage to machinery, loss of product and environmental contamination. Tackling environmental issues is becoming critical for facilities anxious to secure good community relationships and an ongoing license to operate in the face of tightening legislation. Especially for a valuable product, the amount of material lost through fugitive dust emissions can be surprisingly high, and may justify expenditure in superior bulk handling equipment.

### **Identification of main technological changes after implementation of innovative technologies**

So bulk cargo handling in seaport terminals are tackling a potential dust control problem and there are three possible strategies for dust concentration management: prevention, isolation and/or control. Conventional technology is typically based on the second and third approaches while more modern, dust suppression systems tackle the problem at source.

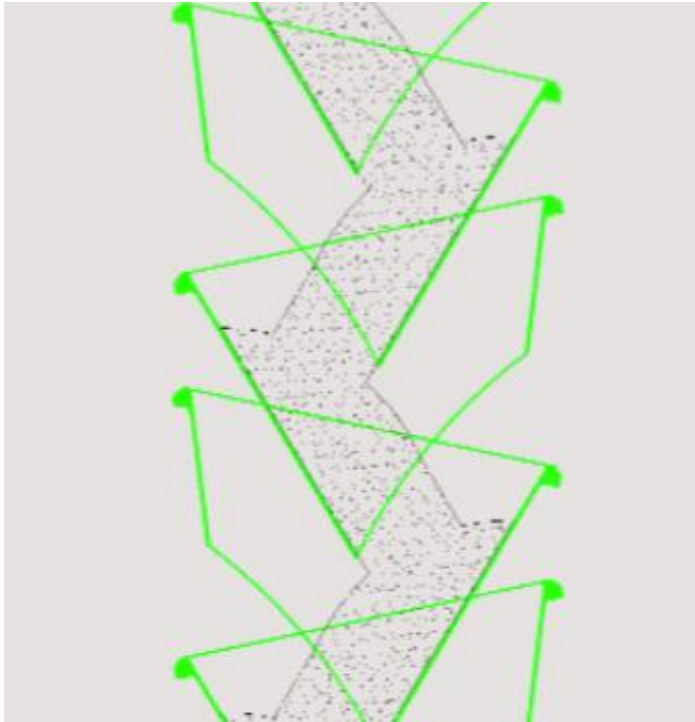


Figure 6. The Cascade bulk cargo handling solution

The mode of operation of this technology is relatively simple and illustrated in figure 6. The Cascade solution overcomes this problem by constraining the material to flow in a zig-zag path through inclined cones to limit the flow velocity and therefore prevent particulate separation, material degradation and segregation at source. In this manner dust generation is practically eliminated at source without the need for expensive and energy intensive dust extraction and filtration systems. This means there is no requirement for energy-intensive dust extraction systems and wear damage is significantly reduced. Even under extreme operating conditions, pollution levels of no more than 5g/m<sup>3</sup> are guaranteed. Loader length of over 15 m has been fitted with a special ceramic lining material to prevent wear damage from handling millions of tons of this abrasive material. For this system doesn't need high maintenance extraction and filtration apparatus, thereby system is saving capital and ongoing service charges as well as energy costs associated with conventional loading chute systems. In almost all instances dust free loading chutes are supplied by specialist manufacturers and purchased as a separate item by the operator of a ship loader (PortTechnology, 2014).

Also there is few more technologies which helps to manage dust concentration, one of them – a fully contained telescoping loading chute attached to the end of the ship loading boom, extending down into the vessel's hold so that it rests on top of the cargo. The outlet is lowered as close as possible to the receiving vessel, to control material flow, but there remains a gap that is sufficient to allow dust release. As the loading operation proceeds and the level of cargo rises in the hold, the outer bellows of the chute will compress thus ensuring that the base of the chute is constantly resting on the cargo where a skirt arrangement provides a dust-proof seal. It has supplied this type of equipment to ports throughout the world, helping to protect and improve the general environment and working conditions while at the same time offering port operators a safe and efficient out loading system.

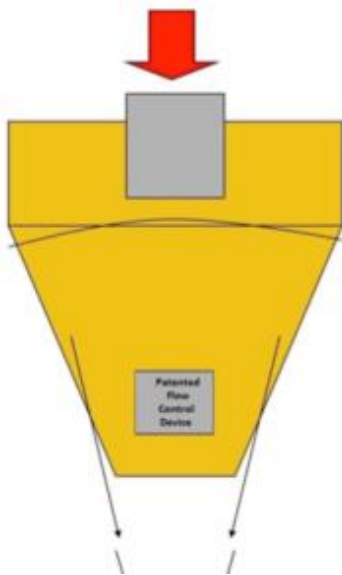


Figure 7. The Cascade bulk cargo handling solution

Third innovation is dust suppression hopper (DSH). Hopper is designed to load product in a solid column, thereby reducing air in product and minimizing entrainment of dust. The system eliminates the need to raise/lower the loading spout and it is equipped with a plug that prevents discharge until predefined quantity has accumulated. Specialized springs or PLC system is used to control the discharge aperture to match hopper feed rate. The Dust Suppression Hopper (DSH) prevents the formation of dust clouds during the transfer of granular solids. Figure 7 shows a DSH operating in the exact same environment as the telescopic bellows.

A conical outer hopper is suspended from the top frame of the unit by a Patented Suspension system. Within the hopper is Patented Device designed to control the flow through the hopper. As material flows into the DSH its weight causes action on the suspension system and the outer hopper lowers relative to the Flow Control Device. The continuous oscillation up and down during discharge maintains the characteristic solid-looking stream of product.

Unlike a telescopic bellows a DSH is installed directly beneath a feed point, suspended at some height above a target, such as a lorry-filling bay. Aside from the constrained up and down movement of the hopper this height is maintained throughout discharge. Most of the complexities associated with the telescopic bellows design are therefore eliminated. The DSH has no internal moving parts and requires no utilities for operation. During transfer any dust present is entrained, and drawn down into the material column, and there is minimal dust emission when the product hits the ground. The squeezing out of air also largely eliminates segregation. The simplicity of the DSH translates into low maintenance costs and the almost complete prevention of dust release for a many industrially significant bulk materials. However, the DSH, like many newer technologies, can carry a higher upfront capital cost. This raises the question of how to financially assess different options for bulk materials loading and how to put a value against the potential benefits afforded by alternative systems (Guttridge, 2016).



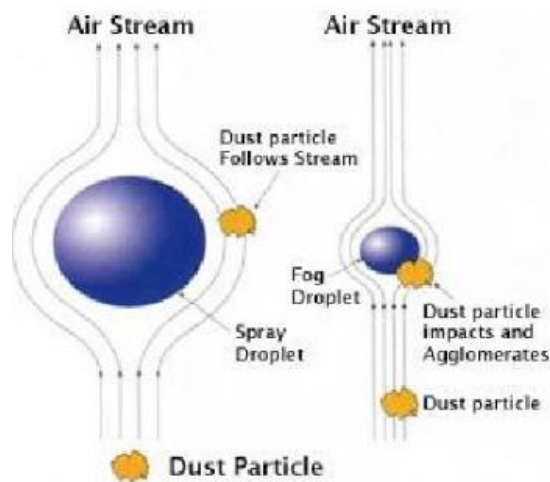


Figure 8. Principle of dust suppression system.

Another way to manage dust problems and prevent dust concentration is mobile dust suppression system (figure 8). Dust Suppression System uses high pressure water fogging which creates an ultra-fine fog consisting of very fine water droplets (less than 10 micron size) defined as dry fog in diameter. These tiny water droplets absorb even the smallest dust particles in the air. It is particularly suited for dusty environments. Operating cost, depending on the size of the system, can be as low as 20 cents an hour, water and electricity combined (GreenPort, 2015). This type of system is mobile and could be used during cargo handling processes in main points where dust concentration is in highest level (on ship deck, near bulk cargo unloading stations and so on).

## Conclusions

1. A green logistics conception implement through technological processes creates assumptions to pay more attention to sustainable development. The main benefit of green logistics conception and sustainable development is that through these ideas can be minimized and reduced negative impact to urbanized areas, aquatic ecosystems, which are bordered with seaports. Many technologies within the green logistics concepts framework of modern seaport activity are classified as advanced or innovative technologies; they change the approach to logistic process control. However, application of innovative technologies in industrial processes, based on the legal environment and environmental regulation is inevitable in perspective.
2. During last 12 years, the most handling cargo is bulk cargo (grains, bulk fertilizers, peas) in port of Klaipeda. During bulk cargo handling processes large amounts of environmentally harmful dust is released, which spreads in the port city of urbanized areas, some of which falls through the primer and gets into the Curonian lagoon water.
3. After a look at the bulk cargo handling technological process, it was found out, that the main points of dust concentration generation in the whole logistic chain are cargo handling points: logistics business operational region (the point where cargo handling-traveling process starts and ends: manufactures, user of the product), second one in the marine logistics area (includes such points as: cargo unloading points, conveyers, warehouses, dry bulk cargo loading points where cargo is loaded onto ships and so on). Exactly at these cargo handling points can be modernized technological processes, implementing some new innovations such as dust suppression hoppers, telescoping loading chute, dust suppression systems.

4. There are three different techniques to solve dust release problem during cargo handling processes: prevention, isolation and control. After modernization of bulk cargo handling processes, innovative technologies helps to prevents or minimize the formation of dust clouds during the transfer of granular solids together increases the efficiency of technological operations during cargo handling processes. Also from company's economical side, these technologies help to avoid fines. On the other hand, demonstrating a commitment to managing the environmental impact wins greater stakeholder and customer and local community trust, giving a feedback for companies – the confidence to plan ahead rather than react to whatever the future brings.

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# WHEN SHARED VALUE MEETS CREATIVITY: ALGRAMO CASE

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## Abstract

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Value creation while maintaining an efficient cost structure is the foremost aim of any business entity; however traditional business models rarely solve growing economic, environmental and social challenges in society. Business model for creating shared value explains that social problem might be used by business as an opportunity. Therefore in this unsettled economic development period along with profit maximization business also has certain objectives towards the society. Company's success in the market and its future are not anymore determined by its production or economic capital (investment, return on investment), but by its creativity, innovation and knowledge – ability to convert the intellectual capital into advantage. Creativity and innovation become competitive assets to improve the socio-economic performance of businesses. Social responsibility merges with business strategy in order to create socially responsible value – shared value.

The aim of the paper is to investigate the relationship between social responsibility and creativity and share the successful business case that follows the principle of shared value. The paper focuses on one of the world's top 10 most innovative companies of 2015 in Latin America “Algramo”, internal and external factors that influence social entrepreneurship and provides recommendations for socially responsible business model, including how shared value can be achieved through creativity.

**Keywords:** creativity, innovation, social responsibility, social problems, shared value, social entrepreneurship, social innovation.

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## Introduction

The World Bank announced a marked progress on reducing poverty over the past decades. Despite this progress, the number of people living in extreme poverty globally remains unacceptably high. According to the most recent estimates, in 2015 9,6 % (702 million people) of the world's population lived at or below \$1.90 a day. Fewer than 44 million of the extremely poor lived in Latin America and the Caribbean, and Eastern Europe and Central Asia combined (data of the World Bank). Extreme poverty continues to afflict the world, and it requires urgent action. Along with governments, public institutions, and not-for-profit organizations, currently, companies are playing an important role in facing the world's unsolved social problems. D. Barbien (2013) argues that the main goal of enterprises is to maximize their profits and to minimize their costs. P. Bilge *et al.* (2014) added- is succeeding in the business environment and increasing market share. By doing this, firms don't recognize that they cause a huge amount of negative externalities with an extreme impact on the ecosystem and society (Barbien 2013). According to L. Micheline (2012) profit is the main motivation of the traditional business, whereas social motivation represents the nature of not-for-profit and public organizations, and profit and social motivation create new hybrid forms of enterprise (Micheline 2012). Currently, companies are faced with a competitive, global scenario characterized by opposing dynamics. On the one hand, in developed countries, many people are willing to pay high price for certain products and services. On the other hand, the basic needs of millions of people in developing countries

remain unmet because this population of potential customers is considered unable to provide compensation for products and services that would satisfy these needs. The business model in use by many large companies has changed significantly from that of a decade ago and has incorporated environmental and social aspects of performance. People living in poverty can be considered a market to target with specific products and services. Companies are reassessing their business models to create new business opportunities in which they approach the low-income market by helping solve global challenges and generating profits. Society and business had been interconnected systems since the advent of modernity (Schmitt 2013). As L. Micheleni (2012) argues that the inclusive business model can offer new opportunities to a company to conduct business responsibly and, at the same time, generate economic and social value. This means that business can play a key role in eradicating poverty in society.

*Research object* - social responsibility and creativity. *Research objective* is to investigate the relationship between social responsibility and creativity and share the successful business case that follows the principle of shared value. *Research methods*: a systematic analysis of scientific literature and the synthesis of various approaches based on logical abstraction, case study.

The article focuses on internal and external factors that influence social entrepreneurship and provides recommendations for socially responsible business model, including how shared value can be achieved through creativity. Our aim was to investigate the relationship between shared value model and creativity and share the successful business case one of the world's top 10 most innovative companies of 2015 in Latin America "Algramo".

### **Literature review**

L. Micheleni (2012) distinguishes two global phenomena. The first phenomenon is an evolution from the concept of Corporate Social Responsibility to the Creating Shared Value approach. The second phenomenon is the increasing role of emerging market economies in the global economy and the growing importance of the bottom of the pyramid market segment. M. Yunus *et al.* (2015) distinguish three key characteristics of business: seek to alleviate social problems, including all forms of poverty, it must be run sustainably but it should not lose money and the third – profit are reinvested in the business rather than funnelled back to shareholders. M. Porter, M. Kramer (2011) have highlighted the mutual dependence that exists between corporations and society, implying that both business decisions and social policies must follow the principle of creating shared value with choices benefiting both sides. According to L. Micheleni (2012) creating shared value approach means a connection between private enterprises and the public interest that produces profitable and sustainable change for both sides. J. Schmitt (2013) claims that creating shared value is based on a deeper understanding of competition and business activities, not on philanthropy. She argues that companies should rethink their products in order to configure them for the needs of the world's poor and at the same time raise profits. She understands shared value as a basic social invention in management. According to P. Bilge *et al.* (2014) companies create value by satisfying customer needs and shareholder requirements to deliver products or services while securing shared benefits for all stakeholders: suppliers, manufacturers, distributors and customers. The authors suggest value creation modules integrated vertically and horizontally (Fig.1)

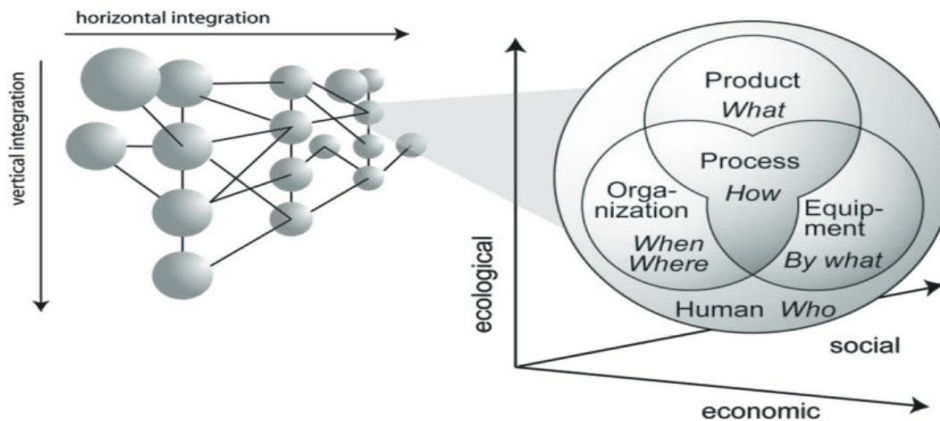


Figure 1. Value creation framework (Bilge *et al.*, 2014).

In the horizontal integration of stakeholders, materials flow through a supply chain. Vertically integrated, manufacturing activities transform inputs into outputs along the total lifecycle, including major activities such as raw materials extraction, transportation, processing, assembly, manufacture, use and a range of post-use activities such as disassembly, reuse and remanufacture (Bilge *et al* 2014). M. Porter, P. Kramer (2011) suggest three aspects to creating shared value:

- reconceiving products and markets;
- redefining productivity in the value chain;
- building supportive industry clusters.

Reconceiving products and markets means rethinking a company's products with regard to society's needs and the benefit or harm which is inherent to them. Considering the needs of society spurs corporate innovativeness and hence leads to new opportunities for differentiation.

Redefining productivity in the value chain means societal progress and progress in the value chain is far greater than traditionally believed. Marginalized suppliers for instance may not be sustainable and productive partners, therefore new ways of collaboration shall be applied, like increasing their access to inputs, sharing technology, or providing financing. Besides this, an important stakeholder group to consider is the employees. Paying a living wage, safety measures and benefits have major influence on employee productivity. M. Porter, M. Kramer (2011) recommend companies to reduce the carbon footprint of their production and logistics by efficient energy use and shipment activities in order to save costs. Moreover, the authors advocate an efficient use of resources like water, raw materials and packaging including the consideration of recycling options throughout the value chain. Building supportive industry clusters - a company is no self-sufficient entity but depends on partnering companies and the infrastructure of its environment.

According to J. Schmitt (2013) shared value is closely linked to sustainability issues. On the company level, shared value enhances the productivity of employees and the productivity within the value chain. On the societal level, the active internalization of societal needs by businesses helps to better customize products and services to the needs of customers. By integrating society's needs into the value creation activities, shared value helps to improve direct working and living conditions along a company's supply chain (Schmitt, 2013).

Problems as mass unemployment, erosion of social security systems and intensification of ecological risks cannot be tackled without implementing social innovations. L. Michelini (2012) notes that leading companies have recently developed innovative forms of social innovation by combining three elements—the concept of shared value creation, the theory of the fortune at the bottom of the pyramid, and a corporate social entrepreneurship approach—through which they enter low-income markets by helping to solve global challenges. Following Porter and Kramer’s (2011) theory, companies that have already invested or want to invest in developing countries have a choice of corporate social responsibility strategies:

- they could reduce the dangers caused by their value chain.
- they might choose a philanthropic strategy that improves the most important areas of their competitive context.
- they might choose to create a shared value approach where the social dimension of their strategy becomes part of the value proposition.

Porter and Kramer (2011) note that “the concept of shared value blurs the line between for-profit and non-profit organizations”. P. Sanchez, E. Ricart (2010) identify two types of business model configurations that can be implemented to reach the low-income market:

- isolated business models are characterized by an exploitation strategy, which leverages the firm’s own resources and capabilities for seeking efficiency;
- interactive business models are characterized by an exploration strategy, which leverages on external resources and fosters learning and innovation processes.

In the case of the isolated business model the aim of the company is to increase efficiency by reducing costs and fixing the price below the level that consumers are willing to pay. Whereas in the case of the interactive business model, the company aims to generate innovations that increase the willingness to pay by enhancing the value created for customers as well as enhancing customers’ capacity to pay (Sanchez & Ricart 2010).

In the face of climate change, raw materials shortages and the extensive, on-going financial and economic crisis, society is being confronted with some profound changes. Innovation is recognized to play a central role in creating value and sustaining a competitive advantage. The main aim of the innovation must be to develop products that are new for the world, or for the market, and to be able to convince consumers that they will receive a new benefit from the product. J. Howaldt *et al.* (2014) analyzed connection between social entrepreneurship and social innovation. Social innovation has been more simply defined as new ideas that work in meeting social goals and considered a vehicle that creates social change that is related to a better quality of life and that develops solutions and approaches to various sets of problems. Social innovation must be at the same time sustainable, meaning that it must meet economic and environmental challenges and be economically sustainable - minimize harmful effects on the environment that are caused by its development and diffusion. L. Michelini (2012) notes that social innovation for the low-income market has the central aim of improving and changing the lives and well-being of the poor; it can be referred to as an idea, process, product or service. She notes that when we talk about social entrepreneurship, we refer to the process that invests

in private people who are oriented to pursue opportunity and are satisfying unmet social needs. If this same process is applied to the business sector, we should refer to it as corporate social entrepreneurship. Social Entrepreneurship is not another form of corporate social responsibility but rather is a process for invigorating and advancing the development of corporate social responsibility (CSR) (Michelini 2012). J. Schmitt (2013) claims that current CSR approaches do not consider creating value in a way that also contributes to promoting society. On the other hand an enterprise is a complex system satisfying not only the needs of consumers but also the expectations of all stakeholders and society.

No entrepreneur or company, no matter how successful and big, can continue to hold leadership position, unless it acknowledges that modern business operates in a rapidly changing market, which creates new problems, risk and opportunities. According to H. Beth, A. Amabile (2010) creativity refers to the generation of novel ideas, useful concepts, or solutions to problems (Beth, Amabile 2010). I. Yurdakul (2012) defined creativity as a thinking process for finding new ideas and forming new synthesis from existing ideas: it combines with conscious and unconscious insight.

The very corner stones of survival and growth then are innovation – a successful exploitation of new ideas and combination of ideas and knowledge into new value and entrepreneurship - willingness and ability to create and build something from practically nothing - initiating, doing, achieving, risk-taking, and building an enterprise with drive, imagination, enthusiasm, ambition, energy, vitality, boldness, and courage. No doubts that both innovation and entrepreneurship demand creativity (Beth, Amabile 2010). Creativity is considered to be the first stage of innovation in business world, and it contributes to all the other aspects of the work. Although the study of creativity has made a great progress, psychologists agree that creativity is still ambiguous and complex concept (Yurdakul 2012). On one hand the perception of creativity depends on the culture and the individual, on the other hand, there are no disagreements that all industries came into existence because of the pursuit of creative ideas so creativity has been considered just a critical in its own right. From the economic perspective, value added is recognized as important criteria for creativity (Runco, Jaeger 2012). P. Fisk (2011) notes that creativity is considered to be a key driver of competitiveness both within and outside organizations and the need for creativity in organizations is increasingly seen to fulfill more than the basic business needs of an organization. It is the root of innovation. One should celebrate creativity because they are the source of design as they can liven up the most ordinary design when combined with instinct and ambition. One should look for a gap: unfulfilled customer needs cannot be found by traditional research, bright light can be found by the ones who are creative (Fisk, 2011).

According to the research of 1,500 chief executives conducted by IBM's Institute for Business Value (IBM), CEOs identify "creativity" as the most important leadership competency for the successful enterprise of the future (Skibola 2010). Furthermore, N. Skibola indicates that creativity in the workforce comes back to corporate social responsibility. While corporate responsibility is often understood as company's ability to manage the business processes to produce an overall positive impact on outside society, it also touches upon how employees of the organization are actually treated and valued. How

they are treated and valued define both self-perception and performance within the enterprise and is associated with life happiness in general. Positive mood enhances creativity. Positive emotions are not only predominant during the process of creative work, but also appear to be useful and vital for creation. The link between positive moods or happiness and creative “flow” is described in a Scientific American article where the study found that “With positive mood, you actually get more access to things you would normally ignore. Instead of looking through a porthole, you have a landscape or panoramic view of the world” (Rowe *et al.* 2007). It is evident that happiness makes people more receptive to diverse information and results in greater creativity. Moreover, positive moods should especially serve the purpose of helping employees sustain the energy required to go through the creativity process from beginning to end. Successful companies understand the significance of corporate social responsibility in the outside world, but creating a positive work environment that maximizes human potential and happiness is considered to be a priority. Creative and positive environment stimulates people to find meaning in their jobs. A. K. Anderson believes that positive outcomes reinforce one another – as workers become happier, creativity thrives, performance improves, and so on.

Creativity is the path forward for successful enterprises implementing CSR principles. CSR requires adopting five new principles (see Figure 2) - creativity, scalability, responsiveness, globality, and circularity (Visser, 2012).

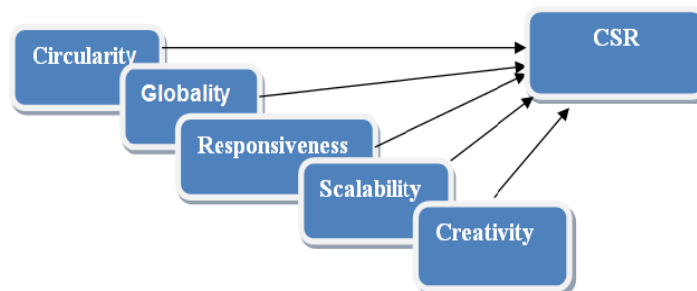


Figure 2. New requirements for CSR (composed by authors according to Visser, 2012).

These principles should be embedded deeply into an organization’s management as organizations are part of the society as is the society on organizations. The key role of the organizations is to develop the society. Visser (2012) claims that in order to succeed in the CSR revolution, we will need innovation and creativity. Any business is creative and innovative by its nature. What is different about the Age of Responsibility is that business creativity needs to be directed to solving the world’s social and environmental problems. W. Visser (2012) provides some practical steps to increase creativity:

- Building social and environmental criteria into the core R&D function.
- Having forums, suggestion boxes and competitions where employees and other stakeholders can have their innovative ideas recognised and rewarded.
- Actively supporting, investing in and partnering with social enterprises, social entrepreneurs and "intrapreneurs" (entrepreneurs within the organisation).
- Having diverse stakeholder representation on advisory boards and acting as non-executive directors that can challenge the status quo.
- Fostering leaders that do not punish mistakes, but rather encourage a culture of experimentation and learning.



“Creative thinking led to Nobel Prize, not memorizing facts”, said about John Guidon, Nobel Laureate, 2012.

### **Algramo case: value creation business model**

Latin America is one of the regions in the world with the highest level of income inequality and poverty (see GINI Coefficient<sup>4</sup> by World Bank in selected Latin America countries in Figure 3; examples of GINI coefficient in developed countries: Sweden - 27.3; in Germany - 30.1; United States - 41.1). Although the region is marked by significant improvement since 2000, currently approximately 73% of the population in Latin America survives on less than \$4 a day.

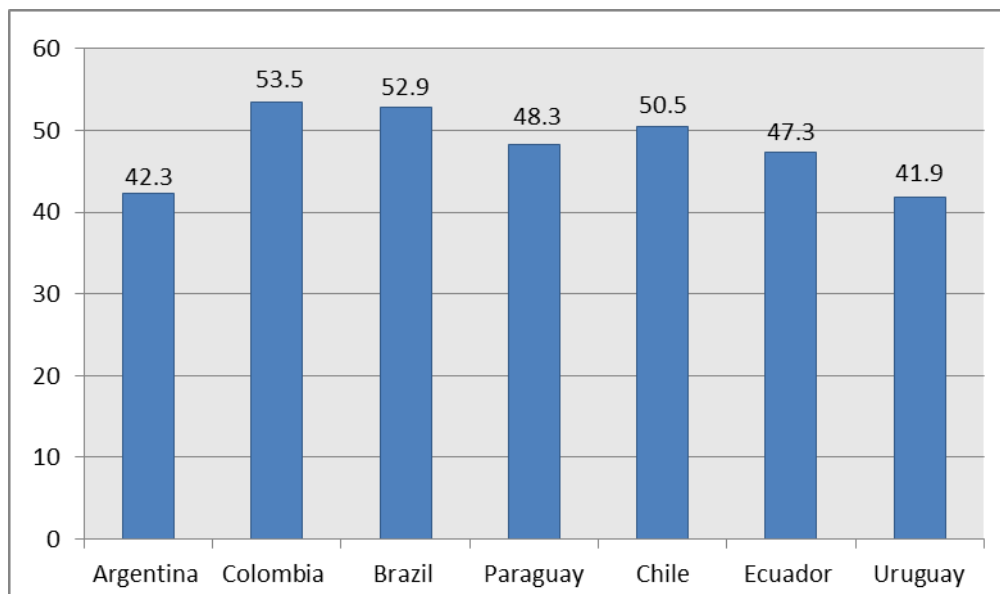


Figure 3. GINI Coefficient in 2011-2015 in selected Latin America countries, World Bank information.

While the cost of living is rising and the wages are not moving at the same speed, the most vulnerable communities in Latin America are left in the periphery, with difficult or non-existent access to basic services. This means that few people can afford to bulk buy basic essentials and the most are forced to shop in smaller, more expensive local stores that, on average, charge 30 to 50 percent more or buy at the large chains outside the community, but at a higher cost of transport and drain of resources from neighborhood-owned stores. These problems affect families around the world every day, are a result of inequality, and can be called a “punishment for poverty” (Ashoka 2016) or a “Poverty Tax” as it was called by the founder of the company Algramo (“By the Gram”) Jose Manuel Moller. The entrepreneurs Jose Manuel Moller and his business partner Salvador Achondo used this difficult socio-economic situation as an inspiration for the business that combines opportunities to decrease income inequality and poverty in poorer regions of Chile and other Latin America’s countries and earn profits in a creative and socially responsible way. The authors of the article had an opportunity to visit Algramo – Fast Company’s Most Innovative Company 2015 — in Chile in the August of 2015 in order to explore its’ innovative business model.

<sup>4</sup>Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. Thus a Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.

In 2011, Jose Manuel Moller along with university friends (Universidad Católica, Catholic University in Santiago) moved to one of the poorest areas in Santiago (Santiago is industrial and financial center of Chile and generates 45% of the country's GDP) to experience the realities of these communities in order to understand how to help improve their circumstances (Ashoka 2016). For over a year and half, he lived a very humble life and faced the same problems as most of his neighbors: the budget was not sufficient to cover the household's basic daily needs. This realization led him and his business partner Salvador Achondo to launch Algramo in 2013. The entrepreneurs have identified that there is a large demand for the business enterprise that would deliver sustainable, high-quality essential groceries such as rice, beans and sugar at an accessible price to the poorer areas of Latin America (firstly – to the outskirts of Santiago in Chile) by selling exactly the same products as supermarket chains in smaller quantities through the vending (dispensary) machines. With resources from contest-based funds from Universidad Católica and through the government sponsored innovation contest Desafío Clave 2012 (Key Challenge 2012), he obtained the funds necessary to build the first operational machine. This business model creates alternative, non-traditional way to ensure basic needs of people with less financial and social in various local communities, socially excluded regions and countries in Latin America. Currently, with 474 stores, 56,880 benefitting people and 113,760 kilos of reduced waste, Algramo is indeed one of the best innovative businesses available in Chile now, with plans to expand to Perú, México and Brazil (Bongat 2016).

How does Algramo value creation business model work? Algramo activities focus on vending (dispensary) machines that work as normal dispenser, only instead of pouring money and leaving treats, the machine will dispense rice, lentils, chickpeas, detergent, cooking oil and other products of the basic basket into sustainable disposable plastic tubs. This reduces their costs up to 40% by saving the distribution and packaging costs. The machine is simple to use: place a reusable container on a ledge, insert coins, and wait for the product to dispense. The first purchase is free for the consumer and includes a reusable container that can be refilled in future purchases. This system encourages the use of returnable containers, where buyers may return the empty container for recycling after use. This sustainable business scheme allows reusing packaging and avoiding 2 kilos of waste per month per family. Furthermore it also contributes to reducing the carbon footprint (see Figure 4).

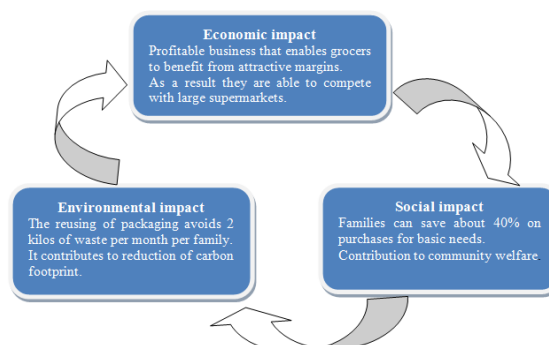


Figure 4. Economic, environmental and social impact of Algramo business model (composed by authors).

When launching Algramo the entrepreneurs had to be creative to find an innovative ways to reach poorer communities that are usually seen as dangerous for other companies and sustain the relationships with them. Firstly, the Algramo connects with local grocers and

offer the machine, for free. Then the store owner is invited to the meetings to give the local owners a chance to get to know each other, share challenges, and look for solutions together instead of individually. Algramo and the owners of the small stores share the profits equally, so vendors now look to each other and to Algramo as partners and problem-solvers. The stronger the community group of Algramo Vendors, the more negotiating power they will have with food providers to purchase in bulk from food suppliers and lower prices for their customers. Algramo staff also helps the owners redesign the floor in order to maximize space and make it more appealing to customers and to encourage the stores to be gathering place. Algramo connect its vendors to free wifi and also provide Internet services for the customers. Algramo also owns the dispensary machines and monitors the stores' finances and inventory through the shared software. The authors of the article had an exceptional opportunity to visit one of the first shops in Santiago and spoke to a store owner who was very proud to have Algramo vending machine in her small shop and saw Algramo as a partner to both cut the costs, attract more consumers and build the community. Also the authors of the article had an opportunity to visit a member of a local community – the representative of the indigenous Mapuche group that accounts for nearly 10 percent of Chile's 18 million inhabitants. The woman explained that she highly appreciates the role of Algramo in her daily life and the efforts to gather local communities together.

By working through local grocery stores, Algramo helps not only to offer lower priced and more varied goods and increase the productive potential of stores, but also to lower the cost of living in these communities and restore neighbourhood stores as local gathering spots, ensuring the vitality of the vendors in the face of large supermarket chains and rehabilitating lagging neighbourhoods (see Figure 5).



Figure 5. Value creation in the Algramo business model (composed by authors).

Algramo now is certified as B Corp – a for profit business that meets rigorous standards of social and environmental performance, accountability, and transparency, and uses market tools to generate public benefit. [<http://www.bcorporation.net/what-are-b-corps/why-b-corps-matter>] It works with the minister of Economy to develop a strategy for small local businesses to learn more on how to expand a business, as well as offering money and advice to certain companies. So starting with the business providing food for poorer families, currently Algramo seeks to encourage entrepreneurship around the country, increase productivity in the country and to diversify the economy by giving small companies financial and non-financial support (as a result, in 2015 start-up launches increased by 50%, with the government increasing the funds to their start-up budgets by 50% in the same year in such

areas as solar energy, mining, tourism, agriculture, technology sector and healthy foods) (Banks 2016).

## Conclusions

- Shared value is closely linked to sustainability issues. On the company level, shared value enhances the productivity of employees and the productivity within the value chain. On the societal level, the active internalization of societal needs by businesses helps to better customize products and services to the needs of customers.
- Creativity is the first stage of innovation in business world and the path forward for successful enterprises implementing CSR principles which should be embedded deeply into an organization's management.
- The case of Algramo – a for profit business that meets rigorous standards of social and environmental performance, accountability, and transparency – shows that new business models can combine principles of creativity and social responsibility and provide a solution that bets on smart shopping and proposes to revolutionize retail sales. Among many populations of Latin America, millions of families spend money needlessly because they buy in small quantities.

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# CRITICAL ATTITUDE OF TSL ENTERPRISES TO SOCIAL RESPONSIBILITY

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## **Abstract**

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The article presents the doubts and critical attitude of companies towards corporate social responsibility. Companies from the TSL sector were used as an example. Considerations are divided into two parts: theoretical and empirical. The theoretical part introduces a literature review together with a response to the problems identified. The purpose of this section was to indicate that doubts and criticisms which are presented in the case of social responsibility. The empirical part indicates research results, based on which the objections to the social responsibility were identified that the company of the TSL formulate, and their causes.

**Key words:** corporate social responsibility, ISO 26 000, transport and logistics companies.

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## **Introduction**

Criticism of the idea of social responsibility has already appeared in the early sixties of the twentieth century due to doubts about the sense of applying the concept of social responsibility in the company, propounded by Milton Friedman. He was even widely regarded as the creator of a critical approach to the concept of social responsibility. He claimed (Friedman, 1970; Sternberg, 1994) that "there is one and only one social responsibility of business - to use your resources and engage in activities designed to increase profits, as long as you stays within the rules of the game, engages in open and free competition without deception or fraud." He argued that the company is responsible for maximizing the value for owners by making as much money, and that this is their moral duty. Immoral is, however, putting social and environmental objectives over profit.

Friedman's rhetoric fits many economists today. Elaine Sternberg (1994) considers that the use of business resources for purposes unrelated to business activity is not justified. Similarly believes Aneel Karnani (2010) in his article published in the Wall Street Journal. He states that action to the public is not an obligation or duty to the company. He notes that evidences presented publicly by the company of socially responsible projects are false. The real reason for taking a socially responsible attitude is prosaic - to maximize profit. Corporate social responsibility is used as an effective tool of marketing.

Peter Fleming and Marc T. Jones (2013) called social responsibility as "a kind of alibi for business." Moreover, they believe that it is ended before it really started, because it does not bring any significant changes in the economy. The same arguments against social responsibility can be found in the article by Clive Crook (2005), which appeared in 2005 in a special issue of The Economist, devoted exclusively to social responsibility. He called social responsibility as "a license to hide" and indicates that the application of its principles brings only cosmetic changes.

Clearly declarative character, manipulative and dishonest message of social responsibility are pointed by William S. Laufer (2003), John Roberts (2003), Ronald R. Sims and Johannes Brinkmann (2003). The theoretical nature, detachment from the realities of everyday business allege, among others, are pointed by Kunal Basu and Guido Palazzo (2008), Olivier Boiral (2007), and Farzad Khan, Kamal Munir and Hugh Willmott (2007).

David Henderson (2001) called social responsibility for the "wrong virtue", stating that corporate social responsibility requires voluntary acceptance by the wider business objectives, the use of complex procedures and more demanding standards, and all of this could weaken the economic parameters of the company. He believes that social responsibility causes excessive pressure on businesses and threatens excessive dependence of efficient allocation of resources from external interference.

Indicated authors are a representation of, undoubtedly, a wider group. To mention more comments expressing doubts and criticisms in relation to social responsibility, due to the limited volume of studies, is difficult. Therefore, based on the revision of contemporary literature, you can make a summary of views.

The basic doubt is whether companies in general should deal with social responsibility? Is the essence of business activity, the purpose for which the company operates on the market, not discrete delimitation? It seems that there is no such danger. Still, it is clear that the essence of the company is to complete the production function or service, depending on the profile of the business, and the original purpose of the operation is profit. Social activities are not implemented as activities from the core business. Rather they define criteria that a company can be guided in carrying out their basic tasks. Moreover, they are expanding the scope and introduce new contexts of relationship with the environment and with stakeholders. The issue of whether companies should take social responsibility or not also seems to be clear. There is a constant emphasis on the voluntary nature of social responsibility. There is no settled law that would suggest implementation of social responsibility. In this range there are no standards, which are mandatory. The issue is whether to treat social responsibility as a duty, necessity or informal fashion. In other words, which attitude should be adopted by company for social responsibility, which is obviously related to the motives of this attitude.

Reflecting on this that social responsibility regarded as a duty or an informal necessity, it can be stated that the duty is related to the responsibility of voluntary and reflected the attitude of the contribution, while the informal necessity is related to the liability imposed and enforced and can manifest an attitude of resistance, obligation or reaction. How can you argue a duty to be socially responsible? Conducting business operations means that it is included in a given reality, which is very often complex system of events, processes and relationships occurring in belonging to its subjects and between them. In this system they are realized and are implemented various signs and personal values. The company intervenes in such a reality, having already shaped the character and structure, leading economic activity. Any interference of enterprise is always a greater or lesser violation of the existing order, which results in some changes - both positive and negative. The balance of these changes, that is, which ones prevail, depends on the form and strength of interference, which is based on awareness of company in respect of that interference. There

is no interference with the only positive consequences. In other words, there will always be some negative changes. This situation creates a cause-and-effect responsibility of company for their economic actions and decisions. Undoubtedly, a sense of duty in this context stems from a sense of guilt, and thus - the question of whether company would take social action without any reasons, if they do not feel guilty for their negative impact on the reality in which they are established, appear to be rhetorical. Following this line of reasoning, there is a problem of proportionality of responsibility to the size of the negative effects of business operations. You could set up a relationship directly proportional, but in order to it could work in practice, it would create a negative impacts of company on social environment together with an indication that in connection with the occurrence of an impact you should do this or that. In other words, it would codify a list of negative impacts of companies in the field of social activities carried out in return. And it is rather difficult to do, if only because of the complexity of interactions.

In the context of typology of attitudes emerges a question - if you can qualify companies to socially responsible and irresponsible in the system of zero-one, i.e. satisfies the condition - does not satisfy the condition? It is said in fact "socially responsible company", without specifying the level of responsibility. It may suggest the suspicion that it is enough to do anything to be recognized as a socially responsible company. What are the minimum eligibility frameworks to attitude the company as a socially responsible? The question is even more difficult if you bring up the voluntary nature of social responsibility.

Doubts about corporate social responsibility come down also to the perception of it in terms of "wishful thinking". Underlying this perception is not convinced of its effectiveness. It is hard to disagree with such thinking, because the principles and social activities, as practice shows, are real. Quite another problem is the ability to achieve them. And here you can agree with another charge that managers are not always equipped with appropriate powers to carry out the company according to the canon of social responsibility, and that sometimes these actions are intuitive, which may affect the accuracy of decisions. However, this is not an argument so important to act against social responsibility. You can certainly argue that the good intentions are sufficient. However, it is expected that the promotion of social activity will result in a short time to extract the organizational structure of enterprises separate managerial positions responsible for issues of social responsibility.

But who, really, is responsible? Is there a correct formulation of 'responsible business' or 'responsible company'? The starting point in this case is the reasoning Friedman's arguments. M. Friedman stuck with the view that only men may be responsible, as neither business nor the company are not persons and have only artificial, abstract responsibility. This argument seems to be correct, because the people are responsible for their actions and decisions. Therefore it can be assumed that the formulation of corporate social responsibility is shorthand, which absolutely does not relieve people of responsibility. At the same time, there is no need for a conceptual revolution just to clarify that people are carriers of responsibility. However, agreeing that responsibility lies with the people, there is another question - whether all employees of companies are responsible for the negative impact of companies on social environment or liability should apply only to the owner or principal managers? After all, they manage the activities and approve and take decisions in the enterprise. It seems that you can not completely shift the responsibility on the owner or



management, because it would mean that employees carry out their tasks, having no impact on their course and their effects. All employees of companies, including the owner and managers should take the attitude of socially responsible, whereby owner and managers will need to take a lead role.

Opponents of social responsibility emphasized that the intentions of companies that take social action, are not sincere. They are adulterated or apparent. They indicate that companies use corporate social responsibility only for marketing purposes, in addition, in a consciously calculated way, thus revealing its double standards. It is alleged that if the actions of social responsibility were not profitable, companies would not take them. Must admit that social activities work well as public relations tools and, as earlier stated, this should not be sought as something bad. As far as social effects are achieved, there is no need to prohibit companies using social responsibility also for other purposes. And settlement of the issue of double standards, you can start from doubt whether the business is marked by moral motives. Selecting position in this dispute depends on the interpretation of what is appropriate and what is not. This, in turn, is determined by the adopted system of values, which, as is known, may be different, depending on the context, place, time, etc.

Often, in critical discussions about social responsibility, the topic of cost is recalled. It is argued that corporate social responsibility costs too much. Costly is not only the introduction of the strategy of social responsibility in the functional area of companies, but above all, its actual realization. In this respect it is pointed out towards the objective of minimizing costs. Another problem in this respect relates to competition. It compares the possibility of competing companies that take social action, and thus incur the respective costs with the company, which does not engage in corporate social responsibility. In this context, social responsibility is seen as a limiting factor for the competitiveness of companies. Counterargument to such accusations may be the fact that the current field of competition is very broad and is not limited to the cost. This field is becoming increasingly important as practice shows among European and global companies organizational culture. This allows you to think about social responsibility as a factor of competition. There is no denying that the activities carried out within the framework of social responsibility are cost carrier, but you should wonder on what can be done to gain competitive advantage through these activities. It should be emphasized that customer awareness of corporate social responsibility also becomes bigger. Consequently, whether company meets the objectives of social responsibility or not, it is today in the canon of the factors determining the selection of a supplier or a business partner.

Critical remarks are also recognized to norms and standards. It denies the possibility of the development of global guidelines in ISO 26000. The problem is that it is subjected to the question whether it is possible to establish a global system of values. National standards apply to a national social group and its national values. International standards may apply to different national societies and make sense when they are limited to the shared values of the peoples in the region. Global standards must therefore apply to all groups of society and be determined on the basis of global social values, and such a set of social values has not been found yet. You can only talk about some common elements.

## Empirical study of the attitudes of the TSL companies towards social responsibility

### Methodology

The research was part of a research project of the National Science Centre 2011/01 / B / HS4 / 05088, entitled Corporate social responsibility of TSL sector in Poland - diagnosis and future challenges. The project was implemented in the years 2011 - 2013. The study was conducted from October 2012 to May 2013, using the technique of computer-assisted telephone interviewing (CATI). The geographical scope of the study included the Polish territory. The study included the following populations: companies providing logistics services, transportation and shipping operating on Polish territory on the day of the study. The survey was attended by 391 companies. The standard error of the fraction with a confidence level  $\alpha = 0.05$  is 5%.

Sampling took place with the condition of representativeness of the results from the sample. The main purpose of sample selection was the ability to generalize the results of research to the entire study population / general, with a probability equal confidence interval - in the case the research of 95%. In the sample, the share of large enterprises amounted to 4.8% (Figure 1). Most were micro-enterprises - 54.7%.

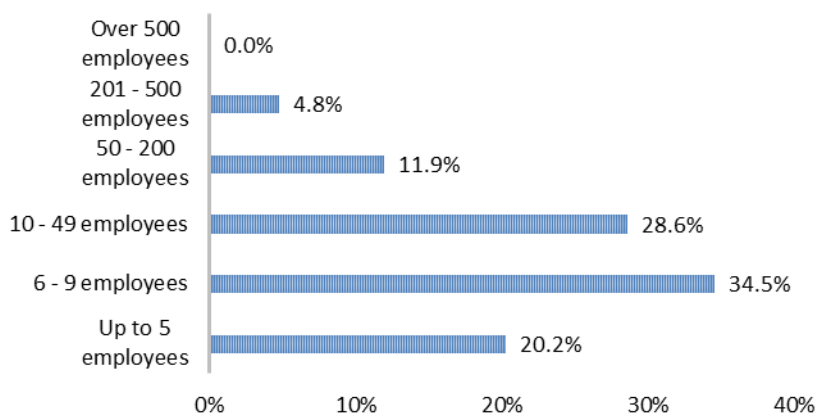


Figure 1. The structure of the study population by the number of employees (author's compilation).

To maintain the requirement of representativeness, the sample was separated employing the random stratified selection - proportional. For the study of social responsibility in enterprises of TSL population was divided into layers by such features as:

- The type of services: logistics, transportation, freight forwarding;
- Company size: large, medium, small;
- The location of the seat of companies: on the basis of the administrative division of Polish;
- The period of operation of the market;
- Operating range.

Controlled variables were the type of service and size of the company. Within each layer the selection of the respondents were made at random.

### Presentation and discussion of the results

In assessing the level of progress of implementation of the strategy of social responsibility in companies in the TSL sector in Poland, the results (Figure 2) indicate that almost half (44%)

of companies do not see the need to implement principles of social responsibility. Only 22.6% of the companies confirmed the implementation of the principles of social responsibility, while in 13.1% of cases actions do not have a formalized form.



Figure 2. Level of implementation of the strategy of social responsibility in companies of TSL (author's compilation).

Asking about the reason for failure to principles of social responsibility (Figure 4), most companies, up 42.9%, indicated that they are too small. Another important reason for the lack of interest in the activity in the area of social responsibility is the need to sacrifice time. For this reason indicated 25.7% of the companies. An equally large group of companies, i.e. 20%, do not perceive social responsibility benefits. Benefits are generally understood, without specifying a generic layer. The obstacle turns out to be the high costs of actions undertaken in the framework of social responsibility. At this answer indicated 8.6% of companies that have declared no need to implement principles of social responsibility. Only in 2.9% of cases assertive attitude of companies towards social responsibility stems from the lack of knowledge of how to implement such a strategy.

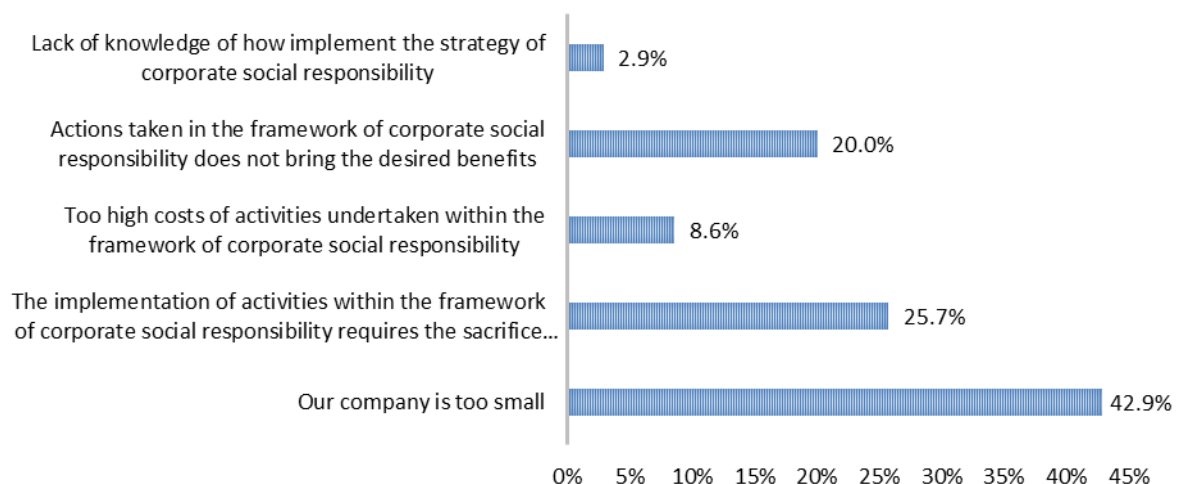


Figure 4. The reasons for not implementing the strategy of social responsibility in companies of TSL (author's compilation).

In the case of mentioned earlier response is difficult to determine whether the identified reasons implication are completely critical attitude of companies towards social responsibility, or may need to be considered in the category of objections. Analysing the data shown in Figure 5, it can be assumed that in most cases these are not objections. Asking in fact that the companies are planning to implement a strategy for social responsibility more than half of them (62.2%) answered in the affirmative. Negatively refers to the question almost 30% of the companies. This group includes companies that previously argued primarily that they are too small to implement the strategy of social responsibility, as well as that they do not see the benefits of such activities.

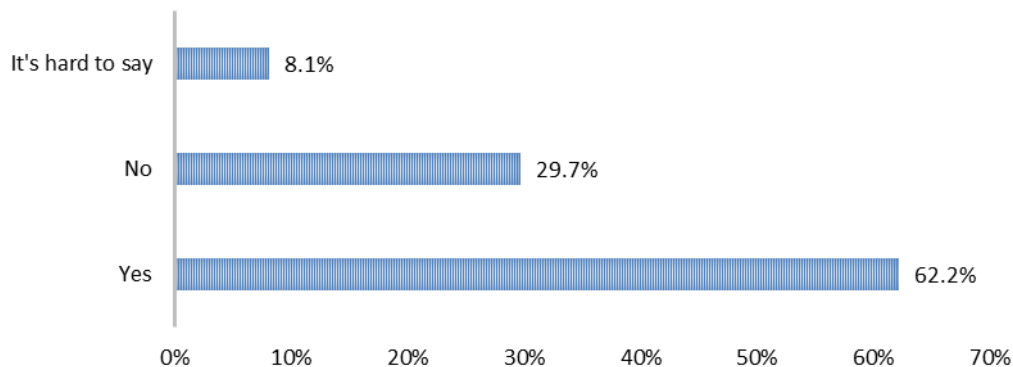


Figure 5. Percentage of enterprises of TSL, planning the implementation of the strategy of social responsibility (author's compilation).

Objections to social responsibility may occur not only in the case of companies which have not yet implemented, but also can be reported by those companies that already implementing the strategy of social responsibility. When asked what the most important problems are perceived in enterprises in the implementation of the principles of social responsibility mentioned most often: vaguely defined objectives of social responsibility - 42.2%, the need for financial expenditure - 32.1%, not recognizing the effects of the daily activities of the company - 32.5% , the need to dedicate time - 25.0%. Relatively low important problem is the lack of knowledge and skills in implementing the principles of social responsibility to apply them in practice. It is interesting that as many as 68.7% of companies cannot identify problems associated with the implementation of social responsibility. No fewer interesting is the fact that 41% of enterprises do not notice such problems at own company.

### Discussion on the basis of test results

The essential question that arises as a result of the analysis of behaviour of companies in the TSL sector in relation to the strategy of social responsibility is whether the identified attitudes are typical for the test group of companies? In other words, whether they are typical of attitude for operators in the sector of TSL? Another question concerns the causes of these attitudes - whether they should be treated in a general way, or are specific to this area of business? Getting the answers to these questions requires a reach for the results of other studies, where a layer of problems is the same. It is reasonable to refer to studies in which the random sample was not differentiated by type of activity, as well as research, conducted on a random sample consisting of companies representing one kind of economic activity.

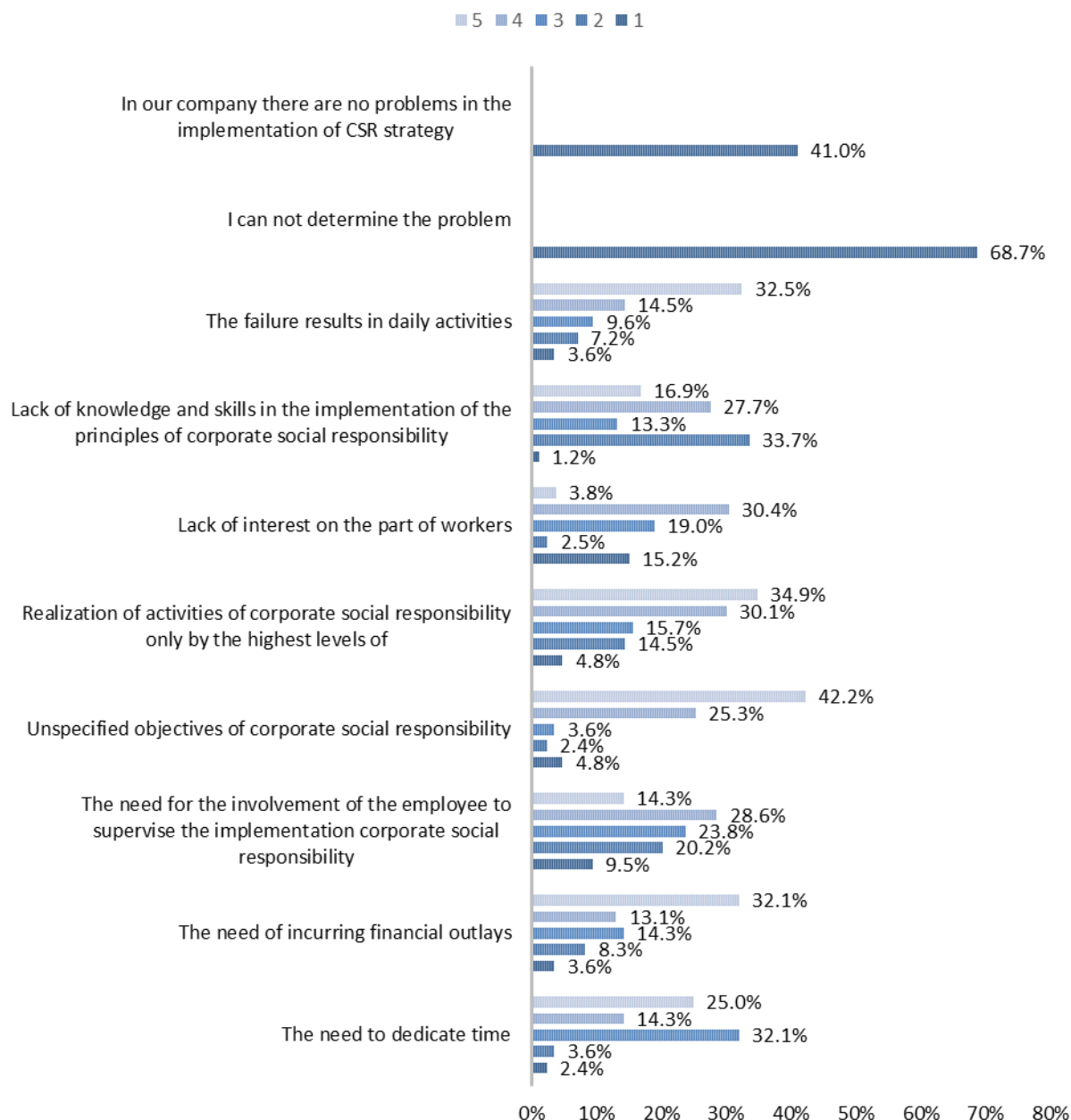


Figure 6. Problems noticed in enterprises in the implementation of the principles of corporate social responsibility (5 - the highest level of validity) (author's compilation).

Answering the first question, you can rely on the results of a survey conducted by the Polish Agency for Enterprise Development, entitled "Evaluation of the implementation of the standards of corporate social responsibility" made in 2011. The data indicate that 70% of the representatives of large companies are aware of the concept of CSR, and 84% of them have implemented the strategy of corporate social responsibility in their business. The situation is worse in the case of micro and small companies. Understand the concept of CSR declared only 26% of companies in the group, and the use of corporate social responsibility strategy - 36%.

Other studies conducted in the SME sector of agribusiness in rural areas (Wołoszyn, Stawicka, Ratajczak, 2011) confirm the results referred to above. At the same time they provide the answer to the second question. They show a very poor knowledge of the concept of social responsibility among entrepreneurs of agribusiness industry. More than half of as much as 60% of respondents admitted that they do not know the concept of CSR. Only 16% of entrepreneurs confirmed unequivocally that, the principles and standards of corporate social responsibility are known to them (24% of entrepreneurs said that rather know the concept of CSR).

What are the biggest barriers to the implementation corporate social responsibility in a small or medium-sized company? In this case, the results of research carried out in a group of companies from the TSL coincide with the results of other studies and the opinions widely available. The greatest obstacle is the lack of funds and lack of time. Important, though already less, is the lack of awareness and knowledge of not just corporate social responsibility in general terms, but in terms of its potential of utility and methods of its use. You can also note that representatives of small and medium-sized companies do not have sufficient knowledge of what assistance can benefit in the implementation of the strategy of social responsibility, both substantive assistance and financial aid.

### **Conclusions**

On the basis of the considerations set out in the paper, one can formulate general conclusions:

1. A way for understanding corporate social responsibility influences how it is treated in the sphere of not only the cognitive, but also the emotional. This in turn shapes the form and direction of behaviour of entrepreneurs against it.
2. The higher is the level of awareness of corporate social responsibility, the more formalized form take action in their respective areas as well as they are more integrated territorially.
3. In the TSL sector, corporate social responsibility is not a popular strategy yet, although there are reasons to believe that this strategy will be gradually implemented by a growing number of companies. You can see a clear distinction between large enterprises, with a strong market position, which consciously pursued a strategy of corporate social responsibility, and small and medium-sized companies that see the need to implement such a strategy.
4. An attitude of SME in the sector of TSL does not deviate from attitudes of SMEs in other industries. They are also similar to the behaviour that can be observed in other European countries, which means that the problem of poor activity of SMEs is not only a problem in Poland, is set at the level of the European Union.

There are also some questions for further discussion:

1. To stimulate the activity of small and medium-sized companies in the field of CSR activities, regardless of the industry, you should seek answers to the questions - how to encourage SMEs to implement the strategy of corporate social responsibility, what instruments use to effectively stimulate their activity, who should be responsible for this?
2. One may be wondering if perhaps the behaviour of SMEs is correct. Maybe corporate social responsibility, by nature, should be reserved for large companies? Maybe the

representatives of SMEs have a right to believe that the strategy of corporate social responsibility will not bring benefits for their business, and although it is not worth to invest in it.

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# SOCIAL INNOVATION AS THE PATHWAY FOR SUSTAINABLE DEVELOPMENT

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## Abstract

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Currently the concept of social innovation is making its way into the international academic and political discourse since social innovations have a capacity to combine societal and environmental goals with an entrepreneurial spirit. Indeed, many socially conscious entrepreneurs have developed and applied in practice innovative and creative business models to address social and environmental problems previously overlooked by governmental, NGOs or business organizations. In this respect, social innovation is a promising tool and approach towards sustainable development needs and priorities.

The objective of this paper is to analyze the concept of social innovation within the context of sustainable development discourse by synthesizing the established and emerging definitions of social innovation. The literature review indicates that social innovation may have many definitions since it is interrelated with many other concepts like social entrepreneurship, sustainability, social welfare, etc. In this line, this paper seeks to contribute to the current understanding of a social innovation and provide a comprehensive overview of the existing literature by synthesizing existing conceptual studies on social innovation and its co-related concepts.

**Keywords:** social innovation, sustainable development, sustainability, social entrepreneurship.

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## Introduction

The concept of social innovation is gaining particular attention from politicians, academics, business executives, and the general society. Indeed, social innovation is a promising tool to address social challenges and to respond to pressing social / environmental needs. Advancers of social innovations are awarded numerous awards, including the Nobel Peace Prize for Muhammad Yunus who developed a microcredit / microfinance system in Bangladesh. Indeed, many socially conscious entrepreneurs have developed and applied in practice innovative and creative business models to address social and environmental problems previously overlooked by governmental, NGOs or business organizations. In this respect, social innovation is a promising tool and approach towards sustainable development needs and priorities.

However, it could be noted that the field of social innovation has emerged primarily as a field of particular practice (Mulgan, 2012). Mostly, social innovators firstly tried to address the pressing needs and demands, and only afterwards they reflected on their successful outcomes. In this respect, social innovation is a highly complex concept since its definition is a work-in-progress and it highly depends on the turns and success stories in practice.

Due to the aforementioned realities, the concept of social innovation undergoes terminological profusion, confusion, and conceptual vagueness. Many researchers and



practitioners have developed their own preferred definitions by emphasizing different aspects of social innovations. Therefore, today the concept of social innovation remains a compilation of different ideas and approaches without any established definition. Our review of the various definitions suggests that the definitional variety of social innovation may include different contexts, preferences, approaches and theoretical disciplines. Some authors suggest that there are two types of theories in circulation in the field of social innovation – some are theories to interpret the world, concerned with description and analysis; others are theories to change the world, more deliberately designed to encourage and advocate (Mulgan, 2012).

In this respect, this paper seeks to analyze the concept of social innovation within the context of sustainable development discourse by synthesizing the established and emerging definitions of social innovation. The literature review indicates that social innovation may have many definitions within sustainable development discourse since it is interrelated with such concepts as social entrepreneurship, sustainability, social welfare, etc. From reviewing the many definitions of social innovation, it is clear that the context in which they were created matters to a great extent.

The nature and power of discourse needs to be identified in all theoretical constructions (Foucault, 1972). Discourse actively forms and constructs people's perceptions of reality (and consequent behavior). Once definitions are formulated within the discourse of theory, the disciplines that frame the theory appear to become the defining aspects of the result itself. Therefore, when a definition of social innovation is formulated within the discourse of innovation theory, innovation theory becomes the defining aspect of the resulting definition. When a definition of social innovation is formulated within the discourse of the social sciences, social scientific theory becomes the defining aspect of the result. Some authors argue that the social sciences have reinterpreted the innovation process (Howaldt & Kopp, 2012). Indeed, social meanings are produced within social institutions and contexts, and the language they share; therefore, a discourse could be viewed as a perspective, a conceptual framework, and as a way of looking at things amongst those operating within the discourse. Foucault (1972) states that a discourse is an active, forming, constructing practice, which forms and constructs people's perceptions of reality, and conscious or subconscious constructions that lead to practice or behavior. Therefore, the discourse of theory operates in exactly the same way. In this research it could be argued that a definition of social innovation is formulated within the discourse of sustainable development theory, so sustainable development theory becomes the defining aspect of the resulting definition.

In this line, this paper seeks to contribute to the current understanding of a social innovation within sustainable development context, and provide a comprehensive overview of the existing literature by synthesizing existing conceptual studies on social innovation and its co-related concepts. Many authors emphasize that theory needs to catch up with practice because sharper theory will help to clarify what is and what isn't known, and sharper theory will also guide practice (Mulgan, 2012).

### Social innovation within sustainable development discourse

The concept of social innovation is directly connected with a concept of sustainable development. The dominant view of sustainable development is that economic and social development and environmental conservation/protection are mutually compatible objectives. Therefore, social innovation is uniquely positioned within this broader concept of sustainable development. Indeed, it could be argued that social innovation could be an advanced and innovative tool for promoting sustainable development goals and strategic priorities.

Indeed, social innovation refers to a novel solution to a social problem that is more effective, efficient, sustainable, or just than existing solutions and for which the value created accrues primarily to society as a whole rather than private individual (Phills et al., 2008.) This definition illustrates the parallelism between sustainable development and social innovation since both concepts and the practices arising from these concepts share the same goals. Social innovation acts as a drive and a force within sustainable development discourse by providing the qualities of “newness” and “innovation” towards their joint narrative. Furthermore, it extends its narrative towards further advancements and developments.

Indeed, social innovations have high capacity to serve sustainable development goals as social innovations entail the production of new ideas and new structures and a process of re-contextualisation within socially (re)constructed norms of the public good, justice and equity (Nicholls and Murdock, 2008). Indeed, some authors state that social innovation aligns itself with the sustainability-inspired rhetoric of justice, progress and tractability (Mulgan, 2009) in Table 1.

Table 1. Rhetorics of social innovation (adapted from Mulgan, 2009).

Type of rhetorics	Argument
Rhetorics of justice	the arguments for righting wrongs and meeting needs, whether these are for pensions or for affordable housing, which draw on fundamental moral senses of fairness.
Rhetorics of progress	the idea that change is cumulative and dynamic: new reforms are needed to reinforce old ones, or to prevent backsliding – for example new rights to maternity leave are essential to make a reality of past laws outlawing gender discrimination
Rhetorics of tractability	the claims that social action works, and that whether the problem is unemployment or climate change, the right mix of actions can solve it.

Where could we develop social innovations? What approaches should we take to socially innovate? Indeed, social innovation has an extensive area of possibilities and opportunities, large opened by the sustainable discourse itself. Indeed, every aspect of sustainable development has a potential for sustainable innovation. To illustrate this argument, let’s look at the changes required for advancing sustainable development (Table 2), and then discuss this framework within social innovation context.

Table 2. Industrial state problems and solutions for sustainable development(adapted from Ashford, 2004).

Industrial State Problems	Solution
The fragmentation of the knowledge base leads to a myopic understanding of problems and the creation of insufficient single purpose or narrowly-focused solutions.	Adopt an integrative (or transdisciplinary) approach to the creation of solutions and innovations to environmental and social problems and apply the precautionary principle when the negative impacts of a human activity are uncertain or unknown.
Inequality of access to economic and political power	Establish mechanisms for democratic, fair and participatory governance
Tendency to govern industrial systems using old ideas	Stimulate technological, institutional, organizational, and social innovations
Market failure to correctly price the adverse consequences of industrial activity	Internalize the external environmental and social costs
Market failure to deal sensibly with social and environmental problems that span long time horizons, which pricing and markets are inherently incapable of solving.	Transcend markets and implement far-sighted and integrated government policies.

By following this table, this section presents its argumentative interpretation on how a social innovation as a business model and tool could facilitate transformation towards sustainable development:

- Social innovations could be viewed from an integrative (or trans-disciplinary) approach towards solving environmental and social problems by developing widely-focused solutions and more systemic and integrative approaches.
- Social innovations could develop more flexible mechanisms for democratic and participatory governance.
- Social innovations have a high potential to stimulate innovation within different areas: technological, institutional, organizational, etc. Indeed, it could be argued that the emerging development of social innovation is social innovation by itself.
- Social innovations may address the externalization of environmental and social costs.
- Social innovations have a high potential to transcend markets and support far-sighted and integrated policies, since solving trans-national social and environmental problems requires new and effective approaches and innovative solutions.

Nevertheless, social innovation is viewed as the new innovation paradigm since it serves as a gateway of innovation for the society. As a new paradigm it presupposes the potential capacity to create a steady flow of social innovations, and it serves as an important contributor to the overall social and ecological resilience (Westley, 2008). Alongside businesses, universities, NGOs, citizens and customers become relevant participants of the innovation processes. In turn, innovation becomes a general social phenomenon and increasingly influences all walks of life. Social innovation stimulates the ripple effect within the production, availability, and consumption of public goods based on particular normative and culturally contingent context (Alex Nicholls and Alex Murdock, 2012).

## **Social innovation as an entrepreneurial opportunity: the context of social entrepreneurship**

The very concept of sustainable development or sustainability emphasizes the capacity of an object to sustain itself. Indeed, in order to make social innovations viable and long-existing, they have to be self-sustaining. In this respect, the concept of entrepreneurship and entrepreneurial opportunity plays a huge role since the entrepreneurial side of the innovation makes it workable, viable and in many cases, profitable. Despite that many definitions of social innovations do not include the notion of profitability by emphasizing the social benefit aspect; there still remains the need to make the innovation viable, self-sustained or driven by market conditions.

Entrepreneurship has been a flagship subject of business studies for many years since it focuses on identifying new opportunities for creating value for users, and commercially developing those opportunities to establish a profitable business (Shane and Venkataraman, 2000). The word “entrepreneur” derives from French language and it refers to taking the initiative to bridge. The opportunities identified by entrepreneurs can be for new products or services, new markets, new production processes, new raw materials, or new ways of organizing existing technologies (Schumpeter, 1934). Therefore, the very concept of entrepreneurship is highly tied to social innovation discourse. According to Schumpeter (1934), entrepreneur is the innovator who implements change within markets through the carrying out of new combinations. These can take several forms:

- the introduction of a new good or quality thereof,
- the introduction of a new method of production,
- the opening of a new market,
- the conquest of a new source of supply of new materials or parts, and
- the carrying out of the new organisation of any industry.

Indeed, Schumpeter (1934) stressed that entrepreneurs can be driven by non-economic motives such as a desire for creativity or power (in this case, social welfare), economic theories of entrepreneurship generally emphasize the role of profit as one of the major underlying goals of entrepreneurs and investors in developing a new venture opportunity. However, entrepreneurial activity can be found in many areas, including in the social sector (Thompson, 2008). Drucker (1985) argued that despite that entrepreneurship is by no means limited to the economic sphere, although the term originated there, it pertains to all activities of human beings other than those one might term “existential” rather than “social.”

Social entrepreneurship refers to a broader term generally referring to any venture that creates social or environmental benefits; thus this concept constitutes the discourses of sustainable development and social innovation as well. Alford et al. (2004) stated that social entrepreneurship creates innovative solutions to immediate social problems and mobilizes the ideas, capacities, resources and social arrangements required for social transformations. Dees (1998) indicated that social entrepreneurs play the role of change agents in the social sector, by:

- Adopting a mission to create and sustain social value (not just private value),
- Recognizing and relentlessly pursuing new opportunities to serve that mission,
- Engaging in a process of continuous innovation, adaptation, and learning,

- Acting boldly without being limited by resources currently in hand, and
- Exhibiting heightened accountability to the constituencies served and for the outcomes created.

Both social innovation and social entrepreneurship are highly intertwined, since social entrepreneurship emphasizes more the very approach and goal, whereas social innovation emphasizes the result. Social entrepreneurship entails the ideological combination of participation, social mission, and market methods to achieve social transformation (Chell, 2007). Social innovation is explicitly oriented to provide results for the social and environmental good. It is innovation inspired by the desire to meet social needs which can be neglected by traditional forms of private market provision and which have often been poorly served or unresolved by services organised by the state (Harris and Albury, 2009). These both the concepts of social innovation and social entrepreneurship are key towards further advancing the theory of sustainable development.

### Conclusions

This paper analyzed the concept of social innovation within the context of sustainable development discourse by synthesizing the established and emerging definitions of social innovation and social entrepreneurship. The literature review indicates that social innovation may have many definitions since it is interrelated with many other concepts like social entrepreneurship, sustainability, social welfare, etc. From reviewing the many definitions of social innovation, it is clear that the context in which they were created matters to a great extent. For instance, both social innovation and social entrepreneurship are highly intertwined, however, social entrepreneurship emphasizes more the very approach and goal (based on the very logic of entrepreneurship), whereas social innovation emphasizes the result (the creation of an innovative product or solution). This theoretical review suggests that a discourse plays the key role in determining social innovation definition, since it represents a perspective, a domain, a conceptual framework, and a way of looking at things. Therefore, if a definition of social innovation is formulated within the discourse of sustainable development theory, the sustainable development theory becomes the defining aspect of the resulting definition.

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# **SOCIAL STAKEHOLDERS APPROACH TO TRAINING OF FINANCIERS AT VILNIAUS KOLEGIJA / UNIVERSITY OF APPLIED SCIENCES**

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## **Abstract**

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Globalization and technological development promote the use of practical approaches so that the aim of higher educational institutions is to provide graduates with competence which is important for the labor market and their future career. High schools must strive to involve stakeholders to its community as it increases learning, especially final professional practice skills. It is also important to pay the attention to quality improvement and graduates entrenchment in the labor market as helping students to develop skills which will be needed in their future career.

It is important to prepare graduates for the labor market as if this task is not the only one goal of high school to cooperate with stakeholders. Each group of stakeholders benefits from mutual cooperation. Students feel the benefits of cooperation because of business practice acquirement and real hands-on experience with the opportunity to get a job. Social stakeholder's opinion survey helps to evaluate readiness of financiers for practical activity. The article presents the results of stakeholders approach for finance program graduates competencies.

**Keywords:** social stakeholders, graduates, professional practice, labor market.

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## **Introduction**

According to L. Kaminskiene (2008) there are certain education stakeholders groups: 1) people (students, teachers, parents of students, graduates and 2) organizations (high schools, trade unions, non-governmental organizations, and 3) employers (regional and national level companies, employers' organizations); 4) authorities (regional level of government, the national government, public units).

T.J. Mr Rowley and Moldoveanu (2003) pointed that the stakeholders are involved in high school activities led not only rational (tangible and intangible) but also on the emotional basis. Interest coherence between stakeholders groups with different points of view has a positive influence on stakeholders' mobilization activities.

Social members' support the involvement into activities of the institution operate program. Moreover, committees ensure guarantee in a serious and in-depth approach to stakeholders' activities. High schools must strive to involve stakeholders in its community as it increases the study, in particular, practices as also to improve the quality of the graduates stay in the labor market perspective, and in addition, to help students to develop those skills which they will need in the labor market.

## *Relevance of the Topic*

Study quality evaluation aspects are important not only for a higher education institution but also for employers. As a result, the better future professional is prepared, the better he

is valued by employers. Stakeholders are interested in the labor market to find qualitatively trained specialists in hope of their effective work performance.

University studies were conducted in accordance with the degree equips degree programs and non-degree programs. There are two types of study programs: college and university. Therefore, there is always a question of stakeholders - what type of program students is better to accept for a job position.

#### *Research Problem*

The main scientific problem that exists today is assessing stakeholders approach to the development of financiers at Vilniaus kolegija/University of Applied Sciences. Lack of methodology as object assesses specifically whether prepared specialists meet stakeholders' expectations.

The objective of this paper is to expose employers approach to preparation of financiers in faculty of Economics at Vilniaus kolegija/University of Applied Sciences.

#### *Research Objectives*

- To examine employers' views on the faculty of Economics graduates with non-university education, preparation for professional activities ;
- To provide employers' approach to Vilniaus kolegija/University of Applied Sciences of Finance program provides the student with skills and competences acquired practical skills and abilities ;
- To summarize the opinion of employers on the practice of the organization of life and the quality of cooperation between practitioners in the organization and program development.

*The object of research* is the assessment of the stakeholders' competency in Finance program graduates.

*Research methods:* the review of theoretical scientific literature, stakeholder survey, data systematization and generalization.

#### **Research results**

The study included 41 employers who took part in the financial program graduates (final professional practice). Judging by higher non-university-trained young professionals and labor market it is worth to focus on of the compatibility issue. It is important to take into account the needs of employers, therefore, the question "What kind of knowledge is enough to know for graduates?"

In answering this question stakeholders argued that graduates have enough of sufficient knowledge (82.93 percent), computer literacy (82.93 percent), activity and independence (73.17 percent) and practical skills (51.22 percent).



Assessing Vilnius kolegija/University of Applied Sciences graduates' personal characteristics, the majority of respondents said that the graduates of the following characteristics consist of awareness and quality of aspiration (85.37 percent), the ability to work in a team (82.93 percent), individual initiative (80.49 percent) and flexible response to changing situations (80.49 percent) (see Fig.1).

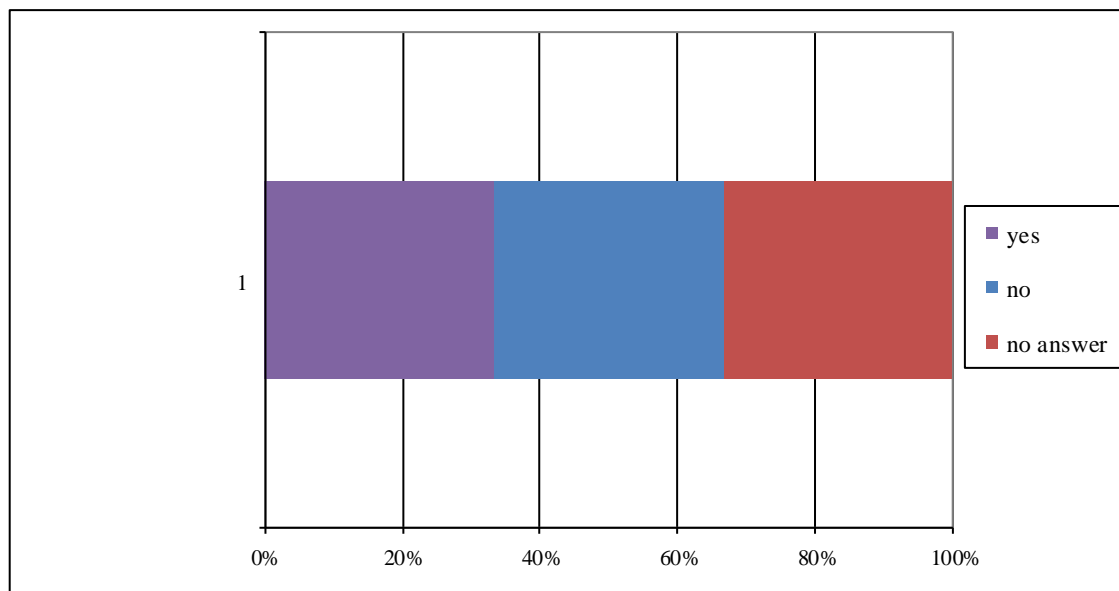


Figure 1. Specific personal qualities of graduates in per cent.

According to the social stakeholders, most graduates start work institutions, improving the qualifications of organized courses, seminars (31.71 percent) and continue studies in higher education (24.39 percent).

The aim was to find out if stakeholders are satisfied Vilnius kolegija/University of Applied Sciences graduates (87.80 percent of the respondents said yes), and (12.20 percent did not answer this question).

By evaluating graduates of theoretical knowledge, most employers say that theoretical knowledge of graduates is good (56.1 percent), very good (39.02 percent) and average (4.88 percent).

Another question was designed to identify areas where graduates could work. Respondents said that graduates have acquired accountant qualification to handle the financial records (90.24 percent), a financial analysis (90.24 percent), manage cash flows (53.66 per cent) and the organization of the company's financial activities (58.54 percent).

Employers were asked to indicate the financier with higher non-university education competencies. 65.68 per cent of respondents said that the most important competences prepare and analyze activities of accounting documents in 63.41 percent preparing reports, notes and analysis of financial statements, 60.98 percent- analysis of financial statistics and tax reporting data, 58.54 percent respondents stated - to ensure the enforcement of financial controls, 51.22 percent - collect and evaluate financial information system, 34.15 percent - apply their labor legislation. In summary, the competencies of graduates'

stakeholders evaluate in a positive way. The aim was to evaluate the graduates of general practical skills, abilities and personal characteristics. Employers key skills time computer skills (92.68 percent), fill in the relevant documents, to keep accounts (75.61 percent), to work in a new environment (73.17 percent). Nearly half of employers (48.78 per cent) believe that knowledge of foreign language is obligatory. Social stakeholders consider these graduates skills: communication (85.37 percent), IT computer literacy (82.93 percent), work in a team (73.17 percent), a realistic assessment of the situation, their potential and self-address labor questions (56.10 percent). The lowest skills of graduates were organizational / administrative abilities (53.66 per cent). Employers consider highly the most important personal personal qualities of graduates: honesty (100 percent), responsibility (95.12 percent), creativity (87.80 percent), efficiency (73.17 percent), autonomy and initiative (70.73 percent). In summary, the stakeholders highly evaluate general practical skills, abilities and personal qualities of graduates.

According to the social stakeholders the students are qualified with the requirements of employers (65.85 percent), satisfied partially (21.95 percent), a tenth of the respondents (12.20 percent) did not respond to this question.

With the help of statement "Rating VIKO Finance study program students' ability" was to clarify the perspective of how the employers evaluate the graduates of faculty of economics. To sum up, most of assessments were positive - 67.86 percent, very good - 28.57 percent, good - 3.57 percent. In summary, the stakeholders evaluate students of finance positively.

In assessing the factors what factors prevent taking VIKO Finance students for practice, most employers stated following reasons: lack of staff leading students during their professional practice (34.15 percent), lack of space (26.83 percent), complex student placement and evaluation (24.39 percent) and other – 14.63 percent. Some of employers claimed that they are ready to accept them for practice or there are no conditions for a separate office room itself.

The aim of this paper was to identify areas where employers would like to support cooperation with the Faculty of Administration and lectures. The majority of stakeholders indicated that they would like to participate in discussing the content of practice, others to identify the work evaluation criteria of practice itself. The results suggest that the financial program graduates meets stakeholders ' expectations.

## **Conclusions**

1. Stakeholders welcome positively the graduates of finance program in modern market economy. The majority (87.8 percent) of stakeholders involved in the study said that the Vilniaus kolegija/University of Applied Sciences of Finance program graduates are satisfied with their practice.
2. Stakeholders said that graduates have acquired accountant qualification to handle financial records, perform financial analysis, management of cash flows, the organization of the company's financial activities. Even 95.12 percent of stakeholders said that

graduates were useful for their institution but there is a bottleneck to accept graduates practice (lack of space, there is no staff to manage student behavior and etc.)

3. Most of stakeholders would like to broaden cooperation with Vilniaus kolegija/University of Applied Sciences administration and lectures discussing the content of the practice, determining the practical student work evaluation criteria and the preparation of practical tasks students.
4. 78.0 percent of stakeholders evaluate the ability of graduates as excellent (9, 10 points), 19.5- good (8 points), only 2.4 per cent, only one stakeholder answered by an average (7 points).

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# **FLEXIBLE LABOUR ARRANGEMENTS AS THE LEGAL FRAMEWORK FOR INNOVATIONS IN HUMAN RESOURCE MANAGEMENT: MODERNIZATION OF LITHUANIAN LABOUR LAW IN THE EUROPEAN CONTEXT.**

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## **Abstract**

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Draft of the new Labour Code marks a shift from aim to ensure job security, towards more flexible work arrangement in Lithuanian labour law. This change of legal framework potentially will open ways to new practices to human resource management in private sector. European Commission, with the good reason, closely links *flexicurity* policy to spread of innovative workplaces. "Role model" countries for this policy, Denmark and the Netherlands, are counted among the most innovative. However both concepts, work flexibility and innovation, are complex and multidirectional. Studies of Western European labor practices show negative relation between contractual flexibility, one of the main features of Lithuanian labour reform, and "employee driven" innovations. Contractual flexibility allows more efficient and innovative use of staff, are well regarded in business community (including low technology and small enterprises, incapable to R&D innovations) and have positive effect on solving unemployment problem. At the same time a wide usage of "managerial" innovations is pushing the labor market into the creation of low-pay "precarious" workplaces and the creation or group of "permanently-temporarily employed" workers.

**Keywords:** modernization of law, work flexibility, flexicurity, innovations, human resource management.

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## **Introduction**

According to Organization for Economic Co-operation and Development (OECD), human capital is at the heart of the innovation if there is appropriate organization environment and practices that are conducive to innovations (Ischinger, Wyckoff, 2010). Draft of the new Labour Code (hereinafter referred to as 'DNLC'), in spring of 2015 submitted to Lithuanian Parliament, was prepared on the principals of *flexicurity* and after adoption will bring number of novelties in comparison to the current Labour Code of the Republic of Lithuania (hereinafter referred to as 'CLC'). European Commission links spread of innovations to flexibility in work arrangements (European Commission, 2007; European Commission, 2010) "Lithuanian innovation strategy for 2010-2020 years", the main innovation strategic planning document, barely mention labour relations. "Report on created legal-administrative model" only states that skilled labor power is receptive to innovation and able to create them, and for that reason number of learning and vocational training supporting measures is introduced. Legal reform, innovation at its own right, is not stated as part of Lithuanian innovation strategy and stimulation of innovations is not declared as a part of modernization of labour relations.

This reflects insufficient interdisciplinary discourse in science and as a result, compartmentalized approach to complex processes. Impact of legal framework on spread of innovations in general, and on innovations in human resource management in particular is still waiting for serious researches in Lithuania.

S. Pogosian and I. Dzemyda (2012) noted that concept of innovations/innovative behavior is still relatively new in Lithuania. Main attention of the researchers was focused on innovations in public sector (Domarkas, Juknevičienė, 2010; Černikovaite, 2011: Giedraitytė, Raipa 2012; Raipa, Jurkšienė, 2013 and else), but appearance multi topic study books (Ališauskas, Karpavičius, Šeputienė, 2005; Jakubavičius Jucevičius, Jucevičius, Kriaučionienė, 2003) and specialized articles, (Gečas, Jakubavičius, 2001) suggests, that studies in business innovation is gaining its momentum in Lithuania.

Starting from 2008, in response to the pending legal reform, Lithuanian of labour law specialists intensified research of flexible work arrangements (Davulis, 2008; Dambrauskienė, 2008; Usonis, Bagdanskis, 2008; Usonis, Bagdanskis, 2011 and other). These works are used for more accurate understanding of legal reform and flexibility in employment relations. Articles and monographies (Eichhorst W., Tobsch, 2014; De Spiegelaere, Van Gyes, Van Hootegem, 2014) describing results of studies of actual labour relations in West European countries provides opportunities to predict outcomes of legal modernization in Lithuania

Aim of this article is to research possible impact of introduction flexible legal regulation on innovative human resource management practices. The research tasks are the following:

1. To ascertain different approaches to innovations in human resource management and work flexibility;
2. To define European Commission aims and policies toward work relations and innovation;
3. To examine DNLC to, single out and classify proposed measures of flexibility;
4. To evaluate the impact of new legal framework to innovations in the area human resource management.

### **Concepts of innovation in human resource management and work flexibility**

Innovations can be regarded as one of most important elements of successful business strategy. There is no single universally accepted definition of innovation. European Commission innovation described innovation change that speeds up and improves the way we conceive, develop, produce and access new products, industrial processes and services. Changes that create more jobs improve people's lives and build greener and better societies. (European Commission (2010) *Turning Europe into a true Innovation Union.*). Product innovations are new or improved goods or services. There are distinction between "new to the market" innovations and innovations that are 'new to the firm' (being adopted from other sources), that are (mainly) a measure of the diffusion of innovations Process innovations are new technological or organizational arrangements (Edquist, Hommen, 2008). Non-technological, organizational innovations is often available even to small firms (10–50 employees) which are by far the largest group of business organizations, but they show the lowest degree of innovativeness even in generally innovative countries like Netherlands( Verspagen, 2008).

Human resource management is defined as a system of operational functions such as staffing, selection, job design, training and (career) development, performance appraisal and compensation, dismissal. (Jorgensen, Becker, Matthews, 2009). Innovations in human

resource management may have two diverse directions: “employee-driven” and “managerial”.

Innovations may be developed and implemented principally on employees’ initiative and not necessarily with direct support of the management of the company. Concept of “employee-driven innovation” refers to all bottom-up innovative initiatives (De Spiegelaere, Van Gyes, Van Hootehem, 2014). Company’s workers are unique resource, and may be competitive advantage, which cannot be easily replicated by other market players (Išoraitė, 2011). Manager’s task comes down to support of organizational values and to providing functional autonomy, flexibility and challenging tasks to employees. This is essential element to enable workers to use their innovative potential and reduce their resistance to workplace innovations. Promoting of “learning organization” culture is very closely related to companies’ ability to innovate in this why. Essential policies of support of learning culture are: a) vocational training; b) pay for performance; c) consultation and assessment; d) assistance to employees. In the countries where work is principally organized to support high levels of employee discretion in solving complex problems, firms tend to be more active in terms of innovations development through their own in-house creative efforts. Employee careers there are often structured around series of projects and not advancement within company hierarchy (Ischinger, Wyckoff, 2010).

Organizational innovations may also be based on managerial “top” to “bottom” leadership and decisions on aggregation, allocation, disposal (if they become redundant) of resources (including human) and affordability of the costs. “Employee driven” innovations are more rewording, but also more risky, demanding greater investment in employees. “Managerial” innovation seems to be more dynamic, with more predictable results and can easily be applied in small, low-tech service companies. However flexibility or rigidity of labour regulation is influencing the managerial decisions through costs of hiring and firing or redeployment of personnel. (De Spiegelaere, Van Gyes, Van Hootehem, 2014). Company’s According to survey of CEOs of Lithuanian low-tech sector companies, strict labor market regulation is one of the main restrictions, hindering their company’s competitiveness. (Venckuvienė, Sabonienė, 2015).

There are several types of flexibility at work. Scientific debate tends to concentrate on functional and contractual flexibility and the implications of adopting either one or the other (Carvalho, Cabral-Cardoso, 2007), but locational flexibility, wage and working time flexibility are also distinguished. Functional flexibility focuses on (1) job rotation schemes, (2) the skill variety and (3) the capacity of employees to swiftly redeploy their tasks (autonomy). In job rotation schemes, employees are frequently allocated different jobs in the organization. This practice through multi-skilling may potentially increase employee’s capabilities for innovative work behavior. Contractual flexibility (or numerical flexibility) tends to cost-saving approach and covers the rigidity of the hiring and firing the regulations on using temporary, part-time or agency employment contracts. (De Spiegelaere, Van Gyes, Van Hootehem, 2014). Functional flexibility is associated with “learning organizations” and employee “driven innovations” while contractual flexibility – with organizations of “managerial” type.

### **European policies toward flexible work arrangement**

Principle of stability of labour relations (CLC article 2-th, part 2-th, paragraph 8-th and other related provisions of the Code) remains at the core of current Lithuanian labour law. "Job protection" legislation norms are expected to restricting employers' ability to dismiss workers in response to a worsening economic environment. Yet this also creates disincentives for employers to hire people. For this reason Lithuanian labour market recovery after 2008 economic crisis was among the slowest in EU (Zasova, 2011). Experience of economic crisis and European labour market policies encouraged Government of the Republic of Lithuania to shift labour regulation towards principles of the *flexicurity* (Petrylaitė, 2015).

*Flexicurity* officially is defined by European Commission as an integrated strategy to enhance, at the same time, flexibility and security in the labour market. (European Commission, 2007) EU policies towards employment regulation were influenced by examples of successful labour reforms in Netherlands and Denmark.

In Netherlands, *flexicurity* was adopted as a new legislative package in late 1990's. Reforms included modification of dismissal protection for regular workers (shortened required notice period), elimination of restrictions for operations of temporary work agencies and enhancement of employment security for atypical workers (Colvin, Darbishire, 2012).

*Flexicurity* policy in Denmark is product of specific longstanding conditions and labour legislation package, introduced in 1993. Aim of the reform was to diminish "structural unemployment" (Daemrich, Bredgaard, 2013). In result Danish labour market combines high mobility (measured by job mobility, job creation, job destruction and average tenure) between jobs and modest level of legal job protection, with a comprehensive social safety net for the unemployed and an active labour market policy, which is supplemented by other policies (educational and childcare systems) (Breedgard, Larsen, Madsen, 2008). The idea is that *flexibility* and security could be mutually supportive: only through higher security protecting the employment (and not the job), the challenges of a globalized economy could be effectively faced via additional flexibility (hence efficiency). In 2007 the European Commission promoted *flexicurity* to a key policy concept, which was incorporated into the European Employment Strategy 2007 (and in the Lisbon Agenda), reaffirmed within the EU-2020 strategy. It is important to note that in these strategies European institutions *flexicurity*, which was devised as a solution to problem of unemployed by introduction contractual flexibility, see as the part of strategy to reach "smart, sustainable and inclusive growth." "Agenda for new skills and jobs" declares that European labour markets need to be both more inclusive and more responsive to innovation and change. It seems to be that in terms of human resource management, these documents advocates mainly for "employee driven" innovation enchantment. This idea where adopted, almost not mentioning term "innovation", in planning Lithuanian labour reform, but balancing it with notion of employers interests ("managerial" innovations) "Report on created legal-administrative model" ( 2015) states that introduction of flexibility has to be understood as expansion of worker's capacity to adapt to the job processes and harmonize his professional life with other social and economic interests. On the other hand, it helps the employer to allocate financial resources, and to use work force to reach intended economic performance.

### **Patterns of flexibility in newly proposed labour law regulation**

*Functional flexibility* in DNLC is enabled by distinguishment of “soft” (changeable by agreement) and “hard” (nondiscrimination, safety at work, maximum work and minimum of rest time etc.) conditions of employment contract as long as there is balance between the employer and employee interests (DNLC art. 32th part 3). Both contractual parties may initiate agreement on change by of contractual terms (DNLC art. 44th and 45th), but employer disposes right to dismiss employee because of refusal to work under changed contractual conditions (including working time regime, working place) if they are changed out of economic or organizational necessity (DNLC art. 56th part 1).

Flexible regulation of conclusion and termination of employment contracts on initiative of the employer is an essential part of *flexicurity* policy. New regulation provides possibility dynamically respond to the need for labor force simplifying procedures of employment contract conclusion. Employee will be able to inform State Social Insurance Fund Board territorial office and employee to begin performing his duties within one hour after conclusion of the contract, while existing legal regulation allows employee to start work only next day after conclusion of contract. List of the reasons, which allows employer to terminate employment contracts on his initiative (DNLC art. 56th.) include: 1) redundancy of work function of the employee due to objective changes in the work organization and employer does not have job vacancy; 2) employee’s inability to reach results, set out in performance improvement plan; 3) employee’s refusal to work under out of economic or organizational necessity changed contractual conditions. Term of advance notice of the termination of contract on the initiative of an employer without employee fault is reduced to one month and severance pay to one average monthly wage. If work relationship lasted less than one years, terms of advance warning and severance payment is cut by half. DNLC (Article 58-th) mentions the employer's right to terminate the employment contract by the employer's will without mentioning reason (real reason may not be discrimination). In this case employer must warn employee in advance of three working days and paying severance payment in minimum amount of six average monthly salaries.

DNLC considerably expands contractual flexibility by extended list of types of employment contracts. Unlike present regulation (CLC article 108 part 2) DNLC does not mention permanent contract (non-term) as the main type of employment form. Newly proposed labour regulation allows conclusion of fix-term contracts even if the work is of permanent nature, but maximum duration of contract, or several consecutive contracts with the same worker is no longer than two years or five years if successive fixed-term employment contracts are concluded for different work functions (DNLC art. 67th) Under fixed-term, project-based employment contract (DNLC art. 91th) employee undertakes obligation in agreed time (no more than three years) to reach clearly defined result. This particular type of fixed-term contracts because of allocated responsibility and operational autonomy reflects not contractual, but functional flexibility.

Temporary agency work along with the freelancer’s services, service outsourcing are seen as most flexible forms of organization. Temporary agency work (also known as “agency work” or “personnel lease”), common in “old” European Union countries is still relatively rare in Lithuania (Usonis, Bagdanskis, 2008) .On 19 May 2011, the Lithuanian Parliament adopted



the “Law on Temporary Agency Employment” to implement the EU Directive ( Bagdanskis, 2011). DNLC provides adjusted regulation this type of labour relationship (DNLC art. 71th). Under undetermined work extent (DNLC art. 87th) contract employee performs the work function at the invitation of the employer and is paid only for the actual work time. This arrangement is known as "zero hour work", however DNLC guarantees payment for eight hours of monthly work. Quantity of undetermined work extent contracts cannot exceed 1/10 of all valid employment contracts concluded by one employer.

DNLC, in response to European recommendations, proposes block of provisions on employee skill-development. Scientific literature concludes that only continuous vocational training alleviates skill obsolescence, caused by continuous innovation process in modern markets. (Ischinger, Wyckoff, 2010). Article 28th obliges employer to respect employees' aspiration to professional development, to provide minimal training for the work and take measures to adapt employee qualification, to changing work conditions. Vocational training (DNLC art.80-th) and apprenticeship employment (DNLC art. 84th) contracts are specifically set to provide employee with profession skills. These provisions are primary beneficial to employees as they enhance their adaptability in workplace (functional flexibility) and employability and in labour market. Employers could benefit from availability of qualified workforce and opportunity to share training costs with the Labour Exchange or employees. Concluding other types of employment contracts, parties may agree on compensation of formal and informal (on the job) training, that exceeds minimal, cost to the employer if contract is terminated on employee's initiative without important reasons or due to the fault of the employee (DNLC art. 36th).

Job-sharing (DNLC art. 95th), employee-sharing (DNLC art. 98th) contracts and teleworking (DNLC art. 51th) along with telework time flexibility provision can be seen as measures of “employee orientated” functional flexibility.

Telework in DNLC is not the type of employment contract (as in the CLC), but instead way of organization of work, Applicable to any other contract. This brings Lithuanian Labour closer regulation of the modernization of workplace, reconciliation of work with private life, Greater autonomy of workers and other aims declared in European Framework Agreement on Telework of the 2,002th. Increase of working time flexibility is achieved by distinction of between the working time limit and working time regime (DNLC art. 92th.), introduction of partial work (DNLC art. 47th) and agreements on reduced work time (DNLC art. 39th). New regulation does not establish eight hour working day and this allows flexible (in lawful boundaries) working time distribution per day, week, month or other period up to three month. Partial work (shorter working time norm) can be introduced when employer experiences economic difficulties. Reduction of employee's wages in this case is compensated from unemployment social insurance fund.

In the area of wage flexibility proposed legal reform provides improved employee's wage concept, new methodology of setting minimum wage at the state level and possibility to pay less than minimum wage (but according actually performed work) if employee unjustifiably will fail fulfil his work share (DNLC art. 159th.). DNLC enables to change essential conditions of contract (including wage) when there is objective economic or organizational necessity.

DNLC turning away from policy of employee uniformity and provide slightly (unlike Denmark, which provides radically different regulation for blue-collar and white-collar workers) customized regulation for management personnel, small (less than 10 workers) business and other categories of employees.

Even current regulation allows by collective agreements reach considerable level of flexibility, but they remain extremely uncommon in Lithuanian private sector. State Labour Inspectorate counted that collective contracts are concluded in around ten percent of companies and that is lowest figure in the EU (Sukurto tesinio-administracinio modelio ataskaita. 2015). DNLC suggests transfer to collective contract regulation part of important issues (like remuneration payment system) and thus increase quantity of collective agreements. Collective agreement concluded a trade union will be applied only to members of trade union (DNLC art. 218) and, it would seem, to allow for the employer to have several collective agreements with the different groups of employees.

Proposed regulation provides strengthening of workers' representation by establishment of works councils and election of employees trustees (when average employee number is less than 20). This measure will enhance workers access to information and will give opportunity thru representatives to participate in company's board decision making processes (DNLC art. 233th). Combination of models of co-management, most known in Germany, with centralized collective bargaining is bold and uncommon in Europe (De Vos, 2015).

This short overview of shows that authors of DNLC by adaptation of advanced foreign regulation (already in use in United Kingdom, Denmark, Netherlands and other countries)( Report, 2015), EU guidelines and adjustment of existing regulation manage to propose draft of modern legal document. Provisions DNLC aim to considerably increase flexibility, both contractual and functional, and bring labour regulation closer to civil law.

### **Impact of flexible legal framework on innovative human resource practices**

Success of labour law will depend, among other factors, on willingness the employers to act upon ne regulation in prescribed why and reediness of employees accept the changes. There are some examples of foreign "legal transplants" which didn't find their proper place in Lithuanian legal system (collective agreements in CLC regulation).

Increase of flexibility in legal framework does not necessarily mean automatic "all direction" growth of innovative human resource management practices. Unemployment is the main target of the reform and increase of contractual flexibility is the proposed approach to this problem. After implementation of proposed regulation it is expected to create 85 thousand new workplaces, but it is likely that most of newly created places would be in fixed-term, undetermined work extent and other non-standard employment. In other words it will be result of "managerial" innovative business practices.

Studies of innovative company practices and employee behavior in Western Europe found negative relations between job insecurity and creativity, but job insecurity is and strongly negatively related to organizational trust. Moreover innovative "learning organization" type companies used fewer temporary contracts than the other, less innovation prone, organization types. Positive relation between temporary work and innovation was found

where staff were engaged in temporary contracts to implement a certain innovation (similar to project-based employment contracts). Also companies with high levels of inter-organizational cooperation tend to engage highly qualified employees with temporary contracts. Even if mobility between firms is a mechanism for knowledge dispersion, if it becomes too high, it may reduce firms' incentive to invest in education and training. Contractual flexibility is therefore clearly no way to increased "employee driven" innovations (De Spiegelare, Van Gyes, Van Hootegem, 2014).

It does not mean that companies using a high proportion of fixed-term contracts are not innovative at all. Some studies show that score well in disperse of innovations (De Spiegelare, Van Gyes, Van Hootegem, 2014). Many of low-tech companies could not invest in "new-to-market" innovation generation and concentrate their human resource management efforts to production cost effectiveness. To these companies, fix-term contracts, temporary agency work and other flexible forms of employment is convenient when business require employees to supplement permanent staff at fluctuations. This type of work allows avoid problem of increasing number of employees, it is efficient way to find qualified workers without additional administrative costs (Usonis, Bagdanskis, 2008). Finally managers could expected wage gap between direct employees and temporary agency workers performing similar tasks. As, in despite of general principle of equal pay and treatment, it has been observed in Germany (Eichhorst, Tobsch, 2014).

Existing demand for flexible forms of labour shows the fact that despite a relatively rigidity of regulation, actual labour relations are far more flexible. Wide spread of termination of employment contract upon the notice of an employee (while in fact it is often done on employers initiative) (Dambrauskienė, 2008) unpaid overtime work, trial period usage as "quasi short-term" contracts and other "paralegal" work relations leads some scientists to conclusion that current regulation does not reflect needs of employers and interests of employees (Davulis, 2008). Employment through temporary employment agencies Lithuanian companies have been using since 2003 (Bagdanskis, 2011) long before formal legitimation in statutory law.

Readiness of businesses to build their innovative strategies around contractual flexibility may cause certain problem. Temporary and agency work may be preferred by certain categories (students, young people with no work experience) of employees who need flexible working hours. Theoretically flexible forms of work make it easier to acquire work experience and create preconditions to permanent employment (Usonis, Bagdanskis, 2008). However, usually for the worker there is no sense to conclude fixed-term the employment contract if he can choose to conclude permanent one (Mačernytė-Panamariovienė, 2015).

Introduction of wider possibilities of temporary employment and other "precarious" employment will significantly reduce unemployment, but also could shift the market towards creation of non-standard, low-payment workplaces and formation of groups of workers with little prospect of permanent employment (Eichhorst, Tobsch, 2014). Netherlands experience shows that low-paid job often offers hardly any prospect of improving the income situation in the future (Nekkers, Roorda, van der Waart, 2008). To the employees non-standard, temporary work does not provide the security and stability, career perspective and can cause psychological problems as a consequence of employment.

(Usonis, Bagdanskis, 2008) Long-term segmentation (permanent workers vs “permanently temporary” workers) in the long run may deepen social problems and cause political campaigns for reregulation of labour market.

## Conclusions

1. Innovations in human resource management may be based on employee initiative and on initiative of manager. “Managerial” innovations are less rewording but require considerably less resources.
2. Functional flexibility manifests itself through multi-skilling increase of employee’s developing capabilities for innovative work behavior while contractual flexibility in hiring and firing employees and trends to cost-saving.
3. From 2007 European Commission advocates *flexicurity* as a key policy concept for reducing unemployment, but also, by promoting life-long learning, vocational augmenting of workers (“employee driven” innovation strategie), a part of European innovative strategy.
4. Draft of the Labour Code (DNLC) implements modern European tendencies on labour regulation and introduces novelties in functional, *time* and, especially noticeably, *contractual flexibility*. Judging on present the labor market situation measures contractual flexibility will be well received by business.
5. Enhanced contractual flexibility will likely to have positive effect on “managerial” type of innovations in human resource management. However flexible contracts may have only slight impact on “employee-driven” innovations and could possibly create problem of “permanently temporary” workers.

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# EUROPEAN SMALL BUSINESS GROWTH TRENDS AND FUTURE FORESIGHT

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## Abstract

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*Purpose of the research.* This paper aims to review the literature on the phenomenon of employment creation by small firms at a regional level.

*Research methodology.* This study adopted a systematic literature review method. The approach built on other literature reviews with more critical analysis of the literature. Initially, the literature review focused on the two highly ranked management journals that published just literature reviews. Although those analyses of reviews provided understanding about the subject development, it needed to be updated and modified. Therefore, different terms and restriction criteria were formed and 45 articles analysing employment between 2005 and 2015 were coded. However, the study was not limited to those materials. By looking at other literature reviews, citations and co-citations, fourteen key empirical up to date articles from various journals were added to coding.

*Results and research implications.* Job creation phenomenon was investigated and debated by at least two streams of research converging on the issues of how firm characteristics influenced job creation and what quality of employment small firms created. The study identified three main issues that should be explored: income, contractual relationship and security. The four main areas dominated the field: growth, entrepreneurship, economics, and regional development. There were many exploratory and explanatory empirical studies, but there are still avenues for future research particularly in the quality of jobs created by high growth firms (HGFs) at the regional level. For example, speculations about HGF's being innovative and their highly appreciated skilled labour should be confirmed.

**Keywords:** literature review, growth, SME, small firm, entrepreneurship, business, region, HGF.

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## Introduction

In 1979, Birch formulated the pioneering idea that 'small firms generated 66% of all new jobs generated in the U.S.' (8). Although Birch's (1987) theories were criticized by studies such as Dennis and Phillips (1994), the significance of the role of small firms in job creation became accepted (Cowling et al., 2015; Du & Temouri, 2015). Recently, Anyadike-Danes et al. (2015) found that around 6% of all firms added about 40% of net jobs by all 15-year survivors in the UK. Although Anyadike-Danes et al. (2015, 22) claimed that those firms 'require further analysis ... to understand the process of small business growth', researchers (Senderovitz et al., 2015) and policy makers (Huggins et al., 2015) were concentrating on growth for the past few decades and came up with contradicting ideas. For example, Eisenhardt and Schoonhoven (1990) and Wennberg (2009) speculated about HGF's being innovative and their highly appreciated skilled labour, whilst others (Coad et al., 2014; Lepak & Snell, 1999) had quite the opposite view.

In 1997, this ‘overly constricted focus on economic growth’ was enhanced with concentration on regions (Deas, 2013, 27). For example, although this might have positively influenced Manchester’s inner city (Harding et al., 2010), ‘unemployment and welfare dependence have remained stubbornly high across deprived neighbourhoods’ (Hincks, 2015:446). There was a lack of investigation of those issues, because, as Sternberg (2007, 13) highlighted, ‘entrepreneurship research largely ignores the spatial implications ... on the other hand .... regional science ... barely touch on the subject of entrepreneurship’. This paper aimed to review the literature on the phenomenon of employment creation by small firms at a regional level (see Figure 1). It provided a systematic literature review that answered the overall research question: how has the phenomenon been conceptualized and addressed empirically in the past? Other objectives were to map the field, and provide a thematic analysis of the major topics, examine its recent advancements and potential shortcomings of the literature. To achieve aims, the paper formed methodology of the review (1). Having done that, the centre definitions used in this study was highlighted (2). This was followed by the discussion of the employment creation (3). Finally, the paper expanded into the conclusions (4).

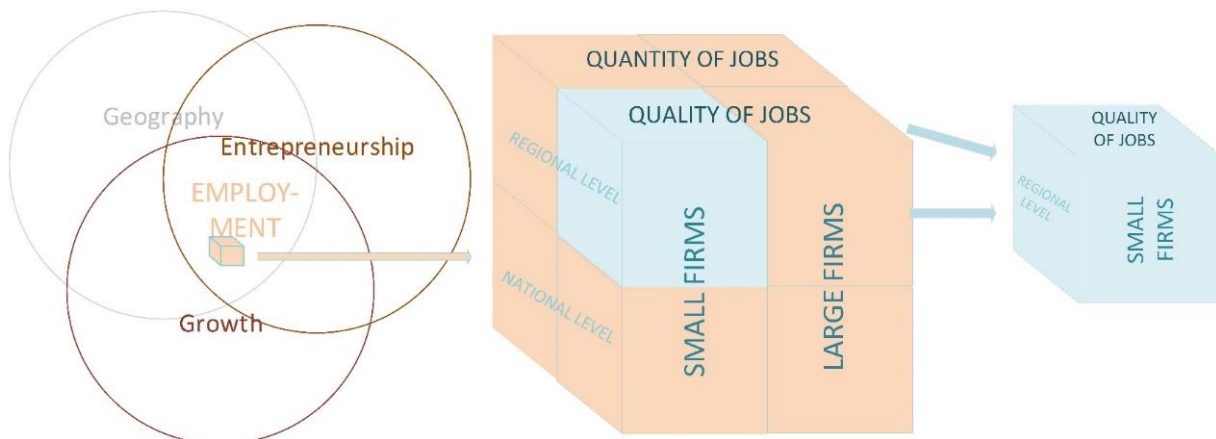


Figure 1. Hilbert's (2012) framework applied for mapping the field of this literature review.

### Methodology of the review

In order to achieve the aim, this study adopted a systematic literature review (SLR) method because it is ‘a detailed technology, that aims to minimize bias through exhaustive literature searches of published and unpublished studies and by providing an audit trail of the reviewers decisions, procedures and conclusions’ (Tranfield et al., 2003, 209). The SLR methodology has been discussed in detail in the previous literature (Pittaway et al., 2004; Tranfield et al., 2003). However, many limitations such as missing articles with poorly written abstracts were found (Pittaway et al., 2004). Therefore, it may be reasonable to follow Rashman et al. (2009) and regard SLR as a guide rather than a strict methodology. As a result, the goal was to achieve that the SLR is ‘replicable, scientific and transparent’ (Tranfield et al., 2003:209), but the emphasis should be not on the quantitative analysis of articles. It should aim to provide conceptual clarity by reviewing empirical findings and methodologies and identifying the areas lacking investigation. In this sense, the approach built on other literature reviews (such as Chandler and Lyon, 2001 and Ferreira et al., 2015)

with more critical analysis of the literature, and also using data extraction sheets (see *Appendix 1*).

Before conducting a study, it was necessary to be aware of what was already discovered in the discipline's body of knowledge (Hart, 1998). Initially, the literature review focused on the two highly ranked management journals that published just literature reviews: *International Journal of Management Reviews* (1999-2014) and *The Academy of Management Review* (1976-2014). The search terms were used from Ferreira et al. (2015). Titles and abstracts were analysed and eight articles were examined in detail. Furthermore, to extract the literature reviews that were not included in the two journals, another search was performed in *Business Source Premier*. The analysis was limited to peer-reviewed journals because of their representation of validated knowledge and the highest impact (Podsakoff et al. 2005).

Although those analyses of reviews provided understanding about the subject development, it needed to be updated and modified particularly for this research project. Therefore, different terms and restriction criteria were formed. The six recognised journals were selected: *Entrepreneurship, Theory and Practice*; *Journal of Business Venturing*; *Entrepreneurship and Regional Development*; *International Small Business Journal*; *Journal of Small Business Management*; *Small Business Economics*. They were chosen because of their high scores in rankings and relatively high impact factor (ABS, 2015). Given the high amount of articles (449), the search was restricted to articles published between 2005 and 2015 and terms referring to developing countries from de Kok (2013) were excluded. Having done that, 45 articles analysing employment were coded. However, the study was not limited to those materials. By looking at other literature reviews, citations and co-citations, fourteen key empirical up to date articles from various journals were added to coding.

### **Definitions**

This section aimed to define the most important terms: entrepreneur (3.1.) and firm (3.2.). To achieve this, the definitions were formed by using the most cited papers identified by Ferreira et al. (2015). However, other reviews of the field (such as Cornelius et al., 2006; Luor et al. 2014) were considered and acknowledged where appropriate.

### **An entrepreneur**

Around the end of seventeenth century entrepreneur role in economic development was highlighted by Cantillon (Cornelius et al. 2006). Cantillon's view of uncertainty might be interpreted as the difference in risk between employed and self-employed individuals. Then, Smith formed economy theory, which did not include entrepreneur role, and was followed by major economists until the 19<sup>th</sup> century. The US increase in industrial power could have influenced many economists such as Knight (1921) to come back to Cantillon's ideas. This was followed by another pioneering paper by Shane and Venkataraman (2000), who adopted a new definition used by Venkataraman (1997:120-121), where it was highlighted that it may be misleading to define the entrepreneur, rather they tried to identify the central issues of the field. Those were changing over time (Luor et al., 2014). The key themes in articles from this SLR highlighted the interdisciplinary nature of entrepreneurship (see *Figure 2*). Given this complex and dynamic nature of the term, Cantillon and Knight's definitions were probably the most accurate for today's entrepreneurs.



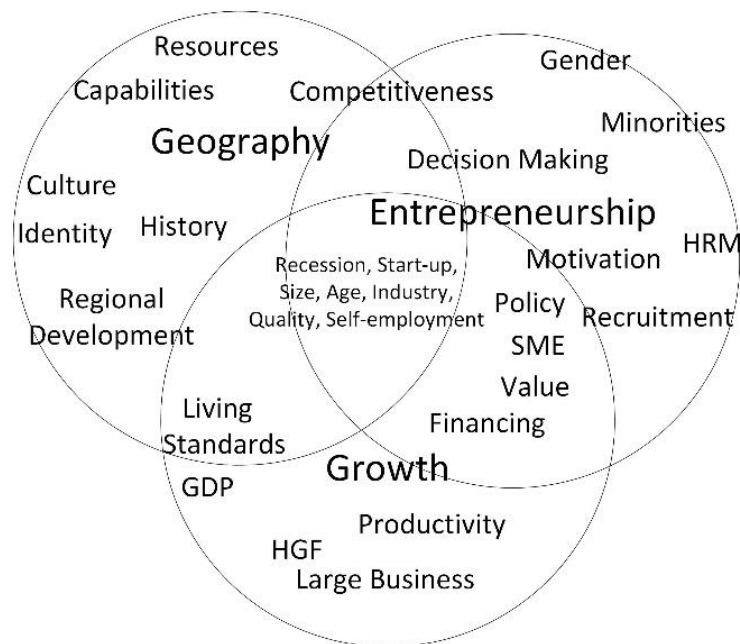


Figure 1. Major themes identified during the SLR.

### A small firm

Speaking about the growth, the most cited growth article (Ferreira et al., 2015) defined a firm as a ‘collection of resources bound together in an administrative framework, the boundaries of which are determined by the ‘area of administrative coordination’ and ‘authoritative communication’ (Penrose, 1995:xi). Although Penrose’s definition was appropriate for her paper, it might not suit this study because it highlighted administrative framework. Anyadike-Danes et al. (2015) showed that majority of job-creating firms were small. Those firms may require other resources, more than managerial services (Pitelis, 2002). Therefore, according to Westhead and Storey (1996:18), ‘theories relating to SMEs must ... recognise that these differ from those facing larger firms.’ For the purpose of this study, EU definition was chosen because it differentiated between micro and small firms. Furthermore, a phenomenon of HGFs was defined by OECD (2007:61): ‘All enterprises with average annualised growth greater than 20% per annum, over a three year period should be considered as high-growth enterprises. Growth can be measured by the number of employees’. This definition was used in multiple studies (M. Anyadike-Danes et al., 2015; Brown & Mawson, 2015) and at least partly replaced high-growth metric invented by Birch (1987).

### Job creation

This section aimed to identify and analyse phenomenon of employment creation at the regional level. To achieve this, various sources of the literature were employed. Van Praag and Versloot (2007) systematically analysed 57 articles between 1995 and March 2007 to reveal the contribution of entrepreneurs. Studies discussed by them were extended with papers from the SLR and more industry focused review of De Kok et al. (2013). The analysis was focused on the regional level. However, helpful national and international studies were included. Therefore, firstly this section explained how job creation might depend on the

business characteristics (3.1). It continued looking at quality with regards to wage, hours worked and reliability of jobs created (3.2).

### **Business characteristics**

The recent study by Ross et al. (2015) partly applied Bosma's et al. (2008) methodology and explained variation in small growing firms across Scottish regions by supply, demand, culture, policy and agglomeration benefits. Those factors influencing entrepreneurs were reasonable and consistent with previous theories (Krugman, 1990; Rittenberg & Tregarthen, 2009) and empirical findings. To name a few, the distribution of entrepreneurial activity across geographic space was investigated in connection with variations in spatial characteristics, such as knowledge (Obschonka et al., 2015). Those variations were partly explained by differences in regions. For example, Stuetzer et al. (2015) revealed that British regions with large industries, such as textile mill in Manchester, in the 19th century, had lower entrepreneurship rates and weaker entrepreneurship culture today. Those findings suggested that by concentrating on one area and investigating policies (see Deas, 2013), it might be possible to highlight the influence of business characteristics on small firms' ability to create new jobs.

One of the most popular methodology employed with microdata was Gibrat's Law of Proportionate Effect (Gibrat, 1931) claiming that firm size and growth should be independent, which was partly supported even by recent studies (Lotti et al., 2009). However, many European (Hart & Oulton, 1996; Konings, 1995) studies concluded that Gibrat's Law was not necessarily valid. The more sophisticated method was introduced by Davis and Haltiwanger (1992). This method relied on descriptive analysis and included growth and death rates to show that new firms created more dynamic jobs than older ones. It was followed by such studies as Baldwin and Picot (1995). Although more advanced techniques were employed, further studies (J de Kok et al., 2011; Neumark, Wall, & Junfu, 2011) had very similar conclusions. This may be explained by Jovanovic's (1982) passive learning model, which claimed that entrepreneurs learned most when they entered the market. Contrary, Anyadike-Danes et al. (2015) maintained that neither the initial size distribution nor survival rates explained job growth. The only explanation they found was a small number of rapidly growing micro firms.

Anyadike-Danes et al. (2015) empirical findings were based on Birch's (1979, 8) pioneering idea that 'small firms generated 66% of all new jobs generated in the U.S.' Although Birch's theories (1987) were criticized by studies such as Dennis and Phillips (1994), small firms were recognised as the main creators of jobs (A. Coad et al., 2014; Cowling et al., 2015; Du & Temouri, 2015). Recently, Anyadike-Danes et al. (2009, 4) estimated the contribution to job creation in the UK economy. This revealed that '11,530 high growth firms were responsible for 1.3 million out of the increase in 2.4 million new jobs in established businesses employing ten or more people between 2005 and 2008'. Later, those numbers were slightly lowered by taking longer time span (Anyadike-Danes et al., 2015). Furthermore, Butcher and Bursnall (2013) showed that job creation was evenly spread across different size bands, which slightly contradicted with Anyadike-Danes et al. (2015) results and should be further tested. Those studies provided useful understanding about national HGF populations. However, as Anyadike-Danes et al. (2015:22) acknowledged, those firms 'require further analysis ... to understand the process of small business growth.'

Given that SMEs were shaped by their home business environment, it may be reasonable to shift on studying HGFs at the regional level.

All previously discussed studies have determined HGFs at a national level. This omission in the HGF literature was recognised by Brown and Mawson (2015) as well. Nevertheless, some scholars such as Almus (2002) and Bruderl and Preisdorfer (2000) understood the importance of regions. Recently, Mason et al. (2009) concluded that HGFs had a positive impact on employment growth at a regional scale. Contrary, Brown and Mawson (2015) contradicted that by investigating Scottish counties. They showed that employment growth was generated outside the region, therefore, did not create that many jobs and wealth within the area. These findings were at least partly confirmed by the recent study (Foreman-Peck & Nicholls, 2015) investigating relocation of firms within the nation. However, Brown and Mawson's findings may be influenced by relatively small sample size and the period of unstable macroeconomic climate. Those trends may need to be further examined. As Brown and Mawson (2015, 16) recommended, the further study should 'examine the nature, quality, durability and spatiality of the employment and spillovers created by these highly dynamic, entrepreneurial firms.'

### Job quality

The recent review of job quality by Burchell et al. (2014) highlighted the lack of clear definition of job quality and inconsistent methodologies. Those varied from highly subjective workers' evaluations (Staines & Quinn, 1979) to various matrices. For instance, two recent European studies (Koerner and Puch, 2011; Green, 2013) provided more sophisticated models. Green (2013) applied Green and Mostafa's (2012) model particularly designed for the European Working Conditions Survey and compared EU nations. Nevertheless, given those surprising results (see Green and Mustafa, 2012) and unavailability of regional data, Koerner and Puch's (2011) method may be more reasonable (see Figure 3). It is worth noting that some of the dimensions referred to the nation while others were firm specific.



Figure 3. Koerner and Puch (2011:131) quality of employment - seven-layer model; translation taken from Burchell et al. (2014)

### **Wage and hours**

During the nineties, Mitra and Pingali (1999) acknowledged that small businesses had an advantage of cheap labour, which may be understood as a lower pay for workers. Van Praag and Versloot (2007) provided ten articles examining the quality of jobs in SMEs. One of them was by Frey and Benz (2003) who showed the difference between smaller and larger firm employees' satisfaction levels in the UK, Switzerland and Western Germany. This and another study performed by Clark and Oswald (1996) found that employees in SMEs were more satisfied than others. Contrary, many studies focusing on either wages (Troske, 1999), benefits (Litwin & Phan, 2013) or productivity-related pay (Cowling, 2001) revealed that small firm employees were worse-off than workers in larger firms. However, as Sengupta et al. (2009) showed, responses varied between industries.

Those factors may be even greater in HGFs. Penrose's (1959) theory viewed firms as a collection of resources, which were tightened with firm performance. Researchers (such as McKelvie and Wiklund, 2010) were interested in the factors enhancing HGFs to sustain growth. Eisenhardt and Schoonhoven (1990) showed that the main factor was a high skilled management team. Similarly, Wennberg (2009) hypothesized that HGFs might create well-paid jobs to attract rich human capital. Contrary, since the nineties, there have been continued speculations about HGFs employees being low skilled (Lepak and Snell, 1999) so that they may reduce costs. The recent Swedish study (A. Coad et al., 2014) gave insights on those matters. They concluded that 'HGFs are more likely to employ young people, poorly educated workers, immigrants, and individuals who experienced longer unemployment periods' ( 293), which may show the type of low paid jobs HGFs created.

### **Security**

Despite wage and hours, job security may be necessary to providing high-quality jobs (see *Figure 3*). Gertler and Gilchrist (2013) and Sharpe (1994) found that small firms were more responsive to financial and monetary policy shocks. That may decrease the quality of jobs created. Empirical findings contradicted with each other by providing either neutral (Smallbone et al., 2012; 2012a; Coad et al., 2013) or negative effects (Cowling et al., 2015; Taylor & Bradley, 1994) of recessions on small firms. However, it was agreed that across the recessions, primary industries, such as agriculture, food and oil, were less vulnerable (Taylor & Bradley, 1994). Similarly, the location and environmental context of SMEs were critical in its resilience to the recession (Dixon, 2007).

Contrary, it may be argued that small firms may thrive during the recession because they were, according to Reid (2007), more flexible in adjusting resources, processes, products and prices. However, Butcher and Bursnall (2013) showed that crisis hit new workplace creations particularly strongly, especially among small firms. The recent study by Cowling et al. (2015) added that although SMEs were affected during the recession, they recovered relatively fast. Furthermore, Smallbone et al. (2012) showed that firm's adaptation to recession influenced its performance during and after the recession.

In addition, Evans and Leighton (1990) and Storey (1991) developed theory suggesting that increasing levels of unemployment such as during recession reduced the prospects for finding paid employment. Therefore, more people chose to create micro firms. This was

approached in the recent study by Jayawarna et al. (2014, 282) who proved that ‘the poor avoid entrepreneurship except when low household income threatens further downward mobility.’ Therefore, the increase in self-employment may encourage to create low paid and demanding jobs. Thurik et al. (2008) and Parker et al. (2012) found bi-directionality between variations in unemployment and self-employment rates. Those studies were consistent with Carmona et al. (2012) who showed that business cycle fluctuations in output and unemployment rates led to fluctuations in self-employment rates. It is worth noting that Moscarini and Postel-Vinay (2012) showed that employment in large firms was more closely linked to changes in the unemployment rate than those of small businesses. Contrary, Mueller et al. (2008) proved that self-employment might be inefficient and negative for some low-enterprise counties.

### Conclusions

Job creation phenomenon was investigated and debated by at least two streams of research converging on the issues of how firm characteristics influenced job creation and what quality of jobs small firms created. The phenomenon seemed to be highly topical and relevant. Job creation was discussed in many diverse backgrounds. The four main areas dominated the field: growth, entrepreneurship, economics, and regional development. There were many exploratory and explanatory empirical studies, but there are still avenues for future research particularly in the quality of HGFs’ jobs at the regional level.

Although many researchers such as Carlsson et al. (2013:927) emphasized ‘the desirability of developing theory’, this study call to concentrate on Venkataraman’s et al. (2012) invitation to draw on a framework based on wisdom rather than building grand theories. Volery and Mazzarol (2015:393) gave insights on how it may be achieved: ‘most importantly, a need to develop hypotheses, interpret results and formulate recommendations from the perspective of small firms.’ However, methodological development should be further enhanced (McDonald et al., 2013; Hill and Wright, 2001:441). Finally, there were continued calls for more epistemological stance (Kyrö and Kansikas, 2005; McDonald et al., 2013).

Furthermore, Manchester City Region is being analysed on those matters. The upcoming research will not just follow Anyadike-Danes et al. (2015) but also try to estimate quality of jobs with regards of wages, hours and security.

Finally, the main limitation of this literature review was concentration on the entrepreneurship journals. A further literature reviews could include more articles from journals covering other topics such as geography, urbanisation and regional development and discuss them in more detail.

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# EVOLUTIONARY ANALYSIS OF INNOVATION IN THE GLOBALLY CHANGING BUSINESS WORLD

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## Abstract

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In the past decades innovation has evolved as the main driver of business success and sustainability as well as an accelerator of worldwide economic growth and globalisation. The notion of “innovation” is more and more broadly exploited by diverse stakeholders as a slogan, metaphor or buzzword. Recently the “need for innovation” fever spreads over all spheres of science and social life. But historically innovation implicitly was not a subject of scientific research till the end of the 19th century. Since the first decades of the 20th century the concept of innovation started spreading over different fields of economic science anyhow related to business theory and practice. However there is still a lack of theoretical methodological research on business related innovation. The purpose of the paper is to identify, describe and visualize the developmental trends of business related innovation understanding, conceptualizing and measuring. Thus the paper discusses different concepts, definitions, types, aspects, and measuring approaches of business related innovation that have been developed and introduced in international resources in historical retrospective. Besides the coherent analysis implemented on the empirical data of Lithuanian and other EU countries enterprises inter alia relating to several specific types of innovation – namely categorized as product, process, organizational and marketing – is presented. Conclusions summarize main findings of the paper.

**Keywords:** innovation, types of innovation, measuring of innovation, innovation-active firm, innovative firm.

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## Introduction

In the past decades innovation has evolved as the main driver of a business success and sustainability as well as the accelerator of worldwide economic growth and globalisation. The notion of “innovation” is more and more broadly exploited by diverse stakeholders as a slogan, metaphor or buzzword. Recently the “need for innovation” fever spreads over all spheres of science and social life. Briefly stated, innovation has become the emblem of the modern society, a panacea for resolving many problems, and a phenomenon to be studied (Godin, 2008). But historically innovation implicitly was not a subject of scientific research till the end of the 19th century. Since the first decades of the 20th century the concept of innovation started spreading over different fields of economic science anyhow related to business theory and practice. However there is still a lack of theoretical methodological research on business related innovation phenomenon.

The purpose of the paper is to identify, describe and visualize the developmental trends of business related innovation understanding, conceptualizing and measuring. Thus the main objectives of the paper:

- To explore different concepts, definitions, types, aspects, and measuring approaches of business related innovation that have been developed and introduced in international resources in historical retrospective;
- To estimate the innovativeness rate of Lithuanian and other EU countries target enterprises by the types of innovation – namely categorized as product, process, organizational and marketing.

### **Business related innovation phenomenon in historical retrospective**

Although for many people all over the world “innovation” is a fairly modern phenomenon which acquired real importance by the end of the 20th century, it is rooted in late Middle Ages. Therefore it is essential to approach innovation in the context of genealogical history of its socioeconomic development. Recently a number of researches, including Bailey and Ford (2003), Godin (2008), Kotsemir, Abroskin and Dirk (2013), have accomplished studies of innovation as a category and socioeconomic phenomenon.

It can be stated that the category “innovation” – generally perceptible as “the act of introducing something new” or “something newly introduced” – both historically and etymologically is most closely related to the categories of “invention” and “novelty” (“The American,” n.d.). Invention with the sense of finding or discovery, namely with regard to knowledge, or science (knowing), started to be applied in the 14th century mainly in poetry as well as in visual arts. Unfortunately almost up to the end of the Middle Ages there was a negative perception of invention and inventors practically in all spheres of society’s life. Because of weak development and inaccessibility of science inventors were often seen as heretics or suspicious people. Since the 16th century category of invention was increasingly used in relation to newly-created artefacts. The idea of novelty has become a cultural and science value since the 17th century. According to Skinner (1988), words are markers of the social understanding of the world, and the emergence of new words is a marker of changes in society’s values. Roots of literal usage of the category “innovation” in a near modern perception go back to the Renaissance. *The Prince* written in 1513 by Machiavelli (1532/1961) and *Of Innovations* written in 1625 by Bacon (2002/2008) are among the very few works then devoted to innovation, using the term as such, and to the resistance of people to innovation.

The first theory of innovation was created by the French sociologist G. Tarde in the late 19th century. It can be qualified as threefold process involving invention, opposition and imitation. Then innovation was seen by him as the change in social constructs. Thereby Tarde facilitated wider usage of the term innovation as a novelty, but with no explicit definition. Almost till the middle of the 20th century sociologists approached the concept of innovation as a polysemous paradigm: simply novelty; social change with the meaning of social invention; the use of technological inventions with their social effects. One had to wait for prominent sociologist Rogers for other similar broad theories of innovation in sociology (as cited in Godin, 2008). The definition of innovation generated by Rogers (1983), author of the theory of diffusion of innovations, is noteworthy: “An innovation is an idea, practice, or object that is perceived as new by an individual or other unit of adoption” ( pp. 11). Thus, innovation shall involve implementation of the “new” by an adopter. Herewith Rogers handled innovators as one of the five types of adopters along with early adopters, early majority, late majority, laggards. “The salient values of innovators are venturesomeness and gatekeeping role in the flow of new ideas into a social system” (pp. 248). Roger’s theory of diffusion of innovations along with his elaborated model of innovation gave rise to further studies on development, adoption and diffusion of innovations in and beyond the pale of sociology.

Scientists and practitioners working in the areas of economics and management – the world’s first MBA programme was established in Harvard Graduate School of Business Administration in 1908 thus giving start to new applied field of social sciences i.e. management (Harvard Business School, n.d.), although salaried managers as an identifiable business group became prominent in the late 19th century (Khurana, 2007), – mainly have pursued a different angle of the innovation studies than sociologists. They concerned more with the technological side of business related innovation. Despite that the concepts of labour productivity and economic growth took central place in early economic theories, the research of economic change evolved in economics in the way of techno-economic studies – challenged by emergent of machinery industry resulted from the Industrial Revolution – as a cause of economic growth. Moreover scientific breakthrough in chemistry and physics which have opened the floodgates to their application in business throughout the second wave of the Industrial Revolution greatly aided the development of technologically-advanced extractive and manufacturing industries or primary and secondary sectors of economy. The enormous expansion of rail and steamship transportation, telegraph and telephone lines (“Inventions”, n.d.) in the mean time stimulated unprecedented growing goods traffic, movement of people and ideas, which has challenged contemporary economic globalization.

The way innovation is internationally approached in the modern economics and business management resources and other sources are significantly influenced by the contribution of the outstanding evolutionary economics theorist Schumpeter into study of innovation and entrepreneurship in the context of socio-economic development. According to Freeman, (2009, pp.126) “the central point of his whole life work [is]: that capitalism can only be understood as an evolutionary process of continuous innovation and ‘creative destruction’”. In *The theory of economic development*, the work first published in German in 1911, Schumpeter (1934/1983, pp. 66) based on “five cases” elaborated a concept of “new combination”. Later on the concept of “new combination” was incorporated into the concept of “innovation” by “saying that innovation combines factors in a new way or that it consists in carrying out New Combinations” (Schumpeter, 1939, pp. 84). In recent decades the above-mentioned “five cases” have been treated as Schumpeter’s proposed five types of innovation in the innovation related economic and business literature, for instance (OECD & Eurostat, 2005; Godin, 2008; Kotsemir, Abroskin, & Dirk, 2013). However, in my opinion, Schumpeter expressly set down namely four types of innovation perhaps in the best known last fundamental work *Capitalism, Socialism, and Democracy* in the chapter named *The Process of Creative Destruction*:

The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumer’s goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates. (Schumpeter, 1942/2003, pp. 83).

It is remarkable that above-quoted attributes of the “capitalist engine” are actually coincident with the types of innovation distinguished by OECD and Eurostat (2005, pp. 47): product innovation, process innovation, marketing innovation and organisational innovation.

Schumpeter was one of the foremost economics theorists who pointed out the particular economic role of entrepreneurs in pushing forward business related innovation as an engine for economic development. Namely entrepreneurs are capable of initiating large-scale (“radical”) or small (“incremental”) innovations that have a particular impact on the further structural changes in individual industries, market segments, and even in the whole economic system through a dynamic process which he labelled a “creative destruction”. In line with this approach, innovation “in short, any “doing things differently” in the realm of economic life” (Schumpeter, 1939, pp. 80). So innovations are not necessarily based on new scientific discoveries.

Herewith, Schumpeter was one of the first scholars who further evolved a study on contradistinguishing of invention and innovation in the field of economics introduced in 1929 in J. Stamp’s work *Some Economic Factors in Modern Life*. According to Schumpeter (1939, pp. 80-82) the social processes which produce inventions and innovations do not stand in any invariant relation to each other. Invention is “an element without importance to economic analysis. ... As soon as it is divorced from invention, innovation is readily seen to be a distinct internal factor of [economic] change”. In the due titled chapter *The theory of innovation* Schumpeter (1939) defined innovation as “the intrusion into the system of new production functions which incessantly shift existing cost curves” (pp. 88). Thus, in evolutionary stand disturbances of equilibrium arising from innovation (as a process) must “disrupt the existing system and enforce a distinct process of adaptation” (pp. 98).

According to Godin (2008), since the early 1940s economic historian W.R. Maclaurin devoted himself to studying technological change in its economic dimensions. That enabled Maclaurin to introduce the linear model of innovation in which the process was broken down into distinct and sequential steps, from fundamental research through production engineering and commercialising to diffusion in 1953 in the paper *The sequence from invention to innovation and its relation to economic growth*. Maclaurin also constructed one of the first taxonomies for measuring technological innovation. In the sequel other researchers developed these ideas in own theories or conceptual models of innovation. Extending R. Rothwell’s typology of innovation models’ generations presented in 1992 in his paper *Successful industrial innovation: Critical factors in the 1990s*, Marinova and Phillimore (2003) identified six generations of innovation models, namely:

1. First generation – the black box model;
2. Second generation – linear models (including technology push and need pull);
3. Third generation - interactive models (including coupling and integrated models);
4. Fourth generation –systems models (including networks and national systems of innovation);
5. Fifth generation –evolutionary models;
6. Sixth generation – innovative milieux. ( 45)

It becomes apparent from the overview of the six generations of the innovation models how complex the phenomenon of innovation is and how difficult it is to master it in a frame of a particular even most explicit and comprehensive model. In general innovation models have passed from a concentration on factors within a control of the firm (i.e. R&D, management, marketing, etc) to implication of factors external to the firm (i.e. science and technology institutions, networking, government policy, and even human, social and cultural factors).

Nevertheless any model is intrinsically a simplification of reality and leaves a lot of questions unanswered.

In conjunction with the evolution of innovation concepts and models distinct types of innovation – from the “classical” product and process innovations to such exotic types as the “blue ocean” and the “frugal” innovation – have been developed. Accordingly, various scholars all over the world have tackled a challenge to structure existing multipartite types of innovation (Kotsemir, Abroskin, & Dirk, 2013). In concordance with the explored expedient international resources several approaches to classification of various types of business related innovation can be identified: classical or multitype; by degree of innovativeness; multilayer; dichotomical; dually-dichotomical; innovation life cycle maturity; novel.

In overall spread of the innovation studies, which internationally have been continuing in the fields of economics and management since 1960th till nowadays, unambiguously was influenced by the developmental trends of the economy of the post-industrial society towards the knowledge-based economy. That is characterized by increasing precedence of tertiary and quaternary sectors of the economy. Considering that quaternary sector consist of intellectual activities, along with its expansion in advanced economies the trends towards greater dependence on knowledge, information and high-skilled labour force, along with the increasing need for handy access to all of these by business and public sectors have emerged. Given that a knowledge-based approach focuses on the interactive processes through which knowledge is created and exchanged both within and outside firms and other economic entities, in the past decades internationally elaborated works (Freeman & Soete, 1997; Drucker, 1998; Bailey & Ford, 2003; Marinova & Phillimore, 2003; OECD & Eurostat, 2005; Chesbrough, 2006; Bessant & Tidd, 2007; Godin, 2008; O’Sullivan & Dooley, 2009; Tidd & Bessant, 2012; Kotsemir, Abroskin, & Dirk, 2013) emphasise the substantiality of taking a broad perspective on the business related innovation.

In this context, innovation concept is based on the position that the use of new products, processes, organisational and marketing methods leads to new ways of thinking and new knowledge. Thus iterative cycle of knowledge and creation of new knowledge, in turn, leads to intensification of business firms related innovative processes. Then it is crucial to know why, how and what firms innovate in order to improve their performance and competitive position under varying and unpredictable uncertainty of external macro environment. In this quest for measuring business related innovation data from the perspective of the firm, statistics has been the best way to establish the evidence.

### **Framework of business related innovation data measuring**

Technological innovation has been measured in the expedient scientific literature through patents in-between the 1910s and late 1950th. “Then, it appeared to scientists that patent counts measure invention, not (commercialized) innovation” (as cited in Godin, 2008). Since then expenditures devoted to R&D came to be used as a proxy of innovation due to the systematic data collection in the then survey series from the US National Science Foundation. This practice speedily spread to other countries via the so-called *Frascati Manual* – i.e. the internationally recognised methodology for collecting and using R&D statistics – since its first edition was adopted in 1963 by the conference of national experts

from OECD member countries (OECD, 2015). In 1967 the US Department of Commerce published so named the *Charpie Report*, which showed that R&D does not constitute the main source of technological innovation. Despite the report was criticized by then time economists and statisticians, “it contributed to conventionalizing a definition of innovation as a technological innovation and as a process leading to commercialized innovation” (as cited in Godin, 2008).

Later on a considerable body of work was undertaken by OECD and Eurostat specialists in cooperation with various experts developing indicators to capture the nature and landscape of business sector related innovation and provide policy makers with appropriate tools of analysis. It is led to origination in 1992 of the first edition of the *Oslo Manual (Manual)*, a methodological guidelines that were focused on measuring technological product and process (TPP) innovation in manufacturing (OECD & Eurostat, 2005). In particular this became the groundwork for the *Community Innovation Survey (CIS)*, currently available from Eurostat in its eight rounds (CIS, n.d.). Results from the first four *CISs* and other alike foreign surveys had driven further refinements in *Manual* framework in terms of conceptual background, definitions and methodology in series leading to a second edition published in 1997 and a third edition published in 2005.

The second edition of the *Manual* substantially expanded coverage of TPP innovation to service sectors and introduced non-technological innovation concept, in particular pointed out organisational innovation (OECD & Eurostat, 1997). Since then, the analysis of appropriate *CISs* results and changing policy needs has led to the launching of second revision of *Manual*. As it was found that much of innovation in service sectors is not duly captured by the TPP innovation concept, the scope of what is considered an innovation has been expanded. Two new types of innovation – organisational and marketing – were included in the third edition of *Manual*. Inferences drawn from results of previous *CISs* also have been implicated in order to address the systematic dimension of innovation through innovation linkages, refine used concepts, methodological issues, and data collection methods. Withal it was found that a growing number of countries through all over the world have begun to undertake surveys grounded on *Manual* methodology although adapted to own specific needs. In the issue the special annex of guidelines for innovation surveys in non OECD countries was added to *Manual*. Thereby yet final edition of *Manual* has provided guidelines for collecting and interpreting innovation data of business firms in an internationally comparable manner (OECD & Eurostat, 2005).

The measurement framework used in *Manual* in broad outline represents an integration of insights from various firm-based theoretical models of innovation with those of approaches that view innovation as a system. Such models of the innovation process as the “innovation dynamo” and the “chain-link model” of Kline and Rosenberg firstly introduced in *Manual* (OECD & Eurostat, 1997, pp. 30-31) serve as a useful theoretical base to grasp innovation process but are less suitable to underline *CIS* pattern. Therefore, the main aspects of the framework used in *Manual* are: innovation in the firm, linkages with other firms and public research institutions, the institutional framework in which firms operate, the role of demand, sector and regional aspects of innovation; globalisation. In summary innovation in the firm pertains to intended significant changes in its activities with a view to improving performance by implementing particular types of innovation in the process of innovation

activities. Thus attention should be paid to the substance and form of three main constituents of innovation data measuring: types of innovation, innovation activities and related firms.

*Manual* defines innovation as “the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations” (OECD & Eurostat, 2005, pp. 46). This comprehensive definition of innovation overmasters not only identified four types of innovation but also a wide range of their possible combinations, i.e. product/process, process/organisational, process/marketing or organisational/marketing innovations. Identified essential characteristics, minimal requirements, and implementers of particular types of innovation are integrated in Table 1.

Either type of innovation can consist of the implementation of a single significant change, or of a series of smaller incremental changes that together constitute a significant change. In accordance with the above introduced definition, an innovation must contain a certain degree of novelty, i.e. should be: new to the firm; new to the market (i.e. the firm and its competitors as well as a geographic region or product line); new to the world (i.e. all markets and industries, spanning domestic and international). As shown in Table 1, the minimum applicable novelty level for any type of innovation is that it must be new to the firm. Hence, by measuring degree of novelty both the developers and adopters of innovation, and market leaders or followers can be identified. Whereas in point of diffusion innovation can be developed mainly by an innovative firm solely or in co-operation with other business firms, public research or higher education institutions, as well as completely outside the firm. Both novelty and diffusion aspects stress international constituent of innovation. Firms interact with foreign partners, technology and knowledge flow across borders, many markets in terms of their participants are global. Thus the globalisation process is a new powerful driving force for innovation.

Common feature of innovation is that it must have been brought into actual use by a firm in a result of effected innovation activities. Following *Manual* (OECD & Eurostat, 2005, pp. 47) “innovation activities are all scientific, technological, organisational, financial and commercial steps which actually, or are intended to, lead to the implementation of innovations” despite their own novelty. During the period under consideration innovation activities can be of three kinds:

- Successful in having resulted in the implementation of an innovation (although the innovation need not have been commercially successful).
- On-going, with work in progress that has not yet resulted in the implementation of an innovation.
- Abandoned before the implementation of an innovation. ( pp. 59)

So, a firm that had innovation activities of any above-mentioned kind within the period under consideration, regardless of its results, is an innovation-active firm. Accordingly, a firm that had none innovation activity during the reference period is a non-innovative firm. An innovative firm is one that has implemented innovation during the period under consideration.



Table 1. Distinguishing features of main types of innovation in conformity with OECD and Eurostat methodology.

Types	Essential characteristics	Minimal requirements	Types of innovators
Product innovation	Introduction of a good or service that is new or significantly improved to the firm with respect to its characteristics or intended uses	New or significantly improved at the innovative firm level	Product innovative firm – a firm that during the period under review introduced new and significantly improved goods and/or services with respect to their technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics.
Process innovation	Implementation of a new or significantly improved production or delivery method. This includes significant changes in techniques, equipment and/or software	New or significantly improved at the innovative firm level	Process innovative firm – a firm that during the period under review implemented new and significantly improved production technologies and/or new and significantly improved methods of supplying services and delivering products. The outcome of such innovation should be significant with respect to the level of output, quality of products or costs of production and distribution.
Organisational innovation	Implementation of a new organisational method in the firm's business practices, workplace organisation or external relations	Has not been used before in the innovative firm and is the result of strategic decisions taken by management	Organisational innovative firm – a firm that during the period under review implemented new methods for organising routines and procedures for the conduct of work, new methods for distributing responsibilities and decision making among employees for the division of work within and between firm activities, new concepts for the structuring of activities, new ways of organising relations with other firms or public institutions.
Marketing innovation	Implementation by the firm of a new marketing method involving significant changes in product design, packaging, placement, promotion or pricing	Part of a new marketing concept or strategy that represents a significant departure from the innovative firm's existing marketing methods	Marketing innovative firm – a firm that during the period under review implemented a new marketing method involving significant changes in product design (i.e. changes in product form and appearance that do not alter its functional or user characteristics) or packaging, product placement, product promotion or pricing.

Source: prepared by author based on (OECD & Eurostat, 2005; CIS, n.d.).

### **Analysis of innovativeness rate of target EU enterprises by the types of innovation**

The accomplished analysis was aimed at estimating the innovativeness rate of the EU Innovation core activities sector's target enterprises by the types of innovation in the period of 2008-2010. The selection of population of target enterprises and timing of the analysis were determined by several interlinked conditions: NACE valid version and classification rules; valid classification of EU Innovation core activities sector; applicable comparable CISs data in Eurostat database.

The NACE is the "statistical classification of economic activities in the European Community" and is the subject of legislation at the EU level, which imposes the use of the classification uniformly within all the Member States (Eurostat, 2008). The current valid NACE version is revision 2 (*NACE Rev.2*) was established by *EC Regulation No1893/2006* and came into force starting 2008 onwards. In line with *NACE Rev.2* a statistical unit used in CISs is the enterprise, as defined in *EEC Regulation No696/93* on statistical units. Thus all above-discussed aspects of business related innovation data measuring of the firm are adjustable to the enterprise. In pursuance of analysing the latest available CISs data keyed to *NACE Rev.2*, purely data starting *CIS2008* can be considered.

The legal basis for carrying out compulsory CISs was established by *EC Regulation No1450/2004 implementing Decision No1608/2003/EC of the European Parliament and of the Council on the production and development of Community statistics on innovation*. In addition, it defined a composition of the NACE excess obligatory sector named Innovation core activities. *EC1450/2004* inter alia was applied in *CIS2008* and *CIS2010*. The newest currently available *CIS2012* (CIS, n.d.) was carried out following *EC Regulation No995/2012* that among other things upgraded the composition of the sector Innovation core activities. So data available for the sector enterprises in *CIS2012* is inconsistent with such from other CISs.

Therefore the analysis was accomplished using data of the Innovation core activities sector (Sector) enterprises from *CIS2008* and *CIS2010* or for the period of 2008-2010. Considering the author's residence country it was decided to focus on analysing of innovativeness rate of Sector enterprises from Baltic countries (Lithuania and its neighbours countries Estonia, Latvia, Poland), Germany (as country with the strongest economy in the EU-27) and the EU-27 (number of EU member states in 2008-2010).

In order to bypass limitations of the nominal data analysis of the purposive enterprises the descriptive statistics ratio measurement and bar graph visualization techniques have been prosecuted using SPSS Statistics and Microsoft Excel software.

As it is seen in Figure 1, the share/rate of innovation-active enterprises in total number of all Sector enterprises (Rate1) of EU-27 amounted to 51,57% in 2008 with insignificant increase to 52,94% in 2010. The Rate1 of Germany was the best with almost 80% in 2008-2010. Among the Baltic countries the Rate1 of Estonia in 2008-2010 was the highest with 56,83% in 2010 which showed somewhat higher rate than of the EU-27. The Rate1 of Latvia, Lithuania and Poland in 2008-2010 were significantly less than of the EU-27 varying in 2010 between 28,14% of Latvia and 34,46% of Lithuania. Thus in 2010 the Rate1 of Lithuania was 1,5 times less than of the EU-27 and 2,3 times less than of Germany.

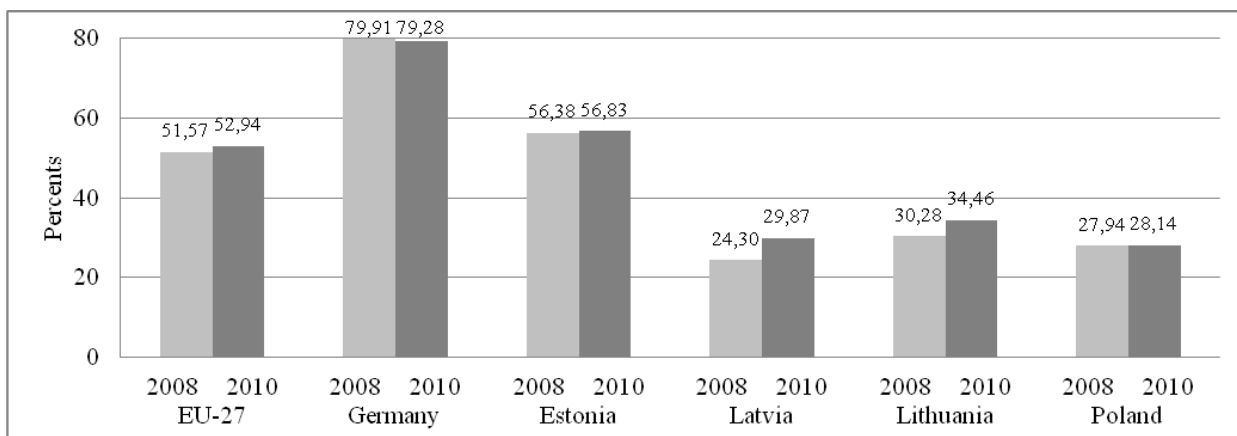


Figure 1. The rate of innovation-active enterprises in total number of enterprises within Innovation core activities sector, 2008-2010.

Source: prepared by author based on (CIS, n.d.).

As it is shown in Figure 2, the rate of innovative enterprises by the types of innovation in total number of Sector innovation-active enterprises in 2008 (Rate2) on the EU-27 scale is inaccessible. The Rate2 of Germany's product innovative enterprises was the highest with 23,43%. Among the Baltic countries the Rate2 of Latvia's product innovative enterprises reached the highest rate of 17,47%. The reciprocal Rate2 of Lithuania's product innovative enterprises was only 5,99% or 3,9 times less than the same of Germany. On the contrary the Rate2 of Germany's process innovative enterprises reached 17,11%, the lowest rate among compared countries data, and it appeared 1,9 times lower than the same of Estonia (32,63%). The Rate2 of Poland's organisational and/or marketing innovative enterprises reached the highest rate of 29,14% among compared countries data.

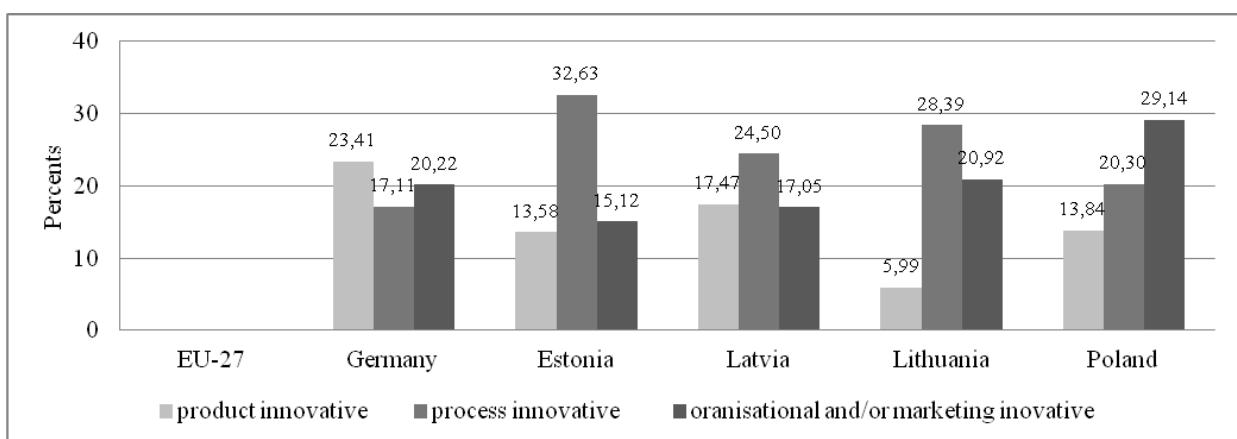


Figure 2. The rate of innovative enterprises by the types of innovation in total number of innovation-active enterprises within Innovation core activities sector, 2008.

Source: prepared by author based on (CIS, n.d.).

Following the data elaborated in Figure 3, the share of innovative enterprises by the types of innovation in total number of Sector innovation-active enterprises in 2010 (Rate3) of Germany's product innovative enterprises increased to 26,05% and yet was the highest among reciprocal Rate2 and Rate3 data of all compared countries. The Rate3 of Estonia's process innovative enterprises reached 28,94% and, thus, was 2,7 times higher than the same rate of reciprocal Germany's enterprises. The Rate3 of Latvia's organisational and/or marketing innovative enterprises reached the highest rate of 44,00%, and it was 2,3 times higher than such

rate of Germany's enterprises. Both the reciprocal Rate<sup>3</sup> of Lithuania's process innovative (17,59%) and organisational and/or marketing innovative enterprises (34,41%) were higher than the same of the EU-27 enterprises.

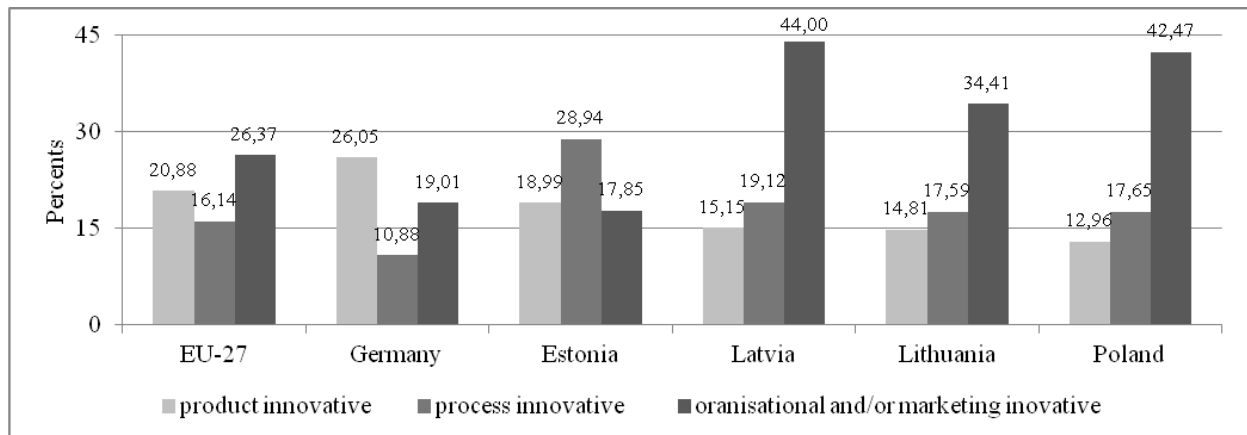


Figure 3. The rate of innovative enterprises by the types of innovation in total number of innovation-active enterprises within Innovation core activities sector, 2010.

Source: prepared by author based on (CIS, n.d.).

Finalising the results of the accomplished analysis it can be stated that in total explored Lithuanian and other Baltic countries enterprises of Sector in the period of 2008-2010, with exception of Estonia, were significantly lower innovating-active than those of Germany and the EU-27. On the contrary reciprocal rates of the Baltic countries process and organizational and/or marketing innovative enterprises in total number of reciprocal Sector innovation-active enterprises in 2008-2010 were higher than those of Germany and the EU-27. Definitely that has justified the need to promote and foster involvement of the Lithuanian and neighbour Baltic countries enterprises into innovation activities at any degree of novelty and diffusion.

## Conclusions

The surveyed evolutionary trends in the innovation concepts, models and types allow the identification of their driving forces: essential changes in the economy substratum of the modern post-industrial knowledge based society; the shift in innovation models from macro-economical to micro-economical level of a distinct business firm due to the lack of data that should be downloaded into fundamental macro-models; gradually shifts from "top-down priority setting" to "bottom-up priorities setting" in business related innovation policymaking due to growing emphasis on the firms innovativeness. In this context, innovation concept is based on the position that the use of new products, processes, organisational and marketing methods leads to new ways of thinking and new knowledge.

Thus iterative cycle of knowledge and creation of new knowledge, in turn, leads to intensification of business firms related to innovative processes. Then it is crucial to know why, how and what firms innovate in order to improve their performance and competitive position under varying and unpredictable uncertainty of external macro environment. In this quest for measuring business related innovation data from the perspective of the firm, statistics has been the best way to establish the evidence.

The accomplished analysis of estimating the innovativeness rate of the EU Innovation core activities sector's target Lithuanian enterprises by the types of innovation has justified the need

to promote and foster involvement of various national economy sectors enterprises into innovation activities at any degree of novelty and diffusion.

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# ASSESSING FINANCIAL INCLUSION OF ENTERPRISES: A COMPARATIVE STUDY OF DIFFERENT WORLD REGIONS

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## Abstract

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Financial inclusion is defined as the access to a wide range of regulated financial products and services and broadening their use by all segments of society is usually considered from the point of view of individual financial consumers. But the problem of financial inclusion refers to individuals as well as to the other entities. The degree of financial inclusion is probably not the same, considering different target groups or taking into account developed and developing countries or different regions in the world (Frączek and Mitreǵa-Niestrój, 2014). With a view to the great role of financial inclusion in enterprises and considering their role in economy, the context of financial inclusion for enterprise and business purposes seems to be also very important. Underlying the meaning of the financial inclusion for both individuals and business, the objectives of the paper are the presentation of the main areas of financial inclusion and comparing the degree of usage the basic financial products and services between individuals and firms in different regions in the world.

It turns out that the gap in access and use of financial products and services still remains a challenge, especially for individuals, small and medium enterprises and poorer regions in the world (low-income countries).

**Keywords:** financial inclusion, financial products and financial services, economic growth, financial inclusion in enterprises, SME.

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## Introduction

The degree of financial inclusion understood as access to and usage of basic financial services is very diverse in the world. Another important fact is, that in the world is observed an increase of financial inclusion (World Bank, 2015b; World Bank, 2012). But although the situation is changing - the degree of financial inclusion, it is still unsatisfactory in comparison to the scale and pace of the financial markets development. In the process of expanding the degree of financial inclusion in the world, it is very important to be aware how much is a given financial product or service actually valuable to its users, because it reflects how frequently that product or service is used. It means that usually underlined access to financial products and services is not key issue in financial inclusion. The most important challenge for financial inclusion is the universal access to a wide range of financial services that can be used when and as needed. Further financial inclusion is emerging as a priority that is necessary for further development of today's financial markets and economies in particular countries or regions.

Recently more and more attention is paid to financial inclusion, taking account of its role in ensuring the current and future financial wellbeing of individuals (households) and considering the impact of financial inclusion on running business as well as functioning and development of financial markets and economy. Access to appropriate financial products and services may allow the poor or otherwise disadvantaged individuals to find an appropriate way to invest in physical assets and education, reducing income inequality and at the same time may contribute to economic growth. Also in the case of enterprises the access to bank loans, credits, leasing or other forms of funding by formal financial institutions is a crucial issue in their production,

trade or services activities. The financial inclusion as a whole is very important for long-term economic growth and it plays vital *role* in reduction of poverty and unequal opportunities, and thus in the macroeconomic environment (Burgess & Pande, 2005; Levine 2005).

Many stakeholders are interested in increasing the level of financial inclusion and many of them may have an influence on it. Financial inclusion at the satisfactory level requires collaborative work of many global and national-level policymakers and stakeholders including central banks (Mehrotra & Yetman, 2015), government agencies, the private sector, and the development partners. Central banks and the government agencies should improve enabling environments, the private sector (banks and other formal financial institutions) should ethically and professionally deliver financial products and services to their consumers, and the development partners need to provide support and assistance for great financial inclusion (Chanthana, 2015). The Governments of many countries strongly believe that improving access to finance and improving the use of financial services will raise people's and businesses' welfare. In many countries is developed the National Strategy of Financial Inclusion. The governments and monetary authorities have had many high-level discussions on financial inclusion, which have focused on how to provide better access to banking services (Tambunan, 2015) for all.

### **The research problem and methodology**

Presented aspects of financial inclusion with emphasis on financial inclusion in firms was inspiration to pay attention to its main areas and degree of usage of financial products by firms and to compare the degree of financial inclusion between individuals and enterprises.

The theoretical part of research was the study of literature to describe the necessity of having account and savings and the need for access to the capital in formal financial institutions as well as to present the way of measurement of financial inclusion. In this part of paper mainly academically reviewed articles and reports on financial inclusion and other articles prepared by World Bank and OECD) were used.

Data analyzed in empirical part of the paper were collected under the Enterprise Surveys conducted on behalf of the World Bank (World Bank, 2015a) and under the research on financial inclusion of adults (World Bank, 2015b). The Enterprise Survey was answered by business owners and top managers from 135 countries. The indicators were computed using data from manufacturing firms (larges economies, medium-sized economies and smaller economies). While the research on financial inclusion was conducted among adults from 143 countries, after the presentation of the meaning and role of financial inclusion for individuals and for enterprises, the comparative analysis of degree of financial inclusion in different regions of the world was conducted.

### **The main areas and measurement of financial inclusion**

Having an account in a formal financial institution is seen as an entry point to the formal financial sector. The account gives a lot of possibilities to its owner: facilitates the transfer of wages, remittances, and government payments, allows for savings and open access to credit. In this meaning the banking account seems to be a driving force for financial inclusion. There are a lot of examples in literature for positive relationship between banks and retail customers due to previous cooperation. For example, such cooperation prior to a loan application significantly reduces the default rates of loans given to these customers. The scientists have found these



positive relationships in different forms and scope of cooperation or relationship length, including having transaction accounts and savings accounts (Puri et al., 2011).

The next area and very important elements of financial inclusion are savings. The increasing of savings has a great importance for maintaining the economic growth and development. There are wide range of possibilities of savings at the financial markets and savings makes it possible to collect money for other forms of participating in a financial market (financial inclusion). Today's savings are future investments. But saving money is not easy.

People save money for different reasons, to improve their condition in the future by investing into higher earning assets, to ensure against various income risk (Morduch, 2006), to deal with unforeseen problems in the future, to start or expand a business ventures and many others. These reasons may refer to both individuals and business. But it should be underlined, that money may be saved not only using the financial instruments offered through formal financial institutions. Money may also be saved by putting it in the custody of pawnbrokers or other entities. It should be mentioned, that the special kind of savings (especially in business) may be different forms of investments. In such situation the concept of savings cannot be defined unequivocally and may be interpreted in different ways. The most important differences between the concept of savings and investing take into account the following criteria: level of risk (savings are less risky than investments), purposes (savings have more often precisely defined goal, investments purpose is just earning money).

The crucial role of women in savings is underlined in literature. Women play an important role in the household as money managers. Every day they have to juggle of the money to reconcile the needs with limited financial resources. Despite this, although their incomes are often low and unpredictable, they manage to save on average 10 to 15 percent of their income. (Women's and World Banking, 2013), Their micro-savings serves as effective financial inclusion interventions, enabling poor people, and especially women, to engage in meaningful economic opportunities especially in low- and middle-income countries (Steward et al., 2012).

Savings of households and business are integral and very significant part of the economic system. They are called as "the private part" of national savings and the level of national savings closely correlates with the level of investments in national economy. Therefore, the existence of savings increases the possibility of the future development of economy. The level of national savings determines the degree of dependency on foreign capital and it influences stability of the country. This, in the long run could contribute to economic growth and development (Surina, 2007).

Considering the money management it is necessary to mention about borrowing money. People borrow money from the banks, from private lenders, from friends and family. Taking into account the financial inclusion concept, the most important are banks loans and credits. But borrowing money in formal financial institutions is often subject to many conditions that a potential creditor must satisfy. It means that credit is not available to all. In such circumstances the problem of borrowing money boils down to a limited access to credits.

There is much research conducted on financial inclusion in business. The most often the subject of research are medium and small enterprises (MSEs). They are more likely than large firms to

rate financing constraints as a major obstacle to growth (World Bank, 2010). The results of research show that degree of financial inclusion is different in the particular countries or regions. For example, SMEs in Asia receive less credit than other non-Asian SMEs. In addition, the results of research suggest that credit access is correlated strongly with firm size – small firms enjoying the least access. The results also suggest that exporting firms and firms having an externally audited financial statement are positively correlated with increased credit access. But, what is interesting, for women who are owners of business typical, there is a reduction in the probability of financial access (OECD, 2014).

Because the financial inclusion is interpreted as having access to and using the type of financial services that meet the user's needs, it also covers payment aspects, especially when we consider increasing role non-cash payments (Zieliński, 2015). Payments and payment services are an important element of the overall package of financial services. Moreover, they can not only facilitate access to other financial services, but, in many cases, be critical to those services' efficient provision. From a payments perspective, these transaction accounts will have a number of important effects, both for the individuals and businesses through gaining access to financial services and possibility of more effective managing their daily financial affairs as for the country's national payment system.

There are many factors influencing the level of financial inclusion and the most important seem to be the disposable income and the level of financial literacy as the results of financial education. Promoting and expanding the financial inclusion and financial literacy is one of the purposes of financial education (Frączek, 2014). A higher level of income and the higher level of financial literacy have positive impact on effectiveness of savings or payments. But in the case of borrowing money, the situation is more complicated. A lower level of usage of credits among people with higher income may be the result of less demand for money, but a lower level of usage of credits among people with lower income may be the result of the lack of creditworthiness.

The most frequently used indicator to measure the level of financial inclusion is the percentage of the adult population with access to a bank account in the formal financial sector, saving, borrowing money or making payments using the products and services of formal financial Institutions (Demirguc-Kunt et al., 2015). The data show that 60,7% of adults worldwide had an account at a formal financial institution in 2014 (50,6% in 2011). In addition, 27,4% of adults reported having saved at a formal financial institution in the past year (22,6% in 2011), and 10,7% reported having taken out a new loan from a bank, credit union or microfinance institution (9,1% in 2011) (World Bank, 2012). The data confirm mentioned in the previous part of the paper changes in degree of financial inclusion. But it is worth analyzing the financial inclusion in more detailed way, taking into account individuals and firms in different regions in the world.

### **Empirical Part**

Financial inclusion – access to finance – varies widely across the globe. To find the differences, the most important areas of financial inclusion were analyzed. Among them were: banking accounts and subsequently savings and borrowing money. The special attention was paid to the financial inclusion in enterprises.

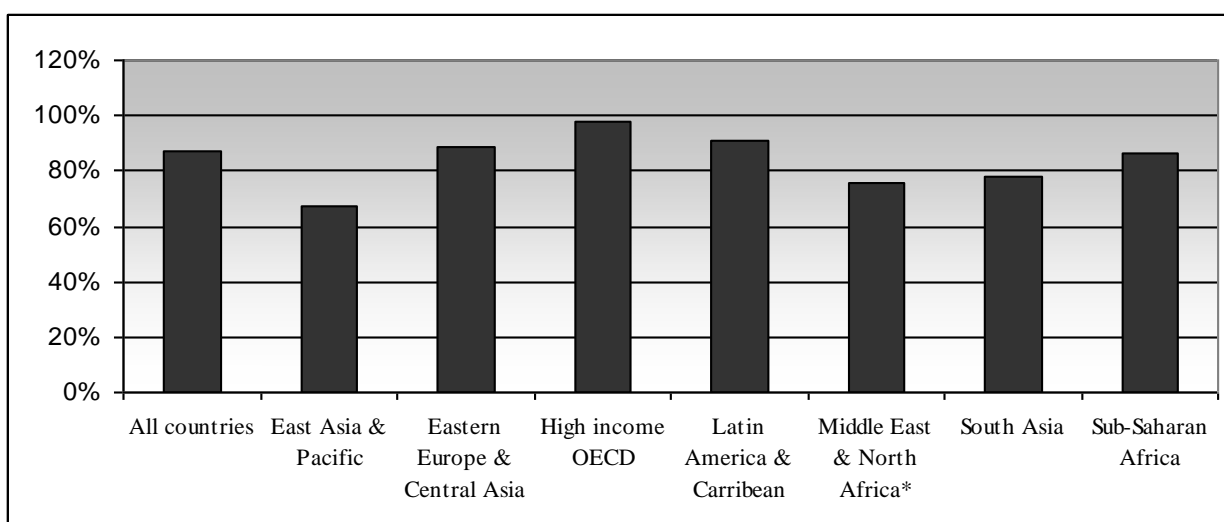


Chart 1. Percentage of firms with a checking or savings account

Table 1. Percentage of firms and adults in respect to different aspect of accounts and savings .

Region/aspects of savings	Firms	Adults (age 15+)			
	with a checking or savings account	with financial institution account	saved any money	with savings in financial institution	with savings club or person outside the family
All countries	87,1%	60,7%	56,5%	27,4%	na
East Asia & Pacific	67,3%	68,8%	71,0%	36,5%	6,0%
Eastern Europe & Central Asia	88,3%	51,4%	38,5%	8,4%	6,6%
High income OECD	97,7%	94,0%	70,8%	51,6%	na
Latin America & Caribbean	91,2%	51,1%	40,6%	13,5%	7,9%
Middle East & North Africa*	75,9%	14,0%	30,5%	4,0%	11,5%
South Asia	77,6%	45,5%	36,2%	12,7%	8,8%
Sub-Saharan Africa	86,0%	28,9%	59,6%	15,9%	23,9%

Source: World Bank

The percentage of firms which use a checking and saving account is rather high. Additionally, share of firms which use the checking or savings account is higher than share of adults who have an account at a formal financial institution or save money in different ways. There is not a clear relationship between using these basic financial products and services by firms and individuals in particular regions in the world.

The next and probably the most important area of financial inclusion in the enterprises is raising the capital necessary for running the business. The structure of the financing the investments in the enterprises activity is presented in Chart 2. It should be underlined, that financial market creates many possibilities for raising capital.

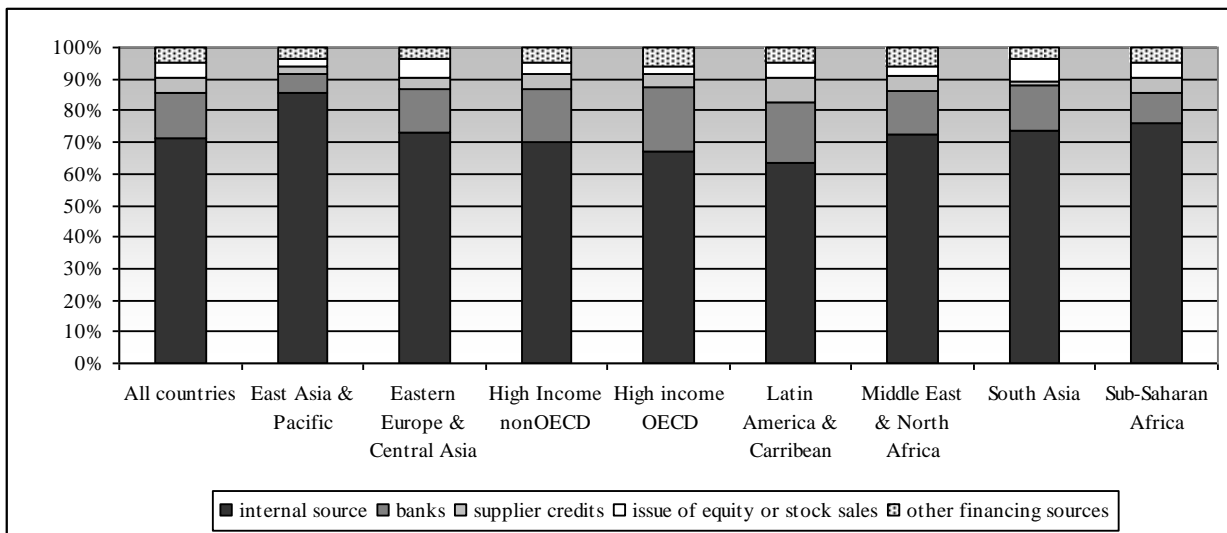


Chart 2. Sources of capital for enterprises in the manufacturing industry. Proportion of investment financed by particular sources (%).

Source: World Bank.

Chart 2 shows the sources of capital for enterprises in the manufacturing industry in different regions of the world. The data confirm that more enterprises used their own money to run their businesses. Considering the meaning of financial inclusion in enterprises with respect to financing, the next significant sources of capital are bank credits as well as the issue of new equity shares and bonds. It should be also mentioned the credit from suppliers, advances from customers as and other financing sources including loans from non-bank financial institutions (e.g. private lender), moneylenders, friends, relatives.

Although the bank credit is very popular source of funding investment in firms, it has many limitations. These include insufficient creditworthiness and the lack of required collaterals. These as well as the other factors influence the scale of the loan rejected and scale of financial exclusion. The value of collateral needed for a loan or line of credit as a percentage of the loan value or the value of the line of credit differs in different countries and regions. Different is also a demand for credit.

Table 2. Borrowing money from the banks by enterprises as the area of financial inclusion.

Region/main aspect of borrowing money from the bank	percent of firms with loan/line of credit	proportion of loans requiring collateral	value of collateral needed for a loan (% of the loan amount)	percent of firms not needing a loan	percent of firms whose recent loan application was rejected
All countries	35,1%	78,9%	202,7%	46,1%	12,1%
East Asia & Pacific	30,0%	91,9%	221,4%	49,5%	7,8%
Eastern Europe & Central Asia	36,5,%	82,7%	206,7%	51,1%	8,5%
High income OECD	50,7%	63,8%	148,2%	58,9%	5,6%
Latin America & Caribbean	45,2%	74,2%	208,8%	41,9%	na
Middle East & North Africa	25,6%	79,0%	202,6%	50,8%	13,7%
South Asia	27,0%	81,1%	236,0%	44,7%	14,4%
Sub-Saharan Africa	21,9%	83,5%	211,0%	36,9%	14,3%

Source: World Bank

The highest percentage of firms with bank loans or line of credits and at the same time the lowest proportion of loans requiring collateral, the lowest level of value of collateral needed for a loan and the lowest percentage of firms whose recent loan application was rejected is typical for the countries or regions with high income (e.g. high income OECD). On the other hand the lowest percentage of firms with bank loans or line of credits and at the same time the highest proportion of loans requiring collateral, the highest level of value of collateral needed for a loan and the highest percentage of firms whose recent loan application was rejected is typical for the poorest countries and regions (e.g. Africa). Considering the borrowing money as the area of financial inclusion it is also worth comparing firms and adults.

Table 3. Percentage of firms and adults in respect to different aspect of borrowing money.

Region/aspects of savings	Firms		Adults (age 15+)			
	with loan/line of credit	bank of	borrowed any money	borrowed from a financial institution	borrowed from a private informal lender	borrowed from family or friends
All countries	35,1%		42,4%	10,7%	4,6%	26,2%
East Asia & Pacific	30,0%		41,2%	11,0%	2,5%	28,3%
Eastern Europe & Central Asia	36,5%		39,5%	12,4%	2,1%	23,6%
High income OECD	50,7%		39,8%	18,4%	0,9%	14,9%
Latin America & Carribean	45,2%		32,7%	11,3%	4,7%	13,5%
Middle East & North Africa	25,6%		45,7%	5,6%	7,9%	30,7%
South Asia	27,0%		46,7%	6,4%	10,9%	30,1%
Sub-Saharan Africa	21,9%		54,5%	6,3%	4,7%	41,9%

Source: World Bank

The confirmation for the presented degree of financial inclusion in particular countries or regions measured by percentage of usage of the main financial products and services is the percentage of firms identifying access/cost of finance as a "major" or "very severe" obstacle.

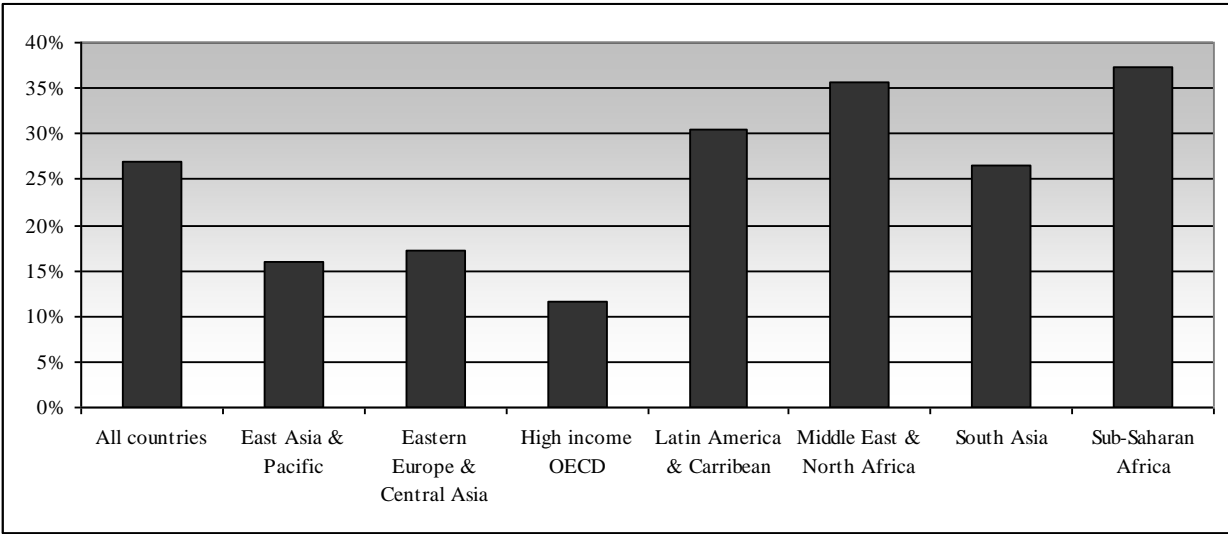


Chart 3. Percentage of firms identifying access to finance as major constraints. Source:World Bank

The fact is that the real needs for financial services of both individuals and enterprises are likely to be higher than is apparent from the actual use of a specific financial service at a given point in time. When referring to businesses, it should be also underlined that micro- and some small-sized businesses are more likely to lack some of the basic financial services or be financially excluded than larger ones (BIS, 2015).

### **Conclusions and implications**

Access to financial products and services performs two key functions beneficial to individuals and firms: risk management and inter-temporal consumption smoothing. Financial inclusion is pro-growth but also pro-poor, reducing poverty, income inequality and inequality of chances. The degree of financial inclusion depends on different groups, e.g. individuals and enterprises, different size of enterprises and different countries and regions in the world. The gap in access and use of financial products and services still remains a challenge, especially for individuals, small and medium enterprises and poorer regions in the world (low-income countries). Particularly noteworthy are small and medium enterprises. SMEs represent large part of private business and contribute to employment and to GDP in many countries, especially in developing ones. The development of SMEs is seen as accelerating the achievement of wider economic and socio-economic objectives, including poverty alleviation. Emphasizing the role of SMEs in the economy and at the same time their more limited access to finance in comparison to a group of larger enterprises, it is justified to pay more attention to them.

The financial inclusion may be facilitated in inclusive financial system. Many developing and especially low income countries in the world should make efforts to change their financial systems from an “exclusive” orientation toward a more “inclusive” one. The further research should also examine the ways of transition from exclusive to inclusive financial system, taking into account experiences of many countries. That means that in the area of financial inclusion very important are coordinated actions at the national and international level.

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# SEPARATING COMMERCIAL AND INVESTMENT BANKING: SENTIMENTAL COMEBACK TO HISTORY OR AN UNAVOIDABLE RUN TOWARDS SAFER FUTURE?

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## Abstract

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The main purpose of the paper is to highlight selected voices in discussion about separation of commercial and investment activities. Also revision of selected propositions included in new European capital regulations, promoting (even if only implicit) divergence of combined nowadays activities, will be undertaken.

The concept of the separation between commercial and investment activity of universal banks has been revived in recent years as a result of the financial crisis of 2008 years. The supervisory authorities began to seek the ways to ensure a more stable banks and more resilient financial system. Many of proposed solutions involve a change in the paradigm of the bank as an institution of public trust. One of the most spectacular discussions refer to returning to the concept started with Glass Steagall Act in 1933. Nowadays, the prospect of separation between commercial and investment banks has as many supporters as opponents. However, a new paradigm for contemporary banking systems must be agreed. Otherwise, outbreak of a new crisis would be unavoidable. Even if definite come back to Glass Steagall framework is not possible, some propositions of that direction have already been posed by official financial committees in many countries. Also new capital regulations (Basel III) initiate revision of old approach based on deep (and ultimately fatally misleading) convenience of perfect risk measurement capabilities.

Expected conclusion of the paper is, that at least partial and even only functional separation (not necessarily institutional) of commercial and investment banking activity is inevitable if safer future of financial systems is to be ensured.

**Keywords:** banking, commercial and investment banking, financial systems.

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## Introduction

The concept of the separation between commercial and investment activity of universal banks has been revived in recent years as a result of the financial crisis of 2008. The supervisory authorities began to seek the ways to ensure a more stable banks and more resilient financial system. Many of proposed solutions involve a change in the paradigm of the bank as an institution of public trust. One of the most spectacular discussions refers to restoring the concept started with *Glass Steagall Act* in 1933. Nowadays, the prospect of separation between commercial and investment banks has as many supporters as opponents. However, a new paradigm for post-crisis banking must be ultimately agreed. Otherwise, outbreak of a new crisis would be unavoidable. Even if definite come back to *Glass Steagall* framework is not possible, some propositions of that idea have already been posed by official bodies in many countries.

The main purpose of the paper is to highlight selected voices in debate about separation of commercial and investment activities. Discussion of appropriate arguments will be preceded by the conclusions drawn from the history of banking systems in the US, Germany and Great Britain, and from outcomes of the reports prepared by officially established groups and



committees. The analysis of advantages and drawbacks of separation will be concluded with very general reflection on current regulatory response, promoting (in a very limited scope however) divergence of combined nowadays activities.

Expected conclusion of the paper is that at least partial and even only functional separation of commercial and investment banking activity is inevitable.

### **Commercial banks vs. Investment banks: definitional aspects**

For centuries of human history, banks have taken a long journey from very simple goldsmith workshops to extremely complex, multifunctional financial institutions. The contemporary banking systems are commonly characterized by a variety of criteria. One of the prominent are types of banking entities. Due to general functional classification one can distinguish corporate, investment and universal banks. Regarding animated discussion carried for recent years that classification raised to exceptional role. Commercial bank provides services including offering current deposit and saving accounts as well as giving out loans to mostly nonfinancial entities like businesses, organizations and individuals. Other services include credit cards, private banking, custody and guarantees, cash management and settlement as well as trade finance. Commercial banks make their profits typically by taking small, short-term, relatively liquid deposits and transforming them into larger, longer maturity loans. This process of asset transformation generates net income for the commercial bank. For decades the paradigm of public trust has been promoted for commercial banks. That makes them especially responsible for savings deposited on banking accounts. Even though most of banking creditors [Frączek 2015] are aware that deposited money are any more secured in banking vaults, and are transferred into risky loans, and facilitated by other parties, however they want their receivabilities to be fully secured. Bank's management has to look after public trust as for the most precious asset. Otherwise, any rumors could trigger the avalanche effect and instability of whole banking system. That would be destructive not only for banks and their customers, but also for whole economy. That is why, systemic precautionary measures are undertaken to promote banks stability. One of the most important is deposit guarantee system. The cost of establishing it burdens bank's shareholders and state treasury. In their interest is therefore limiting the scope of the risk undertaken by banks. The term "commercial bank" gained outstanding prominence as a counterpart to "investment bank", that is a bank with a wide range of specialized services for companies and large investors. They include underwriting, advising on securities issues and other forms of capital raising, mergers and acquisitions, trading on capital markets, research and private equity investments etc. Whilst commercial banking relates to deposit-taking and lending, investment banking is predominantly a securities business. Whilst commercial bank's performance was very much linked to economic growth and credit demand, investment bank's performance is strongly influenced by stock market performance. Commercial banking is then viewed as relatively less risky than the more volatile investment banking business.

Both, commercial and investment activities, are incorporated in an universal bank - financial service conglomerate combining retail, wholesale and investment banking services under one roof gaining from synergies between them. Also many commercial banks do investment business although the latter is not considered the main activity area. The key issue is that they would benefit from economies of scale and diversification. But on the other hand, the key question is, how – by default – more risky investment activities disrupt the profile of a bank, as

public trust institution. The other doubt is, whether prudential regulations, safety net with deposit guarantee system could cope with that combination of activities?

Distinction of aforementioned types of banks can't ignore of regional traditions or appropriate jurisdictions. In many legal frameworks commercial and investment banking have been legally separated. For the others the combination of the both is allowed. The approach to this problem has been changing over the years. The most purposeful is to trace the processes that took place in the US, Germany and the UK.

### **Historical co-existence of commercial and investment banking**

#### *The case of United States*

American history of banking is the most spectacular view of opposing forces and ideas participating in the discussion on separation between commercial and investment banks. With the beginning of the XX century, America had a workable banking system with one national currency but still without central bank. Exposed to continuous tensions, both financial and political, economy struggled with the "crisis of the big banks". The big banks, with J. Morgan at the forefront, grew in power and were playing a central role in the consolidation of American business into giant trusts. In 1913 Senate Committee recommended that banks should be confined to commercial banking, but it did not lead to splitting them. However, it led to the establishment of the Federal Reserve System in 1913. During the boom years of the 1920s, it seemed that the era of universal banking had arrived and is going to last for long. However the financial crisis of the early 1930s put the process into reverse. Public anger was inevitably directed at bankers. During the national debate economists asked why the Wall Street Crash of 1929 came into the worst depression in modern history. Some of them blamed small local banks, defaulting massively. Similar views were held by the advocates of the large banks. On the other hand, the advocates of the small banks argued, that they were not the cause of the problem, but its victims. They maintained that large, federal banks, involved in securities activities, should be blamed for blowing up the stock-market bubble and setting off the crisis. Amidst animated discussions, in 1933, Carter Glass together with Henry Steagall introduced a *Glass-Steagall Act*. It forced banks to close down or spin off their securities businesses and established the *Federal Deposit Insurance Corporation* (FDIC) [Bulkley, 1932]. Banks had to choose whether they wished to accept deposits or deal in securities (they could no longer do both). From 1933 to the late 1970s, the *Glass-Steagall Act* remained largely unchallenged. In 1980s banks started to push for its repeal. Profits from traditional lending of commercial banks started to decline as creditworthy corporations funded themselves in the commercial paper market. Meanwhile the investment banks, expanding their range of services, desired cheaper funding sources. Access to investment banking activities provided commercial banks with new, non-interest income as an alternative to seeking capital-intensive interest income from commercial business. In 1988 the first crack in *Glass-Steagall* appeared. Eventually in 1999 the Clinton administration in the USA legalized universal banks. *Gramm-Leach-Bliley-Act* repealed key provisions of the *Glass-Steagall Act*. Domination of investment banking came to the end. After the recent global financial crisis, however, financial regulation has become prominent once again. The *Frank-Dodd-Act* implemented the *Volcker Rule* in 2010.

#### *The case of Germany*

In Germany universal banking has grown up organically and seldom been challenged. From the beginning of 19<sup>th</sup> century German private banks were helping to finance business start-ups

getting in turn their board representation. First joint-stock banks became capable to deploy great amounts of capital needed by new industries. In 1876 Germany's central bank, the Reichsbank, had been set up with a monopoly on issuing notes. Beside, through the extensive branch network it provided payments facilities and short-term business loans. The big banks tended to focus on providing capital for industrial expansion. By the early 20<sup>th</sup> century the German economy was characterized by big corporations financed by a small group of large and influential banks. With growing power of left-winged ideas, opposition to the concentration of business into banking cartels started to be criticized. World War I not only stopped prospective of banking reform, but also transformed Germany's economic and financial position. Unfolding hyperinflation drastically weakened the banks, reducing their capital to less than a third of its pre-war level (in real terms). After the restoration they were in no position to withstand the new banking crisis started with Credit-Anstalt in Vienna in May 1931 and soon spread to Germany. In its aftermath, the authorities decided of creation of a government-controlled banking cartel with limits on interest rates and restrictions on opening new branches. The banks were reprivatized in 1936, but under the Nazi regime they remained servants of the state. The arrival of the Americans in 1945 banking cartels that was regarded as the economic backbone of military industry had been decomposed. The three big Berlin banks were split up into ten constituent parts. This explained why they were not legally required to give up universal banking. (By contrast in Japan, a version of the *Glass–Steagall Act* was imposed). The advent of the Cold War weakened a pressure on remodeling Germans economy on American style. In 1957 subdivisions of the big banks were allowed to reconstitute themselves as nationwide universal banks. For years, the dominance of universal banks had been a key issue of public debate. In 1974 the Gessler Commission was set up to investigate the banking system. In concluding remarks of the report authors announced: "The universal banking system has proved its worth. Deficiencies of the current banking system are not sufficient to necessitate a change of system. A transition to a system based on separation might be able to eliminate the kinds of conflict of interest which exist within the universal banking system. However, major structural change of this nature would have such detrimental effects that it can ultimately not be justified." [Busch 2008] The only reform proposed was a 25 percent limit on shareholdings in non-financial companies. Another, long term impact of the report was, that by the late 1990s most banks had started to divest their corporate shareholdings and reduce their directorships. Not even the 2008 financial crisis succeeded in igniting an animated debate in Germany about the separation of commercial and investment banking.

### *The case of the United Kingdom*

By the 19th century the UK's financial system comprised of small "country" banks offering banking facilities to the areas of the country, and London-based merchant (investment) banks that focused primarily on trade finance and the placement of government bonds. Because of their small size the country banks were fragile and vulnerable to banking crises. In the wake of the crisis 1825, joint-stock banking was allowed so that banks could raise more capital. However, the shareholders of the new joint-stock banks still had unlimited liability, stopping them from excessive risk taking. The advent of limited-liability banking (after 1878) was followed by a wave of consolidation, so that by the early 20<sup>th</sup> century Britain was dominated by a small number of nationwide banks confined to commercial banking. In the meantime Britain's economy had plenty of time to develop efficient capital markets with specialist investment banks. Ultimately there was no need for commercial banks to get involved in securities activities. By the World War I banks in Britain became world's biggest. Once it had consolidated

into a system of big banks with nationwide branches, the British banking system became impressively stable [Casserley, Härle, Macdonald]. The separation of investment and commercial banking in Britain had always been a matter of convention rather than law. During the 1960s and 1970s the clearing banks started to provide a variety of loans moving into consumer finance, mortgages, and medium-term business loans. They also made their first steps into investment banking. The rise of the Eurodollar market attracted numerous foreign banks and introduced the practice of longer-term loans funded on a revolving basis. By the 1980s the only barrier to the creation of fully integrated banks was posed by the internal rules of the London Stock Exchange, requiring clear obligation, whether they operate as brokers or as market makers. Those limitations had been broken down in 1986 with “Big Bang”, starting massive operations of universal banks on financial markets. By the time of the financial crisis 2008 all of them had become universal banks, however with very different contribution of commercial and investment activities.

### **Official bodies about separation after the crisis of 2008**

The most spectacular pillars of world-wide debate in the aftermath of the crisis 2008 have become reports elaborated by works of a few groups, established by official bodies in the European Union, the United States and Great Britain. They became the basis for reconstruction of banking jurisdictions and regulatory measures, both at the national and supranational level. De Larosiere Report [The High-level Group ... 2009] has been published on 25th of February 2009 as a result of the work of the group appointed in 2008 by the President of the European Commission under the leadership of Jacques de Larosiere. The group’s task was to define proposals and recommendations on the future of financial market regulation and financial supervision in Europe. The outcome was the set of 31 recommendations. Many of them had been later on included in the regulatory system of the European Union. However, recommendations haven't embraced any references to the paradigm shift in the functioning of banks. Instead of taking active systemic actions, implementation of the tighter and more restrictive regulatory and supervisory framework was recommended. In the recommendation 26th the authors suggested: „Barring a fundamental change in the ways that banks operate, the Group recommends that the colleges of supervisors for large complex cross-border financial groups currently being set up at the international level should carry out robust comprehensive risk assessments, should pay greater attention to banks' internal risk management practices and should agree on a common approach to promoting incentive alignment in private sector remuneration schemes via pillar 2 of Basel 2.” Not taking into account of excessive complexity of financial institutions, combining the commercial and investment activities, has become one of the objects of criticism de Larosiere report [Acharya, 2009].

In February 2009 Paul Volcker, former chairman of the Federal Reserve System, headed the Economic Recovery Advisory Board by the President of the United States. Undertaking the task of structural reform of the banking sector after the crisis, Volcker’s group focused mainly on the problem of the large and closely coupled groups of capital taking with impunity excessive risk. It is the risk taken and the method of its limitations have been included in the so-called *Volcker Rule* [Elliot, 2011], which was later to a large extent implemented in the *Dodd Frank Act* [Benson, Michaels, 2013]. Composed of hundreds of rules it returned to the spirit of the *Glass Steagall Act* of 1933. Entered into force in April 2014 imposed on banks a number of limitations related to the investment activities [*How Will the Volcker Rule...*]. The most important include:

- limit of investment in venture capital funds (3 percent of equity),

- limit of involvement in an investment fund (3 percent of the total number of units),
- prohibition of the capital relationship with the funds, which invest their funds,
- prohibition of entering into transactions bearing conflict of interest between a bank and its customers,
- prohibition of entering into transactions which result in a significant increase in risk,
- prohibition of entering into transactions that threaten the stability of the financial system.

*Volcker Rule* has been criticized mainly by the banking lobby, defending the benefits of the *Gramm-Leach-Bliley Act*. Arguments for and against the concept of restoring the spirit of the *Glass Steagall Act* relate primarily to the opinion that the *Volcker Rule* is to eliminate the risk of the investment rather than on an assessment of its size and the ability of banks to absorb it.

In the UK, preparation of the report was commissioned to John Vickers. *The Vickers Report* [Final Report ..., 2011] calls for reforms aimed at:

- increasing the capacity of banks to absorb losses,
- developing procedures for resolution and controlled bank failures,
- limiting the tendency of banks to take excessive risks.

A key element of structural reforms called for in the report in order to implement the aforementioned requirements is the concept of separation of retail banks, serving households and SMEs, which should be eligible to public support. Those banks must be isolated from other financial institutions with structural *Ring Fence*. Getting a status of the ring-fenced bank requires meeting of several conditions. At first, these banks would be required to provide certain mandatory services (collecting deposits and granting credit for individuals and SMEs), which are of particular importance for the whole economy. Secondly, ring-fenced banks could not undertake the services that would increase excessively exposure to risk, in particular by opening market positions. That requirement takes into account asymmetry of information, disabling effective assessment of banks condition from the perspective of individuals or SMEs [Frączek 2014]. The Vickers report does not explicitly refer to the concept of separation of investment and commercial banking. However, it was clearly suggested, that only banks implementing mandatory services could count on the state support.

In 2012, on the initiative of the EU Commissioner, working group led by Erkki Liikanen was established [High-level Expert Group ..., 2012]. Liikanen Group worked in two directions. The first was focused on recovery plans, which were to decide how much separation is required for financial institutions collecting deposits. The second line was focused on the mandatory separation of banking activities that generate a high level of risk. [Kasiewicz, Kurliński, Marcinkowska, 2013]. The report discussed advantages and disadvantages of various regulatory options, referring to the banks involved in investment activities. The key issue of recommended reform is the concept of compulsory separation of banks' investment operations carried on their own account from commercial services. According to experts of the Liikanen Group, lack of state protection for market investments, would limit banks' willingness to take excessive risk. Moreover, disability of covering losses on market portfolios with banking deposits, would reduce the social costs of financial turmoil.

### **Advantages and drawbacks of commercial and investment banking separation**

Insights and recommendations provided by aforementioned reports became widely discussed both by supporters and opponents of the separation between commercial and investment banking. Representatives of both groups used arguments supporting not only different perception of economic processes but also economic interests of different parties of the discussion. It became apparent, that predominant voice in the debate belongs directly or indirectly to banks' representatives, trying to maintain current status quo. However, revision of current state became unquestionable requirement nowadays. Toxic situation, when banks became sovereign over the public interest is no longer socially accepted. Restoring proper balance in the relation between banks and the rest of society is a fundamental condition for rebuilding confidence. Regaining public interest sovereignty over banks should aim to:

- reduce the probability of bank failure,
- reduce the likelihood of government intervention,
- reduce the cost of government intervention.

Accomplishing aforementioned tasks is not that easy. Separation of commercial and investment activities seems to be a critical and inevitable but not satisfactory component of any actions undertaken. It is also necessary to put an end to too-big-to-fail paradigm. Giving up this condition would make the other actions not purposeful and ineffective. Discussion of pros and cons for separation can be then decomposed into three key questions: (i) what exactly should be separated? (ii) How should it be separated? (iii) Would the separation end up with TBTF? [Lindo 2013]

### **What exactly should be separated?**

What creates the banks' special significance for the economy is their participation in the creation of money. Taking deposits, lending and carrying money settlements are therefore key to banking operations. They are the responsibility not only to the banks, but primarily to the state implementing monetary policy. These activities must therefore be carried out without interruption, in a continuous and safe manner. Governments are obliged to rescue these activities even in case of a bank failure. Banks can also perform other activities, but they don't need to be provided continuously (e.g. securities underwriting) and the failure of one bank wouldn't interrupt the activity for the whole system. Bank reforms should therefore separate those activities that must be continued (and therefore must be rescued) from those that can be interrupted.

Separating banking business alongside the line of "impossible interruption" criteria should enable gaining a few key targets. The first of them is reduction of potential costs to the taxpayers. For universal banks, the cost of high-risk investment activities must be incurred in order to save commercial activities. This process is often accompanied by the infamous idea "privatization of profits and socialization of costs" [McGinn 2013], which is increasingly unacceptable to the public.

Opponents of separation often argue, that since *Glass-Steagall* until recent years there hadn't been great difficulties with universal banking model as such. This argumentation does not recognize the new environment for banking activity. In the days of "incomplete markets" [Blundell-Wignall 2011], the universal bank was much less dangerous. Relation between fair value (mark-to-market) and amortized cost accounting (traditional banking products) was clear

and relatively save. However in the past two decades financial deregulation and the widespread use of securitization created “complete markets” for all bank products. Bank business models have changed to exploit opportunities for fees and for regulatory and tax arbitrage. This shift from “traditional banking” to a form of “capital market banking” became associated with high leverage and the composition of mark-to-market products with commercial banking assets and liabilities.

Another key advantage of separation is reducing distorting incentives. With full separation, deposit insurance would apply only to the retail bank and could not act as an implicit subsidy to the investment banking, which would otherwise benefit from the formal (deposit guarantee system) and informal (TBTF) guarantee. Both them formerly led to the underpricing of risk and provided incentives to exceed its accepted level. This also rises a key policy question about whether bank deposits should be used to fund speculative trading at all? Separated traditional bank could go on lending to small and medium-sized enterprises regardless of how volatile financial markets are. At the same time, separated investment bank would have to earn its profits without any subsidy.

Arguing with separation proposals, banks often imply that it would raise the cost of doing business. That is partially true. [Wancer, Dziekoński, 2011]. That is precisely what the policy objective for higher-risk capital markets should aim to. Banks’ arguments ignore the cost the current banking system has imposed on the “real economy” for last decade. Direct bail-outs, increasing indebtedness of sovereigns, credit crunch – these are only a few examples of costs, which were not displayed in banks’ balances [Zieliński 2015]. If for fair calculation, social cost of banking operations would be taken into account, it is scarcely plausible that a reformed banking sector could cost more. In fact, it might even get cheaper. Lending to the real economy is likely to be considered less risky (also because of benefiting from a government guarantee of deposits) and therefore be less costly than trading activities. Increased simplicity and transparency on the operation of banks is likely to lower, not increase, funding costs.

Advocates of separation suggest also lower possibility of a systemic crisis, e.g. by reducing the probability of contagion [Peach, 1941]. Opponents argue in turn, that activities of commercial banks are also a source of risk. Separating it from investing activities therefore wouldn’t eliminate the risk of losses [Blundell-Wignall, 2011]. They also argue, that regardless of bank’s profile, its bankruptcy would undermine the confidence to other entities of the financial system [Casserley, Härle, Macdonald]. Moreover, they pointed out, that historical experience does not confirm unequivocally of the relationship between banking crises and the type of banks that initiate it or which suffered the most severe the consequences [Wolf, 2014]. On the other hand, advocates of the thesis answer, that due to restoring the concept of “incomplete markets”, the interference between activities of investment and corporate banks could become limited. Separation will decrease interconnection, as the separated commercial bank will mostly rely on its deposit-base being therefore less exposed to market risk [Zieliński 2013]. Separation will also decrease contagion possibilities, because most of the channels would be canceled and firebreaks set between commercial and investment banking activities in the same group.

### **How should it be separated?**

It will go a long way to preventing moral hazard and a funding subsidy for non-guaranteed activities of investment banks. Anyway, both types of banks should be separated prior to a

crisis. Separation in the midst of a crisis would be ineffective and even dangerous. Crisis resolution of complex banking organizations would be highly difficult and costly. As separation must occur in advance, investors and management must be clear whether they are guaranteed or not before the guarantee is invoked. Otherwise perceived implicit guarantees would provide wrong incentives.

Technically, the process of separation is not that unequivocal [*Position Paper...*, 2013]. It should take into account the size and organization of banking enterprise, diversity of banking system and also regional conditions. If a commercial bank is in the same group as an investment one, all trading should be by default allocated to the investment bank and commercial to the other. Sometimes it might be possible to allow limited trading activity in the guaranteed entity, but the type of that should be limited to simple financial instruments and exposure fully covered with capital requirements. The same exception could refer to small deposit banks, not united in banking group.

As a rule, however, the process should lead to separate legal entities, with separate capital structures and governance and with no possibility of any support from the guaranteed entities to the un-guaranteed ones. Trying to untie the often complex and intricate structure of the bank holding companies, approached proposed by the OECD could be taken into account. It is focused on a concept of the non-operational holding company (NOHC) [Blundell-Wignall, Wehinger, Slovik 2009]. The parent of the structure would be non-operating, raising capital on the stock exchange and investing it transparently. Subsidiaries would each issue equity, held by the parent, and pay dividends to the parent, which it pays on to external shareholders of the NOHC. Any debt would be raised only at the subsidiary level. Both commercial and investment subsidiaries would raise debt separately. Consequently, the costs of funding for the commercial and investment subsidiary would be separated and the benefit of the government guarantee for commercial one would not be reflected in the funding cost of the investment one. Implementing of NOHC would benefit also in permitting synergies and economies of scale and scope. Organizational structure, technology platforms and back-office functions could be shared. Such a transparent structure would also make it easier for regulators and market players to see potential weaknesses and undertake in advance appropriate actions in case of any instability symptoms.

#### **Would the separation end up with TBTF?**

It must be accepted, that banks will sometimes default. Any precautionary measures couldn't prevent it completely. Ultimately we may then face the dilemma "How to reduce the cost of government intervention?". Separation of commercial and investment banking can not only reduce number of perils, but also make insolvency easier, cheaper and less painful [Capie, Wood 2013].

Banks should not be that big that their failure causes problems for the whole economy and therefore governments have to rescue them. A whole range of measures might be useful for putting end up with Too Big To Fail (TBTF) concept. These include in particular: implementing a strict bail-in regime, putting a cap on bank leverage, empowering recovery and resolution plans, considering caps on size. Separation can be implemented alongside with other measures. Sensibly approached and in conjunction with other measures, it will create two or more smaller banks in place of one bigger. But it is not only the issue of arithmetic division of assets.



A separate investment bank, without undue guarantees, forced to raise capital on a market basis, can close some of market position, which now turn out to be ineffective. At the same time, commercial bank can expand its lending, which due to fairer competition may prove to be more profitable. In no case, however, the bankruptcy of the bank shall not constitute such a large and unpredictable threat, as it was before.

### **Regulatory response**

In the aftermath of the crisis of 2008, the world is still fighting with contradictions between new trends and innovations at global financial systems on the one side, and institutional arrangements and regulations, creating conflicts in policy objectives and ineffective in supporting financial stability. Europe established economic union of countries with very different structures that are subject to asymmetric real shocks. The inconsistencies of the monetary union have resulted in a sovereign debt crisis which is interacting with banks through market prices volatility in a most dangerous manner. Banks under Basel II had been allowed too much leverage [Blundell-Wignall 2011]. In USA, after the outbreak of the crisis, the minor reflection came, whether *Glass–Steagall* (repealed by *Gramm–Leach–Bliley Act 1999*), as originally intended, would have prevented these issues. Works of established commissions and groups provided numerous recommendations and guidelines that could be used for preparation of new, better and more adequate regulations. The *Volcker Rule* has been adopted in *Dodd–Frank Wall Street Reform and Consumer Protection Act*, at least partially restoring the soul of *Glass-Steagall*. In the Europe the first efforts after crisis outbreak has been focused on renovation of Basel capital adequacy rules. In *Basel III*, bank-level regulations, aimed at raising the resilience of individual banking institutions to periods of stress, has been accompanied with macroprudential approach, regarding system wide risks that can spread across the banking sector as well as the procyclical amplification of these risks over time. As the financial crisis evolved and turned into debt crisis in 2010, it became clear that, for those countries which shared a currency and were even more interdependent, more had to be done. Eventually, in June 2012, Heads of State and Government agreed to create a *Banking Union*, completing the economic and monetary union, and starting centralized application of EU-wide rules for banks in the euro zone. New mechanism comprises of three main pillars: (i) ECB as a common supervisory authority of the euro area, (ii) common resolution fund & mechanisms for failing banks, (iii) common deposit-insurance scheme to prevent bank runs.

These and other regulatory efforts seem to be moving in the right direction. They all go towards key goals: reduce the probability of bank failure, reduce the likelihood of government intervention and reduce the cost of government intervention. Good work has been done in adopting measures in the domains of capital, liquidity and resolution of banks in order to increase the resilience of the banking sector, within the financial system. Unfortunately still is unknown, whether the undertaken measures will be capable to achieve the goals. Specially, that the banks themselves are reluctant to give up the privileges of deregulation. They can limit the scope or even suppress changes through powerful lobbying. It seems idea of separation is one of particularly unwanted [Szpringer, 2013]. Promoting in exchange increasingly sophisticated and complex system of prudential regulations, only apparently leads to a safer financial system. In reality, however, it may be another trap, allowing the use of information asymmetry, regulatory anarchy and consequently arbitration.

## Conclusions

Over the last decade we have been getting used to treating investment and commercial activities of the banks together. All this through the universal banking model that dominated over global financial systems. The comparison of different countries' history has not justified decision of such extreme deregulation. Only after the financial crisis 2008 it appeared obvious, that investment banking and commercial banking come from completely different worlds. It is therefore not possible to reconcile the interests of the banks and of the public interest. What is good for the bankers doesn't need to be favorable for society. It is apparent, that banks became the sovereigns over public interest. Structural separation is necessary for banks to get back on their own feet and for the public to regain sovereignty over banks. The positive balance between presented arguments in favor and against that idea, supported by many official opinions, should be taken into account as soon as possible in new regulatory framework. But that will take long way to go. Achieving the intended purpose requires overcoming massive resistance from the banks and other beneficiaries of the previous order. Unfortunately governments, in theory being in power to make decisive changes, are currently very weak. Their independence and power had in fact been severely undermined by transferring effective control over the economy and consequently over society to the financial sector.

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# GLOBAL INTERNATIONAL BUSINESS MANAGEMENT MODELS AND THEIR COMPARATIVE ANALYSIS

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## **Abstract**

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The purpose of research is to analyze the international business management models in case of various world countries, to identify their similarities and differences and to determine what specific features of these models could be applied to Lithuanian international business. The research methods used are comparative analysis of scientific literature and statistic data.

The theoretical basics of international business management models, their formation and usage are discussed in the article. The most attention is paid to the theoretical analysis of three main international business management models, i.e. American, European and Japan models. The analysis of various variants of European international business management models', emphasizing their regional peculiarities are made.

The comparative analysis of USA, Japan and Sweden international business management models as well as Lithuanian one is made in the paper, using Hofstede cross-culture differences criteria. Analysis showed, that Sweden international business management model is most suitable for Lithuania.

**Keywords:** business management, global international business management models, comparative analysis.

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## **Introduction**

The intensity of globalization and the increasing international trade foster international business expansion and its growth in most regions of the world. International business, which has been rapidly growing in recent decades, is becoming increasingly attractive not only to large corporations, but also to small enterprises, which due to the improving communication techniques, can attract more customers and, as a result, is becoming part of the global market. In the period of intensifying international business and the increasing international competition between enterprises a key success factor is becoming a properly selected international business management model that impacts the activity processes of most enterprises, which shape the final result of their activity. Therefore, it is relevant to investigate theoretical principles regarding international business management models formation and their application in enterprises when assessing their pros and cons. International business reacts sensitively to various economic, political, social, environmental, legal and other types of factors related to the markets, business support services and other processes, which are of major importance to international business and which not merely determine international business success but also provide the opportunity to carry out international commercial activities. When expanding the enterprise activity at the international level the question then arises as which business management model would best suit for different markets and different activities with regard to the enterprise experience, the philosophy of enterprise activity, its strategy and opportunities. In the current complex international environment enterprises face different value systems and beliefs of different countries; therefore the heads should be able to successfully develop inter - cultural cooperation to make international business flourish. Thus, for a successful international business development it is essential to estimate cultural environment (in a broad sense), which

encompasses economic, political, social, environmental, legal and other types of aspects. After estimating these aspects, business management models, which would allow to develop successfully business, can vary in different countries or regions.

The issues related to international business were investigated and are being investigated by a number of authors, i.e., Bernard at all. (2007), Carbaugh (2008), Cavalcante S., at all. (2011), Harzing (2013), Hofstede (2001, 2007), Jenny at. all. (2011), Lazonick (2010), Oliver (2001), Peng (2009) and others.

This article analyses theoretical aspects of three main international business management models: American, European and Japanese through describing their distinctive features and carrying out a comparative analysis, using Hofstede cross-culture differences criteria.

### **Major global international business management models and their characteristics**

In this part we will overview international business management models that are widely discussed in scientific literature and practice. The selection of an international business management model depends on specific national or regional conditions, and particularly, cultural environment. A thoughtfully selected international business management model provides an enterprise with a competitive advantage in the sphere of its activity, which allows the enterprise to get higher profits than its competitors. Cultural diversity fosters to search for versatile communication techniques for business participants. In terms of a global context, there could be distinguished three major international business management spheres that cover the same basic models regarding cooperation, concluding contracts, maintaining relations and other models for major business procedures based on mutual understanding between partners with regard to the principles of business execution. The above mentioned conditions shape three different business management schools, i.e. American, European and Japanese.

The three previously mentioned management schools discerned by numerous international business researchers are usually considered as three different models regarding different understanding of business and relations between businessmen. American and Japanese business traditions are usually considered as two opposite poles with the dominance of individualism and competition in one of them (the USA) and sociality and corporation - in another (Japan). The European Business School, on the base of which management principles were shaped, was considered as an intermediate variant covering business management features existing in American and Japanese models.

As noted by Richardson Global (2012), despite the fact that the American Management School, the same as the entire business culture of the region, evolved from European traditions; however, management principles emerging in a separate continent were exclusive for original interpretation of certain management processes and the attitude towards business. It was in the USA that individualism of employees oriented towards a common goal of an organization emerged, which conditioned a sheer orientation of employees of all levels towards their personal results and a strict formal control. On the contrary, in Japan cultural traditions determined collective relations, non-formal relations and the emphasis on the employee age in the context of the quality of work. Europe, being a pathfinder in the development of American culture, in the course of the human society development established its own distinctive approach to management, which includes the features existing in the USA and Japan.

When generalizing the American business model it is important to mention key features of this culture - the culture of this country is individualistic rather than collective, whereas the emphasis is laid on short-term rather than long-term plans and objectives; in business the priority is provided to customers and only later to the enterprise employees and benefits to society; i.e. the key aspiration in this business model is profit. The same situation exists inside the enterprise; the main aspect of employee communication - work, obligations and their implementation, whereas interpersonal relations are practically considered of no importance. Top level heads are provided with managerial freedom, however there is a strict control seeking to implement the enterprise goals. Each head is responsible for his employees and their actions, their achievements and an external image of the enterprise. The labour relations system is liberal in the country, which empowers employers with the freedom to hire and fire employees due to changes in the labour market (Oliver, 2001).

In Japan the key business form is merging of the enterprise groups, so called "*keiretsu*". In Japan business culture reflects historical and social values of the country, therefore in order to set up business on the basis of the Japanese business model and achieve significant results, it is essential to know the country's history. Japan is scarce of natural resources, therefore it to a great extent depends on the imported raw materials; therefore, in order to get a balanced foreign trade the country has to export a large number of products. Due to this particular reason in the 20th century the manufacturing sector expansion was its main objective. After World War II Japan began to build ships, produce machinery and electrical equipment, while later petrochemical and nuclear energy products, whereas around 1980 - computers and their parts. Since 1970 - the government supported researches, the production of robots began, the competition was encouraged in the textile, shipbuilding and chemical fertilizer industries when applying tax incentives. The leadership style in Japanese enterprises is based not on an individualistic approach but on a collegial one. The sole objective of an enterprise is not to generate business profit, but to focus on its further expansion and growth (Graham, 2010).

Japanese heed on social relations and interpersonal relationship development that are deep rooted in their culture. The formation of Japan business model was impacted by Japanese culture - traditions, ethics, family respect and loyalty, respect for older generation, integrity, harmony seeking and attention to science and education. For Japanese the attitude that harmonious heart-to-heart relations with the environment is one of key success factors.

In publications on international entrepreneurship researches American and Japanese models are considered opposite poles, whereas the European business management model is a link incorporating the features of both models. However, it should be noted that the USA and Japan are unified geographical and socio-cultural units, where business traditions are perceived in a similar way in any geographical location of the countries (Casillas, at all, 2010). Europe differs significantly in this respect - over the centuries the countries developed as isolated units and became distinctive, which should be considered when analysing business management models of different regions.

For example, business management models of the largest European countries - Great Britain, Italy, Germany and France - are links between Japanese collectivism and American individualism. When bearing in mind geopolitical context, it is evident that business

management model existing in Great Britain is closer to the principles of the American Business School, whereas the models of Italy, France and Italy are closer to the Business School of Japan (Richardson Global, 2012; Cadogan, at all, 2009). Considering the fact that a close link between business management models of Great Britain and the USA is apparent and acknowledged by numerous management theorists, while the specifics of German business model in the global context is closer to Japanese management traditions, it should be admitted that business schools in France and Italy, which significantly differ from the ones in Germany and Great Britain, can't be unambiguously linked with the same schools existing in Japan and the USA. However, according to the opinion of most authors, business management schools in France and Italy are closer to the Japanese Management School rather than the American School.

Thus, The European Business Management School model is much more complex - it could be divided into separate models that have common and different features. Usually, the European Business Management School model is split into separate types, which are based on diverse philosophical orientations, i.e. pragmatism, which claims that knowledge is gained through experience, rationalism, which is based on deductive management models when ignoring a subjective experience, holism, which oriented towards intuition and based on a systematic approach and humanism, oriented towards human relations and close interpersonal relations. On the basis of these business cultures we can define European management principles existing in different countries or regions, however, it should be noted that contemporary Europe, which ensures a free movement of goods and people, becomes assimilated, therefore, the above discussed business management models are becoming similar to each other.

International business researchers when investigating European business management models divide Europe into four regions, in which different business management models operate, i.e. western, eastern, southern and northern regions with their distinctive business management principles that shape international business practice of each particular region. Usually, pragmatism is linked to the culture of Western Europe, while rationalism - to northern culture, holistic approach – to eastern and humanism – to southern culture. However, this division is conditional. Humanism prevailing in the countries of Latin America reflects the culture of its inhabitants. Humanism, as a form of business management, distinguishes itself for sociability, close relations, usually based on family ties and a patriarchal business organization structure. Emphasis should be laid on the Scandinavian example - this region is abundant with different business management styles (except for humanism), the combination of which determine a distinctive attitude of Scandinavian entrepreneurs towards business and their ability to adapt to different cultures. The prevailing styles in Germany are rationalism and holistic approach.

Thus, Europe does not have one common business management model. For our further research we have chosen the Scandinavian (Sweden) business management model, which is closest to Lithuania's culture and it should be seriously considered. The Scandinavian business management model lays emphasis on the employee and his professional development. Each member of an organization has his own tasks, however, concurrently he has an opportunity to participate in decision taking, shaping the enterprise objectives and implementing them. An employee has freedom to choose how to perform his tasks, which fosters self-confidence and creativity. This is the reason why this country has an employee who provides ideas, is not afraid to risks, is self-confident and increasing profit of his enterprise. Educational system of the country is based on fostering entrepreneurship, establishing favourable conditions for learning

and professional development, whereas a university graduate is considered as a full-fledged market participant capable of taking proper decisions.

The enterprise fosters employee sociability and sustainable relationships between them; according to Swedish researchers, this guarantees a strong inner motivation of employees. The heads as well as employees respect each other's personal life; moreover, they understand that the employee self-realization depends on his work activities. Furthermore, the representatives of this culture are not haughty for their achievements and merits and all employees feel equal.

### **A comparative analysis of global international business management models**

The aim of comparing international business management models of different cultures - to analyse distinctive features of business management models of different cultures and discern those aspects that could be applied in Lithuania while establishing business management model that corresponds to business conditions in Lithuania.

Each culture is unique for its distinctive features that can not be traced in other cultures and which in time span are shaped according to the attitude, perceptiveness, values, traditions and customs of the country's residents. It is apparent that countries of the same region usually have common interests, therefore business ethics is not an exception; however, the more distant regions are located the greater cultural diversity exists between them. Such countries as Japan, the USA and Sweden are particularly different; therefore we could adapt everything that would help successfully develop our business within the country and outside its boundaries. In order to assess the countries business management models we have chosen the five dimensions system created by Geert Hofstede that allows us to assess the cultural-sociological global business model aspect in detail. The concept of cultural dimensions is based on the mind blowing programming idea of an individual; whereas, as stated by G. Hofstede (2001), culture is the collective mind blowing programming idea, which can separate the members of one culture from the members of another culture. Hofstede criteria help perceive, understand and compare different cultures and the ethics of business organizations, because these aspects directly depend on each other and are intertwined. Hofstede proposes such inter cultural difference dimensions as power distance, indeterminacy (uncertainty) avoidance, male-female and short-term and long-term dimensions.

Power distance (PD) is related to inequality, which is prevailing and which is justified and accepted between the individuals who have the power and those who do not have it. Countries with a high level of distance indicator have a high level of inequality, there is a great gap between the employees of the highest and lowest positions, and moreover, the enterprise management policy and structure are quite strict. Workload is delegated from the top of the management pyramid to its bottom. However, in those countries in which this indicator is low, there is equality, each individual is respected regardless of his position; there are no fixed hierarchical governance. The wage gap is not high between different categories of employees. Indeterminacy (uncertainty) avoidance (IA) shows that employees or the members of society avoid occurring in uncertain and unfamiliar situations or unacceptable conditions. In the countries, in which uncertainty avoidance is strongly expressed, conservatism is prevailing. New laws emerge, which define human rights and duties. In the countries with a low indicator of uncertainty avoidance people are ready to face changes, are tolerant and free to express their opinion, there are less legal acts and laws.



Individualism-collectivism dimension (IC) defines the level, to which people give priority to individual interests rather than collective work. A high level of individualism determines the country's economic growth, the level of urbanization is higher, the industry is modernized, social mobility is increasing and the country's residents are not afraid to change their positions and lifestyles. Job and responsibility are of utmost importance, while the family - of minor importance. In the countries with a low level of individualism the economic growth and its expansion are slower, social mobility is low, the family is of key importance, traditions and customs are observed and maintained.

Male-female dimension (MF) shows the attitude of an individual towards males and females. Male dimension is particularly highlighted in those cultures; the dominant opinion is that males should take higher posts than females. In those cultures the prevailing family structure is a patriarchal one. However, in case a female dimension is highlighted, both males and females can take the same jobs, males are considered not only as strong personalities and females hold high posts.

Long-term - short-term orientation dimension (LS) describes how long people can wait until they see results. Long-term orientation shows their concentration towards forthcoming results. Short-term orientation is related to observing traditions and customs and having strong links with the past, people try to pursue their short-term objectives, they do not save money but work so that to spend it.

G. Hofstede's empirical model for assessing the cultures of different countries is widely used in psychology and business management. Inter-cultural differences assessment system (Hofstede) is composed of a questionnaire, which consists of 34 standard questions. After carrying out the survey, the obtained information was used to estimate cultural dimension indicators according to the formulas provided by Hofstede. The below provided diagrams show the assessment of global business management models based on the data of the Hofstede Centre.

Figure 1 provides the values of Hofstede's dimensions for the American business model. The digital value of power distance dimension is not high - 40, which means freedom and justice to all residents of the country, equal rights in society. The enterprise governance hierarchy is as follows: chief officers are available when needed, while executives of a lower rank can trust employees and their team. The average uncertainty avoidance indicator - 46, which shows that there is no fear for uncertainty. Due to this particular reason the country is open to innovation and opportunities and innovative products. Therefore, the dominance of individualism is significant, since the value of this indicator is 91. A newly employed worker is supposed to show initiative and independence, while his decisions impact his salary. The dominance of males is significant because the value of its indicator is 62. The USA is not oriented towards long-term objectives, its indicator is quite low - 29. Business strategy is oriented towards achieving quick results.

Figure 2 provides the values of Hofstede's dimensions for the Japanese business model.

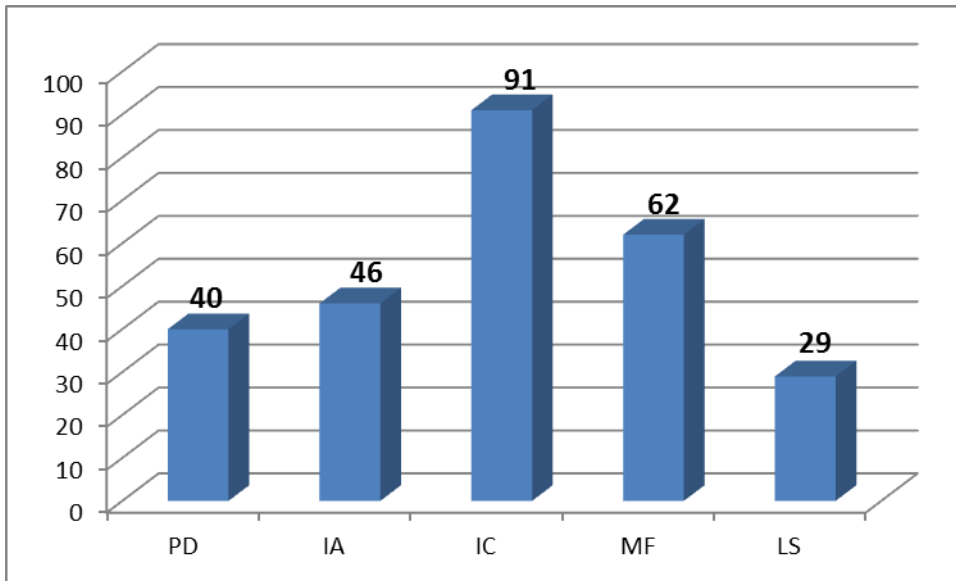


Figure 1. Assessment of the American business model according to Hofstede's criteria.

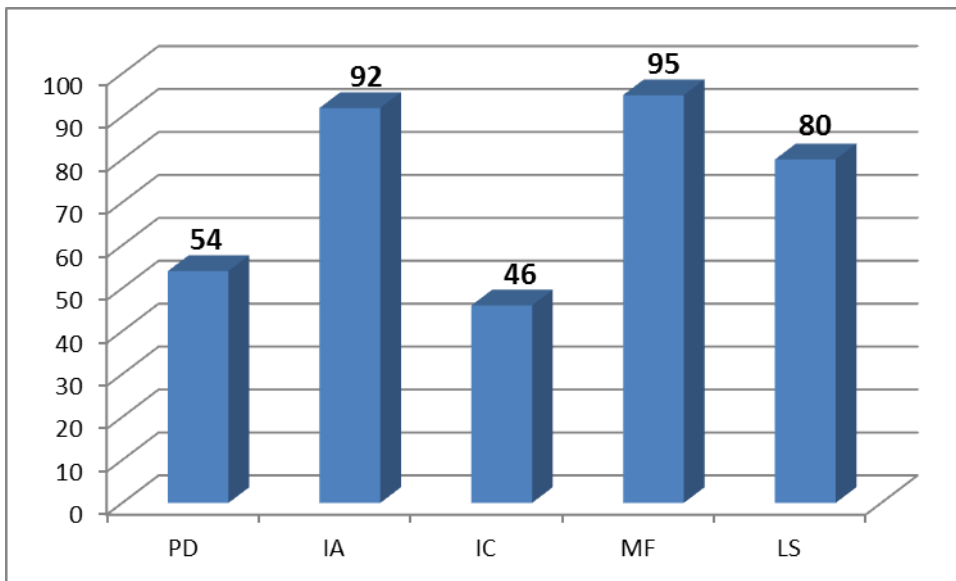


Figure 2. Assessment of the Japanese business model according to Hofstede's criteria.

According to the value of power distance indicator, which is 54 in Japanese culture, it should be stated that Japan has a tendency to a hierarchical society; however, hierarchy is not as strongly expressed as in the countries of Asia. In most Japanese enterprises business decisions are made slowly when considering prior discussions with the head, while final decisions are made only after his consent. The uncertainty avoidance indicator is very high - 92, which shows that Japan is one of a few countries which avoids uncertainty. This is influenced by natural disasters - earthquakes, tsunamis, typhoons and volcanic eruptions. These conditions have taught Japanese to be ready for unpredictable situations and forecast them in advance. Japanese business concentrates on project studies and determining all risk factors before implementing a project (Hofstede, 2001).

The lowest indicator is obtained in the individualism-collective dimension scale - 46. This shows that Japanese culture is collective and individualistic; Japanese are concerned about establishing harmonious relationships between employees rather than expressing their personal opinion. Japanese are concerned about peaceful and friendly relations. Japanese become one big family at work. Japanese are very loyal to the organizations they belong, whereas their neighbours Chinese are prone to distance themselves from work easily and are not afraid to change their jobs. The male-female dimension indicator is very high - 95. This is the country with the highest level of male indicator. Males are dominant in the country's enterprises; they work in service and manufacturing sectors and are considered as workaholic - which explains why the level of male indicator is so high. Females can climb career ladder. The country is oriented toward long-term objectives, because the value of this indicator is high - 80. The country's investment is focused on forthcoming future, while the enterprise policy - to its longevity and sustainability. Japanese do not seek quick profits, since they think they must consolidate their activities and gain customer confidence and loyalty first.

The power distance indicator of Swedish employees is 31 - this describes the country's culture, which is distinctive for personal independence, equal rights and the opportunity to pursue their self-being; hierarchical governance is available to all people, the heads of the highest ranks are helpful (Figure 3). Each employee is empowered with the right to responsibly take decisions, employee relationship is non-formal. The uncertainty avoidance dimension indicator is not high - 29, which show that the residents of the country are relaxed, at ease and not afraid of any changes, they follow their own principles and are not afraid to be not in compliance with standards. The heads of enterprises encourage their employees' flexibility, schedules and timetables are created considering personal desires, and innovation is fostered and welcomed.

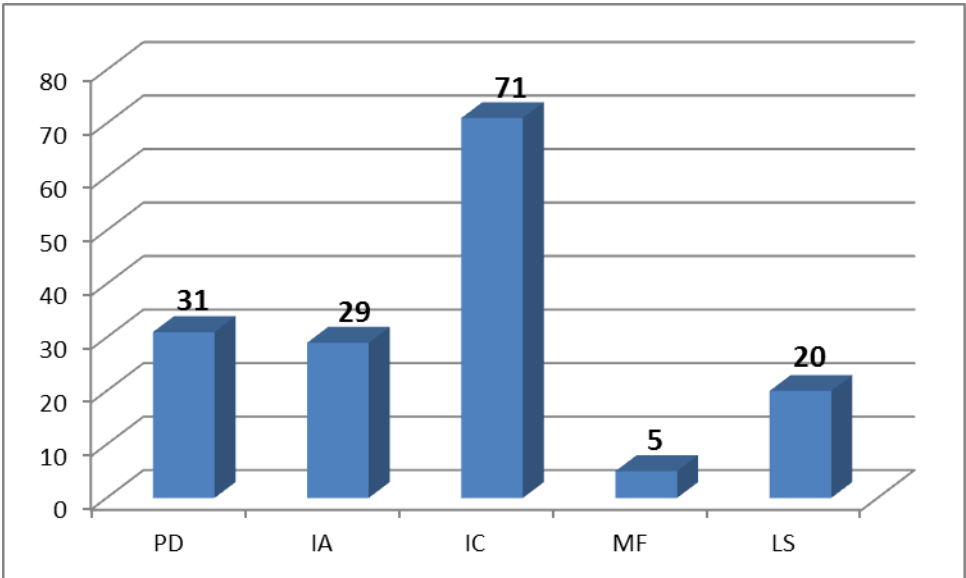


Figure 3. Assessment of the Swedish business model according to Hofstede's criteria.

The highest indicator is individualism-collectivism, which amounts to 71, which shows that Sweden, the same as the USA, is strongly prone to individualism. The relationship between the employee and his employer is based on contractual obligations, which specify mutual benefits; employees are assessed by their achievements. In Sweden the male indicator is very low - 5, which shows that Sweden is a feminist country. There are no gender differences; the attitude that males and females can achieve the same goals is prevalent. Sweden has a short-term

orientation culture because this indicator is 20. Swedish people respect and observe their traditions and customs and are not prone to save money or have quick results.

Figure 4 provides the total indicator values of the USA, Japan and Sweden based on the Hofstede's dimension indicators criteria.

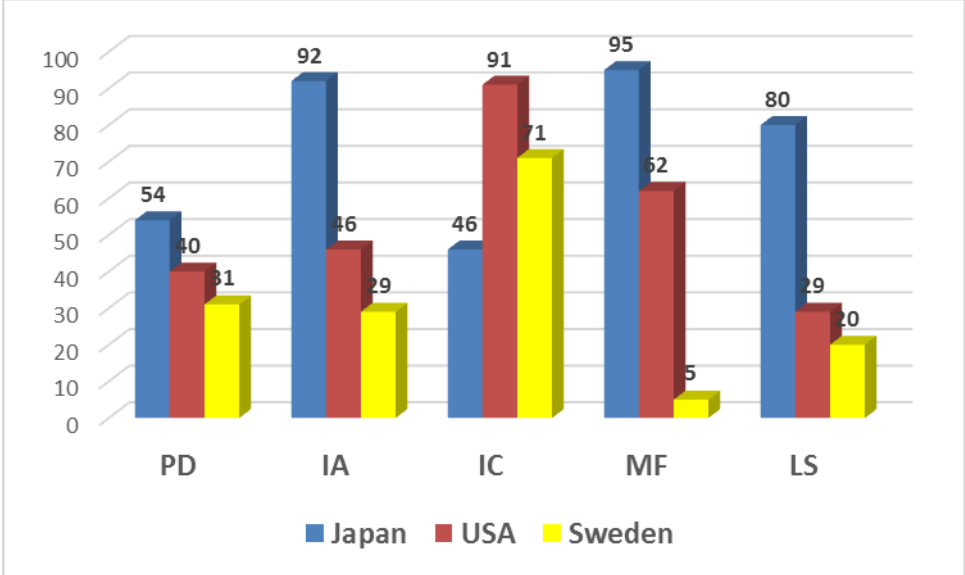


Figure 4. The Hofstede's criteria for USA, Japan and Sweden.

The provided data shows that Japanese are prone to extremes to the greatest extent, since three indicators out of five are around 100, uncertainty avoidance- 92, male – female dimension - 95 and long-term – short-term orientation - 80, while according to the data of the USA, – individualism – collectivism dimension is 91, while in Sweden the highest indicator is also individualism – collectivism – 71, other indicators are lower than 50.

Figure 5 provides Hofstede's criteria for Lithuania, which are estimated according to the Hofstede Centre data.

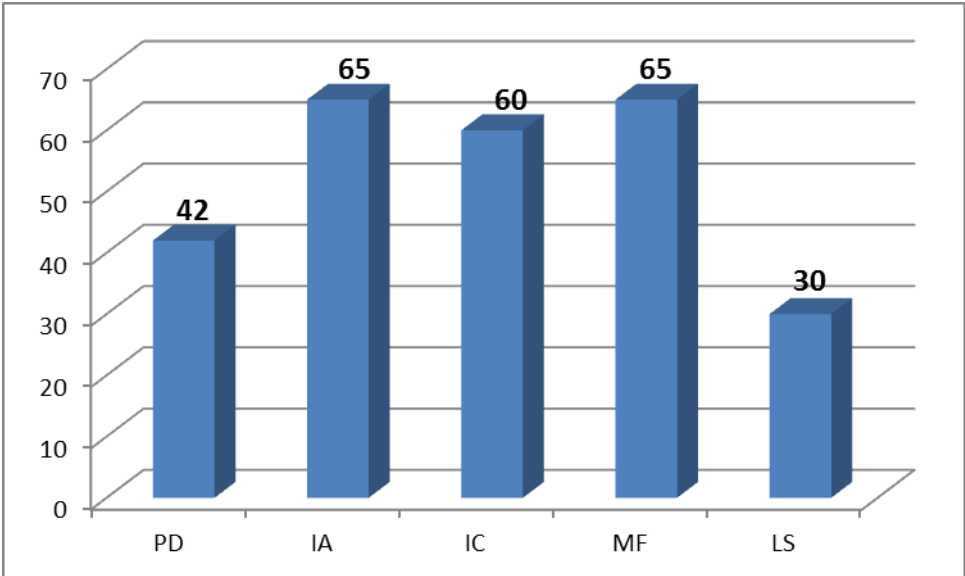


Figure 5. Hofstede's criteria for Lithuania.

The power distance indicator in Lithuania is 42, i.e. it is neither high, nor low. The prevailing power distance in Lithuania is average; therefore a hierarchical structure is dominant in enterprises and organizations. There is a great wage gap, which divides society into poor and rich and has a negative impact on its economic growth. Prosperous entrepreneurs are considered as powerful persons who impact final decisions. This demotivates people; inhabitants do not follow the rules established by society, such as paying taxes or taking honest business activities. The uncertainty avoidance indicator is 65, which shows that people are uncertain about their future and avoid uncertainty. The individualism -collectivism indicator is very high in Lithuania. G. Hofstede defines individualism in two ways - as the source of well-being or as alienation. In this respect, individualism is considered as alienation, since every person is oriented towards himself and his family rather than society. This impacts the employee relationship - a strong control at work is based on penalties. Male-female indicator is particularly high, i.e. Male position is strongly expressed in Lithuania. This corresponds to Lithuanian traditions. Long-term - short-term orientation indicator is particularly low - 30, which means that in Lithuania entrepreneurs do not seek long-term objectives. The country's culture is oriented towards a short-term dimension and seeking quick and short-term results.

### **The proposed principles for international business management model creation in Lithuania**

In order to create an appropriate business model of the country there is no need to generate new ideas, since it is much easier and more effective to follow successful examples of other countries and adapt them to the Lithuanian environment. Some aspects contradict our culture and are against business ethics, for instance, strong social relationships prevailing in Japan would not fit to Lithuania and it would take much effort to adapt it. Thus, when creating a specific business management model, we should bear in mind personal characteristics of the country's residents, our values and traditions. The aim of the business management model creation is to help business representatives of the country to effectively manage processes, strengthen social relations within the enterprise and seek the desired economic activity results when considering social and natural environment. On the basis of the research, below are provided our proposals regarding the principles intended for the Lithuanian international business management model.

Since Lithuania is a European country, it would be preferable to orientate Lithuanian business towards the European business management model, particularly to Northern Europe, i.e. the Swedish model, since with regard to geopolitical and cultural aspects Lithuania is closer to this particular European region. The Swedish example is the most suitable because this country is socially oriented, which means that well-being of all residents of the country is of major importance. One of advantages of this model is that it develops an individual who is self-confident and trusts his government, is motivated to pursue his objectives and boldly plunges into business. The heads of Lithuanian enterprises should trust their employees and provide them with the opportunities to take initiative in task performance and take personal responsibility for results. Each enterprise should be socially responsible, the initiative should be the prerogative of employees; they should seek more than it is specified under the laws and other legal acts - prepare new projects oriented towards the environmental protection, maintaining, etc. When establishing this model in Lithuania it is necessary to improve educational system, which would foster creativity, self-expression and the desire for self-improvement regardless of risks. This business model shapes a responsible attitude of an

individual towards work, values and colleagues and impacts the employee motivation and work productivity.

On the other hand, contrary to the Swedish model, we should try to achieve balance and equal opportunities for males and females. The model should not emphasize male or female priorities. This could help build sustainable relationships between employees and an appropriate emotional environment bearing in mind that it could help develop a helpful and understanding employee. Enterprises should consider not short-term but long-term objectives when laying emphasis not on material values but on social relations, self-expression and social responsibility.

The Japanese business model could be beneficial when creating a Lithuanian model. Japanese culture is distinctive, since its residents are open to innovation, they accept the experience of other countries, their traditions and culture, which they interpret in their own way and customize everything what is beneficial to them. This feature could be useful for Lithuanian entrepreneurs. It is not that easy, however Lithuanian business representatives should be able to integrate useful and unconventional experiences in their activities. When developing international business it could be beneficial and could attract new partners. One more aspect that could benefit Lithuanian business is Japanese courteousness and respect existing between employees and business partners, which is rarely observed in our culture.

Lithuania, the same as Japan, should heed on researches so that to create viable future products, such as laser equipments, solar panels, information technologies, nanotechnology and photonics as well as carry out medical research. Lithuania is abundant in qualified workers; however, insufficient funds are allocated for the purchase of necessary equipment.

It should be admitted that in Lithuania business successfully exploits its favourable geographical position and well developed infrastructure for expanding international trade with European countries and other regions of the world. However, Europe does not have a unified business management model. Each country or each European region has its own traditions and cultural values. It is necessary to evaluate these specifics in order to develop successful international business. Thus, international business management models in Lithuania might vary depending on the nature of business partners or their activities.

## **Conclusions**

The obtained research results lead to these conclusions. Globally, the three major international business management areas can be distinguished, which include the same basic models regarding cooperation, concluding contracts, maintaining relations and other models for key business procedures: American, European and Japanese management schools, on the basis of which international business management models are shaped. When analysing international business management models, literature sources lay emphasis on their geographical distribution, however, they stress that the European international business management model can't be exhaustively described according to one-dimension types; special importance should be given to cultural distinctiveness of separate European regions, assessing the specifics of their economic development, political and social principles.

After performing a comparative analysis of Japan, the USA and Sweden business models were given such results. The American business model heeds on material values and is oriented towards short-term but effective results achieved in an individualistic society. Contrary to the American model, the Japanese business model heeds on employees and their relationships. In Sweden collectivism and socially oriented market are prevailing. After analysing the models by Hofstede's criteria it became evident that Japanese are prone to extremes to the greatest extent, since three indicators out of five are around 100, uncertainty avoidance- 92, male – female dimension - 95 and long-term – short-term orientation - 80, while according to the data of the USA, – individualism – collectivism dimension is 91, while in Sweden the highest indicator is also individualism – collectivism dimension – 71, other indicators are lower than 50.

In order to improve the Lithuanian international business management model it is necessary to seek for the socially oriented market, where the heads trust their employees and provide them with the opportunity for self-improvement. Moreover, they should be socially responsible, preserve the environment and avoid the selection of employees by gender or age. Educational system should foster creativity and personal development. Lithuania should focus on the future products, such as laser equipments, solar panels, nanotechnologies, photonics and medical researches supported by the government and using its funds allocated for the research performance.

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# INNOVATION, ECONOMIC GROWTH, AND INVESTMENT ENVIRONMENT IN GEORGIA

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## **Abstract**

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Georgia is in difficult process of developing. Countries economical innovative activity, brand management and process of image formation, should be discussed together, which determines the recovery and improvement of the investment environment. Innovative development of the economy in recent years, its achievements and participation of various citizens were reflected in international rankings which take a big influence on investment flows in the country. Georgia, as dependent on the investments, needs to provide more active and aggressive policy for attracting investments, as far as country's internal capital market is still undeveloped and its economic growth is depended on external sources of funding – direct foreign investment. The gaps should be a serious problem for those who make investment policy of the country. Only to maintain the liberal economic course, regulations, taxes, reducing corruption and macro factors will not be enough to achieve the goal. Innovative development of economy and improvement of investment environment is available if country provides targeted policy: Understanding correctly changes which is in society and in the environment, determining real factors of country's advantages and profitability, constant cooperation of government, business, education and art, inserting people in this process, affecting on society consciousness, creating and understanding those values which are near to peoples spiritual world.

*Research methodology.* The methodology of the study is represented by the papers and works of the world's leading specialists and the experts of the specific problem, the researching materials by international and local scientific organizations, the analyses of the result of Georgia's economics innovative activity and its developing process study. Methods used and/or approach taken; casual research, analytical model, verbal model, graphical model.

*Results and implications:* Representing of the marketing look about the necessity of the economics innovative activity and the country's image branding development; the validation of the tight intercommunication of the economics innovative activity, the country's image and the brand-management. Representing of the impact of the economics innovative activity and the country's image on the Georgia's investment environment as well as on the international commercial economic relations; The validation of the necessity of the marketing transformation from the point of Georgia's investment attraction and country's image development. Results and/or arguments summarized (The impact of Georgia's economics innovative activity and the process of the branding of the country's image of the last years on the investment environment).

**Keywords:** innovative activity, country's Image, investment environment.

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## **Introduction**

Georgia is in difficult process of developing. Countries economical innovative activity, brand management and process of image formation, should be discussed together, which determines the recovery and improvement of the investment environment. Innovative development of the economy in recent years, its achievements and participation of various citizens were reflected in international rankings which take a big influence on investment flows in the country. Georgia, as dependent on the investments, needs to provide more active and aggressive policy for attracting investments, as far as country's internal capital market is still undeveloped and its economic growth is depended on external sources of funding – direct foreign investment. The

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### **Innovation, Economic Growth, and Investment Environment in Georgia**

In the modern world distinguished with its conflicts and paradoxes the huge attention is paid to the country's image. The positive image of the country provides the effective course of foreign policy and advances the national interests. The image is also the part of the national appearance and is purposely formed by the influence of some specific mechanisms.

In the modern society tendency of the perception of the product and service providing state develops more and more. Wherein, the demand on the world's scene is determined by the functioning of the providing state, its economics innovative character and country's image. According to world's society all countries have a specific image. However, not every of them possess distinctly expressed strategy of its advance, as the progress of the branding process of the country's image requires tight corporation among government, business, educational and arts fields and the qualitative involvement of the country's citizens as well.

The country's positive image creation primarily represents a social goal, which should serve establishing the healthy environment and positive demographic situation within the country. Moreover, it should improve living standard of society and should raise the patriotic emotions. The country's brand should express its image from all possible sides and should not rely only on a single advantage conjuncture, otherwise it will result its image depreciation.

In the modern world, the main share of the capitalization of the companies as well as the whole country is achieved by creating the brand and later, by its advancing. Branding technologies provide country's investment attraction and development of its reputation, also the growth of loyalty towards the country like from the internal as well as from the external targeted public. The steps made towards the economics innovative development in order to gain the reformer country's image will be reflected on the international ratings, which will help the country to attract more profitable investments, will support production, tourism, agriculture and employment sectors and finally, will help improvement of the country's population living standard.

The national brand should be long-term and should express people's goals and interests; moreover, it should show what a country can offer the world. It should also unify the country's

citizens and gain popularity in abroad. It is essential that the brand should be based on the reliable and trustworthy facts.

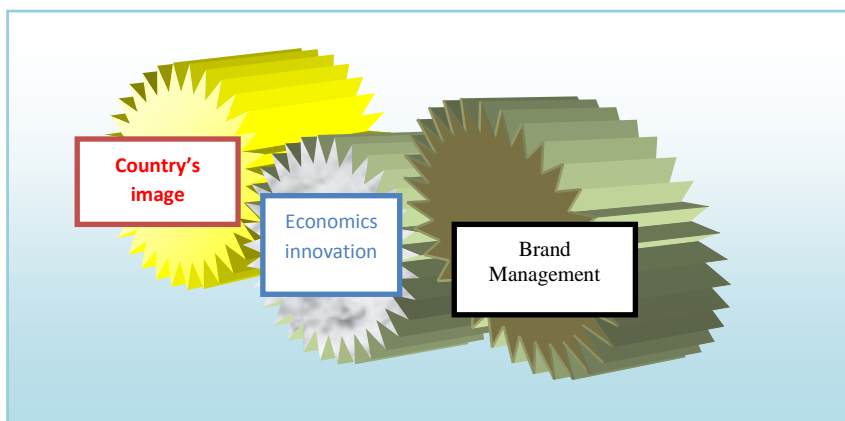
The national brand determining the state's economic attraction also plays the leading role the modern world's international relations. The national brand should be expressed emotionally in order to be maximally spread and earn the trust in the potential consumers. Many specialists do not appreciate the role of brand appropriately in the international relations. For the successful realization of the country's national interests politicians should operate according to the state's advantages. They should display those products in the first rows which are able to gain more potential buyers (Van Ham, 2001).

Innovations strengthen and develop capital of brand by forming comparative advantages of the company on the market. The brand weight goes down during the innovation activity reduction and vice versa (Osterrwalder & Pigneur, 2013).

Economics innovative development represents very complex and conflicting process, during which realization emerges such barriers like: rapid alternation of the environment, high competitive level, advantages uncertainty, consumers pattern thinking etc. The solving of these difficult problem is mainly possible by right using of marketing and brand management. It should take into consideration and be based on the real changes taking place in the society, their aspirations and the winning determinant realistic factors.

During the developing the economics innovative projects by using the brand management technologies, the speed of market receipt is higher and it results in forming the competitive advantage. The more additional perceived value of the new product is the faster consumers adapt it. The innovations provide brand management reinforcement (Phillips, 2012).

Coming out form the above-mentioned Georgia's as a developing country's formation of economics innovation activity, its brand management and country's image should be discussed in the tight intercommunication. See picture 1.



Picture 1. Intercommunication among innovation economics, country's image and brand management

World's society attitudes towards the different states among them towards Georgia, in this or that direction as well as impact on the brands evolution of the states and national brands foreign political activity is estimated by international ratings (Anholt - GfK Roper Nation Brand

Index, Country Brand Index, Best Countries for Business, Doing Business), which rely on the data provided by the international scientific research and rating organizations (Heritage Foundation, World Economic Forum, Transparency International, Freedom House, World Bank, Central Intelligence Agency and Property Rights Alliance, etc.).

Georgia's economic innovative development of the last years and the attitudes of the different countries' citizens towards Georgia as well as achieved progress in this direction, which were reflected on the international ratings, influenced the flow of the direct investments into the country and thus, became one of the main components of the GDP growth in the country. If we look through the dynamics, (See. Diagram 1),<sup>5</sup> we will notice that in the last years the growth is significantly reduced.

Year	Total	EU Countries	CIS Countries	Rest countries
2003	340,070.1	95,783.2	74,045.2	170,241.6
2004	499,106.5	195,542.3	114,452.1	189,112.2
2005	449,784.8	243,749.0	107,754.3	98,281.6
2006	1,190,374.6	407,189.7	266,414.3	508,028.9
2007	2,014,841.6	1,132,726.1	238,389.0	629,432.6
2008	1,563,962.4	476,655.2	94,695.6	968,960.7
2009	658,400.6	224,722.2	1,024.4	390,847.9
2010	814,496.6	348,211.4	91,155.6	429,943.5
2011	1,117,244.1	554,239.0	193,048.3	275,060.3
2012	911,564.3	440,348.3	86,736.5	321,024.8
2013	941,902.6	390,743.5	131,506.9	364,971.5
2014	1,272,452.0	640,507.4	353,048.6	384,991.0

Diagram 1. Direct foreign investments (2003-2014 US\$)

In Georgia, the sharp increase of investment flow was noticed from 2003, which was stipulated by the reforms carried out in the different directions, comparative fiscal stability, liberal economic course, putting the number of incomes into the legal frames and the mass PR campaigns on the international level organized by the Georgia's government in order to improve the country's image and reputation. These of course, had a positive effect on the investment attraction and on the growth of the GD Correspondingly, in 2007 in this direction a huge jump was made and for 22 years of independence of Georgia the highest indicator was detected - 2,014,841.6 thousand US \$. The reduction of the investments started from 2008, particularly, in the 3rd and 4th quarters. After the world crisis and Georgian-Russian War. However, the annual investments still achieved quite a solid mark - 1,563,962.4 thousand US\$, Nevertheless, in 2009-2010 it significantly lessened comparing to the previous year - only 658,400.6 and 814,496.6 thousand US \$.

In 2013 the economic growth of Georgia reduced sharply. GDP from 6% went down to 2% and this process still continues. According to Regional Economic Prospects, 2013 report made by the EBRD - European Bank for Reconstruction and Development - this was instigated by

<sup>5</sup> Direct foreign investments (2003-2012) the diagram is made according to the data of National Statistics office of Georgia (retrieved from [http://www.geostat.ge/?action=page&p\\_id=139&lang=geo](http://www.geostat.ge/?action=page&p_id=139&lang=geo))

reduction of state and private investments, the result of the undefined political situation in the country after the 2012 election. The positive prognosis of the growth of GDP in 2014 the bank connected to the two main factors: the stabilization of the political climate in the country and improvement commercial relations with Russia.<sup>6</sup> According to the report, World Economic Outlook, the International Monetary Fund reduced Georgia's economic growth prognosis of 2015 from 5% to 2%. Herewith, according to the Fund's prognosis, in 2015 world economics will increase by 3, 5%, the economics of Developed countries by 2, 4% and developing countries' economic by 4, 3 %.<sup>7</sup>

From the beginning of 2015 year the government of Georgia expected that the flow of investments in the country would be hindered. This situation by the local experts is often explained by the different macro circumstances and ignore the mistakes made during working out of the investment policy as well as those made errors in the already established environment that caused the lessen of the willingness of the foreign investors, the latter is connected to the country's innovation activity and its image formation.

According to UNCTD nowadays more lesser developed countries perform the policy in order to attract foreign investments, which significantly increases the competitiveness among those countries who attempt to attract direct flow of the foreign investments in their countries.<sup>8</sup>

Georgia and other lesser developed countries should carry out much more active and aggressive policy for attracting investments. The gaps in this direction should seriously worry those who are responsible for working out the country's nowadays investment policy.

In Georgia the investment flow is directly reflected on the country's international relations of the commercial economic. If we look through Georgia's export-import dynamics from 2003 up today (See Diagram 2)<sup>9</sup> we will see the tight link among country's investment environment, investments and international commercial economic. The dynamics is directly connected to the changes in the country's investment environment.

Year	Export				Import			
	Total	EU Countries	CIS countries	Rest countries	Total	EU Countries	CIS Countries	Rest countries
2003	461,310.0	77,748.2	224,737.5	158,824.3	1,139,039.2	439,847.1	367,977.9	331,214.2
2004	646,903.0	111,363.4	327,638.7	207,900.9	1,844,342.9	659,116.5	653,715.0	531,511.4
2005	865,455.6	165,160.2	407,175.5	292,819.9	2,487,548.3	744,571.9	994,372.4	748,604.0
2006	936,374.6	188,5	391,077.5	545,108.6	3,674,832.4	1,118,926.4	1,398,588.9	1,157,317.1
2007	1,232,110.5	268,530.3	461,895.5	501,684.7	5,212,150.2	1,546,297.7	1,849,368.8	1,816,483.7

<sup>6</sup> *Regional Economic Prospects in EBRD Countries of Operations* (May 2013).

<sup>7</sup> The International Monetary Fund Reduced Georgia's Economic Growth Prognosis of 2015 from 5% to 2%.

<sup>8</sup> *World Investment Report: Towards a New Generation of Investment Policies* (2012).

<sup>9</sup> *The export and Import of Georgia (2003-12014 US \$) the diagram is made according to the data of National Statistics office of Georgia: [http://www.geostat.ge/?action=page&p\\_id=139&lang=geo](http://www.geostat.ge/?action=page&p_id=139&lang=geo)*

<b>2008</b>	<b>1</b>	335,153.	540,884.	619,306.	<b>6,301,54</b>	1,764,26	1,998,02	2,539,242.
	<b>495,345.2</b>	8	8	6	<b>0.3</b>	8.9	8.6	8
<b>2009</b>	<b>1</b>	237,546.	416,162.	479,913.	<b>4,500,24</b>	1,340,88	1,298,32	1,861,032.
	<b>133,622.4</b>	8	3	3	<b>4.1</b>	7.8	4.1	2
<b>2010</b>	<b>1</b>	309,513.	676,672.	691,268.	<b>5,257,12</b>	1,470,64	1,587,61	2,198,860.
	<b>677,472.1</b>	4	7	0	<b>2.4</b>	3.3	8.3	8
<b>2011</b>	<b>2,189,135.</b>	424,294.	1,052,74	712,099.	<b>7,065,27</b>	2,057,19	1,941,58	4,813,920.1
	<b>8</b>	8	1.9	1	<b>7.9</b>	8.9	9	
<b>2012</b>	<b>2,375,383,</b>	352,99.2	1,244,06	1,096,02	<b>8,049,47</b>	2,431,11	2,057,94	3,560,415.
	<b>7</b>		1.0	3.5	<b>5.5</b>	1.4	8.3	8
<b>2013</b>	<b>2,908,499.</b>	607,891.	1,620,92	679,678.	<b>8,025,71</b>	2,270,72	2,179,47	3,575,523.
	<b>0</b>	3	9.3	4	<b>5.4</b>	0.9	1.0	5
<b>2014</b>	<b>2,861,</b>	620,804.	1,465,46	774,916.	<b>8,596,28</b>	2,369,18	2,127,32	4,099,775.
	<b>191.0</b>	6	9.7	7	<b>6.4</b>	5.2	5.8	4

Diagram 2. The export and import of Georgia (2003-2014 US \$)

Coming out from the fact that Georgia's domestic capital market is still undeveloped; the long-term growth of economics and correspondingly, the integration to the European market significantly depends on the sources of the external financing - on the direct foreign investments. Taking into consideration only the macro factors, keeping the liberal economic policy, reducing regulations, taxes and corruption will not be sufficient for reaching the goal and attract more investments.

By 35 reforms carried out in 2005 Georgia became the first reformer country among the East European and Central Asian countries and thus, gained the fame in the world. The reforms and innovation approaches played a huge role in the improvement of the investment environment and economic recovery. According to the rating<sup>10</sup>, in 2014 Georgia got into the world's top ten countries list and won in the following nominations: Property Registration - 1<sup>st</sup> place, Use of Construction Permit - 2<sup>nd</sup> place, Use of Credit - 3<sup>rd</sup> place, Doing Business - 8<sup>th</sup> place. Moreover, Free Economic Index 2014 (Heritage Foundation) - 22<sup>nd</sup> place; the 12<sup>th</sup> place in the European region (from 48 countries); Trade Stimulation Index 2012 (World Economic Forum) - 38<sup>th</sup> place (from 132 countries), particularly: Market Accessibility - 9<sup>th</sup> place, Border Administration - 33<sup>rd</sup> place, Transport and Communications - 66 place, Business Environment - 50<sup>th</sup> place.

Moreover, for the foreign investors Georgia is especially attractive because of her high rating of "Investor Protection" criteria. In the given category, Georgia has much more high rating than many other developed countries like Japan, Norway and Sweden.

Furthermore, the progress which makes Georgia attractive for investments, still there are many important problems in this direction. Among them: the small number of innovative projects, finances low accessibility, low level of the appropriate production capabilities and education, inactive policy in the direction of country's image branding development. Accordingly, in the various directions Georgia's business environment still does not correspond to those international, free economic and even different rating standards.

<sup>10</sup> The World Bank: IFC (2014): Doing Business 2013: Smarter Regulations for Small and Medium-Size Enterprises. Washington, DC: World Bank Group

In 2013 were finished negotiations between Georgia and the European Union about the Deep and Comprehensive Free Trade Area - DCFTA. Which itself is a part of the association and considers: the trade liberalization with the European Union; the free movement of people, goods, services and capital; increase of the export potential availabilities; increase of investment potential and availabilities which will help country to deepen integration process with the EU. This historical event further development should be favoured by the economics innovation activity, attractive novation, liberal and transparent investment environment.

The country's economics innovation development should be based on the society's values that are close to their intellectual ones, which later will be mass installed in their consciousness and will provide more integrated society. Created or formed values will influence on the consciousness of the external societies and will increase the additional values. Influencing on the external societies' consciousness is possible but only by perception and taking into consideration the real costs and cultural values on the modern level. The values represent the main challenge in the economics innovation development as well as in creation of the country's image.

On the modern level, the country's image branding represents the development of the innovation and the market requirements research for future advances, the formation of – values, branding identification, in the different target groups its adaptation and communication formation connected activity process, wherein key role has the consumers' intellectual aspirations and the valves coincident with the country's advantages recognized by international ratings.

### **Conclusions**

Economics innovation development and its branding are possible by performing the purposeful policy, wherein the progress of the process will require: the correct understanding of real changes in the society, the establishment of country's advantages and determination of the profitable factors.

Economics innovative activity as well as the process of the development of the country's image is determined by the numerous factors. The tight cooperation among government, business, educational and arts fields is significant. In addition, in the process of working out of policy the quality of involvement of the country's citizens is also very important.

The achieved progress in this direction will be reflected on the ratings which will help the country to attract profitable investments and will support of the growth of GDP, moreover, it will stipulate to overcome the obstacles on the way to the leading markets integration process.

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The World Bank: IFC (2014): Doing Business 2013: Smarter Regulations for Small and Medium-Size Enterprises. Washington, DC: World Bank Group



# THE PERCEPTIONS OF PARTNERS' TRUSTWORTHINESS IN RUSSIAN-FINNISH BUSINESS

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## **Abstract**

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The perceived trustworthiness of business partners is a critical component of successful buyer–supplier relationships. However international business partners may perceive their partner's trustworthiness differently. The aim of this study was to analyze how business partners participating in Russian-Finnish trade evaluate their business partner's trustworthiness. The qualitative data was collected from interviews of 22 Russian and Finnish managers. Inductively formed trustworthiness categories were clustered, and the clusters were analyzed using conceptual maps. The main differences between the Finns and the Russians were Russian preference for personal connections, informal communication, fast reactions, emotions, transparency of partner's expectations, and mutual benevolence. The Finns perceived the partner organization, instead of the key person, as the business partner. They emphasized rationality and punctuality. This study contributes to the literature on relationship marketing in the contexts of cross-cultural buyer-supplier relationships. It identifies the differences between trustworthiness perceptions of the Russian and Finnish business partners. As practical results informal communication, transparency in business expectations, flexibility, and favors could be ways to achieve trust in Russian business.

**Keywords:** relationship marketing, trustworthiness, Russian-Finnish, buyer-supplier relationships.

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## **Introduction**

Relationship marketing can be defined as “all marketing activities directed towards establishing, developing, and maintaining successful relational exchanges” (Morgan & Hunt, 1994, 22). In this field, perceived trustworthiness is seen as a critical component of successful buyer–supplier relationships (Andersen, Christensen & Damgaard, 2009; Barney & Hansen, 1994; Dyer & Chu, 2003). It has also been found to be a source of competitive advantage for companies (Barney & Hansen, 1994). However, in intercultural business relationships the different cultural backgrounds of partners could have an effect on trustworthiness perceptions. Partners coming from different cultures may perceive each other's trustworthiness differently (Ariño et al., 1997). This study explores how Russian and Finnish industrial buyers and suppliers evaluate each other's trustworthiness. The research question is: What are the trustworthiness perceptions of Russian and Finnish managers participating into Russian–Finnish trade?

This study contributes the literature on relationship marketing in the contexts of cross-cultural buyer-supplier relationships by identifying the differences between trustworthiness perceptions of Russian and Finnish business partners.

## **Theoretical background**

Trustworthiness as a predominant determinant of trust is accumulated perceptual experiences that lead to trust another person, institution or organization (Caldwell & Clapham, 2003). Trustworthiness of a person, group or organization is defined as a measure of their ability, benevolence and integrity perceived by the other party (Mayer, Davis, & Schoorman, 1995). In this study, the business partner's trustworthiness is conceptualized more generally as a

multidimensional construct consisting trustworthiness related factors of a business partner as seen by the other party, and the objective is to identify these attributes.

In the inter-firm buyer-supplier context factors of trustworthiness include honest communication, task competence, quality assurance, interactional courtesy, legal compliance and financial balance (Caldwell & Clapham 2003; Gullett et al., 2009). In addition, social interaction, customer orientation, service quality, perceived value, and transparency (Doney, Barry & Abratt, 2007; Pirson & Malhotra, 2011) have been used as trustworthiness factors. In addition, Colquitt, Scott, and LePine (2007) have combined honesty, fairness, openness, caring motives and intentions, and predictability in to a multifaceted construct of perceived trustworthiness called "character".

Based on past research building personal ties and cultivating trust with Russians is critical in business (Barnes et al., 1997; Ariño et al., 1997). Russians appreciate true friendship (Ariño et al., 1997) and trust personal ties more than loyalty to an organization (e.g. Barnes et al., 1997). Hence, in the Russian context trust is related to the quality of personal relationships; whereas in Western cultures, common aims and expectations of group performance support cooperation (Engelhard & Nägele, 2003).

Also other features distinguish the Russian business culture from the Western one. Traditionally Russian organizations are characterized by one-man authority, anti-individualism and dependence, tightly coupled hierarchies, and lack of knowledge sharing (Michailova, 2002). Trust building processes can be slow and demand high personal involvement or a deep personal friendship (Ariño et al., 1997). Participating in informal communication and open demonstrations of emotions are mentioned as being essential for building and maintaining trustworthy business relationship in Russia (Andreeva, 2014).

The antecedents of trust found in the earlier Finnish studies were price, market potential, customer orientation, co-operative interaction, size, organization/personal competence, marketing spirit, previous experiences, distribution of liabilities, common clarified interests and inter-firm roles, openness of communication, open sharing of information, inter-firm knowledge, intimacy, reputation, earlier customer references (Viitaharju & Lähdesmäki, 2012; Halinen, 1994), and keeping of promises about delivery dates, prices and quality (Seppänen and Blomqvist, 2006). Finns could see the company as trustworthy even without experience based on other persons' experiences and referrals (Halinen, 1994).

### **Research methodology**

The perceptions of the partners' trustworthiness were studied using thematic interviews with open ended questions, such as: How do you describe a trustworthy business partner? How does your trust towards a business partner develop? How to trust a customer/supplier develops at a personal level? How do you start to trust a customer/supplier? What is your advice, how to develop mutual trust containing business relationships with a Russian/Finnish customers or suppliers? Can you see any differences how trust develops towards Finnish or Russian partner?

The data included 22 interviews with representatives of Russian and Finnish companies, collected between June and November 2014. The companies of the interviewees were mostly

small and medium sized and represented a variety of industries (Table 1). The interviews were recorded, transcribed verbatim, and analyzed using inductive analysis. The categories made by open coding were clustered (Miles & Huberman, 1994, 248), and visualized for analysis with conceptual maps (Novak & Gowin, 1996).

Table 1. Interviewees' multi-industrial affiliations.

Industry	Finnish	Russian	Total
Machinery	3	2	5
Construction	3	2	5
Consulting	1	3	4
Logistics	2	1	3
Other <sup>a</sup>	1	4	5
	10	12	22

<sup>a</sup>Tourism, IT, Biotechnology, Paper, Environmental technology

## Findings

Trustworthiness categories and the representative quotes of the Finnish and the Russian interviewees are shown in appendices 1 and 2. The dendrograms are shown in appendices 3 and 4. These were used to design conceptual maps of trustworthiness perceptions of Finns/Russians and the common perceptions for both (see Figures 1, 2, 3).

In the conceptual maps the attributes of a trustworthy business partner are divided into "character" and "as relationship". The "character" reflects the "values, principles and standards that a partner brings into relationship" (Barney & Hansen, 1994, 179), while "as relationship" reflects the relational exchange between partners. Who was perceived as a "business partner", an organization or an individual, differed between Russian and Finns. Russians had a tendency to personalize the relationship with the key person, while Finns often did not separate the key person and the organization. For this reason, in the following figures the properties of the business partner is described as "character" (Colquitt et al., 2007) which in this case means the mental and moral qualities distinctive to an individual as well as an organization.

Common character attributes for both nationalities were stability, competence, integrity and predictable behavior. Integrity can be achieved by keeping promises and honesty. Predictable behavior and commitment were acquired with common history and tested trust from earlier experiences. Common attributes for relational exchange were communication, co-operation and commitment.

The character related attributes for the Russians were fast reactions and long-term approach. The long-term approach is also reflected in the experience about the partner's behavior in various situations which is an attribute for predictable behavior. Relationship attributes specific to the Russians were friendly emotions and mutual benevolence, which can appear as flexibility or mutual favors.

Character attributes only for the Finns were rationality and punctuality. The Finns also assessed predictable behavior not only from tested trust or common history, but also if their counterpart was without outside influence or had common goals within their own company.

The main differences between the Finns and the Russians were Russian preference for personal connections, informal communication, fast reactions, emotions, and mutual benevolence. Russians seemed to give high value to openness and transparency of partner's expectations similar to the Ukrainians in the German–Ukrainian study of Möllering and Stache (2010). The Finns evaluated their business relationships differently. They valued rationality, punctuality, relationships with common goals, and direct feedback.

The Russians and the Finns shared integrity (keeping of promises) as a factor of trustworthiness. This is consistent with the Western perception (i.e. Branzei et al., 2007; Butler, 1991; Tinsley, 1996) that trust is constructed through keeping promises. However, there were differences in the meanings that Russians and Finns attach to “keeping of promises”. It was mentioned that in some parts of Russia keeping of promises may be a personal promise, not an organizational promise like in Finland.

*“Russia is quite different depending region to region, and customers in central part behave, behavior is totally different what is happen in St. Petersburg for example, so Siberia and Far-East is more, let’s say, personally oriented, so they need personal, personal promise, they don’t care about company’s promises, they care about personal promises from person who is working for the company.” [A Russian interviewee]*

*“A trustworthy customer keeps their promises. They carry out their obligations.” [A Finnish interviewee]*

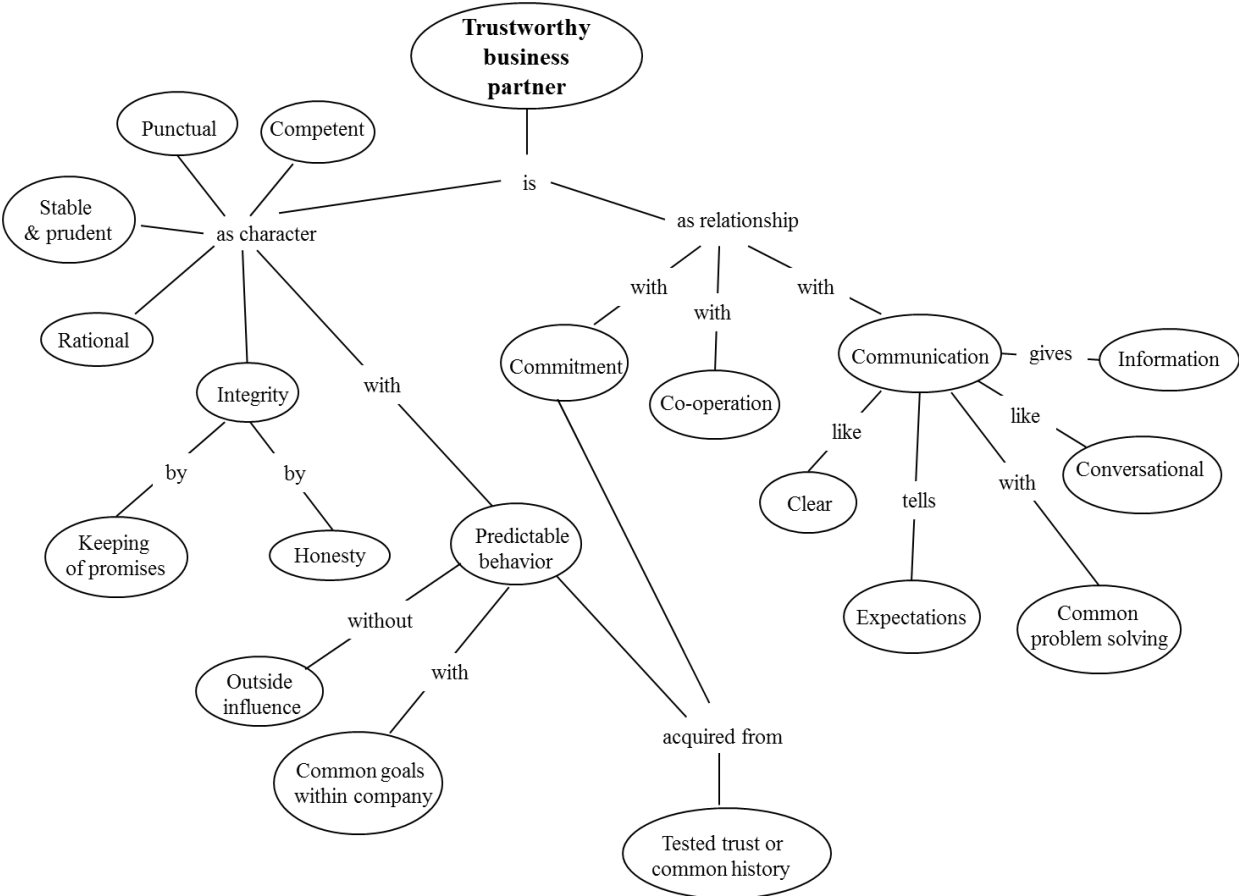


Figure 1. Conceptual map of the Finns' trustworthiness perceptions.

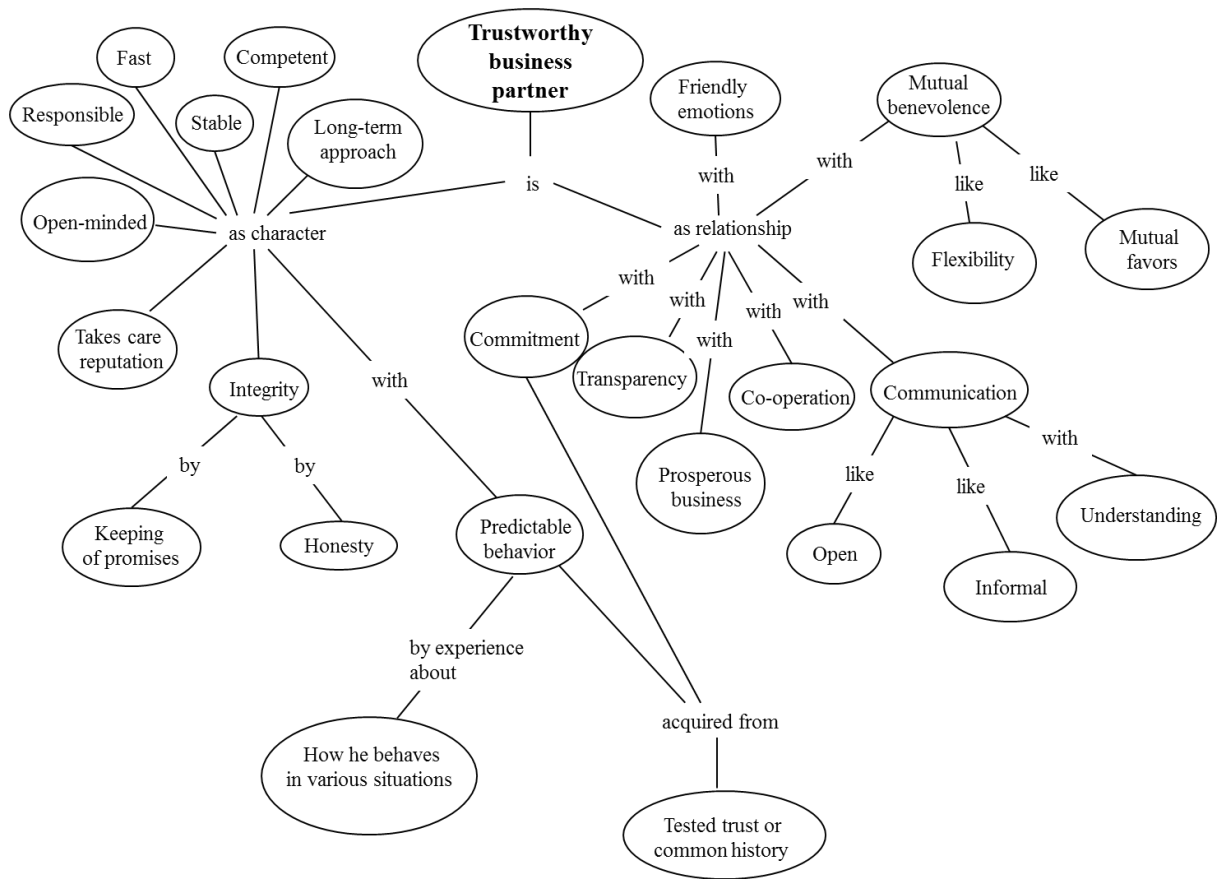


Figure 2. Conceptual map of the Russians' trustworthiness perceptions.

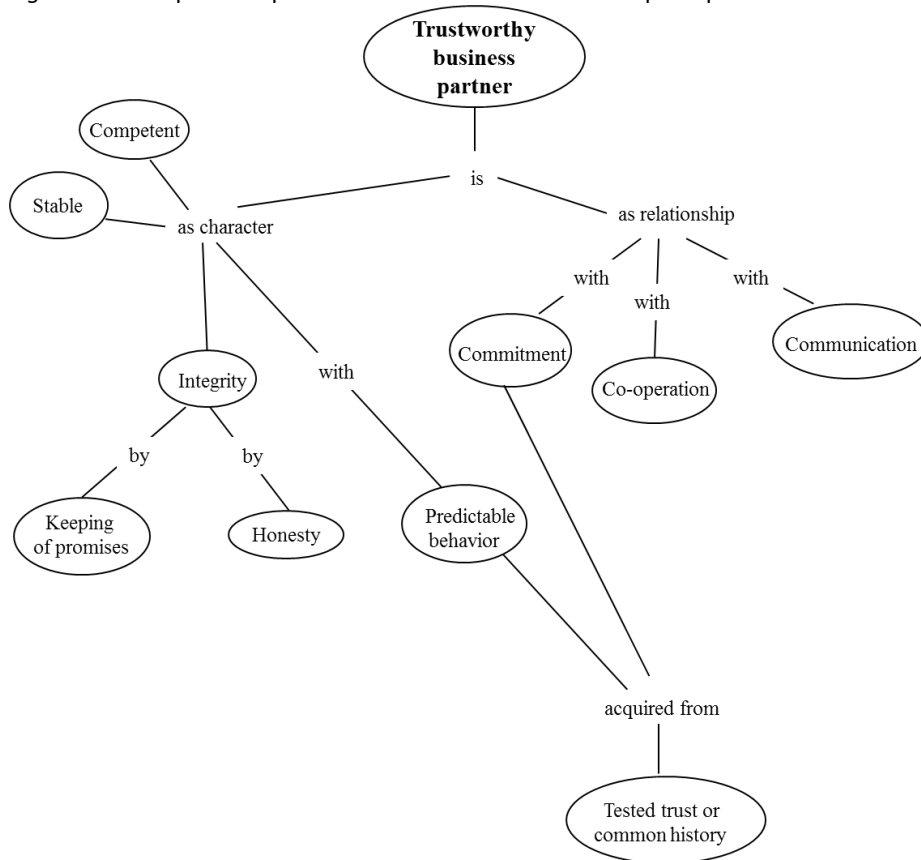


Figure 3. Common factors of trustworthiness for the Finns and the Russians.

## Conclusions

Consistent with the findings of Doney, Barry & Abratt (2007) social interactions dominate the trustworthiness perceptions. The interviewees clearly expressed that long-term cooperation increases the predictability of their partner's behavior in different situations. This seems to be in the cross-cultural settings more critical compared within the same culture studies (i.e. Mayer et al., 1995). The perceptions of trustworthiness were different between the Russians and the Finns. In emerging and transitional economies it is common to utilize informal personal connections in business due to institutional voids (Puffer, McCarthy & Boisot, 2010). This highlights the importance of mutual benevolence and favors. However, all found differences between the Russians and the Finns could not be explained with post-Soviet traditions. Some trustworthiness factors i.e. fast reactions could be indications of more modern traits of the local business culture (i.e. severe competition). The coexistence of traditional, transitional and modern values makes the Russian business culture as an interesting research area for the future studies.

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Appendix 1. Finnish trustworthiness categories and their quotes.

Main categories	Representative quotes
Punctual Use original spare parts	“Good, punctual, uses original spare parts, and a good trustworthy customer is a long-term customer.”
Rational	“I trust more to this Finnish common sense, and the fact that the matters can be agreed upon and from mistakes can be learned.”
Stable and prudent	“Although the Russian well-working relationship would be really good, the trust will wear off faster with them than in relation to Finnish. They are faster in their operations and decisions. Finnish is more stable and a little bit prudent.”
Knows our services, We know their product and machinery	“The customer knows our services and we know customer’s product and machinery, and we are capable to serve them quickly and in the right way.”
Knows what they want	“I think that a trustworthy customer knows what they want.”
Both able to trust	“Honesty is mutual, both will be able to trust each other, and then it is a trustworthy customer.”

<p>Keeping of promises Fulfill obligations Acts and stays as jointly agreed We dare to take financial risk based on their promises Stays with truth Calls tasks by their proper names Does not disclose confidential information to others</p>	<p>"The trustworthy customer keeps what they promise. They meet their obligations." "Keeps promises and talks about things using the right terms and does not tell modified stories etc." "On the basis of the customer's promises I dare to take the financial risk to myself and the company without taking cover against risk." "The kind that does as promised to do, or as agreed. The trust does not have to occur on a personal level, but the company must act in such a way as jointly agreed." "...contracts are kept and they supply us the necessary information what we need to make our offer." "First of all what has agreed upon, it will be held, and then the data remains in the circuit with who is being discussed."</p>
<p>Really means what he says and promises</p>	<p>"Although how good relationship we have with the Russian customer, however, there is a little more body language, much more than with the Finnish company, with whom we can trust more in their words. So that's what a Russian customer says, it may not always be what he really means."</p>
<p>Reliable in payments</p>	<p>"Will certainly pay the bills." "And of course, when it comes to business, it is of course self-evident that products are paid."</p>
<p>Both honest to each other Can communicate their needs and tells their expectations beforehand</p>	<p>"In a sense, the relationship works both sides so that both are honest with each other and tell the correct schedule, indicate the correct delivery contents..."</p>
<p>Does not try to benefit from another's weaknesses</p>	<p>"One that does not attempt to use another's weakness or any other similar situation for the own benefits of all the time."</p>
<p>Good communication The feeling of mutual goals, both work towards project success, co-operation works well</p>	<p>"It is such a feeling... that we both have common goals, and communication and cooperation is working well. It is a feeling that the two sides together are working for project success."</p>
<p>Gives straight feedback Helps to develop services to meet their expectations</p>	<p>"Such a customer who provide feedback, says frankly that what is received from the service, and is able to well describe what kind of service they expect to receive, what are their expectations..." "I also appreciate giving feedback, that he has the courage to say that this may not work this way or have you took this into account..."</p>
<p>Tells clear reasons for desires and their motivators</p>	<p>"It creates trust when he first explains his motives, his certain conditions, and then when it is realized... then in the future, when he says something, you probably trust more."</p>
<p>Conversational atmosphere Seeks solutions together with us</p>	<p>"Let's say a certain kind of conversational atmosphere about seeking the the solution."</p>



Will to discuss issues	"The kind with whom able to discuss things, and things work out as planned. Or that they are settled in the agreed manner."
Issues can be agreed together	"The company must act in such a way as jointly agreed."
If problems we can negotiate and solve them	"And that means that even if there are any problems, the money is running out etc., so it could be discussed."
Provides necessary information and provides realistic delivery times	" [Trustworthy customer] is, of course, the fact that contracts are kept and the necessary information is provided to make an offer. " "...and the right realistic delivery times will be given, not two months in advance."
Informs if things do not go as planned	"If everything is not always implemented as planned, so it will be announced, so I could actually make corrective actions."
Long-term customer	"Trustworthy client is a long-time customer."
Acts in long-term according to stated goals	"He also works in the long run according to their own declarations and own incentives."
No institutional outside influence	"I trust more a Finnish well-functioning relationship, a Russian is otherwise in the same level, but in Russia there are a lot of other things which the customer cannot influence."
No contradictions of goals within the company	"Inside the the firm there could be internal conflicts."
Earlier difficulties have tested trust and behaviour	"Only then when the first difficulties come, so then is the only way to weigh the situation. And make some arrangements for payments or other arrangements. And if those could be achieved so then there is already a completely different level of trust, then you know that it will probably play in the same way in a second time."

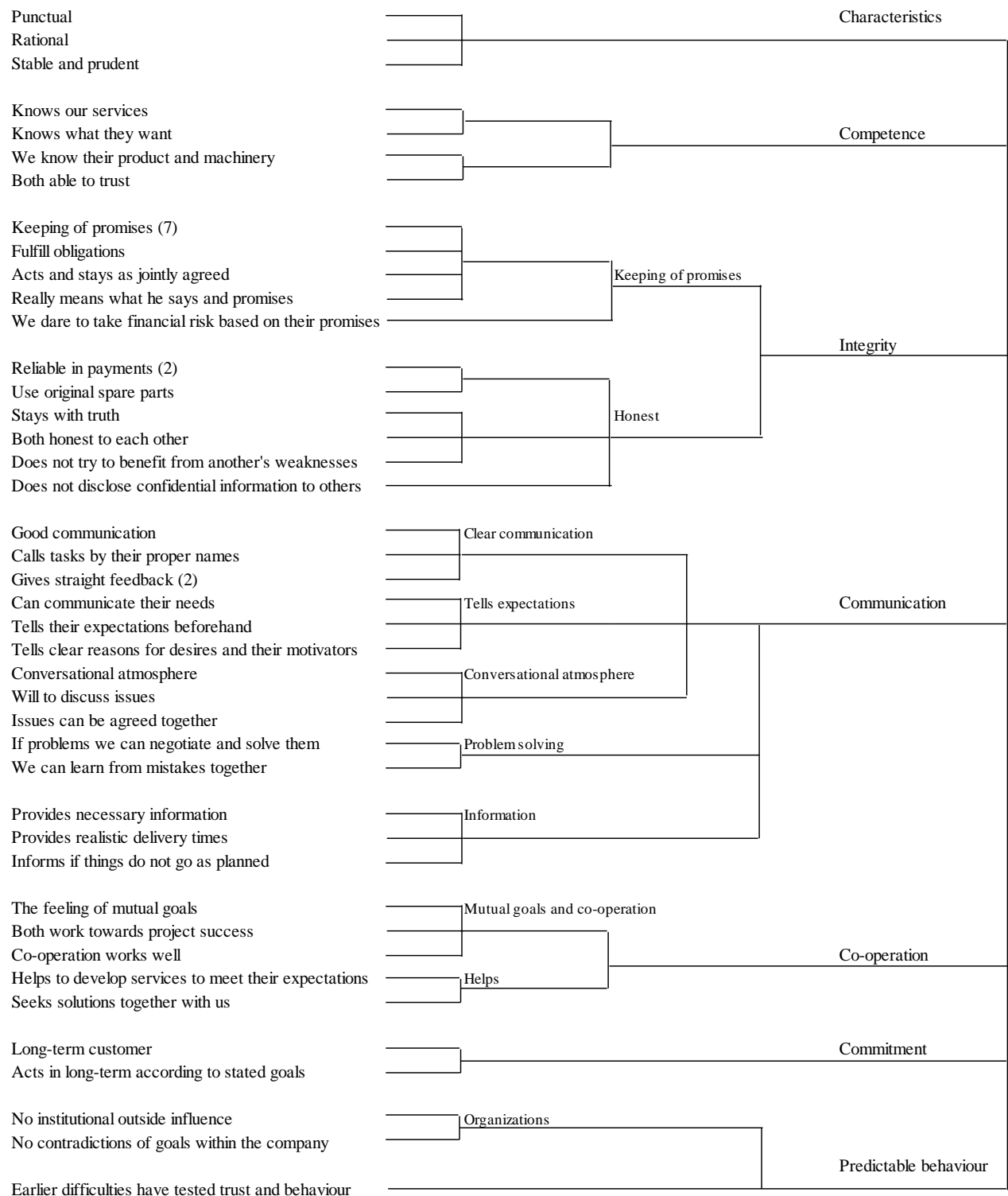
Appendix 2. Russian trustworthiness categories and their quotes

Main categories	Representative quotes
Long-term approach, Long-term relationships and contracts Fast decisions I have experience how he behaves in different situations	<p>“Well working companies they are more or less already orientated to this style of doing business like Russians are doing: faster, and they, they taking care of their reputation and of course they are really thinking about the future, they can make kind of fast decision and they could see the future.”</p> <p>“A trustworthy partner is one who has earned the trust in long-term, with all kinds of common experience of positive and negative situations. So I could learn to trust the words of partner. And in my view, precisely the long-term common experience brings trust.”</p> <p>“You just speak about my personal experience, with whom I have several years business relations.”</p> <p>“Yes, and know how people can behave in this or that situation. ”</p>
Responsible	<p>“I mean they are responsible and usually if they promised something they are following their promises.”</p>
Takes care reputation, If problems, minimize threats and costs to partner	<p>“They taking care of their reputation.”</p> <p>“And even if they had some bad problems... then how to get out with a less, with the minimum of, minimum of threats and for their partners and the minimum of expenses and minimum of lost.”</p>
Stable, Works in the same network for a long time	<p>“I think, stable and working with the same network for a long time, because they understand how important is to have good reputation.”</p> <p>“But with Russians you also can support building your mutual trust by your own private connections. So I trust a friend of my friend in the Russia, but in Finland it’s not that way.”</p>
Open-minded	<p>“I think that’s open companies, like open-minded, so with clear understanding of personal responsibilities and the decision making people, with understanding of who is making the decisions, that company is almost trustable in both customers and suppliers.”</p>
Do everything on time Good quality	<p>“They are taking care a lot about their reputation, means that everything will be done in time, probably, and with the good quality.”</p>
Interested in our product. Has possibility to buy from us	<p>“The one who is interested in the product, really. And have the opportunity to buy our products.”</p>
More money, more sells, more profit	<p>“When speak about business, it’s business. So more money, more sells, more profit, long term contracts.”</p>
Well-known company, Insurances are in place, Healthy finance, Good delivery capability	<p>“It is good if the customer is well-known, the very same for Russian or Finnish company, I always explore what is their finance, and the delivery capability, and are the insurances ok.”</p>
Understand the supply chain, Understands partner Understand the needs of end-client	<p>“To demonstrate competence in your business, and if you are going to be international or even not international, but understanding the supply chain, understanding the partner, understanding the end-client is essential. Without this, I think, there will be no trust, at least for me personally.”</p>

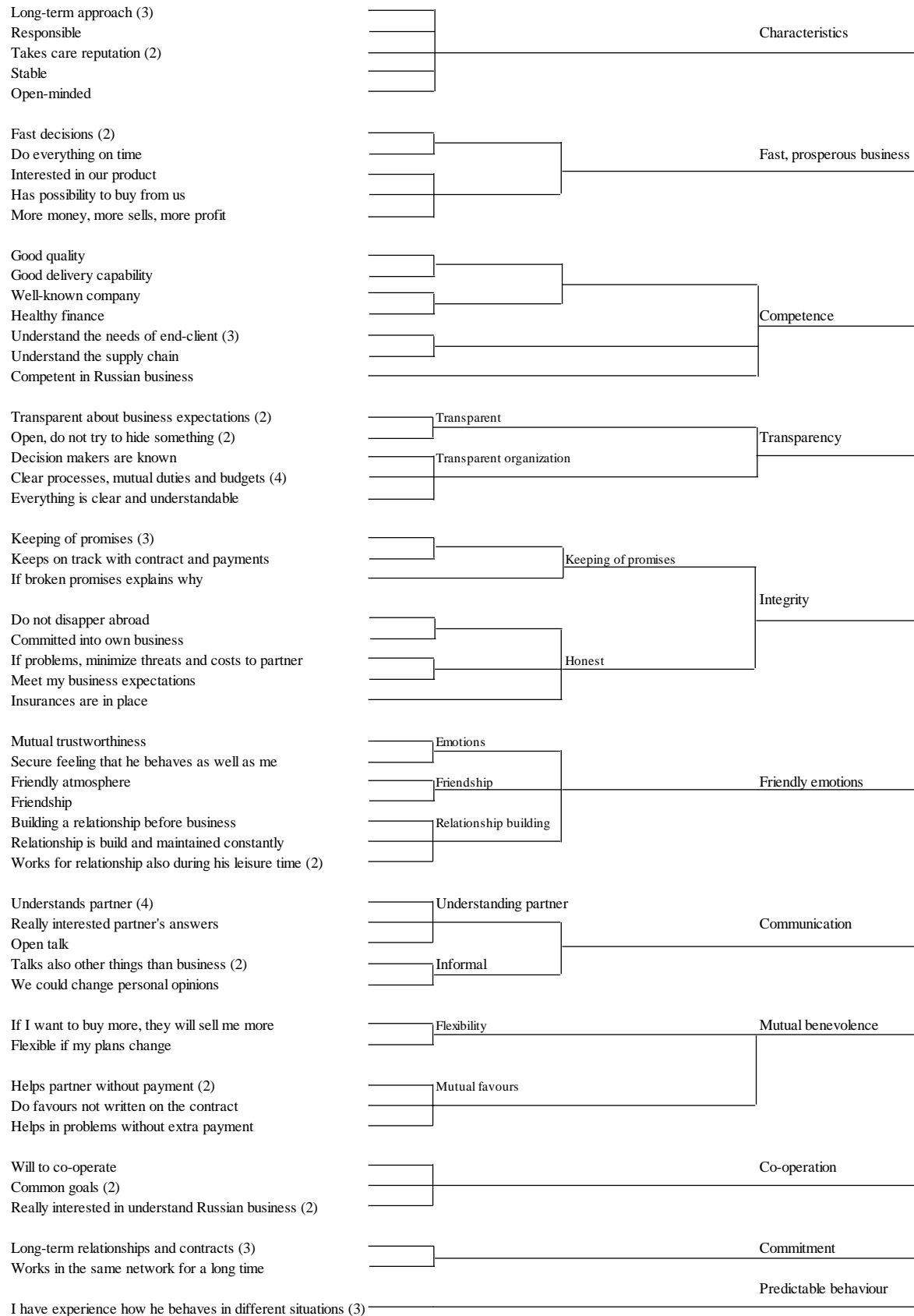
Competent in Russian business	"I need to feel his real interest and understanding of the other party or the end-client in the market, because the real need of the end-client on different markets can be different. The end-client in the Russia can expect the different things from the same service or the same product than the end-client in Finland or end-client in Germany, or in America."
Transparent about business expectations Open, do not try to hide something, Open talk	"Russian people they are more open, and if Russian people see, for example, a person is try to hide something, maybe not by on purpose, just try to hide something, then it will be difficult to build trustable business." "I mean really openly say about these, and that and that."
Clear processes, mutual duties and budgets, Common goals, Decision makers are known, Everything is clear and understandable	"For me it's so that the main basis of the mutual trust is transparency in our process, starting with common goals, setting the goals, continuing with the organizational processes, who is responsible for what, and what are our mutual duties, and ending with a financial flows, if everything is clear, understandable in the same way, so it's fine for me."
Keeping of promises, If brokes promises explains why	"I mean they are responsible and usually if they promised something they are following their promises." "They have to keep their promises." "After seeing how the partner works, that if he agrees to do something, then he also fulfills what is promised, and if not, then at least to explain why he could."
Keeps on track with contract and payments	"For sure they need to follow all these contract things, for sure, this is just beyond the discussion. Everybody, every business partner to be a trustful partner should be, I think, keep on track with contract, with payments and whatever. "
Do not disapper abroad, Committed into own business	"Yes, in my view, a well-functioning Finnish relationship is perhaps, the most trustworthy, because nobody leaves Finland. A well-functioning Russian, if he just wants to goThailand or to Goa or somewhere else, he can just pack up and leave."
Meet my business expectations	"...because I know that this company will not spoil me, it will be a reliable partner. But this reliable partner will not miss my business expectations."
Mutual trustworthiness	"In my view, we can only talk about the reliability of the partnerships... because the reliability of the just only one party is has no value."
Secure feeling that he behaves as well as me	"And as time go by it will create a feeling that you can continue to take care of some things that are very important and can be sure that he will work just as well as yourself."
Friendly atmosphere	"And of course what is really different, when you doing business with a Russian, Russian people, as I said, the culture is different, and the Russian people they are really to spend more time together with you in, let's say, friendly atmosphere, not only the business. "
Friendship	"Normally people say that Russians always try to build the friendship, sure friendship is important here."
Building a relationship before business	"I mean we did the business without money. And this is important and the, what I'm trying to explain, you have to build a relationship, you have to build the trust even without money."

Relationship is build and maintained constantly, Works for relationship also during his leisure time, We could change personal opinions	“The relationship must be built on co-operation in the way that the relationship is built and maintained constantly, and we also meet in the free time just to discuss any issues and to the exchange of personal opinions, so it becomes clear how we think about the same things...”
Really interested partner's answers	“But Russian if they ask how do you do, they are really interested and they really want to build even non-business relationship.”
Talks also other things than business	“They [Russians] prefer to go some, I don't know, place, to the restaurant, let's say so, some other places to talk about general life, not only about business. And this is also important, because the most of the Finnish people, when they start to business, they only talking about business. ”
If I want to buy more, they will sell me more, Flexible if my plans change	“I will know that if I will need some extra volume is better not to ask it from Finnish, poorly working Finnish company. Because I know they have a plan, and they will be happy if I'll buy just what I planned to buy. So if I, even can buy and sell some more, I will not do this. Because I know that they will not understand me. ”
Helps partner without payment, Helps in problems without extra payment, Do favours not written on the contract	“If you have a problem, a Finn will come to you only if you have money and pay for it, but Russian, they can help you even just because you need this hel ”
Will to co-operate	“The one who is ready to work and willing to cooperate.”
Really interested in understand Russian business	“I think those which are, as I told you, who are really interested in understanding business culture, business environment.”

Appendix 3. Trustworthiness clusters of the Finnish interviewees.



Appendix 4. Trustworthiness clusters of the Russian interviewees.



# SOURCES OF COMPETITIVE ADVANTAGE IN THE INTERNATIONAL ARENA – ON THE EXAMPLE OF THE FOOD SECTOR COMPANIES FROM GREATER POLAND REGION

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## Abstract

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Both globalization and the consequent internationalization constitute some of the biggest challenges for Polish companies. In addition, the intensity of competitive businesses in the global market forces companies to seek competitive advantages and improve their abilities in the process. The article contains the results of empirical research conducted in the years 2014-2015 in Greater Poland as part of the project titled "Competitive strategies of Greater Poland's food sector enterprises in a globalizing world". The research problem was to identify and compare the instruments shaping competitive advantages of food sector companies in Greater Poland. This paper also contains data from both theoretical and empirical evidence on building competitive advantage. The aim of this study is to identify the factors determining the formation of competitive advantage of food processing companies from Greater Poland that in turn contributed to the internationalization of those businesses. Secondary sources were used in pursuing the goal - theoretical implications were based on studies of literature, and they were verified by surveys. In addition, the following methods were used: description, visualization and statistical techniques. The study among enterprises of the food sector suggests that, although the managers of these companies believe in the role of tangible factors of production, they are also beginning to recognize the importance of the intangible ones (high rates for social capital resources). Moreover, important is also the fact that companies successfully operating in the international market recognize the need to invest in innovation.

**Keywords:** the competitiveness of enterprises, competitive advantage, sources of competitive advantage, food sector, small and medium-sized enterprise, Greater Poland region.

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## Introduction

Modern companies conduct their business in an environment characterized by high dynamics of changes. They encounter many obstacles to their functioning. Increasing the intensity of the impact of globalization, which has become a hallmark of the present world, but also the internationalization of enterprises. This has its direct impact on the liberalization of trade, as well as the impact of international corporations. Moreover, competition is one of the fundamental concepts related to the functioning of the economy based on knowledge. It affects the rationalization of business operations, improving quality of goods and implementing innovations. It should be noted that currently achieve international competitiveness has become necessary. And not only for companies wishing to internationalize their business, but also for those who want to achieve success in the domestic market, with international competitors there. In addition, the intensity of competitive businesses in the global market forces one to seek competitive advantage of companies, improving their ability in the process. Moreover, competitive advantage is dynamic, which means that under the influence of both external and internal changes in the business environment various types of competitive advantage must be subject to evolution. The aim of this study is to identify the factors which determine the formation of competitive

advantage of food processing companies\* from Greater Poland, which in turn contributes to the internationalization of those businesses. Secondary sources were used in pursuing the goal - theoretical implications are based on studies of literature, and they were verified by surveys.

### **Competitive advantage and its sources in management theory**

At the beginning it should be noted that competition is the primary mechanism influencing market economy. Its definition is very widely described and discussed, both by practitioners and theorists. Undoubtedly, however, the term "competition" is inherently bound to the term "competitiveness". Taking by the World Economic Forum in Lausanne competitiveness can be defined as the ability of a country or company to create greater wealth than their competitors on the world market. Effective competition enforces high competitiveness, which is synonymous with the acquisition of competitive advantages in comparison to other market players, and this ensures growth, as well as long-term existence (Sliwinski, 2011, pp. 20).

Interest in corporate competitive advantage expressed by theorists, practitioners and strategists proves that it is "at the heart of sustainable development and appropriation of value to a greater extent than managed by competitors" (Skawińska 2011, pp. 57). At the same time one should agree with the idea that competition is a ubiquitous phenomenon, so competing is a must, which boils down to building and protecting competitive advantages (Godziszewski 2006, pp. 10). Competitive advantage, therefore, is one of the basic concepts related to competition among companies. However, the same interest in the issue of competitive advantage stems paradoxically from the fact that in a global competition it has been increasingly difficult to achieve (Koczerga 2008, pp. 90). Competitive advantage refers to the "configuration of components of competitive potential to enable the generation of more effective instruments of competition in comparison to other enterprises" (Stankiewicz 2000, pp. 103). At the same time a fair view is presented by M. Gorynia (1998, pp. 107) who believes that only a company with competitive advantage in a particular place and time can be really competitive, provided it is able to acquire and maintain this advantage. The essence of competitive advantage boils down to the fact that a company does something better or differently than its rivals (Cetinski, Milohnic, 2008, pp. 38), or is capable of actions that remain unreachable for its rivals, and thus achieves superior results (Godziszewski 2006, pp.11). In turn, according to Barney, a competitive advantage can be achieved if current strategy enables the creation of value for a customer and it is not a strategy used by current or future competitors (Barney 1991, pp. 102). Thus, it can be concluded that competitive advantage is not an absolute concept but a relative category. One cannot talk about it without some reference point, which most often refers to the results of competitors (Budzyńska-Biernat 2013, pp.47).

Undoubtedly, the factors affecting the competitiveness of enterprises are both internal and external. External factors are those that relate to the enterprise environment, while the internal lie directly in the company (Adamkiewicz-Drwiłło 2006, pp.23). It would be difficult not to agree with the view by Stankiewicz, M.J. (2005, pp. 188), who states that the search

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\* For the purposes of this study the concept of agri - food sector and the food sector are treated as synonymous and used interchangeably



for sources of competitive advantage generally constitutes a very extensive part of research. Three general approaches can be distinguished: prioritizing external sources; concentrating attention on internal sources (i.e. enterprise resources); combining internal and external sources into one common source considered to be the development strategy (See Kaleta 2000, pp. 101-102).

Analyzing the classical concepts of competitive advantage, it should be noted that the identification of sources of competitive advantage has mainly been based on the analysis of the external environment, especially regarding the structure and intensity of competition (Szwajda 2012, pp. 31). Subject literature identifies the following classic sources of competitive advantage (Obłój 2007, pp. 105-107):

- the optimization of production decisions - which, as stated by Krzyżanowska, M. (2007, 4) consists of determining the volume of production to provide the most favorable inventory levels (i.e. such that would minimize costs due to a lack of stock and costs arising from its excesses);
- economics of scale - associated with a reduction in unit costs with leap increments in production volume. In other words, increasing the scale of operations can help to achieve the effect of decreasing the cost per unit;
- economics of the scope of activity, which is to construct a fairly wide product range in order to enable a company to produce and sell all the products together more cheaply than individually.

Strategic thinking on building competitive advantage "manifests itself in the application of more effective (compared to competition) strategy, and is reflected in the achieved market outcomes" (Twarowski 2007, pp. 66). The starting assumption in the context of this current research is to recognize the key importance of the environmental structure regarding the results the company achieves on the market (Krzyżanowska 2007, pp. 5). Within this concept Porter, M.E. (2000) conducted a comprehensive analysis of the sector and identified the sources of competitive advantage. The second element was the analysis of the sources of competitive advantage in the literature considered as basic strategies (concept bases of competitive advantage). According to him, we can distinguish a cost advantage and the advantage by differentiation.

Focusing on modern concepts of competitive advantage should pay attention to the concept of school resource (resource-based view of the company). The most important assumption is that the advantage of companies due to the suitable configuration of resources and skills in the company. However, the mere possession of unique resources is not enough to succeed in the market. This theory of competitive advantage takes as its starting point the knowledge and skills of the company and its strategic resources, which the proper set-up and use of the relevant market, at the right time and in the right way will allow the company to achieve competitive advantage and success (Czupiał 2006, pp. 44). Moreover, as indicated by R. Sliwinski (2011, pp. 34), skills, combined with the resources constitute the competitive potential of the company, which determines the achievement of better or worse market performance.

While discussing the modern theories of competitive advantage it is also worth looking into the concept of inter-organizational competitive advantage, which is based on relationships

and the networks of relationships. In the process of globalization, companies increasingly establish cooperation with various entities in the form of networking. Such entities include suppliers, purchasers, competitors and various other institutions. Therefore, it seems legitimate that the source of competitive advantage is in this case a specialization of network participants and the unique relationships that allow businesses to use specific resources and capacities of other partners (Rybicki, Pawlowski 2009, pp. 109-120). Modern concepts of the theory of competitive advantage should also include, among others, the concept of building advantage based on innovation or business location theory (See more: Macias 2008, pp. 12, and Bednarz 2013, pp. 162).

### **Factors of competitive advantage of food sector enterprises in Greater Poland**

#### *The characteristics of the study and the analyzed sample*

The survey was conducted within the project titled "Competitive strategies of Greater Poland's food sector enterprises in a globalizing world," realized from the funds allocated for young researchers at the Faculty of Management Engineering at Poznan University of Technology. Telephone interview with the companies participating in the survey was conducted between July and September 2015. The research problem was to identify and compare the instruments shaping competitive advantages of food sector companies in Greater Poland.

The sample consisted of 86 enterprises<sup>11</sup> of the food sector<sup>12</sup>, including 60 qualified as small businesses according to the criteria of employment, 24 as medium size and 2 as large. Moreover, 21 companies participating in the survey are internationalized (including 12 small, 8 medium and 1 large company), and mostly in their first phase of internationalization. Further development of exports of these products, and also a significant improvement in the balance of foreign trade forces moving towards building quality advantage, which often requires a reorientation of the current sources to create a competitive advantage. The territorial scope covered the region of Greater Poland. The choice of this sector is not accidental. Food processing in Greater Poland has held strong and unshakable leadership position in terms of share of production in the sale of manufacturing output. What is more, this value has been steadily increasing since the year 2000. (See Statistical Yearbooks of the Greater Poland Region for each year).

The primary research tool was a questionnaire containing respectively for companies internationalized 30 questions divided thematically into three parts. The first concerned the description of the business, the second - the degree of internationalization of companies, the third - the competitiveness of enterprises. However, in the case of domestic companies in the questionnaire included 24 questions divided into two thematic parts - a description of the business and the analysis of the competitiveness of the company.

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<sup>11</sup> It should be noted that the small size of the sample carries certain restrictions on inference. On this basis, therefore, one should not make generalizations about all food sector businesses, or the entire province of Greater Poland.

<sup>12</sup> For the purpose of the project the agri-food industry was defined as a group of companies manufacturing products classified in sections A and C, division 10 and 11 according to PCA in 2011 based on CSO data.

## **The competitive advantage of companies and its determinants: the results of empirical research**

Competitive advantage of enterprises depends largely on the strategies that a company adopts for implementation. Assuming, therefore, the division of the M.E. Porter, there are three basic strategies by which companies can gain competitive advantage over other companies in the industry. Therefore, the following survey question turned out to be especially important: What general competition strategies does your company implement in a market? The vast majority of enterprises involved in the study responded that the main source of competitive advantage is the uniqueness is approx. 35% of respondents. Then concentration (on the product or segment of consumers) is 30.2%, the low-cost strategy is 24.4% and 15.1% of indications for a different strategy. Among the other strategies most often indicated by respondents was the strategy of quality, which in the literature is often associated with uniqueness. Noteworthy is the fact, that some of the companies participating in the survey declared to use of more than one competitive strategy. Therefore, in practice among small and medium-sized enterprises do not always occur strategies in "pure" form, so that can be found in the literature. These companies usually operate on the basis of selected elements of each strategy, creating "mixed" strategies. It's about combining them in such a way as to make it possible to achieve the best competitive position in the market (See Budzyńska-Biernat 2015, pp. 24-31).

The key factors influencing competitiveness from the inside are corporate resources and skills along with a strategy for their use. According to Sliwinski, R. "resources and organization skills form competitive potential, and linking resources, skills and strategies affects the creation of competitive advantage, the market impact of which causes the formation of competitive position on the market. The competitiveness of a company at the micro level rises along with all the basic factors affecting it (Sliwinski 2011, pp. 33). Moreover, extending one's business outside the borders of the home country creates a new source of competitive advantage. Therefore, one shall agree with M. Ratajczak-Mrozek, who states that "the company's internationalization entails new opportunities for the development and creation of core competencies, and forms potential for the company's development" (Ratajczak-Mrozek 2011, pp. 66). Therefore, the advantage such a company has on the domestic market, may differ from that obtained on the foreign market. Sources that allow companies to not only achieve this advantage, but also later to maintain it, may also be different. Based on the analysis of research results, it can be concluded that gaining competitive advantage depends on numerous conditions and factors. Therefore, in order to investigate the surveyed companies' significance of the state of resources and abilities in relation to the needs of building a sustainable competitive advantage in the domestic market, the questionnaire included a list of relevant resources. Replies were granted at a 5-point ordinal scale, where 1 means no resource / skill, and 5 - the ideal level. The distribution of replies from the representatives of the surveyed companies to individual statements have been described with an arithmetic mean ( $\bar{x}$ ), dominant (d) the median ( $m_e$ ) and standard deviation (SD tab. 1.).

Table 1. The evaluation of corporate resources, skills and factors in terms of building a competitive advantage

The state of resources, skills and factors	$\bar{x}$	SD	d	$m_e$
Human capital	3.79	0.81	4	4
Values such as trust, loyalty and credibility (social capital resources) in relation to business partners	3.81	0.89	4	4
Social capital in relation to employees	3.85	0.82	3	4
Confidence in the company, which increases the sharing of resources between employees	3.57	0.95	4	4
Relations between employees and management that affect the creation of new organizational, technological and production solutions	3.80	0.96	4	4
The strength of relationship between employees and its impact on new ideas and solutions	3.35	0.98	4	3.5
Cooperation with companies of the same sector	3.19	1.19	4	3
The participation of employees in trainings, workshops, courses	3.09	1.17	3	3
The quality of production machinery and equipment	3.78	0.96	4	4
Research and Development (R & D) - the size of expenditure	2.65	1.24	3	3
The quality of the means of transport	3.53	1.08	4	4
Quality management system	3.67	0.99	4	4
The financial condition of the company	3.71	0.96	4	4
The knowledge of markets	3.73	0.93	4	4
The knowledge about competitors	3.77	0.86	4	4
The knowledge about consumers	4.00	0.77	4	4
The state of logistics	3.59	0.97	4	4
Relationships with suppliers	3.83	0.90	4	4
Relationships with customers	3.73	0.86	4	4
Patents and Licenses	2.50	1.40	1	2
The creation of own brands	3.00	1.27	4	3
Know-how	3.71	1.07	4	4
Technology	3.69	1.04	4	4
Foreign contacts	2.44	1.49	1	2
Ways to affect foreign consumers	2.14	1.27	1	2
Localization	3.38	1.02	3.4	3
Products and services offer	3.55	1.08	3	4
The standard of service and customer relations	3.86	0.81	4	4
Promotional activities	3.31	1.10	3	3
Pricing Policy	3.62	0.92	4	4
Corporate image	4.00	0.83	4	4

Source: own study based on the results of the survey N = 86.

Enterprises make use of a number of resources that enable them to gain advantage over their competitors. Among the essential elements constituting competitive potential of companies, respondents representing the food business rated the state of knowledge about consumers as the highest ( $\bar{x} = 4.00$ ;  $m_e = 4$ ,  $d = 4$ ), with the highest conformity of response  $SD = 0.77$ . Company's image turned out to be equally important, though here the

discrepancy of responses was slightly higher - SD = 0.83. It is in fact the most important resource for companies operating exclusively on the domestic market ( $\bar{x}$  = 4.09;  $m_e$  = 4,  $d$  = 4, SD = 0.80). Internationalized companies do not recognize the company's image as a major determinant of competitive advantage - they perceive their successes in other factors. A set of basic sources should be extended with such values as trust, loyalty, trustworthiness (social capital resources) primarily in relation to business partners and employees. Internationalized companies put the greatest emphasis on such resources ( $\bar{x}$  = 4.19;  $m_e$  = 4,  $d$  = 4, SD = 0.68), which are in line with the latest trends in the functioning of economy, where its development is assumed to be based on human and social capital.

The representatives of the surveyed companies attached the lowest score to such resources as: the impact on foreign consumer ( $\bar{x}$  = 2,14;  $m_e$  = 2,  $d$  = 1, SD = 1,27), foreign contacts ( $\bar{x}$  = 2,44;  $m_e$  = 2,  $d$  = 1, SD = 1,49), patents and licenses ( $\bar{x}$  = 2,50;  $m_e$  = 2,  $d$  = 1, SD = 1,40) and research and development ( $\bar{x}$  = 2,65;  $m_e$  = 3,  $d$  = 3, SD = 1,24). It should be noted that according to the respondents the least important resources in building competitive advantage are characterized by high discrepancy in replies. In other words, it is concluded that there was no conformity among the representatives of the surveyed companies. This confirms the analysis of business resources, which distinguishes domestic companies from those operating in the international arena (see Table 2).

Table 2. The assessment of the resources and skills of enterprises in the context of competitive advantage in the opinion of respondents

The state of resources, skills and factors	Internationalized enterprises *		National enterprises **	
	$\bar{x}$	SD	$\bar{x}$	SD
Social capital in relation to business partners	4.19	0.68	3.69	0.92
Research and Development (R & D) - the size of expenditure	3.19	0.98	2.48	1.28
Knowledge about consumers	4.14	0.73	3.95	0.78
Patents and Licenses	3.19	1.21	2.28	1.39
The creation of own brands	3.57	0.98	2.82	1.31
Technology	3.95	0.67	3.60	1.13
Foreign contacts	3.81	0.98	2.00	1.36
Ways to affect foreign consumers	3.33	0.80	1.75	1.15
Corporate image	3.71	0.85	4.09	0.80

\* N= 21,

\*\* N=65,

Source: author' study based on the results of the survey

Companies that conduct their business outside the borders of their home country attach, what is understandable, more importance to both foreign contacts and methods of influencing foreign consumers. Moreover, the managers of these companies understand that to achieve success on the domestic and foreign markets, they need to be more entrepreneurial. This is manifested by, among other things, investing resources in the development of the company. This can be observed at much higher rates regarding spending on R & D, patents and licenses, creating own brands and technology. The

important role of these resources - emphasized by the representatives of internationalized enterprises - may lead to the conclusion that they are essential not only to expand business outside the country's borders, but also represent a group of determinants how to achieve advantage over competitors.

### **Conclusions**

Gaining and maintaining competitive advantage results from a broadly understood competitiveness. The current rapid changes occurring in the markets mean that entrepreneurs are less likely to plan over the long term. Therefore, companies do not always operate on the basis of deliberate development strategy (Janiuk 2004). Moreover, small and medium-sized enterprises, in order to survive and succeed in markets (including the international market) must be competitive.

Presented the concept of building a competitive advantage should not be regarded as absolute. And companies interested in the diagnosis of key factors needed to build a competitive advantage must remember to include in their analysis the specificity of the industry and the conditions prevailing there. Therefore, searching for sources of competitive advantage, the theory presented should not be considered as a variant. A better solution seems to be an attempt to synthesize them.

Therefore, the essence appears in identifying factors that can determine business activities on the international arena and helping to gain competitive edge. These elements can become a kind of guideline for companies that have not yet taken a decision to start the process of internationalization. Especially, that the sources of advantages are different for domestic and for internationalized companies. The study among enterprises of the food sector suggests that, although the managers of these companies believe in the role of tangible factors of production, they are also beginning to recognize the importance of the intangible ones (high rates for social capital resources).

Moreover, important is also the fact that companies successfully operating in the international market recognize the need to invest in innovation. It is about the allocation of higher resources for R & D, patents and licenses, modernization of technology, or creating their own brands. This set of determinants distinguishes internationalized companies from domestic and helps gain a competitive advantage in the market.

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# THE IMPORTANCE OF ENTREPRENEURIAL COMPETENCE DEVELOPMENT IN THE CONTEXT OF INTERNATIONAL BUSINESS

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## Abstract

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The article provides the concept of entrepreneurship and analyses Lithuanian and the EU documentation emphasizing the importance of entrepreneurial competence development. It highlights the relevance of entrepreneurial competence development in creating the added value of enterprises with regard to the increasing impact of globalization and rapidly changing labour market demands. The article presents and analyses the empirical research data aimed at the identification of entrepreneurial competencies and their development in the context of international business. The empirical research was carried out by providing the questionnaire and interviewing the heads of small and medium-sized enterprises. On the basis of the obtained results key entrepreneurial competencies are provided that are significant to the specialists who have their business in Lithuanian and foreign markets.

**Keywords:** entrepreneurship, entrepreneurship development, professional and general competencies, entrepreneurial competencies.

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## Introduction

*Entrepreneurship* is considered as one of major factors ensuring the country's innovativeness and its economic development - it affects the creation of economic and social added value. Entrepreneurship - an opportunity to self-realization, fast and efficient adaptation to changes and the ability to change one's life and the life quality of other people.

In scientific literature entrepreneurship is analysed in diverse aspects. Some scientists heed on the content of entrepreneurship and/or entrepreneurial competencies, others emphasize the entrepreneurial skills development process, whereas the third part of scientists discern specific personality traits, qualities, general and subject specific competencies essential for an entrepreneur.

Different Lithuanian and the EU documentation define entrepreneurship and entrepreneurial competencies synonymously. This tendency is prevailing in scientific literature as well. Scientists are arguing whether entrepreneurship is the innate talent or acquired skill; however, researchers are virtually unanimous asserting that entrepreneurship is very important issue not only in theoretical, but also in practical terms.

Fostering entrepreneurship is the precondition determining the added value creation in small and medium-sized enterprises of the country. The significance of these enterprises to



the economy of European countries might be witnessed by the EU initiative “Small Business Act” (SBA) intended for maintaining small and medium-sized enterprises. The measures defined in this Act are based on ten guiding principles starting with entrepreneurship and needs-based administration and ending with internationalization. The annual fact sheets of SBA carried out in 2014 demonstrate the impact of small and medium-sized enterprises on the economy of Lithuania – in 2013 the added value was 68.8 percent, the workforce amounted to 76.5 percent, while the European Union workforce – 58.1 and 66.9 percent, respectively (SBA fact sheet, 2014).

The enterprise success is in essence affected by the compliance of the employee entrepreneurial competencies with the contemporary labour market demands. A rapidly changing labour market raises new requirements for higher school graduates in the sphere of entrepreneurial competence development. Beginner specialists should have professional and general competencies that help them find a job or create their own workplaces and be successful in domestic and international labour markets.

According to the data of the Global Entrepreneurship Monitor (GEM) Lithuania has increasing level of indicators: entrepreneurship as a good career choice – 69 percent, high status to successful entrepreneurs - 58 percent. It shows growth of positive attitude to entrepreneurs within the country’s population. As it was stated in the report: “The average entrepreneur in Lithuania is young, educated and innovative creating jobs, managing many resources, with a highly internationalized business. However, they also have a strong fear of failure (45 percent). People are confident in their own abilities to start a business, however, they are slightly less positive about the opportunities available to do so. Level of perceived opportunities indicator reaches 32 percent and it shows the space for improvement” (Global Entrepreneurship Monitor (GEM) Reports, 2014).

To reduce fear of failure level (45 percent) and to raise the level of perceived opportunities (32 percent) is the challenge for the Lithuania in the nearest future. The same as to encouraging growth – enabling firms to expand and develop, improving early-stage education – entrepreneurship should be encouraged at schools, widening the market – increasing internationalization in a small country, promoting creativity.

Considering the increasing business globalization and changes in domestic and international markets, the impact of entrepreneurship on the country's economic growth and the creation of the added value of enterprises and the entrepreneurial competence development should be the object of considerable attention.

Research objective - to identify the entrepreneurial competencies which meet contemporary labour market demands and which are essential for specialists who have their business in Lithuania or abroad.

The empirical research involved small and medium-sized enterprises. The research participants were the heads of Lithuanian manufacturing, trading and service enterprises that have their business in international markets (the EU countries, Russia, Central Asia).

*Research results.* Considering the experience of Lithuanian entrepreneurs working in international markets and the expert assessment of the heads of Lithuanian small and medium-sized enterprises a list of key competencies was made.

### **Theoretical aspects of entrepreneurship and entrepreneurial competencies**

Scientific literature and Lithuanian and EU legal documents provide diverse definitions of the term “entrepreneurship”. L. Gegeckienė and A. Grikšienė present two definitions of entrepreneurship. According to the first definition, “entrepreneurship - an innate and acquired skills that allow a person to think innovatively, be active and take risks in all real life situations”; according to the second definition, “entrepreneurship - looking for fresh new ideas, project implementation, i.e. the ability to successfully organize and handle one's life and business and gain beneficial results when producing goods and providing services. That refers to thinking and acting “(Gegeckienė & Grikšienė, 2009).

As stated by G. Strazdienė and A. Garalis, *entrepreneurship* is usually perceived as “the abilities necessary for establishing and developing business. This requires personal qualities and subject specific skills: imagination, creative thinking, taking risks, initiative, receptivity to innovation, intuition, management skills and other skills and abilities. Entrepreneurship refers to new ideas and project implementation, creative thinking and acting (Strazdienė & Garalis, 2006). T. Jovaiša and S. Shaw define *entrepreneurship* as the ability to organize business – the abilities that help people search for opportunities, organize their own business and achieve higher results (Jovaiša & Shaw, 1998). As noted by Drucker, *entrepreneurship* should be considered as the behavioural model rather than a personality trait. According to the scientist, an entrepreneur adapts market opportunities to create his own business model, searches for changes, reacts to them and uses them for his business development. The entrepreneur implements his business ideas despite possible difficulties and risks (Drucker, 2006).

J. Schumpeter defines *entrepreneurship* as “the creation of new business combinations” and suggests five activity categories: 1) the introduction of new products into the market; 2) the implementation of a new production method; 3) establishing a new market or niche within the market; 4) the assimilation of new supply sources; 5) an innovative industry organization seeking to destroy the existing monopoly. As stated by J. Schumpeter, the mission of an entrepreneur is to continually improve and modify economic processes. According to the author, a successful entrepreneur not merely responds to changes but also initiates them and actively implements them (Schumpeter, 1934).

Z. Lydeka admits that entrepreneurship might be defined as innate talents and acquired skills (abilities) that enable persons to think creatively and take risks. The innate skills could be as follows: intuition, adventurism, reaction, venturesomeness, career greed, self-seeking, self-confidence, etc. The acquired entrepreneurial skills are those which are gained during studies or practical activities, i.e. knowledge and practical experience that form universal and special skills. The latter ones are referred to as professional skills (subject specific skills) (Lydeka, 1996). According to I. Zaleskienė and L. Žadeikaitė, entrepreneurship is related to initiative, abilities, independence and innovation in personal and social spheres of life (Zaleskienė & Žadeikaitė, 2008).

Scientific literature emphasizes the importance of the entrepreneurial competence development, which is based on *professional (specific) and general competencies*. R. Laužackas (2005) admits that general competencies - a combination of certain knowledge, skills, abilities and personality traits that are essential (necessary) and can be applied in numerous professions. As stated by the author, these competencies include creativity, analytical thinking, sociability, responsibility and partnership; moreover, their significance is increasing in all areas of activity (Laužackas, 2005).

The following scientists - V. Heyse and J. Erpenbeck - provided a Competence Map KODE®X, which is divided into four competence groups: *personal (P)*, *activity and decision making (A)*, *social – communicative (S)* and *professional– methodical (F)*. As noted by the authors, this Competence Map is successfully applied when identifying and improving entrepreneurial competencies (see Figure 1):

According to V. Heyse and J. Erpenbeck, professional competencies include:

- *activity - decision making competencies (A)* (the ability to act independently, to organize activities, etc.),
- *professional - methodical competencies (F)* (specific knowledge and skills necessary to perform specific work or task, etc.).

General competencies include:

- *personal competencies (P)* (independently organized activities in order to develop one's attitude, values, talents, etc.),
- *social - communicative (S)* (communication and cooperation skills, inter-cultural competence, etc.) (Heyse & Erpenbeck, 2009).

*The importance of entrepreneurial competence development is also highlighted in Lithuanian and the EU legal documents.*

“The Lisbon Strategy”(2000) was a framework of the EU major long-term task solutions, which emphasized falling behind the US market in the business sphere. “The Lisbon Strategy” was followed by the following documents: “The European Small Companies Charter“, EK Green Book, “Entrepreneurship in Europe“, “Entrepreneurial Planning”, etc., which emphasized the conditions favourable for business development and its establishing (The Lisbon Strategy, 2000).

Entrepreneurial breakthrough in the EU documents was observed in 2005, when entrepreneurship was considered as the skill developed, whereas in later documents it was related to the idea commercialization, risk taking, creativity, innovation implementation and project management when seeking for business goals (Barynienė, Paužaitė & Cibulskaitė, 2014).



Figure 1. Competence Map KODE®X

The activity plan “Entrepreneurship 2000” defines three major directions, which should change entrepreneurial culture in essence when facilitating the creation of new enterprises and improving the business environment:

- entrepreneurial skills development and training on the basis of economic growth and establishing business;
- forming favourable conditions for entrepreneurs, ensuring necessary support during important phases of the business cycle and removing the existing structural barriers;
- the formation of dynamic entrepreneurial culture in Europe is related to the development of a new generation of entrepreneurs.

This document emphasizes the universality aspect of entrepreneurship development, which is developing consistently and covering all levels of the education system. In each of these directions is appointed role for every partner country to create and to develop specific activity plan (The European Commission, Entrepreneurship fostering, 2000).

The European Parliament and the Council recommendation “On General Lifelong Learning Skills” highlight 8 new basic skills essential for each resident of the United Europe: 1) communication in native languages; 2) communication in foreign languages; 3) mathematical abilities and basic skills of science and technology; 4) digital literacy; 5) learning to learn; 6) social and civic competencies; 7) initiative and *entrepreneurship*; 8) *cultural awareness and expression*. The document defines *entrepreneurship as the ability to turn ideas into actions, i.e. creativity, innovation, risk taking, the ability to plan and manage projects that is aimed at achieving the intended goals* (The European Parliament and the Council recommendation “On General lifelong learning abilities”, 2006).

It is apparent that the EU documents related to the entrepreneurship fostering affect the shaping of entrepreneurship policy of partner countries. The Resolution of the Seimas of the Republic of Lithuania “On the State Education Strategy Requirements” asserts that “entrepreneurship of the education system is widely perceived and referred to as independence, responsibility and innovativeness” (Resolution No IX\_1700 of the Seimas of the Republic of Lithuania, 2003).

The essence of entrepreneurship in the context of education is provided in “The Economic literacy and entrepreneurship development strategy” (2004), which admits that entrepreneurship - the way of thinking, personal - social, managerial and personal competencies that enable to apply the acquired knowledge in everyday life; these are specific skills, which provide a person with an opportunity not merely to organize business but also to take risks for the decisions taken. Entrepreneurship is described as initiative, activity, independence and innovativeness in personal and social spheres. Furthermore, it is related to motivation and determination to achieve goals - personal, general and professional (Order No ISAK\_835 of the Minister of Education and Science of the Republic of Lithuania, 2004).

In the national youth entrepreneurship development and fostering programme of 2008-2012 the youth entrepreneurship is defined as “a young person's approach, skills and knowledge, which allow him to create the added value (social and economic) and take steps to make the use of this opportunity” (Resolution No 339 of the Government of the Republic of Lithuania “On National Youth Entrepreneurship Development and Fostering programme approval for 2008–2012”, 2008).

Lithuanian entrepreneurship policy heeds on the development of youth entrepreneurship. The youth employment problem is reflected in these documents when emphasizing the lack of entrepreneurial and professional skills. The aim of “The National Youth Policy Development Programme of 2011-2019” is to create a favourable environment for a valuable life and self-expression of young people in Lithuania. Therefore, the fostering of youth economic and social entrepreneurship unanimously contributes to the creation of favourable conditions for youth employment (Resolution No 1715 of the Government of the Republic of Lithuania “On National Youth Policy Development programme approval for 2011–2019”, 2010).

The principles regarding the entrepreneurship development and fostering as well as increasing organizational skills of the qualitative research (2005) discern major

entrepreneurial components that reveal the concept of entrepreneurship, which is usually linked to the entrepreneur's personality traits. Entrepreneurial components provided in this document cover the most diverse spheres of human life: professional, personal, and social, which come out in every person's life.

When generalizing diverse definitions of *entrepreneurship* provided in scientific literature we can discern elements unifying various definitions - innovation creation, risk taking, motivation for active performance and pursuing the intended goals. Entrepreneurship development requires not only professional competencies (marketing knowledge, the ability to act, etc.) but also general competencies (the ability to communicate and cooperate with other persons, to understand different cultures, to solve conflict situations, etc.). The diversity of the EU and Lithuanian legal documents emphasizing the entrepreneurship development proves the importance of the entrepreneurship development and its relevance.

### **The empirical research was intended to identify entrepreneurial competencies**

The research objective is to identify entrepreneurial competencies essential for successful professional activities of business specialists in domestic and international markets. The research was carried out in two stages. In the first stage we interviewed the heads of twenty small and medium-sized enterprises of Lithuania working in international markets. This interview was based on the adapted questionnaire KODE<sup>®</sup>X (the Competence Map), in which V. Heyse and J. Erpenbeck defined the concept of professional and general competencies when discerning four competence groups: activity - decision making competencies (A) and professional - methodical competencies (F) attributed to professional; social-communicative competencies (S) and personal competencies (P) attributed to general competencies. Each group of competencies include sixteen competencies. In total, the questionnaire was composed of sixty four competencies which were assessed in a 6 -point scale, where 1 is the least significant bit, whereas 6 - the most significant bit. In this research stage the competencies provided in the questionnaire were assessed when highlighting the priorities necessary for business specialists working in international markets. In the first research stage the highest points (from 4.95 to 5.7) were given to 16 entrepreneurial competencies. A list of identified entrepreneurial competencies is provided in Table 1.

Table 1. List of entrepreneurial competencies of the first research stage.

No.	Competence	Score	Group	No.	Competence	Score	Group
1.	Ability to make decisions	5.70	<b>A/P</b>	9.	Openness to change	5.30	<b>P/A</b>
2.	Reliability	5.50	<b>P/F</b>	10.	Initiative	5.20	<b>A</b>
3.	Ability to communicate	5.45	<b>S</b>	11.	Self-management	5.20	<b>P/A</b>
4.	Ability to solve conflict	5.35	<b>S/P</b>	12.	Ability to try new things	5.15	<b>A/P</b>
5.	Planning behaviour	5.35	<b>F</b>	13.	Market knowledge	5.15	<b>F</b>
6.	Ability to solve problems	5.35	<b>S/A</b>	14.	Acting with the result in mind	5.05	<b>A/F</b>

No.	Competence	Score	Group	No.	Competence	Score	Group
7.	Ability to work in a team	5.35	S/P	15.	Energy	5.00	A
8.	Leading with target in mind	5.35	A/F	16.	Dialog ability (customer orientation)	4.95	S/P

The dominant competencies of entrepreneurs working in international markets depend on two competencies groups: activity and decision making (A) and social-communicative (S). In the group of activity and decision making competencies (A) there were six competencies assessed by the highest points: *the ability to make decisions, leading with target in mind, initiative, ability to try new things, acting with the result in mind, energy*. The dominant competencies were explained by the experience of the respondents' everyday activities when they needed to make quick decisions, which allowed them to achieve goals and ensured the fulfilment of obligations to customers and partners.

In the group of social-communicative (S) competencies the dominant competencies were selected: *the ability to communicate, ability to solve conflict, ability to solve problems, ability to work in a team and be customer-oriented*. This demonstrates the fact that in international business it is of utmost importance to maintain the dialogue and seek for unanimous decisions considering the interests and goals of an enterprise. Communication includes not merely the provided information but also the ability to listen considering the opinion of other participants - this allows establishing cooperation with the representatives of different interest groups: clients, suppliers, partners, etc.

In the group of personal competencies (P) the following competencies were highlighted: *reliability, openness to change and self-management*. Professional - methodological competencies (F) - the least significant bit in the competence group. Respondents discerned the *planning behaviour* and *market knowledge*. It should be admitted that this attitude of respondents was determined by the fact that professional competencies are considered as compulsory and essential ones in any professional activity.

*In the second research stage* a semi-standardized interview was used to interview eight experts, representatives of top management level in international business chosen randomly. All the respondents had an experience of not less than fifteen years of activities in international markets and were business owners, shareholders or partners.

This interview was aimed at discerning general competencies that were considered as ensuring success in business activities, the importance of professional competencies that were essential in crisis situations and expectations of experts regarding the staff competencies. The result of the second research stage is a provided list of essential entrepreneurial competencies necessary for working in international markets. Competencies discerned by experts were described using the definition of competencies provided in the questionnaire KODE<sup>®</sup>X. On the basis of this assessment eight entrepreneurial competencies of the sixteen competencies provided in the first stage were

applied in this stage. In this list entrepreneurial competencies are provided in the priority order:

1. Ability to make decisions (A/P),
2. Self-management (P/A),
3. Acting with the result in mind (A/F),
4. Ability to communicate (S),
5. Ability to solve conflict (S/P),
6. Planning behaviour (F),
7. Ability to work in a team (S/P),
8. Market knowledge (F).

Taking and making proper decisions require the skills that are necessary to survive in a competitive market, therefore, the ability to make decisions (A) was discerned by experts and it was given the first place. The second competence of the list is self-management competence (P/A), which is especially important in stressful situations. Despite the fact that a certain amount of stress stimulates employees and increases their productivity, a continual stress or disability to deal with it decreases the employee working results and is an obstacle preventing from pursuing personal or business goals. This competence is directly related to the third acting with the result in mind competence (A/F).

The same as in the first research stage, experts highly assessed social-communicative competencies. The fourth and fifth places were given to the ability to communicate (S) and the ability to solve conflict (S/P), the ability to work in a team (S/P) was also highlighted. In the group of professional - methodological competencies the following abilities were discerned: planning behaviour (F) and market knowledge (F). The above mentioned competence is essential for international business. On the basis of the previously mentioned expert assessment results provided in Figure 2, the distribution of competencies in four groups is provided.

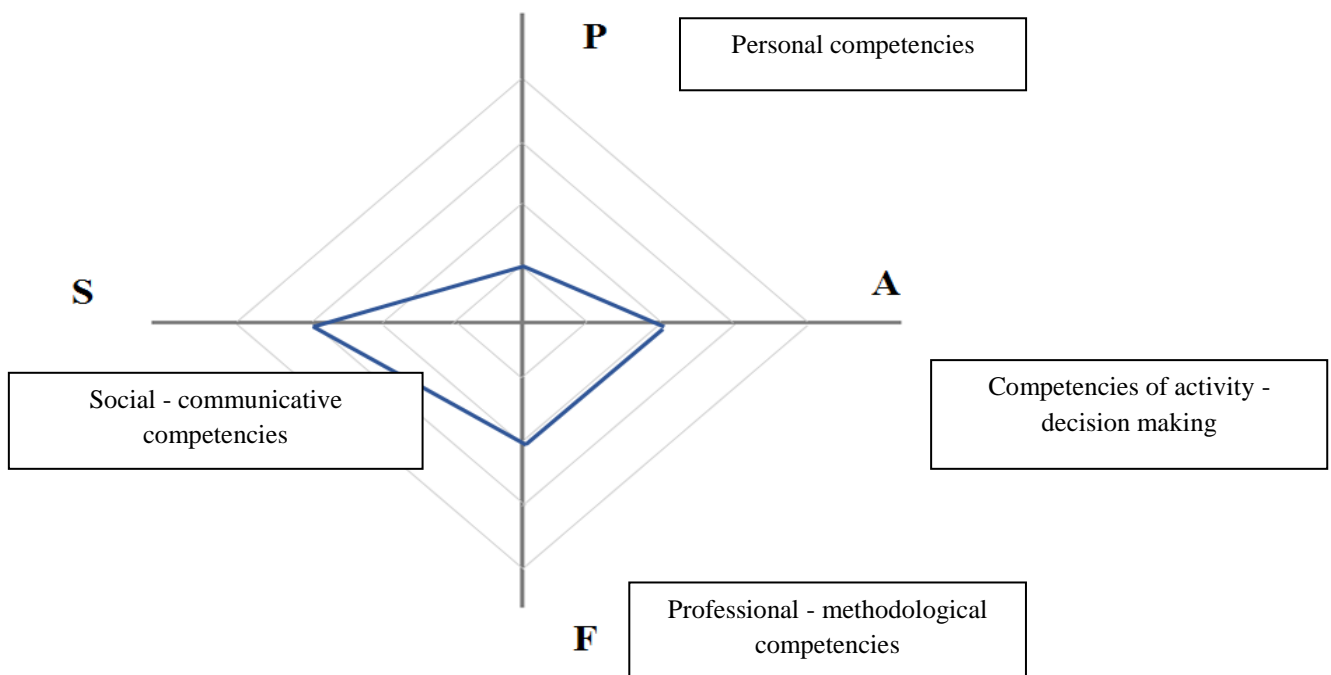


Figure 2. Distribution of competencies in four competence groups.



When generalizing the research results it should be admitted that the importance of professional and general competencies is equivalent to entrepreneurial competencies. In the group of professional competencies the activity-decision making (A) and professional - methodological (F) competencies are evenly distributed; in these competence groups two competencies are discerned. In the group of general competencies the dominant one is social - communicative competence (S) - three competencies of four were discerned. However, personal competencies in the list of essential entrepreneurial competencies were of least significance.

## Conclusions

1. The subject of scientific literature and the diversity of the EU and Lithuanian legal documents emphasizing the importance of entrepreneurship development prove the significance and relevance of entrepreneurship development.
2. According to the data of the Global Entrepreneurship Monitor (GEM) "The average entrepreneur in Lithuania has a strong fear of failure (45 percent) and the entrepreneurs are slightly less positive about the opportunities available to do business (32 percent).
3. The survey data obtained from the heads of small and medium - sized enterprises working in international markets emphasizes the fact that the significance of professional (activity and decision making: Ability to make decisions, Acting with the result in mind) and general (social-communicative: ability to communicate, ability to solve conflict, to work in team) competencies in international business is of the same value.
4. Higher schools responsible for training international business specialists should heed on the development of these competencies. This would allow them to train specialists that meet the needs of employers and contemporary labour market demands.

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# SUSTAINABLE TOURISM AND SOCIAL TOURISM IMPACTS

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## **Abstract**

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One of the main characteristics of sustainable tourism is the welfare of the local population in tourism destinations. The degree of local residents' acceptance of tourism development is reflected in the social impacts tourism has on local society and in residents' attitude towards tourism and tourists.

The purpose of the present research is to investigate social tourism impacts in Bulgaria measured by residents' attitude towards tourism development in the country. The study covers 16 municipalities divided in 4 groups according to the prevailing tourism type in them: seaside tourism; mountain tourism; spa tourism and cultural tourism. A field survey using a written standard anonymous questionnaire was conducted. Interviewed were a total of 4 397 representatives of the local population. The study covered representatives of all age groups over 16 years. Results were processed with the help of an SPSS statistical package. The analysis revealed some expected and some unexpected findings about tourism impacts and local residents' evaluations. This helped determine the role of some internal (belonging to tourism development and specifics) and external (belonging to local residents' characteristics) factors.

The conducted investigation and analysis confirmed the initial hypothesis and proved that residents' evaluations can be used as a measurement tool for tourism impacts. The evaluation received in this study can serve as a baseline from which the future measurement and management of changes occurring as a result of tourism development can be performed.

**Keywords:** social tourism impacts, sustainable tourism, residents, attitude, perception, manifestation, evaluation.

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## **Introduction**

In the period of transition to market economy tourism became a fast developing industry in Bulgaria, attracting huge investments and providing many job opportunities. The demand driven development led to a dramatic change in the product type and structure, based on extensive utilization of natural and cultural resources, which resulted in visible impacts on the environment and on local communities.

More than 20 years after the UN Conference on Environment and Development in Rio de Janeiro the issue of sustainable tourism development as part of the overall sustainable development is being discussed in numerous academic and practical oriented publications (Action..., 2007). This type of research is facilitated by the great number of tourism impact investigations and the need for their management. An important point in the evolution of the development philosophy has been reached and namely that development at present has to be perceived as mastering the existing potential for the improvement of the situation in general, not only as simple growth in the form of quantitative increase in its physical measurement. Furthermore, human activities which can be managed through policies, decisions and legislation thus regulating the way in which these activities affect the environment, are being placed at the core of sustainable development definitions.

The importance of tourism impacts increased significantly lately in the context of tourism policy and tourism planning and of the widespread sustainable tourism development concept. The equity of economic, social and ecologic tourism aspects is stressed upon. The satisfaction of public needs should be placed in conformity with the limited resources as well as with the equality of present and future generations' rights.

Tourism impacts are the effects caused voluntarily or unwittingly by the development and practicing of various tourism kinds and tourist activities thus affecting all types of environment – natural, economic and social. Tourism itself is a product of this environment but in the process of its development its impacts on it are inevitable. According to their manifestation field Mathieson and Wall (1982) classify impacts into 3 categories: social, economic and ecological (physical, natural). The basic criteria for development sustainability being subject to observation and control stem from this classification.

There is no doubt about the need for such management of tourist activities and their impacts that would incorporate and combine the basic principles of sustainable development:

- Integrity of economic development and environment protection goals. From tourism point of view this means the utilization of tourist resources in such a way so that it would simultaneously bring benefits for the local population as well as satisfaction to the tourists without causing serious damage of the natural and social environment;
- Fair distribution of the wealth created by tourism product sales and also of the costs for the tourist resources preservation in various regions and countries both among them and among the generations;
- Binding quantitative growth with the environment's quality improvement which is in the mutual interest of the local population and of the tourists looking for attractive and unpolluted vacation environment.

Sustainable tourism development should be such a development where the economic and social changes related to it lead to a decrease in the need for environmental protection. And if we can accept that the main points of sustainable development and its indispensability are quite clear, the implementation of this concept in practice turned out to be a difficult task which could not find its solution in many destinations including Bulgaria. Of key importance for the implementation of sustainable tourism are the instruments applied for the measurement and evaluation of the changes observed – indicators and norms within the corresponding limits which are closely related to the environment's loading capacity evaluation.

Continuous visiting of a tourist destination by a number of tourists during a certain period of time (at first this number can be quite small) eventually brings about various changes in it. One of the reasons why these changes have to be monitored is that they may have negative impact on the destination's social, cultural or economic life and on its natural and ecological environment.

Even in the case of positive impacts it is important to monitor the ways in which tourism affects the territory. Measuring changes and submitting this information to people,

organizations and institutions responsible for tourism development and management, helps them in taking important decisions about the best way this can be done.

As a result of the increasing numbers of tourist trips worldwide, more and more evident become the problems related to economic, ecological and social tourism impacts. Adequate answers to those issues should be based on systematic and detailed research. Monitoring is a continuous process of observing the dynamics of various processes and phenomena with the purpose of their forecast and management. Another goal is the support of tourism good management as a whole, revealing the dynamics or temporal changes of various processes and phenomena related to it.

Monitoring can be an invaluable means for tourism management in various destinations. For this purpose there should be a corresponding mechanism through which the community would be able to effectively manage and regulate all problems revealed through the monitoring process itself.

As a result of the monitoring the community has to undertake appropriate measures. If this does not occur all activities that have been carried out would be extremely ineffective and could cause a substantial waste of labour, money and time. After a certain period of time the conducting of a new monitoring evaluation would reveal the effectiveness of the measures undertaken and in which direction have they been helpful.

### **Social tourism impacts**

Since 1982 when Mathieson and Wall defined the multifaceted effects and impacts tourism has on the environment – physical, economic, social and cultural, many books and articles related to their research, analysis and various manifestations were published, for example: Butler, 1993; Ashworth, 2004; Hall and Brown, 2006; Vodenska, 2006; Beskulides, 2007; Dredge and Jenkins, 2007; Sharpley, 2007; Kollick, 2008; Wilson, 2008; Wang and Pfister, 2008; Simpson, 2009 and so on.

The best studied tourism impacts are the economic ones but a lot of attention has been given to the social tourism impacts in tourist destinations. Publications can roughly be divided into three groups by the investigated tourism impacts in them:

- impacts on the destination as a whole;
- impacts on local residents' lifestyle;
- impacts on local arts and culture.

All of them can be both positive or negative. The list is quite long so here we shall note only that lately there has been a general shift in this field of scientific research toward more specific problems in this area – social impacts and destination decline (Diedrich and Garcia-Buades, 2009), residents' perceptions and social impacts of various tourism types (Lee et al., 2010; Nunkoo and Ramkisoon, 2010, Tyrell et al., 2010, etc.).

The interest towards various manifestation of social tourism impacts in general is still very much alive in newly emerged tourism destinations – Petra, Jordan (Alhasanat and Hyasat, 2011), Iran (Aref, 2010), Korea (Shin, 2010), some smaller destinations in Italy (Brida et al., 2011) and Portugal (Vareiro et al., 2013), etc.

New perspectives of theoretical research and generalization are also sought in some publications (Andereck and Nyaupane, 2011; Assenova and Vodenska, 2012, Chen and Chen, 2010; Choi and Murray, 2010; Deery et al., 2012; Kim et al., 2013; Nunkoo and Gursoy, 2012; Vargas-Sanchez et al., 2011, Yu et al., 2011, etc.).

Recent tourism development in Bulgaria reveals its growing role and significance in all economic and social areas. At the same time tourism impacts (wanted or not) are much more complex and ambiguous and sometimes a serious disparity between the wanted and the actual tourism development occurs, thus posing a lot of questions about the social and economic expedience and the necessity of further fostering tourism expansion in certain destinations.

With the growing number of tourist trips the problems related to social tourism impacts are becoming more and more evident. Adequate answers to those issues should be based on systematic and detailed research. Unfortunately with some exceptions this issue has not yet been discussed in detail in Bulgarian academic publications. This paper is an attempt to identify social tourism impacts in Bulgaria as perceived and evaluated in a local residents' perspective.

### **Research methodology**

The objective of the present investigation is the manifestation of social tourism impacts in Bulgaria and local residents' attitude towards them. The subject of research is the evaluation of these impacts by the local population as well as the factors bringing about this particular assessment.

Local population's attitude towards tourism and tourists and its factors are investigated through a field survey in 16 Bulgarian municipalities. A written standard anonymous questionnaire is used. It was developed after a detailed and in-depth study of questionnaires published in international scientific sources while bearing in mind Bulgarian population's characteristics and specifics.

Widely used is the analysis of the averages for the evaluation of the different impact groups which are calculated as the arithmetic mean of the positive or negative impacts in each impact group. Mean values for each group of municipalities were obtained as the arithmetic average of the individual municipalities in the group. As with any generalization, whether quantitative or qualitative, certain amount of information is lost, so the analysis of the impact assessment is carried out not only on the basis of their average values, but also by separate impact groups - positive or negative.

Evaluations of social impacts of tourism are analysed both within the impact groups already identified and within separate municipalities and municipality types. This is done with a view to a better and detailed clarification and definition of the key factors influencing their values and to a more specific and targeted formulation of the problems facing tourism development and its impacts in Bulgaria. In the analysis of the results from respondents' answers a value of 0.5 for the standard deviation is accepted.

Municipalities were chosen in a way as to include both territories with a well developed tourism industry and a steady tourist flow and municipalities at the start of their tourism development. At the same time they represented the four main tourism types in Bulgaria – seaside, mountain, spa and cultural tourism.

The municipalities selected for analysis are very diverse; they are located in different parts of the territory of Bulgaria, covering various natural and anthropogenic landscapes and also have different areas and population numbers.

They fall in several tourist regions of the country, characterized by varying degrees of tourism development. This selection of municipalities is aimed at the inclusion in the study of areas with varying stages of tourism development and various tourism supply, including also the presence of large tourist resorts – Pamporovo and Borovetz.

In the selected municipalities 20.4% of all beds and 23.6% of all possible overnights in the country are concentrated. About 20% of all nights (2009) and 31.7% of all visitors to the country are registered here. In these 15 municipalities are generated 32.3% of all accommodation revenues and 11.4% of those generated by foreign tourists.

One and the same questionnaire was used for respondents employed in the tourist industry and for the rest of the local population. Two sample types are used – a single stage areal sample and a simple random (stochastic) sample. The scale types used are: ordinal (rank) scale, Lickert 5-stage scale, nominal scale, interval scale, the scale of Gutmann.

Interviewed were 4 397 representatives of the local population. The study covered representatives of all age groups over 16 years - people with varying educational background, field of activity and impact of tourism on their income. The tourism employed are about 16.7% of the respondents, but tourism turned out to influence directly or indirectly the income of 38% of them. Interviewed are also key stakeholders in the municipalities - mayors and officials of local administrations, representatives of local and regional tourism associations and other NGOs, tourism entrepreneurs and local people actively involved in tourism development.

The survey is conducted using the personal interview method by students in the "Tourism" program of Sofia University. Information from surveys is processed with the help of SPSS. For the purpose of the analysis traditional tourism research methods (quantitative and qualitative assessment, structural analysis, etc.) were applied. The analysis of the relationships between respondents' answers and their relevant factors was based on the correlation coefficients between the assessments of positive and negative tourism impacts and the chosen indicators of the factors under study.

Limitations to the present research are to be expected (but not proven) in two directions: first, the wish of local residents to give a good overall picture of their municipality reporting a more favourable tourism development in their area, and second, the novelty of the survey topic and the insufficiency of informed knowledge for many of the respondents.

For better comprehension and systematization in the present research two main groups of factors have been outlined:

- *Internal factors*, related to the destination's population characteristics, and
- *External factors*, related to the destination's actual tourism state and development.

As major internal factors, the main socio-demographic and economic characteristics of the local population are examined: age, gender, educational and professional structure, length of residence in the municipality, employment or family member employment in the tourist industry, contacts with tourists.

As major external conditions and factors of the tourist destination state and the degree of tourism development in it are taken:

- Level of the destination's tourism development;
- The stage of the destination's tourism development life cycle;
- The prevailing tourism type in the destination.

### **Discussion of results**

Tourism social impacts in the selected 16 municipalities are generally evaluated by local residents as positive – mean value of positive impacts is 3.67 (5-stage Lickert scale). The highest mean value observed is 4.07, and the lowest – 3.01. The highest value received is for the statement "Tourism contributes to better knowledge and understanding of other people and customs" – average value 4.01 and highest absolute value 4.35.

In 12 out of 15 municipalities the average values are above 3.50 but in three of them they are between 2.50 and 3.50. It has to be noted that all these 3 municipalities are developing sea recreational tourism which is highly seasonal and the pressure of tourism on the local population is very strong and temporally highly concentrated.

The evaluation of negative social tourism impacts is quite low – mean value 2.17. The difference between the highest mean value – 3.01, registered again in a seaside municipality and the lowest mean value – 1.50, is greater than the difference between the average positive values ( $1.51 > 1.06$ ). The highest mean value (2.45) is given to the statement "Tourism increases local crime" which receives also the highest absolute value – 3.14.

Only two municipalities register general mean values of the negative social tourism impacts above 2.50 and both of them are developing high class seasonal tourism types – seaside and winter ski-sports.

There is a very pronounced dependence of social tourism impacts evaluation in various municipalities on the degree of tourism seasonality in them. The highest average values for positive social impacts are observed in municipalities with prevailing cultural (3.92) and spa (3.79) tourism. In winter ski-tourism municipalities this value falls to 3.65 and the lowest one is observed in seaside municipalities (3.37). This difference (about 0.55) indicates that tourism seasonality plays a significant role in local residents' perception and evaluation of social tourism impacts.



On the other hand the highest mean value for negative social tourism impacts is observed in seaside municipalities – 2.51, while the lowest one is received in impacts where cultural tourism is prevailing – 1.87. The difference between these two values is 0.64 which indicates greater differentiation among the municipalities and greater social discomfort of seaside municipalities' population.

Among the internal (socio-economic) factors influencing the distribution of responses it was revealed that 2 factors can be considered to be of greater importance – the level of respondents' employment in tourism (correlation coefficient 0.91), followed by their professional structure (0.78).

The difference between positive and negative social tourism impacts values is quite high – 1.5. The standard deviation of all statements' responses is less than 0.5 which allows the admission of responses' consistency and reliability.

Regarding the role of various internal and external factors for local residents' evaluation of social tourism impacts the following conclusions can be drawn:

- The level of the destination's tourism development does not generally influence local residents' evaluations;
- The stage of the destination's tourism development life cycle plays a significant role for local residents' evaluations;
- The prevailing tourism type in the destination is of no importance in forming local residents' social tourism impacts evaluations;
- The greatest influence for social tourism impacts' evaluation in Bulgaria is exerted by the seasonality of the prevailing tourism type. This can be explained by the fact that excessive concentration of tourists and various tourism activities in a relatively short period of time causes a significant spatial and temporal concentration of predominantly negative social tourism impacts in municipalities with prevailing summer seaside recreational and winter ski-sports tourism. Perennial tourism types – cultural and spa tourism impacts are more evenly distributed in time and space and do not demonstrate any extreme values.
- The higher level of destination's tourism development is characterized by more pronounced perception of both positive and negative social tourism impacts;
- The stage of the destination's tourism development life cycle is the best indicator for negative but not of positive impacts perception
- The most important role in differentiating respondents' attitude is played by their level of employment in tourism, followed by their professional structure. Tourism employed (both directly or indirectly) respondents are more positive about tourism than any other group in the host community but sometimes good knowledge of tourism and tourism business present a cause for quite high evaluations of negative social tourism impacts.
- Respondents' attitude is least influenced by their gender, followed by the duration of residence in the municipality. Still residents born in the destination are more positive about tourism than newcomers;
- Close contacts with tourists is not associated with manifestation of only positive or only negative attitude towards tourism

- Negative values are influenced by much smaller number of internal factors (2 to 3) than positive ones (4-5 out of 7).

### **Conclusions**

Social tourism impacts are numerous, varied, complex and diverse. They are a result of the complexity of tourism itself and the numerous tourism-related elements of the environment. Studying and forecasting tourism impacts are vital for tourism policy, regional development and regional economy. Of particular importance is their consideration at various spatial and hierarchical levels, since one and the same impact can be manifested differently at international, national, regional or local level and within the same territory or the same social community.

Conducting research on the impacts exerted by tourism on the environment (both natural and socio-economic) is related to a number of difficulties which can be overcome step by step. Most essential of them are those concerned with getting reliable information. Despite these objective difficulties, it is necessary to develop a methodology for their monitoring, forecasting and management.

One of the ways for better investigation of the diverse tourism impacts, their identification, management and forecast is through the application of modern methods for processing and analyzing large masses of spatial data. Such an approach is the assessment of tourism impacts by studying the attitude of local residents towards them. This approach provides completeness to the impact study, is based on primary information and allows on the one hand, the construction of an overall picture of the impact manifestations at various spatial levels, comparison among the various impact groups, and on the other hand - the identification of areas or impacts that require more in-depth and detailed study with the implementation of more sophisticated and specific methods.

The review of known research on tourism impacts at national and regional level confirms the need of systematic investigations using standardized methodology with a view to obtaining comparable results (both in spatial and temporal aspects).

Following the above reasoning the aim of the conducted investigation was to evaluate tourism impacts in Bulgaria through the research and analysis of the attitude of local residents towards them, identifying the main factors affecting it, and on this basis to formulate strategic guidelines for their study, monitoring and management with a view to future sustainable tourism development in the country.

The evaluation received in this study can serve as a baseline from which the future measurement and management of changes occurring as a result of tourism development can be performed. The establishment of such a baseline, as well as the approbation of the proposed for this purpose methodology, enables the future monitoring, detecting and forecasting of positive and negative changes in tourism impact evaluations, provides guidance for in-depth and detailed studies of specific social tourism impacts and draws the attention of planning and managing organisations to the regulation of certain desired or undesired tourism impacts.

A major contribution of this research is the model developed for collecting primary information and for conducting a comprehensive assessment of tourism impacts at local and regional levels. It takes into account the known theoretical and practical requirements and constraints arising from the present informational deficit concerning tourism impacts in the country. Its practical applicability lies in the fact that it can be taken as a basis for further development, improvement and adaptation depending on the specific needs and existing conditions for its implementation.

The conducted survey revealed the important role of local residents' opinion for the general and the detailed perception of tourism impacts at a local level. It was found out that both internal and external factors (external factors being more significant) are of importance for the formation and the differentiation of local residents' attitude towards tourism and tourists.

The analysis of the results obtained led to the formulation of the following general conclusions:

- The main factors and their role for local residents' attitude towards tourists and tourism are established.
- It is confirmed that in Bulgaria the factors for local residents' attitude towards tourists and tourism are the same as those revealed and discussed in international academic publications.
- The manifestation of the various groups of positive and negative tourism impacts in Bulgaria was revealed.
- The results obtained can serve as an initial baseline of Bulgarians' attitude towards tourism and tourists against which the occurring changes can be measured and long term trends can be outlined. This will be of great importance for future tourism policy and future sustainable tourism development in the country.

One of the implications of the research results concerning the tourist industry is the necessity of studying the local residents' opinion about any future tourist projects and of creating all-year round job opportunities for the local people. A necessity of developing a system of indicators for tourism impact monitoring in various types of tourism destinations was revealed. A need for detailed and continuous research and observations (monitoring) of tourism impacts in various areas and destinations was established.

The following key directions for future investigations and applied research of tourism impacts in Bulgaria can be outlined:

1. Development of a system of methods and practical measurable indicators for the study of various social tourism impacts, taking into account the specifics of the predominant tourism type (seasonal or perennial);
2. Targeting research primarily on economic tourism impacts – both positive and negative;
3. In-depth and detailed study of the attitudes of local people and their reactions to tourism development in various destination types;
4. Further study of factors for the manifestation of various tourism impacts, especially negative ones;
5. Preliminary assessment of potential social tourism impacts in implementing new tourism projects and taking mitigating measures;

6. Monitoring social tourism impacts and their dynamics in the temporal and spatial aspects.

Objective and continuous social tourism impact assessment is needed, so that government authorities responsible for tourism planning and development as well as various tourism industry representatives can understand the full and multifaceted effects of tourism development in the country. As a result, some widespread ideas and concepts about the existing or prevailing positive tourism impacts may be refuted. This will bring about a whole new reinvention of the real possibilities of tourism to be an important positive factor for economic, environmental and social well-being of host tourist destinations in the country. In this way such types and forms of tourism development may be encouraged, which will comprise more of the "benefits" of tourism without the accompanying "harm" it may cause.

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# RETHINKING TOURISM EDUCATION IN GEORGIA

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## **Abstract**

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Tourism is the second largest industry in the world and one of the fastest growing economic sectors in Georgia. Successful development of tourism in the country is largely depended on the quality of education, skills and competences of the people involved in the process of building the sector. Purpose of the research is to investigate the compliance of tourism education programs to the practical needs of the Tourism sector challenges in Georgia that will reveal where we are at present and what resources do we have for farther development. The research showed that the Tourism curriculums not always reflect the needs of the industry in case of Georgia. The paper attempts to show the complexity of tourism phenomenon and the challenges tourism education faces to meet the need of the industry. Therefore, state and universities need to rethink the way they provide academic education in Tourism. While making efforts to stay academic, knowledge transferability and applicability needs to be considered when designing the curriculums. Fitting education to the practical needs of the tourism industry will enable state and university to respond the need of the country's economic development, on the one hand; and, on the other hand, such a policy will increase chances to justify the expectation of students from getting higher education, which is being competitive on the labor market.

**Keywords:** tourism education; academic education; curricula design; knowledge transferability; tourism research.

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## **Introduction**

Tourism has been described as the world's largest and fastest growing industry by World Tourism & Travel Council (WTTC). The organization actively works on investigation of the worldwide economic impact of tourism. According to the WTTC, in 2014, Travel & Tourism's total contribution to the global economy rose to 9.5% of global GDP, not only outperforming the wider economy, but also growing faster than any other significant sectors such as financial and business services, transport and manufacturing (WTTC Report 2014). Around 266 million jobs were generated by Travel & Tourism, which is 1 out of 11 job places in the world. The increasing demand on tourism activities, showed the importance of this sector for economic growth and job creation. As a result, interest towards tourism sector is increasing within governments, businesses and academics.

Tourism is one of the fastest growing economic sectors in Georgia as well. In 2007, it was named to be the priority economic sector for the country. According to Georgian National Statistics Department, the tourism contribution to a country GDP was 6% in 2014; and, jobs generated by the tourism have achieved 11%. International arrivals to Georgia have been growing rapidly over recent years, reaching the record number of 5,515,559 in 2014. The highest growth rate was registered in 2012, when the number of international arrivals increased by 57%. According to the World Tourism Organization, it was the highest growth rate in Europe as well (UNWTO, 2013). The same period, the World Economic Forum named Tourism to be the third most competitive economic sector in Georgia.

Hence, Georgia has made a big success in terms of tourism quantitative development. But still, there is problem of qualitative development. At present, the declared purpose of Georgian National Tourism Administration is to double the value and profitability of Georgia's tourism sector and create the high-end tourism destination out of Georgia by the year of 2025 (GNTA, 2015). In the mentioned strategic document, there are listed different strategic activities to achieve the goal, but unfortunately no attention is paid to tourism education.

### **Objective of the research and methodology**

Objective of the research is to define what is the demand of the industry in terms of tourism education; what is the supply secured from the side of university in terms of graduate students qualification; and, what needs to be done for diminishing gap between above demand/supply chain.

The work is done with qualitative and desk research methods. The qualitative research method was used to organize industry research, which involved conducting deep interviews with company representatives. The desk research was used to make situation analysis, which involved investigation of tourism education programs provided by Georgian Universities and Georgian legislation framework for tourism education. Alongside, different academic literature and researches were reviewed to see worldwide experiences existed in the field of tourism education and curricula design.

The research outcomes are divided into three parts. Among them, the first is aimed at investigating the needs of the industry in terms of competences of the personnel and their behavioral patterns when recruiting new staff. The second responds the question, what is the level of tourism education in Georgia, what are the key barriers to translating employers' needs into improvements in the education programs. And the third one, represent the solutions how to increase compliance between theoretical knowledge and practical skills when providing academic education in tourism.

- *Industry/employer's research method*: 50 companies were selected for the interview, who are operating in Tourism & Hospitality sector of Georgia. In our case, main employers are big businesses (150 employees and more), SMEs (up to 150 employees) and state agencies. To make research representative, we gave them more or less equal share in the consecutive order: 40%, 30%, 30%. The research participants comprised following type of companies: hotels, HoReCa management groups, travel agencies, air-line and travel companies, tourism state agencies.
- *Method of review of tourism education programs and legislation of Georgia*: there was conducted the review of tourism education programs provided by Georgian Universities. Overall, there are 33 public and private universities in Georgia, who provide education in Tourism. As for the legislation basis, Georgian Education Qualification Framework is universal and applies to each accredited university. Here we'll discuss framework which stands for tourism education.
- *Method of review of worldwide tourism education developments and experiences*: There are not many academic literature that provides international theoretical frameworks and practices for tourism education. Although, there are several reliable sources and we selected them based on the popularity of the author and the work. Due to the lack of

academic literature, there were also used different non-academic researches, published by authoritative international tourism organizations.

### Industry / employer's research

Industry research revealed many interesting facts that are far away from the perception of university about education. To be more precise, there interest is absolutely pragmatic and ego-centric, unlike university who is more prone to idealism and bringing common good for society. The attitude of private sector is very natural, since quality of their performance has direct effect on their profits. Although, it is "business as usual" to take a risk, it don't apply to the qualification of stuff when recruiting a new personnel.

During private interviews, company representatives admitted that it is not within their interest to get students at job, since it is lost investment of time and efforts for them. It is safer to recruit experienced candidates or develop their existing human capital. To the question - how do you seek for a new employee in case of vacant position, responses were distributed as follows:



Responses were more in favor of practical experience, rather than academic education, when asking employers about their preferences during recruiting or promoting a personnel (Figure 1):

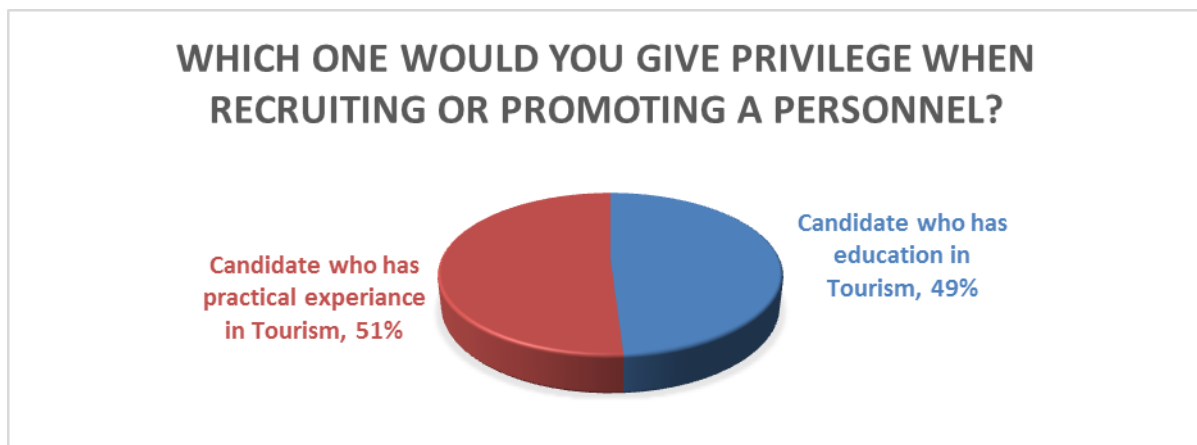


Figure 1. Privilage upon recruitment or promotion.

It is worth to admit, that tourism is a new specialization for Georgia. Therefore, there is great lack of knowledge based tourism business in Georgia. Fast increase in tourism product/services demand has resulted in quick raise of supply, which still has not catch up the qualitative criterion. Another problem is a nature of Georgia entrepreneurs. There is lack of development will from the side of companies, especially in case of SMEs, which are



driving forces for massive employment. Based on the research, which was conducted within Georgian private sector representatives (DAI Europe, 2014), most of the companies are not seeking for growth and development, and they are oriented on surviving. Seems, entrepreneurship is not our DNA characteristics at this phase of the country development, and the reason to that is lack of awareness and knowledge. The implication of this type of attitude may be found within the responses below, which was addressed to the financing behavior of the companies, when it comes to the employee's development:

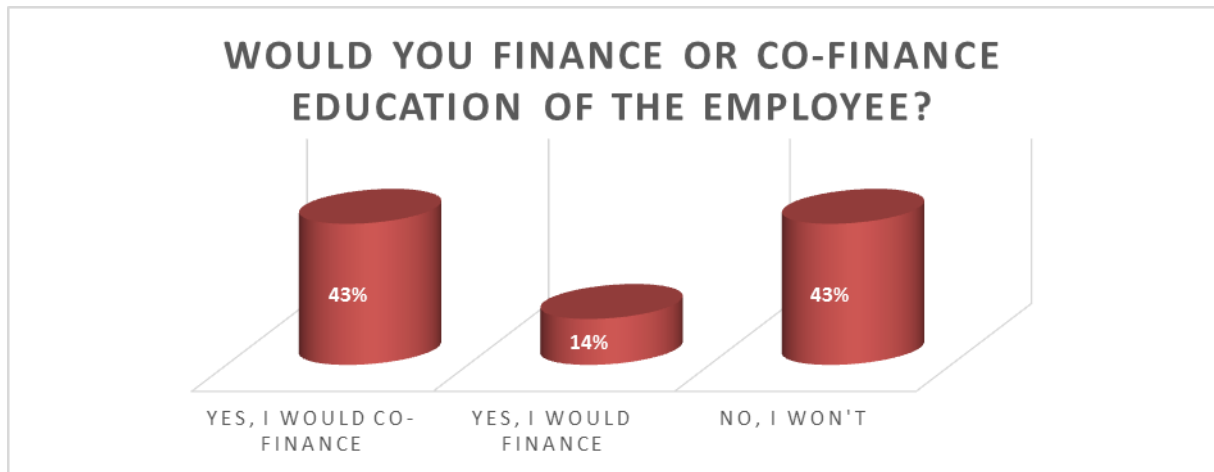


Figure 2. Financing or co-financing education of the employee.

Another reason to the above mentioned lack of will of employers to finance employee's education, is lack of trust towards education institutions and country education system. Industries are experiencing disappointments when hiring students, even ones with excellent academic records. Knowledge of students is far too theoretic and not practical or transferable. That's why industries prefer to hire people with practical experience, who already learned from practice.

This attitude reveals itself during negotiations of university and company for internships as well. According to the research, it is very common type of behavior of private sector in tourism to recruit young non-professionals and train them in accordance with their own needs, starting from the very low positions. Here the interest of industries and universities are dividing: universities seek for professional internships, while industry is not eager to involve students in real business activities as they don't see long-term benefit from them. And, university is not agree to train students in the types of jobs, which are not responding to the curriculums of the tourism academic program.

### **Review of tourism education programs and legislation of Georgia**

Tourism education is in the process of development in Georgia. Sharp increase on the demand side, provoked by boost of the tourism industry, has stimulated development of the tourism education in a short period of time. Tourism has become one of the most popular and demanded specialization within education institutions since 2007. Naturally, tourism curriculums broadened beyond the vocational and tourism has emerged as a field of Bachelor and Master Degree studies. Currently, there are around 33 Public and Private Universities providing academic degree courses in Tourism. Tourism is based at Faculty of Business in case of each Georgian University.

So far, the only tourism program, provided at Bachelor and Master Levels, is “Tourism and Hospitality Management” subfield, under the umbrella of “Business Administration” or “Management” specialization fields. A range of options on Tourism specializations are provided only at Professional/Vocational education institutions. The fact that tourism as an academic specialization is rather new, puts it in a permanent struggling process for acquisition within university. While tourism is more practical field of specialization, university, as well as state, keeps staying conservative about university education, considering that needs to stand for providing only academic education.

Below there is a National Qualification Framework of Georgia on tourism education, which defines the range of specializations for all accredited education institutions in Georgia:

Table 1. Tourism Qualification Framework in Georgia.

<b>Direction</b>	<b>Field/Specialty (at Bachelor Degree level)</b>	<b>Subfield / Minor specialties (at Master Degree level)</b>	<b>Professional Qualification specializations (Vocational Education)</b>
Business Administration	Management	Tourism and Hospitality Management	Flight-attendant /steward; Event organizer; Event manager.
Interdisciplinary Fields  (Since late 2015)	Tourism	Nature tourism and preserved territories; Ecotourism; Cultural tourism; Medicinal tourism and resort business; Recreational tourism; Agro tourism.	Guide; Tour operator; Hotel manager; Restaurant manager; Receptionist; Bartender; Waiter; Sommelier; Hiking Guide; Cleaning Specialist.

Source: Higher Education Qualification Framework of Georgia, 2015.

Based on the request of tourism academic, the last year Tourism was put in the section of “Interdisciplinary Fields”, which means that now there is a chance that tourism became an independent field of study. Although, there is one but: independent tourism program can’t provide “Tourism and Hospitality” management course, when the ultimate demand comes to this direction. Respectively, tourism still prefers to be within the faculty.

The problem “Tourism and Hospitality Management” subfield experiences, under the umbrella of “Business Administration” or “Management” specializations, is: overall the teaching program is dominated by the General (University) Business and Management disciplines. As it is shown in the Table below, limited ECTS are left for tourism specialization subjects. No credits are left for shifting from general tourism subjects to narrow specialized disciplines.

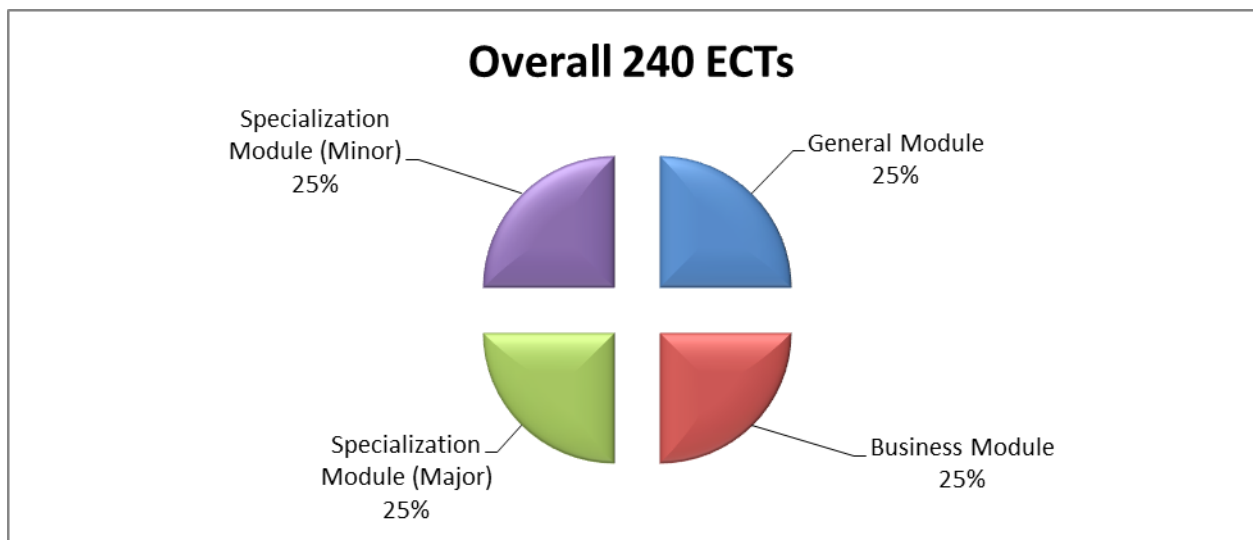


Figure 3. Credit (ECTs) distribution at Bachelor's degree program.

It can be declared, that the qualification framework and ECTS limit prevent tourism program from development and making it more diversified and sophisticated. Tourism specialist must have a broad range of skills and competences (socio-cultural, linguistic, cognitive, narrow specialization competences), but the national framework creates deteriorating factor while not allowing it to be focused on narrow disciplines and providing real practice.

### Review of worldwide tourism education developments and experiences

Tourism education began as a development of vocational schools in Europe. Gradually, the interest and demand from the public and private sectors has pushed the growth and development of tourism education. There are distinguished three main stages of tourism education development (Airey and Tribe, 2005):

- First, there started a massive increase in the numbers of students, institutions and teachers of tourism;
- Second, the curriculums have broadened beyond the vocational and tourism has emerged as a subject for at different levels of education;
- Third, this rapid growth and change has led to tensions in the development of the curriculum.

Having all this stages passed through, today European universities enjoy more diversified and sophisticated tourism teaching programs and curriculums at HEIs, which are oriented on development of either - professional as well as intellectual skills. As a result, graduate students are equipped with knowledge and skills necessary to know what to do, how to do and how it could be done in more creative way. The focuses of teaching programs are ranged from general tourism management to specializations in various sectors, even extremely narrow ones, like e-Tourism (Maurer and Egger, 2014).

Tourism is a complex field of studies. It is just as wide-range, multi-layered and rapidly changing as the human nature is. While tourism is perceived as a set of business activities or movements of people, it is also a social phenomenon: "tourism needs to be considered not just as a type of business or industry, but as a powerful cultural arena and process that both shapes and is shaped by people, nations and cultures" (Rojek and Urry, 1997). Intercultural

dialogue, which is provoked by tourism, shapes not only countries economy, but also social opinions and ideologies.

Indeed, Renaissance Era in Europe was the result of increased tourism activities which helped people to increase the scope of knowledge and accumulate experiences. Therefore, sociological insights are a great weapon to help tourism managers explore the social impacts of tourism; such as: tourism culture, tourism tendencies, gender and ethnical perspectives, etc. Some academic even consider tourism education to be the “marginal branch of applied sociology”. Tribe (2002) recommends education institutions to produce “philosophic practitioners”, who would be able to reflect and act on the basis of the “reflective process”.

That is the reason why academics emphasize the necessity of combining two types of approaches while providing tourism education: vocational and philosophical (Inui, Wheeler and Lankford, 2006). Concentration only on vocational studies decreases the changes of students to become able to: 1) respond to the needs of developing tourist society; and, 2) develop the tourism concepts and long-term strategies. While concentrating only on philosophical approach results in lack of professional skills within students.

The Harvard professor David Perkins proposes clear and short message explanation what education needs to stand for. According to him (Perkins, 2006) the aim of education needs to be retention of knowledge, understanding of knowledge and active use of knowledge beyond the classroom walls and academia. Perkins calls it to be a “generative knowledge”, which is developing a knowledge base that encourages the learner to generate or learn/create new knowledge in the future within different circumstances.

Sonntag, Schmidt and Rathjens (Zehrer & Mössenlechner, 2009) have developed a classic concept for tourism education competences in 2004. The authors have figured out four core competences, such as: technical competences, social competences, methodological competences and personal competences, to be crucial for producing professional decision-making competences within future tourism specialists. Each of the above competences help students to work out specific cognitive powers:

- Technical competences - the specific knowledge of work components to deal with professional tasks successfully;
- Social competences - the communicative skills necessary to achieve objectives through social interactions;
- Methodological competences – the capacity of a person to solve situation-specific and complex tasks independently;
- Personal competences – the emotional and motivational attitude behind activities, as well as values, standards and mindsets for actions.

The ultimate idea of above mentioned is to provide in-depth theoretical knowledge, however with practical orientation (Maurer and Egger, 2014). While providing tourism education, it is importance to keep the optimal balance of information provided, that will create basis for production of well-rounded tourism professional, and able to transfer knowledge into practical actions in specific situations, make adequate decision and be self-organized which is crucial for career development and advancement.

There are provided good organizational patterns of tourism educations. According to Maurer and Egger, tourism programs are more productive if studies begin with general tourism subjects and it goes to narrow specializations. Studies need to be based on research, practical activities and professional internships. Different researches made it evident, that internships are more profitable if it is provided in-between studies, sandwiched between first and last years of studies.

### **Main findings and conclusions**

The problems of development of tourism education are multifold and they derive from different layers of state, education system and industry:

- The research showed that the Tourism curriculums not always reflect the needs of the industry in case of Georgia. Therefore, state and universities need to rethink the way they provide academic education in Tourism. While making efforts to stay academic, knowledge transferability and applicability needs to be considered when designing the curriculums.
- One of the biggest problems lays in legislation. National Qualification Framework establishes sharp frames, which prevents tourism programs from further development, sophistication or diversifications. The question whether tourism is a serious or worthy area for study, is still hanging in the air.
- Tourism is not only as a set of business activities or movements of people, while it is not only a social and cultural phenomenon as well. Wherefore, focus of tourism education must not be only development of managerial skill, neither philosophical knowledge, which is associated with cultural relationships. It was not well thought-out policy, when separating tourism programs within the fields of “Business Administration” and “Interdisciplinary Direction”.
- To make tourism programs more relevant to the needs of the employment market, curriculums need to be designed the way that it equipped tourism specialist with a broad range of skills and competences (socio-cultural, linguistic, cognitive, narrow specialization competences). Limited number of ECTS for specialization module, disables this changes. Fitting education to the practical needs of the tourism industry will enable state and university to respond the need of the country’s economic development.
- It is impossible to achieve high quality of tourism education through searching for the perfect theoretical frameworks without practice in Tourism. There is lack of mechanisms to integrate students in working life. Employers do not agree to accept students for internships for real tourism practice. On the other hand, university is bounded with regulations, to give credits only for professional internships. As a result, graduate students lack ability to transfer theoretical knowledge into practice at the job place, as they have only theoretical knowledge.
- Tourism education development is largely intertwined with the development of country’s tourism industry. There is strong linkage between labor market demand and demand on academic education. The slow development of tourism education is the result of weak private tourism sector who lack professional skills and intuition, as well as entrepreneurship spirit.

### **Recommendations**

1. It is true, tourism is a great tool for economic growth and job-creation, but as it is a service sector, only highly qualified people can shape and develop it. Therefore, to

achieve increased value and profitability of tourism, the state needs to increase the quality of goods and services provided for tourists. Respectively, the ultimate goal needs to be development of Tourism industry (who is driving forces for the sector growth) and Tourism education (who is providing future professionals for the sector).

2. Collaboration within the key actors involved in the process of tourism development – state, industry and academia - is essential to make the process more efficient, cost-effective and sustainable.
3. There is right time for Universities to demonstrate their real role in a broad development picture of the state. To be capable of getting in charge of this process, first universities need enquire the real value of their work and then to start rethinking the way they provide education. New developments require totally different employability skills and competences from graduate students that would enable them to handle the changing circumstances of the global tourism industry. Students see university education as an investment for a future career. Diplomas need to offer economic value to the graduates. Therefore, Tourism programs need to regard the employability issue as one of the core product of education.
4. While redesigning curriculums, university need to use both academic and vocational approaches in order to secure generative, functional and transferable knowledge. This will provide a productive basis for students to further build and develop new knowledge and skills in the future. Such program would provide tourism sector with highly competitive human capital that would pave useful to its further development.
5. Greater involvement of international expertise is needed for harmonization of the qualification frameworks and creation of curriculum designs. Sharing knowledge through international academic exchange programs is essential for students and professors to increase the scope and the value of their knowledge and experiences.
6. Development of learning resources is vital for Tourism education. Contemporary and professional literature needs to be translated in order to catch up the worldwide developments in Tourism and make education more relevant to contemporary challenges of the industry.
7. State needs to work with private sector to show them their role in overall country development scheme. Youth is high potential workforce able to develo This is the ultimate advantage of youth which is not used and aware yet by Georgia industries. There is great need to change the perception of industries that youth are less skillful. Indeed, youth are good investment projects. Putting investment in their development will result in their own benefit in the future.
8. State needs to promote joint researches and activities among university and industry to stimulate collaboration. Joint projects would rebuild the trust towards universities. Usually, the committed interest of cooperation demonstrated by the both sides - university and industries, contributes production of more benefit for both of the parties. A consultative framework needs to be elaborated among Tourism Industry and Tourism

Academic representatives to receive feed-back and design more employer tailored teaching programs. This would pave useful to respond the increased challenges of the industry development and contribute the economic growth of the country.

9. Tourism needs to be developed at grass-root level. Existence of tourism professional associations and councils encourages development of tourism education and research. Forums, conference, summits and other professional events organized by civil society organizations and universities, increases the attractiveness of the field for highly qualified professionals and as well as for future tourism specialists.

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# GEORGIA'S PROSPECTS IN THE GLOBAL MARKET OF TOURIST SERVICES

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## Abstract

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Georgia is the country with small economy, which in the post-soviet period endured deep political and economic crisis, and underwent through the serious social-economic transformation. If in 1990 GDP structure of Georgia constituted of the share of the Agriculture with 31.7%, of the Industry with 33.1% and of the Services with 35.2 %, in 2014 those indicators were 9.2%, 24.4% and 66.4% accordingly. Among the services the significant position is held by the tourism. According to the World Travel and Tourism Council in 2014, the direct contribution of travel and tourism in Georgia amounted GEL1,726.4mn (5.9% of total GDP), the total contribution was GEL5,867.6mn (20.0% of GDP).

Almost all countries in the world are offering their services in global tourism market now. Each of them has its own specific way and contributes to the diversity of motivations for tourists, to the differentiation of supply and demand, to the formation of various segments and niches of the market. In this regard, the Georgian tourism is developing in the face of fierce competition.

In recent years, tourism is seen as a priority sector, which should provide Georgia's economic growth, create new jobs, reduce poverty, develop small businesses, etc. The priority of tourism for Georgia is due to the rich tourist potential on the one hand and due to its multiplier effect on the other hand. Due to this, the tendencies and prospects of the development of international tourism in Georgia are considered in the paper, also the main problems are identified and suggested the ways to solve them, relative advantages of the existing tourist potential are shown, the implementation of which will allow Georgia to take a worthy place in the global market of tourist services.

The methodological basis of the work constitutes of well-known scientific methods: statistical, comparative, analysis and synthesis, SWOT analysis, graphical interpretation, and etc.

**Keywords:** tourism, tourist potential, economy, development, competitiveness, Georgia.

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## Introduction

In recent years, importance of international tourism in the global economy as well as in socio-economic development of different countries is growing. International tourist arrivals grew by 4.4% in 2015 to reach a total of 1,184 million in 2015, according to the latest UNWTO World Tourism Barometer. Some 50 million more tourists (overnight visitors) travelled to international destinations around the world last year as compared to 2014. 2015 marks the 6th consecutive year of above-average growth, with international arrivals increasing by 4% or more every year since the post-crisis year of 2010 (Press Release, 2016).

The direct contribution of Travel & Tourism to GDP was USD2,364.8 bn (3.1% of total GDP) in 2014, and the total contribution - USD7,580.9bn (9.8% of GDP). Travel & Tourism directly supported 105,408,000 jobs (3.6% of total employment) and the total contribution of Travel & Tourism to employment, including jobs indirectly supported by the industry, was 9.4% of total employment (276,845,000 jobs). Visitor exports generated USD1,383.8bn (5.7% of



total exports. Travel & Tourism investment was USD814.4bn, or 4.3% of total investment (WTTC. World, 2015).

Tourism market has become global, as a result new opportunities for the development of international tourism, for the diversification of the tourism product, for increasing awareness about the possibilities of tourist choice among tourism products, for the expansion of opportunities of free movement around the world, and so on has aroused. International tourism contributes to the formation of a new type of spatial relations and contributes to cultural enrichment of countries and nations.

In recent years, international tourism has a tendency of spatial concentration and change in the motion vector of tourist flows. In 1950, the 15 leading countries in the export of travel accounted for 97% of the global travel market, their share dropped to 80.6% in 2005 and amounted to 79.6% in 2013. In 2005, the share of 15 leading countries for travel imports amounted to 85.3%, in 2013 - 82% (WTO. Statistics).

Against the background of the importance of tourism in the global economy, there is a natural question about the role of Georgia in the global tourism market. Georgia is a small country and its presence in the global market mainly depend on the size of the economy, tourist attraction, taking into account the best international practices and modern trends in tourism development.

Currently, tourism in Georgia is a priority sector of the economy, which resulted in increased flow of foreign tourists. Georgia has become attractive for summer holidays, and as well as a winter resort. It has the objective prerequisites for more active access to the world tourism market. The basis for the rapid development of tourism in Georgia are the variety of natural resources, historical and cultural heritage, but this tourism potential is poorly researched and used. For Georgia, the international tourism becomes a source of foreign exchange earnings, job creation without major funding, small business development, and increase in the rate of economic growth of the country. In connection with the aforementioned purpose of this study is to explore the possibilities and prospects of Georgia in the global tourism market.

### **Trends in the development of international tourism in Georgia**

Tourism is a complex geospatial and socio-economic system, so the analysis of the trends of its development and improvement should be primarily based on a systematic approach. Tourism as a system was considered by N. Leiper, Prof. of Meissen University (Auckland, New Zealand) (Leiper, 2004). Leiper (2004) conceptualizes tourism as an open system comprising five interrelated elements: one human element (tourists), three geographical elements (traveler-generating region, tourist destination region, and transit route), and one industrial element (tourist industries). Tourism could be also viewed from external forces such as political, economic, and technological environments. This model was originally proposed by Leiper in 1979. The label "whole tourism systems" was adapted when Getz (1986) coined the term "whole system models" (25) of tourism in his review of tourism models. The latest version of the whole tourism systems model is presented in Leiper (2004). Leiper's (1979) tourism systems model was proposed to reduce fragmentation in tourism research, a problem he believed stemmed from its multidisciplinary nature. The

elements of the original model put forward in 1979 are almost identical to the latest version (Leiper, 2004), with the exception of the original industrial element, the tourist “industry,” which Leiper (2004) now refers to as “tourist industries” (Lamont, 2009).

Tourist is central in the N. Leyper’s model, who wishes to carry out a travel trip triggers the entire tourist system (Gerasimenko, 2013). It is this desire creates the demand for tourism services in the region, which sends tourists. In turn, this desire should arise because of attractive tourist destination in the region.

Almost all countries in the world are offering their services in global tourism market now. Each of them has its own specific way and contributes to the diversity of motivations for tourists, to the differentiation of supply and demand, to the formation of various segments and niches of the market. In this regard, the Georgian tourism is developing in the face of fierce competition.

In recent years, the main trend in the development of international tourism in Georgia is to increase tourist flows and the contribution of his country's GD In 2015, the number of International inbound tourists (overnight visitors) amounted to 5,898 thousand persons, which is 6.94 % more than in 2014 (GNTA). Compared to the year 2000 they have grown to 14 times respectively. The largest growth in the number of International inbound tourists was seen in year 2012 – 57% (table 1). According to the World Tourism Organization’s report, “UNWTO World Tourism Barometer” (December, 2013), the increase in the number of international arrivals in Georgia was rated as the highest in Europe.

Table 1. Indicators of international tourism of Georgia.

Years	International inbound tourists, thousand	Темп роста, %	International outbound tourists, thousand	Темп роста, %	International tourism expenditures mln \$ US	International tourism receipts, mln \$ US
2014	5 516	102.3	3 106	96.5	...	...
2013	5 392	121.8	3 220	65.0	537	1 916
2012	4 428	156.9	4 953	221.4	471	1 565
2011	2 822	138.9	2 237	107.1	384	1 069
2010	2 032	135.5	2 089	105.5	329	737
2009	1 500	116.3	1 980	105.8	311	537
2008	1 290	122.6	1 872	127.1	337	505
2007	1 052	107.0	1 473	109.4	277	440
2006	983	175.5	1 346	157.1	257	361
2005	560	152.2	857	183.9	237	287
2004	368	117.6	466	147.0	196	209
2003	313	105.0	317	103.6	170	172
2002	298	98.7	306	97.1	189	144
2001	302	78.0	315	100.0	136	136
2000	387	-	315		129	107

Source: <http://data.worldbank.org/indicator/>

Until 2013, the number of International outbound tourists tended to increase (in 2012 compared to 2011 their number has increased more than 2 times, but in comparison with the year 2000 - almost 16 times). However, in 2013 their number decreased to 3,220 thousand, in 2014 - up to 3,106 thousand (Table 1). This fact testifies the emergence of new

trends in the development of tourism in Georgia - if previous travel agencies of the country have focused on outbound tourism, it is now more profitable for them to be engaged in inbound tourism. In the structure of tourism in Georgia can be traced mainly flows from Europe – in 2014 they accounted for 97.1 % of international arrivals, 0.6 % from Americas, 1.5 % – Asia, 0.1 – Africa and 0.7 % - Middle East (GNTA).

One of the most important factors in the development of economic cooperation between the countries is the geographic proximity – neighborhood factor, which contributes to the rapid and convenient movement of goods, travel of citizens from country to country, rapprochement and understanding between cultures, reduction of costs for the delivery of goods, and so on. In the year of 2014, overall 88% of international arrivals is from countries that have a common border with Georgia. In particular, the share of Turkey is 30% (it is on the first place), Armenia – 24% (second place), Azerbaijan – 20% (third place) and Russia – 14% (fourth place) (GNTA).

In 2013, the International tourism expenditures reached \$ US 537 million and receipts amounted to \$ US 1 916 million (Table 1). According to the World Travel and Tourism Council in 2014, the direct contribution of travel and tourism in Georgia's GDP amounted to 5.9 % (GEL 1,726.4 mln), and taking into account the indirect contributions – 20.0 % (GEL 5,867.6 mln). Directly this industry employs 85,000 people, representing 4.8 % of total employment, and with the related industries, this figure amounts to 300,500 people and 16.9 % (WTTC, Georgia, 2015). Accordingly, tourism is increasingly becoming a factor of multiplier effect on the economy and social sphere of the country.

One of the trends in the development of international tourism in Georgia is improvement of Travel & Tourism Competitiveness. According to the World Economic Forum in 2015, Georgia is on the 71<sup>th</sup> place on Travel & Tourism Competitiveness among 141 countries of the world (T&TCR, 2015), and in 2013, it was ranked 66<sup>rd</sup> among 140 countries (T&TCR, 2013). The efficiency of national economies is determined by their competitive ability in the world markets. According to the Global Competitiveness Index 2014-2015 rankings, Georgia is on the 69th place among 148 countries. By the classification of the world economic forum (WEF), it belongs to the group of countries at the stage of Efficiency-driven (GCR, 2015-2016).

### **The tourism potential of the country as a basis for the development of international tourism in Georgia**

Georgia is the country with small economy, which in the post-soviet period endured deep political and economic crisis, and underwent through the serious social-economic transformation. If in 1990 GDP structure of Georgia constituted of the share of the Agriculture with 31.7%, of the Industry with 33.1% and of the Services with 35.2 %, in 2014 those indicators were 9.2%, 24.4% and 66.4% accordingly (World Bank). Among the services the significant position is held by the tourism. According to WTO data in the export of commercial services Travel's portion accounts for 60.5%, and imports for 19.0% (WTO, Georgia, 2014).

Tourist destination occupies an important place in the model N. Leyper, which depends on the attractiveness of having tourism potential. Tourism resources are the basic condition for

the development of tourism in any country, region, destination, and, consequently, an important component of tourism as a system. These are the objects and phenomena of the natural and cultural environment, which have the most attractiveness (Gerasimenko, 2013). At their base is a variety of travel products.

Georgia is one of ancient centers of human civilization. There is a burial ground of the oldest member of the family of human homo erectus. Already in 6<sup>th</sup> century BC the first Georgian state was formed on the shore Black Sea - Kohid (Egrisi) kingdom, and in the 3<sup>rd</sup> century BC in eastern Georgia Kartli (Iberia) kingdom was formed, which united almost all Georgian lands, including Egrisi. The Great Silk Road was passing through Georgia, along which from the second millennium BC trade was conducted. Georgia the birthplace of the "Golden Fleece" and is associated with travel Argonauts. It is also a motherland of Amiran (Prometeus) and I.Stalin. Georgia is located at the crossroads of Europe and Asia. It has extended Black Sea coast line (308.3 km), different climatic zones (of the world's seven climatic zones, there are 6 zones in Georgia), unique nature, mountain landscapes and valleys, rich flora and fauna, in some regions untouched wild nature, 15 nature reserves with a total area of 1,688 km (out of which 13 are included into the list of national parks and protected areas by the International Union for Conservation of Nature), many rivers, lakes and waterfalls, mountain, seaside, balneology and mud spas, 2400 species of mineral and thermal waters, more than 10 thousand monuments of archeology, history, architecture and art, 150 museums, ancient winemaking traditions (Georgia is recognized as the birthplace of wine) and famous wines (over 250 species), natural and organic products, easy movement of across the border, and etc. There are lots of Christian shrines on the territory of Georgia. Churches are in communion: many saints, venerated in Georgia are known in all Orthodox countries. There are a lot of cathedrals, monasteries, temples, churches and other historical monuments that are dated 6<sup>th</sup>-5<sup>th</sup> centuries BC. There are over 350 temples and churches of only St. George – one of the most revered Christian Saints in Georgia. Christian churches in Georgia – are unique and are not only treasures of Orthodox culture of Georgia, but also the treasure of global significance. Historical Monuments of Mtskheta - Jvari Church (586-604 AC) and the Cathedral of Svetitskhoveli (1010-1029 AC), Bagrat Temple (1003 AC) in Kutaisi and Gelati Monastery (XII century) near Kutaisi – are listed as UNESCO World Heritage Sites. Upper Svaneti is also put into the list of UNESCO World Heritage sites. Preserved by its long isolation, the Upper Svaneti region of the Caucasus is an exceptional example of mountain scenery with medieval-type villages and tower-houses. The village of Chazhashi still has more than 200 of these very unusual houses, which were used both as dwellings and as defence posts against the invaders who plagued the region (Korganashvili, 2011, 2012, 2013).

Alaverdi Cathedral, monastery complex David-Geredzhi, Nikortsminda and Samtavisi Cathedrals, church Kvetera and others are presented for the preliminary list of UNESCO World Heritage. Many monasteries and churches have become educational centers of theology. In the XII century, the great Georgian King David IV founded the Gelati Monastery (near Kutaisi) and its Academy, which in the Orthodox world has been recognized as the greatest theological and scientific school. In the VI century, founded a monastery near the village Ikalto where to worship the relics exhibited by its founder – venerable Zeno Ikaltiyskiy. As in the Gelati monastery, it had its own academy built in the XII century by David the Builder, and thus it was one of the cultural centers of Georgia. Famous

philosopher Arsene Ikaltoeli taught there, of whose one of the students was a great poet Shota Rustaveli. Georgian Christian Church, founded by St. Andrew in the 1<sup>st</sup> century on the shores of the Euxine Pontus (the Hospitable Sea), became a state owned in 326 by works of St Nina, who was buried in Bodbe (near Signakhi). One of the main shrines of Georgia – Nina Cross is in the Tbilisi Sioni Cathedral and one of the oldest shrines – The seamless tunic of Christ is in Mtskheta's Cathedral Svetitskhoveli. There is another ancient relic here – the grave of Simon the Canaanite, the student and companion of the Apostle Andrew (Korganashvili, 2011, 2012, 2013).

Good basis for the development of international tourism in Georgia are laid by factors such as long-term economic, cultural and historical ties with many countries of the world (especially with the countries of the Black Sea Economic Cooperation), high level of education, a large number of public holidays and weekends, and so on.

In accordance with the all above noted Georgia has the potential for tourism development, which many of the world recognized leaders in the tourism industry do not have. The variety of tourism resources creates a comparative advantage, which contributes to the development of virtually all types and forms of tourism in Georgia. However, according to the evaluation of "Fox News", Georgia came in eighth place among the 10 under-the-radar destinations for 2016. This ranking included Sri Lanka, Colombia, Japan, Switzerland, Greenland, Ohio, China, Montenegro and Nicaragua along with Georgia. The rating includes 10 tourist destinations that are not known to the masses (Fox News, 2016).

### **Problems and prospects of the development of international tourism in Georgia**

Tourism is recognized as one of the priority sectors of the economy in Georgia, but in 2015, according to the Government prioritization of the Travel & Tourism industry it occupies 53th place among 141 countries of the world (T&TCR, 2015), and in 2013 it was on the 17th place among 140 countries (T&TCR, 2013). Government is taking a number of concrete measures (modernization of public infrastructure, the creation of special tourist areas, reconstruction of existing and construction of new hotels, an increasing number of upscale segment – "4 star" and "5 stars», PR-campaign to promote the country internationally in tourism market, training of qualified personnel, and etc.) aimed to support and develop tourism. However, a number of problems characterizes the market of tourism services of the country, among which the main ones are:

- Lack of recognition and awareness of "Georgia" tourism brand abroad;
- Inadequate study of the tourism potential of the country;
- The need to modernize the existing tourism product and the creation of new products;
- Poor quality of Georgian tourism product;
- Low professionalism of the employees of tourism industry;
- Low level of business communications among the various travel agencies to address common market challenges;
- Lack of full and objective information about the features of needs in different regions of Georgia, and the nature of demand, according to the regional groups;
- Low level of infrastructural development of resorts and other tourist places.

Table 2 presents a matrix of the SWOT-analysis. As can be seen from the matrix, country has great potential for tourism development, but its use prevents a number of weaknesses and

threats. Prospects for the development of tourism in Georgia, primarily associated with overcoming of these negative aspects. To do this, you must develop a strategy for the development of tourism, aimed at increasing tourist attractiveness and global competitiveness of Georgia. Such a strategy will allow the country to take its rightful place in the global tourism market and create conditions for rational use of tourism potential available in the country.

Table 2. Matrix of SWOT analysis of Georgia's tourism industry

<b>Strengths</b>	<b>Opportunities</b>
<ul style="list-style-type: none"> <li>– Favorable geographical location;</li> <li>– Favorable natural conditions and the variety of climatic zones;</li> <li>– A rich historical and cultural heritage;</li> <li>– A variety of recreational resources;</li> <li>– Unique culture and national traditions;</li> <li>– Cheap labor;</li> <li>– An open economy and liberal business environment;</li> <li>– Quite a democratic political system;</li> <li>– State support for tourism development.</li> </ul>	<ul style="list-style-type: none"> <li>– The rapid growth of the economy;</li> <li>– The interest of foreign tourists in Georgia;</li> <li>– Government's interest in the further development of tourism;</li> <li>– The growth of the private sector in the field of tourism;</li> <li>– Reconstruction and restoration of historical and cultural monuments;</li> <li>– The interest of neighboring countries in the implementation of joint projects in the field of tourism.</li> </ul>
<b>Weaknesses</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>– Political instability, the lost territories and the high level of geopolitical risks;</li> <li>– Imperfect institutional and legal mechanisms to promote tourist activities;</li> <li>– Low level of development of tourism infrastructure;</li> <li>– Low level of management;</li> <li>– Unfavorable investment environment;</li> <li>– Low level of information flow to all social levels;</li> <li>– Insufficient number of direct international flights;</li> <li>– Low professional level staff;</li> <li>– Low income;</li> <li>– High prices for services.</li> </ul>	<ul style="list-style-type: none"> <li>– Increased costs of production of tourist products;</li> <li>– Growing inflation;</li> <li>– A security issue;</li> <li>– Mastering foreign country's main tourist market segments;</li> <li>– A budget crisis;</li> <li>– A weak focus on the quality of tourist products;</li> <li>– Inadequate advertising of tourism products;</li> <li>– Orientation of travel agencies of the country navyezdnoy turizmb not on entry;</li> <li>– Language problems.</li> </ul>

Terms of fierce competition in the global tourism market requires a search for new methods of generating competitive advantage. This complex problem can be solved in several ways:

1. Reducing costs on the formation, promotion and implementation of the tourism product in order to reduce its price. It should be noted that in the global financial crisis, many have chosen this path of development.
2. Development of its own system of promotion of tourism products. This path is associated with significant financial costs and can therefore increase the cost of the tourist product to the point that instead of competitive advantages negative consequences will be obtained. Accordingly, the choice of this path requires careful analysis in order to identify the expected results.
3. Use of the integration processes, the most important advantage of which is generating synergies. Currently, following types of integration groups could be marked in the tourism market: strategic alliances, business networks, clusters, associations, and so on.

Based on the international experience, in our opinion, in order to enhance the competitiveness of the travel and tourism in Georgia it is advisable to use the cluster approach, which could strengthen the country on the world tourism market.

According to the forecast by 2025, the direct contribution of Travel & Tourism will reach GEL3,396.6 mn (6.9% of total GDP), and the total contribution will be GEL11,508.4 mn (23.5% of GDP). Number of people employed in the tourism sector will increase to 99,000 jobs (5.8% of total employment in the country), and the total contribution, including indirect jobs – 346,000 jobs (20.4% of total). Visitor exports will grow by 7.2% pa, to GEL7,035.6 mn (34.5% of total). Travel & Tourism investment rise by 6.2% pa over the next ten years to GEL483.2 mn (4.0% of total) (WTTC. Georgia, 2015). To achieve these indicators the government should create a highly efficient and competitive tourist complex, which will provide opportunities for customer satisfaction in a variety of tourism products and services.

## Conclusions

State policy in the field of tourism has gradually improved conditions for the development of international tourism in Georgia. As a result, tourism can be a real driving force for the economic development of the country. In this case, it is not a panacea for all economic problems. Therefore, the Government of Georgia should make great efforts to optimize international tourism, taking into account the costs that may occur in its development. Having sufficient capacity for the development of virtually all kinds of tourism, Georgia should improve competitiveness and strengthen its position in the global tourism market.

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# PROMOTING INNOVATION IN THE HOTEL INDUSTRY

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## Abstract

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Today innovation is an essential factor for business competitive advantage and progress, especially in such customer-oriented business areas like hotel industry. More than ever before, both leisure and business travellers are looking for unique innovative experiences; therefore, hotel industry is highly motivated to advance and promote new innovations to gain stronger market positions and create outstanding brands. This paper is an exploratory study aiming to illustrate the integration of various approaches to promote innovation in hotel industry, and increase better understanding of innovation dynamics in recent hotel industry developments. The objective of this paper is to analyze innovation in hotel industry in terms of four innovation types of product, process, marketing and organizational innovations (OECD, 2015), and, in turn, to exemplify this innovation variety based on a case study of Marriott hotel in accordance to their recent innovation developments.

**Keywords:** hotel industry, hotel innovations, product innovation, process innovation, organizational innovation, marketing innovation.

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## Introduction

Today innovation is an essential factor for business competitive advantage and progress, especially in such customer-oriented business areas like hotel industry. Currently tourism is one of the most promising industries in the world; therefore, there is urgent need to better understand and develop innovations. Research suggests that tourists are more than ever before looking for new and unique experiences (Hua et al., 2009). As hotel industry is highly competitive, hotels invest more proactively in innovations in order to maintain or improve their market positions and brand images. In the context of hotel management, Chen (2011) indicated that innovation provides means for an organization to convert change into opportunities and thus succeed. More than ever before, both leisure and business travellers are looking for unique innovative experiences; therefore, hotel industry is highly motivated to advance and promote new innovations to gain stronger market positions and create outstanding brands.

Firstly, what is innovation? Innovation is the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations. There are different innovation classification models for discussing innovation types. One of the most prominent and established models of innovation classification is provided in the Oslo Manual (OECD, 2005), where innovation is classified into four types. Firstly, for product innovation refers to the introduction of a new product, including essential improvements, technical specification, components, materials, and other functional characteristics. Secondly, process innovation refers to the implementation of a new production method or delivery method (mainly focus on processes). Thirdly, marketing innovation refers to a new

way to market a product. The last one is organizational innovation that denotes a new organizational method in organization's business practices.

This paper is an exploratory study aiming to illustrate the integration of various approaches to promote innovation in hotel industry, and increase better understanding of innovation dynamics in recent hotel industry developments. The objective of this paper is to analyze innovation in hotel industry in terms of four innovation types of product, process, marketing and organizational innovations (OECD, 2015), and, in turn, to exemplify this innovation variety based on a case study of Marriott hotel in accordance to their recent innovation developments.

Why was Marriott hotel chosen as a case study for innovation? Marriott hotel (Marriott International, Inc) is ranked among today's leading technology innovators and takes a position as an innovator and leader within the hotel industry (Marriott Ranks High on InformationWeek 500 as an Innovative User of Technology, 2009). In 2014, Marriott International won CHTA Innovation Award 2014 for Mobility Leadership for its pioneering performance in applying mobility technologies in hospitality industry, and they strive to reach the next generation travelers by being the leader in Mobile-Digital Technology (Marriott International Wins CHTA Innovation Award 2014 for Mobility Leadership, 2014).

#### **Product innovation: creating sustainable and environmentally-advanced hotels**

A product innovation refers to the introduction of a good or service that is new or significantly improved with respect to its characteristics or intended uses. This includes significant improvements in technical specifications, components and materials, or other functional characteristics (OECD, 2015). Product innovations can utilize new knowledge or technologies, or can be based on new uses or combinations of existing knowledge or technologies. Literature review indicates that product innovation is essential for business success (Malhotra et al., 1996; Lenfle and Midler, 2009) as it is directly observed by the client as a new benefit (Hjalager, 2010).

Today integrating environmentally-friendly improvements into hotel operations and brand concepts largely affects hotel success and competitiveness as a product innovation in general. By fully integrating sustainable development into the hotel as a product and a brand, hotel industry is responding proactively to emerging customer expectations and growing needs. The increased environmental awareness has a significant impact on hotel selection, since the hospitality sector has a significant impact on the environment through energy and water consumption, expansive consumption of wide-range products and waste generation. Indeed, sustainability issues impact nearly all aspects of hotel operations. Therefore, adopting sustainable hospitality programs can provide a significant competitive advantage to businesses in the hospitality sector (Brazdauskas and Gaigalaite, 2015).

In this respect, Marriott hotels could be viewed as sustainable product innovations. Indeed, Marriott has taken many actions to promote their sustainability and environmental innovations (Marriot Sustainability Report, 2014). Marriott is recognized for its environmental and sustainable leadership in the hotel industry by many organizations like Ceres, an alliance of investors and environmentalists, the U.S. Environmental Protection Agency, and many others. Working in partnership with the U.S. Green Building Council for

Leadership in Energy and Environmental Design (LEED®) and the Green Building Certification Institute, Marriott forwarded green hotel development. In 2011, Marriott developed the first LEED Volume Program to provide a streamlined path to certification for the hospitality industry through a green hotel prototype. Furthermore, Marriott is a founding member of the Hospitality Sustainable Purchasing Consortium (HSPC), which measures the sustainability of suppliers and their products through an industry-wide index. Marriott have teamed-up with its vendors to supply products that conserve energy, reduce waste and are made of sustainable materials like low-energy light bulbs, water-saving showerheads, recycled key cards and pens, biodegradable laundry bags, etc. In addition, Marriott provides guidance to its hotels to encourage sustainability in the kitchens and restaurants through purchasing organic and responsibly sourced food, recycling cooking oil, etc. In addition, Marriott was also recognized for its continued efforts to implement innovative methods for making its hi-tech operations more energy efficient and less wasteful (Marriott Ranks High on InformationWeek 500 as an Innovative User of Technology, 2009)

### **Process innovation: promoting apps and smart streamlined technologies**

Process innovation refers to the implementation of a new or significantly improved production or delivery method, and may include significant changes in techniques, equipment, and other processes (OECD, 2015). Process innovations are often linked to technological developments (Gunday et al., 2011). For instance, hotel smartphone apps have almost become an industry standard; therefore, more and more hotels are developing apps for more unique and impressive customer experiences. As apps and smart streamlined technologies are going mainstream, more hotel chains are providing their clients with possibilities to use their smartphones to access hotels rooms and hotel services.

Marriott hotels are no exception. Marriott guests can use their smartphones for mobile check-in, mobile requests and as mobile keys ([mobileamarriott.com](http://mobileamarriott.com)). This app allows guests to access a wide variety of services including the ability to order room service, set a wake-up call, etc. Another Marriott's expansion in app innovations is the launch of CUR8, an experience-oriented app that allows guests to share their favorite travel moments through digital videos on their personal social media networks. Guests can use CUR8 to create digital souvenirs through a combination of their own personal videos and photos and selecting from a selection of Marriott property images. App users also have the option to set their videos to music and add text featuring personalized messages to their short films (JW Marriott Hotels & Resorts Launches Experience-Driven CUR8 App for Travelers, 2014).

### **Marketing innovation: offering customers a virtual reality experience**

Marketing innovation refers to the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing. Marketing innovations are aimed at better addressing customer needs, opening up new markets, or newly positioning a firm's product on the market, with the objective of increasing the firm's sales" (OECD, 2005). It entails actions such as detecting new segments, redesigning promotional messages or introducing new alternative pricing methods (Ladany, 1996). Marketing innovations are highly important in the hotel industry since that play a key role in attracting new clients.

In terms of marketing innovations, virtual reality technologies open new gates for consumer experiences. Indeed, a virtual reality tour can walk potential guests through your hotel, showcasing your suites, spa, restaurants, pool, and other areas that attract customers. For event planners, a virtual reality tour can place them directly in your event spaces, allowing them to see the possibilities for their function, whether it's a business conference or a wedding. As travelers plan their trips or event planners select their locations, virtual reality could help potential customers see themselves in your hotel. Marriott has led the way in virtual reality through its tech-driven Travel Brilliantly campaign. Last year Marriott launched an eight-city virtual reality tour with its Teleporter, first-ever immersive 4-D virtual reality travel experience (GetTeleported– The Most Immersive 4-D Virtual Travel Experience Arrives, Taking Guests to Parts Known and Unknown as Marriott Hotels Imagines the Future of Travel with Oculus Rift Technology, 2014). The Teleporter offered users a virtual reality tour of a Hawaiian beach and a London skyscraper. Marriott has taken its virtual reality tours further with "VRoom Service" at several locations. With the service, hotel guests can have virtual reality headsets sent to their room and view "VR Postcards" (Marriott Hotels Introduces The First Ever In-Room Virtual Reality Travel Experience, 2015). VR Postcards are immersive travel stories that users experience in 360 3D via a virtual reality headset. Each story follows a real traveler on a journey to a unique destination as viewers are immersed in the destination and hear the travelers' personal stories about why travel is important to them.

#### **Organizational innovation: promoting participatory innovation**

Organizational innovation refers to the implementation of a new organizational method in the firm's business practices, workplace organization or external relations. Organizational innovations can be intended to increase a firm's performance by reducing administrative costs or transaction costs, improving workplace satisfaction (and thus labor productivity), gaining access to non-tradable assets or reducing costs of supplies (OECD, 2005). In other words, organizational innovation considers the introduction of new organizational methods within the firm so as to improve its operational practices, aimed at renewing the organizational routines, procedures, mechanisms, or systems, and promoting teamwork, information sharing, coordination, cooperation, collaboration, learning and innovativeness (Gunday et al., 2011).

In this respect, Marriott has introduced an innovation that promotes open, participatory organizational innovation – the Innovation Lab, located beneath the company's headquarters in Maryland. It is a floor-to-ceiling white space that offers a clean slate for anyone – whether employee, customer, designer, researcher or architect – to manipulate and make his mark. Upon entry to the Innovation Lab, guests enter a gallery filled with projected images on walls that introduce presentations of Marriott's newest designs. Visitors to the space become a part of the design and testing process for guestrooms, great room lobbies, meetings spaces, food & beverage concepts, etc. Their feedback and participatory contribution creates an ever-changing lab for constant innovation, experiencing ideas and exploring new concepts for further implementation and future projection (Designs on the Future – Big Ideas Become Reality at Marriott Hotels' New "Underground" Innovation Lab, 2013).

## Conclusions

This article reviewed innovation as an essential factor for hotel's competitive advantage, since hotel industry is a perfect area to promote innovation due growing consumer needs and their call for new experiences. This article analyzed hotel-oriented innovation in terms of four innovation types of product, process, marketing and organizational innovations (OECD, 2015), based on a case study of Marriott's hotel practices. It discussed 1) product innovations based on Marriott's sustainable hotel development initiatives; 2) process innovations based on Marriott' innovative apps development for new customer experience; 3) marketing innovations based on Marriott's virtual reality initiatives and 4) organizational innovations based on Marriott's Innovation Lab for participatory innovation contribution. In turn, this exploratory study illustrated various approaches to promote innovation in hotel industry.

Indeed, it could be noted that hotel industry aims both at incremental and more radical innovations. Incremental innovation refines and improves an existing design, through improvements of its components or processes like promoting sustainability-driven innovations or more advanced apps for new customer experience. In contrast, radical innovation calls for a whole new design or experience like virtual realities.

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