

Eurasian Studies in Business and Economics 11/2

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Eurasian Business Perspectives

Proceedings of the 24th Eurasia
Business and Economics Society
Conference



 Springer

Eurasian Studies in Business and Economics 11/2

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and Economics Society Conference

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Preface

This is Volume 2—Eurasian Business Perspectives of the 11th issue of the Springer’s series Eurasian Studies in Business and Economics, which is the official book series of the Eurasia Business and Economics Society (EBES, www.ebesweb.org). This issue includes selected papers presented at the 24th EBES Conference—Bangkok, which was held on January 10–12, 2018, in Bangkok, Thailand, jointly organized by the Faculty of Business Administration Kasetsart University with the support of the Istanbul Economic Research Association.

Distinguished colleagues **Jonathan Batten** from *University Utara Malaysia, Malaysia*; **Euston Quah** from *the Nanyang Technological University, Singapore*; **Naoyuki Yoshino** from *the Asian Development Bank Institute, Tokyo, Japan*; and **Partha Sen** from *Delhi School of Economics, India*, joined the conference as keynote speakers. All accepted papers for the issue went through peer-review process and benefited from the comments made during the conference as well.

During the conference, participants had many productive discussions and exchanges that contributed to the success of the conference where 178 papers by 334 colleagues from 47 countries were presented. In addition to publication opportunities in EBES journals (*Eurasian Business Review* and *Eurasian Economic Review*, which are also published by Springer), conference participants were given the opportunity to submit their full papers for this issue.

Theoretical and empirical papers in the series cover diverse areas of business, economics, and finance from many different countries, providing a valuable opportunity to researchers, professionals, and students to catch up with the most recent studies in a diverse set of fields across many countries and regions.

The aim of the EBES conferences is to bring together scientists from business, finance, and economics fields, attract original research papers, and provide them publication opportunities. Each issue of the *Eurasian Studies in Business and Economics* covers a wide variety of topics from business and economics and provides empirical results from many different countries and regions that are less investigated in the existing literature. The current issue covers fields such as marketing, management, and small and medium-sized enterprises (SMEs).

Although the papers in this issue may provide empirical results for a specific county or regions, we believe that the readers would have an opportunity to catch up with the most recent studies in a diverse set of fields across many countries and regions and empirical support for the existing literature. In addition, the findings from these papers could be valid for similar economies or regions.

On behalf of the series editors, volume editors, and EBES officers, I would like to thank all presenters, participants, board members, and the keynote speaker, and we are looking forward to seeing you at the upcoming EBES conferences.

Istanbul, Turkey

Ender Demir

Eurasia Business and Economics Society (EBES)

EBES is a scholarly association for scholars involved in the practice and study of economics, finance, and business worldwide. EBES was founded in 2008 with the purpose of not only promoting academic research in the field of business and economics but also encouraging the intellectual development of scholars. In spite of the term “Eurasia,” the scope should be understood in its broadest term as having a global emphasis.

EBES aims to bring worldwide researchers and professionals together through organizing conferences and publishing academic journals and increase economics, finance, and business knowledge through academic discussions. Any scholar or professional interested in economics, finance, and business is welcome to attend EBES conferences. Since our first conference in 2009, around 11,157 colleagues from 98 countries have joined our conferences and 6379 academic papers have been presented. Also, in a short period of time, **EBES has reached 2050 members from 84 countries.**

Since 2011, EBES has been publishing two academic journals: *Eurasian Business Review (EABR)* and *Eurasian Economic Review (EAER)*. While both journals are indexed in *Scopus*, *EABR* and *EAER* are indexed in **Social Science Citation Index** and **Emerging Sources Citation Index**, respectively. Furthermore, *EABR* is in the fields of industrial organization, innovation, and management science, and *EAER* is in the fields of applied macroeconomics and finance. Both journals are published quarterly, and they have been published by *Springer* since 2014.

Moreover, since 2014 Springer has started to publish a new conference proceedings series (**Eurasian Studies in Business and Economics**) which includes selected papers from the EBES conferences. The 10th, 11th, 12th, 13th, 14th, 15th, 16th, 17th, 19th, and 20th (Vol. 2) EBES Conference Proceedings have already been accepted for inclusion in the Thomson Reuters’ **Conference Proceedings Citation Index**. The 18th and subsequent conference proceedings are in progress.

On behalf of the EBES officers, I sincerely thank you for your participation and look forward to seeing you at our future conferences. In order to improve our future

conferences, we welcome your comments and suggestions. Our success is only possible with your valuable feedback and support.

I hope you enjoy the conference and Bangkok.

With my very best wishes,

Klaus F. Zimmermann, PhD
President

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Part I

Marketing

Encouraging Sustainable Consumer Behavior: A Stakeholder Approach



Chonlada Sajjanit

Abstract The purpose of the study is to present the conceptual framework for encouraging sustainable behavior among consumers. To propose this framework, an extensive review of marketing and sustainability literature was conducted. Based on a sustainable marketing framework and a stakeholder orientation, this study proposes that the role of key parties including upstream and downstream institutions should be emphasized to encourage sustainable behavior among consumers. Specifically, public policy makers, businesses, media and community, academics, non-governmental organizations and consumer themselves have to cooperatively create environments in which behavioral change contributing for sustainability could be achieved. Consequently, a framework and a way forward for how this might be accomplished is proposed. These insights could serve as a basis for theoretical and practical discussions in sustainability and marketing area. This analysis can help to challenge for the institutions associated in marketing systems in which sustainability is a primary objective.

Keywords Consumption · Corporate social responsibility · Stakeholder theory · Sustainable consumer behavior · Sustainable marketing · Sustainability

1 Introduction

Consumer behavior encompasses the activities people undertake involving acquisition, consumption and disposition of goods and services (Blackwell et al. 2012). Acquisition refers to obtaining products or services. Consumption includes consuming or using products and disposition is how people get rid of the product after use. However, the increased attention in consumer behavior area of study is sustainable consumer behavior. Although consumers are increasingly interested in social and

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environmental issues, numerous studies suggested that they do not take these issues in their actual purchase and consumption behavior. The previous literature indicated that the current behavior patterns have been unsustainable (Gordon et al. 2011; UNEP et al. 2005). According to these studies, some people buy goods that they don't really need them. Further, there is the growing problem of household waste due to overconsumption of food and resources. Many people consume some products that damage to their health. Wasteful air conditioning, water and electricity use normally exist. Generally, people dispose used product unsafely. Sometimes they are hazardous products. These examples are unsustainable lifestyles.

It should be noted that sustainable or non-sustainable consumer behavior are important, as the world continues to experience severe climate change, increased pollution, resource depletion, etc. There is the need to interrupt habitual behavior to avoid terrible environmental and social consequences. Accordingly, changes in consumer behavior are required to support sustainable consumption patterns (UNEP et al. 2005). Further, as marketing plays an important role in connecting between businesses and stakeholders, it represents the first step in moving to sustainability (Muller 2014). Since consumer behavior has resided within the marketing domain (Belk et al. 1996), the issue of sustainable consumption should be explored. Therefore, the purpose of the study is to present the conceptual framework for encouraging sustainable behavior among consumers. To propose this framework, this study take a stakeholder orientation and a sustainable marketing framework into account. Consequently, the current study responds to the call for researches regarding how to encourage sustainable behavior that is essential for marketing academics (Lee et al. 2016).

The rest of paper is structured as follows. In Sect. 2, a review of literature of sustainable and non-sustainable consumer behavior, stakeholder orientation and theory as well as sustainable marketing is presented. In Sect. 3, the conceptual framework and research opportunities are discussed. Finally, the conclusion is provided.

2 Literature Review

2.1 Sustainable and Non-Sustainable Consumer Behavior

To understand the concept of sustainable and non-sustainable consumer behavior, the definition of sustainability is identified first. Sustainability is defined by Organization for Economic Co-operation and Development (OECD) (2002) as “the consumption of goods and services that meet basic needs and quality of life without jeopardizing the needs of future generations as”. It emphasizes reducing consumption and changing consumer lifestyles to save the environment. Accordingly, sustainable consumer behavior is defined as “consumer behaviors that improve social and environmental performance as well as meet their needs” (Jayaratne et al. 2015). It involves why and how consumers incorporate sustainability concerns into their

consumption behavior (Belz and Peattie 2009). At this stage, there are five key values of sustainable behavior (Belz and Peattie 2009):

1. **Material simplicity:** Consuming fewer products and services, and tend to seek out products that are resource efficient, durable and with a reduced ecological impact.
2. **Human scale:** Tending toward working and living environments those are smaller, simpler and less centralized.
3. **Self-determination:** Through a reduced reliance on large commercial businesses to meet one's need.
4. **Ecological awareness:** Conservation of resources and reduction of waste in order to protect the environment.
5. **Personal growth:** Emphasizing the creation of satisfaction through experiences and development of personal abilities instead of commercially provided consumption experiences.

On the other hand, non-sustainable behavior is “when a consumer does not practice the behaviors discussed above” (Park and Ha 2012). The examples are overconsumption or wasteful use of resources. Additionally, the concept of sustainable life marketing recognizes that current consumption patterns and lifestyles are unsustainable and that behavior changes are required to promote sound consumption patterns (UNEP et al. 2005). Thus, there is the need to interrupt habitual behavior. One interesting topic in the review of sustainability and consumer behavior is the attitude-behavior gap. Prior studies indicated that firms' social and environment responsibility (CSR) had positive effect on consumers' evaluations and purchase intention of product (e.g. Mohr and Webb 2005; Oberseder et al. 2011). However, most of the papers have not taken their environmental concerns into account in their actual purchase and consumption behaviors. In other words, consumers do not use sustainability issues as a purchasing criterion, comparing to other criteria such as price, quality or value of products (see e.g., Mohr et al. 2001). Regarding disposition behavior, while consumers have become progressively aware of environmental issues, the responsibility of disposing used product safely or appropriately is rarely concerned.

2.2 Stakeholder Theory

Freeman (1984)'s seminal definition of stakeholder is “any group or individual who can affect or is affected by the achievement of the organization's objectives”. According to Prakash (2002), stakeholder theory describes that companies should adopt a long-term sustainable thinking that includes non-economic goals as well as stakeholder requests. Laczniak and Murphy (2012) suggested two forms of stakeholder theory. Hard-form stakeholder theory suggests that the marketers accept a broader and deeper view of their societal obligations rather than customer-focused and firm-centric. Conversely, soft-form stakeholder theory is more firm-centric with an instrumental perspective in that stakeholder management helps maximize company profit and improve brand and corporate image.

2.3 Sustainable Marketing

Gordon et al. (2011) developed a framework for sustainable marketing that seeks a solution in which products and services can be marketed in a responsible way that does not affect sustainability. The framework describes how sustainable marketing could be achieved through the contribution of three existing marketing sub-disciplines (Gordon et al. 2011):

- **Green marketing:** It involves developing and marketing more sustainable products and services while introducing sustainability efforts at the core of the marketing process. Through green marketing, sustainable products and services can be introduced into the marketplace. Specifically, product development, distribution and promotion are made sustainable, thus limiting consumption and waste.
- **Social marketing:** Social marketing's objective is to change people's behavior for the benefit of society as a whole. The bottom line of social marketing is voluntary behavior change. Several social marketing initiatives have sought to change values and attitudes as a means of influencing voluntary behaviors. Some social marketing programs are designed to discourage behavior. According to Andreasen (1994), social marketing criteria includes applying commercial marketing technology or borrowing technology from private sector, having as its bottom line the influencing of voluntary behavior and basically seeking to benefit individuals or the society and not the marketing organization itself.
- **Critical marketing:** This is focused on critiquing and changing society as a whole. By using a critical theory, it offers a critique of contemporary society while envisioning solutions to problems.

The concept of sustainable marketing would be utilized to interrupt habitual behavior and promote sustainable behavior.

3 The Conceptual Framework and Research Opportunities

To encourage sustainable behavior among consumers, the current study proposes that the role of these key parties including upstream and downstream institutions should be emphasized as shown in Fig. 1.

In Fig. 1, the upstream parties include public policy makers, NGOs, Media and community, and academics and educational institutions. The downstream party is businesses or firms. These parties use different sustainable marketing programs to motivate sustainable consumer behavior. Accordingly, six research opportunities (ROs) are provided.



Fig. 1 The conceptual framework for encouraging sustainable consumer behavior. Source: The author

3.1 *The Role of Businesses*

Based on the hard-form stakeholder theory, companies should adopt a long-term sustainable thinking that includes non-economic goals as well as stakeholder requests. To encourage sustainable consumer behavior, companies are required to market their products in a responsible way and bring the environmental impacts into consumers' everyday consciousness. The following practices can be adopted.

Based on the sustainable marketing framework by Gordon et al. (2011), green marketing should be embraced by businesses. Through green marketing, sustainable products and services can be introduced into the marketplace e.g. green homes, safer household products. Greening other marketing mixes (Cronin et al. 2011) are also needed such as socially responsible pricing, environmentally preferable purchasing (buy green), CSR transfer in supply chain and sustainability reporting. Firms could choose partners that possess environmental management. The 6Rs (reduce, reuse, recycle, refuse, repair and rethink) and disposal programs can be adopted to reduce environmental impact of products from production to disposition, thereby encouraging sustainable consumption. Innovation that concerns resource and sustainable output should be adopted in the organizations. In this regard, sustainable corporate

culture and employee commitment are required to strengthen the positioning of socially responsible firm. Furthermore, firms should disclose information regarding firm performance on social and environmental issues through sustainability reporting to strengthen legitimacy and enhance their reputation.

The main problem is that many companies regardless of sizes or types of businesses do not pay attention to sustainability issues. According to the stakeholder theory, companies should adopt a long-term sustainable thinking that includes non-economic goals as well as stakeholder requests (Prakash 2002) to obtain the support from their stakeholders (Freeman 1984; Mitchell et al. 1997). The instrument aspect of stakeholder theory (Garriga and Mele 2004) support firms' social responsibility engagement. It focuses on achieving economic objectives through social objectives.

The previous studies (e.g., Boaventura et al. 2012; Carroll and Shabana 2010) indicated that corporate social performance (CSP) and corporate financial performance (CFP) have positive relationship. This means that companies with good financial performance invest in social responsibility and then obtain a greater return, and reinvest in social responsibility, and so forth. Accordingly, four categories of business case could be achieved (Carroll and Shabana 2010):

1. Cost and risk reduction: the study found that corporate social responsibility (CSR) initiatives could lower the cost of complying with environment regulations, enhance long-term shareholder value and drive down operating costs.
2. Gaining competitive advantage: using CSR initiatives in the context of differentiation strategy apart from the competitors. The study found that it enhances brand loyalty.
3. Developing reputation: CSR practices could enhance company and product images. It builds positive community relationship and reduce employee turnover.
4. Seeking win-win outcomes (business and society): it allows to pursue its profitability interest with the consent and support of stakeholders.

Consequently, the current study proposes the following research opportunity (henceforth RO).

RO1 Investigate the link between firm's green marketing strategies and sustainable consumer behavior.

3.2 The Role of Public Policymakers

Green marketing and some strategies adopted by businesses are not adequate for behavioral change solutions. They must be combined with social marketing and critical marketing applied by other upstream actors including public policy makers. Public policy makers help encourage sustainable behaviors in two forms: regulations and social marketing programs.

The government has to enact laws and regulations regarding sustainable concerns for all businesses and households. The socially responsible public policymakers need to put sustainability issues as a critical national agenda. Additionally, they should attempt to put “sustainable behavior” issues in the education system at all levels. Introducing Eco-labels and standards for all types of businesses is a good start.

The government could borrow the marketing technology from the private sector to encourage voluntary behavior change such as using consumer research, applying STP marketing and launching different campaigns to different groups of consumers. For example, they might use popular celebrities to encourage and embed sustainable consumer behavior for Gen-Z consumers. The public policy makers could educate consumers about problems of unsustainable behavior and providing assistance through social media marketing. Additionally, they might adopt rewarding programs for the desired behavior such as awards of the best greening businesses and individuals of the year. Accordingly, this study proposes the research opportunity as follows.

RO2 Investigate the role of public policy makers in the enactment of regulations and social marketing programs and its link with sustainable consumer behavior.

3.3 The Role of Non-Governmental Organizations (NGOs)

Non-governmental organizations or NGOs should adopt social marketing campaign and critical marketing to help motivate consumers. These organizations might design some specific campaigns to encourage and discourage behavior regarding sustainability issues such as “no food left” consumption campaign. NGOs or related organizations could offer a critique on firms’ social marketing programs and governments’ regulations while envisioning solutions to problems. Consequently, this study proposes the following research opportunity.

RO3 Investigate the role of NGOs in the initiation of critical marketing and social marketing programs and its link with sustainable consumer behavior.

3.4 The Role of Media and Community

Another important intervention is the role of media and community. The media and social community could share information of advantages of ethical consumption, sustainable innovation adoption, company conduct and misconduct through various media including social networks.

The media and community might act as social commentators by offering a critique on firms’ social marketing programs and governments’ regulations while providing solutions to problems. Therefore, the current paper suggests the following research opportunity regarding the role of media and community.

RO4 Investigate the role of media and community in the initiation and implementation of critical marketing and social marketing programs and its link with sustainable consumer behavior.

3.5 The Role of Academics and Educational Institutions

The role of academics and educational institutions are also considerably important in this framework. They could utilize critical marketing, green marketing and social marketing as follows.

Academics or scholars could adopt critical marketing by exploring more on sustainability issues such as emphasizing the negative outcomes of unsustainable behavior. Some researches should also focus more on how organizations might benefit from acting responsibly and, conversely how exclusion of CSR initiatives might seriously impact their economic and social performance.

For the role of educational institutions, through green marketing, they should create sustainable environment and introduce sustainability efforts at the core of their educational services. Offering curriculum focusing on sustainability beyond green campus is one of examples of “Going green” universities.

In terms of social marketing, educational institutions could educate consumers about environmental crises through publications or other channels and launch the social marketing programs to benefit individuals, community or the broader society. Consequently, this study proposes the following research opportunity.

RO5 Investigate the role of educational institutions in the initiation and implementation of green marketing, critical marketing and social marketing programs and its link with sustainable consumer behavior.

Nevertheless, the other problem is that while companies may be willing to engage in social responsible marketing activities and nonprofit organizations may do all they can to contribute to sustainability, if consumers are not aware of and change their behavior then the goal is not achieved.

3.6 The Role of Consumers

The consumers are increasingly aware of ethical and environmental concerns in consuming products, but they do not take this account in actual behavior (Oberseder et al. 2011). Thus, the consumers’ roles are important to achieve sustainable behavioral change. Learning and acknowledging from other entities in the systems e.g. government, businesses, media, NGOs etc., consumers need to understand and commit to behavior change, adopt the new technology and support socially responsible firms. Accordingly, family behavior patterns and lifestyles are essential for individual behavior change. Looking for greener products when they shop and using

products in ways that respect the environment can be transmitted from parents to children. Finally, the attitude-behavior gap is expected to be reduced and unsustainable habitual behavior could be changed. If individual and family behavioral change is achieved, consumer network or consumer community should be developed to share information and educate each other about company conduct and misconduct, other entities' activities regarding social and environmental problems and solution seeking. Accordingly, the following research opportunity is suggested.

RO6 Evaluate the effectiveness of all parties' marketing efforts on the perception of consumers and investigate its link with sustainable behavior.

4 Conclusion

Sustainable or non-sustainable consumer behavior are important, as the world increasingly experiences terrible environmental and social consequences. The past literature indicated that current consumption patterns, lifestyles and habitual behavior have been unsustainable and that behavior changes are required to encourage sustainable consumption patterns. Based on a sustainable marketing framework and a stakeholder orientation, this study proposes that the role of key parties including upstream and downstream institutions should be emphasized to encourage sustainable behavior among consumers. Specifically, public policy makers, businesses, media and community, academics, non-governmental organizations and consumer themselves have to cooperatively create environments in which behavioral change contributing for sustainability could be achieved. Accordingly, six research opportunities are proposed.

The contributions of the study are that the conceptualization and a series of guiding research opportunities encourage scholars to extend established concepts and research questions to a variety of stakeholders. In this regard, it provides opportunities for future theoretical and empirical studies. The present study also extends the body of knowledge in the interface of marketing and sustainability. Finally, it is an essential foundation for practitioners reviewing their activities and formulating a way forward to help encourage a marketing system in which sustainability is a key goal.

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The Role of Food Product Features in the Purchase Process by Consumer Generation X and Y



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Abstract This paper attempts to identify and analyze the importance of product characteristics that affect consumer choices in the food market. The main purpose of the study is to present and evaluate the differences in buyer behavior between X and Y generation groups. The analytical part is based on the results of a survey conducted in 2016 on purchasing behavior in the food market. Research shows that the age of buyers differentiates their behavior in the purchase of food products. Young and elders' buyers differ in their priorities, preferences, decision-making process and style of communication. They differently are planning shopping, searching the offer and evaluating the products, and different sets of factors affect their final choices.

Keywords Food · Consumer behavior · Product attributes · X and Y generation

1 Introduction

The dynamically changing conditions of the enterprises' functioning on the food market make them apply newer and newer methods and tools of strategic marketing both concerning the product and the customer. The enterprises working in food industry must all the time adjust to the evolution of nutritional needs of the consumers, growing competition, modern technologies or new methods of communicating on the market. Thus, it becomes necessary to assume a new way of thinking and acting on the competitive market. The marketing organization is forced to ask principal questions about constant modifications of the current market strategy and introduce new solutions. The strategic thinking of food industry enterprises must take into account the vast scope of problems starting from the specificity of food products through the quality management system, requirements of distribution

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channels, up to the economic profitability and consumer acceptance (Angowski and Kijek 2018; Toselli 2017).

The food market is highly variable and difficult to predictable. Knowing the factors that shape the choice of product by purchaser becomes a key element forming the competitive strategy of companies operating in this market. Assuming marketing orientation by companies places the consumer in the focus of their attention. The products offered by enterprises must satisfy their needs. Therefore, first it becomes necessary to identify these needs. It is one of the basic research areas within the studies on consumer behavior (Angowski and Lipowski 2014).

The aim of this paper is presenting the significance of the respondents' age in the purchaser's behavior on the food market in the context of choosing a product. Author is identifying, analyzing and assessing the behavior of the examined purchasers from X and Y generations connected with choosing certain food products (meat and meat products, vegetables and fruit, dairy products and cereals). The main research problem is determining the significance of factors connected with product features in product selection process, as well as identification of differences in the behavior of buyers in generation groups X and Y. The generations of X and Y consumers are very attractive from the cognitive point of view, both for the researchers and practitioners of marketing, because both the groups together today have a significant purchasing strength, they constitute most of the labor force. They also demonstrate different kinds of market behavior and shopping habits (Burgiel and Sowa 2017; Strutton et al. 2011).

2 Consumer Behavior on Food Market

The choice of a product on the food market is a process that is broadly discussed in the literature of marketing-related sciences. It is conditioned by different factors, depending on the consumer's individual features: state of their knowledge, material status, education and many others. The contemporary consumers are quite differentiated and changeable in the process of purchase decision-making. Therefore, for the entrepreneurs they constitute a substantial challenge, because there may be problems with identification and an attempt at foreseeing needs that can be satisfied by products available on the market. To a similar extent it is difficult to foresee the features of product or service that will attract attention and evoke the customers' interest. We observe constant changeability of factors affecting decisions in the process of choosing products on the food market (Domańska and Angowski 2016).

Knowledge on consumers' conduct on the market of food products is a very important element of interests in both researchers and marketing practitioners. It is useful in marketing activity of enterprises, aimed at exerting specific kinds of behavior upon the purchasers and creating their attitudes concerning product purchasing. That frequently requires appropriate adjustment of the company to the customers' needs. Food plays crucial role in the consumers' lives. It is first of all the source of nutrition, but also fulfills socio-cultural functions and constitutes a

significant part of consumers' expenses. Most problems with conducting research in this significant domain, both for the customer and for the sellers, lies in the complexity and variety of food selection and consumption conditionings, as well as in the fact that such studies require the knowledge of notions and observations from the vast gamut of scientific and social disciplines, such as, e.g. biology, food sciences, human nutrition, medicine, psychology, physiology, psychophysics, sociology, economics, marketing or anthropology (Menard 2003; Steenkamp 1997).

Thus, the problem of behavior is extremely vast, it in fact concerns all the aspects of human life. It requires not only recognizing the properties and principles of the functioning of human organism, ways of responding to stimuli and acting in specific cases, but also inquiring about the effect of various external and internal conditionings, as well as the possibilities of influencing reality connected with them. Researchers make attempts at recognizing and describing all significant determinants of behavior in greater and greater detail. The development of science and technology enables them to apply precise methods of measuring and insight into the functioning of an individual organism. In the subject literature the consumers' conduct is described as all activities connected with the product, i.e. resulting in obtaining it, using it and having it at one's disposal. The customers' activities in this field also include the purchasers' decisions preceding them, and sometimes even determining them.

The consumers' behavior is influenced by many factors, and those most frequently encountered in literature are social, cultural, personal and psychological ones. For instance, Ph. Kotler assumes in his model of a consumer's conduct on the market that the stimuli from outside, affecting purchasers, are marketing instruments referring to the product, special offer (promotion), price, sales conditions, as well as stimuli from the surroundings, in. a. technical, political cultural and economic factors (Kotler and Keller 2012). According to that model, all these factors are put into, as he defines it, the so called "consumer's black box", which consists of the purchaser's features affecting their individual conduct during purchasing a product. Another element of the box is the purchaser's decision-making process, which means their way, starting from the formation of a need, up to the stage of making a purchase. It is in the black box that the analysis of stimuli that have reached the consumer takes place, and then the decision concerning which of them are the most significant, which, finally, results in deciding to make a purchase or resigning from it (Oliver 2015; Sethna and Blythe 2016).

Throughout their lives consumers have to take many important decisions in different situation frequently taking place in risky conditions, and the justifiability of which they are not always certain of. Such decisions also take place when making purchases. That conduct has the nature of purposeful behavior, with directed course, leading to the accomplishment of a given final state. This is affected by, among others, past experiences or the activity of accidental stimuli. During shopping the consumer actively participates in decision-making process (Alemu et al. 2017; Lagerkvist et al. 2015). According to the classical theory, purchasing decisions were perceived as a single purchase satisfying the buyer. However, in this process consumption and manner of using goods and services were not taken into account.

Nowadays the decision making process is considered in a broader perspective. Firstly, it is a process with a few stages, where decision about a purchase is gradually made more specific. Secondly, the decision making process is no longer believed to end at the purchase, but as late as after the behavior that the consumer demonstrates afterwards. The consumer's feelings resulting from the sense of satisfaction from the use of given goods will influence their conduct in future. The model of purchase process consists of five stages (Seetharaman et al. 2005; Songa and Russo 2018):

- becoming aware of the need,
- seeking information,
- comparing variants,
- decision about the purchase,
- behavior after purchase.

Markets of particular food products consist of purchasers who differ between themselves in. a. in their desires, resources, places of residence, attitudes and shopping customs, as well as in their needs and eating habits, preferences and consumer behavior, attitude towards health and dietary aspects, as well as brand loyalty. Because of that differentiation it is necessary to analyze the process of undertaking a purchase by buyers with reference to smaller, more homogeneous consumer groups. That purpose can be accomplished in. a. due to market segmentation (Dolnicar and Leish 2017; Nasir and Karakaya 2014; Tsai and Chiu 2014).

The enterprise segmentation process divides markets into smaller segments that can be accessed more effectively by means of products and services satisfying their specific needs. Market segmentation means division of the market into homogeneous sets of subjects that delineate the enterprise activity area and constitute the point of reference for marketing programs (Venter et al. 2015). One of the basic ways of purchasers' division aiming at identification and getting acquainted with their needs for goods, there is a division of customers from the point of view their demographic features. They include, among others, sex, age, education level, family status, place of residence etc. (Panzone et al. 2016). Each feature can be considered separately, thanks to which we can estimate the demand for a given kind of products and services. Such kind of a profile usually require more data. The selection features depend upon product designation, number of consumers and on how a consumption unit whose needs should be satisfied is defined (Angowski and Kijek 2017).

3 Age, Theory of Generations and Consumers' Conduct on the Market

One of the main determinants of consumer behavior most frequently applied in segmentation procedures is formed by demographic features. The most important of them is age, which is connected with various needs of purchasers and ways of satisfying them. Age significantly affects the process of taking market decisions, the

amount of expenses and consumption, styles of consumption and scope of the purchased goods and services. Most theories concerning behavior of purchasers on the market confirm that age, together with the acquired experience connected with it, events in life and circumstances, significantly influences the awareness, motivation and preference of consumers, which, consequently, is translated into their specific behavior (Bakewell and Mitchell 2003). Considering this, the appropriate identification of features affecting consumers' behavior in different age groups and understanding typical features of members of various age categories seem to be necessary to work out effective market strategies addressed to the particular segments.

Therefore, attempts are made at understanding and explaining changes and differences in consumers' behavior applying the approach based on the theory of generations. Theory of generation is a commonly recognized theory that describes and analyzes differences between "generational attitudes". It is the theory of the so-called "social history", describing and explaining changes in social attitudes in time. In literature generation is most frequently defined as a community of all persons of the same age, individuals belonging to a given cultural circle, who, on the basis of common historical-social situation, demonstrate a similarity of attitudes, motivations inclinations and systems of values (Jaciow 2016; Pilcher 1994). Some other definitions of generations can also be found, such as: offspring of the same parents, the whole group of people born and living in the same epoch, or a group of people more or less of the same age. The problems of generations and their connections with socio-economic transformations in the world have their long history, in sociological sciences, going back to the 1920s (Burgiel and Sowa 2017; Corsten 1999; Kachniewska and Para 2014). In contemporary times the theory was developed and its application was extended to political sciences, economics, psychology and management by Strauss and Howe (1991) and Strauss and Howe (1997). These researchers introduced in the notion of four generation cycle theory based on BB (Baby boomers), X, Y and Millennial generations (Mirkowska 2017). The theory assumes that one can characterize members of a generation identified on the basis of the year of birth. Each generation has different opinions, features, interests, expectations and convictions, common for all the representatives of it (Kuczamer-Kłopotowska 2016; Valkeneers and Vanhooymissen 2012). The theory assumes that the times in which a person is born and grows up determine their whole life and form a certain philosophy of living, which then influences their personalities, way of perception and interaction with the world. That philosophy of life and system of values are to a significant extent determined by the circumstances in which a person develops. It means that when people grow up in different historical periods, their systems of values are expected to differ (Dhanapal et al. 2015; Reisenwitz and Iver 2009). This theory is also broadly applied in behavioral studies concerning various generations of consumers, which are practically applied in market analyses, market segmentation and the ability to formulate marketing strategies depending upon the purchasers' age. Analyzing the features of particular generations, understanding their life experiences, learning about their values and understanding the differences can enable us to effectively manage these groups of consumers (Angowski et al. 2017; Kroenke 2015; McAlexander et al. 2015).

In spite of the fact that the demographic criterion is the main one, on the basis of which generational groups are distinguished, in the subject literature no clear criteria specifying age, were presented (exact year of birth) of persons belonging to particular groups of generations. Besides, there is also a discussion about to what degree the time framework assumed by the researchers depends upon the socio-economic conditions in a given country. Lack of clear-cut guidelines is therefore a significant restriction both in the context of the conducted studies and analyses of particular populations, as well as with reference to enterprises undertaking marketing activities addressed to a particular target group (Gołąb-Andrzejczak 2016; Kuczamer-Kłopotowska 2016). Most authors dealing with the theory of generations suggest the following division of generations: BB generation comprises people born between the years 1945–1964; X generation—people born in the period 1965–1980; Y generation refers to early 1980s and the beginning of the new century, and the youngest generation—Z or the Millennials are people born in the current millennium. That division is basically aimed at classifying consumers into the groups of people who have similar life experiences, knowledge and motives, as well as living in similar circumstances. That is why age intervals of particular generations correspond to socio-cultural and economic transformations, scientific and technological development, as well as political events taking place throughout these years (Lipowski 2016; Ordun 2015).

The consumers from X generation are relatively well educated, they already have jobs, achieved professional success, have permanent income, are responsible, have families and children, but are quite critical towards the world. They frequently have active lifestyles, take care of their health, pursue their hobbies and interests. We can say that today they are, from the point of view of their purchasing potential, the main marketing aim of enterprises. The Y generation is the future of the market, they are young people who have just graduated or are just graduating from universities, are looking for jobs or are just starting work, frequently live with their parents and depend on them. They are people who are looking for their own place in the world of adults and have very high expectations (Gołąb-Andrzejczak 2016; Pourbaix 2015; Shavitt et al. 2016). Both the groups are well acquainted with the Internet and can use it, but it is the Y generation that is definitely better at taking advantage of ICT. The level of using electronic media in everyday life became for the Y generation a specific determinant of affiliation and style of life, influencing many of its aspects, including, among others, interpersonal relationships, the system of values they believed in, professional career, interests, as well as consumers' behavior (Dhanapal et al. 2015; McAlexander et al. 2015; Reisenwitz and Iver 2009). Generational differences, taking into account their perception of the world is presented in Table 1.

Generation X as consumers are pragmatic, rather traditionally minded, favoring direct contact, loyal towards their favorite products and brands, decisions are made very carefully, on the basis of full knowledge, they are more skeptical and do not trust marketing activities. Consumers from generation Y, in turn, are more open and brave, they like experimenting, follow trends, are ready for changes, look for new products, make decisions fast and frequently make impulse purchases, look for bargain, lower purchase and service costs (Angowski et al. 2017; Chuah et al.

Table 1 X and Y generation perspectives

	Traditionalists	Baby boomers	Generation X	Generation Y
Outlook	Practical	Optimistic	Skeptical	Hopeful
Work ethic	Dedicated	Driven	Balanced	Ambitious
View of authority	Respectful	Love/hate	Unimpressed	Relaxed, polite
Leadership by	Hierarchy	Consensus	Competence	Achievement, pulling together
Relationships	Self-sacrifice	Personal gratification	Reluctance to commit	Loyal, inclusive
Perspective	Civic-minded	Team-oriented	Self-reliant	Civic-minded
Turn-offs	Vulgarity	Political incorrectness	Clichés, hype	Cynicism, condescension

Sources: Nicholas (2009)

2017). Traditional shopping detaches them from reality and a pastime. They more frequently take advantage of multi-channel and integrated forms of distribution, more willingly using personalized products and services. Consumers from generation Y like to influence the features that the purchased product will have, they even want them to be created especially for them, to feel sort of special (Adamczyk and Anioła 2011; Gołąb-Andrzejczak 2016).

4 Data and Methodology

When preparing the empirical part of the study author used the results of poll surveys conducted in 2016 on the group of 739 respondents with the use of purposeful selection method. The basic data collection method was Computer-Assisted Web Interview (CAWI) supported by Paper and Pen Personal Interview (PAPI). The survey questionnaire was worked out in paper and electronic form, connected with database in SurveyMonkey service. The poll questionnaire consisted of 18 problem questions concerning the assessment of purchasers' behavior and attitudes on the market of food products, as well as specification questions. The studies comprised opinions of the respondents about their behavior on the markets of meat products, fruit and vegetables, dairy products and cereals.

It was assumed that generation X would include people born between 1965 and 1981, and generation Y people born between 1981 and 1999. The characteristic of the examined respondents is shown in Table 2.

Table 2 Sample characteristic by X and Y generation

Specification		X (N = 238) (%)	Y (N = 345) (%)
Total		44.24	64.13
Gender	Women	67.23	70.72
	Men	32.77	29.28
Place of residence (the number of residents—in thousands)	To 15	36.13	57.39
	From 16 to 50	44.96	20.29
	Over 50	18.91	22.32
Net income (per one family member) in EUR	To 180	15.13	23.77
	181–240	21.01	29.57
	241–360	39.50	32.46
	Over 360	24.37	14.20

Source: The author's own calculation

5 Results

The process of selecting a particular product is very complex and multi-dimensional. The purchaser, who buys food products, takes many factors into account, which is confirmed in the result of the conducted poll surveys. Among these, factors were identified, which were connected both with the product and broadly understood marketing activities conducted by both the producers and salespersons on the food market. In the analysis presented here author focused on the criteria connected with the product features and their significance for product assessment. On the basis of these studies and analyses 18 factors significant for purchasers of food products were selected. Important factors connected with the features of food products, determining such decisions about a purchase in two age groups (generations X and Y), on the markets of meat products, fruit and vegetables, dairy products and cereals are shown in Fig. 1.

In the case of all analyzed groups of foods (regardless of age) the respondents, choosing products, paid attention first of all to the smell and taste. Freshness and image of the products also turned out to be significant. Ecological character of the product, in turn, was regarded as the least significant feature for the examined purchasers at the selection of product, which seems rather unexpected, if we consider the new and popular trend of ecological food consumption, which has recently been observed in the consumer behavior on the market.

Generally, the purchasers of meat products demonstrate the biggest differences in the assessment of individual product selection criteria (between generations X and Y), whereas the smallest differences between generations occur in assessing the criteria of choosing dairy products.

For generation Y in the product selection process the following factors are most important: taste, smell and freshness (all product groups), image (meat products, fruit and vegetables), as well as best before date (meat products, dairy products and

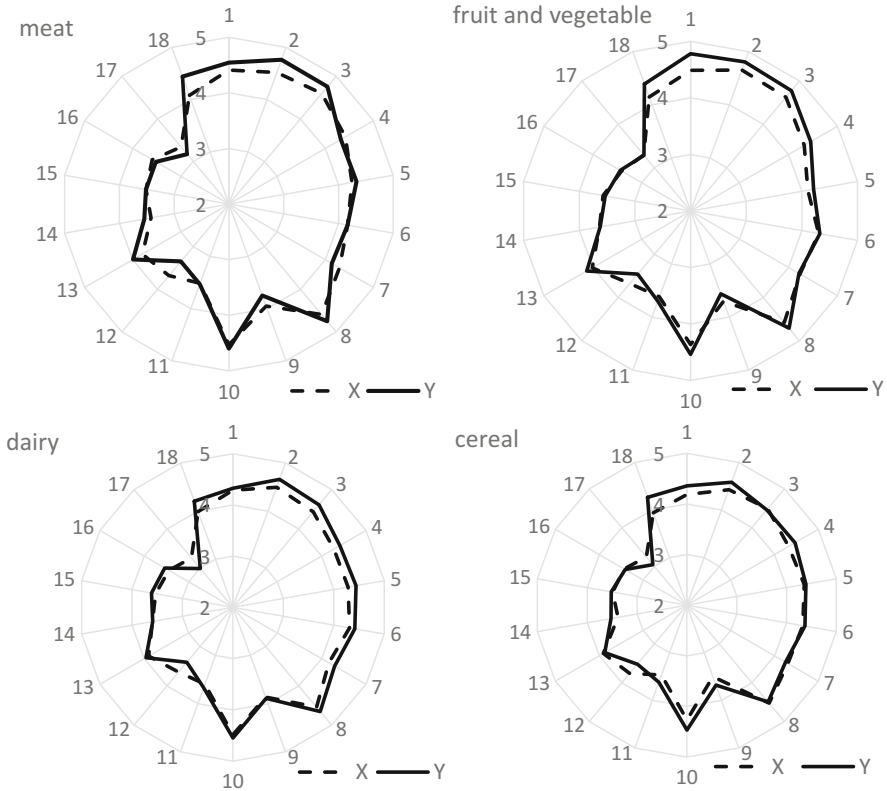


Fig. 1 Factors connected with the product considered in product selection process. Notes: 1 product appearance, 2 taste, 3 smell, 4 type of product, 5 product composition, 6 nutritional values, 7 lack of artificial preservatives, 8 product freshness, 9 low fat contents, 10 best before date, 11 quality certificates, 12 traditional recipes, 13 healthiness of the product, 14 attractive image of packaging, 15 package size, 16 product brand, 17 organic product, 18 product prices. Scale: 1 I definitely do not agree, 2 I do not agree, 3 it is difficult to say, 4 I agree, 5 I definitely agree. Source: The author’s own calculation

cereals). For the examined purchasers representing X generation, the most significant criteria of product assessment were: freshness (all product groups), smell and taste (meat products, fruit and vegetables, cereals), image (meat products, fruit and vegetables), and best before date (meat and dairy products).

Analyzing the meaning of particular factors determining the selection of product by different generation groups, it can be noticed that the most significant differences concern the significance of such factors as: prices, taste, fat contents, traditional recipes and ecological character of the product (Table 3). This is confirmed by statistical analyses indicating statistically significant differences in assessing the importance of particular product features in the selection process between generations X and Y.

Table 3 The importance of particular product features in the selection process

	Meat prod.		Fruit/veg prod.		Dairy prod.		Cereal prod.	
	Mean diff. (X-Y)	Sig.	Mean diff. (X-Y)	Sig.	Mean diff. (X-Y)	Sig.	Mean diff. (X-Y)	Sig.
1	-0.134	0.064	-0.295***	0.000	-0.039	0.639	-0.172**	0.048
2	-0.246***	0.000	-0.155***	0.001	-0.162**	0.012	-0.154**	0.026
3	-0.157***	0.004	-0.151***	0.001	-0.178***	0.009	0.029	0.683
4	0.098	0.144	-0.129	0.061	-0.131	0.085	-0.143	0.051
5	-0.080	0.286	-0.107	0.218	-0.156**	0.043	-0.035	0.642
6	0.000	1.000	-0.019	0.796	-0.106	0.157	-0.043	0.582
7	0.158	0.054	0.021	0.800	-0.129	0.134	0.050	0.543
8	-0.158**	0.015	-0.135**	0.022	-0.114	0.081	0.031	0.659
9	0.206**	0.032	0.139	0.214	-0.029	0.772	-0.174	0.116
10	-0.071	0.303	-0.174**	0.018	-0.065	0.345	-0.201**	0.012
11	-0.017	0.873	-0.084	0.399	-0.073	0.466	-0.150	0.152
12	0.336***	0.001	0.216**	0.038	0.254**	0.012	0.239**	0.014
13	-0.196**	0.043	-0.112	0.202	-0.063	0.507	0.032	0.741
14	-0.123	0.256	0.013	0.899	0.005	0.959	-0.139	0.189
15	0.004	0.970	0.042	0.668	-0.081	0.415	-0.031	0.761
16	0.074	0.463	-0.026	0.809	-0.091	0.384	0.024	0.818
17	0.169	0.112	0.010	0.928	0.269**	0.019	0.197	0.087
18	-0.361***	0.000	-0.244***	0.001	-0.214**	0.019	-0.325***	0.000

Differences between generation X and generation X

Notes: *** and ** indicates the statistical significance at the 1% level and 5% level, respectively. 1 product appearance, 2 taste, 3 smell, 4 type of product, 5 product composition, 6 nutritional values, 7 lack of artificial preservatives, 8 product freshness, 9 low fat contents, 10 best before date, 11 quality certificates, 12 traditional recipes, 13 healthiness of the product, 14 attractive image of packaging, 15 package size, 16 product brand, 17 organic product, 18 product prices

Source: The author's own calculation

For generation Y, compared to generation X, the following factors are more important: price (all product groups), taste (meat product), image (fruit and vegetables and cereals), as well as best before date and the contents of fat (cereal products). For the examined purchasers representing generation X more important product assessment criteria than for Y were: traditional recipes (all product groups), low fat contents (meat products, fruit and vegetables) and ecological character of the product (dairy products and cereals).

6 Conclusion

On the basis of the studied subject literature and the analysis of survey results it can be found that there are many factors affecting the formation of decision-making process while shopping by purchasers on the market of food products and it is very

difficult to identify and analyze them all and unambiguously. In the publication an attempt was made of analyzing how product features affect the process of choosing a specific product by the consumer. The conducted studies and analyses allow us to remark that the consumers from generations X and Y differ as to the assessment of the importance of selection criteria for food products, connected with product features. Statistical analyses, however, show that these differences relatively were not big, but in the most comparable criteria, statistically significant. Analyzing the respondents' answers, we can notice that the purchasers from X generation, much more frequently than Y, in their decisions concerning product purchase they were guided by the traditional manner of manufacturing products, fat contents and "ecological character". That may indicate greater consumers' awareness and regional ethnocentrism. The examined Y generation purchasers, in turn, having lower income at their disposal, seem to be more savings oriented and therefore they paid more attention to product purchase costs. Respondents in the group of meat purchasers were the most differentiated in particular generation groups in the assessment of product selection criteria through the prism of their features, and at least the purchasers of dairy products.

The results of studies and analyses presented in the publication do not exhaust the problems of the purchasers' decision-making process on the food market, but they can constitute a supplement of the existing studies concerning purchasers' behavior on the food market as to the factors affecting the selection of products by consumers of different ages. Besides, they can be used as the input material for future preparation of more thorough studies and analyses concerning differences in consumers' behavior and factors influencing them in the field of shopping, taking into consideration the criterion of age.

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Local or Imported Product: Assessment of Purchasing Preferences of Consumers on Food Markets—The Case of Poland, Lithuania, Slovakia and Ukraine



Marek Angowski and Aneta Jarosz-Angowska

Abstract The aim of the study is to identify and assess the factors affecting consumer choices on the market of food products, considering problems of the country of product origin. While preparing the study we used results of surveys conducted among purchasers of food products from Poland, Slovakia, Ukraine and Lithuania. The research was carried out in 2016 in a group of 1364 students using CAWI and PAPI methods. As a result of the research and analyzes carried out it was shown that, the various types of product evaluation criteria had different meaning in the decision-making process for surveyed young food buyers from Poland, Lithuania, Slovakia and Ukraine. Statistically the biggest differences between respondents from individual countries concerned the assessment of such factors as: country of product origin, ecological brands and quality certificates. The smallest differences in the opinions of the surveyed buyers could be observed in the case of such product criteria as: taste, product prices and the freshness of food products.

Keywords Consumer behavior · Origin and foreign food products · Globalization · Ethnocentrism

1 Introduction

Competitive marketing is based on the principle of choosing and forming enterprise market, involving selecting and defining the target market, on the basis of detailed defining market opportunities, threats and possibilities of the company. Working out the competitive and effective strategy, as well as applying flexible tools in response to

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changes taking place in the market is only possible through regular and thorough examination of needs, desires and motifs governing the choices of potential customers. For market observations constitute a basis for planning, decision-making and direct activities of the company (Altindag et al. 2011; Toselli 2017; Verain et al. 2012).

The contemporary market of food products is highly changeable and unpredictable. The awareness of factors affecting choice of products and places where the purchasers bought them is the key element of forming the competitive strategy of subjects acting on a given market. Currently the factors connected with awareness and consumers' attitudes towards local and regional products and brands, as well as economic subjects dealing with manufacturing and selling them become more and more important. The consumers' "patriotism" very frequently becomes the key factor for building a competitive position on the market (Ebrahimi and Mirbargkar 2017; Szwacka-Mokrzycka 2015).

The main aim of the publication is to present the meaning of the products' place of origin in the formation of purchasers' choices on food products market. The main research problems are: determining whether and how the place where the product comes from affects its purchase and identifying differences in the behavior of buyers from four selected European countries: Poland, Lithuania, Ukraine and Slovakia. The acquired knowledge about conduct on the food market is a very significant area of research interest both for the scholars and representatives of economic practice. It is very useful in the marketing activities of enterprises, which is aimed at enforcing particular kinds of behavior on the purchasers, as well as creating their attitudes in the process of product purchasing. That knowledge is especially important for salespersons planning to be active on foreign markets. Recognizing and understanding the factors forming shopping decisions of customers from particular countries, as well as their attitudes towards domestic and foreign products may allow to prepare or improve the effective marketing strategies.

2 Purchase Decision-Making Process

The development of strategic marketing is connected with entrepreneurs' noticing the necessity to prepare long-term plans of adjusting to changes taking place in the surroundings forming conditions of running business (economic activity), such as, for instance, legal regulations, natural environment or customs of the purchasers (Jarosz-Angowska and Angowski 2014; Kirwan et al. 2017).

One of the most important stages of purchase process is making the decision concerning choice of a given product. The customer's choices are affected by various kinds of factors helping them with decision-making. The purchasers usually perceive the product as asset of features giving it specific benefits. The purchaser, thanks to experience and gathered information, establishes the area of potential purchase decisions (Desai et al. 2014; Griffith et al. 2009).

Divagations about consumption are conducted by representatives of many domains of science, among others by economists, psychologists and sociologists.

Thus, consumption is understood in many ways. From the individual point of view, it conditions the development of an individual, and from the social point of view it conditions the levels and styles of living in the population (Roszkowska-Hołysz 2013; Verain et al. 2012).

In the literature, one can encounter various definitions of consumer behavior. They outline their different aspects. Some authors define consumer behavior as all activities connected with acquiring, using and disposing of products, as well as services, together with decisions preceding and conditioning these activities. Others define consumer behavior as all consumer activities and perceptions constituting the preparations to decide about product choice, making that choice and consuming. The consumer behavior, according to subject researchers, consists of three types: communicating, purchase and consumption (Grunert 2007; Raja and Malik 2014).

Thus, the consumers' conduct on the market is defined as the process of making decisions concerning the purchase of products or services. It is one of more important element of a consumer's behavior on the market. For it makes it possible to choose the place, time and manner of purchase. It involves recognizing and defining the essence of decisive situation, identifying alternative possibilities, selecting "the best of it" and making it come into force. The needs constitute an important element of that process. The formation of human needs is determined, in various degrees, by psychological, social, mental, as well as physiological needs of the body. A need, however, is not only buying a product, but also previous acquiring information about it, sometimes ending with changed expectations as to the product. Deciding to make a purchase, the consumer takes into account: their own needs, the funds in possession that serve to satisfy them, and chooses the ways to satisfy them (Antonides 2017; Bartosik-Purgat 2014; Leahy 2013).

In everyday life, everybody takes many decisions. We usually do not wonder why and how they are made, or who or what influences them. Every decision is connected with a choice. A choice, in turn, assumes that there exists a possibility, i.e., at least two variants to choose. If there are no different possibilities to choose from, there are no different decision either (Grewal et al. 2012; Jansson 2011).

Making purchasing decisions by consumers is a process that starts long before making final selection and purchasing a given product. In case of making decisions consumers, besides choosing the most advantageous solution, they must diagnose the decisive situation, as well as recognize all the available and possible solutions (Szwacka-Mokrzycka 2015).

3 Country of Product Origin in the Context of Consumption Globalization

The contemporary purchaser and consumer functions in the conditions of dynamic socio-cultural transformations resulting from progressing globalization processes, determining the shape and functioning of the contemporary market. Universalization

of global consumption patterns in a significant measure forms the behavior of the contemporary consumers, who are more and more willing to purchase global products. In spite of that, the contemporary consumers also demonstrate ethnocentric attitudes and regard the country of product origin as significant (Kreidenweis et al. 2016). Although the globalization processes led to homogenization of markets and the formation of universal, global pattern of consumption, however, it did not weaken the consumers' social connections with their country or region, nor the sense of national or local identity and belonging. That fact is directly translated into consumers' behavior and decisions, as well as into the criteria through which the consumers assess the product that is offered to them (Angowski 2008; Schmitt et al. 2016). Global consumers, assessing the product, take into consideration not only its quality or price, but also the image of the country where it was manufactured. Globalization on one hand leads to consolidation (uniformization) of market space, while on the other- to differentiation of consumer behavior and formation of their own identities in the context of connection with the country, region or local community (Rosenbloom 2009; Yang et al. 2017).

One of the key factors forming the behavior of contemporary consumers is globalization, which leads to consumption patterns becoming similar. The consequence of these processes is unification of purchasers' preference and behavior, as well as propagation of the consumption model typical of western culture. Globalization of consumption enhances interpenetrating of consumption patterns in international scale, creating global consumption culture and global segments of consumers distinguished on the basis of values, as well as the attitudes towards objects and brands. Exchange of experiences among consumers also contributes to propagation of specific purchasing customs (Lipowski and Angowski 2014; Szwacka-Mokrzycka 2017). Globalization of consumption means, first of all, consolidation of the offer for consumers. The uniform market of goods and services is formed as a result of processes of interpenetration, as well as interdependences between national and regional markets (Domańska and Angowski 2016). Thanks to easy access to sources of information, mobility of contemporary consumers, as well as the presence of international concerns offering identical, or very similar products in almost all countries, cultural, social and consumption differences become blurred, as a result of which consumers' behavior becomes similar and universal consumption patterns are becoming common. As the most important factors influencing consumption globalization, the following are indicated, as they have the nature of demand: the consumers' aiming at the modern, more attractive lifestyle, looking for modern, functional and high quality products, as well as increased spatial mobility of consumers (Guo and Zhou 2017; Meyer 2017). What is also quite significant, is the phenomenon of purchasing global products by consumers from not very well developed countries as a way of boosting personal value or increasing social prestige. The supply factors, in turn, which determine consumption globalization, are first of all: increase of competition, forcing companies to expand onto new markets and development of information technologies providing efficient communication with the market (Sobol et al. 2018; Lee and Nguyen 2017). The affiliation with the global consumer culture manifests itself in

taking advantage of the offer of global products. The most sensitive to global offer are consumers who adopt the international orientation, prefer the lifestyle propagated by the contemporary culture, as well as the manner of meeting their needs, aspirations and expectations suggested by it. They find themselves under strong influence of global culture, and buying global brands is a manner of manifesting modernity, sophisticated taste and affiliation with the global society (Schmitt et al. 2017).

The opposite of the global consumer is the ethnocentrically oriented consumer. The phenomenon of consumers' ethnocentrism involves the conviction shared by them, according to which they are obliged to buy products of domestic origin (Bryła 2017). The increased importance of ethnocentrism leads to heterogenization of consumption in the international scale, that is the increased differentiation of consumption behavior. The consumers' ethnocentrism to a high extent originates from globalization processes, being a specific response to its negative effects. The ethnocentric consumer, perceiving the product's country of origin as its significant feature, actively looks for information allowing to make a differentiation whether the product has been manufactured at home, or whether it has been imported. Being able to select, such a consumer recognizes the supremacy of domestic products over foreign ones. In their conduct the ethnocentric consumer very frequently is guided not only by rational issues, but also by emotional reasons, and even moral ones (Fernandez-Ferrin et al. 2018; Šontaitė-Petkevičienė and Pilelienė 2013). The consumer ethnocentrism is defined as the sense of responsibility, loyalty and morality in buying products manufactured in a given country (Zhu et al. 2016). Consumers, assessing an offer and making the decision to purchase, take advantage of various information and many tips, they are also governed by various prerequisites. The criteria determining consumers' decisions and shopping behavior may concern physical features of the product, its quality, as well as brand, price or country of origin (Raskovic et al. 2016). The ethnocentric attitudes among consumers may assume different forms and have various intensities. Unfortunately, the problem is the appropriate identification of domestic and foreign products by consumers (Chowdhury and Ahmed 2009).

4 Methodology and Data

In this study, we used the results of poll surveys on the purchasers' behavior on the food market. These surveys were conducted in 2016, in the group of 1364 students from 4 countries: Poland (PL), Lithuania (LT), Ukraine (UA) and Slovakia (SK). The poll examinations were conducted with the use of the conventional method (PAPI) and a web survey (CAWI). The questionnaire contained 12 problem questions and 6 classifying questions. There were both open and closed questions, including those containing five-degree Likert scales. The study concerned in a kinds and size of purchases, place of purchases and factors influencing the behavior of buyers on the food market, as well as the attitude towards foreign products.

Table 1 The characterization of the surveyed respondents

N = 1364	LT (%)	PL (%)	SK (%)	UA (%)
Origin of respondents	25.8	30.8	23.3	20.1
Gender				
Female	84.4	59.0	76.1	56.2
Male	15.6	41.0	23.9	5.8
Age				
To 18	0.6	3.8	0.0	10.2
19–22	45.7	63.8	31.8	76.6
23–25	19.9	25.7	64.2	5.8
Over 25	33.8	6.7	4.1	7.3
Place of residence				
Community to 15 thous. residents	33.2	39.0	45.3	16.4
Community from 16 to 25 thous. residents	10.5	5.2	10.7	9.1
Community from 26 to 35 thous. residents	10.2	4.3	6.9	2.6
Community from 36 to 50 thous. residents	9.4	6.2	12.3	5.5
Community over 50 thous. residents	36.6	45.2	24.8	66.4

Source: Own calculation

Table 1 presents the characterization of the study group showing respondents according to the demographic features.

5 Results

The basis for preparing an effective marketing strategy is getting acquainted with the factors affecting consumers' choices on the market of food products. On the basis of preliminary studies 19 factors/criteria were identified, which were taken into consideration in the process of food shopping. The respondents assessed particular product selection criteria in Likert's scale, specifying their degree of consent that a given criterion influences the purchase of a product (from the factor: I definitely do not agree—1, to: I definitely agree—5).

Analyzing the averaged answers of all the respondents about the factors affecting buying food products, it can be observed that the following factors are the most significant in the process of choice: freshness of the product (4.45), taste (4.44) and "best before" date (4.36), and the least significant: advertisement—2.93.

The biggest differences that can be observed between respondents from particular countries concerned the assessment of: country of product origin, ecological brands and quality certificates. The smallest ones, in turn, concerned the assessment of the significance of taste, product prices and freshness of food products. The answers of respondents concerning the meaning of particular product features, taking into consideration the respondents' country of origin is shown in Fig. 1.

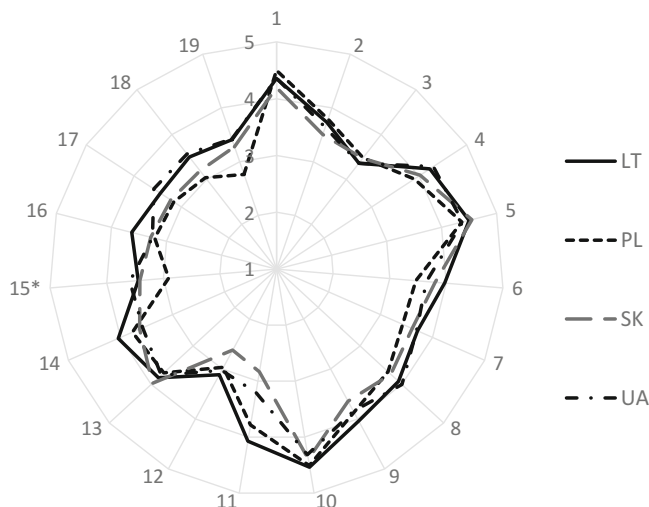


Fig. 1 Factors connected with the product considered in product selection process. Note: 1 product prices, 2 product brand, 3 package size, 4 best before date, 5 taste, 6 product composition, 7 nutritional values, 8 smell, 9 product image, 10 product freshness, 11 commercial promotions, 12 advertising, 13 recommendations of family/friends/sales assistant, 14 habit, 15* country of product origin, 16 lack of artificial preservatives, 17 attractive image of packaging, 18 quality certificates, 19 ecological brands. Scale: 1 I definitely do not agree, 2 I do not agree, 3 it is difficult to say, 4 I agree, 5 I definitely agree. Source: Own calculation

Analyzing the meaning of particular factors determining the choice of products by respondents from particular countries, it can be noticed that the most significant were, first of all, such factors as freshness (LT, PL) and taste (SK, UA), as well as price (all the countries). The least significant for the examined purchasers in turn were: advertising (all the countries), commercial special offers (SK, UA), as well as ecological brands (PL).

The preliminary analysis of the respondents' answers concerning factors influencing choices of food products demonstrated that the country of origin, that is, the place where the product was manufactured is very important for the examined purchasers of food products. To obtain additional information the respondents were asked to express their opinions about statements concerning food shopping and places of food products' origin. The respondents' opinions with their country of origin, are presented in Table 2.

Analyzing the respondents' answers concerning the significance of food products origin, we can formulate the following conclusions:

- the highest awareness of the country of product origin is reported in purchasers from Ukraine, who not only know where products come from, but also read information on products more carefully than others; partially that knowledge may be justified by opinions about their knowledge of supporting domestic purchases by authorities of particular countries;

Table 2 Opinions of respondents concerning purchasing food products and places of their origin

Response category	LT	PL	SK	UA
I try to buy food from local producers	3.50	3.37	3.76	3.54
The food manufactured in my country is cheaper than imported food	2.56	2.95	2.32	3.71
My state encourages people to buy domestic food	3.30	3.16	3.15	3.50
When buying food I like trying products from other countries	3.63	3.39	3.40	3.87
I occasionally go shopping for food outside the borders of my country	2.37	2.66	2.37	2.91
When I buy food I read the information on the product packaging	3.29	3.29	3.43	3.76
I always know where food products have been manufactured	2.79	2.81	2.76	3.37
The food manufactured in my country is better than imported food	3.61	3.41	3.81	3.40
I pay attention to the country where food products come from	3.43	2.89	3.44	3.60

Scale: 1 I definitely do not agree, 2 I do not agree, 3 it is difficult to say, 4 I agree, 5 I definitely agree

Source: Own calculation

- slight differences can be observed in the respondents' declarations concerning buying local products from local manufacturers;
- according to the respondents, products from their countries are better than imported products (purchasers from Lithuania and Slovakia assess the best), and respondents from Ukraine additionally think additionally that domestic products are cheaper than foreign ones;
- most respondents like trying products from abroad, most willing to say so are Ukrainian purchasers, the least willing are Poles;
- the examined purchasers from Ukraine go shopping abroad on purpose, Lithuanians and Slovaks do that the least frequently;

Statistically the biggest differences in the respondents' answers are visible in the case of assessing the prices of imported products, country of origin, and the smallest—in the case of opinions concerning knowledge about actions supporting buying domestic products and purchases from local producers.

The conducted analyses concerning the role of product origin at selection of food products are partially confirmed by the frequency of buying foreign products by the examined respondents. Indeed the respondents' declarations about the frequency of buying foreign foods indicate slight behavior differences in groups of purchasers from Poland, Slovakia and Ukraine. Among those buyers, however, it can be noticed that most frequently it was the respondents from Ukraine who declared purchasing foreign products. A distinct difference between all the analyzed groups of purchasers is visible only in case of buying foreign products by purchasers from Lithuania, who buy these products relatively least frequently. The frequency of buying foreign products in the division into groups of purchasers from particular countries is presented by Fig. 2.

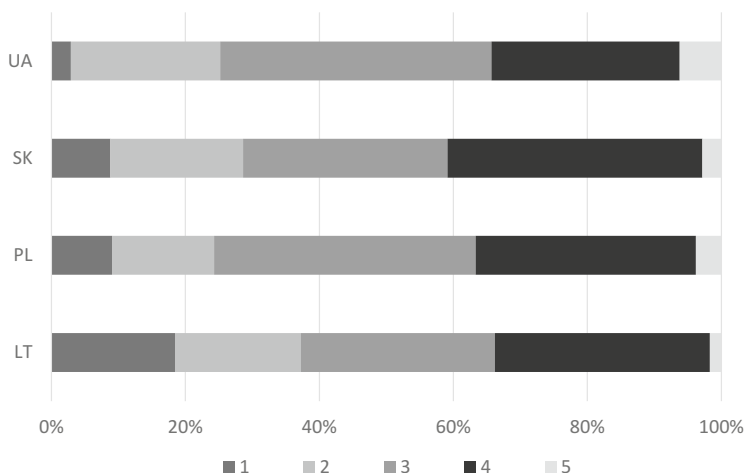


Fig. 2 Frequency of buying foreign products. Note: Scale: 1 I do not buy them, 2 I buy them very rarely, 3 I buy them rarely, 4 I often buy them, 5 I buy them very frequently. Source: Own calculation

6 Conclusion

According to the respondents talking about the factors affecting decisions about buying food products, the following were the most important in the selection process: product freshness, taste and best before date, and advertising was the least important. Also the place of product origin was relatively quite important as the criterion used while buying products.

In the effect of the performed studies and analyses it was revealed that particular kinds of product assessment criteria had different level of importance in the process of making the decision about a purchase for the examined young food buyers from Poland, Lithuania, Slovakia and Ukraine. Statistically, the biggest differences between respondents from particular countries concerned such factors as: country of product origin, ecological brands and quality certificates. The smallest differences in the opinions of examined purchasers could be observed in the case of such product criteria as: taste, product prices and freshness of food products. Additional analyses revealed that attitudes towards domestic and foreign products depend upon the perception of price levels and product quality with regard to foreign products and the awareness of purchasers coming from particular countries. The studies reveal that purchasers from Ukraine buy foreign products most frequently and most willingly. They buy foreign products in spite of the fact that they are more expensive than domestic/local products, but as they indicate themselves, they are of much better quality. Besides, the purchasers from Ukraine declare the highest consumer awareness connected with buying food products (they read information about products more carefully than purchasers from other countries, they know where they were manufactured and where they come from). The attitudes involving buying

products from domestic/local manufacturers are signaled the strongest by the examined purchasers from Slovakia, who are also interested in the place of product origin and assess products from their country as the best. Purchasers from Poland, in turn, are characterized by relatively lower lack of interest in both foreign and domestic/local products, than the remaining respondents. Polish respondents reveal relatively the lowest consumer activity in this field, less frequently than the remaining nationalities they declare the will to try products from other countries, they are less interested in the origin of the product, information about the product placed on the packaging, as well as in buying from local producers.

Studies and conclusions concerning attitudes and behavior of purchasers presented in the foregoing publication may constitute the basis for further, more thorough studies and analyses aimed at looking for additional information, which may help to understand the food market better and, consequently, provide better adjustment of the market offer to its needs.

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Specifics of Marketing Communications Within Political Environment in Slovakia



Eva Smolková and Peter Štarchoň

Abstract The paper deals with specifics of marketing communication in political environment and also new forms of communication in the area of politics in Slovakia based on four specific researches conducted within longer period of time (2014–2017). The questionnaires were modified to fit the four major elections: presidential elections, municipal elections, elections to the National Council of the Slovak Republic, elections to higher territorial units in this time order. From the point of view of respondents/electors wide range of problems were identified, for example relationships between media and political parties, relationships between media and politicians or forms of communication with voters. In addition, the role of research agencies and importance of public opinion researches and pre-election surveys within development of marketing activities were closely examined. Results indicate an increased need for change in the application of few marketing communication tools and for more sophisticated conceptions based on understanding of electorate like understanding of consumer behavior.

Keywords Marketing · Political marketing · Marketing communications · Elections · Electors · Slovakia

1 Introduction

The issue of marketing communication in political marketing is one of those topics whose social impact and influence on state and municipal processes is probably big and not examined. Feasibly, it is challenging to determine exactly what impact political marketing has on the direction of society and its development. According to Beckman (2018) the effects of political marketing upon citizen autonomy are, at

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the same time, mediated by the political ignorance and disengagement of many citizens that can hinder political marketing efforts—and enhance them in some situations. These effects are also mediated by substantial practical limitations to the effectiveness of political marketing. Jacobs and Shapiro (2000) also stated that while often seen as a potent means of manipulating the political cognition and attitudes of citizens, empirical findings suggest that the short-term effectiveness of political marketing strategies and communications is limited. On the other hand, it is important to mention that political marketing seeks to establish, maintain and enhance long-term voter relationships at a profit for society and political parties, so that the objectives of the individual political actors and organizations involved are met. This is done by mutual exchange and fulfilment of promises (Henneberg 1996).

In the case of Slovak Republic exists one specificity which may have significant impact on voters' behavior and creation of this long-term relationship. There are five different types of elections in the Slovak Republic which occur in different time periods. It is:

1. The election of the President of the Republic by the direct election by citizens;
2. Parliamentary elections—elections to the National Council of SR, unicameral parliament that has 150 members of parliament;
3. Municipal elections—elections of municipal councilors and mayors of municipalities, town sections and mayors of towns;
4. Elections to the authorities of self-governing regions and presidents of self-governing regions;
5. Elections to The European Parliament, where the Slovak Republic, as the member state of the European Union has the right to have 13 mandates. All elections have its specifics but there are tools of marketing communication in political marketing actively used.

Political marketing is the application of marketing concepts and practices/activities by political actors and organization in order to achieve their long-term objective (Lees-Marshment et al. 2014). These concepts include segmentation, targeting, positioning, branding, market-oriented strategies, internal political marketing and also many others. These activities are further grouped into four main areas of political marketing: activity researching, strategizing, organizing and communicating (Lees-Marshment et al. 2014).

In addition, Kushwah et al. (2017) suggest co-creation could be used as market research tool in political marketing. Therefore, political organization can very well employed this tool in their conscious marketing activity. In this paper we present to what extent is marketing communication of political subjects and candidates significant and what communication tools respondents prefer in order to enrich theoretical framework of marketing communication within political marketing in general. We analyze to what extent voters realize the influence of political marketing on the voting itself and we point out, what is, from the point of view of respondents, desirable to communicate and what has an influence on their decisions within the framework of pre-election campaigns and if marketing communication is significant also during the performance of function. Based on the comparison of the results of

four researches, we take hold of what has the strongest influence on voters; however, we also point out the specific situations, which can play the significant role in the marketing campaign of the political subject. We show that voter is currently more exigent and requires communication of long-term goals and guarantees of its implementation, as well as working out long-term strategies overlapping one election term. In recent years, intensive changes have happened in the application of some tools of marketing communication. We can observe a reversion towards more sophisticated conceptions based on the understanding of needs and voters' preferences. In conclusion, we are going to summarize results and draw the attention to the gaps in political communication.

2 Marketing Communication in Political Marketing and Its Influence on Voters' Behavior

Firstly, it is necessary to introduce the expression of marketing communication within the framework of political marketing. To compare marketing communication and political communication is not appropriate; every communication about political subject, candidate or appointee of political party to a certain function is at the same time marketing communication that is usually marketed by the expression political communication. However, this expression is not possible to define in a simple way, because it is necessary to catch it from two key perspectives—scientific, as the marketing major but also sociology, politology and media studies and from the point of view political communication as practice. According to Fagen (1966) in the times of establishment of the expression in 1966, only communication: government and citizens were the subject of analysis. We are currently assessing political communication from the point of view of its sponsor as it is in the profit sector. We perceive it from the position of political subjects or political actors that is wider expression, because not every political actor is at the same time a political subject. Because of what is already mentioned, it is possible to perceive political communication from the point of view of the level of communication as

1. All forms of communication realized by politicians and other political actors for reaching particular aims;
2. Communication addressed to political and non-political actors (voters—generally or only to the chosen groups, media and commentators, non-governmental organizations and others);
3. Communication about these actors and their activities (from media rapporteur information, comments, various forms of media discussions about politics as such to the evaluation of success of representatives of authority).

The necessity to define political communication has arisen because it was necessary to name and grab certain tools by which it was and it is possible to influence voters not only from the short-term point of view but also from the long-term point of

view. With the development of media and communication, it was necessary to search also for ways and methods for addressing the chosen groups of voters. Currently, it is valid that approaching—regarding the possibilities of social networks and digital networks—should be addressed. As Scarrow (2017) claims, any contemporary political parties actively encourage their members and other connected supporters to act as their online ambassadors. Parties and party leaders set up Twitter and Facebook accounts, and they urge their supporters to rebroadcast these messages. Political subjects intensively realize the necessity of marketing activities; they search for possibilities how to use it and to influence behavior of voters by means of marketing activities and to use those marketing tools that enable to gain first-time voters and sympathizers, potential voters and voters of other political subjects. It is evident that political parties adopted a market-orientation (Davies and Newman 2006).

Political subjects understood long time ago that they will not be successful in elections without political marketing and they will neither be successful if they choose incorrect marketing tools. Therefore, they have learnt to use political communication for different purposes and for reaching their own goals. Despite of the fact that they have their own analysts, they recruit professionals for political and election campaign, mostly specialized marketing agencies and professionals from the field of politology and sociology. However, political institutions make the most often one-way communication in the direction from themselves to the outside environment. This communication has various forms that are dependent on the character of organization and situation in environments which political world disposes of. For example, the government informs media about its steps by means of its own press department, representative or members of the Parliament. Routine and usual methods and procedures are used in this way. However, it depends if it deals with “the clever” government, which discusses and consults its decisions with citizens and professionals before its approval. “The clever” presents themselves as open, social sensitive and always prepared for negotiation. One-way communication does not enable to reach the effect of feedback, nor grab the changes in orientation of public opinion (Jablónski et al. 2006). The openness of communication channels, especially in the period of the Internet, thus the possibility to discuss different questions and issues by means of blogs or on social networks is the condition of the fact that politics should not take place only within the framework of the narrow political elites but it should also be “the politics of people”. The current political marketing communication requires reinforcement of mutual communication in relation to power authorities and the society (Beckman).

In the context of political communication, it is necessary to deal with the expression of political marketing. Political marketing is one of the youngest marketing disciplines that has been developing less than 50 years, but always depending on the legislative principles and possibilities valid in particular countries. The establishing and the development of modern political marketing spread from the US domination (Maarek 2011). The aim of marketing activities of political subjects is to reach citizens and to gain their votes. Only by means of voters, political parties will be able to gain the power (or to participate on it) and to influence the processes

in society. Candidates and leaders of political subjects offer their visions, strategies and aims as marketers from entrepreneurial environment their products and services. In spite of the fact that at the beginning of the development of political marketing the same promotional techniques as in presenting the products of common consumption were applied, today the situation is a lot different and it is possible to name the differences and effective methods and approaches. Political subjects and candidates should know how to reach a voter by values that they believe in and will support, by imaginations about the solutions of current issues but also by solution methods. The purpose of political marketing is to communicate topics, which particular political subjects, but also particular candidates present and represent. While in the period of establishment of political marketing theoreticians and practitioners of political marketing dealt only with election and campaign activities, currently it is clear that political communication is the systematic and continuous process. Despite this process being less intensive in “between- elections period” and various means and tools are used in comparison with campaign fight, it is intensively used as communication tool by all actors, those who have the power to inform about the fulfilment of campaign promises and building the brand of their political subject and those who do not participate in promoting their own topics, defending their interests and drawing attention to failure of power authorities. It also applies in political marketing that who is not talking about—who is not able to make themselves visible- that person gradually risks being forgotten. The use of brand personality in political competition can be located within a broader debate about the factors weighing on electoral competition in the UK and more generally. Specifically, brand personality relates to the historic debate between positional and valence accounts of electoral choice (Rutter et al. 2015).

In political marketing, similarly as in profit sphere, there are systematic analyses being made as well as monitoring of consumers’ preferences. This is valid also in political subjects but with the exception that the part of surveys need not be realized by political subjects from their own resources. Opinion polls are made regularly and its results do not leave politicians cold as they react on it operatively.

The research of political marketing and analysis of the tools of marketing communication is a scientific issue that requires specific analytical and comparative methods and techniques. Political marketing does not spin out of other marketing activities although it is necessary to state that analytical tools and techniques do not have to be standard, it can be created for the specific purpose based on certain needs of political subjects or candidates. The requirements for the successful political marketing are:

- Research—the analysis of environment, macro environment and micro environment, opinions, preferences and moods of voters;
- Analysis of “electability” of political candidates of the chosen political subject or movement, identification of strengths and weaknesses of political subjects and candidates;
- Concept of strategy and implementation of strategic goals, optimally also an offer of more strategic scenarios;

- Concept of strategic marketing plan—targeting a positioning;
- Setting targets of marketing strategy and tactic campaign steps;
- Implementation of the chosen communication techniques, realization of intentions of marketing plan;
- Verification of accuracy of targets—control analyses and opinion polls.

The successful election and political communication selects the effective tools of political marketing. Political subjects and candidates cannot reduce research to opinion polls and react on the tactic steps of competition. The use of modern marketing tools in the effort of reaching also new voters and at the same time to keep the current ones is the indicator of the quality of marketing communication (Křeček 2013). The professionalism of campaign is secured by reputable agencies that very often specialize in political marketing. Professionalization of marketing activities of political parties is evident everywhere where there is the focus on strategy—quality of program and management. It is necessary to perceive a citizen as a customer who has a decisive power as in the case of economic subject. The visualization of tools of political marketing will offer us the starting point for the next consideration.

Less-Marshment (2014), differentiates, within the framework of political marketing, four main tools—research, strategy, organization and communication and consequently they are divided to other categories (Fig. 1). According to Less-Marshment (2014), research consists of surveys, analyses, experiments and segmentation forming profiles of voters. Within the framework of strategy, the following steps are defined: defining strategy, positioning, targeting, strategic leading, building the brand and image, political orientation and political offer (competitors). Organization as a tool includes management of a campaign, advisors, co-operators, employees, experts, public relations and creation of databases. The last tool is communication and it includes marketing communication, public relations, guerrilla marketing, social, viral and online marketing and advertising. Fagen (1966) names in political marketing common marketing tools and those are expanded by the specific ones that are used. Except of the classical marketing tools (segmentation, voters' profiles) also the specific polls are made (satisfaction or dissatisfaction of citizens with the solving of certain issues, analyses of topical voters' preferences, analyses of acceptance of extremism, integrations of immigrants of other cultures etc.). Another effective tool is targeting to the certain chosen citizen group (new voters or pensioners, socially weak or members of the middle class and other groups of citizens). Positioning is mostly the tactics for increasing voters' support but it has to be closely connected to targeting. Analytics continuously work with the results of benchmarking and, according to the necessity; it changes the tactics of political fight or introducing required topics and proposals for solutions to marketing communication (Chytilek et al. 2012).

The preparatory phase, research, proposal for strategy and implementation is as important as the campaign itself—realization phase. Within its framework the classical principles for relations with public are applied, the necessity to use modern tools of digital marketing mainly social networks and online marketing methods and



Fig. 1 Political marketing tools. Source: Adapted and modified from Less-Marshment (2014)

media. What is amoral in commercial environment does not apply for political marketing. Defamation of competitors, very tough methods of guerrilla marketing and pointing to failures and missteps—current and the past ones, this is approved and admissible in political marketing. Political subjects choose advertising methods and instruments by themselves and methods of marketing communication do not have to be correct in relation to competitors, it has to be only legislatively unassailable. Then political marketing often has a profit from methods and attitudes that profit subjects cannot afford. However, it does not mean that these steps are welcomed and accepted by voters. From the long-term point of view it is the one who all the time points out to mistakes of competitors indeed interesting and gains the big space in media, but he is in the eyes of voters someone who draws up his own strategy on the basis of steps of competitors and he is reliant upon what comes out of political environment, reacts on that but is not prepared to influence that environment

what is required in politics. Marketers and analytics from the field of political marketing state that the correct political marketing has to have the ability to communicate changes and reach the “heart, sense and also wallet” of voters (Smolka 2015). The object of political marketing is a voter who gives their vote in favor of political subject based on political marketing of their candidate or political party. Marketing in politics functions as the main creator and “influencer” of public opinion.

3 Political Communication in the Slovak Republic in 2014–2017

Political communication in the Slovak Republic has always played the role from its establishment in 1993. The way, how the Slovak politicians acted in public, how they worked with the public or certain chosen group of voters, what methods and instruments led and lead their political and election campaigns has always been shown also in the results of election (Štensová and Štarchoň 2009). Political subjects have used political marketing for gaining the favor of voters but regarding the historical development and election successes newly established political subjects, as well as the successes of independent (non-political) candidates, it is possible to conclude that the big part of political communication ran mainly one-direction.

The Slovak Republic was established as the single state only 25 years ago and as of September 30, 2017 has 5,441,899 citizens. However, it is possible to grab the genesis of political marketing communication, to name the change of its tools which were and were not successful, to state when and with what intensity social networks entered into processes, to name why some marketing activities failed and on the contrary which anticipated expectations (Smolka et al. 2016). In the Slovak Republic, political subjects that are most intensively represented by political communication are the political parties, movements, and not only they but also individuals without the political membership who want to succeed in elections.

In the paper, we present the chosen results of the four own questionnaires which were realized on the occasion of the different elections in years 2014 and 2017. The questionnaires were realized always before and after election period from 05.03.2014 to 17.03.2014—282 respondents, on the occasion of the direct election of the President of the Slovak Republic, from 08.11.2014 to 02.12.2014—208 respondents, on the occasion of municipal elections—elections of municipal councilors and mayors of municipalities, town sections and mayors of towns from 22.02.2016 to 08.03.2016—390 respondents, on the occasion of Parliamentary elections from 21.10.2017 to 07.11.2017—212 respondents on the occasion of the elections to the authorities of self-governing regions and presidents of self-governing regions.

Regarding the focus of the paper on marketing communication, we have chosen from the research those topics that are directly connected to the topic of this paper.

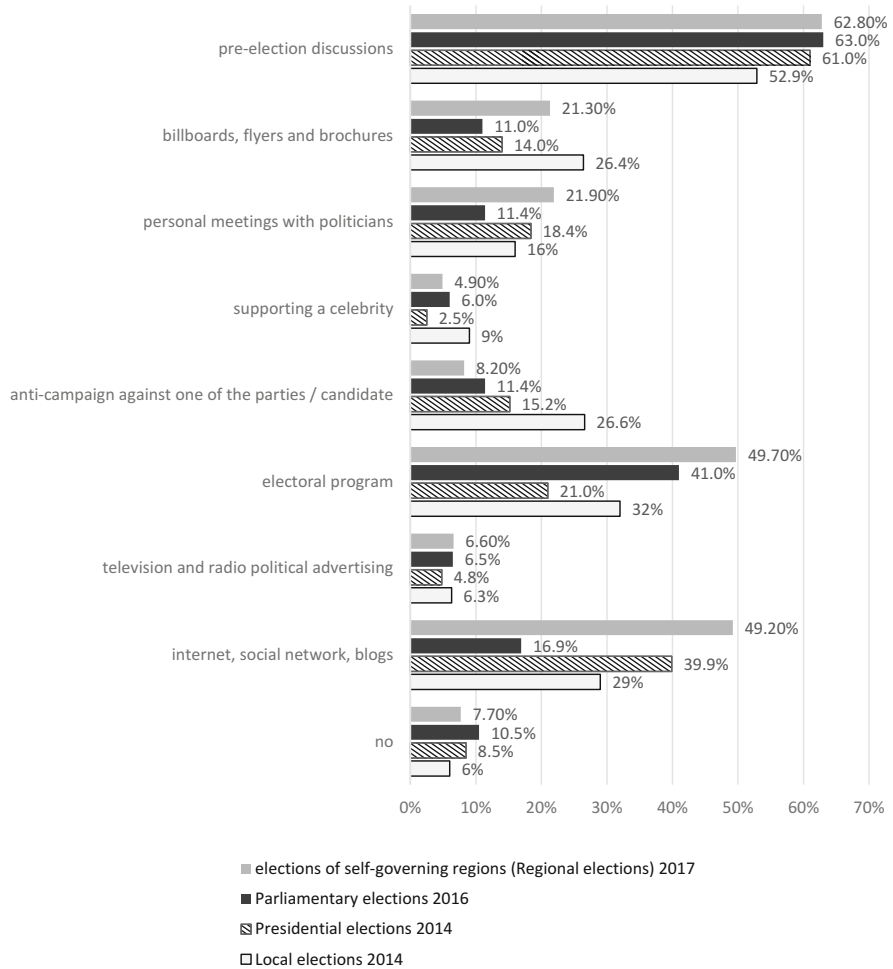


Fig. 2 Pre-election preferences of form of marketing. Source: Own research

We asked respondents in all four questionnaires: What form of marketing of political parties or candidates usually interests you the most before elections? (Fig. 2).

Respondents clearly preferred pre-election discussions in all four questionnaires in different elections. Voters emphasized the program, the strategy of candidates and political subjects, they were interested in what topics and actors offer solutions to them. However, those are the topics of pre-election discussions. The evaluation of campaigns on the internet and social networks has shown to be the necessary presumption of the successful marketing campaign, however not decisive. It also results from the graph that for example the support of celebrities plays in political marketing campaign the smallest, almost negligible role.

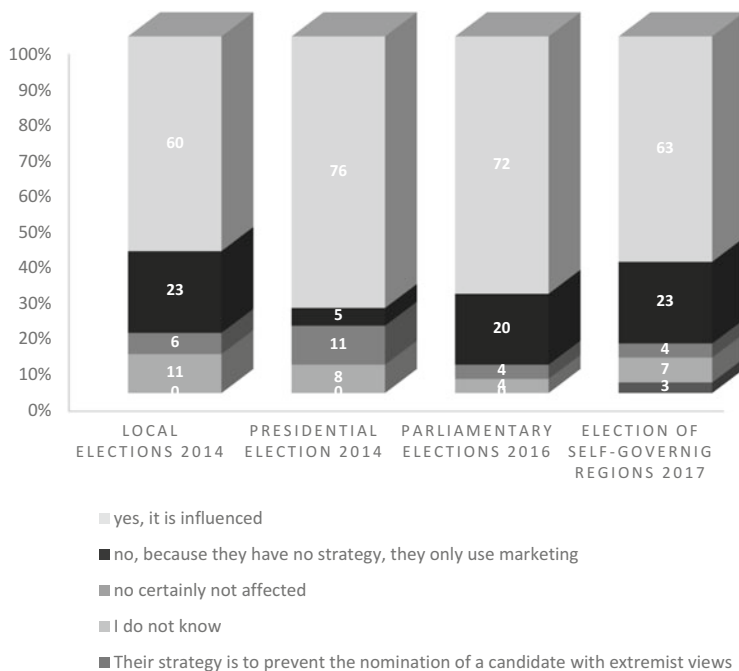


Fig. 3 Does the strategy of candidate or political party influence political marketing and electability? Source: Own research

Because visions and strategies play in elections such a significant role, we asked respondents: Does the strategy of candidate or political party influence political marketing and electability? (Fig. 3). As it resulted from questionnaires, only the minimum number of respondents was not interested in any marketing campaign, what clearly confirms the opinions of theoreticians about the importance of marketing for political subjects if they wanted to succeed in the campaign. It is at the same time clear that political marketing communication impressed and influenced most intensively presidential election (76%), in which the independent candidate succeeded without the support of any political party. Also in other elections monitored, more than 60% shows that the deciding of voters depends on marketing campaign and its ability to attract the interest and to persuade voter with current topics, aims and conceptions about its implementation.

The results of researches enable us to evaluate also how marketing activities address voters of different generations. To make it easier, in the following graph, we divided respondents into two groups and summarized answers according to the age of respondents 18–30 years and older than 30 (Fig. 4).

The presumption that the internet and social networks will dominate in younger respondents is not surprising. However, the importance of pre-election discussions was put by respondents of all age groups, only media that are used for that purpose are probably different. In the Slovak Republic, according to this research, young

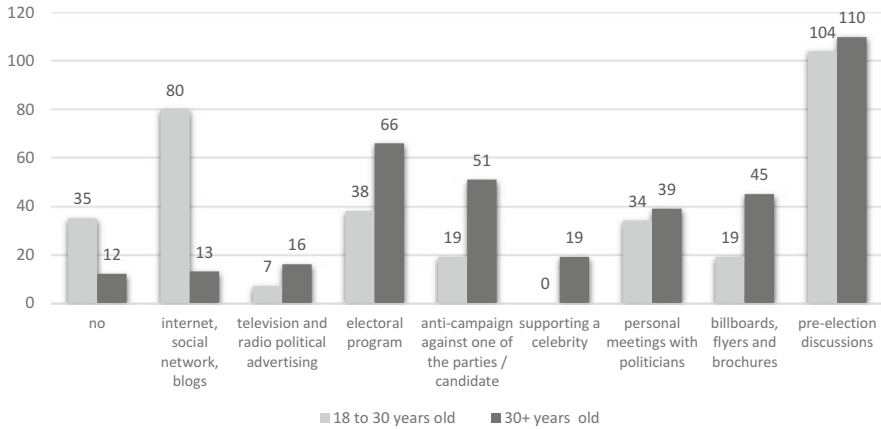


Fig. 4 Which marketing activities address voters? Source: Own research

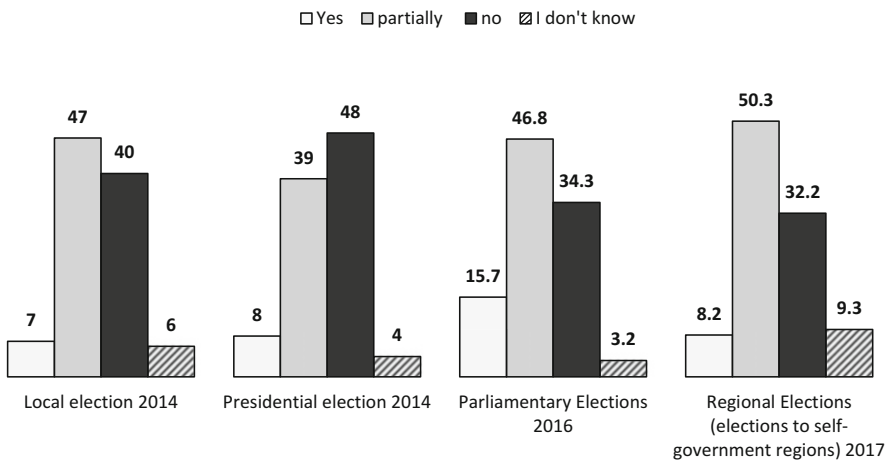


Fig. 5 Influence of campaigns on the preferences. Source: Own research

people react more to feelings and impressions, in other words they dedicate more attention to marketing communication and its content than to election programs (Fig. 5).

Psychologists has been warning for a long time that respondents do not like admitting that only marketing activities have influenced their decisions. In polls, they always state also other reasons. Marketing communication, in this case, marketing of political subjects in a campaign did not play according to respondents a key role in decisions-making process of voters. However, the answers “partially” prevailed in polls. It is then possible to think about that if we count the answers “yes” and “partially” we will get the interesting percentage that exceed 50%. In this

case marketing campaigns in three from four polls recorded success and fulfilled the purpose that they had in the political fight.

4 Conclusion

A voter is a part of political system that is at the same time a microsystem itself. The output of marketing campaigns is the voting of voters or their absence in voting. The results from research have not coincided with those that research agencies presented before the particular elections. In the Slovak Republic even in the case of parliamentary elections and elections of the authorities of self-governing regions there were discussions about the failure of opinion polls as the deviance was from 6 to 8% (the standard deviance is 3%). Five different agencies and their pre-election surveys were involved. The role of research agencies and the importance of opinion polls were significantly weakened by this. The results of the researches of agencies should serve for the identification of the accuracy of marketing aims or strategies and verification of attractiveness of existing politicians but also for the research of the reactions of voters for the new political ideas or topics. The results of the own researches have clearly pointed out to the increased necessity for change in the application of some tools of marketing communication and to the need to offer more sophisticated concepts based on understanding voters as in commercial sphere. To understand the voters' behavior, their motives and preferences, to include current topics in campaigns, to have professionals in their own ranks that are qualified to decide correctly in favor of citizen requires deeper knowledge of problematics and more thorough analyses of political subjects. It indicates the necessity to work more actively and more systematically with voters and mainly to fulfil pre-election promises and keep what was promised.

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Muslim Consumers' Attitude Toward Non-Muslim's Halal Food Operators: Evidence from Malaysia



Shaizatulaqma Kamalul Ariffin, Ainul Mohsein Abdul Mohsin,
and Yashar Salamzadeh

Abstract Halal industry has become the center of attention worldwide as one of the most important emerging businesses to be researched and developed. Growing demand from approximately 1.8 billion Muslims in the world has become a crucial initiative for Halal industry in many different countries around the world. Although several researches have focused on the purchase of Halal products produced by Non-Muslim food operators, but their findings are still inconclusive. Thus, this study aims to investigate Muslim consumers' attitude toward Non-Muslim's Halal food operators. Following Functional Theory of Attitudes, this study hypothesizes that consumers' utilitarian, value-expressive, knowledge and ego-defensive functions would influence their attitude toward non-Muslim's halal food operators (like feelings of attachment and dis/liking). Result from a survey of 124 Muslim consumers' confirmed utilitarian and knowledge functions directly influenced their attitude toward Halal food operators which are operated by non-Muslim. We expect the main results of current study to help the non-Muslim's Halal food operators to develop their best possible strategy in winning the heart of Muslim consumers and therefore experience a jump in their business too.

Keywords Halal food · Utilitarian function · Value-expressive function · Ego-defensive function · Knowledge function · Functional theory of attitudes · Non-Muslim's halal certified food operators · Malaysia

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1 Introduction

The market for Muslim or Halal food can no longer be ignored, from both economic viewpoint and market value viewpoint, mainly because of the huge population of Muslims around the world. According to the formal report of Pew Research Center in Washington, the population of Muslims consuming Halal food around the world is more than 2 billions and they are located in 122 countries, the growth is estimated to reach 2.6 billion by 2050; approximately 30% of the world's projected and estimated population (Pew Research Center 2017). In this regards, the halal food industry is listed among the fastest growing food related businesses and expected to increase its global market share (Lada et al. 2009). It has also become an attractive industry to firms due to its huge market valued at US\$1292 billion, equivalent to 17.7% of total global market share (Thomson Reuters 2014). This phenomenon is a result of religious conviction on halal in many Muslim countries and the consumption of halal food is a part of complying with the state law (Jamal 2003). Halal is a prevalent Arabic word, common and linked to the Islamic faith all around the world (Wilson and Liu 2010). Halal word can be defined as “legal, lawful, legitimate, licit, permissible, permitted, allowable, admissible, allowed, unprohibited” (Baalbaki 1997). One of the simplest ways for Muslims to get sure on what they are buying is halal is by shopping products that have the Halal logo and certification (Shafie and Othman 2006). As a result, many companies around the world are now observed to use the halal logo or some form of related images (e.g. mosque, Qur'anic script) printed on the product's label to attract the Muslim consumers.

Malaysia as a role model of Islamic country is well known to contribute to the ever-growing Halal industry (Rahman et al. 2013). Malaysia is among the leaders in the halal food research and is the first country to develop and introduce Halal status and Halal logo in 1971 and also Halal standard of MS1500 in 2004. It has also ran the “Halal hub” in 2006 as a response to the incredible growth of the global Halal market (Ambali and Bakar 2013). With a full governmental support, Malaysia has developed halal certification using Islamic laws prescription in all its related operations (Aziz and Chok 2013). Malaysian government has made it mandatory for all food products which are declared as Halal to have Islamic Development Department of Malaysia's Halal logo and certifications. Previous studies on Halal certification have stated that the main requirements of Islamic Development Department of Malaysia (JAKIM) are the strictest among all other nine Halal certification bodies around the world (Abd Latif et al. 2014). Malaysia as one of the most influencing members of the Organization of Islamic Conference (OIC), has shown great efforts for its Halal certification as an international standard logo and Halal certification to get used by all Muslim countries or countries hosting Muslim populations.

Although halal is a regulation originally meant only for the Muslims to follow, it is observed that firms participating in this industry come from the non-Muslim regions and countries at a larger scale compared to those from Muslim countries. Many food operators and food Manufacturers use Halal logo as an important way to ensure customers that their foods or products are Halal compliant. This indicates that

using Halal products is triggered not only by Islamic motivations but also because of many other diverse reasons such as health, environmental friendliness, hygiene, and respect for animal welfare which influence the public's feeling and perception towards Halal approach (Badrudin et al. 2012).

Although Halal certification is not mandatory for non-Muslim food providers, the power of Muslim consumers has nudged the food operators to apply for halal logo and certifications. Thus, in 2012, 18% of non-Muslim food operators had applied halal certification from JAKIM, and that 60% have received the JAKIM halal certifications. By offering halal products, many companies try to win Muslim consumers' hearts and minds (Wilson and Liu 2010). Besides what mentioned above, there is not a great difference between Muslim consumers' and any other consumer, demanding clean, healthy and high quality food, which adhere to the Shari'ah requirements and guidelines (Al-Harran and Low 2008). As an example, a year after getting the Halal certification, McDonald's in Singapore had an influx of eight million patrons or Burger King, Halal KFC and Taco Bell all have experienced a 20% increase in the number of customers since getting Halal certification (Sabri 2006). For Muslim consumers', the Halal logo might be assumed as both religious and quality cue; whereas for the non-Muslim consumers', it may serve as the quality cue only (Grunert 2006). As for that, we can see that the Halal industry is no longer a business that simply complies with Islamic guidelines but has also become an emerging economic factor both in domestic and global markets.

Non-Muslim's halal food shops in Malaysia are significantly growing, but unfortunately, there are still many Muslim consumers' who refuse to purchase from non-Muslim's halal food operators (Yazam et al. 2011; Sholina Osman 2010; Zulkeffi 2010). Many negatives news in regards to the halal status have appeared in the Malaysian mass media recently, such as, the misuse of halal certificate and logo as well as non-compliance with halal standard by various non-Muslim food operators. Besides, little researches have been made to recognize the buying behaviours of Muslim consumers' toward halal foods and products that have been produced by non-Muslim suppliers. Despite the attractiveness of the halal market and its growth, research in halal food consumption within the Muslim market has been surprisingly ignored (Bonne and Verbeke 2008). Moreover, it can be felt that a lack of original knowledge regarding the correlation between the halal concept and consumer attitude in the context of non-Muslim Halal food operators is clear. Therefore, following Functional Theory of Attitudes, this study aims to examine the correlation between Muslim consumers' attitude functions including knowledge, Utilitarian, value-expressive and ego-defensive functions on one hand and attitude toward halal food outlets which are operated by non-Muslims on the other hand. This study is significant as understanding Muslim consumers' attitude in regards to Halal logo and certification is imperative for marketers and business people in Muslim countries. Besides, according to the increasing number of non-Muslim's halal food shops in Malaysia, the concept of Halal food needs to be further studied in this context. Policy makers can also take into consideration how to increase Muslim's confidence and trust in halal food outlet which are operated by non-Muslim food operators.

2 Literature Review

2.1 *Muslim Consumers' Attitude Toward Halal Food Outlets*

According to Fishbein (1967) attitude is “a learned predisposition of human beings”. It can be defined in many different ways such as a personal evaluation, or an emotional feeling about and action tendency toward some ideas or objects (Kotler 2000). It is someone’s positive or negative mindset toward an action. Meanwhile, religion influences consumers’ behavior in many societies (Pettinger et al. 2004; Delener 1994). It is also a main factor in decision making about food purchase and food habits in individuals and society (Bonne et al. 2007). Muslim consumers’ attitude toward Halal products and food is imperative in distinguishing the Muslim’s behavior towards halal food consumption. It is important for Muslim consumers’ to have a positive attitude and awareness on halal food consumption as it is part of the religious obligation. In Malaysia, consumers’ attitude on halal food is closely related to Halal logo and certification by JAKIM. Halal logo ensures that the food is permitted to be consumed by Muslims and indicates the respective food shop have undergone strict inspections in order to issue the certification. Halal certification provides a unique competitive advantage for manufacturers on one hand and a high quality assurance for consumers on the other hand.

Several studies in the past stated that Muslim consumers’ attitude toward halal might be influenced by diverse issues such as Islamic and religious belief, Public media and people around the consumers. JAKIM halal logo and certification is also vital in shaping Muslim consumers’ attitude and behavior towards Halal food outlets (Khalek 2012; Azam 2016; Widodo 2013). A survey by Al-Nahdi and Islam (2011) toward Malaysian Muslims indicated a significant correlation between subjective norms, attitude, perceived behavior control and intention to use Halal restaurants. The study also reveals ambience mediates the correlation between independent variables and consumers’ intention to patronage halal restaurants in Malaysia. Alam and Sayuti (2011) also confirmed in a study on attitude towards halal meat purchasing that again subjective norms, attitudes and behavioral control have a positive and significant impact on purchase intention of Halal food. In relation to attitude functions, a study by Ariffin et al. (2016) revealed that value-expressive and utilitarian functions greatly influence consumers’ attitude toward the advertisement of non-certified coffee shops. This study also indicated that Islamic religious symbol influenced Muslim consumers’ favorable attitude towards the advertising. Contribution of these articles to our research is specific to the attitude component, indicating the favor or disfavor toward a purchasing behavior. However, past studies did not investigate on the attitude functions of Muslim consumers’ towards Halal food outlets operated by non-Muslims. In view of that fact, Muslim consumers’ attitude toward non-Muslim halal food outlets might have different results. Therefore, this study is ran to find out Muslim consumers’ attitude towards Halal food outlets that operated by non-Muslims.

2.2 *Functional Theory of Attitudes*

According to the Functional Theory of Attitudes in order to clarify how attitude facilitates social behaviors. Four functions are identified within the functional approach as a theoretical lens. This theory suggests that attitudes can fulfill the psychological needs of any individual (Olson and Zanna 1993). It addresses the motivational basis of consumers' attitudes or the functional underpinning of their attitudes. Based on this theory, attitude functions are defined as the basics of consumers' psychological needs, initiative or justification of what ordinary people are looking for when buying a product or service. Consumers form attitudes based on the degree to which they satisfy different psychological needs (functions) of themselves (Katz 1960). Furthermore, it can be helpful for marketers to know why people hold an attitude before attempting to change it (Katz 1960; Murphy and Narkiewicz 2010). O'Keefe (2002) added that the functional theory can be related to numerous and various motivations depending on the purpose, and a person's behavior is a function of a his/her attitude related to that behavior. These attitude functions are developed to fulfill some consumer needs and act as the main basis for attitude formation, eventually influencing the behavior (O'Keefe 2002). The Functional theory of attitudes is relevant to consumer behavior which can retrieve favorable consumer responses toward the brand, purchase intention and advertising (Shavitt 1990) during evaluation toward the attitude object.

The first function of Functional Theory of Attitude is utilitarian function. Utilitarian function is defined as where attitudes reflect experiences with rewarding and punishing obtained from the environment (Clary et al. 1998). Several studies have taken this strategy in their consumer behavior research such as benefit segmentation (Myers 1976), decision-making (Johnson 1984), multi-attribute attitude models (Oliver and Bearden 1985), "hard sell appeals" (Snyder and DeBono 1985) and perceptual mapping (Green and Carmone 1970). A study by Ariffin et al. (2016) has stated that utilitarian function is positive related to Muslim consumers' attitude toward advertisement of non-certified coffee shop. In relation to this study, consumers may form positive attitudes toward non-Muslim Halal food operator because it has the halal logo and certification. Based on this, Hypothesis 1 is proposed as below:

H1 There is a significant and positive correlation between utilitarian function and attitude towards non-Muslim's Halal food operators.

The second function of Functional Theory of Attitudes is value-expressive functions. Value-expressive function is to help people to express deep values, dispositions, and convictions (Clary et al. 1998). In the value-expressive function, people act to maintain and enhance self-identity or image (Choi and Reid 2016). It is opposite to the ego-defensive function. The value-expressive function is important as it allows consumers to achieve self-expression of their values and the type of their perception about themselves (Murphy and Narkiewicz 2010). Daugherty et al. (2008) argued that value-expressive function often reflects the internal moral beliefs,

always associated with serious topics and issues (religion, political positions). Their study provides evidence that when value-expressive function increases, consumer attitude increases too. Meanwhile, a study by Ariffin et al. (2016) found that the image and value which non-certified coffee shop's advertisement symbolizes was related to Muslim consumers' value-expressive function; and that value-expressive function was related to attitude toward advertising of coffee shop. In relation to this study, the value-expressive attitudes helps different consumers to declare their central and core values and also their self-concept when evaluating the non-Muslim's Halal food operators. The halal logo that consumers see may influence their evaluation toward non-Muslim's food operators. Based on discussion above, Hypothesis 2 is proposed as below:

H2 There is a significant and positive correlation between value-expressive and attitude towards non-Muslim's Halal food operators.

The third function of Functional Theory of Attitudes is ego-defensive function. Ego-defensive function is where consumers protect themselves from either external threats or internal conflicts (Clary et al. 1998). Narayan (2010) claimed that in general psychology, the ego-defensive attitude is an important way for consumers to refuse their own unsettle aspects. It stems from the psychoanalytic theory and views attitudes as often being subconscious and held to safeguard the consumer's ego (Katz 1960; Murphy and Narkiewicz 2010). Ariffin et al. (2016) found that consumer who has higher religiosity level may have lower level of ego-defensive function toward controversial coffee shop. In this current study, consumers may be able to relate themselves with the halal logo that non-Muslim's food operators have displayed in their restaurants. Although there are lots of negative news on media about misuse of Halal certificate and logo as well as non-compliance with halal standard by various non-Muslims' food operators, consumer would be influenced by the Halal logo which may protect themselves from either external threats or internal conflicts. Therefore, Hypothesis 3 is presented as below:

H3 There is a significant and positive correlation between ego-defensive and attitude towards non-Muslim's Halal food operators.

The last function of Functional Theory of Attitudes is knowledge functions. Knowledge function is where attitude are thought to bring a sense of understanding to the world (Clary et al. 1998). It helps consumers to find meaning, organize the environment and in general serves as clarity and stability to the person's view of the world (Katz 1960). This function gives the consumers a categorization of advertisements and some indications of what their behavior toward advertising should be (Murphy and Narkiewicz 2010). Solomon (2009) has mentioned that knowledge function is established when consumer are cautious in organizing structure considering their opinion and/or attitude toward a needed service or product. Besides, Fazio (1989) claimed that knowledge function "is used to serve all attitudes to some extent". It seems like having an attitude towards products or issues can result in a reassuring sense of sympathetic understanding and it facilitates the decision making. Based on what discussed above, Hypothesis 4 is proposed as below:

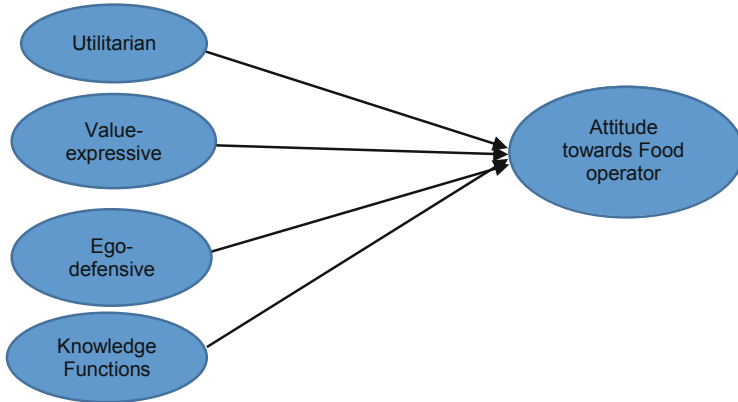


Fig. 1 Theoretical model. Source: Developed by the authors

H4 There is a significant and positive correlation between knowledge function and attitude towards non-Muslim's Halal food operators.

The proposed theoretical framework is illustrated in Fig. 1. The independent variables represent knowledge functions, ego-defensive, value-expressive and utilitarian. The dependent variable is attitude toward non-Muslim's Halal food operators.

3 Methodology

In April 2017, a total of 132 questionnaires were distributed to willing Muslim consumers who patronize various Halal food outlets that owned by non-Muslims in Malaysia over a period of 3 months. Of 132 returned questionnaires, only 124 (93.9%) were usable for further analysis. Items for the questionnaire, namely, utilitarian function (This restaurant has connected with something I want, need or should need) value-expressive function (This restaurant present some image about me), ego-defensive function (This restaurant makes me feel good about myself), knowledge function (I am able to gain new perspective on things when I visit this restaurant) and attitude toward coffee shop (This restaurant serve meals that are eaten by all races) were adapted from previous studies (Franc and Brkljacic 2005; Rezaei et al. 2012; Yusof et al. 2016). Likert scale is used to measure three item statements on consumer confidence in Halal logo (from 1 equal to strongly disagree to 5 equal to strongly agree) and five item statements on value-expressive function (from 1 equal to not at all important to 7 equal to extremely important) while numerical/semantic differential scale (numbers of a seven-point scale is provided, with bipolar adjectives at both ends) is used to measure five item statements on attitude toward Food operator. The data is analyzed by the Statistical Package for the Social Sciences (SPSS) and Partial Least Squares Structural Equation Modelling (PLS-SEM).

4 Results

Out of 124 returned questionnaires, majority of the respondents are female (53.9%), from the age category of 21–30 years old (57.8%), possess Diploma degree (33%) and an income level around MYR 1501 to MYR 3000 per month. Around 64% reported that they have visited non-Muslim' Halal food outlets 1–5 times within the last 6 months.

Convergent validity is a degree to which questions from the same construct should share a high portion of variance in common; factor loadings that exceed 0.50, composite reliability (CR) more than 0.7 and average extracted variance (AVE) of more than 0.50 can be concluded acceptable (Hair et al. 2010). As it can be seen in Table 1, the loadings for all items are above the recommended value; and the CR values that ranged from 0.901 to 0.983; and AVE (0.753–0.921) are above the cutoff values. Based on these results, the measurement model is concluded to have adequate convergent validity; with all three constructs considered valid measures according to their statistical significance and parameter estimates (Chow and Chan 2008).

As this study used single source data, potential for common method variance also exists. Thus, the Harman single factor test was used to clarify the expanse of this bias. Podsakoff and Organ (1986) suggested that if a single latent factor carries the

Table 1 Final results of the measurement model

Construct	Items	Loading	CR	AVE
Utilitarian	UT 1	0.927	0.933	0.776
	UT 2	0.901		
	UT 3	0.838		
	UT 4	0.855		
Value-expressive	VE 1	0.913	0.975	0.885
	VE 2	0.926		
	VE 3	0.957		
	VE 4	0.943		
	VE 5	0.963		
Ego-defensive	ED 1	0.953	0.983	0.921
	ED 2	0.943		
	ED 3	0.976		
	ED 4	0.970		
	ED 5	0.958		
Knowledge	KN 1	0.925	0.929	0.812
	KN 2	0.898		
	KN 3	0.881		
Attitude towards food operator	ATT 1	0.929	0.901	0.753
	ATT 2	0.812		
	ATT 4	0.859		

Note: ATT 3 and ATT 5 were deleted to low loadings

Table 2 Discriminant validity of the constructs

Constructs	Utilitarian	Value-expressive	Ego-defensive	Knowledge	Attitude towards food operator
Utilitarian	0.881				
Value-expressive	0.554	0.941			
Ego-defensive	0.533	0.878	0.960		
Knowledge	0.716	0.671	0.580	0.901	
Attitude towards food operator	0.385	0.398	0.410	0.213	0.868

majority of the explained variance, common method bias can be problematic. The unrotated factor analysis shows that our first factor carried 39.19% of total 73.17% variance, thus the common method bias could be neglected and is not serious in current study.

Table 2 presents the discriminant validity of constructs for this study on which adequate convergent validity and Discriminant validity are demonstrated using measurement model. Definition of the Discriminant validity is the extent to which a construct differs from other constructs (Hair et al. 2010). The AVE squared root for each construct should be more than the value of correlation for each construct (Compeau et al. 1999).

The results of the modelling used for hypothesis testing are illustrated in both Fig. 2 and Table 3. The R2 for main model was equal to 0.253. It means that 25.3% of the variance in the attitude toward non-Muslim's Halal food operators variable can be explained by ego-defensive function, value-expressive function, utilitarian function and knowledge utilitarian. Table 3 results show that only two out of four relationships were significant $p < 0.10$ indicating that both H1 (positively) and H4 (negatively) are supported, whereas H2 and H3 were not supported.

5 Discussion

This study is about to examine the correlation between Muslim consumers' attitude functions (utilitarian, value-expressive, knowledge and ego-defensive) and attitude towards non-Muslim's halal food operators. Two out of four hypotheses were supported (H1 and H4) via the effect of utilitarian function on attitude toward food operators and the effect of knowledge function on attitude toward food operators. Meanwhile, two other functions including value-expressive and ego-defensive failed to affect attitude toward Non-Muslim food operators (H2 and H3) and were found to be insignificant.

Hypothesis 1 stated that Muslim consumers' utilitarian function has a significant relationship with attitude toward non-Muslim's halal food operators. This implies that the higher the utilitarian function of consumer, the more favorable the attitude toward the present food outlets. This is understandable because utilitarian is

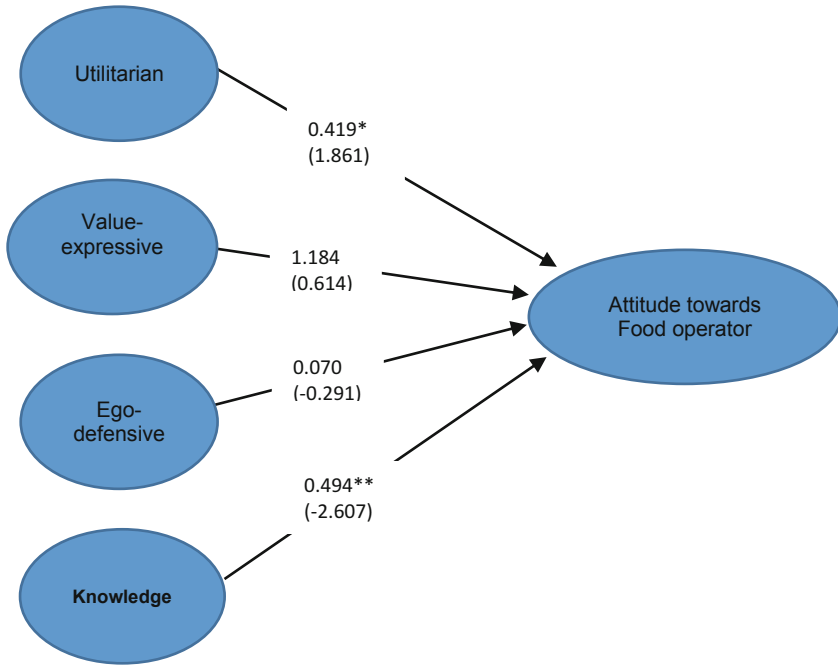


Fig. 2 Structural equation model. Note: *Significant at $p < 0.1$, **significant at $p < 0.05$, bootstrapping (n = 500)

Table 3 Structural model for direct effect

Hypo	Relationship	B	SE	T-value	Decision
1	Utilitarian → attitude	0.419	0.320	1.861*	Supported
2	Value-expressive → attitude	0.614	0.486	1.184	Not supported
3	Ego-defensive → attitude	-0.291	0.431	0.070	Not supported
4	Knowledge → attitude	-0.494	0.408	-2.607**	Supported

Significant levels: ** $p < 0.05$, * $p < 0.10$

attempted by consumers to maximize rewards (getting food and drinks) and minimize punishment from the environment (feeling starving). It is possible to say that Muslim consumers’ visited the non-Muslim’s food outlets just because they want to eat and drink. The halal logo which has been displayed by this restaurant influence them to have a positive attitude toward non-Muslim’s Halal food operators. The finding of this study is in line with Ariffin et al. (2016) study that found utilitarian function significantly influence consumers’ attitude toward an advertisement of non-certified coffee shop.

The finding of Hypothesis 4 reveals that Muslim consumers’ knowledge function has a significant relationship with attitude toward non-Muslim’s halal food operators. However the relationship is in a negative direction. This illustrates that the higher the knowledge function of consumer, the more unfavorable the attitude

toward non-Muslim's halal food operators. It is possible to say that the respondents of the current study found this non-Muslim's halal food outlets is a known products. Respondents' awareness of the recent negatives news in regards to the halal status that have appeared in the Malaysian mass media recently is higher. It can be stated that the more the respondents aware about the Halal issues of non-Muslim's halal food outlets, the more unfavorable the attitude toward it would be. The finding of this study is contradicted with past studies that found the correlation between knowledge function and attitude towards advertisement of non-certified coffee shop is insignificant (Ariffin et al. 2016).

On the other hand, the finding of this study reveals that the value-expressive function and ego-defensive functions do not influence consumer attitude towards non-Muslim's halal food operators (H2 and H3). The finding of Hypothesis 2 is contradicted with past studies that stated the significant effect of value-expressive function on consumer attitude towards the advertisement of non-certified coffee shops (Ariffin et al. 2016). This implies that non-Muslim's halal food operators did not present some images about the respondents. This food outlets did not reflect respondent as a person and it is not related to his/her self-image. Although there is a halal logo has been displayed by the food outlets. It did not convince Muslim consumers' preferences towards them. Meanwhile, the finding of Hypothesis 3 is in line with previous research which found ego-defensive function was not related with Muslim consumers' attitude toward the advertisement of non-certified coffee shop (Ariffin et al. 2016). One possible explanation could be that Muslim consumers' attitude toward non-Muslim's halal food operators was not influenced by their ego. Some of the past studies had stated that the relationship between ego-defensive function and attitudes generally is related to considering the social environment rather than purchasing behavior (Lutz 1981). Consumers did not face any external threats and internal conflicts when evaluating this food outlets. In conclusions, the non-Muslim's halal food outlets does not serve the Muslim consumers in Malaysia, the value-expressive function and ego-defensive function.

6 Conclusion

The findings from this study suggest that utilitarian function and knowledge function are the main contributor for Muslim consumers' attitude toward non-Muslim's halal food outlets. In specific, utilitarian function that was examined on consumer attitude toward non-Muslim's food operators has a significant positive impact on consumer attitude. Whilst, knowledge function that was examined on consumer attitude toward non-Muslim's food operators has a significant negative influence on consumer attitude. Muslim consumers' that visited non-Muslim's food outlets seems to be more confident when the food outlets they patronize carried the Halal logo. Meanwhile, Muslim consumers' that are more knowledgeable and concern with the halal issues and non-compliance with the halal standards and guidelines may perform unfavorable attitude toward non-Muslim's Halal food operators.

This study has many practical contributions. Firstly, it points to non-Muslim's food operators and Halal service providers where they should improve their service performance in terms of Halal compliances. Since many of the non-Muslim's food operators carried the halal logo and certification and many more applying for this certification, they should comply with the halal guidelines and standards. If they take religion issues less seriously, they will lose Muslim market as well as diminishing their positive image in the country. For academics, they could take this study as a stepping stone to continue this area of study since there is a very small number of literature regarding consumers attitude toward non-Muslims' halal food supplier.

The current study is not specifically designed to evaluate factors related to the moderator and mediator effect of attitude functions and consumer attitude toward non-Muslim's halal food operators. It is suggested to Future researchers to include the moderating effects of confidence in Halal logo, religiosity and awareness in the model, to see their influence on the relationships in current conceptual model.

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Part II

Management

Business Impact of the Imprecise Implementation of European Directives on Cross-Border Companies Restructurings



Beaneta Vasileva

Abstract The paper studies the business and economic impact on the application of Directive 2005/56 of the European Parliament and the Council of the European Union (EU), which gives access to limited liability companies to cross-border restructuring and mobility in the European Single Market. More than a decade after the implementation of the Directive the differences in the national legislations still does not guarantee equal access to the companies. The paper studies the conflict of law rules in the national laws which affects the interests of creditors and illustrates the impossibility for the protection of their economic interest. The paper suggests a number of solutions for improvement of the existing legal framework.

Keywords Cross-border restructuring · European single market · Creditor protection · Conflict of laws

1 Introduction

About a decade after the transposition of the rules of the Directive 2005/56 of the European Parliament and the European Council, a new era in companies cross-border mergers has marked a new global activity of companies within the European Union and the European Economic Area. This Directive has been of a great importance for Bulgarian economic organizations, the Directive was a step forward following the program of harmonization of company law in the European Union, an important factor contributing to the integration of national markets, the development of the Single Market and the consolidation of the European Single Market.

The cross-border nature of the problem under examination concerns rules of an international private law nature which require clarification of a matter that is not directly related to the rules on cross-border merger. The involvement of companies from different member states requires clarification of the concept of “nationality” of commercial companies and the applicable law in the transformations where the

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change of nationality of some of the participating companies implies even greater precision in transposing the rules of Directive 2005/56/EC (OJ 2005). The movable conflict of laws arising from the change of applicable law puts the national legislature in the test of protection of the interests of creditors, shareholders, partners, employees and employees. This paper aims to clarify the legal regime of cross-border mergers of limited liability companies after the transposition into the Bulgarian Commerce Act (Commerce Act 1991. s.265g (1)) of the norms of Directive 2005/56/EC (OJ 2005) introduced by the Law for amendment and supplement of the Commerce Act promulgated in State Gazette № 104 of 11 December 2007 (Law for Amendment and Supplement of the Commerce Act 2007).

The introduction of the Directive in the Bulgarian national legislation was made through the creation of new provisions to the General Provisions in the Bulgarian Commerce Act (Commerce Act 1991) into the section which regulates the Transformation of Commercial Companies (Commerce Act 1991. s.261e (1)). A new Section V of Chapter Sixteen of the Commerce Act (Commerce Act 1991) entitled “Transformation with Participation of companies from member states of the European Union or from another state—party to the Agreement on the European Economic Area, was created” (Commerce Acts. 265d–265c of the Commercial Act). The merger rules are clarified according to the regulation of the rules of the European Company Statute (the SE 2001), Regulation 2157/EC on the European Public Limited Company (Council Regulation (EC) 2001). The Regulation analyses the specific scope of application of its norms and clarifies the extent to which they and the rules of Directive 2005/56/EC overlap in terms of their scope and norms by which legal act would be applicable under similar legal circumstances. Although the rules of the Directive are not directly applicable, the introduction of Directive 2005/56/EC in the Bulgarian national law was dictated not only by the membership of Bulgaria in the European Union. It was dictated also by the need to enact instruments which are designed to facilitate the cross-border restructuring of companies in the European Union and the European Economic Area. The other three instruments for cross-border restructurings of companies within the European Union are: The European Company Statute, which provides a supranational framework for limited companies of public type (the SE), in particular a mechanism for achieving cross-border mergers of national public limited companies by forming an SE; the Takeover Directive (Directive 2004/25/EC), which facilitates and regulates share transaction takeovers of European Union incorporated listed companies (including takeovers by third country companies). The last mechanism is the planned Proposal for a Directive on cross-border transfers of registered office, which would mean change in corporate domicile in the sense of changes of place of registration and thus the applicable law (Rickford 2007).

The directives provide instruments that are easier, more accessible and secure to enable companies operating on the European market a range of legal means—flexible, accessible and secure through which companies grow and restructure. It is important to remove barriers of any kind that prevent the restructuring, whether cultural, legal or administrative. In order to achieve the goal of the research several methods have been applied. The first method which finds application is the legal-

historical analysis follows the adoption of a legal act regulating the cross-border mergers of limited liability commercial companies within the European Union, the problems that hampered it and the way these obstacles have been overcome.

By applying the methods listed for achieving the objectives of the scientific development, the author of this paper assigns the following tasks:

- to clarify the essence of the concepts of cross-border merger of limited liability commercial companies;
- to analyze historically the emergence of the idea of cross-border mergers of companies as well as proposals for the adoption of Directive 2005/56/EC;
- to analyze the case-law of the European Court of Justice in resolving issues relating to the realization of the free movement of capital, a kind of form of which is the cross-border mergers of commercial companies;
- to clarify the specificity of the regulation and make a comparative legal analysis of the regulation of matter in other European legal sources such as Regulation 2157/2001, which regulates a similar legal matter;
- to compare the legal framework of cross-border mergers covered by the Bulgarian Commerce Act (Commerce Act 1991) and the Directive 2005/56/EC;
- to clarify the specifics of protecting the interests for creditors, shareholders and partners regarding their rights in cross-border mergers of commercial companies;
- to justify the legal and social framework of the issue of cross-border mergers that affects the interests of persons other than direct participants in the merger;
- to clarify the issues that need to be addressed in relation to the protection of competition;
- to justify the need for amendments or additions to the Commercial Law *de lege ferenda* to simplify the legal framework for cross-border mergers;
- to identify in principle what the legal consequences of cross-border mergers are, the deepening clarification of which would be of interest to independent research.

Pursuant to the Commercial Act (Commerce Act 1991) and the national legal doctrine, the merger has a legal structure in which all the assets of one or more commercial companies called transforming companies are transferred to an existing company called the receiving company which becomes their successor, after which the transforming companies are terminated without liquidation. Affiliates or shareholders terminate their membership in the transforming companies by receiving shares or stakes in the receiving company in exchange for the transferred rights, obligations and factual relationships. The mergers are also institutes and concepts of competition law, which are forms of economic concentration and are regulated by the Competition Protection Act and Regulation 139/2004 (Council Regulation 2004) on the Control of Concentrations between undertakings, called Regulation of the European Community on mergers.

2 Concept of Merger of Commercial Companies

The effect synergy in mergers is one of the most important motives for achieving a business concentration. The better aggregated result expressed in the formula $1 + 1 > 2$ is the strategic goal of any business concentration and is the result of optimizing the production, financial, technological and human resources of the merged companies. The source of the companies' restructuring through mergers in the Bulgarian legislation is rooted in Directive 78/855/EEC, called the Third Directive. Since its entry into force, Bulgarian commercial law has been supplemented and enriched by almost completely accepting the regulations of the two directives—Directives 78/855/EEC on mergers and Directive 82/891/EEC on segregation and divisions of commercial companies. These directives, in turn, are based on art. 54, para. (Now article 50 of the Treaty on the Functioning of the European Union (TFEU)) and the General Program for the abolition of restrictions on freedom of establishment.

The scope of application of the rules of the Third Directive provides that they apply only to public limited liability companies of one and the same member state. Our legislator transposes the provisions of the Third Directive in Section II of Chapter Sixteen of the Commerce Act (Commerce Act 1991). Unlike the Third Directive, where both the merger by acquisition and the merger through the formation of a new company are defined as “operations”, the Bulgarian Commerce Act (Commerce Act 1991) restrains from giving an unambiguous indication of all the legal and factual actions of the complex factual composition which also represents the merger, leaving it to the legal doctrine. According to some authors, the concepts of “merging” are generic concepts of the generic concept of “transformation” and, according to others, the term “merger” is both generic and specialism. The first covers merger in a narrow sense. The Commercial Law lacks a legal definition of the concept of “transformation”, but from the content of art. 261, para. 1 it is clear that commercial companies can be “transformed” by merger, division, separation and separation of a sole proprietorship, as well as by changing the legal form. Thus, the term “transformation” is generic to denote the types of company restructurings. In legal theory, the term “transformation” also serves to denote one of the types of transformation, namely transformation in a narrow sense, when the company moves from one type of legal form to another. This transition from one form of legal organization to another as a “transformation” of the legal form of existence and “economic evolution”, since the original form is unable to fully satisfy the interests of the individuals involved in the enterprise (Lanjev 2003). Contrary to the transformation, merger has not only a transformation of commercial companies, but a transformation in the form of a merger of commercial enterprises, which is a qualitatively different legal phenomenon.

According to Goleva (2008), as well as the Bulgarian legislation in the Commercial Law, as well as the theory and case law under “transformation of commercial companies”, we mean all processes in which there is a change in the trade company concerning its legal envelope, its very existence as a legal entity, its content. In

addition, the transformation has two forms: the first is the transfer of the company from one legal organizational form to another and the second form of the transformation is the merger by acquisition, merger by formation of a new company, separation and division of commercial companies.

3 Concept of Cross-Border Mergers of Commercial Companies

By virtue of the Law for Amendment and Supplement to the Commercial Code (SG No. 104/2007) for the first time Bulgarian law permits companies to carry out transformations of Bulgarian limited liability companies, of the type of mergers, with companies from member states of the European Union (EU). When transposing the standards of Directive 2005/56 of the European Parliament and the Council in the Bulgarian Commercial Law, a new Section V was created in Chapter Sixteen entitled “Transformation with the participation of companies from member states of the European Union or from another member state of the European Economic Area”.

The concept of “merger” is generic by combining both types of transformation within the meaning of the concepts of merger by acquisition and the concept of merger by absorption incorporated in the Commercial Act (article 262 and article 262a). Merger within the meaning of article 2 (2) of Directive 2005/56/EC means, first, an operation whereby one or more companies transfer, at the time of termination of their business and without liquidation, their assets and liabilities to another existing acquiring company, against the provision of their members of securities or shares in the capital of the latter company. Secondly, in Directive 2005/56/EC “merger” means an operation whereby two or more companies transfer their assets and liabilities to a new company established by them. For the first and second transactions, a cash payment of no more than 10% of the nominal value of the securities or shares is envisaged. If they do not have a nominal value, then their book value is used to determine the amount of the cash payment. In defining the meaning of concepts, the same meaning as Bulgarian legislator puts in the concepts of merger, the Third Directive and Directive 2005/56/EC also provide the following. According to the Third Directive, ‘merger by acquisition’ is also an operation whereby one or more companies terminate without liquidation and transfer all their assets and liabilities to another company which is the owner of all their shares and other securities conferring voting rights in the general meeting (article 24 of Directive 78/855/EEC).

4 Legal Sources of Cross-Border Merger of Companies in EU Law

The main source of legal regulation at EU level of cross-border mergers of EU companies as well as with companies from countries party to the Agreement on the European Economic Area is Directive 2005/56/EC. Until its entry into force in European legislation, there is no regulatory framework for cross-border mergers of companies, which contains the legal mechanisms set out in the Directive and which are an alternative to applied acquisitions. On 25 October 2005, after a long road of consultations and discussions, Directive 2005/56/EC was adopted and on 25 November 2005 it was published in the Official Journal of the EU. The directive was adopted separately at first reading, both by the European Parliament and by the Council. The Directive is important in several aspects providing advantages for the participants. The Cross-Border Directive (CMD) contains procedure with lower costs and gave access to such forms of restructurings for all the member states of the EU and EEA. The enactment of CBD made harmonization process in national merger legislation more effective and costs saving as well. The possibility of merging cross-border throughout the EEA, in fact results with easy transfer of seat of the companies participating in the merger.

By all means the CBD facilitates the company's restructuring, avoiding unnecessary formation of SE company. This leads to more efficient integrated market. Analysis suggest that market integration is a main cause of cost savings. The companies are no longer restricted by political borders, thus their management decisions are more cost-effective and can lead to profitability and savings on waste. Savings can occur in various sources, such as organizational, regulatory and tax costs (Biermeyer 2013). CBD facilitates mergers between capital companies in the territory of different member states, which was not possible until the adoption of the directive or the high fees for other means of concentration constituted an insurmountable obstacle. The Directive provides a simplified procedure based essentially on the national legislation applicable to local mergers to avoid the liquidation of the acquire. The task of the Directive is to create transparency and security for all parties involved in this type of transformation. Looking at the development of corporate law back in time when the European Community was founded in 1957, it is conceived that member states have been extremely persistent in trying to block any intervention in their national rights, resulting in their limited mobility. However, this "immobility" is provoked by the rulings of the European Court, for example the Centros Case, (CaseC-212/97), which marks the beginning of the cross-border relocation of the administrative headquarters and the migration of companies to a more favorable jurisdiction (Centros Case 1997).

5 Scope of Application of the Rules Governing Cross-Border Mergers of Commercial Companies

The scope of application of the rules of Directive 2005/56/EC, is outlined in art. 1 to art. 4 incl. from her. The scope is outlined through an exhaustive list and the norm refers to art. 1 of Directive 68/151/EEC in which they are contained. Another way is the descriptive way, by defining in art. 2 (1) (b) of Directive 2005/56/EC on the content of the concept of ‘limited liability company’. Any legislation of a member state transposing the rules of Directive 2005/56/EC on the scope of application specifies the types of entities to which it applies. Due to the need to narrow the scope as well as to specify the exact type of subjects, the Directive applies another method—the exclusion method. Article 3 (3) of the Directive provides that its rules shall not apply to cross-border mergers involving a company which object is a collective investment of public capital which operates on a risk-sharing basis and whose units, upon request of their holders are bought back or paid directly or indirectly on behalf of the assets of that company. In this sense is the regulation in the Bulgarian Commercial Register, where art. 265d, para. 1 excludes from the scope of application of the rules in the section on cross-border mergers the open-end investment companies. Another method is the operative one. It allows member states to assess the need and to provide for the application of the provisions of the Directive. According to the meaning of the term “limited liability company”. However, article 2 (1) (b) of Directive 2005/56/EC also covers the European public limited liability company. As far as the European Cooperative Society (SCE) is concerned, it meets the definition in art. 2 (1) (b) of the Directive but does not meet other conditions. Cross-border mergers under Directive 2005/56/EC is limited because employee participation in management is not subject to the regime of Directive 2001/86/EC of 8 October 2001 and, on the other, Directive 2003/72/EC. Members of the SCE shall be excluded when they seriously undermine their duties or take action that is contrary to the interests of the SCE (article 15). These characteristics are distant to the capital companies for which the “one member— one vote” rule is unusual. In this regard in the case of legal persons—members of the SCE, the Regulation specifies that they are regarded as members in their capacity as consumers.

The Bulgarian legislation determines the scope of the norms for cross-border mergers of commercial companies (s.265(d) CA 1991). It transposes article 1 of CBMD (Directive 2005/56/EC). The scope of application of the provisions of Section V of Chapter Sixteen of the Bulgarian Commerce Act (CA 1991) applies only to capital companies (s.265(d) (1) CA 1991). The Commerce Act refers to the provisions of First Company Law Directive (Directive 68/151/EEC) in order to determine the types of commercial companies. Commercial limited liability companies must be of a kind referred to in art. (1) of First Council Directive 68/151/EEC on the coordination of safeguards which, for the protection of the interests of members and others, are required by companies within the meaning of the second paragraph of article 58 of the Treaty (Treaty 2007).

Legal persons arise in an order established by mandatory legal norms according to the effective legislation of the state in which it is established. The legal personality of the company is distinguished by individualizing features that distinguishes it from other legal entities. Pursuant to the general provisions of the Law of Persons and Family (s. 132 LPF 1949), judicial persons and companies have their headquarters where their management is located. The specific legal acts governing the types of legal entities contain, both the rules on which to establish and the required characteristics, which individualize the respective type of legal persons.

The concept of nationality is a category of private international law. Any legal person, a company cannot exist outside a given legal order. The sign of “nationality” is characteristic of every physical person. The national law which creates a legal entity gives it the status of a legal entity. But the national private international law of any state is sovereign to recognize or not the legal personality of a legal entity established in another country (Zheliakova 2009). Recognition of a legal person is not a fact, but rather an “empowerment” of a foreign legal person to act and be a party to procedural relationships in a country other than the one from which nationality he is. The legal status of the legal entity is determined in accordance with the law of the state under which laws it is constituted.

Commercial companies under Bulgarian law are constituted under the so-called regulatory and control system. Bulgarian law regulates the creation of legal entities and, in particular, commercial companies. Private law (*lex societatis*) regulates the creation of the legal entity of the commercial company and its legal capacity, *lex societatis* answers the question whether an entity is a legal entity or not and national private international law determines the scope of private law. This scope cannot be fragmented, so personal law is the applicable law to the legal status (Katsarov 1925). The legal position of the legal entities, and in particular of the commercial companies in the national private international law, besides the applicable law to their legal status, still determines the conditions for the recognition of foreign legal persons.

Consideration of the concept of “nationality” of the legal person means the determination of the law applicable to it, which is the state whose nationality it carries. As soon as it is established, each commercial company, each legal person, as well as individuals, have their own personal law which determines the law applicable to the legal entity. In this respect, the difficulties are mainly due to the different criteria applied by the different national legal systems of the member states for the determination of the nationality of the companies. Two theories with their sub-species are generally popular in legal doctrine, each of which applies specific criteria that are characteristic features of which a national rule of law defines as a sufficiently significant and legitimate sign to represent a personal connection to a legal person to which the relevant nationality of the State which law is applicable to its personal status is recognized. Personal connections make it possible to determine the applicable law, irrespective of the place where the legal facts are carried out. When entering the international arena, the legal person encounters problems that go beyond the jurisdiction of the state at its inception, and in these relations it is inevitably necessary to determine its nationality.

6 Factors to Determine the Nationality of the Company

The various criteria on the basis of which the nationality of a legal person or a trading company is determined are related to different theoretical concepts. The application of one or another criterion is identified by the application by a legal order of the relevant theory that links a criterion to an essential element and which determines the affiliation of a legal entity to a particular state. Two basic theories are known in the doctrine, according to which a company's legal personality is subject to a national sovereignty.

The first is the so-called. Incorporating theory. This theory affects the legal personality of the legal person, respectively of the commercial company, of the law of the state on whose territory it is created, respectively registered. When a State adheres to an incorporating theory, it recognizes the legal personality of the company under the law of the State where the company is established. In this case, the connecting factor is the place of incorporation of the company. Incorporating theory is applied in Great Britain, Ireland, the Netherlands, Denmark, Finland and Sweden (Cath 1986). According to this theory, a company is governed by the law of the State in which it is incorporated and where its registered office is situated according to the registration of the company (registered office), irrespective of where the company operates and where its management is. If a company is incorporated in one country and moves its principal business to another in the territory of another, there are likely to be practical problems, but not legally conceptual (Edwards 1999). According to the in-house theory (also called incorporating theory) the nationality and registered seat of the company refers both to nationality and residence for individuals and can be separated from one another. According to this theory, the founders of a legal entity or a company may choose a *lex societatis* regardless of the place of constitution of the legal entity itself. It does not matter the location of the central government, as well as the place where its main activity takes place (Todorov 2008).

The basic idea of the incorporating theory is that, once a company has been established in a country, it is recognized as a company in that country, even though its actual location (the central place of management) lies outside the state of its establishment. The application of this theory has proved to be particularly suited to the capital-exporting countries insofar as this theory meets the interests of the major investors, capturing new markets. However, the interests of the countries in which these companies operate is worthless (Dubavitskaya 2004).

Opinions are known that an incorporating theory would make the states that share it in Delaware in the EU. The criticism of incorporating theory is that it leads to the search for the most appropriate legal climate for companies, so-called the "Delaware effect" or the term "forum shopping". In contrast to incorporating theory, the real seat theory unambiguously interferes with one nationality and a place of residence. States supporters of this theory will recognize a company as a legal entity by virtue of the fact that the company is lawfully created under the jurisdiction of *lex societatis* if their real seat of that company is located in the territory of the State at the time of its creation. For example, a company established in England with its head office or

principal place of business in France will, under German law, be considered to be subject to the law of France. If the same company was not legally established under French law, then German law would not be regarded as a legal entity at all. Under the terms of “real seat theory”, the company complies with the law of the State where the company’s actual seat is located. At the same time, it is also the jurisdiction governing the formation of the company as well as the location of its registered office or corresponding equivalent of the concept. The logical application of this theory applied by some states requires that the company’s real seat be in the territory of the State under which national law it is constituted. If a company incorporated in a member state applying the real estate theory decides to move its real headquarters to another member state which also applies the concept of “real theory”, then that host State may refuse to recognize the transferring company validly constituted and engaging in legitimate business activities unless it is re-established as a company of the host country with a registered office in its territory. Even if the host State recognizes the company as legally constituted and operating, the host State will nonetheless require the company to comply with certain rules of its own company law (Latty 1955).

7 Creditor Protection in Cross: Border Mergers of Companies

Cross-border mergers of companies affect not only the participating companies but also their creditors, shareholders, bondholders, holders of other securities, partners and employees. The unification of the assets and liabilities of the companies brings together their creditors. Along with the transformation, the creditors of a trading company acquire a new debtor, which may pose a threat to the interests of both the creditors of the transforming company and the creditors of the receiving company when the receiving company has greater obligations or where the obligations of the transforming company are larger than those of the acquiring company. That is why the creditors need both the converters and the receiving company. The interests of the creditors of the transforming companies are threatened, because by carrying out the transformation their debtor is terminated and replaced by a new debtor—the receiving or newly formed trading company.

The CBMD regulates the conditions for cross-border mergers and it gives general prescriptions to member states to provide lawful mechanisms at all stages of cross-border transposition. The interpretation of the Directive concludes that it is the national law of the member states that is relevant for determining the range of entities to which the rules of the Directive apply, unless the Directive provides otherwise. Therefore, the basic principle enshrined in Directive 2005/56/EC is that the protection of creditors is governed by the national law of each member state.

The creditor protection options can generally be classified as a protection that creditors have before the de facto transformation and protection that occurs after the

transformation that has already taken place. Historically, preventive protection is settled before the subsequent protection of creditors is settled. Preventive protection had two varieties. The first to complete the merger required the consent of a public authority that made an ad hoc decision (on a case-by-case basis) after assessing the risks to the creditors. The latter required the consent of the creditors of the merging companies themselves. Preliminary protection of creditors' interests means that the law allows those whose interests are threatened to resist the transformation by hindering or even thwarting them until the claims of the respondent creditor are satisfied or secured. If preventive protection does not allow for the transformation before satisfaction or collateral of the claims of the creditors who have objected to conversion, in the subsequent protection the legislator gives priority to the interests of the companies involved in the transformation, and the creditors are unable to influence the course of the transformation delay or impede its performance. The law in these cases protects their interests only after the transformation has taken place.

The protection of creditors' interests in local mergers were introduced into the laws of the member states as well as in the Bulgarian law, by Directive 78/855/EEC, which also governed the general framework for the protection of creditors' interests. Directive 78/855/EEC recommends that member states lay down in their legislation rules to guarantee the creditors' claims but only when the financial situation of the merging companies makes the protection necessary and if the creditors do not already have such guarantees. The outline protection framework in the Third Directive (Directive 78/855/EEC) refers to those creditors whose unsecured claims have arisen before the moment of transformation and that their interests have been compromised.

The provisions of art. 13 (3) of the Third Directive (Directive 78/855/EEC) precludes the protection of creditors of the acquiring company and the creditors of the company being acquired are different. This allows the member states to guarantee the interests of creditors, in accordance with the traditionally accepted patterns of protection in their national legislation. In this regard, the member states regulate differently the protection of creditors' interests in transformation. Some of them adhere to the preliminary, others to subsequent protection. The lack of uniformity is also rooted in the differences of the moment of transformation.

In France, bondholders have the right to vote in a decision on the conversion if their claims are not secured (Law of July 24 in 1966 in France). There is also a similar provision in Luxembourg, which applies, as in the case of a change in the statutes, in the part relating to the company form or in the transformation. In Belgium and Luxembourg, the hypothecar creditors do not have any special rights guaranteed by law, as in France, Germany and Italy. In the present case, the defense of their interests is a follow-up, as they have the traditional remedies—challenging the validity of the transfer of all the property rights by seeking their claims from the receiving company. In case the company has large obligations, then it does not cease to exist. The host company is also responsible to creditors (Conard 1965). In order to facilitate cross-border mergers, the Directive requires each commercial company of a member state to apply its national law to fulfill the requirements of the conditions and formalities provided for in article 2 (4) of Directive 2005/56/EC (recital 3 in the

preamble). The specificity of cross-border mergers of companies is the participation of commercial companies of different nationality whose national law imposes a different protection regime. The national legislation on creditor protection varies from one-member state to another, which is entirely permissible under art. 13 (3) of the Third Directive. The protection can be both preliminary and subsequent. The freedom of national laws to apply the model that is appropriate to their legal system for the protection of creditors and third parties has affected the different approach of the different member states.

In German law, Directive 2005/56/EC was transposed by the *Zweites Gesetz zur Änderung des Umwandlungsgesetz* of 25 April 2007, which also contains the regulation on the protection of creditors' interests. German legislation provides for the protection of creditors by satisfying or granting collateral where creditors can, within a period of 2 months after the publication of the communication for the preparation of the general transformation plan, state a possible cause which may jeopardize the execution of the claims because of the conversion. The claim must have taken place within 15 days of the publication of the general transformation plan and the date of execution by the debtor has not occurred. In this case, the German legislature applies rules on the protection of creditors' interests in cross-border transformation in exactly the same way as for local transformations. In case of local transformations, the collateral is not due until the moment of the transformation. In cross-border transformation, national rules apply only to the creditors of a German host company. The issue of a German transforming company has not been resolved.

With the transposition of Directive 2005/56/EC, the United Kingdom (UK) legislation introduced the creditor protection scheme in the Companies (Cross-Border Mergers) Regulation, Statutory Instrument 2007. Article 11 provides for the possibility, that the court convenes a meeting of the relevant creditors, or of a certain class of creditors, members, shareholders or a certain class of shareholders. Such a request may be made to the court by the company itself involved in the transformation by any partner or shareholder or by any creditor of any of the companies involved in the transformation. Protecting the interests of creditors according to the British law on cross-border mergers adheres to so-called ex-ante control. The convening of a meeting of creditors, of a certain class of creditors, of shareholders or associates or of a certain class of shareholders only, shall be made at the request of an interested creditor or member. The court assesses the extent to which the interests of those persons are at stake and, depending on the threat, provides for appropriate collateral, enforcement or other protection depending on whose interests are threatened.

8 Creditor Protection According to Bulgarian Commerce Act

In the regulation of the Bulgarian Commercial Law the local mergers of commercial companies, follow the model of the subsequent protection of creditors' interests. Advantage is given to the security of the transformation to the ability of creditors to thwart its execution. The Act amending and supplementing the Commercial Act has transposed the provisions of Directive 78/855/EEC, which in our law introduces a special regulation for the protection of creditors. In the legal doctrine, the notion that our legislator has provided an even stricter regime of protection than that provided for in the Third Directive itself. Compared to it, the Commerce Act extends the circle of protected creditors. Article 13 of the Third Directive governs the protection of the interests of creditors which claims have arisen prior to the promulgation of the draft terms of merger and that they have not matured at the time of promulgation and the law provides protection of interests of those creditors whose claims have arisen the actual composition of the transformation. This is because the interest of other creditors whose claims arose between the day of promulgation of the contract notice or the conversion plan and the day of the transformation may also be affected by the transformation (Kalajdjiev 2005).

The transforming company which claim is not secured and which arose before the date of the conversion may request enforcement or collateral in accordance with its rights. It is expressed first and foremost in the application of the model of ex-post protection and secondly in the separate management of the commercial enterprise transferred to the successor for a period of 6 months from the registration of the transfer. According to art. 15, para. 3 of the Commercial Act, (Commerce Act 1991) in case of transfer of a commercial enterprise, the alienator is responsible for the obligations jointly with the legal successor up to the amount of the rights acquired, and Art. 16a, para. 1 of the Commerce Act regulates the separate management of the commercial enterprise which has passed to the legal successor for a period of 6 months from the registration of the transfer. The separate management under merger is contained in art. 263k of the Commercial Code and is the most important safeguard of the interests of the creditors of a commercial company. In addition, the law also regulates the civil liability of the members of the management bodies of the acquiring or newly established company, who are jointly and severally liable to the creditors for the separate management of the assets of each of the transforming companies which have passed on to the acquiring or newly established company for a period of 6 months of the transformation.

Within this time, any creditor of a company involved in the transformation whose claim is not secured and which arose before the date of the conversion may request enforcement or collateral in accordance with its rights. If the claim is not satisfied, the creditor is entitled to a preferential satisfaction of the rights belonging to his debtor (Article 263k of the Commercial Act). The purpose of the separate management is to protect the interests of the creditors by merging the assets of several undertakings. The separate management aims at preserving the property and assets

of the transforming and adopting trading company for 6 months during which period unsecured creditors may seek protection of their interests. However, with the adoption of Directive 2005/56/EC, a direct rule governing the protection of creditors in cross-border mergers was not proposed. Article 4 of Directive 2005/56/EC refers to the rules of national law applicable to the organization of a company, its legal personality, the amount of capital to cover its liabilities and the safeguards which serve to protect the interests of shareholders, shareholders and third parties under Directive 68/151/EEC.

When transposing the Directive, our legislator has not proposed a provision for the protection of creditors. Many of the norms on the actual composition of cross-border mergers refer to the arrangements for local transformations. Subject to art. 4 (2) of Directive 2005/56/EC and Recital 3 thereof, we should agree that the applicable rules on the protection of creditors in cross-border mergers should be sought in the local merger arrangements in art. 265p of the Commerce Act, but only when the receiving or newly established company has its registered office in the Republic of Bulgaria (article 265d, Paragraph 4 of the Commercial Act). The cross-border mergers in practice pose problems of an international private law where the transforming companies are terminated and their rights and obligations are transferred to a company of another member state with the applicable law of that member state. If the discontinued entity does not provide prior protection of creditors' claims, they must seek protection from the host or newly established company. However, if the law of the country of the head office of the host or newly established company does not know the model of subsequent protection or the institute of the separate management, then the creditors of the transforming company will not be protected. It is possible for creditors to seek protection under the general rules. The protection of the interests of creditors will depend on the law applicable to the contractual relationship which is the basis for the incurrence of claims or on the qualification of the actions that harm the creditors (Zheliaskova 2009). In practice, there is no specific legal framework for the protection of creditors in cross-border mergers. This raises the question of how the creditors of a Bulgarian transforming company will be protected when the host or newly established company is based in another member state. In this case, there is a gap that cannot be filled by the Bulgarian Private International Law (because the merger is not a contract), but explicit legal regulation is required.

9 Conclusion

There is a legislative vacuum in the Bulgarian Commercial Law regarding the protection of creditors and shareholders in the process of international restructuring of commercial capital companies. The different patterns of protection in the member states and the lack of a direct rule in the Directives are prerequisites for this problem to block the future application of the cross-border conversion rules. It is recommended that cross-border mergers, where the head office of the receiving or

newly established company is in the Republic of Bulgaria, should be referred to the local mergers and regulation on this matter. Where the head office of a host or a newly established company is in another member state, it is necessary to reach agreement between the participants but this is a matter of a legislative decision at EU level and subsequently becomes part of the company law arrangements for each member state; There is a lack of a legal norm in accordance with the requirement of art. 10 (3) of the Directive on the Protection of the Rights of Minority Shareholders. The provisions of art. 265l, referring to the regulation only of art. 265k, para. 3 of the Commercial Code. It has been proposed to extend the circle of circumstances to include information on the lack of contestation of the transformation under art. 265n of Bulgarian Commerce Act.

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Australian and New Zealand B Corps and Their Use of Social Media



Giao Reynolds, Susan Lambert, and Jyotirmoy Podder

Abstract B Corp certification originated in the United States (U.S.) but firms in other countries including Australia and New Zealand are increasingly seeking certification. B Corps are for-profit companies that voluntarily agree to meet high standards of social and environmental performance and commitment. Proponents of B Corps believe that an increasing number of customers, investors and other stakeholders favor firms that have a strong commitment to corporate social and environmental responsibility and therefore favor firms that have B Corp certification. This research seeks to contribute to the knowledge about B Corps and their use of social media to disseminate information regarding their social and environmental activities including their B Corp status. The Facebook and Twitter posts of the 30 top ranking Australian and New Zealand B Corps over the calendar year of 2016 are reviewed and subjected to quantitative and qualitative analysis. This exploratory study reveals that even though all B Corps in the sample have a clear commitment to social and environmental responsibility, the majority made very few social media postings that communicate the commitment. The firms' promotion of their B Corp status is generally modest. The study does not explore the reasons for the behavior but proffers this for future research.

Keywords B Corp · Social media · Social and environmental responsibility · Qualitative research

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1 Introduction

Corporate social responsibility has been a growing movement since the 1980s with terms like ‘social enterprise’, ‘triple bottom line’ and ‘sustainability’ becoming common in discussions about business performance (Stecker 2016). Coupled with this trend towards social and environmental responsibility at the corporate level came conflicts with traditional fiduciary duties of directors, which are primarily towards the shareholders. Legitimizing corporate social and environmental responsibility (CSER) and balancing returns to shareholders and the broader community and environment is at the heart of Benefit Corporations and B Corps.

This research sets out to provide a better understanding of the motivations and actions of B Corps in Australia and New Zealand (B Corps ANZ). The focus of this paper is on B Corps rather than Benefit Corporations. This paper clarifies the differences between B Corps and Benefit Corporations as these terms are often used interchangeably. The current literature around B Corps suggests that one of the benefits of B Corp certification comes from the perceived importance of CSER behavior by potential investors and customers. This research sets out to find evidence that B Corps communicate their CSER activities and their B Corp status to their stakeholders via social media and their website. The premise on which this research is based is that if B Corps believe that their B Corp status has an impact on their existing and potential investor and customer behavior, they will promote their CSER activities and their B Corp certification through social media and their website. The study is confined to those Australian and New Zealand businesses that are listed on the B Lab website as at 4 January 2017 and the social media that we investigate are Facebook and Twitter.

2 Literature Review

2.1 *Benefit Corporation Versus B Corp*

A Benefit Corporation is a relatively new corporate entity form enacted in more than 30 States of the USA. Each state has drafted its own legislation thus introducing legal differences across states however, the common intent is to provide legal protection for directors wanting to provide public benefits as well as returns to shareholders (Hiller 2013; Stecker 2016). One of the requirements of Benefit Corporations is that an independent third party monitor them and that they post their most current benefit report on the company website. Some State legislations do not specify the third party certifier but where a third party certifier is specified, that third party is B Lab which was formed in 2006 and continues to certify both Benefit Corporations and other businesses worldwide (André 2012).

In addition to Benefit Corporations, other businesses (both corporate and not) can voluntarily adopt CSER standards that meet the requirements set by B Lab and allow

themselves to be assessed by B Lab. Businesses that achieve certification by B Lab are called B Corps (Hiller 2013). ‘B Corps are for-profit companies certified by the non-profit B Lab to meet rigorous standards of social and environmental performance, accountability, and transparency.’ (B Lab 2017a). As many as 2204 businesses have B Lab certification with 137 registered as operating in Australia and New Zealand at the beginning of 2017 (B Lab 2017b). B Lab measures a business’s CSER against the performance standards in the categories of environment, workers, customers, community and governance. The five categories are the aspects of a B Score that represents the impact of a B Corp on its stakeholders. A positive score (score higher than 0 points) is considered to be a good score because it indicates that the business has positive impact on society and the environment. The maximum B Score is 200 points, and a minimum B Score to become a certified B Corp is 80 points. The scoring system which can be accessed on the B Lab website (B Lab 2017c), takes account of the size of the business and the industry.

2.2 B Corps in Australia and New Zealand

As at the 4th January 2017 the B Lab website (B Lab 2017b), showed 137 B Corps registered in Australia and New Zealand. The full B Impact Reports for each B Corp were accessed through the website and data collected for this study.

There is a divergence of business missions ranging from predominantly commercial to completely charitable. Of the 137 B Corps, 10 are located in New Zealand and 127 are located in Australia with 68 B Corps registered in Victoria and 39 registered in New South Wales. Clearly, there is a concentration of B Corps in the two largest Australian cities.

It is apparent from the certification dates and frequencies in Table 1 that B Corp certification is a relatively new initiative in Australia and New Zealand and that B Corp certifications are growing at an increasing rate. If the trend continues, it will become increasingly important to understand the motivations, operational issues and practices of B Corps. It will also become important to gather information about the

Table 1 Summary of certification year

Year	Frequency	Percent
2012	3	2.19
2013	8	5.84
2014	28	20.44
2015	41	29.93
2016	55	40.15
2017 ^a	2	1.46
Total	137	100.00

Source: The authors’ own calculation

^aFrom 1 January 2017 to 4 January 2017

Table 2 Descriptive statistics of 137 B Corps from Australia and New Zealand

Variables	N	Mean	SD	Min	Max	Median
Overall B score	137	94.628	15.392	80.000	163.000	89.000
Environment	137	16.037	13.111	2.000	57.000	11.000
Workers	104	25.712	5.689	3.000	42.000	25.000
Customers	99	22.717	16.307	1.000	66.000	22.000
Community	137	33.504	15.108	11.000	87.000	29.000
Governance	136	10.059	3.421	3.000	21.000	10.000

Source: The authors' own calculation

perceived and actual benefits of B Corp certifications so that other businesses that are contemplating the move can compare the costs and benefits.

As reported in Table 2, all of the B Corps in our population received a positive score for the environmental and community categories, and all but one received a score for governance. The highest mean score was for community, which also recorded the highest minimum score and highest maximum score. The performance in the community category reflects the intention of all B Corps to provide social good. Table 2 provides the statistics in relation to all category scores and overall scores.

The specific scores of individual B Corps were retrieved from the B Lab website, which is a source of rich data that can be used to profile B Corps. The focus of this particular paper is in relation to the B Corps' use of social media to disseminate information about the firm's performance in relation to the B Corp categories and about their B Corp certification in general. The purpose of the research is twofold: firstly, to determine the extent to which B Corps ANZ use social media to promote their social and environmental responsibility initiatives and secondly, to determine the extent to which B Corps ANZ use social media to promote their B Corp status.

2.3 *B Corps and Social Media*

Aside from the intrinsic benefits that the characteristics of B Lab certified businesses accrue to their socially conscious owners and entrepreneurs, B Lab certification is claimed to be a potentially effective marketing asset that attracts socially conscious consumers and investors (André 2012; Hacker 2016; B Lab 2017a). If such benefits exist, then it would explain why businesses are prepared to go to the trouble and expense of applying for certification and pay the B Lab registration fees. It would also imply that the business would want to make their stakeholders aware of their B Corp status and their related activities. As Miller and Skinner report, 'It is clear from talking to CFOs and other practitioners that managers spend considerable time thinking about how to manage their firms' disclosures and that managers believe their disclosure decisions have first-order value implications' (Miller and Skinner 2015, p. 222).

The mode of communication to stakeholders for large organizations includes social media but also includes mass media. B Corps are mostly small to medium sized businesses that ‘are not highly visible’ (Blankespoor et al. 2014, p. 79), do not have ready access to effective mass media space and are therefore limited to social media for information dissemination. Social media provides firms with new cost effective ways of disseminating information (Miller and Skinner 2015) which helps reduce information asymmetry and builds reputation (Blankespoor et al. 2014; Lee et al. 2015) but we do not know if B Corps make use of this. Furthermore, there is very limited literature on the extent to which B Corps make use of their B Lab certification status to promote their social and environmental responsibility.

Social media is becoming increasingly important with participation from the general population steadily increasing. In a study by Lee et al. (2015), it was found that social media helped a firm successfully recall its faulty product due to three benefits of social media compared to traditional disclosure channels. That is, the firm could reach its large network of stakeholders, could manage its conversation quickly, and could disseminate multi-directional messages to its users. ‘Australian businesses’ growing interest in social media reflects the increasing awareness of the significant impact social media can have on their profits’ (Allianz 2017). However, businesses should be aware of a risk that social media such as Facebook and Twitter could worsen a crisis by disseminating adverse news to a larger user network (Miller and Skinner 2015).

This study of 30 top-ranked Australian and New Zealand B Corps aims to investigate the extent to which B Corps are using social media to disseminate information about their CSER activities and B Corp status to their stakeholders. As an indicator of social media activity, the Facebook accounts and Twitter accounts of the B Corps were reviewed over a 12-month period. We restricted our study to the social media channels of Facebook and Twitter because they are most frequently used (closely followed by LinkedIn) by small enterprises (Balinas 2017; Brynley-Jones 2017). The aim is to find evidence to support or refute the claims that B Corps consider their CSER activities and their B Corp status to be important to their current and potential stakeholders.

3 Research Method

For this research into the behavior of B Corps, we took a mixed method approach that combines both qualitative and quantitative approaches to provide ‘a better understanding of research problems than either approach’ (Creswell and Plano Clark 2007, p. 5). The qualitative research approach is suitable because the topic has not been researched in depth, thus is “a problem or issue that needs to be explored” (Creswell 2007, p. 39) and “a concept or phenomenon needs to be understood because little research has been done on it” (Creswell 2009, p. 18). The research method used resembles a simple form of content analysis to the extent that it involves scanning the sampled B Corps’ social media posts and identifying

those posts that make reference to their CSER activities or initiatives and those that include the term 'B Corp'. The presence of the key word 'B Corp' in a social media posting is considered as evidence that B Corps promote their B Corp status to their stakeholders. The quantitative approach is suitable as data analysis is based on descriptive statistics (Quinlan 2011, p. 379), with the statistics derived from secondary data being social media information.

The research sample comprises the 30 B Corps that have the highest Overall B Scores from the 137 B Corps ANZ registered at 4 January 2017. The Facebook and Twitter messages posted by these sampled B Corps over a 12-month period from 1st January 2016 to 31 December 2016 were examined with a view to determining the extent to which the business communicated their B Corp Certification and their related CSER activities to their stakeholders. Duplicated messages were removed from the data set. The messages were then coded according to the five categories of B Scores: Environment, Workers, Customers, Community, and Governance. These five areas comprise the B impact assessment, which measures the impact of a business on its stakeholders, and for which a business has to achieve a satisfactory score to be certified as a B Corp by B Lab (2017c). The social media postings were copied and stored on a spreadsheet by one researcher and reviewed by another researcher to verify their coding.

4 Results and Discussion

The study revealed 10,962 Twitter and Facebook postings (after duplicate postings were removed). A basic analysis of the postings shows that only 8% of all Facebook and Twitter posts were related to CSER activities and only 2.5% of all posts included the term 'B Corp'. These findings agree with Blankespoor et al. (2014) who found evidence of firms using Twitter to disclose news that reduce information asymmetry and increase market liquidity. Similarly, Lee et al. (2015) reported the role of social media including Twitter in minimising adverse impact on firms' reputation and branding in a product recall. Table 3 below shows for each of the 30 sample B Corps the overall B Score and the number of social media postings that contained the term 'B Corp'. The number of posts containing the term 'B Corp' range from 87 to zero (8 B Corps had zero social media postings) with the median number of posts being 5.

The six entities that received a 'highly visible' rating included the B Corp logo on their home page in a position and size that could be easily seen by site visitors and there were references and information about B Corps on more than one website page. Six entities were judged to have their B Corp status at 'medium visibility on the web site, including it in multiple locations but being smaller and or more difficult to find. The 13 websites that were judged to treat the B Corp certification with poor visibility often had the logo only in the footer to the webpages or included in more obscure locations. Reference to B Corp could not be found in three of the B Corp websites.

Table 3 Promotion of B Corp status by B Corps in the sample

Name of B Corp	B Score	B Corp in social media postings	B Corp promotion on website ^a
1. Three Sistas	163	2	High visibility
2. Hepburn Wind	144	2	High visibility
3. Global Leadership Foundation	139	9	High visibility
4. Capire Consulting Group	138	2	Poor visibility
5. Forester Group	135	0	High visibility
6. Aither	131	6	Medium visibility
7. Purposeful	129	2	Poor visibility
8. Electrygen Pty Ltd Trading as Petawatt	127	0	No visibility
9. Humanitarian Advisory Group	122	12	Poor visibility
10. Social Enterprise Finance Australia Ltd	122	3	Poor visibility
11. Social Atlas	121	0	Medium visibility
12. TeleMed Health Services	120	0	Poor visibility
13. Disruptive Media	118	7	Poor visibility
14. Future Superannuation Holdings P/L	118	0	Poor visibility
15. Green Moves Australia	114	2	Poor visibility
16. Solar Analytics	112	4	Poor visibility
17. Australian Ethical Investment	112	5	No visibility
18. Rehabilitation Outcomes Pty Ltd	111	1	Medium visibility
19. Ethinvest	110	0	Poor visibility
20. Portable	109	6	Poor visibility
21. I=Change	108	25	Poor visibility
22. StartSomeGood	108	11	Poor visibility
23. Hitnet	108	21	Poor visibility
24. China Australia Millennial Project	107	0	No visibility
25. Ethique	106	5	High visibility
26. Our Community	106	8	Medium visibility
27. Beyond Bank Australia	105	87	Medium visibility
28. Community Sector Banking	105	42	High visibility
29. Core Projects	104	9	Medium visibility
30. Sendle	104	0	Poor visibility

Source: The authors’ own calculation

^aWebsites last accessed on 19th August 2017

Of the six entities that made B Corp ‘highly visible’ on their website, only one exceeded the median number of social media B Corp related posts. Six of the 13 ‘poor visibility’ entities exceeded the median number of social media B Corp related posts. This suggests that preferences for website and social media differs between B Corps.

5 Conclusion

From the sample of 30 B Corps, we found some evidence to suggest that B Corps use social media to disseminate their social and environmental activities and initiatives with 8% of all postings related to this cause. The evidence is by no means substantial but it is evident that the B Corps are engaging in social and environmental responsibility communications with stakeholders through social media. The nature of and number of postings on social media and the B Corp websites that include the B Corp logo and/or references to B Corp certification are modest. Only 2.5% of all social media posts included a reference to B Corp. A common practice is for the B Corp to post a statement about becoming a certified B Corp on social media then post again when their status changed. We found little evidence that the B Corps were using their B Corp status to try to attract customers or investors. Even on their websites, the B Corps ANZ were mostly modest in their communications regarding their B Corp status. The B Corps did not demonstrate a commitment to promoting their social and environmental responsibility activities and initiatives through social media and, as a group, they did not actively promote their B Corp status. This may be because the B Corps do not see their certification as a valuable marketing asset as promoted in the literature or it can be seen as a lost opportunity for B Corps to attract participants and investors. It might be that the small B Corps do not have the knowledge and skills to promote themselves across social media and they require assistance in this. Our findings are not conclusive, but they do provide information about B Corps ANZ that can be used as a basis for future research as outlined in the final section of the paper.

In this study, we have examined only the communications posted in Facebook and Twitter by the B Corps. Inclusion of other social media, such as LinkedIn, to the data sources might offer more knowledge about the use of social media by the B Corps. Moreover, a more extensive examination of the B Corp websites over a set period time will add to the findings of this study and provide further evidence to address the question of the perceived value of B Corp status. The approach taken in this study was to rely on analyzing the actions of B Corps. However, multiple methods of data collection including surveys, in-depth interviews and focus groups with B Corp owners, customers and potential investors will add to our knowledge of B Corp motivation and will provide additional feedback. With the number of Australian and New Zealand B Corps growing at an increasing rate, it is important to learn more about B Corps and their motivations. This pilot study may guide further studies about B Corps in general.

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Occupant Satisfaction in Sustainable and Conventional Higher Education Buildings



Kim Szery and Riza Yosia Sunindijo

Abstract The higher education sector as a bastion of sustainability research has embarked in continual efforts to make its buildings more sustainable. Besides being environmentally friendly and economically feasible in the long run, there are perceptions that sustainable buildings are more user friendly and that their occupants are more satisfied than those in conventional buildings. However, research findings in this particular aspect of sustainability are inconclusive and even conflicting. Therefore, this research aims to study the occupant satisfaction of sustainable and conventional buildings in a higher education institution in Australia. The results show that generally there is no significant difference in occupant satisfaction between sustainable and conventional buildings. A goal of sustainable buildings to improve the wellbeing of building occupants apparently has not been achieved based on the findings of this research. There is a possibility that the development of sustainable buildings mainly focuses on the environmental aspect while the social aspect tends to be neglected. The results further show that focusing on thermal comfort is the most effective way to improve occupant satisfaction. Future developments of sustainable buildings should evolve further and find the right balance among the triple bottom line of sustainability so that they truly are sustainable buildings.

Keywords Australia · Higher education · Occupant satisfaction · Sustainable buildings · Thermal comfort

1 Introduction

Today the development of sustainable buildings has become more and more common. Many studies have been conducted to confirm the benefits and, thus, justify the construction of such buildings. The construction industry is one of the largest users

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of natural resources and one of the largest contributors to environmental pollution. Sustainable development, therefore, can reduce the negative impacts of the construction industry and preserve the earth for future generations (Ortiz et al. 2009). Investments in energy efficient buildings can save current resources expended on energy, water, and waste disposal; decrease operational and maintenance costs; protect the assets against future energy price increases; and decrease greenhouse gas emissions (Eichholtz et al. 2010). Sustainable buildings also create a sense of corporate social responsibility that can increase employee attraction, retention and an organization's marketability (Heerwagen 2000). Sustainable buildings can reduce legal and insurance costs associated with reduced risks to current and future generations especially employee health. These initiatives increase competitive advantage, improve corporate reputation, and eventually bring financial rewards to the organization (Newsham et al. 2013).

Besides being environmentally friendly and economically feasible, sustainable buildings should also be socially sustainable. One aspect of social sustainability is occupant satisfaction, health, and comfort. It is argued that sustainable buildings have an improved indoor environmental quality (IEQ) that can result in higher employee productivity due to better work and living environments (Eichholtz et al. 2010). A study suggested that improved thermal comfort and better ventilation reduce sick time and increase productivity by a modest 5 min per work day, equating to around \$700 to \$800 per annum per person (Kats et al. 2003). Another study argued that the indoor environment has the biggest effect on productivity in relation to job stress and job dissatisfaction so that improving the quality of the indoor environment can improve performance between 5 and 15% (Roelofsen 2002). Furthermore, due to the improvements to IEQ, building users are seen to be more satisfied with the thermal comfort of the building, design, layout and space, and ambient conditions. This satisfaction then leads to workforce attraction, retention, and greater overall occupant satisfaction (Heerwagen 2000). All this shows the importance of assessing occupant satisfaction towards their physical work environments, particularly in sustainable buildings that have become widespread today.

Higher education institutions in Australia are staunch supporters of sustainable development. Many have developed sustainable buildings and/or included them in their future campus development. However, buildings within the higher education sector do not undergo post-occupant evaluation to determine if they satisfy occupant satisfaction intended to be achieved (Baird 2010). With higher degree institutions aiming to construct more sustainable buildings, there is a need to measure occupant satisfaction of existing buildings to identify issues and fulfil the potential of these buildings. This need is becoming more important because several studies in another sector have found no direct correlations between sustainable buildings and increased occupant comfort (Paul and Taylor 2008; Rajagopalan and Thantrige 2012). This research, therefore, aims to assess the impacts of sustainable buildings on occupant satisfaction in higher education. In order to achieve this aim, two objectives have been formulated: (1) determining factors that influence occupant satisfaction and (2) comparing occupant satisfaction in sustainable buildings with that in conventional buildings.

2 Literature Review

This literature review focuses on dimensions that are included in post-occupancy evaluation, indicating their relevance to building occupant satisfaction, wellbeing, and comfort. These dimensions are not exclusive only to higher education buildings.

2.1 *Occupant Tolerance*

Occupant tolerance looks at the benefits associated with occupants' perceived advantages of sustainable buildings. Many international post-occupancy evaluation tools suggest that sustainable buildings better satisfy occupant comfort because occupants are more accommodating of sustainable buildings (Brager et al. 2004). Interaction between occupants and building systems and external conditions play a big role in the perceived effectiveness of these buildings (Cole et al. 2008). For example, having control over elements, such as windows, blinds, lights, and ventilators, allow a direct response to meet physical needs, factors which make occupants more tolerant of their environmental conditions, irrespective of whether conditions are actually better physically (Yang et al. 2014). In other words, if a building is able to create a sense of user control, i.e., a perceived authority over their physical environment, occupants will have better physical and emotional wellbeing. They are more satisfied if design control is made clearer to them and they understand how the building works (Leaman and Bordass 2001). Additionally, societal views that are more pro-environmental tend to be further forgiving to their indoor environment with occupants perceiving their environmental impact is reduced in sustainable buildings, a satisfaction judgment that correlates with higher ratings of job satisfaction and wellbeing. This in turn increases productivity reduces illness symptoms, and absenteeism (Newsham et al. 2013).

2.2 *Space Layout*

Space layout explores how a space is designed and what influences this, covering ergonomics, functionality, comfort and layout, circulation and movement, communal space and other IEQ factors. The amount of individually allocated space is one of the most significant IEQ determinants of occupant satisfaction and is a baseline expectation of occupants (Brill and Weidemann 2001; Kim and de Dear 2012). Open plan office is a key feature of sustainable building design. This, however, leads to noise complaints and loss of privacy, which cause distractions due to uncontrolled social interactions, feelings of crowding, and interruptions (De Croon et al. 2005). Despite this, occupants also say that this contemporary workspace layout and features enhance their ability to do their work due to ease of information sharing,

ease of communication, increased potential for impromptu conversations, and better interactions between co-workers (Brill and Weidemann 2001; Kim and de Dear 2013).

2.3 Thermal Comfort

Thermal comfort is considered as an important factor when occupants rated their workplace satisfaction (Wagner et al. 2007). Studies have shown that satisfaction related to thermal comfort in sustainable buildings is lower than that in conventional buildings. Occupants are unsatisfied with heating/cooling load distribution, air movement, access to thermostats and, lack of personal control over thermal comfort in their workspaces (Leaman and Bordass 2001; Lee and Guerin 2009). It is common for occupants to say that their work environment is too hot or too warm and that poor thermal comfort interferes with work greatly (Paul and Taylor 2008; Wagner et al. 2007). On the other hand, there are also studies that found that occupants in sustainable buildings are more satisfied with thermal comfort than occupants in conventional buildings (Newsham et al. 2013). They are more satisfied with the reduced disturbance from heating systems, better thermal gain in winter, and less temperature variance (Newsham et al. 2013; Wagner et al. 2007).

2.4 Acoustics

Acoustics is influenced by many factors, including transmissible and ambient sounds, external sounds, office systems and machines, occupants' sounds, and design influence. Open office layout, which is common in sustainable buildings, lowers occupant satisfaction in terms of acoustics. High rates of sound transmission, loss of speech privacy, distractions due to people talking, and high background noise levels are common complaints from sustainable building occupants (Heerwagen and Zagreus 2005; Wilkinson et al. 2011). This trend can be attributed to rating systems that place no emphasis around acoustics and the propagation of noise, which are the most problematic acoustic issues in offices (Newsham et al. 2013). Rating systems, such as Leadership in Energy and Environmental Design (LEED), give priority towards design features that may negatively impact acoustic performance, such as low partitions to allow the penetration of natural light and enhance views, and hard ceilings and floors to improve air quality (Hwang and Kim 2011). Despite rating noise levels poorly, Paevere et al. (2008) argued that sustainable building occupants are still satisfied with the overall performance of their buildings.

2.5 *Lighting*

Lighting covers the impacts of natural and ambient lighting on occupants. Sustainable design often involves the use of natural light to reduce electricity usage. Furthermore, natural light has been acclaimed to increase sense of wellbeing, improve performance, enhance occupant's ability to work, increase productivity, and increase satisfaction (Heerwagen and Zagreus 2005). However, research has also identified lighting-related issues in sustainable buildings, where many building users complained about the low level of luminance in their workspace (Lee and Guerin 2009). Others argue that natural light becomes the source of glare and thermal gain (Abbaszadeh et al. 2006). Hwang and Kim (2011) found that inadequate provision of controls and difficulties to operate shading devices contribute to the lack of effort from occupants to adjust natural light for visual comfort. As a result, sustainable buildings show no significant improvement in occupant satisfaction in comparison to conventional buildings (Abbaszadeh et al. 2006).

2.6 *Indoor Air Quality*

With indoor air quality (IAQ) being a key aspect that boosts employee health and reduces excessive morbidity and mortality, sustainable buildings have lower levels of air pollutants than conventional ones (Newsham et al. 2013). Perceived poor air quality in conventional buildings increases sick building syndrome and adversely affects occupant performance (Lee and Guerin 2009). On the contrary, IAQ in sustainable buildings increases performance and reduces absenteeism. This can be attributed to reductions in airborne contaminants, natural ventilation, and the use of low-toxicity finishes and furnishings (Paul and Taylor 2008). Due to sustainable design space layout and air quality that mimics outside environments, mental wellbeing and self-reported health are also increased (Hwang and Kim 2011).

2.7 *Visual Comfort*

Visual comfort measures the effects of the visual and mental representation of sustainable buildings on occupant satisfaction. Sustainable buildings can increase the marketability of the organization, particularly since pro-environmental consumers are increasing in number (Edwards 2006). Around 97% of survey respondents said they were honored to show their office to visitors (Abbaszadeh et al. 2006). Access to green space also improves the aesthetic value of the building and makes building occupants believe that sustainable buildings have positive impacts on health and productivity (Armitage et al. 2011). All this creates an IEQ that provides a more aesthetically and physically pleasing environment, thus increasing

occupant satisfaction and bringing other economic and social benefits (Paul and Taylor 2008). It should be noted, however, that sustainable materials may increase surface reflection and glare (Armitage et al. 2011).

3 Research Method

An online questionnaire was used to collect the occupants' perceived levels of satisfaction towards their workspace in a higher degree institution in Australia. The questionnaire has three sections. The first section captured the profile of the respondent, including age, gender, employment status, building name within the institution (to determine whether it is a sustainable or conventional building), and work area and arrangement. The second section assessed the satisfaction level of the seven dimensions of IEQ, comprising space layout, thermal comfort, acoustics, lighting, IAQ and visual comfort. A five-point Likert scale ranging from "highly dissatisfied" to "highly satisfied" was used in this section. The third section asked the overall satisfaction of the respondent towards their building and the impacts of the workspace on the respondent's comfort and productivity. A five-point Likert scale ranging from strongly disagrees to strongly agree was used in this section.

The buildings selected are all used for educational purposes and contain office and research student space to establish uniformity. The survey was distributed to staff and research students who use the selected buildings on a regular basis. The respondents were invited to participate in the survey through an email invitation letter distributed via faculty offices, which contained the instructions as well as the link to complete the online questionnaire. Data we collected within a four-week period in July and August 2017 (winter season).

4 Analysis and Discussion

A total of 106 valid responses were obtained. The response rate cannot be determined because the number of participants is not known. About 48% ($N = 51$) of the respondents were male and 52% were female ($N = 55$). The median age of the respondents was within the 35–39 years' age range. Twenty-five academic staff (23.6%), 39 professional staff (36.8%), and 42 research students (39.6%) participated in the survey. Furthermore, 76 respondents (71.7%) were based in sustainable buildings, while the remaining 30 (28.3%) in conventional buildings.

The following analyses focus on the satisfaction levels of the seven dimensions, the difference in satisfaction levels between sustainable and conventional buildings, and the correlations between the seven satisfaction dimensions and overall satisfaction, comfort, and productivity. Two samples t-test was used to determine the difference between the two types of buildings, while Pearson's correlation was

Table 1 Satisfaction towards space layout

Item	Overall	Sustainable buildings	Conventional buildings	Significance difference
The amount of space available to you at your normal work area	4.01	4.12	3.73	0.09
The amount of storage space available to you	3.75	3.79	3.67	0.60
The quality of overall personal work space	3.82	3.91	3.60	0.16
The level of visual privacy (not being seen by others)	3.21	3.33	2.90	0.08
Ease of interactions with co-workers	3.84	3.83	3.87	0.85
Office layout for circulation and movement	3.48	3.46	3.53	0.73

Note: 1 = highly dissatisfied; 2 = dissatisfied; 3 = neutral; 4 = satisfied; 5 = highly satisfied

used to determine the relationships between the satisfaction items and overall satisfaction, comfort, and productivity.

4.1 Space Layout

In overall, the respondents were satisfied with the space layout dimension as shown in Table 1. There was a concern with the level of visual privacy perhaps because the majority of the respondents indicated that they worked in an open plan office with low partitions. There is no significant difference in terms of satisfaction level between sustainable and conventional buildings.

Table 2 shows the Pearson's correlations between the space layout satisfaction items and overall satisfaction, comfort, and productivity. This result shows that higher degree institutions should focus on the quality of overall personal workspace and the amount of space if they want to increase the satisfaction, comfort, and productivity of their people. The level of visual privacy, the least satisfied item, is the least important space layout factor that influences the three outcomes.

4.2 Thermal Comfort

Table 3 shows that the respondents were neither satisfied nor dissatisfied when it comes to the thermal comfort of their workspace. It should be noted that this dimension has the lowest satisfaction level among the seven dimensions included in this research. Likewise, Lee and Guerin (2009) found that this dimension is also one of the lowest in their research. Personal control over the temperature of the work area is the lowest satisfaction item in this research. It also seems that the office spaces

Table 2 Correlation between space layout and overall satisfaction and productivity

Item		Overall satisfaction	Productivity	Overall comfort
The amount of space available to you at your normal work area	Correlation	0.419**	0.336**	0.447**
	Sig. (2-tailed)	0.000	0.000	0.000
The amount of storage space available to you	Correlation	0.330**	0.267**	0.422**
	Sig. (2-tailed)	0.001	0.006	0.000
The quality of overall personal work space	Correlation	0.506**	0.529**	0.557**
	Sig. (2-tailed)	0.000	0.000	0.000
The level of visual privacy (not being seen by others)	Correlation	0.201*	0.183	0.293**
	Sig. (2-tailed)	0.039	0.060	0.002
Ease of interactions with co-workers	Correlation	0.237*	0.255**	0.231*
	Sig. (2-tailed)	0.015	0.008	0.017
Office layout in regard to circulation and movement	Correlation	0.342**	0.325**	0.406**
	Sig. (2-tailed)	0.000	0.001	0.000

**Correlation is significant at equal to or less than 0.01 level (2-tailed). *Correlation is significant at equal to or less than 0.05 level (2-tailed)

Table 3 Satisfaction towards thermal comfort

Item	Overall	Sustainable buildings	Conventional buildings	Significance difference
The temperature of your normal work area in summer	2.78	2.74	2.90	0.54
The temperature of your normal work area in winter	2.95	2.89	3.10	0.42
The ability to get the work done in relation to quality of thermal comfort	3.14	3.13	3.17	0.89
Personal control over the temperature of your normal work area	2.54	2.54	2.53	0.98
Your office's ability to respond to changes in temperature	2.64	2.67	2.57	0.69

Note: 1 = highly dissatisfied; 2 = dissatisfied; 3 = neutral; 4 = satisfied; 5 = highly satisfied

do not respond well to changes in temperature. There is no significant difference in the satisfaction levels between sustainable and conventional buildings in terms of thermal comfort.

As shown in Table 4, all thermal comfort items are strongly correlated with overall satisfaction, productivity, and overall comfort. High education institutions should focus on improving this dimension in the design stage. The ability of office space to respond to changes in temperature adequately and personal control over the

Table 4 Correlation between thermal comfort and overall satisfaction and productivity

Item		Overall satisfaction	Productivity	Overall comfort
The temperature of your normal work area in summer	Correlation	0.452**	0.379**	0.441**
	Sig. (2-tailed)	0.000	0.000	0.000
The temperature of your normal work area in winter	Correlation	0.492**	0.382**	0.493**
	Sig. (2-tailed)	0.000	0.000	0.000
The ability to get the work done in relation to quality of thermal comfort	Correlation	0.529**	0.420**	0.502**
	Sig. (2-tailed)	0.000	0.000	0.000
Personal control over the temperature of your normal work area	Correlation	0.465**	0.424**	0.539**
	Sig. (2-tailed)	0.000	0.000	0.000
Your office's ability to respond to changes in temperature	Correlation	0.461**	0.393**	0.515**
	Sig. (2-tailed)	0.000	0.000	0.000

Note: **Correlation is significant at equal to or less than 0.01 level (2-tailed). *Correlation is significant at equal to or less than 0.05 level (2-tailed)

Table 5 Satisfaction towards acoustics

Item	Overall	Sustainable buildings	Conventional buildings	Significance difference
The overall noise level in your personal work space	3.24	3.14	3.47	0.18
The sound privacy in your personal work space	2.57	2.54	2.63	0.70
The ability to get work done in relation to the quality of acoustics	3.32	3.30	3.37	0.78
Noise from office equipment	3.55	3.54	3.57	0.90
Noise from external outdoor traffic	3.69	3.59	3.93	0.12
Noise from people talking	2.91	2.83	3.10	0.24

Note: 1 = highly dissatisfied; 2 = dissatisfied; 3 = neutral; 4 = satisfied; 5 = highly satisfied

temperature of the work space seem to be the key to address the issues related to this dimension.

4.3 Acoustics

As shown in Table 5, sound privacy is the most serious issue in this dimension. Newsham et al. (2013) indicated that low satisfaction is caused by excessive propagation of speech noise. The tendency of using open office layout today seems to be the source of this issue. Like the other previous dimensions, there is

Table 6 Correlation between acoustics performance and overall satisfaction and productivity

Item		Overall satisfaction	Productivity	Overall comfort
The overall noise level in your personal work space	Correlation	0.285**	0.299**	0.292**
	Sig. (2-tailed)	0.003	0.002	0.002
The sound privacy in your personal work space	Correlation	0.359**	0.216*	0.389**
	Sig. (2-tailed)	0.000	0.026	0.000
The ability to get work done in relation to the quality of acoustics	Correlation	0.302**	0.334**	0.285**
	Sig. (2-tailed)	0.002	0.000	0.003
Noise from office equipment	Correlation	0.250**	0.242*	0.223*
	Sig. (2-tailed)	0.010	0.012	0.021
Noise from external outdoor traffic	Correlation	0.085	-0.005	0.012
	Sig. (2-tailed)	0.384	0.962	0.899
Noise from people talking	Correlation	0.318**	0.325**	0.330**
	Sig. (2-tailed)	0.001	0.001	0.001

Note: **Correlation is significant at equal to or less than 0.01 level (2-tailed). *Correlation is significant at equal to or less than 0.05 level (2-tailed)

also no significant difference in terms of acoustics performance between sustainable and conventional buildings.

The correlations in Table 6 indicate that improving sound privacy is the best way to improve overall satisfaction, comfort, and productivity in the acoustics dimension.

4.4 Lighting

Table 7 shows that the respondents were generally satisfied with the lighting in their workspace. Respondents in sustainable buildings were more satisfied with the amount of natural light than those in conventional buildings. This is understandable because natural lighting is always one of the most important factors in any sustainability rating tool.

Table 8 shows that the lighting satisfaction items have strong correlations with overall satisfaction, comfort, and productivity. The correlations also indicate that the amount of natural light is not as important as artificial lighting and visual comfort when it comes to the three outcomes. As such, providing sufficient amount of light, either artificial or natural, is the easiest way to reap the benefits of this particular dimension.

Table 7 Satisfaction towards lighting

Item	Overall	Sustainable buildings	Conventional buildings	Significance difference
The amount of natural light in your personal work space	3.51	3.78	2.83	0.00
The amount of artificial light in your personal work space	3.78	3.89	3.50	0.07
The visual comfort of the lighting (glare, reflections, contrast, etc.)	3.59	3.62	3.53	0.71
The ability to get work done in relation to the quality of lighting	3.86	3.93	3.67	0.15
The ability to control the level of natural lighting and unwanted glare in your personal work space	3.55	3.64	3.30	0.12

Note: 1 = highly dissatisfied; 2 = dissatisfied; 3 = neutral; 4 = satisfied; 5 = highly satisfied
 Bold indicates that the difference is significant at 0.05 level

Table 8 Correlation between lighting and overall satisfaction and productivity

Item		Overall satisfaction	Productivity	Overall comfort
The amount of natural light in your personal work space	Correlation	0.287**	0.238*	0.320**
	Sig. (2-tailed)	0.003	0.014	0.001
The amount of artificial light in your personal work space	Correlation	0.429**	0.409**	0.342**
	Sig. (2-tailed)	0.000	0.000	0.000
The visual comfort of the lighting (glare, reflections, contrast, etc.)	Correlation	0.423**	0.396**	0.376**
	Sig. (2-tailed)	0.000	0.000	0.000
The ability to get work done in relation to the quality of lighting	Correlation	0.439**	0.424**	0.398**
	Sig. (2-tailed)	0.000	0.000	0.000
The ability to control the level of natural lighting and unwanted glare in your personal work space	Correlation	0.380**	0.351**	0.337**
	Sig. (2-tailed)	0.000	0.000	0.000

**Correlation is significant at equal to or less than 0.01 level (2-tailed)

*Correlation is significant at equal to or less than 0.05 level (2-tailed)

4.5 Indoor Air Quality

As shown in Table 9, the levels of satisfaction for this dimension are around the neutral and satisfied ratings. The least satisfied item is related to the access to windows to control air flow. The level of satisfaction for this item is also lower in sustainable buildings than that in conventional ones. The open plan office and the lack of operable windows in newer buildings may be the reason for this.

Table 9 Satisfaction towards indoor air quality

Item	Overall	Sustainable buildings	Conventional buildings	Significance difference
The quality of air in your personal work space (stuffy/stale air, cleanliness, odors, etc.)	3.46	3.37	3.50	0.51
Ventilation/air movement	3.35	3.43	3.32	0.59
The overall humidity in your normal work area	3.55	3.37	3.62	0.18
The ability to get work done in relation to indoor air quality	3.62	3.47	3.68	0.23
Windows in terms of control over the level of natural air flow in your office or personal work space	2.90	2.50	3.05	0.02

Note: 1 = highly dissatisfied; 2 = dissatisfied; 3 = neutral; 4 = satisfied; 5 = highly satisfied
 Bold indicates that the difference is significant at 0.05 level

Table 10 Correlation between indoor air quality and overall satisfaction and productivity

Item		Overall satisfaction	Productivity	Overall comfort
The quality of air in your personal work space (stuffy/stale air, cleanliness, odors, etc.)	Correlation	0.529**	0.459**	0.453**
	Sig. (2-tailed)	0.000	0.000	0.000
Ventilation/air movement	Correlation	0.507**	0.439**	0.443**
	Sig. (2-tailed)	0.000	0.000	0.000
The overall humidity in your normal work area	Correlation	0.469**	0.314**	0.419**
	Sig. (2-tailed)	0.000	0.001	0.000
The ability to get work done in relation to indoor air quality	Correlation	0.500**	0.385**	0.474**
	Sig. (2-tailed)	0.000	0.000	0.000
Windows in terms of control over the level of natural air flow in your office or personal work space	Correlation	0.313**	0.262**	0.328**
	Sig. (2-tailed)	0.001	0.007	0.001

Note: **Correlation is significant at equal to or less than 0.01 level (2-tailed). *Correlation is significant at equal to or less than 0.05 level (2-tailed)

Even though the control of windows is the least satisfied item, as shown in Table 10, the influence of this item on overall satisfaction, comfort, and productivity is also the least within this dimension. Improving these three outcomes can be achieved better by improving air quality, ventilation, and humidity. Ironically, one way to improve this IAQ is actually by providing access to windows.

Table 11 Satisfaction towards visual comfort

Item	Overall	Sustainable buildings	Conventional buildings	Significance difference
The colors and textures of flooring, furniture and surface finishes	3.58	3.70	3.30	0.03
Glare from surfaces in your office area	3.66	3.70	3.57	0.42
Access to indoor or outdoor green space for breaks and recreation	3.36	3.33	3.43	0.67
The overall aesthetics of the building	3.33	3.51	2.87	0.00
The external view from your normal work area	3.26	3.38	2.97	0.14

Note: 1 = highly dissatisfied; 2 = dissatisfied; 3 = neutral; 4 = satisfied; 5 = highly satisfied
 Bold indicates that the difference is significant at 0.05 level

Table 12 Correlation between visual comfort and overall satisfaction and productivity

Item		Overall satisfaction	Productivity	Overall comfort
The colors and textures of flooring, furniture and surface finishes	Correlation	0.351**	0.371**	0.351**
	Sig. (2-tailed)	0.000	0.000	0.000
Glare from surfaces in your office area	Correlation	0.204*	0.226*	0.234*
	Sig. (2-tailed)	0.036	0.020	0.016
Access to indoor or outdoor green space for breaks and recreation	Correlation	0.357**	0.330**	0.391**
	Sig. (2-tailed)	0.000	0.001	0.000
The overall aesthetics of the building	Correlation	0.433**	0.406**	0.405**
	Sig. (2-tailed)	0.000	0.000	0.000
The external view from your normal work area	Correlation	0.422**	0.407**	0.452**
	Sig. (2-tailed)	0.000	0.000	0.000

Note: **Correlation is significant at equal to or less than 0.01 level (2-tailed). *Correlation is significant at equal to or less than 0.05 level (2-tailed)

4.6 Visual Comfort

Table 11 shows that the respondents were relatively satisfied with all the items in the visual comfort dimension. The respondents in sustainable buildings were more satisfied than those in conventional buildings in terms of furniture and surface finishes, and the overall aesthetic of the building.

The correlations in Table 12 show that improving overall satisfaction, comfort, and productivity can be best achieved by improving the overall building aesthetic and improving the external view from the workspace area. It is good to see,

Table 13 Lowest satisfaction items

Item	Satisfaction level	Correlation		
		Overall satisfaction	Productivity	Overall comfort
Personal control over the temperature of your normal work area	2.54	0.465**	0.424**	0.539**
The sound privacy in your personal work space	2.57	0.359**	0.216*	0.389**
Your office's ability to respond to changes in temperature	2.64	0.461**	0.393**	0.515**
The temperature of your normal work area in summer	2.78	0.452**	0.379**	0.441**
Windows in terms of control over the level of natural air flow in your office or personal work space	2.9	0.313**	0.262**	0.328**
Noise from people talking	2.91	0.318**	0.325**	0.330**
The temperature of your normal work area in winter	2.95	0.492**	0.382**	0.493**
The ability to get the work done in relation to quality of thermal comfort	3.14	0.529**	0.420**	0.502**
The level of visual privacy (not being seen by others)	3.21	0.201*	0.183	0.293**
The overall noise level in your personal work space	3.24	0.285**	0.299**	0.292**

therefore, that newer, sustainable buildings have better overall aesthetic than conventional buildings because this item influences the three outcomes strongly.

4.7 Additional Discussion

Table 13 summarizes the results by ranking the ten lowest satisfaction items and their influence on overall satisfaction, comfort, and productivity. The correlations above 0.400 are presented in bold. This table clearly shows that higher education institutions should focus on thermal comfort if they want to improve the overall satisfaction, comfort, and productivity of their people. Higher education buildings should be able to adapt better to changes in temperature and should have acceptable temperatures in summer and winter. A personal control over the temperature in the workspace should also be considered, although this is hard to be implemented due to the open office plan commonly integrated into sustainable buildings today.

5 Conclusion

This research aims to investigate the levels of occupant satisfaction in sustainable and conventional buildings in higher education. Sustainable buildings are supposed to integrate economic, social, and environmental aspects of sustainability. One social aspect of sustainability is related to occupant satisfaction, health, wellbeing, and comfort. Many suggest that sustainable buildings are superior than conventional buildings on this particular aspect. As such, sustainable building occupants should be satisfied with their workspace, which can also increase their productivity and bring other benefits for the organization. This hypothesis has been tested in this research in the context of higher education.

The research began with identifying six sustainability-related dimensions that can influence occupant satisfaction. The six dimensions are space layout, thermal comfort, acoustics, lighting, indoor air quality, and visual comfort. The results show that, within these seven dimensions, generally there is no significant difference in the levels of occupant satisfaction between sustainable and conventional buildings. As such, sustainable buildings in higher education do not deliver one of the social aspects expected from them. It is possible that the development of sustainable buildings mainly focuses on the environmental aspect due to a number of reasons while the social aspect tends to be neglected. It is, however, reassuring to find out that at least sustainable buildings do not perform worse than conventional buildings.

Correlation analysis was performed to determine the relationships between the satisfaction items within the seven dimensions and overall satisfaction, comfort, and productivity. From this analysis, the items that have relatively low satisfaction level, but strong influence on the three outcomes were identified. The result shows that, if higher education institutions intend to improve their occupants' overall satisfaction, comfort, and productivity, they should focus on thermal comfort. It is important for the workspace to be comfortable in summer and winter, for occupants to have personal control over the temperature, and for the building to be able to adapt adequately to changes in temperature.

There are several limitations of this research worth mentioning. First, data were collected from one higher education institution in Australia, so the results may not be applicable nationwide or internationally. More data are required to get a more comprehensive view. Second, data that represent conventional buildings are fairly limited in this research. More data are needed to test the validity of the results.

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The Missing Framework for Adaptation of Agile Software Development Projects



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Abstract This paper focuses on the study of the Software Development Life Cycle (SDLC) implementation of software development project in an insurance company name “Preeminence” in Jakarta, Indonesia. Initial findings in this corporation reveal that several key people who had using Agile SDLC, mentioned they need some accommodation when implementing Agile during a project. Previous studies had introduced the additional process to help a project using Agile. However, studies that explored the importance of experience-based learning process during Agile implementation are noticeably lacking. The needs of the experience-based learning process to explore the learning process as a factor for adaptation of Agile implementation, which hopes to increase the success of a project when using the Agile framework. Methods carried out in this research are based on archival research strategy by examining extant research on Agile adaptation for software projects implementation which published from 1999. Many studies focus on Agile implementation related to content and context to put additional process as an accommodation to easier a project using Agile. However, only a few discussed the process, particularly the learning process which is mean that research gap exists in the area of Agile implementation relates to the learning process.

Keywords Software Development Life Cycle · Waterfall · Agile · Scrum · Transactive Memory System · Soft System Methodology

1 Introduction

Reported by Financial Services Authority of Indonesia (FSAI), Indonesian insurance business continues to grow from year to year, which is indicated by the average increment of 13% in life insurance investment, average increment of 11% in General

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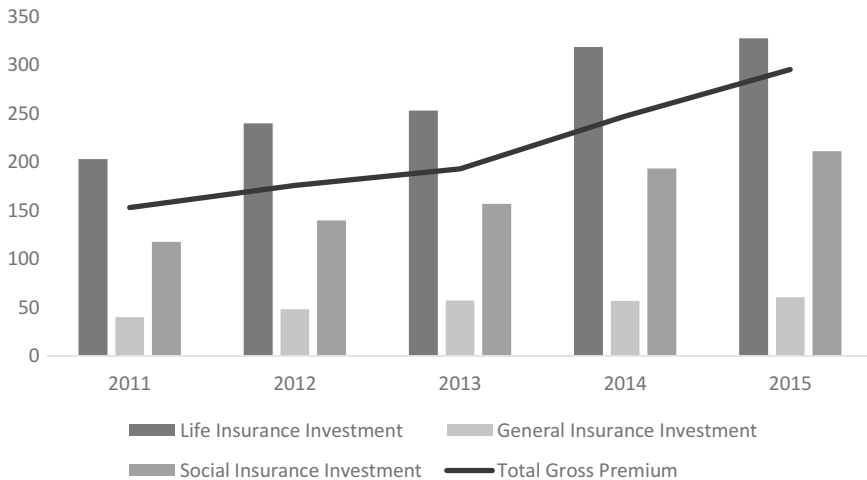


Fig. 1 Growth of Insurance Industries (2011–2015, IDR Trillion). Source: Financial Services Authority of Indonesia (2015)

Insurance investment, average increment of 16% in Social Insurance investment, and an average increment of 18% in Gross Premium between 2011–2015 (See Fig. 1).

Moreover, it has been reported by Financial Services Authority of Indonesia in 2016 that Indonesian insurance business gained a significant portion of income, indicated by an average increment of 32% in Total Net Premium Income, an average increment of 23% in investment yield, and an average increment of 30% in total revenue during 2016 (Financial Services Authority of Indonesia 2015). The above statistics report reflects the Indonesian insurance as a global situation where the business growth is quite significant over the time.

Author validates the business growth into a smaller scope, refer to a company name “Preeminence” as a research subject. This corporation has been striving to achieve the company’s vision to be the world’s preeminent life insurance provider by growing its business. The company has initiated to run several strategies either in products launching, projects initiatives, and many software enhancements by both business and IT. In 2016 there were more than 40 products launched and more than 200 software enhancements that cater to business needs.

To deal with the situation where many projects were launched with a tight target date and many inter-correlated systems to be developed, all resources both business users and IT are highly utilized to meet projects’ deadline within the allocated budget. In early 2016, the IT department had launched an Agile framework, hoping to answer those concerns. Agile framework is developed to address the core principles of Agile Manifesto which are collaborative development, reduction of unnecessary work, minimizing wasteful documentation, so that customers/stakeholders are actively shaped and guiding the software development, and to control the variation of output (Dingsøy et al. 2012; Conboy et al. 2010; Conboy 2009). Therefore, Agile is used to encounter the concern of ‘Preeminence’ corporation and getting potential

Table 1 Agile versus Waterfall

Chaos resolution (Agile vs Waterfall)				
Size	Method	Successful (%)	Challenged (%)	Failed (%)
All size projects	Agile	39	52	9
	Waterfall	11	60	29
Large size projects	Agile	18	59	23
	Waterfall	3	55	42
Medium size projects	Agile	27	62	11
	Waterfall	7	68	25
Small size projects	Agile	58	38	4
	Waterfall	44	45	11

Notes: The resolution of software projects from FY2011–2015 within the new CHAOS database, segmented by the Agile process and waterfall method. The total number of software projects is over 10,000

Source: Chaos Report (2015)

of higher customer satisfaction, lower bug rate, shorter development cycles, and quicker adaptation to rapid changing business requirement (Cho 2010; Parrish et al. 2004; Miller and Larson 2005; Boehm and Turner 2003).

Based on the study of Agile implementation at “Preeminence” company, it is found that the team should focus on specific backlog (requirements) and not overall requirements which lead to silo. Moreover, because the project’s cycle is short—from requirement gathering to software implementation—and is often changing, hence the learning process is limited, and the team finds it difficult in learning a particular or related function repeatedly. Also, the impact of system enhancement related to a particular function will be handled by the one who knows it before because the needs of a dedicated resource. The dependency on certain people is because the company has limited documentation where previous knowledge depends on the tacit knowledge of the previous team (developer). The Agile implementation also needs a highly knowledgeable person on a team. Otherwise, one mistake can potentially affect the overall project’s progress. Therefore, it is clear that the primary challenge to be solved are the issues of Agile SDLC implementation that is related to people, knowledge, and learning process.

Refer to The Standish Group (2015) to understand more the Agile usage and implementation in the bigger scale and scope. It underlines the facts that not all projects succeeded, although using Agile (See Table 1). This fact is interesting to explore, why there are gaps in the Agile implementation although Agile methodologies have been known more than a decade with its vision to bring more successful software implementations.

At this stage, there are some gaps on empirical in the Agile implementation of ‘Preeminence’ company, and it also strengthened by the global facts that the project’s failure still exists, despite using Agile (The Standish Group 2015). Therefore, it is valid for the authors to take the opportunity to focus on the Agile SDLC implementation.

Our research presents the Agile SDLC implementation has affected people interaction and communication between team to gain and transfer knowledge. A sustainable learning process is a vital role in answering the needs of a better software implementation, which are not thoroughly discussed by other current literature. This research also explores and gives us the understanding on how and why learning process is essential to achieve a higher rate of Agile SDLC implementation and bring some insights for a better Software Implementation in Insurance Business in Indonesia. This research focuses on the Insurance industry that keeps growing which indicated by many companies has been striving to compete for their unique product to the market with frequent times. To adapt with the situation, many insurance companies have been trying to shift from traditional waterfall to Agile SDLC which hoping to solve current issues on waterfall SDLC to balance the business needs on faster delivery of software application. Therefore, it is exciting to explore Insurance industry because the business continues to grow up and need to balance by system enhancement where many organization is shifting from traditional SDLC to Agile SDLC.

This research focuses on the learning process for two (2) reasons. First, as Conger (2011) stated, software requirements have some aspects of simplicity, learnability which can conclude the software itself has the knowledge to be learned (Nielsen 2000). Furthermore, Apshvalka et al. (2009), Richter-von et al. (2005), Tiwana (2004), Chau et al. (2003), and Hefke and Trunko (2002) argued that software development as a knowledge-intensive process that involves many varieties of specialized knowledge to solve the business problem. Moreover, software development has been acknowledged as a short time complex problem-solving process (Ozer and Vogel 2015).

Conboy et al. (2010) stated that people's contribution to the Agile process is the most critical factor besides technology and process/task, which contributes to the failure of software project if it is ignored (Ozer and Vogel 2015; Coyle et al. 2013; Conboy et al. 2010; Thomas 2004; Schmidt et al. 2001). Therefore, it is critical to explore the learning process in the software development area that becomes this research's focus. The second reason, based on initial interviews conducted to 3 (three) senior manager in "Preeminence" company, all participants agreed that there are still many different opinions to understand Agile SDLC implementation. Therefore, there is a need to explore why there is a gap in Agile SDLC implementation and how to understand the gap within the learning perspectives.

This research begins with the explanation of SDLC as the general framework used by Software Development projects and to provide further explanation of the Agile framework. After that, this paper will describe the learning process exploration that occurs during project execution using Agile SDLC, to facilitate the understanding of the learning process. At last, the explanation of Agile implementation findings by previous research and what framework should be needed to fill the gaps in the learning process.

From a macro level, this research outcome is to help business and IT personnel for a better Agile SDLC implementation, especially in the insurance business, where projects have been "*addicted*" or become a habit of using traditional Waterfall SDLC

for a long time. Shifting to a new method “Agile SDLC”, is not easy as to implement based on training or books. Therefore, a proper review and analysis shall be conducted to explore the interaction and communication between team to gain and transfer knowledge for a sustainable learning process and the exploration of why learning process is vital to achieving a higher rate of Agile SDLC implementation. There is also no current literature review or academic research, especially in insurance business context that has found the answer to the findings. This research is to fulfill the research gap or findings based on academic perspective by combining three (3) different subjects, i.e., information system, knowledge management, and learning.

From micro (organization) level, the outcome of this research is to help the corporations to improve their practices in Software development and Implementation by appropriate change management with learning process intervention. Also to help the corporations able to manage many projects launched with a challenging target date with many inter-correlated between the system and sustainably improving team knowledge with learning process intervention.

Previous study of Agile framework adoption or adaptation are mostly use positivism approach such as Sidky et al. (2007), Sureshchandra and Shrinivasavadhani (2008), Asif and Brian (2008), Soundararajan and Arthur (2009), Krasteva et al. (2010), Esfahani (2012), Lee and Yong (2013), Nikitina and Kajko-Mattsson (2014), Hoda and Noble (2017), Rasnacis and Berzisa (2017). It is recommended that future studies use the interpretivism approach to gain a new knowledge to understand human as social actors by entering the social world of the research subject.

2 Theories and Empirical Studies of Organization Learning

The SDLC was introduced to answer the needs of standardization of the activity for more substantial software implementation in 1970 by Winston Royce, which the process steps begin with software requirements, analysis, program design, coding, testing, and operations. This SDLC type is commonly and widely known as Waterfall framework. In the early 1990s, PC computing began to commercialized in corporations; the business needs are increasing and rapidly changing. The changes in requirements during software development project become common to follow the business needs (Anquetil et al. 2006; Gregory et al. 2014). However, the more frequent the requirement changes, become an obstacle to the Waterfall framework because specific governance for this particular change is needed. This governance process becomes an obstacle in the project because it requires additional resources both human and time to handle this. Therefore, these issues trigger the idea of some professionals to meet in Utah in early 2001 to discuss the Agile framework that is to deliver the working software faster to the users, rapid feedback, and willingness to change.

General characteristics of agile software development are adaptive, cooperative, incremental, and straightforward. Adaptive refers to the ability to react and adjust to

the changes that occur at the last moment. Cooperative refers to a close interaction between customer and developer. Incremental refers to short software development implementation by rapid development cycles. Straightforward refers to the agile methodology that is easy to learn and customized with sufficient documentation.

2.1 Software Development Life Cycle (SDLC) and Learning

Ozer and Vogel (2015) mentioned that informal interaction would help software developers to understand the tacit knowledge among them because system knowledge is difficult to understand. Therefore, engagement with customers is vital to disseminate knowledge, because the development team could have a better understanding through collaboration with customers. Chau et al. (2003) strengthened the statement that the knowledge dissemination through the discussion which individual mental model and skills are reflecting common concept and understanding. Vidgen and Wang (2009) stated that Team learning arises as a result of close interactions between team members which is essential for the evolution and co-evolution of an organization. Senge (2006) also mentioned the importance of team learning as the process of aligning and developing the capacity of a team to create results. Therefore, close and frequent interaction between people (customer and system programmer) is essential for effective knowledge dissemination to achieve a common understanding. At this point, we can conclude that people and the way they interact with others during the learning process are the most crucial factors in the Software Development process which become the focus of this paper.

Learning process, as mentioned by Popper and Lipshitz (1998), implied that Organization Learning Mechanism is institutionalized by structural and procedural arrangements that allow organizations to learn directly which to collect analyze, store, disseminate, and use information systematically that is relevant to their and their members' performance. Some recent articles have discussed the learning curve, knowledge process, and organization learning mechanism, but the fundamental idea of this research is brought individual knowledge to the organization level to provides a shared physical, virtual, or mental space for emerging relationship (Nonaka et al. 2000). It is preferred to call shared space as a learning community or as "a group of people who feel a deep sense of mutual commitment that sustains them over time".

Nonaka (1991) mentioned new knowledge always begins with the individual and making that personal knowledge available to others is the fundamental activity of a knowledge-creating company, which makes individuals in the organization initiated the learning process (Wang and Ahmed 2003). Argyris and Schon (1978) emphasized common thinking that individuals as 'agents' have been considered for an organization to learn. Thus, learning organization needs to integrate individual learning into an organization's learning process (Ikehara 1999), which can be measured by accumulating the individual and collective learning (Hyland and Matlay 1997).

2.2 Organization and Learning Process

Organizations are composed of individuals who learn independently, but not independently of all individuals (Kim 1993). Thus, the relationship between individual and organizational learning become critical aspect (Kim 1993; Matlay 2000). Argyris and Schon (1978) mentioned the organization's learning system help individual's learning activities. Therefore, it is imperative to ensure that organizational learning has established for individual learning activities. There are three (3) factors that enable us to understand the gaps between individual learning and organizational learning, i.e., Learning Objectives, Learning Factors, and the Learning Process (Pauleen and Gorman 2011). The learning objectives of the individual are different to learning objectives of the organization. Individual learning objectives consist of three types, which are social, personal, and job-related, while organization learning objective commonly is to improve organization's effectiveness, responsiveness, efficiency, flexibility, and ability to innovate (Pauleen and Gorman 2011).

Therefore, to bridge the gaps between individual learning and organization learning is to align the organization and individual objectives, align the organization and individual learning factors, and align the organization and individual learning process. This will allow individual to take benefit of the environment provided by the organization to achieve individual learning objective and organization can focus to which individual can benefit the organization (Pauleen and Gorman 2011). The alignment between individual learning factors and organization learning factors will allow individual to understand what kind of knowledge should they learn to support their roles, organization can determine what kind or how many resources needed and allocated, will allow individual and organization to understand learning orientation within the ranges of common norms and values, and will allow individual and organization to fit the technology platform available to individual to support the organization learning (Pauleen and Gorman 2011).

2.3 Organization Learning and TMS (Transactive Memory System)

Argote and Miron-Spektor (2011) mentioned that Organization Learning could manifest by a change in cognition and include explicit and tacit knowledge. Explicit knowledge and Tacit knowledge could be embedded in various repository including people, routines, and Transactive Memory System (TMS) where people's memory always under construction by the cumulative history of interaction (Ertmer and Newby 1993). The adverse effects on member turnover from the company can be buffered by knowledge embedded in organization structures, tools, and processes. An organization with well-developed TMS can enhance problem-solving and coordination, as the member knows to whom they go for advice. This explains how team members can coordinate and learn between expertise for accomplishing collective

goals (Wegner 1986). They also can perform better on recalling tasks for high levels of TMS because of the shared cognitive system of encoding, storing, and retrieving knowledge possessed by these individuals (Liao et al. 2012). Therefore, TMS can answer the needs of problem-solving, coordination, and recall task that uniquely distributed within the individual as a group of experts.

Communication is argued as a critical role in TMS development because it utilizes the individual expertise (Stasser and Titus 2003), how people learn and pool information from others (Hollingshead 1998) to exchange task-related information and relational information (Liao et al. 2012). While face to face communication is more beneficial than non-face to face communication (Lewis 2004). Therefore, TMS can answer the needs on face to face communication as a basis to learn and share information with others.

TMS plays a vital role to accommodate the learning process within the organization. The learning process of expert group by exchanging knowledge that always evolves, which needs a mechanism to manage the process to avoid the problem of knowledge that is not updated. Face-to-face task discussions that involve information exchange with minimal documentation, which needs a mechanism to recall what has been discussed yesterday to avoid the problem of the task that is not updated. Therefore, TMS can resolve the potential issues using Agile SDLC where information and knowledge reside in the brain of experts which become highly depends on expert. TMS can support face-to-face communication as the primary method in Agile SDLC for discussing the task update that always progresses on a daily basis.

3 The Developed Framework

To explore the previous study relates to the Agile implementation, author searched the literature review of the current research in world research databases such as ProQuest, IEEE, Science Direct, and Scopus using the following keywords search “Agile Adoption” and “Agile Adaptation” in Abstract which published from 1999, limited to Engineering and Computer Science area which results to the below numbers. The limitation of year archival research strategy merely is due to the history of Agile initiated after 1999.

- ProQuest resulting 66 records match
- IEEE resulting 309 records match
- Science Direct resulting 73 records match
- Scopus resulting 911 records match

From the total of 1359 records matched with the keyword, authors skimmed and selectively pick the 87 research papers which related to the Agile Implementation process in which adoption or adaptation took place. From 87 research papers related to Agile implementation, the authors reviewed and selectively picked the 22 research papers discuss the Agile implementation framework as shown in Table 2. These are the total literature that will be further analyzed.

Table 2 Approaches to Agile adoption framework/theories

Author	Human behavior approach	Knowledge-based approach	Learning-based approach
Rasmusson (2006)	No	No	No
Sidky et al. (2007)	No	Yes	No
Mannaro (2008)	No	Yes	No
Asif and Brian (2008)	Yes	Yes	Yes
Sureshchandra and Shrinivasavadhani (2008)	No	Yes	No
Soundararajan and Arthur (2009)	No	Yes	Yes
Cohn (2010)	No	No	No
Esfahani et al. (2010)	Yes	Yes	No
Krasteva et al. (2010)	No	Yes	No
Rohunen et al. (2010)	No	No	No
Mikulenas et al. (2011)	No	No	No
Esfahani (2012)	Yes	Yes	No
Bose and Thakur (2013)	No	No	No
Lee and Yong (2013)	No	Yes	Yes
Ayed et al. (2014)	No	No	No
McAvoy and Butler (2009)	Yes	Yes	Yes
Nikitina and Kajko-Mattsson (2014)	No	Yes	Yes
Rajkovic et al. (2016)	No	No	No
Heje and Baskerville (2017)	Yes	Yes	Yes
Hoda and Noble (2017)	Yes	Yes	Yes
Paasivaara (2017)	No	No	No
Rasnacis and Berzisa (2017)	Yes	Yes	No

Source: The authors’ analysis

All 22 papers that are related to Agile adaptation or adaption are not able to explore the transformation of experience into knowledge sharing, the creation of shared meanings derived from collective experiences, analysis, informed interpretation, reflection, accessible memory, and processing information. As Hedberg (1981, p. 6) mentioned “Organizations do not have brains, but they have cognitive systems and memories. As Individual develop their personalities, personal habits, and belief over time, organizations develop their views and ideologies”. Therefore, this research takes a position of novelty on focusing Agile SDLC implementation by Learning Process intervention.

Although some papers had already developed a framework to help the organization to adopt Agile SDLC, such as Asif and Brian (2008), Heje and Baskerville (2017), and Hoda and Noble (2017) which focuses on Knowledge, Human Behavior, and Learning. However, the framework only to evaluate the adoption of critical factors to achieve the highest Agility but doesn’t reflect ‘How’ the framework built and doesn’t reflect ‘How’ to achieve every stage. Even more the framework used in the research is a conceptual model only which have not been applied in the research.

McAvoy and Butler (2009) developed a framework which becomes an ideal reference for this research because besides focus on Human Behavior, Knowledge, and Learning; the framework in the research used as an operational model which have been applied in the research. The drawback of the research is that the framework only discusses individual not team and does not reflect 'How' the framework can be embedded in the Agile process. Even more, the research approach used a deductive approach by verifying the concept of behavioral change by Argyris (1976, 1997), to describe ways in which individuals change from Model I behavior to Model II behavior.

Lewis et al. (2005) argued that their "TMS-learning framework" applies to groups that perform complex and fragmented tasks that require substantial of knowledge and more generally the framework prevail to task-oriented workgroups where members share responsibility for generating group outcomes, whose performance depends on coordination and integration of the group members' skills, knowledge, and activities. The first learning cycle of the "TMS learning framework" consists of the initial TMS structure that regulates the storage of knowledge from member memories and a set of transactive processes used by members to encode, store, and retrieve existing knowledge (Wegner et al. 1985). The development of TMS begins when group members begin to associate certain knowledge areas of each individual, so the association of this information is stored in TMS structure as location information (Wegner et al.1985). TMS structure also stores the specific facts and details (lower-order information) in which each member possesses a particular topic (Wegner et al. 1985). TMS structure affects the content and scope of learning in each member, which give every member a choice to learn in a specific area and become specialized in different areas of knowledge than other member's area (Hollingshead 2001; Wittenbaum et al. 1998). This process develops a condition that every member is responsible in every respective area, thus creates a specialization for a member who is responsible for the particular area (Hollingshead 1998; Wegner et al. 1991).

The second component of TMS is Transactive Processes (Wegner et al. 1985), established through a group's early interactions and communication for each member to encode, store, and retrieve knowledge relevant to the group's task. When members first communicate, they rely on the initial TMS structure to establish transactive processes by using location information to retrieve information quickly and efficiently when needed for the task (Lewis et al. 2005). Transactive processes helping members to gain a more accurate understanding of what members know (or do not know) and repeated interactions makes members' location information more similar and more accurate. Moreover, Transactive process affects the TMS structure by helping the member to discover linkages between members' knowledge and to a group-generated solution, as Wegner et al. 1985 mentioned "*integrations of members' knowledge*".

TMS structure leads to collective knowledge discovery by integrating relevant details and encoded as shared *higher-order* information, defined as the "topic, theme, or gist" of some set of lower-order information (Wegner et al. 1985, p. 264), which reveals the links between TMS and individual and collective learning

(Lewis et al. 2005). Therefore, TMS is very helpful for an organization to collect, encode, store, and retrieve the knowledge. TMS is also helping the organization to connect between the details knowledge of every member and general order information, which the outcome will bring a relevant topic based on general information.

4 Discussion

“TMS-Learning Framework” by Lewis et al. (2005) will be used as a single reference for this research because it can perform complex divisible tasks that require considerable knowledge. The framework applies to task-oriented workgroups whose members share responsibility for producing group outcomes. The group’s performance depends on coordinating and integrating the various skills, knowledge, and activities of group members.

This research explores and explains why the organization needs a framework that able to link every knowledge resides in each human inside the organization. A person in an organization does not learn alone instead of through tacit knowledge gained from interactions with others. Unfortunately, tacit knowledge is often challenging to externalize in the form of a document or such repository because document or repository does not support communication or collaboration among people (Crawford et al. 2006). This research proving that a framework is needed that explores human factors during learning process which a complex multi interaction relationship which not unique but changes through time and exhibits multiple conflicting worldviews (Checkland and Poulter 2006).

This study contributes to improving the learning process in agile-based projects where face-to-face communication is the main media in exchanging information. The “TMS-Learning Framework” is embedded in the Agile process, as an essential media to Create, Store, Share, Use, Learn, and Improve Knowledge during Agile implementation. The combination or intersection between TMS and Agile process are hoping to create a mutual benefit of successful Agile implementation by retaining information and knowledge which came from individuals during the project.

5 Conclusion

This research contributes to research interest and fills the lack of empirical discussion to understand the learning process as essential factors to achieve better software development and implementation of “Agile” based on Indonesian Insurance. This paper contributes to current academic research on how to do better Software development and implementation “Agile” by understanding human factors in the learning process. Human activity system is a complex multi interaction relationship which is not unique but changes through time and exhibits multiple conflicting worldviews (Checkland and Poulter 2006). Also, this paper is aimed to answer

research gap in Agile implementation on how learning process are constructed when using Agile SDLC framework.

Future research is to answer the needs of more successful Agile SDLC implementation by intervening a better learning process during the project. Thus, a modified TMS learning framework should become an integrated part of the Agile framework implementation. A contribution to academics research by understanding the learning process as essential factors to achieve better software development and implementation of “Agile” based in Indonesian Insurance, is also expected as the outcome of future research.

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Innovations Risk Factors Analysis Between Innovation Leaders and Moderate Innovators



Raminta Benetyte and Rytis Krusinskas

Abstract The main aim of the article is to compare the Baltic countries with Denmark in accordance with the different macro-economic indicators and the identification the potential growth of the innovation level. The subject of the article is the potential level of innovation by the different macro-economic indicators in the Baltic countries and Denmark. The article analyses the innovation's value and the macro-economic indicators, which may depend the state's level of innovation. The main methods are a logical, systematic, statistical analysis. The investigation has shown that not all macroeconomic indicator Denmark is a leader in innovation. According to some macro-economic indicator the Baltic countries would be innovation leaders. This shows that the Baltic countries have the potential to increase the level of innovation. European Innovation Scoreboard for European Union Countries calculates the summary innovation index. There are four main groups: innovation leaders, strong innovators, moderate innovators and modest innovators. Baltic countries are the moderate innovators; Denmark is the innovation leader. Latvia took a 31st place, Lithuania 30th, Estonia 19th, Denmark 3rd. The higher level has Sweden and Switzerland. There are several different reasons why are the different levels of innovation in the country, even though the countries are similar in size and in a geographical area.

Keywords Innovation leaders · Moderate innovators · Macroeconomic indicators

1 Introduction

Innovation could be the new technologies, ideas and methods of commercial applications, the placing on the market of new or improving existing products and processes. According to the Morris (2013) and Zamora-Torres et al. (2014), innovation promotes the social, technological and economic development, to ensure the

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sustainability of such development. The traditional factors of production based on economic growth is no longer a long-lasting, high quality, and satisfying the needs of the market. High productivity can only guarantee long-term and sustainable investments in innovation, because only in this way can be a comprehensive modernization of the production, provision of services, to create new products and improve production, to enhance their competitive-ness.

However, while innovation is the country's economic growth factor, not all countries are characterized by a high level of innovation. All European Union countries in accordance with the summary innovation index are divided into four groups. One of the innovation leadership is to Denmark. The innovation moderators are as-signed to the Baltic countries: Lithuania, Latvia and Estonia. Despite the fact that both Denmark and Baltic States are members of the European Union, similar in size and in geographical area, the States are very different according to the development of innovation. The aim of the investigation: is to compare the Baltic States with Denmark in accordance with the different macro-economic indicators and the identification the potential growth of the innovation level. The subject of the investigation is the potential level of the innovation by the different macro-economic indicators in the Baltic States and Denmark. The tasks of investigation are as follows: First, we aim to analyze the importance and challenges of the innovation economics Second is to analyze the measures to assess the level of innovation in different countries. Third is to analyze the potential growth of innovation level in the Baltic countries according to the Denmark. The main methods are a logical, systematic, statistical analysis. Also there applied to the comparison method.

2 The Importance and Challenges of the Innovation Economics

According to Fagerberg et al. (2015), there can be distinguished the three major waves of change in the global economy in recent decades which have occurred and has the potential to develop. The first wave was the reduction of barriers to flows of goods, finance, and information. Second, was a shift of economic power from West to East. And, of course, the third wave involves, which only just beginning, innovation economics.

Different views are provided for the economy of innovation as the solution—how do deal with the world's urgent interconnected economic and environmental crises—but the previous papers agree what economy of innovation is. Innovation economics could be a growing economic theory that emphasizes entrepreneurship and innovation which is based on two fundamental tenets: that the central goal of economic policy should be to spur higher productivity through greater innovation, and that markets relying on input resources and price signals alone will not always be as effective in spurring higher productivity, and thereby economic growth. Bushehri (2012) argues that economy related with the innovation could be a system of

economic activities concerned to the production, distribution and consumption of goods and services that result is improved human well-being over the long term, while not exposing future generations to significant environmental risk and ecological scarcities'. The author's opinion, this economy is related to the growth of green investment, global and local environmental benefits, quantity and quality of jobs in green. Also innovation economy has to be related to the decrease of waste, pollution, production in energy/resource use per unit, gas emission in greenhouse. According to the Krugman (2010), economy related with the innovation can be attributed to the long past time to do something about emissions of carbon dioxide and other greenhouse gases or a rise in global temperatures that will be little short of apocalyptic. Innovation can be attributed to the ecological innovation, environmental innovation and sustainable innovation. Schiederig et al. (2012) claim that the innovation must include the six key aspects such as the innovation object, market orientation, environmental, phase, impulse and level. First of all, innovation should be product, process, service or method. Second, it should be competitive on the market. Third, innovation should to reduce negative impact for environmental. Fourth, should be full life cycle must be considered. Fifth, intention for reduction may be economical or ecological. And sixth, should be setting a new innovation standard to the firm.

The European Union's cohesion policy provides that regions and Member States of the European Union must target investments in four key economic growth and job creation in areas of this research and innovation, information and communication technologies, the competitiveness of small and medium-sized enterprises, the transition to a low-carbon economy to support. According to the Veugeler (2016), investment in innovation can encourage the growth of economic, technological innovation progress. Require increased investment in research and innovation, information and communication technologies for the competitiveness of small and medium-sized enterprises, the transition towards a low-carbon economy the sponsorship for several key reasons. First of all—a few decades of macro-economic research show that innovation stimulates economic growth by up to 80% in developed countries. Secondly—Europe must innovate to be able to exploit research results and translate them into appropriate to sell products and processes, to stimulate economic growth. Third—Europe lags behind its major competitors in global competition. Research and development accounted for only 2% of European GDP in 2011 (European Commission 2016). This number is significantly lower than in the U.S., Japan and South Korea. Investment is growing rapidly in China. Thus, investment in research and innovation is an important factor to stimulate economic growth and economic progress. So the innovation grows the EU's knowledge economy, it enhances competitiveness and it creates a prosperous future for all Member States. This is why innovation features prominently in the different priorities.

3 Measures to Assess the Level of Innovation in Different Countries

In order to assess the level of innovation in the different countries is calculated indices of innovation. According to Fagerberg et al. (2015), Grupp and Schubert (2010), and Korres and Drakopoulos (2009), there are calculated different criteria in the context of the national, regional, state or groups of individual innovation indexes, using industrial productivity, technological development of the labor force, universities, technology, business studies, wealth creation, investment in the capital. Figure 1 shows the measures as an index to assess the level of innovation in different countries.

Global Innovation Index assesses the different dimensions that determine the level of innovation in the country (Veugeler 2016). The main factors that lead to its size is the production of the investment, innovation, business, infrastructure, research, experimental activities and education. It includes 141 countries in the world. It consists of 95.1% of the total world population. The index is calculated on the basis of a certain model. This model consists 82 indicators from three different categories of data: quantitative (58 indicators), qualitative (5 indicators) and composite indices (19 indicators). Innovative Capacity Index helps to identify what are the economic, political and institutional actions, which promote the growth of the economy and the development of new technologies. The index started to use the 2009. Index assess 131 countries. This index is calculated on the basis of 60 indicators that affect innovation. Innovative Capacity Index also assesses the five areas (Szabo et al. 2013). It is the institutional environment, human resources, legal and business framework, research and development, information and communication. Networked Readiness Index shows the level of technological innovation in the country. The main factors that lead to the index, is a business and public sector participants in preparation for the use of information and communication technologies, infrastructure, economic, political, social and legal environment. Technology Achievement Index evaluates the technological progress and the possibility of the creation of technological alliances. Year of 2000 index delivered Harvard's competitiveness report. The index helps to identify existing technological advances.

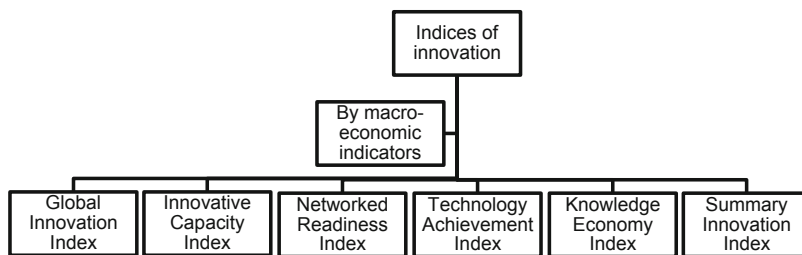


Fig. 1 Measures to assess innovation level in a country. Source: authors own study, based on EU (2016)

However, it cannot be expected to investigate the technological breakthrough or measures in order to achieve on the variables that are not explicitly identified in causation. Knowledge Economy Index evaluates the overall level of development of the country, which takes into account the knowledge economy weighted criteria. Index identifies, as the environment allows efficient use of the knowledge. This index assesses the economic incentive and institutional regime. Also one of the innovative level measurement tool is the Summary innovation index, which summarizes the performance of a range of different indicators. Summary Innovation index assess the level of innovation in qualitative and quantitative terms (Archibugi and Filippetti 2011). The index started to run in 2000 and calculated on the basis of 25 indicators. The key factors: the role of the authorities at the beginning of the business, the number of patent applications, technological achievements, which are assessed in the light of a skilled labor force and the knowledge economy. In Fig. 1, From 2006 to the present summary innovation index is calculated by the 25 indicators.

To sum up, the calculation of the indices is based on the different innovation in various aspects of the progress of science and technology, microeconomic and macroeconomic indicators. To investigate the significance of innovation, it is necessary to analyze these different aspects. The correct identification of the determinants of innovation, helping to select appropriate methods to obtain more precise results. According to the authors, one precise and globally appreciated innovation index is the summary innovation index. So the potential for increasing the level of innovation in the Baltic countries, measured in terms of the total innovation index. Therefore, in order to explore the potential of the Baltic countries to increase the level of innovation, will be used the economic and financial indicators for the summary innovation index and other key macro-economic indicators are not included in the index.

4 Methodology to Assess the Potential Growth of the Innovation Level in the Baltic Countries

Summary Innovation Index is expressed in European Innovation Scoreboard Report, according to the all EU countries. The measurement framework of the summary innovation index is presented in Fig. 2.

The European Innovation Scoreboard Report gives an assessment of the European Union and Member States' innovation performance, as well as that of key international competitors (see Fig. 3).

Summary innovation index includes 25 indicators which give a detailed analysis of the strengths and weaknesses of Member States on the basis of important innovation drivers—from research systems and public and private investment, to the economic effects of innovation. The Summary Innovation index distinguishes between three main types of indicators—Enablers, Firm activities, and Outputs.

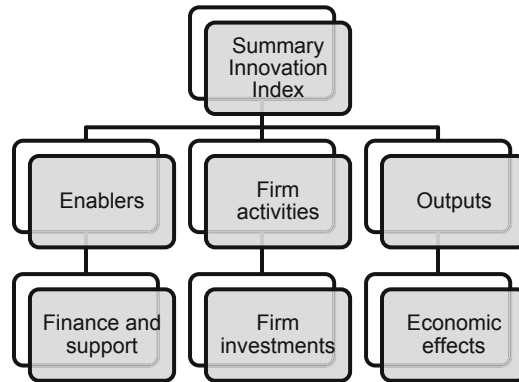


Fig. 2 Measurement framework of the Summary Innovation Index. Source: authors own study, based on EU (2016)

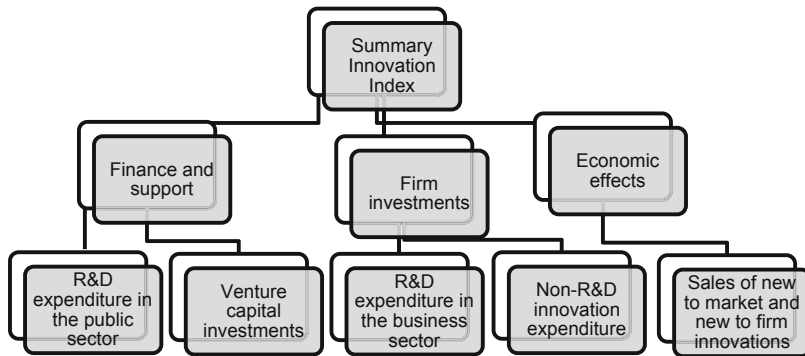


Fig. 3 Measurement framework of the Summary Innovation Index in the context of the economic and financial dimensions. Source: authors own study, based on EU (2016)

Indicator of the Enablers includes three dimensions: human resources, open, excellent research systems and finance and support. Indicator of the Firm activities also includes three basic dimensions: firm investments, linkages & entrepreneurship and intellectual assets. Indicator of the Outputs includes two dimensions: innovators and economic effects. In order to analyze the state innovation level through the prism of economic and financial selected only these dimensions: Finance and support, Firm investments and Economic effects (see Fig. 2). Indicators of the dimensions for finance and support include R&D expenditure in the public sector and venture capital investments. Indicators of the dimension's Firm investments include R&D expenditure in the business sector and non-R&D innovation expenditure. From dimension Economic effects it was chosen to analyze one basic indicator—sales of new to market and new to firm innovations (see Fig. 3).

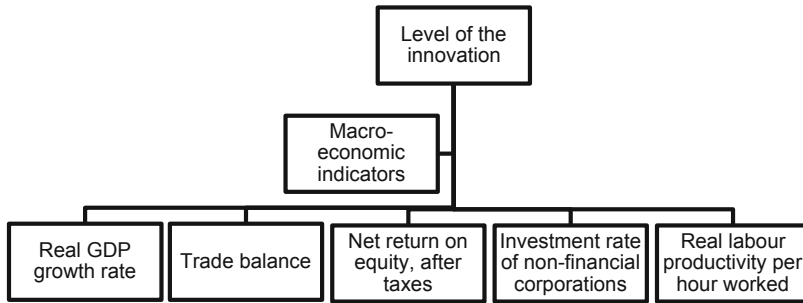


Fig. 4 Measurement framework of the country for innovation level in the context of the other economic and financial indicators which not included in the summary innovation index. Source: authors own study, based on EU (2016)

However, in calculating the level of innovation by the Summary Innovation Index does not include such important macroeconomic indicators as real GDP growth rate (%), trade balance (billions of euros), net return on equity, after taxes, of non-financial corporations (%), investment rate of non-financial corporations (%), real labor productivity per hour worked (EUR/hour) (see Fig. 4).

A higher real GDP growth rate shows that the state can focus on more investment in innovations. Higher foreign trade balance shows that the trade export is more than trade import. To export more goods to foreign markets, increasing local production. Increasing production, the increase GDP, which can increase investment in innovation. As well as higher net return on equity, after taxes, of non-financial corporations and investment rate of non-financial corporations can increase foreign direct investment, what would also encourage greater production and greater GDP. Real labor productivity per hour worked can also promote greater production and greater GDP.

In accordance with the summary innovation index included only economic and financial indicators, the level of innovation in the country would be calculated according to the following formulas:

$$Z1 = a \times M + b \times L + c \times D \tag{1}$$

Where: Z1—Innovation level according to the summary innovation level by macroeconomic indicators; a, b, c—fixed ratio; M, L, D—composite indicators: Indicator of the Finance and support (M); Indicator of Firm investments (L); Indicator of economic effects (D):

$$Z2 = a \times (f + g) + b \times (j + k) + c \times v \tag{2}$$

Where: Z2—Innovation level according to the summary innovation level by macroeconomic indicators; a, b, c—fixed ratio; f, g, j, k, v—dimension of composite indicators.

However, if the summary innovation index added to incorporate additional, related to the macro-economy, the level of innovation is given by the following expression of formulas:

$$Z3 = a \times M + b \times L + c \times D + d \times F \quad (3)$$

Where: a, b, c, d—fixed ratio, M, L, D, F—composite indicators by SII and compose indicator by other important economic dimensions: Indicator of the Finance and support (M); Indicator of Firm investments (L); Indicator of economic effects (D); Indicator of other economic dimensions (F).

$$Z4 = a \times (f + g) + b \times (j + k) + c \times v + d \times (n + m + l + i + p) \quad (4)$$

Where: a, b, c, d—fixed ratio, f, g, j, k, v, n, m, l, I, p—dimension of composite indicators. The potential growth of the innovation's level would be assessed according to the following mathematical expression:

$$\left\langle \begin{array}{l} \text{Potential growth of the innovation's level} \\ \text{No potential growth of the innovation's level} \end{array} \right| = \left| \begin{array}{l} Z1 < Z2 \\ Z3 > Z4 \end{array} \right\rangle \quad (5)$$

In summary the summary innovation index is one of the measurement to calculate the level of innovation in the country. In accordance with the methodology set out in the assessment of the economic financial indicators only include these indicators: R&D expenditure in the public sector, venture capital investments, R&D expenditure in the business sector and non-R&D innovation expenditure and sales of new to market and new to firm innovations. However, other important macroeconomic indicators as a real GDP growth rate, trade balance, net return on equity, after taxes, of non-financial corporations, investment rate of non-financial corporations, real labor productivity per hour worked also can lead to innovation. Their trend may show growth potential for innovation. Thus, the inclusion of these additional macro indicators can be seen in the growth of innovation potential.

5 The Baltic Countries and the Danish Innovation Level of Growth Prospects by Macro-economic Indicator

Figure 5 shows the States' innovativeness level, according to the Summary Innovation Index. By Member States at the lowest index of innovation 2008–2015 had Latvia. The average index of innovation in Latvia was equal to 0.23. The highest level of innovation in Latvia were equal to 0.28 in 2015. The minimum level of innovation in Latvia were equal 0.42 in 2008. By Member States at the highest index of innovation 2008–2015 had Denmark (see Fig. 5). The average index of innovation in Denmark was equal to 0.67. The highest level of innovation in Denmark were

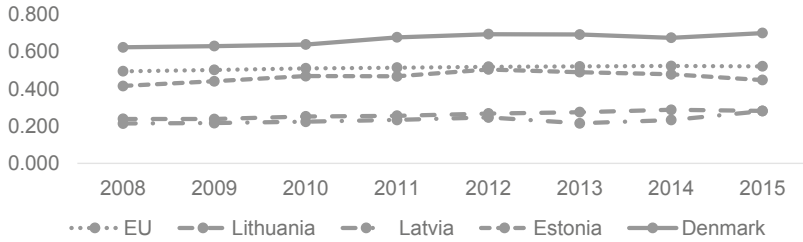


Fig. 5 States' innovativeness level according to the Summary Innovation Index. Source: European Commission (2016)

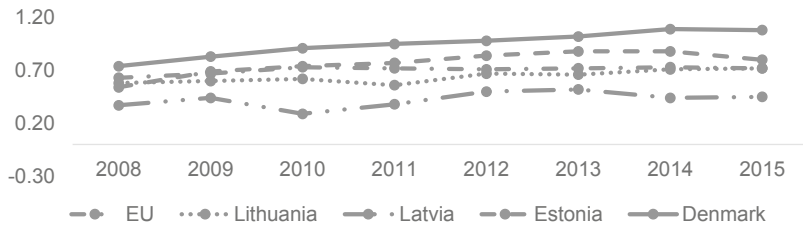


Fig. 6 Public R&D expenditures as % of GDP. Source: European Commission (2016)

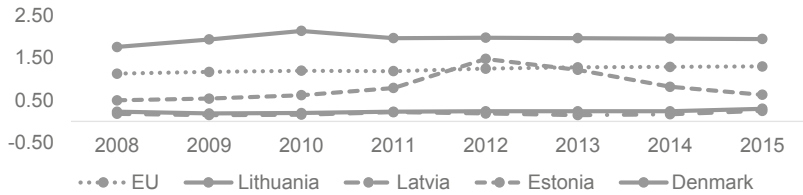


Fig. 7 Business R&D expenditures as % of GDP. Source: European Commission (2016)

equal to 0.7 in 2015. The minimum level of innovation in Denmark were equal 0.62 in 2008. According to the innovation index, Lithuania was very next to Latvia. Lithuania had a slightly higher level of innovation than the Latvia. It is need to see why Denmark increased during the period remained the leader of the entire innovation.

Accordingly, Figs. 6 and 7 show the States' Public R&D expenditures as % of GDP and States' Business R&D expenditures as % of GDP.

By Member States at the lowest indicators of R&D expenditures 2008–2015 had Latvia (see Fig. 7). In second place was in Lithuania. In third place was Estonia. According to the R&D leader Denmark. The same situation was under total investments in R&D, both in terms of business investment in the activities of the R&D. The average in the European Union exceeded only in Denmark and Estonia.

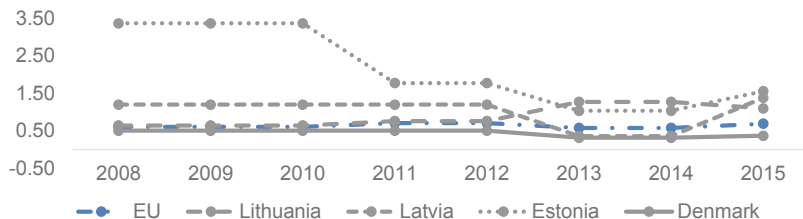


Fig. 8 Non-R&D innovation expenditures as % of turnover. Source: European Commission (2016)

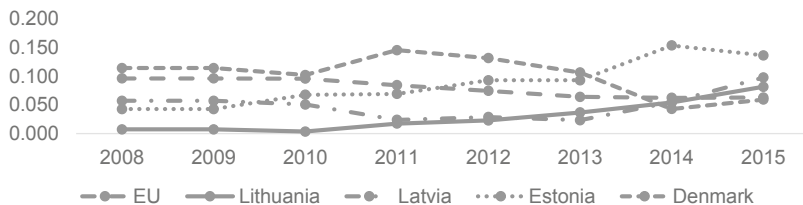


Fig. 9 Venture capital investments as % firm innovations as % of turnover. Source: European Commission (2016)

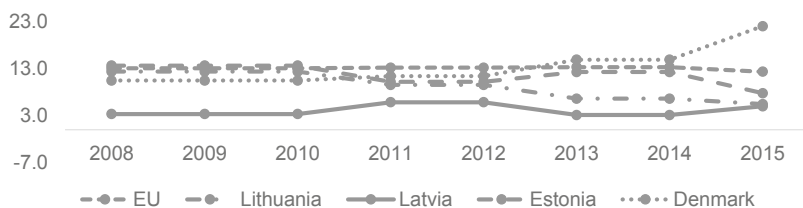


Fig. 10 Sales of new to market and new to of GDP. Source: European Commission (2016)

Figure 8 shows the non-R&D innovation expenditures as % of turnover in the state. In contrast, in accordance with the R&D expenditures as % of GDP by Member States at the lowest indicator of non-R&D innovation expenditures as % of turnover 2008–2015 had Denmark. In second place was in Lithuania. In third place was Latvia. According to the non-R&D innovation expenditures as % of turnover leader Estonia. The average indicator of non-R&D innovation expenditures as % of turnover in Denmark was equal to 0.44, in Lithuania—0.89, in Latvia—1.38, in Estonia—2.16. The average indicator of non-R&D innovation expenditures as % of turnover in European Union was equal 0.63. Only Denmark was below to the EU ‘s average.

Accordingly, Figs. 9 and 10 show the venture capital investments as % firm innovations as % of turnover and sales of new to market and new to of GDP in the state. Indicators for the Member States of each other. 2008–2013 in accordance with indicator of Venture capital investments as % firm innovations as % of turnover leader was Denmark. The lowest indicator had Lithuania. Throughout the period

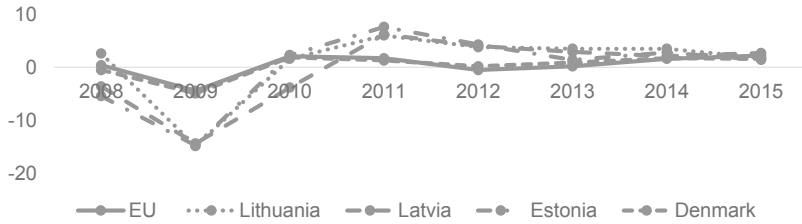


Fig. 11 States' real GDP growth rate. Source: Base on Eurostat (2017c) database

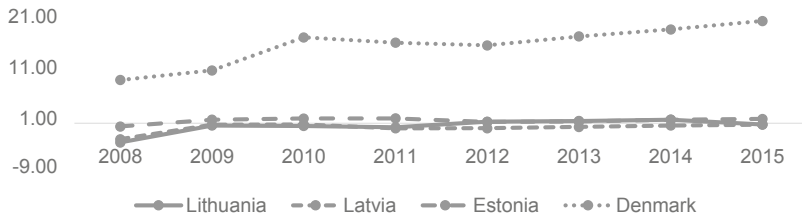


Fig. 12 States' trade balance. Source: Eurostat (2017d) database

growth indicators in Estonia. From the year 2010 in the European Union the indicator began to shrink. In 2015 the maximum indicator had the Estonia. The lowest the indicator had Denmark. Lithuanian and Latvian indicator from 2013 growth has been robust to 2015.

The average indicator in Latvia were equal to 4.14, in Lithuania 11.75, in Estonia 9.4. All the Baltic countries, on average, below the average of the European Union, which was equal to 13.13.

Accordingly, Figs. 11 and 12 show the States' real GDP growth rate and States' trade balance. On average, the maximum variation in the rate of GDP respectively in Denmark, 0.28%. The variation in the rate of GDP was lowest in Lithuania and Estonia. In 2009 during the financial crisis the most economy dips in Lithuania -14.8%. In accordance with the evolution of the trade balance particularly stood out in Denmark.

Throughout the period of analyzed, the Danish trade balance was positive. The average trade balance amounted to EUR 15.33 billion. On average, the trade balance was in Lithuania EUR -0.547 billion, and the Latvian—EUR 0.89 billion. Estonia's balance of trade was positive and amounted to an average of EUR 0.52 billion.

Figure 13 shows the indicator of net return on equity, after taxes, of non-financial corporations in the state. According to this indicator in the first place was Lithuania. Averaged 40.44%. It was the last place Estonia 14.57%. The European Union average was equal to 21.12%. Only Estonia was below the EU average.

Accordingly, Figs. 14 and 15 show the States' investment rate of non-financial and real labor productivity per hour worked. On average according to the indicator of the investment rate of non-financial it was the highest in Latvia. The lowest indicator

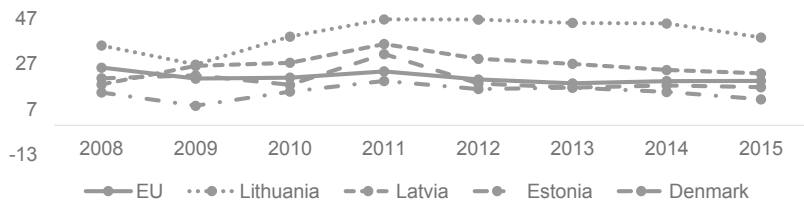


Fig. 13 Net return on equity, after taxes, of non-financial corporations. Source: Eurostat (2017b) database

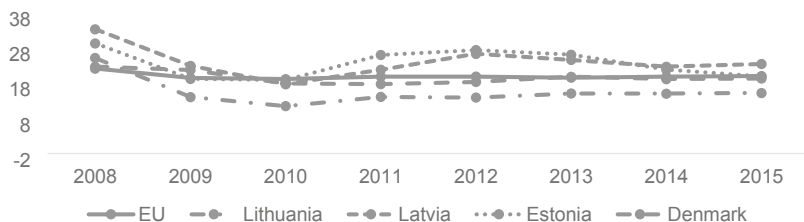


Fig. 14 Investment rate of non-financial. Source: Eurostat (2017a) database

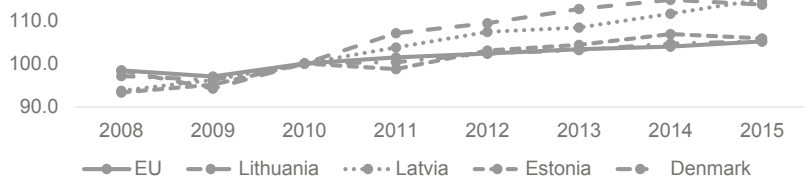


Fig. 15 Real labor productivity per hour worked. Source: Eurostat (2017e) database

was in Lithuania. The EU average was equal to the 21.898. Only Lithuania was below average.

Real labor productivity per hour worked each other very much. But the biggest was in Lithuania. The lowest average was in Estonia. The EU average was equal to the 101.425. Estonia and Denmark was below the average. According to the other macro-economic indicators, which are not included in the summary innovation index (such as the real GDP growth rate and trade balance) Denmark also was innovation leader. However, according to the indicator of the Summary innovation index (such as non-R&D innovation expenditures of turnover) the innovation leader was Estonia. According to the other macro-economic indicators, which are not included in the summary innovation index (such as the net return on equity, real labor productivity, investment rate of non-financial corporations) was Lithuania and Latvia.

To sum up, according to the indicators of the Summary innovation index (such as the public expenditures of GDP, business R&D expenditures of GDP, venture

capital investments of GDP, sales of new to market and new innovations to the firm of turnover) Denmark was actually innovation leader.

6 Conclusion

The level of innovation in the country is measured by a variety of different indices of innovation. It may be a Global Innovation Index, Innovative Capacity Index, Networked Readiness Index, Technology Achievement Index, Knowledge Economy Index or Summary Innovation Index. According to all the innovation index level of innovation in the country comes out different. Countries are ranked as pay differently. The level of innovation depends on the indicators included. In Europe one of the most important indicators for innovation is the summary innovation index, in which included 25 indicators. In accordance with the summary innovation index Denmark compared to the Baltic States was an absolute innovation leader. However, according to the individual macro-economic indicators the innovation leaders were different countries. Denmark such as the absolute leader in innovation was only on two macro-economic indicators. In accordance with the other eight indicators in absolute innovation leader was not Denmark. These macro-economic indicators developed differently in each Baltic countries. Last year according to the following indicators of the Baltic States the macro-economic indicators have improved. If the summary innovation index would include additional macro-economic indicator, the level of innovation will increase in the Baltic countries. Analysis has shown that the Baltic States have the potential to increase its level of innovation.

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Part III
SMES

The Influence of a Branch Group Purchasing Organization on the Development of Small and Medium-sized Enterprises



Grzegorz Zimon

Abstract Operation within the framework of multi-stakeholder organizations is a big opportunity for an improvement of the financial situation of small and medium-sized enterprises. Group purchasing organizations (GPOs) are one of the popular examples of such organizations. In such institutions companies start working together to improve their market position and financial performance. They are growing dynamically. The analysis was carried out on a group of 32 trading companies operating in Poland in the branch group purchasing organizations. The analyzed enterprises are functioning in a construction industry. The study period was 2011–2015. The research was conducted with the use of a preliminary financial analysis and a financial analysis. The appropriate financial ratios were selected for the study. The analysis shows that net positive working capital is present in the audited entities. The companies have a high level of liquidity and a high level of profitability of sales. Functioning of small and medium enterprises together as part of GPOs has a positive impact on financial liquidity and profitability of enterprises. In general, high financial liquidity adversely affects the level of profitability, and high profitability reduces the level of financial liquidity. The analysis conducted showed that functioning within the branch group purchasing organization allows maintaining a high financial liquidity, and at the same time high profits, which is the basis for building a competitive advantage for small and medium enterprises and a further development of enterprises.

Keywords Group purchasing organizations · SMEs · Development · Liquidity · Profitability

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1 Introduction

In the case of business management, the management staff faces the dilemma in which direction run an enterprise. Should the actions be directed towards aggressive cost cutting and increasing profits, or should they ensure the safe operation of the unit and then gradually try to increase profits. Aggressive management gives an opportunity to obtain high profits but it is risky as in the case of payment gridlocks, untimely deliveries may lead to a reduction in the level of economic security of the unit. In turn, a policy based on building financial security costs, and it is characterized by high control in managing receivables. The company examines its recipients, often uncertain contractors offer sales only for cash. Such an action may discourage new contractors and adversely affect the level of sales, but it ensures that receivables from customers are settled. Therefore, a properly created policy in the area of trade credit is the key to an effective receivables management policy. The research was carried out which showed that the trade credit had a large positive impact on the survival of the company (McGuinness et al. 2018). In Germany, France and Italy, the trade credit represents more than a quarter of all corporate assets (Guariglia and Mateut 2006). Even in such an economy as China, it is very important for enterprises. This is due to the fact that companies in China get a very limited support from the banking system (Ge and Qiu 2007). Economies of scale are a strength of group purchasing organizations as they have the positive impact on the management of trade credit policy in enterprises operating within the purchasing group.

A safe strategy in the case of inventory management is not based on Just-in-time rules because stocks are stored with a certain margin of security. In the case of liabilities towards suppliers, they are regulated in accordance with the deadline. This strategy allows maintaining a high level of financial liquidity, but inventory management costs and rigorous receivables management policy affect negatively the company profits.

Acting within branch purchasing groups is a very good solution for small and medium-sized enterprises. Cooperation and the use of economies of scale positively affect the level of financial liquidity and corporate profits. Purchasing groups are multi-stakeholder organizations operating in virtually every industry and their success depends primarily on a mutual cooperation. Consolidation of members of a given group is the basis for negotiations with manufacturers (Blair and Durrance 2014). A joint action within purchasing groups significantly affects working capital and individual elements that make it up, i.e. receivables, inventories or liabilities. Many authors also point out that acting together and creating shopping consortia allow reducing procurement costs (Nollet and Beaulieu 2003; Bakker et al. 2008; Schotanus and Telgen 2007). It can, therefore, be concluded that the creation of a trade policy in the area of purchases slowly changes its function from tactical, short-term management to management of a strategic enterprise (Johnsen 2018). Acting in the purchasing group is, therefore, a management strategy that influences positively the development of small and medium-sized enterprises.

2 Group Purchasing Organizations (GPO)

Working together, creating various types of multi-entity organizations is present in all branches. Most common activities can be observed in the medical and construction industries. The first purchase groups (Group Purchasing Organizations—GPOs) appeared in the USA in 1950. Their maximum development was in the 1980s and 1990s (Weinstein 2006). A group purchasing organization is a group of companies from the same or different branch that combine to make joint purchases. The central unit plays a very important role in GPOs. It is a representative on the negotiation line of a purchasing group—a producer. Its task is the process of organizing purchases. The purchasing group can be broadly defined as a group of cooperating enterprises that jointly controls and improves material, information and monetary flows from suppliers to final recipients. Participants of such a system form a separate central unit whose main task is to achieve the objectives set by enterprises operating in a given system (Zimon 2014). The organizational chart of the purchasing group is shown in Fig. 1.

The group purchasing organization is, therefore, a typical multi-entity organization where the central unit plays a very important role. The most important motives for creating such organizations are:

- Motives related to removing internal difficulties,
- Motives resulting from external threats,
- Motives related to an implementation of development goals.

Relations between individual participants in the group have a large impact on its success as the companies should trust each other (Schotanus et al. 2010). The lack of trust in the long run will lead to the necessity to remove individual units operating in the group. GPOs are a way to increase a purchasing power (Chipty and Snyder 1999). Functioning in the market as a powerful buyer means that every producer

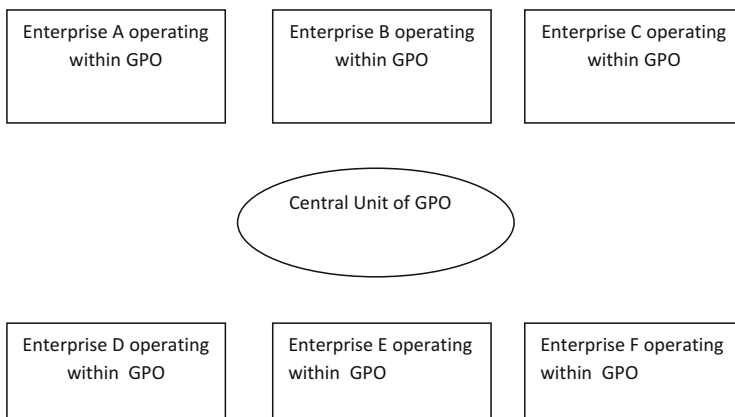


Fig. 1 GPO organization scheme. Source: Author’s own research

must respect this type of organization. The loss of a single contractor is a huge cost, and the loss of a dozen companies for the manufacturer is a serious problem.

When analyzing the functioning of purchasing groups, a division should be made due to the integrating units, i.e. the Internet and traditional ones. The next most important division is the division into one and multi-branch groups. The division of groups into one-branch and multi-branch ones is very important as it has a big impact on the group's purchasing power. In groups, where enterprises from one branch operate, purchases are made with several suppliers and there are no divisions and the purchasing power is high. The central unit of the purchasing group deals with one group of suppliers, which facilitates the functioning of such an organization. In multi-branch groups purchases are made with different suppliers, enterprises are divided into smaller groups and make purchases from different suppliers. These divisions reduce the effect of scale, which is disadvantageous for the whole group.

In purchasing groups one can meet two types of integrating units: the Internet and traditional ones. It is important for the functioning of the whole group whether the integrator is internal or external. The internal one is a unit created by all companies operating in a group. An external integrator is an entity that is looking for enterprises for its own organization and is focused on generating a certain amount of profit. In this case enterprises do not have a big impact on the decision-making process in such an organization. The purchasing group can be perceived as the third element combining relations between buyers and sellers (Nollet et al. 2017).

3 Methodology and Subject of Research

The research covered 32 Polish small and medium-sized commercial enterprises operating in a Polish branch group purchasing organizations. Enterprises belong to the oldest Polish purchasing groups operating in the market since 1997. Enterprises operating in purchasing groups generate turnover in the range from PLN 10 mln to PLN 120 mln (USD 2.3 mln–USD 28.4 mln). The companies analyzed are construction wholesalers dealing with the trade of heating and sanitary equipment. The research period covered the years 2011–2015. The analysis was carried out in the direction of the evaluation of the safety of individual units. For this purpose, the basic financial ratio of current financial liquidity was used. It is calculated as the ratio of current assets to current liabilities. Next, using the initial financial analysis, the change in the dynamics of profits in the analyzed years was presented. The change in the dynamics of a profit is a comparative analysis of profit in time. The purpose of the profit comparison method is to compare its level in individual periods and compare them with the profit in the base period or in the previous one.

The next step was to present the return on sales (ROS), which is calculated as the ratio of net profits to sales revenues.

4 Results

Functioning within group purchasing organizations is mainly related to the process of purchasing strategic goods and materials. Obtaining a low price of the purchased goods improves the situation of the company outside, as the company becomes more competitive. It can attract new customers with an attractive price, a discount, and a trade credit. It can also have the big impact on an increase in sales. An improvement takes also place in the internal area of an enterprise as the costs are reduced. The financial areas of the company affected by the group purchasing organization are shown in Fig. 1.

When analyzing Fig. 2, it can be concluded that functioning within purchasing groups has a positive effect on a profitability and a financial liquidity. An increase in revenues brings additional profits, and the reduction of costs also increases the level of profits. Action in purchasing groups is a joint purchase over real buoyancy, and a long buyer loan from the producer allows extending the terms for recipients. A growth in the level of receivables and inventory increases liquidity.

Joint operation within group purchasing organizations affects significantly working capital and individual elements that create it, i.e. receivables, inventories or liabilities. An improvement of efficiency in these areas significantly affects the profitability of SMEs (Pais and Gama 2015). In addition, the central unit has an option of negotiating long payment terms. The level of obligations will depend on an individually selected management strategy. The commitment management strategy has the strong impact on the profitability of enterprises (Madhou et al. 2015). The effect of scale allows obtaining a low price of the goods purchased, which directly affects the company costs. Low prices are a chance to gain new customers, which should increase sales revenues.

In the analyzed period of time, in the majority of enterprises surveyed there was an increase in the dynamics of profits, high sales profitability and high financial liquidity.

The detailed results of selected ratios in the analyzed enterprises are presented in Tables 1, 2, and 3. Table 1 presents changes in the dynamics of profit in 2011–2015.

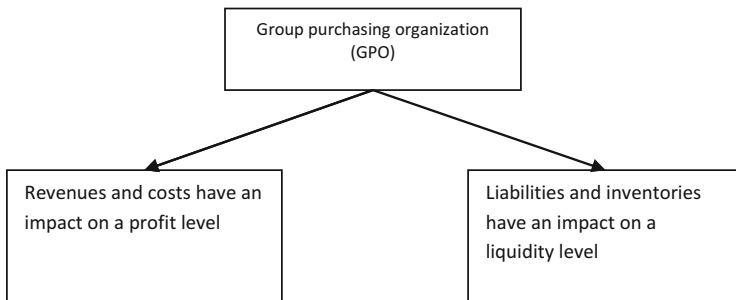


Fig. 2 The impact of purchasing groups on individual areas that form the basis for the future development of enterprises. Source: Author’s own research

Table 1 presents changes in the dynamics of profit in 2011–2015. The mean result for the enterprises surveyed is 1.2. This result means an increase in profit in 2011–2015 by 20%. Enterprises, through an implementation of joint purchases within group purchasing organizations, obtain an attractive price of purchased goods, which allows reducing costs in the position of the value of materials and goods sold. The decrease of this cost item has a key effect on the costs of purchased goods. Also the profitability ratios improve. The detailed results regarding sales profitability are presented in Table 2.

The mean level of profitability of sales is 0.06. Very low results in the area of 0.01 were obtained by only three enterprises. The remaining 29 enterprises obtained higher results. It is possible thanks to joint purchases within the GPO that allow realizing the sale of goods with a high margin, which results in high sales profitability. The analyzed units obtain high profitability results. However, high profitability results are not always accompanied by a high liquidity, which is difficult to achieve. In branch purchasing groups enterprises manage to achieve such results since they get a favorable offer from suppliers. The offer concerns the trade credit and the price of purchased goods.

The enterprises surveyed operate within GPOs, and in negotiations with suppliers they are represented by the central unit of the purchasing group. Using the effect of scale, the central unit has a possibility to obtain additional discounts for an early payment of liabilities for producers. Liabilities for suppliers are paid on time, so they are not at a high level. Long deadlines for payment of liabilities also give a possibility of extending the terms of offered trade credits to recipients, which increases the level of receivables from customers. Therefore, there are large opportunities to create an optimal policy for managing trade credit. If receivables grow slower than revenues, then this situation should be assessed positively. Functioning in the purchasing group very often means purchases of strictly defined quantities to achieve limits for individual goods, and also additional discounts. Very often they are determined above the safety stock. In purchasing groups enterprises have a number of supply options, cooperation between the company—the central unit and mutual transactions between companies operating in purchasing groups allows lowering high stocks. All these activities allow increasing financial liquidity. The details are presented in Table 3.

Table 1 Change in the dynamics of profit in the analyzed enterprises in 2011–2015

Dynamics of profit	Mean	Median	Standard deviation	Min	Max
2011–2015	1.20	1.10	0.06	0.89	1.56

Source: Author's own research

Table 2 Profitability of sales in the analyzed enterprises (ROS) 2011–2015

Return on sales—ROS	Mean	Median	Standard deviation	Min	Max
2011–2015	0.06	0.05	0.08	0.01	0.10

Source: Author's own research

Table 3 Financial liquidity in the analyzed enterprises in 2011–2015

Current liquidity ratio	Mean	Median	Standard deviation	Min	Max
2011–2015	2.80	2.20	1.75	1.20	8.50

Source: Author's own research

The mean result for the enterprises surveyed is 2.8. In the analyzed enterprises, the mean ratio below 1.3 was obtained by only 3 units and above 2.0 17 companies gained such a result. The outcomes presented clearly indicate a safe financial situation of enterprises. As a rule, the results between 1.5 and 2.0 (Zimon 2018) are assumed as model, safe financial liquidity results. The surveyed units even have an excess of liquidity, which should result in actions aimed at lowering this level.

5 Conclusion

In general, it is assumed that functioning in group purchasing organizations and the use of economies of scale can reduce costs. In the literature one can find information that the most important benefits offered by functioning in a GPO are: a reduction in the prices of purchased goods (Tella and Virolainen 2005), a reduction of administrative costs (Nollet and Beaulieu 2005), general cost reduction (Burns and Lee 2008), savings on drugs and food in health care units (Nollet et al. 2017).

The analyzed enterprises are trade entities, and in such enterprises the value of sold goods at the purchase price is the most important item. And in this area, the analyzed enterprises recorded the most benefits thanks to the organization of joint purchases.

The analysis showed that profits in the analyzed period increased. The increase in profits is a very important information that strengthens managers as for a good choice of joint operations within purchasing groups. In general, an increase in profits should negatively affect the level of financial liquidity. However, the presented results clearly indicate that the analyzed enterprises had a very good level of financial liquidity. In the analyzed enterprises there is even an excess of liquidity. If it results in high cash levels, then it should be positively assessed as it improves trading continuity. If high liquidity is the result of the accumulation of unnecessary inventory and overdue receivables, certain tools that will lead to a reduction in their level in enterprises should be introduced. Some tools should be implemented into the area of managing working capital. These methods will enable to reduce their level as it is difficult to make investment decisions (Banos-Caballero et al. 2014). Therefore, it is necessary to invest heavily in processes related to the management of net working capital, as it positively affects the level of profitability (Enqvist et al. 2014). Reduction in the level of inventory and receivables will lower costs, which will further improve the level of profitability of sales and increase profits. Most enterprises operating in the analyzed group should reduce the level of financial liquidity. The financial liquidity ratios currently assume such values in the case of

several enterprises that should be assessed very negatively from the point of view of operating efficiency. The managers of these enterprises should introduce some solutions that will reduce the level of financial liquidity, which will improve the financial situation of enterprises.

To sum up, functioning in a branch group purchasing organizations ensures a profit growth and financial safety of enterprises. Usually managers would have to choose between a profit or a liquidity. Branch purchasing groups allow raising gradually and effectively both ratios. Their increase gives some information for the competition that the company functions very well in the market and continues its growth.

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Multidimensional Approach to the Role of Internal Business Factors in Internationalization of Manufacturing SMEs



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Abstract Internationalization, as both import and export, represents spreading of business activity beyond the local (country) market, allowing small and medium sized enterprise to compete in domestic and foreign markets by lowering costs through accessing new suppliers, and/or by increasing revenue due to new market access. Through empirical analysis, this paper determines the effects of internal business factors on import and export activity of small and medium enterprise (SMEs). Used model is based on a strategic approach to internationalization, which defines internal business factors as firm size, enterprise age, business activity, innovation, and personal characteristics of entrepreneurs/managers. To test the hypotheses, empirical research was conducted in Croatian manufacturing SMEs.

Keywords Internationalization · Internal business factors · Entrepreneur · Strategy · SMEs

1 Introduction

Expansion of economic activity outside of a domicile economy framework, including export and import activities, is known as internationalization. It is represented by quantitative changes and additional geographical organization of business activity. Generally, globalization includes functional integration of internationally displaced activities and is primarily reflected by quality changes in organization of economic activity and internationalization represents one of its main aspects (Dicken 2003).

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Internationalization is often viewed exclusively as export activity of enterprise that involves direct export, international licensing and franchising, and foreign direct investment, representing an opportunity for gaining competitive advantage for SMEs. In this paper internationalization is viewed as SME's relationships with suppliers and customers located outside the boundaries of their domicile economy. This will be demonstrated by using structural and performance indicators, and it considers both export and import activities.

From importer side, main reasons for entering the process of internationalizing are rationalizing operating costs and acquiring advantageous suppliers outside the local market. These businesses enter foreign markets to also find labor, capital, technology and other production factors, thus reducing costs. By usually having a narrow niche production, they decide to begin internationalization to reduce unit cost and attain better business performance by production increase. On the other hand, export represents the shortening of product life cycle. Therefore, they need to find the markets where their products are still competitive and where demand for them still exists.

In the beginning of the process, by business strategy approach, a company evaluates costs and benefits of different strategies using a wide spectrum of variable, i.e. internal and external business factors (Kim and Hwang 1992). Internal factors include enterprise-oriented factors: company resources (size, activities, experiences, etc.), and production factors (technology and product differentiation). On the other hand, external factors describe characteristics of the market and the supply on the domestic and foreign markets (labor, accessibility and attractiveness of markets, cultural differences, availability of transportation, the strength of competition, etc.). Export performance of the company is influenced by many internal factors (Clark and Moutray 2004; Orser and Riding 2004), therefore, in this paper we focus on following internal factors: firm size, enterprise age, business activity, innovation and personal characteristics of entrepreneurs/managers.

Thus, the aim of this paper is to analyze the effects of internal business factors on the internationalization of small and medium-sized enterprises (SMEs), both in their export and import activities. Results shown in this paper should assist entrepreneurs in making decisions about internationalization of business activity and bring focus on the factors that will create more positive effects. Also, from a scientific viewpoint, this paper contributes to the field of internationalization of SMEs, a field usually reserved only for large companies.

2 Literature Review and Hypotheses

In literature (Rialp et al. 2005) consensus shows that SMEs could seize opportunities in the global market faster and more efficiently. Two points of view in the literature are prevalent. First is the international business venture and second is the internationalization of small business. In both, studies evaluated costs and benefits of internationalization (Autio 2005; Zahra 2005). Unlike earlier studies, which focused

on export processes and performance (Dichtl et al. 1984; Miesenbock 1988), modern scholars choose to focus on a wider range of internationalization, including imports (Coviello and McAuley 1999).

2.1 Firm Size and Internationalization

The size of a company is determined by its resources, and it is believed that size has major effect on a firm's performance (Pan and Li 2000). While undergoing internationalization, SMEs face three main obstacles, namely a lack of financial resources and knowledge, an incapacity to exploit economies of scale, and an aversion for risk acceptance (Freeman and Reid 2006).

Lacking these resources, SMEs are discouraged from capitalizing on international opportunity (Calof and Beamish 1995), leading them to attempt less risky policy which ultimately slow down internationalization (Pla-Barber and Escriba-Esteve 2005). Size, however, is not mandatory to achieve internationalization, as demonstrated by "born global" companies, which are frequently small businesses.

Literature discussing the correlation between company size and internationalization is conflicted. Defining company size is problematic. The Republic of Croatia adopted European classifications of enterprise, specifically size of total revenue, number of employees and size of total assets. Market share may also be used. According to Cavusgil (1984) there is a correlation between company size and internationalization only when the company size is measured by annual sales. When company size was calculated via other factors, such a correlation ceased. Majority consensus believe this relationship exists and that it has positive direction (Calof 1994; Vida et al. 2000; Chelliah et al. 2010).

Despite an increasing tendency to internationalization (OECD 2008), the likelihood that SMEs will achieve international business is considerably smaller than larger enterprises (Brunninge et al. 2007; Hollenstein 2005). Consequently, the following hypothesis can be formulated:

Hypothesis 1 Firm size has a positive effect on internationalization.

2.2 Enterprise Age and Internationalization

The age of an enterprise, defined as its years of doing business, is a factor in determining successful companies. New firms are expected to survive less than 20 years. This is true for both developed and developing countries. The biggest companies are rarely expected to survive over 40 years (Siropolis 1995). Small business is expected to live in shorter, often "dying in childhood". Around half of new enterprises make it past the five-year mark and only a third past ten (Clark and Moutray 2004). As expected, the probability of survival increases with age.

Given over half of Croatian SMEs cease operation within 2 years (Škrtić 2006), the assumption is that longer running companies increase knowledge, skills, experience, etc., which allow for successful internationalization (Lejpras 2009). Consequently, the following hypothesis can be formulated:

Hypothesis 2 Enterprise age has a positive effect on internationalization.

2.3 Business Activity and Internationalization

Business activity, in this paper, is viewed from the perspective of hi-tech industry. Previous research shows that manufacturing and hi-tech companies are more likely internationalized than lower-tech companies (Lejpras 2009). Also, industrial factors and achieved technological level have significant impact on enterprises (Thorelli 1986).

Due to technological level and internationalization, high-tech companies are more likely to take a proactive approach to internationalization strategy on the global market than traditional firms (Crick and Spence 2005). This results in a large share of internationalized companies in the manufacturing sector (Gabrielsson and Kirpalani 2004). Consequently, the following hypothesis can be formulated:

Hypothesis 3 Business activity has a positive effect on internationalization.

2.4 Innovation and Internationalization

Innovation -as the creation and implementation of change, development and implementation of new products, services, processes, procedures, decisions, etc.—represents the basic characteristic of SMEs (Škrtić 2006). It is a fundamental function of entrepreneurship which allows setting new production function and achieving greater profits (Schumpeter 1936). The impact of innovation on internationalization, in the existing literature, can be divided in two approaches: macro and firm level. There is numerous macroeconomic evidence that differences in innovation, excluding relative prices, affect the firm's export behavior (Buxton et al. 1991).

We can notice three trends in defining the link between innovation and internationalization at the firm level. The first group of studies has focused on the size of R&D expenditures stressing that they represent the basis of innovation, and therefore serve as a basis for distinguishing innovating from non-innovating companies (Bloodgood et al. 1996). Since companies can simultaneously use other terms for product development and problem solving (Australian Manufacturing Council 1995), both stated categories of research and development expenditures may not be suitable indicators of innovations (Varadarajan and Jayachandran 1999).

The second group of studies follows the general trends and focuses primarily on product innovation by examining the role of technological innovation in the process

of internationalization (Kleinschmidt and Cooper 1991). Disputants of this approach emphasize that innovation in small and medium-sized enterprises should not be limited only to product innovation (Carson and Gilmore 2000). Companies can make both technological and non-technological innovation, which together empower the company to achieve a competitive advantage in foreign markets (Australian Manufacturing Council 1995).

The third group of studies is concentrated on confirming the existence of Schumpeter's hypothesis about positive correlation between the size of enterprise and innovation. As SMEs have limited resources, their participation in international activities is lower.

Large innovative companies are more likely to have international activities. Small innovative enterprises focus more on domestic market. Born global companies are the exception. Conventional theories of internationalization are challenged by born global companies because they directly enter the global market and sometimes even completely ignore domestic ones. Research has shown that innovation and internationalization represents the existence of a positive correlation between them (Mutinelli and Piscitello 1998). Consequently, the following hypothesis can be formulated:

Hypothesis 4 Innovation has a positive effect on internationalization.

2.5 Personal Characteristics of Entrepreneurs/Managers and Internationalization

Personal characteristics of entrepreneurs/managers or decision makers in the company, in the literature presents a key factor in internationalization of small and medium enterprises (Lloyd-Reason and Mughan 2002; Lloyd-Reason et al. 2005). It is important to point out that these are necessary but not sufficient conditions of SMEs internationalization. Since in the small and medium sized enterprises decision making process is in the hands of one person, usually the owner, or a few individuals, the knowledge that he/they bring to the firm present the fundamentals of its competitive advantage (Andersen and Kheam 1998).

The basic indicator of gained knowledge and experience is often the age of entrepreneur or manager (Westhead et al. 2001). Older entrepreneurs have more business experience, i.e. they better understand the operational issues, obstacles and the world of business in general. This experience gives them enough confidence to expand their business to foreign markets, to markets with different business practices and high risks. Age also reflects the private business connections that entrepreneur made during his working life and this business and social networks present valuable resource and the base of competitive advantage in foreign markets (Ellis 2000).

Studies show a positive link between the propensity to export and entrepreneur age (Ursic and Czinkota 1989). On the other hand, studies have shown that exporting firms are more often led by young entrepreneurs/managers, which is contradictory to

the previous statement. Age may also reflect physical energy that entrepreneur has, so the younger entrepreneurs have advantage. However, we believe that the entrepreneur's business experience and personal relationship have significantly higher influence on the business internationalization than solely entrepreneur's physical energy, so we expect positive relationship between entrepreneur's age and internationalization.

Characteristics of entrepreneur/manager, such as education, knowing foreign languages, etc., exert significant influence on export performance (Aaby and Slater 1989). Since the quality of managing resources by entrepreneurs depends on their educational experience (Cooper et al. 1994), it is considered that entrepreneurs with higher levels of formal education have broader views on internationalization and therefore better use the benefits of business internationalization (Obben and Magagula 2003). It is known that education brings together the knowledge and skills of individuals and provides the greater analytical power for solving complex issues in the field of internationalization (Mathur 1999). Education also provides invaluable asset that is the foundation of achieving competitive advantage (Williams and Deslandes 2009). Higher level of education allows individual the greater openness to new ideas, leads to improving negotiating skills, expands personal and business networks and improves their business and financial activities. In accordance with all the above it is expected that higher levels of formal education plays a key role in the response to the company internationalization incentives.

Empirical studies have confirmed that the younger and educated managers or entrepreneurs with good knowledge of foreign languages are more successful in exporting (Shoobridge 2004; Watson 2001). Possession of competencies such as foreign language skills allows entrepreneur to gain competitive advantage in dealing with customers and suppliers in foreign markets. According to the strategic approach of internationalization, companies that possess valuable resources are more prone to internationalization (Bloodgood et al. 1996). Researching the relationship between the language skills and internationalization resulted with conflict conclusions.

The first group found a positive relationship (Lautanen 2000; Obben and Magagula 2003), while the other groups of studies did not find a relationship (Ursic and Czinkota 1989). In reviewing the results of research it is important to emphasize the geographical location of the research. The research conducted in the English-speaking countries did not shown foreign languages as a variable of interest, while the non-English speaking countries specified this variable as very important. Consequently, the following hypothesis can be formulated:

Hypothesis 5 Personal characteristics of entrepreneurs/managers have a positive effect on internationalization.

3 Research Methods

Population in this research consists of all Croatian manufacturing SMEs. A small enterprise is defined as the company with 50 employees or less, and the medium sized enterprise one which employs 50–250 employees. To determine size data of the company, the Register of the Croatian Chamber of Commerce was used. This study includes only manufacturing SMEs. This is due to the high correlation between SMEs and other industries, and the previous studies which have shown that manufacturing companies have access to more capital than service companies; this is what makes them more internationalized (Roberts 1999). Empirical research is based on 800 small and medium-sized manufacturing enterprises. Samples were selected randomly and correspond to population, i.e. company distribution, by business activity in the sample and population, is the same. Eighty-eight responses by Croatians manufacturing SMEs were used for multiple linear regression analysis.

The determinants of a firm's internationalization were measured through a theoretical approach to business strategy, i.e. the division on the internal and external business factors (Lejpras 2009; Clark and Mallory 1997). The internal factors were determined using the five-level Likert item scale. Internal business factors include: company size, enterprise age, business activity, innovation and personal characteristics of entrepreneur/manager. Three variables were used to measure internal business factors, company size, enterprise age and business activity. Two measuring scales were used, innovation and the characteristics of entrepreneur/manager. Company size is determined by the number of employees, total income and the size of total assets, and the data was obtained from businesses registered by the Croatian Chamber of Commerce. Variable enterprise age, as an objective measure was collected through the questionnaire.

For measuring the determinants of firm's internationalization a theoretical approach to business strategy, i.e. the division on the internal and external business factors was used (Lejpras 2009; Clark and Mallory 1997). Determining internal factors was done by using five-level Likert item scale. Internal business factors include: company size, enterprise age, business activity, innovation and personal characteristics of entrepreneur/manager. To measure the internal business factors, we used two variables: company size, enterprise age and business activity, and two measuring scales: innovation and the characteristics of entrepreneur/manager. Company size is determined by the number of employees, total income and the size of total assets, and the data were obtained from businesses register by the Croatian Chamber of Commerce. Variable enterprise age, as an objective measure was collected through the questionnaire.

Internationalization has already been defined as all company's import and export activities in this paper. It was necessary to adapt existing indicators of internationalization in large enterprises to SMEs level (Dorrenbacher 2000; Sullivan 1996). To indicate internationalization, the internationalization index was used which consists of structural indicators and performance indicators. Structural indicators refer to: (a) the number of countries where the company operates, (b) the number or

proportion of foreign suppliers. Performance indicators refer to: (a) exports income, (b) share of export revenue in total revenue, (c) liabilities to foreign suppliers and (d) share of foreign supplier liability in total supplier liability. Performance indicators refer to data that entrepreneurs/managers are not willing to give voluntarily so there's been used subjective measures of performance, i.e. the instrument of success weighted average (Covin and Slevin 1991), which is a derivative of the instrument developed by Gupta and Govindarajan (1984).

Evaluation of metric characteristics of applied measurement scales were used to assess reliability, convergent and discriminant validity of used measurement scales. The most popular measure of the internal consistency of a set of assertions, Cronbach Alfa coefficient was used to measure reliability that is defined as the degree to which the measurements are error-free and result with consistent results (Cronbach 2004). Convergent and discriminant validity of applied measurement scales testing is conducted by exploratory factor analysis with varimax rotation of factors with the goal of summarizing the correlation matrix between variables and to reduce the large number of variables to a smaller number (Fabrigar et al. 1999). Several criteria are used in evaluating the exploratory factor analysis: the total variance explained (≥ 0.50), the factor loading (≥ 0.40) and the measure of sampling adequacy (≥ 0.60). To decide on the number of factors are used two criteria. The cut-off point is determined by Kaiser's criterion, i.e. eigenvalues were equal to 1 or greater and using scree plot (Kaiser 1960). Only variables with factor loadings of at least 0.4 were used in interpreting a set of factors, based on the sample size of firms and a minimum significant correlation coefficient of $p < 0.05$.

4 Results

Reliability analysis of measurement scales (Cronbach alpha coefficient) suggests that the innovation scale consists of: new products and new processes, while personal characteristics of entrepreneur/manager scale consists of: age and experience. After determining the reliability of measurement scales we approached to the assessment of convergent and discriminant validity of the applied measurement scales by conducting an exploratory factor analysis. According to the results of the factor analysis (Table 1), internal business factors can be interpreted as the three factors: innovation, personal characteristic of entrepreneur/manager and enterprise characteristics.

Factor analysis results suggest that the applied measurement scales have convergent properties (related claims have a high factor loading on the appropriate factors) and discriminate validity (corresponding claims have low factor loadings on other factors). Three extracted factors explain 70.22% of the total variance (Table 2).

The outcome of a multiple linear regression using method of least squares is shown in Table 3. The results show that there is a positive and significant effect of internal business factors on the internationalization. Innovation (new products, technical solutions and doing business in high-technological industries) positively

Table 1 Factor structure of the internal business factors (Varimax factor rotation)

	Factor 1 Innovation	Factor 2 Personal characteristic of entrepreneur/ manager	Factor 3 Enterprise characteristics
Enterprise age			0.793426
New products	0.7084		
New processes	0.8380		
Age		0.9049	
Work experience		0.8821	
Firm size			0.8041
Business activity	0.8126		

Source: Authors research

Table 2 Eigenvalues and total variance

Factor	Eigenvalue	Cumulative eigenvalue	% of explained variance	Cumulative % of explained variance
1	2.170113	2.170113	31.00162	31.00162
2	1.475023	3.645136	21.07175	52.07337
3	1.270288	4.915424	18.14697	70.22034

Source: Authors research

Table 3 The outcomes of the multiple linear regressions (Internationalization/Internal business factors)

	Internationalization versus Internal business factors
I	0.046*** (0.017)
PCEM	0.028** (0.013)
EC	0.036* (0.018)
Intercept	-0.382 (0.287)
Multiple R ²	0.306
Adjusted R ²	0.281
Observations	88

Notes: I is innovation, PCEM is personal characteristic of entrepreneur/manager and EC is enterprise characteristics. Standard errors in parenthesis. *** p < 0.01; ** p < 0.05; * p < 0.1

Source: Authors research

influences internationalization ($\beta_1 = 0.05$, $p < 0.01$). Personal characteristics of entrepreneur/manager (age and experience) positively influence internationalization ($\beta_2 = 0.03$, $p < 0.05$). Enterprise characteristics (age and size) positively influence internationalization ($\beta_3 = 0.04$, $p < 0.06$). Internal business factors (innovation, personal characteristic of entrepreneur/manager and enterprise characteristics) positively influences internationalization [$F(3.84) = 12.359$, $p < 0.001$]. Furthermore, internal business factors explain, a satisfactory, 30.62% of variance in internationalization which would amount to 28.14% in the population. This result was expected

since internal business factors are just one predictor (there are external factors as well) of internationalization. Irrespective of the level of R², the effect of internal factors on internationalization is positive ($p < 0.001$).

5 Conclusion

Internationalization is a strategy of gaining competitive advantage by access to new markets (export activities) and access to foreign suppliers (import activities). Internal business factors that influence business internationalization are: innovation, personal characteristics of the entrepreneur and/or manager and enterprise characteristics. The objective of this paper was to examine how the internal business factors influence internationalization of SMEs. Certain limitation of this research is the size of the sample. Although the sample size and the rate of return seem technically satisfactory, future research should be conducted on a larger sample.

We know that innovation and personal characteristic of entrepreneurs are in positive relationship with the internationalization of SMEs. Moreover, the highest positive impact, from the aspect of personal characteristic of entrepreneur/manager, achieves their age which is often shown in the work experience; which is in accordance with the results of previous studies. Furthermore, we must say that older entrepreneurs have more business experience and which gives them more confidence to expand their business to foreign market. Entrepreneur's education did not show as significant variable and this is in accordance with characteristics of Croatian entrepreneurs who are middle aged men with finished high school. It is interesting to point out that although this research was conducted in a developing country from non-English speaking area knowledge of foreign languages did not shown as significant variable. The reason may be in fact that Croatian firms usually export or import to or from surrounding countries (Slovenia, Bosnia and Herzegovina, Serbia, etc.) so the language (which is similar) is not an obstacle.

As the results of factor analysis indicate, size of the company and firm's age were in the regression treated as one factor: characteristics of enterprise. Characteristics of enterprise show that the probability that the company will achieve international business activities is higher for larger companies. This is in accordance with the results of the studies taken by Brunninge et al. (2007) and Hollenstein (2005). Older companies are frequently included in the process of internationalization which is logical since they have accumulated greater knowledge, experience and often financial resources. Structure of Croatian economy is not characterized by high tech activities specific for born global companies so we can say that in this case size do matter.

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Risks in the Development of SME's Business Functioning on the Basis of CSR



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Abstract In this paper made reference to ensure a conditions for the possibility of an efficient functioning of the organization. It was considered that it is the implementation of improvement measures adequate to the nature of irregularities. These activities should provide the opportunity to improve, which is conditioned by their correct choice and effective implementation. The study indicates a possibility of application the CSR principles, treated as guidelines for improvement in SME enterprises. The risk assessment was considered as a tool for selecting the appropriate actions, which can be use in a given situation. The work is based on the literature sources analysis, supplemented with practical verification an application of the presented methodology.

Keywords Corporate Social Responsibility (CSR) · SME operation · Improvement · Operating risk

1 Introduction

To ensure the development of enterprises, it is essential to identify solutions that will enable them to achieve the intended operating improvements, seen as the satisfaction of stakeholder expectations. This is usually equated with an effective and sustainable increase in the value of enterprises. According to the notices identified in scientific studies (eg.: Adamczyk 2009; Graeme and Hetrick 2006; Martinez-Conesa et al. 2017; Mousiolis et al. 2014; Slapikaitė 2016) condition to ensure the effective and sustainable development of enterprises is basing their activity on verified guidelines for improvement, supplemented with the possibility of objective verification of the undertaken activities. These solutions contribute to the improvement of all areas that could critically affect the functioning of businesses. They include a broad group of

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requirements taking into account the various aspects of the organization activity and opportunities for improvement.

The aim of the study is to identify those of them which act on issues that generate substantial negative consequences for the functioning of the organization or have a high probability of lost occurrence, together with an efficient way of identified.

The improvement solutions applied should be selected taking into account the possibility of eliminating problems generating losses, and not only reducing the effects of irregularities. In order to effectively implement measures based on the CSR guidelines, it should be taken into account that it is important to determine them based on a identified load factors affecting the amount of losses. They indicate the right directions of improvement to take. Basing of them on the CSR guidelines allows to indicate those activities that can be prioritized to ensure the sustainable development of the organization, allowing them to strengthen their position in the global market. The solutions should help develop systemic modifications designed to increase customer satisfaction and help see workers as the internal customer in the organization (Górný 2015). Success in achieving the desired improvements usually depends on choosing measures that can be implemented using the available resources. This consideration is particularly vital in small enterprises whose workers are often viewed is the only essential asset (Gajdzik 2013; Martinez-Conesa et al. 2017). This description shows that solutions can be selected on the basis of risk assessment guidelines that account for the damage that can potentially result from the existing irregularities and their impact on workers.

This approach to the problem may contribute to a new look at CSR issues, treated as the basis for improving the organization. Consideration the CSR guidelines allow to indicate improvement factors, which in given circumstances play a special role, at the same time determining the possibility of improving the organization.

2 Corporate Social Responsibility (CSR)

2.1 Nature of Corporate Social Responsibility

There are a number of possible definitions of corporate social responsibility, depending primarily on the purpose of the associated CSR actions. Such definitions are always linked to the manner in which an organization pursues its business. The most popular definition of corporate social responsibility today has been proposed by the European Commission, which presents CSR as an organization's voluntary assumption of responsibility for the social and environmental aspects of its business and its stakeholder relations. The definition posted in *Green paper for Promoting a European Framework for Corporate Social Responsibility* (European Commission 2002) presumes the organization will voluntarily seek to balance the economic, environmental and social dimensions of its operations and stakeholder relations.

A definition of CSR that is of particular relevance for the subject of this article has been formulated by the US-based organization Business for Social Responsibility

(BSR 2004). According to Business for Social Responsibility CSR should be described as the upholding of ethical values that conform to the law and express respect for people and the environment. Another key aspect of social responsibility is the approach to organization management, which should incorporate social, environmental, economic and ethical considerations while allowing the organization to respond to stakeholder expectations with a view to achieving the desired improvement objectives (Górny 2015; Szczanowicz and Saniuk 2014). Hence, corporate social responsibility can be defined as a set of an organization's commitments to protect and strengthen the society in which it operates (Griffin 2007). This makes it necessary to find solutions that are relevant for the particular field of business that the organization is pursuing. Solutions compliant with CSR principles enable organizations to find new ways to resolve problems in keeping with CSR guidelines. Such an approach can be seen as following on the organization's commitments to respect CSR principles and enables the company to protect and enhance the social and natural environment in which it operates (Griffin 2007).

Corporate social responsibility can also be viewed as a moral responsibility towards all external and internal stakeholders. Of particular importance against this background is the impact on level one stakeholders (Palihawadana et al. 2016). These include suppliers, owners, customers and employees (Caroll 1993). Each of these categories comes with a set of relevant responsibilities and requires appropriate improvements. A breakthrough in formulating responsibility principles can be reached by incorporating socially responsible goals and social values into an organization's actions (Górny 2012; Kaźmierczak 2011) while making an effort to improve the well-being of workers, who are seen as crucial stakeholders.

2.2 CSR as an Enterprise Growth Factor

Social responsibility can be seen as key to improving today's organizations. This claim is based on guidelines emanating from applicable standards and on relevant literature. The successful growth of a company is a function of all of its actions. Corporate social responsibility can be associated with measures that go beyond the mere maximization of profit. Their purpose is to develop a long-term growth strategy that will help the company survive. Hence, social responsibility can be viewed as additional activities unrelated to the company's business pursuits proper (Mousiolis et al. 2014).

Nonetheless, it should be noted that CSR actions do contribute to increasing enterprise value for the stakeholders. One could thus associate social responsibility with a company's financial, legal and philanthropic commitments towards both external and internal social groups, which it seeks to deliver on by targeted, rational and institutionalized actions (Zhou and Ki 2018). Their benefits derived from following up on such commitments are summarized in Table 1.

The recognition that CSR efforts further a company's growth is usually controversial (Gajdzik 2013). The key problem lies in the need to view the enterprise as a for-profit organization and the fear that social commitments may stand in the way of

Table 1 Stakeholder benefits resulting from CSR

Stakeholder type	Aim/Sources of benefits
Owner	Increased company value
Employees	Better employment (higher wages, better job security, better working conditions)
Customers	Needs satisfaction (quality of products/supplies)
State	Economic growth (compliance with laws and standards)

Source: Adamczyk 2009, p. 327

profit making. Adding to the problem is the fact that most business organizations have little experience in resolving social issues (Griffin 2007). Every enterprise that wishes to maintain its market position has a number of responsibilities and commitments it has to meet. According to ISO 26000 standard to satisfy those commitments, organizations need to be prudent in their efforts and proactively identify any existing and potential adverse social, environmental and economic impacts of their decisions and actions. It is equally important that organizations ascertain the extent to which their actions are justified and their outcomes needed.

There are many ways to assess the level of corporate social responsibility reflecting the areas that are essential for a company's operation. Such areas include the workers, customers, business partners, the natural environment and local communities. The assessments commonly rely on the level of maturity displayed in performing tasks. A big part of assessing an organization's ability to impact its environment can be associated with the principles enshrined in ISO 26000, which point to the need to contribute to the sustainable development and welfare of society. The knowledge of a company's abilities helps formulate guidelines for responsible and transparent action (Adamczyk 2009). The overall process is designed to avoid and mitigate any adverse impacts of change (Górný 2014; Szczanowicz and Saniuk 2014).

3 The Role of CSR Guidelines in Improving SME Operation

3.1 Operating Conditions and Specific Nature of SME Growth

The category of small and medium-sized enterprises also includes micro businesses. In Poland, SMEs are defined in business performance indicators as well as worker headcounts. These are summarized in Table 2. In Poland, SMEs are a major driver of the national economy. Despite the relatively small size of individual organizations (see Table 3), they collectively account for a large proportion of the national income and job creation. The specific characteristics of SMEs define their operation. Such characteristics include the dominant position of owners, close interpersonal

Table 2 Criteria for company classification as micro, small and medium-sized

Company category	Average annual headcount	Annual net sales of goods/services
Micro	Up to 10 employees	Up to € 2 million
Small	Up to 50 employees	Up to € 10 million
Medium-sized	Up to 250 employees	Up to € 50 million

Source: Act of 2 July 2004 on the freedom of economic activity

Table 3 CSR areas according to ISO 26000 standard

CSR areas	Area characteristics
Organizational governance	Corporate governance as a set of rules and standards relating to the broadly-defined management of company
Human rights	Respect for all human rights and dignity, in particular civil, political, economic, social and cultural rights
Labor practices	Relations with workers, subcontractors, suppliers, competitors, etc.
Environment	Climate change mitigation and adaptation and environmental protection and restoration
Fair operating practices	Ethical business behavior towards other organizations, including governmental bodies, partners, suppliers, contractors, competitors and any associations of which the company is a member
Consumer issues	Fairness and transparency towards consumers
Community involvement and development	Active support for local community aiming to resolve its problems, especially those that relate to workers and other stakeholders

Source: Author's own research, based on ISO 26000 standard

relations, informal relations accounting for the majority of interpersonal contacts, dynamic actions and closeness to markets (Harness et al. 2018).

It is the dominant position of owners that exerts particular influence on SME operation. Once social responsibility is assumed, synergies and, as a consequence, competitive advantages are achieved. These are of great value in an environment in which intangible factors, which are also significant for social dialogue, increasingly influence company operation. By assuming and living up to such responsibility, business owners fulfill their commitment to ensure their organizations operate efficiently and effectively. A number of other SME characteristics tie more or less closely to their owners' dominance (Mousiolis et al. 2014).

To ensure that the measures taken are indeed effective, the groups they target need to be clearly defined. To that end, an organization should identify its stakeholders and consider their opinions in its decision-making, even if they are not formally involved in running the organization or are unaware of their interests. In pursuing improvements, proper account should be taken of the entire operating environment of an organization and all concerned parties. The network of links that connects them should be seen as a system. By bringing together all factors for the effective functioning of that system, organizations are enabled to create a higher quality working environment (Arsovski and Arsovski 2012; Olechowski et al. 2016).

To achieve the desired outcomes, an organization should:

- Identify areas for improvement,
- Formulate guidelines to be followed in implementing improvement measures,
- Develop an action plan (strategy),
- Implement the strategy,
- Assess the resulting improvement outcomes.

Measures associated with social responsibility are monitored to show the concerned parties they have been performed as intended. The aim is to identify any crises, modify the way the measures are carried out and recognize new community outreach opportunities with a view to producing benefits in every aspect of an organization's functioning. The extent of the measures taken depends on the scope of the key areas of operation, the organization's size and profile and any other factors impacting on the end result, i.e. stakeholder satisfaction.

3.2 Application of CSR Guidelines to Further SME Development

The corporate social responsibility of SMEs should be seen mainly as a way to boost competitiveness (Szczanowicz and Saniuk 2014). The key is to ensure that improvement measures produce real benefits for the stakeholders. The effort should cover all areas of social responsibility, as summarized in Table 3. To achieve the above outcomes, organizations need to adopt long-term changes and view their business in a strategic context. As an additional prerequisite for achieving the desired effects, proper use needs to be made of the available knowledge (Górny 2017; Harness et al. 2018).

In terms of business management, the key to establishing and developing social responsibility is to account for the financial and market-related aspects of company operation. It is essential to determine whether CSR measures are only a liability or a source of long-term benefits. In the real conditions of enterprises operating the CSR efforts are influenced by workers, investors, customer and the social environment. Social outreach should be seen as a voluntary benevolent act of good will on the part of the company (Gajdzik 2013).

Nevertheless, companies increasingly face the compelling urgency to use corporate social responsibility to further their development. CSR efforts boost competitiveness and stimulate market and financial paradigms that underlie business operations. To secure development by employing CSR guidelines and use them for their benefit, companies should keep their CSR actions in sharp focus. Such actions can be examined in terms of the balance among the three fields of social, economic and environmental activity. The potential benefits are presented in Table 4.

An essential part of the CSR effort is to take measures that improve the well-being of persons directly or indirectly associated with the company. In business practice, social

Table 4 Benefits to be derived from balanced company operations achieved by conforming to the principles of corporate social responsibility

Aspect of balance	Benefits to be derived from conformity with the principles of corporate social responsibility
Economic	<ul style="list-style-type: none"> – Customer satisfaction, – New business, – New innovation abilities, – Employee satisfaction, – Employee loyalty, – Stable workforce, – Improved labor efficiency and worker performance quality.
Social	<ul style="list-style-type: none"> – Safe working environment, – Reduced accident rates and occupational diseases, – Public image improved by offering better working conditions, – Worker well-being at work (workplace welfare), – More efficient information flow policy, – Enhanced work flexibility.
Environmental	<ul style="list-style-type: none"> – Workers assuming ownership of the work they perform, – Minimized environmental impact, – Reduction in pressures on work environment.

Source: Author's own research

responsibility is pursued both externally and internally (Rak 2017). Either of these orientations entails necessary solutions and measures that are critical for business success. Such measures and actions need to be commensurate with the scale of the enterprise's operations. To achieve the benefits enumerated in Table 4, businesses should carefully prepare and conduct improvement measures. These include:

- Encouraging and satisfying the aspirations and expectations of all stakeholders,
- Creating a setting that fosters mutual trust and respect and, ultimately, promotes a company's development,
- Supporting company development for the benefit of the concerned parties,
- Encouraging workers to identify, discuss and resolve issues together,
- Having the management support fair assessments of the level of development achieved by their company and launch improvements that best fit the nature of the issues they are intended to rectify,
- Having members of the organization plan projects that will improve the company's operation,
- Having workers all across the board maintain two-way communication with personnel in charge of development and consult such personnel on any threats that may undermine company growth,
- Identifying and examining threats and developing solutions to prevent them,
- Formulating guidelines for the company's operation and taking part in their implementation and application.

By fulfilling the above preconditions, the company will secure its development. Any relevant measures it takes should be coherent, efficient, effective and consistent

with rational social responsibility in business (Matejun 2008). Growth in all areas that are vital for the successful improvement of a company's market position will ensure its survival in a changing environment. In strategic terms, CSR efforts will provide the company with a competitive edge. This follows from the idea of social responsibility under which CSR is about company growth, value building and profit generation, all achieved in an honest, ethical and fair manner in the confident belief that the actions taken are well-advised. To succeed in establishing corporate social responsibility and benefiting society, the concerned company should identify and select the corporate social responsibility standards and principles that best suit its profile. Next important stages are the use methods that engage all of the company's key stakeholders in the improvement effort through CSR measures and take effective action to achieve measurable and verifiable outcomes. This can set up effective mechanisms for reporting to and communicating with the stakeholders and the public (Kaźmierczak 2011).

To achieve social responsibility, SMEs need a unique approach that reflects their distinguishing attributes. According to this, SMEs commonly rely on simple organizational structures to conduct business and easier to optimize their work organization. The teamwork used in this enterprises produces synergies, workers share their knowledge, become more creative and form close-knit teams. The activities undertaken contribute to shaping the organizational culture based on universal ethical values, responsibility and social dialogue (Grzelczak et al. 2012).

To effectively benefit society through growth, SMEs need solutions that will help them achieve the outcomes and benefits that are vital for this type of businesses. Of particular importance for such outcomes are guidelines for the operation of small enterprises, i.e. those employing up to 50 workers.

4 Risk Assessment for Selecting Improvements Consistent with CSR Principles

Whether an organization succeeds in becoming more efficient and effective depends largely on selecting the right improvement measures that reflect the specific conditions in which it operates. A key to choosing the best improvements is to account for the operating rules for classifying companies into specific size categories, such as SMEs. The social responsibility guidelines recognized by the company are a set of viable improvement principles that allow organizations to grow rationally. They can be used to select the right improvement measures by accounting for the conditions in which the organization operates in the global market.

In analyzing the option of adopting improvement measures, one should note the measures that contribute to increases in the company's value. When selecting improvement measures on the basis of risk assessment guidelines, proper account should be taken of the conditions in which SMEs operate, the need for improvements

and the impact of selecting the wrong measures on the organization's operating effectiveness and efficiency (Slapikaitė 2016).

According to ISO 31000 standard risk is seen as a combination of the causes of irregularities and their effects, described in terms of the extent of losses (Aven 2016). To assess risks, it is crucial to determine the nature and causes of irregularities, the need for corrective and preventive measures and the choice, planning and deployment of remedies (Ezell and Lathrop 2017; Górný 2017; Gönsch 2017). To choose the right improvement measures, it is essential to assess the relevance of such measures and the impact of the issue at hand, the effectiveness of potential improvement measures and the impact of any poor decisions on the development and further operation of the organization.

This factors will help define an organization's improvement capabilities and identify potentially beneficial improvement measures. Once the operating conditions of an organization have been factored in, one can assume the organization is prepared to choose the optimal improvement measures for the situation it faces. The nature of such improvements and cross-links with other factors are shown in Fig. 1.

This system of mutual relationships shows that risk assessment can serve as a tool for selecting improvement measures for best improvement outcomes. The most critical of the factors in the organization's environment that affect the selection and effective implementation of improvement measures are the CSR guidelines, which define the scope and viability of social responsibility efforts that will

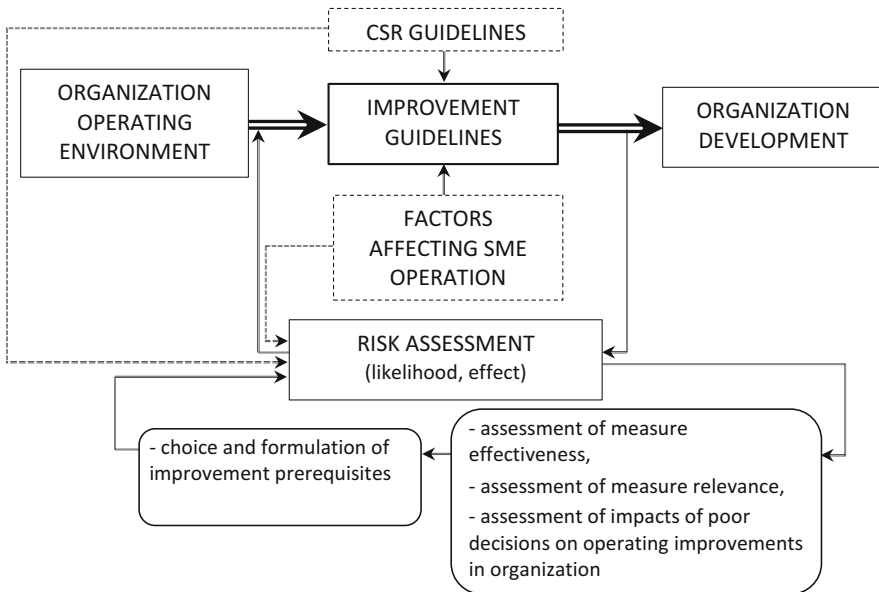


Fig. 1 Choice and execution of improvement measures selected on the basis of a risk assessment in keeping with CSR guidelines. Source: Author's own research

contribute to improving an organization's operating effectiveness and efficiency. To ensure effectiveness of the organization's operation are important are the factors that drive SME operation and arise from the principles that govern the operation of this type of organizations.

These two key areas should become a priority consideration in selecting improvement measures. If misidentified, they will lead to poorly selected improvements and ultimately expose organizations to losses. Occupational risk assessments, in their turn, can be helpful in evaluating the suggested improvement measures for effectiveness and the potential to attain the intended outcomes. A simplified example of the use of risk assessment in selecting improvement measures in keeping with CSR guidelines is shown in Table 5.

5 Conclusion

Corporate social responsibility may be seen as a business development concept that is of critical importance for business development in today's competitive world. CSR is employed by companies that look for a way to achieve sustainable competitive advantages. Although not all enterprises, including those that make efforts in the field of corporate social responsibility, have developed a proper understanding of CSR, a growing number of organizations apply CSR principles (Mousiolis et al. 2014).

Such principles can be used to successfully identify desired improvement measures for the benefit of all concerned parties. One prerequisite for achieving the desired outcomes is to define the methods to be employed and the potential impacts on key areas in a business organization. A major part of social responsibility are responsible contributions to society in all fields. It is therefore essential that organizations strive to develop harmoniously in both social and economic aspects. It is vital to respond continuously to changing market conditions. To this end, organizations need to account for the specific nature of the areas to which requirements apply and take proper measures that are key for their effective operation (Górný 2014). To succeed in this process, they need to identify the principles to follow and the impacts of their efforts on the environment.

In exploring the options of generating specific benefits, one should bear in mind the operating profile of the companies with which one is dealing. In the case of SMEs, it is critical to recognize that such organizations:

- Largely adhere to the rules that are formulated by their owners,
- Pursue CSR objectives that are laid down in informal plans,
- Act intuitively,
- Set great store by avoiding risks in their business activities.

The key to the success of such organizations is to recognize that their competitive advantage lies in its people (employees) and their qualifications, aspirations, motivations and behaviors. Therefore, SMEs need to create an environment that will

Table 5 Risk assessment employed to identify proper improvement measures in keeping with CSR guidelines

<i>Description of company:</i>	
The company is in the business of manufacturing products with the use of welding technology. It employs 24 workers, 16 of whom hold the positions of welders and welder fitters. Regardless of the position they hold, all workers perform comparable work. Observations show that the employer falls short of fulfilling his legal obligation to secure specific working conditions and social care, as required under CSR guidelines.	
<i>Description of areas in which improvement measures are required:</i>	
The nature and scope of the work performed by the workers may result in issues (irregularities) associated with, inter alia:	
<ul style="list-style-type: none"> – excessive workloads due to an overly high number of production tasks and a short time allowed for their performance, – failure to set up a work schedule and working hours as required by law, – failure to observe the required rest time, including failure to allow workers to take leaves of absence as needed, – failure to ensure proper social care as a result of work overloads and insufficient access to health care, – failure to provide access to toilet and bathroom facilities as required by labor law. 	
<i>Possible consequences of failure to take improvement measures:</i>	
<ul style="list-style-type: none"> • Pertaining to the likelihood of losses: Due to their nature, the existing irregularities are likely to cause losses. 	<ul style="list-style-type: none"> • Pertaining to the extent of losses: The number of workers affected by the identified irregularities and the nature of such irregularities are likely to result in substantial losses.
<ul style="list-style-type: none"> • Overall assessment: The existing risk factors, i.e. the working conditions that are in violation of applicable laws, bring the overall risk to a high level. It is therefore vital to undertake improvement measures that will reduce the likelihood that irregularities will persist and/or minimize the related losses. This will help the company reduce risks to levels that no longer impede work performance. 	
<i>Description of proposed improvement measures:</i>	
<ol style="list-style-type: none"> 1. Ensure the number of production orders taken (tasks to be performed) is commensurate with the company's production capacities, 2. Reduce the need for overtime work to unique (exceptional) circumstances in which the company faces requirements that were difficult to foresee, 3. Ensure social and health care that is adequate to the potential health risks, 4. Set up worker facilities and provide the workers with access thereto, 5. Abide by relevant laws and regulations concerning leaves of absence to provide workers with proper rest and leisure opportunities. 	
<i>Assessment of conformity with CSR requirements:</i>	
All suggested improvement measures comply with the CSR guidelines laid down in the ISO 26000 standard. Conformity can be assessed on the basis of recommendations, which are for the organization to ensure:	
<ul style="list-style-type: none"> – working conditions that are compliant with labor law and meet international labor standards, – dignified working conditions with respect to working time, rest after work and the opportunity to reconcile work and family obligations, – working conditions that allow workers to achieve a work-life balance to the broadest possible extent, – delivery on all obligations to extend social care over workers, – respect workers' right to keep either standard or mutually agreed working hours, – observe the ban on compulsory and unpaid overtime and compulsory work. 	

(continued)

Table 5 (continued)

<i>Extent of risk reduction resulting from measures taken:</i>	
<ul style="list-style-type: none"> • Pertaining to the likelihood of losses: The nature of the existing irregularities does not result in a significant likelihood of losses. 	<ul style="list-style-type: none"> • Pertaining to the extent of losses: The existing irregularities can be described as isolated issues that do not significantly affect the extent of the company's overall losses.
<ul style="list-style-type: none"> • Overall assessment: The improvement measures employed by the company measurably reduce the likelihood and extent of losses. The assessment therefore is that the risk of loads caused by failures to provide proper working conditions do not exert a substantial adverse impact on the workers and the company itself. Hence, the existing risks can be described as acceptable. 	

Source: Author's own research

enable their workers to perform effectively and safely. SME management need to account for the above whenever they embark on CSR projects. An essential benefit they stand to enjoy is their reputation as a good employer.

The article shows that by relying on risk assessment for improvement, organizations can identify factors that will allow them to take efficient measures in keeping with the guidelines of corporate social responsibility. This is possible mainly by identifying the potential causes of irregularities and ultimately helps increase the effectiveness of improvement measures.

To ensure effective development by improving all areas of an organization's activities, companies need to explore synergies in a concerted effort. To enjoy desired outcomes, they should select actions that reflect the essential nature of their operations. These include measures having internal and external impacts. The benefits that the companies stand to derive are a function of the scope and impact of their CSR endeavors.

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