

Studies on Entrepreneurship, Structural Change  
and Industrial Dynamics

Veland Ramadani · Ramo Palalić  
Léo-Paul Dana · Norris Krueger  
Andrea Caputo *Editors*

# Organizational Mindset of Entrepreneurship

Exploring the Co-Creation Pathways  
of Structural Change and Innovation

 Springer

# **Studies on Entrepreneurship, Structural Change and Industrial Dynamics**

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Léo-Paul Dana • Norris Krueger • Andrea Caputo  
Editors

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*The book is a lucidly written example of meticulous research, an unequivocal argument for the relevance of co-creation pathways of structural change and innovation. The book is a solid contribution to the social sciences and relevant to organizational study and entrepreneurship. Ramadani and coauthors give evidence of theoretical imagination, commitment to rigorous research, and a capacity for original thinking. This book is timely and relevant, making a complex issue accessible while keeping a human touch. It is a well-written solid work suitable for both students and scholars. Highly recommended for any university library and to anyone interested in entrepreneurship and the dynamics behind it.*

**Shahamak Rezaei**, Roskilde University, Roskilde, Denmark

*The beauty of this particular book lies in the geographical and cultural diversity of the authors and editors tackling entrepreneurship from different angles and dimensions. The main focus is on the entrepreneurial mindset as a path towards success for any organization. Each chapter addresses crucial entrepreneurial issues and cases by providing insight and practical solution backed up with empirical findings and frameworks. I would highly recommend this book considering it has valuable input for both academic and the industrial world.*

**Shqipe Gërguri-Rashiti**, American University of the Middle East, Kuwait City, Kuwait

*This edited book is a breakthrough collection from Veland Ramadani and his colleagues. They put an endless attempt to manifest a high value of the entrepreneurial mindset and combine two streams of studies: entrepreneurship and industrial organization. This collection sheds light on the entrepreneurial mindset among leaders as well as employees and how firms can create and maintain a healthy working atmosphere to achieve higher growth and the employees' job satisfaction simultaneously. This is a must-read for those of us who want to understand beyond the entrepreneurial activities and typical issues.*

**Shayegheh Ashourizadeh**, Tsinghua University, Beijing, China

*The authors are experts in the field of entrepreneurship and notably explain the entrepreneurial way of thinking.*

**Boštjan Antončič**, University of Ljubljana, Ljubljana, Slovenia

*To my uncles Talat, Nehat, and Sedat and my  
aunt Mevlude*

Veland Ramadani

*To my wife Sadina as my biggest support ever*

Ramo Palalić

*Thank you MBJ*

Léo-Paul Dana

*To all those working so hard to grow a  
healthy entrepreneurial, innovative mindset in  
organizations and communities globally.  
Even more so to all the entrepreneurs and  
innovators. How can I help you chase your  
dreams. . . successfully?*

Norris Krueger

*To my family and friends, the angel investors  
of my life*

Andrea Caputo



# Foreword

The ancient Greek philosopher Aristotle is not remembered after two and a half millennia because he had the right answers. He is famous all over the world today because he asked the right questions. The search for knowledge is one of the worthiest undertakings one can carry out. By continuous inquiry and methodical analyses, the intangible becomes tangible, and formerly abstract concepts become theories and then applicable models.

The “entrepreneur” has been since the days of Cantillon, who was the first to describe the risk-taking activities of traders, an elusive character. Yet, entrepreneurs are valuable in every society, because they tend to see opportunities where everyone else may only see problems. William Baumol’s opening remarks of his famous 1968 essay “Entrepreneurship in Economic Theory” are still true today as they were then: “The entrepreneur is at the same time one of the most intriguing and one of the most elusive characters in the cast that constitutes the subject of economic analysis. He has long been recognized as the apex of the hierarchy that determines the behaviour of the firm and thereby bears a heavy responsibility for the vitality of the free enterprise society.”

Like the air we breathe, which we cannot see, but we know it is air when we breathe it, we cannot tell if some people are entrepreneurs by looking at them, but we can tell by their actions if they act entrepreneurially. And while the “entrepreneur” can be elusive, the manifestation of entrepreneurial activity can be recognized and studied. Individuals with an entrepreneurial mindset usually start and operate their own businesses, but many “intrapreneurs” can be also found working in large organizations. Such individuals can be highly valued within an organization.

This book is a stimulating contribution to the literature of entrepreneurship and industrial organization. The authors contribute from a different perspective, but with the common factor being the high value of the entrepreneurial mindset. People with an entrepreneurial mindset not only have the ability to think of solutions and create opportunities, they are able to function equally effectively on their own and with others. An organization that fosters and promotes the entrepreneurial mindset of its employees will likely perform better. We often talk about organizations or the firm, but at the core of every successful business lie its people. Increasing the human

capital and thus the capabilities of its employees should be the goal of every organization, because an organization will grow, as long as the capabilities of its employees will allow for.

The *Organisational Mindset of Entrepreneurship* sets out a framework of looking into how firms can build and sustain a healthy working environment that fosters creativity and innovation. Through strategic leadership of executives who lead by example, an organization can activate the synergies of the joint efforts of their employees and achieve higher growth potential while simultaneously increasing the employees' job satisfaction. Moreover, organizations with entrepreneurially oriented leadership can build cooperative networks with other organizations that can advance innovation and promote both regional and national growth.

I will close my remarks here with the words of the legendary CEO Victor Kiam, who argued that "Entrepreneurs are simply those who understand that there is little difference between obstacles and opportunity and are able to turn both to their advantage."

Kingston University, London, UK

Nicholas Litsardopoulos

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**Norris Krueger** is among few scholars who are able to make a difference in research, education, and entrepreneurship. Dr. Krueger has managed to keep moving the needle for all three, with proven, recognized expertise in growing entrepreneurial thinkers and entrepreneurial communities. As a thought leader in entrepreneurial learning, his programs earned six national and two global best practice awards. Most-cited scholar in his specialty on entrepreneurial thinking, he has had external fellowships with Max Planck Institute for Economics and is Senior Subject Matter Expert at OECD/EU for entrepreneurial learning and entrepreneurial ecosystems. Active on Twitter, Facebook, LinkedIn, and [www.norriskrueger.com](http://www.norriskrueger.com)—feel free to connect!

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# Organizational Mindset of Entrepreneurship: An Overview



Veland Ramadani, Ramo Palalić, Léo-Paul Dana, Norris Krueger,  
and Andrea Caputo

**Abstract** This is an introduction chapter that explains the scope and aims of this book. This chapter describes the role of entrepreneurial mindset for organizations, human capital, strategic leadership, internal marketing, innovation and intrapreneurship. It happens that sometimes changes in environment may require reorganization of the whole company. In order to create competitive advantages, these changes should affect all stakeholders in organizations. Competitive advantage cannot be achieved if an entrepreneurial mindset is not firmly developed, which is the main topic of this book. Almost all chapters of the book relate its content to changes and innovation, as the basis for competitive advantage. An overview of all chapters included in this book is provided as well. Editors and contributors of this book expect that this volume will bring a desirable and meaningful contribution to the field of organizational entrepreneurial mindset. Editors truly believe this volume will be well-received by regional and international academic colleagues, entrepreneurs, managers, and students.

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**Keywords** Entrepreneurship · Organizational mindset · Human capital · Collaboration · Intrapreneurship

## 1 Introduction

This book provides a wide range of business dynamics and analysis of the organizational structure that contributes to the development of entrepreneurship and entrepreneurial mindset in organizations. In this book, the human resource factor is emphasized as one of the prerequisites for the growth and development of every organization. For that, every organization needs a strong and developed human capital. According to Schultz (1961), the human capital needs investment and development. It needs time, money, and human will. There is a need for a vertical and horizontal synergy throughout organizations (Kearney, Hisrich, & Antoncic, 2013). Strategic leadership is considered to be the brain of the company, sharing the vision down from top to bottom. Managers and team leaders should work on symbiotic networking (Dana, Etemad, & Wright, 2008) and internal marketing among themselves and in creating an internal positive image of organizations (Felzensztein, Deans, & Dana, 2019). Horizontally, those leaders should work on mutual networking (symbiotic) relationships among their peers (Hisrich & Ramadani, 2018). All these pillars aforementioned, they will create a firm basis for possible changes that will lead to innovation and then to competitive advantage. Once a positive image is established in the company, all employees may feel very relaxed and feel proud to start with creative actions, moderations, small changes in daily tasks, etc. (Pellegrini, Caputo, & Matthews, 2019; Ramadani, Ademi, Ratten, Palalić, & Krueger, 2018). Human resource role should not be neglected. Necessary training and development should be conducted in order to develop an entrepreneurial mindset in the organization. Changes should start from inside the organization (Palalic & Busatlic, 2015).

It happens that sometimes changes in the environment may require reorganization of the whole organization. These changes affect all stakeholders in an organization. This may result in creating positive changes and innovations, which will be reflected as a competitive advantage of the organization (Ramadani, Gërguri, Rexhepi, & Abduli, 2013). Competitive advantage cannot be achieved if an entrepreneurial mindset is not firmly developed. Responsibilities for this go-to company leaders at first place, then to their subordinates and peers. Almost all chapters of the book relate its content to changes and innovation, as the basis for competitive advantage.

This book aims to contribute to the literature based on the following:

1. Increasing the importance of internal marketing, as a base for internal campaigns among employees. These campaigns should be initiated from the top management and be spread to all employees of the organization.

2. Collaboration creates a fair and acknowledgment of synergy among employees. Promotion of the internal collaboration should be backed up by the companies' leaders as exemplary collaborators.
3. The key to organizational competitive advantage is rooted in innovation. Top management along with its peers should give a space for flexible and out-of-the-box thinking to all members of an organization and initiate changes and innovation.
4. Intrapreneurship is a key driver to all positive changes across an organization. Internal collaboration and organizational campaigns lead to change and innovation, which represents one of the key entrepreneurial orientation dimensions. Such organization is usually a first mover in the market with differentiated goods and services.
5. Strategic leadership plays a vital role in an organizational development and growth. Visionary leaders should have an entrepreneurial mindset, which will integrate collaboration, internal marketing, and innovation into corporate values as the basis for quality business performance.
6. Symbiotic collaboration at all organizational levels should be integrated into organizational networking, internal and external. As a business cannot survive alone, external collaboration is needed.

## 2 Book Structure

This book is opened by Claudine Kearney, who in the chapter “Entrepreneurial Leadership and Its Impact on the Emergence of Entrepreneurial Ventures,” focuses on integrating certain aspects of entrepreneurship and leadership to achieve entrepreneurial leadership. She proposes a conceptual model as a practical focal point to extend the integration of entrepreneurial leadership and integrate the effect that entrepreneurial leadership has on the emergence of entrepreneurial businesses.

In the chapter “Too Much of a Good Thing? Employee Human Capital and the Accelerated Internationalization of Belgian Small- and Medium-Sized Companies,” Jonas Onkelinx, Tatiana S. Manolova, and Linda F. Edelman explore the role of human capital for the accelerated internationalization of small- and medium-sized companies (SMEs) in Belgium, using a dataset of SMEs which internationalized between 1998 and 2005 and followed a strategy of accelerated internationalization. They found a significant curvilinear (inverted U) association between general human capital (education) and the company's scope of internationalization (number of foreign markets served), while specific human capital (training) had a significant effect only in the medium-low technology sector.

Ramo Palalić, Azra Branković, and Azra Bičo in “Entrepreneurial mindset and SMEs' sustainability” explain the entrepreneurial climate in SMEs in Bosnia and Herzegovina. They use a qualitative approach, using interviews for data collection, to portray the way how the entrepreneurial mindset is created in Bosnian SMEs. The

authors found that entrepreneurial mindset and spirit are created out of entrepreneurial orientations (EO) dimensions along with the internal marketing and networking.

Mehmet Biçer in his chapter, "Exploring the Effects of Learning Organization on Innovative Work Behaviors of White-Collar Workers: Sample from Turkey," intends to determine the impact of seven different learning organization types (continuous learning, inquiry and dialogue, team learning, embedded systems, empowerment, system connection, sharing systems, strategic leadership) on innovative work behaviors of white-collar employees in different companies. He found that only continuous learning and strategic leadership have statistically significant and positive effects on innovative behavior, while the other subdimensions do not have statistically significant impacts on the innovative employees' work behaviors.

In chapter "Features of the Entrepreneurial Mindset of SMEs' Owners in the Moldavian Unfriendly Environment," Elena Aculai, Alexandru Stratan, and Natalia Vinogradova, present the specifics of entrepreneurial mindset of owners of SMEs, who operate with their business in an unfavorable environment, under an emerging market economy based on the example of the Republic of Moldova. The study confirms how in Moldavian economy, business strategies based on entrepreneurial mindset constitute an important factor in the preservation and development of SMEs. The chapter contributes to the understanding of the Moldavian business ecosystem and offers insights about how to increase the standard of living of the population, thanks to the beneficial impacts of such SMEs' strategies.

The chapter "Skill Sets, Employee Types, and Strategies for Remediation: Analytical and Clinical Considerations for the Workplace," written by Peter Maida, presents an important account of how disciplines such as human and organizational development, psychology, social psychology, sociology, conflict resolution, psychiatry, and economics have applied their unique perspectives in analyzing and describing workplace dynamics. The chapter examines one of the many possible frameworks to explain workplace communication. Observing employee interaction exposes several obvious skills including, trust, collaboration, ego-strength, and communication. The chapter proposes several theoretical and practical solutions to address conflictual and unproductive interactions in the workplace.

In the chapter "Human Capital and Innovation: An Analysis of Western Balkans," the authors Emil Knezović, Ognjen Ridić, and Mubarak Adam Ibnu Chambas presents a study of the relationship between human capital and innovation. Moving away from the traditional macroeconomic lenses, the chapter examines the importance of human capital and innovation in the contemporary business environment. It also presents the mechanisms through which human capital contributes to innovation in firms by focusing on entrepreneurial mindset within a firm; and finally, analyses these two constructs at a firm level by providing a focus on an under investigated, yet important, region such as the Western Balkans.

Nora Sadiku-Dushi and Veland Ramadani, in "Entrepreneurial Marketing Mindset: What Entrepreneurs Should Know?" present an important analysis of marketing in the entrepreneurial context. Indeed, this chapter helps in unveiling the challenges and issues affecting SMEs when it comes to marketing, such as lack of resources, knowledge, and expertise, which make it difficult for SMEs to perform

traditional marketing practices. Entrepreneurial marketing (EM), a relatively new field of study, is presented in the chapter, which offers an overview on the history of the foundation of EM, the most common definitions that may be found in literature, the main types of EM, the EM dimensions, as well as the main differences between EM and traditional marketing.

The last chapter, “Corporate Entrepreneurship: From Structures to Mindset” is written by Olga Belousova, Dagmar Y. Hattenberg, and Benoît Gailly. In this chapter, the authors provide several explanations of the corporate entrepreneurship concept. They discuss the stimulation of corporate entrepreneurship and its main challenge—stimulating corporate entrepreneurship behaviors of the employees through analyzing the corporate entrepreneurship mindset.

### 3 Conclusion

Editors and contributors of this book expect that this volume will bring a desirable and meaningful contribution to the field of organizational entrepreneurial mindset. We truly believe this volume will be well-received by regional and international academic colleagues, entrepreneurs, managers, and students, who want to know more about organizational entrepreneurial mindset in different contexts and countries.

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# Entrepreneurial Leadership and Its Impact on the Emergence of Entrepreneurial Ventures



Claudine Kearney

**Abstract** Within the domains of entrepreneurship and leadership there has been a focus on integrating certain aspects of both to achieve entrepreneurial leadership. Our knowledge of entrepreneurial leadership is still evolving. However, this knowledge remains more limited in relation to the impact of entrepreneurial leadership on the emergence of entrepreneurial ventures. In this chapter the contributions of entrepreneurship and leadership to entrepreneurial leadership is examined. Herein, a conceptual model is proposed as a useful focal point to extend the integration of entrepreneurial leadership and synthesize the impact that entrepreneurial leadership has on the emergence of entrepreneurial ventures.

**Keywords** Entrepreneurship · Leadership · Entrepreneurial leadership · Emergence and complexity science

## 1 Introduction

In today's challenging and competitive environment, it is not sufficient for managers to demonstrate entrepreneurial or leadership qualities. In order to develop and grow successful venture managers need to integrate both entrepreneurial and leadership qualities. This integration is termed entrepreneurial leadership. The concept entrepreneurial leadership is a relatively new form of leadership that integrates the entrepreneurial spirit with the qualities of effective leadership. Within the existing literature it has been argued that the intersection of entrepreneurship and leadership can be termed "entrepreneurial leadership" (e.g., Cogliser & Brigham, 2004; Harrison, Leitch, & McAdam, 2015; Leitch & Volery, 2017; Renko, Tarabishy, Carsrud, & Brännback, 2015). The intersection of entrepreneurship and leadership can generate mutual benefit for both disciplines (e.g., Antonakis & Autio, 2007;

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Leitch & Volery, 2017). The focus of “entrepreneurial leadership is creating new products, new processes and expansion opportunities in existing businesses, working in social institutions and dealing with ignored social issues, participating in social and political movements, contributing to the change of current services and policies implemented by civil society organizations and governments” (Esmer & Dayi, 2017, p. 112). However, to achieve this, entrepreneurial leaders need to better understand the emergence of an entrepreneurial venture and more specifically the impact their leadership plays on venture emergence.

The purpose of this chapter is to examine entrepreneurial leadership and its impact on the emergence of an entrepreneurial venture. Having defined the scope and objective of this chapter, the following section proposes a conceptual model of entrepreneurial leadership to extend our understanding of the importance of entrepreneurial leadership and its impact on the emergence of an entrepreneurial venture. Second, an overview of entrepreneurship and leadership along with an understanding of the integration between them in what is termed “entrepreneurial leadership” to achieve competitive advantage through opportunity exploration and exploitation is discussed. Third, there is a discussion on the most effective leadership styles for entrepreneurial ventures as well as important entrepreneurial leadership characteristics. Fourth, the concept of emergence in entrepreneurship is examined with specific focus on the entrepreneur, opportunity and venture. Following that the impact of entrepreneurial leadership on the emergence of an entrepreneurial venture is discussed. The final section of this chapter presents its conclusion.

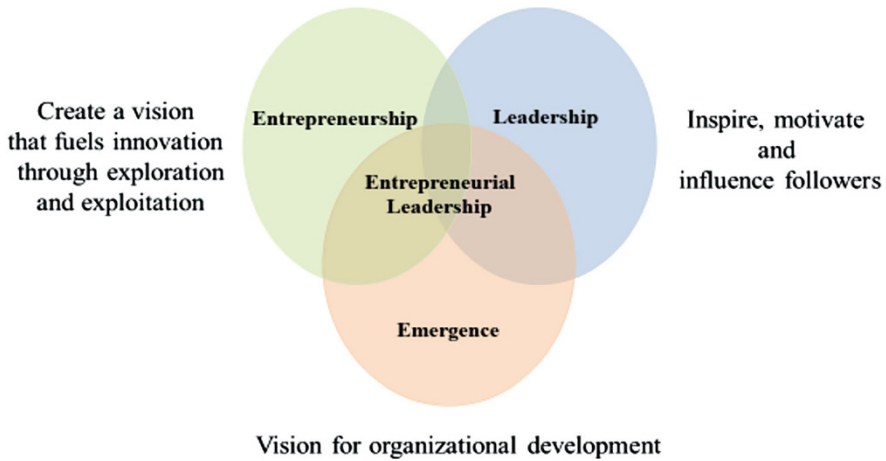
## ***1.1 Conceptual Framework***

The conceptual model presented in Fig. 1 identifies the importance of entrepreneurship and leadership in the development of entrepreneurial leadership and its impact on the emergence of an entrepreneurial venture. The proposed model suggests that successful entrepreneurial leadership is achieved through entrepreneurship in terms of the entrepreneurial vision, drive, and passion for the exploration and exploitation of innovative opportunities and the leadership skills to inspire, motivate, and influence followers to achieve the entrepreneurial vision and lead the organization to sustainable competitive advantage. This model implies that entrepreneurial leadership significantly impacts on the successful emergence of an entrepreneurial venture.

## **2 Entrepreneurship**

Traditionally entrepreneurship has been associated with starting a new business venture. However, in recent decades it is recognized that there are different forms of entrepreneurship such as private sector entrepreneurship, corporate entrepreneurship (*also referred to as corporate venturing or intrapreneurship*), public sector





**Fig. 1** Entrepreneurial leadership and its impact on emergence

entrepreneurship (governpreneurship), and social entrepreneurship. The level of entrepreneurial activity depends on the type of organization and the level of creativity and innovation that exists within the organization. Entrepreneurs are not specific to any one profession, industry, or sector and can flourish in different settings, including for-profit and not-for-profit organizations. Entrepreneurship is a dynamic process that incorporates exploration and exploitation of opportunities, creativity, innovation, and risk taking. However, depending on the forms of entrepreneurship and the profession, industry and sector there are important differences in the strategies, goals, objectives, and outcomes associated with successful entrepreneurship.

Within the field of entrepreneurship there is no universally accepted definition. While some definitions focus on the creation of a new venture, some focus on the generation of wealth, and others on the exploration and exploitation of opportunities. As a result of long-standing positions in the entrepreneurship literature Shane and Venkataraman (2000, p. 218) describe entrepreneurship as “the scholarly examination of how, by whom, and with what effects opportunities to create future goods and services are discovered, evaluated, and exploited.” Similarly, Hitt, Ireland, Camp, and Sexton (2001, p. 480) defined entrepreneurship as “the identification and exploitation of previously unexploited opportunities.” On the other hand Davidsson (2005, p. 80) defined the activities required for entrepreneurship as: “(1) entrepreneurship is starting and running one’s own firm; (2) entrepreneurship is the creation of new organizations; and (3) entrepreneurship is ... the creation of new-to-the-market economic activity.” Over the last five decades entrepreneurship has further developed beyond individual efforts to follow a vision and Kuratko (2009) recognized the continued advancement of entrepreneurship and developed the following definition that recognizes the core factors necessary for this phenomenon.

Entrepreneurship is a dynamic process of vision, change, and creation. It requires an application of energy and passion towards the creation and implementation of new ideas and creative solutions. Essential ingredients include the willingness to take calculated risks, formulate an effective venture team, marshal the needed resources, build a solid business plan, and, finally, the vision to recognize opportunity where others see chaos, contradiction, and confusion. (Kuratko, 2009, p. 5)

Entrepreneurship creates value for individuals, organizations, and society and its importance cannot be overemphasized. Entrepreneurship has a significant impact on creating employment, achieving competitiveness, generating economic growth, and prosperity in a country. The challenge for entrepreneurs is to effectively lead the organization to exploit opportunities that will achieve and sustain competitive advantage in today's highly competitive environment. Godfrey and Gregerson (1999, p. 41) argue that to sustain a competitive advantage in this turbulent environment requires "an entrepreneurial ability to identify, develop and complete new combinations of existing asset bundles or new unmet opportunities." More specifically, entrepreneurs' commitment to the vision of the organization needs to sustain and develop as the venture emerges.

### 3 Leadership

Leadership research dates back to the early part of the twentieth century. It was not until the early 1930s that a more organized social–scientific approach to studying leadership emerged (House & Aditya, 1997). Over many decades leadership has been recognized as a key research subject across many disciplines; however, it is only recently that its core ideas have been incorporated into the field of entrepreneurship.

Several leadership paradigms have been suggested by researchers over the decades. Leadership studies traditionally focused on individual traits and personalities (Avolio, Reichard, Hannah, Walumbwa, & Chan, 2009). These "traditional" leadership models, described "leader behavior in terms of leader–follower exchange relationships, providing direction and support, and reinforcement behaviors" (Avolio, Reichard, et al., 2009, p. 766). Modern leadership paradigms focus on transformational/charismatic leadership (e.g., Bass, 1985; Burns, 1978) and authentic leadership (e.g., Avolio & Gardner, 2005; Bennis, 2003). Transformational/charismatic leadership theories are the most frequently researched theories over the last two decades (Bass & Riggio, 2006; Judge & Piccolo, 2004).

Similar to entrepreneurship there is no universally accepted definition of leadership. The definition of leadership is influenced by the paradigm (Jing & Avery, 2008). According to Stogdill (1974, p. 259) "there are almost as many definitions of leadership as there are persons who have attempted to define the concept." Traditional definitions of leadership generally focus on the individual leader, failing to recognize other major components such as the follower, the context, and culture. However, more recently leadership is not described as an individual characteristic

but recognized in various models as dyadic, shared, relational, strategic, global, and a complex social dynamic (Avolio, 2007; Yukl, 2006). Furthermore, leaders are recognized a part of a group, and leadership is an interactive process where leaders inspire followers by creating a vision and motivate them toward achieving organizational goals. House, Hanges, Javidan, Dorfman and Gupta (2004, p. 15) defined leadership as “. . .the ability of an individual to influence, motivate, and enable others to contribute toward the effectiveness and success of the organizations of which they are members.” More specifically, Avolio, Walumbwa, and Weber (2009, p. 422) asserted that:

Today, the field of leadership focuses not only on the leader, but also on followers, peers, supervisors, work setting/context, and culture, including a much broader array of individuals representing the entire spectrum of diversity, public, private, and not-for-profit organizations, and increasingly over the past 20 years, samples of populations from nations around the globe.

The nature of organizational leadership revolves around the process of influencing others to understand and agree about what needs to be done and facilitating individual and collective efforts to accomplish shared objectives (Yukl, 2013). Scholars have suggested that leadership is an inspiring and enabling factor that influences different aspects of employees' work behavior and performances (e.g., Chen, Tang, Jin, Xie, & Li, 2014; Park, Kim, Yoon, & Joo, 2017). Hence, effective leadership is a key requirement for the growth and development of new and existing entrepreneurially ventures.

## 4 Entrepreneurial Leadership

Entrepreneurial leadership is a concept that has grown as a field of study since the early 1990s. It is one of the newest terms integrating elements of entrepreneurship and leadership in the management of high-growth ventures (Kuratko & Audretsch, 2009). Entrepreneurial leadership has been generally explored in terms of the leadership traits and behaviors of senior executives in entrepreneurial organizations (Gupta, MacMillan, & Surie, 2004; Nicholson, 1998; Swiercz & Lydon, 2002), the emphasis on integrating entrepreneurship with leadership (Kuratko & Audretsch, 2009), creativity and innovation in business development (Chen, 2007). Entrepreneurial leadership has the opportunity to succeed in any type of organization and sector (Renko et al., 2015). However, entrepreneurial ventures are organizations based on the exploration and exploitation of entrepreneurial opportunities. Entrepreneurs must have leadership skills in order to identify and exploit opportunities (Leitch & Volery, 2017). An entrepreneurial leader concentrates on exploring, specifying, and exploiting the opportunities to create new products, services, and business processes (Gupta et al., 2004; Renko et al., 2015; Shane & Venkataraman, 2000). Therefore, successful entrepreneurs are leaders who work individually and collectively to identify opportunities and utilize resources to facilitate the

exploitation of these opportunities, which in turn should create value and generate wealth for the organization.

Leadership is considered an interactive process, dependent on both leaders and followers (Graen & Scandura, 1987) and an entrepreneur is frequently described as a leader who must define a vision of what is possible and attract people to transform the vision into reality (Kao, 1989). Leadership abilities are fundamental for entrepreneurs; however, the advantages of the leadership capacity of the founder are frequently overlooked (Jensen & Luthans, 2006). According to Ensley, Pearce, and Hmieleski (2006, p. 247) “leadership appears to be a core component of the entrepreneurial process, considering that opportunities cannot be exploited without the facilitation of individual and collective efforts.” Therefore, from the emergence of a new business venture, founders must demonstrate leadership in order for the business to achieve its core goals and objectives.

Entrepreneurial leadership can be defined as “an entrepreneur’s ability to anticipate, envision, maintain flexibility, think strategically, and work with others to initiate changes that will create a viable future for the organization” (Kuratko & Hodgetts, 2007, p. 729). If this entrepreneurial leadership process is successfully achieved it will make it more difficult for competitors to compete and therefore will provide greater opportunity for the organization to achieve competitive advantage. Entrepreneurs are leaders that have to develop a vision, determine the goals of the venture, and motivate employees toward the achievement of specific outcomes (Baum, Locke, & Kirkpatrick, 1998). Entrepreneurial leadership involves the leader’s ability to influence and guide the performance of group members toward the achievement of organizational goals that involve identifying and utilizing opportunities (Renko et al., 2015). Innovation is key to achieving competitive advantage and entrepreneurial leaders need to drive follows to explore and exploit innovative opportunities by allowing the necessary time and resources to facilitate “out-of-the box” thinking to all employees.

Organizations that aim to achieve creativity and innovation need entrepreneurial leaders that support employees in exploring and exploiting new opportunities for the benefit of the organization (e.g., Huang, Ding, & Chen, 2014; Mueller, 2007; Wales, Monsen, & McKelvie, 2011). Furthermore, this will “enhance followers’ beliefs in their own entrepreneurial skills and abilities and ignite passion for innovation and creativity” (Renko et al., 2015, p. 58). The successful entrepreneurial venture depends on leaders that are entrepreneurial and can influence followers to think and act creatively and innovatively for the benefit of the organization. This is important for all organizations to develop and prosper. Through the effective integration of entrepreneurship and leadership organizations can explore and exploit these opportunities—thus, the concept of entrepreneurial leadership.

## ***4.1 Leadership Styles for Entrepreneurial Ventures***

Entrepreneurial leadership style is typically characterized as an authentic, charismatic, and transformational leadership. Walumbwa, Avolio, Gardner, Wernsing, and Peterson (2008, p. 94) defined authentic leadership as:

a pattern of leader behavior that draws upon and promotes both positive psychological capacities and a positive ethical climate, to foster greater self-awareness, an internalized moral perspective, balanced processing of information, and relational transparency on the part of leaders working with followers, fostering positive self-development.

Authentic leadership creates conditions for higher trust, supports followers to build on their strengths and be more positive, enhances decision-making, broadens their thinking, and improves the overall performance of their organization (Avolio, Gardner, Walumbwa, Luthans, & May, 2004). Entrepreneurs frequently demonstrate authentic leadership, as they are true to themselves and also behave in a way that followers develop greater self-awareness and psychological strength (Jensen & Luthans, 2006). Authentic entrepreneurial leaders demonstrate behavior that inspires employees and recognizes that task accomplishment and development are connected. Authentic entrepreneurial leaders have a greater ability to manage the challenges they face, have a more positive impact on their followers, and ability to achieve organizational goals and objectives.

Similarly, transformational leadership traditionally portrays leaders as charismatic and visionary who have the ability to inspire, motivate, and energize employees. They are characterized as being positive, driven, and confident with a compelling vision. Transformational leadership is recognized to include four elements: idealized influence; inspirational motivation; intellectual stimulation; and individualized consideration (Bass, 1985, 1990). Transformational leadership is demonstrated by entrepreneurs and is linked to innovative behavior. Scholars have suggested that increased levels of transformational leadership motivate employees to enhance organizational innovation (e.g., Jung & Wickrama, 2008). According to Mumford, Scott, Gaddis, and Strange (2002) for innovation to occur there is a need for transformational leaders that are driven by the innovation. Gong, Huang, and Farh (2009) asserted that the principles of transformational leadership can drive and nurture creative self-efficacy. Sarros, Cooper, and Santora (2008) suggested that transformational leaders can generate intellectual stimulation among employees by getting them to reevaluate their work performance and participate in problem-solving challenges. Gumusluoglu and Ilsev (2009) argued that individualized consideration allows the leader to build a more personalized relationship with followers, and recognizes their different needs, skills, and aspirations.

Theories of transformational and charismatic leadership suggest that there is a significant relationship between leadership and entrepreneurship. Baum et al. (1998) reinforce the importance of charismatic entrepreneurial leadership in facilitating venture growth, describing leadership to be “serving as a role model, intellectually stimulating followers and building followers’ confidence” (p. 43). However, in contrast to transformational leadership in particular, authentic leadership may or

may not be charismatic (George, 2003). While charisma is the core component of transformational leaders, authentic leaders build enduring relationships, work hard, and lead with purpose, meaning, and values, but are not necessarily described as charismatic (Bass, 1985).

While there are many different styles of leadership, theorists have argued that transformational leadership is crucial for innovative behavior within organizations (Bagheri, 2017; Bass, 1985; Eisenbeiss & Boerner, 2010; Eisenbeiss, van Knippenberg, & Boerner, 2008; Jung, Chow, & Wu, 2003; Sanders & Shipton, 2012). Entrepreneurial leadership stimulates and fosters innovation and opportunity recognition in highly challenging, turbulent, and competitive environments (Freeman & Siegfried, 2015; Karol, 2015; Swiercz & Lydon, 2002) including new ventures and SMEs (Freeman & Siegfried, 2015; Koryak et al., 2015; Leitch, McMullan, & Harrison, 2013). House and Aditya (1997) assert that charismatic (transformational) leadership theories are unique in that they explain how leaders establish successful entrepreneurial corporations. Furthermore, transformational leadership behaviors can increase the creative performance of employees and to bring about organizational innovation (Gumusluoglu & Ilsev, 2009).

To effectively integrate entrepreneurship and leadership entrepreneurial leaders need to create a vision and promote exploration and exploitation of innovative opportunities among employees in order to improve the competitiveness and growth of their venture. Hence, entrepreneurial leadership does not only create acceptable goals to lead employees toward creative goal realization but also promotes a sense of taking risks and taking advantage of opportunities for value creation (Gupta et al., 2004). In order to achieve this they need to demonstrate the following characteristics:

1. *Vision*: develops an inspiring vision that fully captures the organizations core values and ideology.
2. *Environment*: has a comprehensive knowledge of the internal and external environment. With a clear focus that “competitors are anyone your customers’ have access to.”
3. *Flexible*: is flexible to opportunities and change, and views change as a challenge for new opportunities and growth.
4. *Teamwork*: encourages teamwork and demonstrates a multi-disciplined approach that recognizes the potential capabilities of individuals and teams.
5. *Communication*: open communication and discussion to develop an effective team to explore and exploit new opportunities.
6. *Motivation*: encourages and motivates each team member to be creative and generate innovative ideas, solve problems and improve performance.
7. *Persistence*: creates an encouraging and supportive environment and culture wherein all employees consider innovation as one of their tasks and demonstrates persistence in light of challenges and obstacles in their entrepreneurial endeavors.

The role of entrepreneurial leaders is core to the organization in creating a vision that will inspire and motivate employees toward the exploration and exploitation of viable innovative opportunities for sustainable competitive advantage and growth in

light of environmental barriers and challenges. They understand that the vision of the organization needs to be communicated at all levels and must inspire everyone in the organization to want to succeed for the venture to successfully emerge.

## 5 The Concept of Emergence in Entrepreneurship

Understanding the emergence of entrepreneurial ventures is a research challenge. Emergence is at the core of entrepreneurial research, for example in organizational emergence (e.g., Brush, Manolova, & Edelman, 2008), effectuation processes that result in new venture emergence (Sarasvathy, 2001), reemergence of organizing structures in the early development of new ventures (e.g., Gartner & Brush, 2007; Lichtenstein, 2000). Emergence of an entrepreneurial venture occurs because the entrepreneur aims to exploit and capitalize on an opportunity and develop and grow a successful venture.

At the nexus of entrepreneurship and complexity science is emergence because entrepreneurship focuses on how and why new ventures emerge, and complexity science focuses on the emergence of new order in dynamic systems (Lichtenstein, 2015). Complexity science posits that the process of venture emergence potentially involves interdependent and nonlinear activities (McKelvey, 2004). The focus of complexity is on order creation which is therefore recognized as a better platform for a science of entrepreneurship and effective entrepreneurial research (McKelvey, 2004). More specifically, as asserted by Lichtenstein (2015, p. 44) “complexity applications to entrepreneurship are intuitive and insightful because both fields share similar dynamics: creation and emergence, opportunity and new potential, innovation and growth.” Hence, complexity science is a lens to examine entrepreneurship and has generated key insights for entrepreneurship scholars. Studies of entrepreneurship and complexity science focus on novelty, innovation, and emergence.

The concept of emergence has been defined as “the arising of novel and coherent structures, patterns and properties during the process of self-organization in complex systems” (Goldstein, 1999, p. 54). Gartner (1993, p. 234) asserted that “organizational emergence is the process of how organizations make themselves ‘known’ (how they come out into view; how they come into existence).” Organizational emergence focuses on key the factors that effect, the growth and development of the venture. Furthermore, “emerging organizations are elaborate fictions of proposed possible future states of existence” (Gartner, Bird, & Starr, 1992, p. 17). A clear future vision can provide a roadmap for developing the organization in an uncertain environment (Preller, Patzelt, & Breugst, 2018). This vision must be realistic, flexible, clearly communicated, and supported.

## 5.1 *Entrepreneur, Opportunity, and Venture Emergence*

Entrepreneurs constantly assess and evaluate the benefits of the opportunities they pursue and in doing so they execute those that have the greatest market potential and eliminate those that are not viable within the market. The process of venture emergence is slow, iterative one, in which entrepreneurs continuously assess the viability of their opportunities (Dimov, 2007). The most important aspects of an entrepreneurial endeavor include: the entrepreneur, the opportunity, and the venture.

**Entrepreneur** Entrepreneurs are recognized to have a high level of creativity and innovation along with a high level of opportunity recognition, risk taking, vision, and persistence (Hisrich & Kearney, 2013). Entrepreneurs are future oriented, seeking opportunities and identifying innovations to exploit these opportunities. Entrepreneurs are creative in the way they access resources, overcome obstacles, and implement ideas. They have a desire for creative activity, manifested by an innovative combination of resources that are effectively utilized for achieving financial, economic, or social wealth. There is a significant variation in entrepreneurial activities depending on the type of venture and the degree of creativity and innovation within the venture. Venture founders are frequently described as visionary individuals who “use images to guide their organizations into the future, toward ideals and situations that do not yet exist” (Bird, 1988, p. 446). This entrepreneurial vision is a “future-oriented image of the new venture, intended to motivate both the entrepreneurs and their followers (investors, future employees) toward this desirable future” (Ruvio, Rosenblatt, & Hertz-Lazarowitz, 2010, p. 145). Entrepreneurs are central to the opportunity and venture emergence.

**Opportunity** There is no entrepreneurship without an opportunity to exploit. Opportunity is central to the field of entrepreneurship. Short, Ketchen, Shook, & Ireland (2010, p. 55) asserts that: “an opportunity is an idea or dream that is discovered or created by an entrepreneurial entity and that is revealed through analysis over time to be potentially lucrative.” Opportunity identification does not only require skills such as financial analysis and market research, but also less tangible forms of creativity, team building, problem solving, and leadership (e.g., Hills, Lumpkin, & Singh, 1997; Hindle, 2004). The exploration and exploitation of viable opportunities creates value for the venture. This value is created from new activities as well as improvement on existing activities and can include new venture start-up, developing new products or services, serve new markets, developing new and more efficient methods of production. This is beyond change or modifications to what already exists but rather the creation of something totally new, the creation of a new context which the previous state of the system remains (Lichtenstein, Dooley, & Lumpkin, 2006). Therefore, when a venture can balance the exploitation of old and exploration of new opportunities it will be able to work toward achieving greater financial returns.

**Venture** Ventures need to be organized in such a way that they have appropriate strategies, structures, people, and processes to drive entrepreneurship. Ventures emerge over time in terms of their focus, size, and worth. The entrepreneurial vision



for the venture is likely to change as the venture emerges. According to Drucker (1985, p. 189):

When a new venture does succeed, more often than not it is in a market other than the one it was originally intended to serve, with products or services not quite those with which it had set out, bought in large part by customers it did not even think of when it started, and used for a host of purposes besides the ones for which the products were first designed.

It is important that the entrepreneur is flexible in their approach to take advantage of unforeseen opportunities and enter new markets. This is not a one-time process but one that requires continuous evaluation to ensure that the right opportunity is being pursued, as the opportunity may differ from exploration to exploitation and the process can be nonlinear. The most successful ventures are those that incorporate knowledge obtained from past innovation experiences into their strategies and future innovations.

## **6 Impact of Entrepreneurial Leadership on the Emergence of Ventures**

Entrepreneurial leaders are adaptable and flexible, they are willing to take risks, and challenge assumptions with the goal of creating greater value and competitiveness. They are willing to continuously learn and adapt in a dynamic environment. At the core of entrepreneurship is the exploration and exploitation of opportunities that are often exploited through the creation of new business ventures. An entrepreneurial event cannot occur without identifying and addressing an opportunity. An opportunity can be considered a venture idea (Davidsson, 2003) that cannot be separated from the individual behind the idea (e.g., Klein, 2008). Hence, the emergence of an entrepreneurial venture occurs because the entrepreneurial leaders drive and encourage innovation and work with followers to exploit commercially viable opportunities and develop and grow the venture.

By its nature entrepreneurial leadership drives change, creativity, and innovation by creating a vision that inspires followers, utilizes competencies to identify opportunities, and successfully exploits opportunities into commercially viable products and/or services. The success of an entrepreneurial venture is influenced by the entrepreneurial leader and critical milestones, such as attracting and retaining customers, implementing effective competitive strategies, and acquiring the necessary financial, human, and nonhuman resources. The entrepreneurial leader is the driving force for the emergence and future success of the venture.

## 7 Conclusion

The application of complexity science plays an important role in entrepreneurial research with both fields focusing on emergence. Creating and sustaining a successful business venture requires not only vision and financial capital, but also entrepreneurial leadership that can lead followers to transform the vision and financial capital into a successful venture. Entrepreneurial leaders play a vital role in the successful emergence of an entrepreneurial venture toward growth and development. Effective entrepreneurial leaders have the ability to create a vision that inspires and motivates the team, utilizes its competencies to identify opportunities, and successfully turns those opportunities into innovative commercially viable products allowing the venture to emerge over time. In today's competitive environment, entrepreneurial leaders are required to establish a working environment that stimulates creativity, to create an organizational atmosphere that serves as a guiding principle for more innovative processes, and to develop and maintain a system that facilitates the successful emergence of the entrepreneurial venture.

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# Too Much of a Good Thing? Employee Human Capital and the Accelerated Internationalization of Belgian Small- and Medium-Sized Companies



Jonas Onkelinx, Tatiana S. Manolova, and Linda F. Edelman

**Abstract** In this chapter, we explore the role of employee general and specific human capital for the accelerated internationalization of Belgian small- and medium-sized companies (SMEs). We test our ideas using a unique dataset of all Belgian manufacturing SMEs which internationalized between 1998 and 2005 and followed a strategy of accelerated internationalization. Findings indicate a significant curvilinear (inverted U) association between general human capital (education) and the company's scope of internationalization (number of foreign markets served), while specific human capital (training) had a significant effect only in the medium-low technology sector. Implications for theory, managerial practice, and public policy are discussed.

**Keywords** Human capital · Technology · Internationalization · Belgium

## 1 Introduction

Is there an optimal level of employee human capital to support a strategy of accelerated internationalization? At present we do not have enough theoretical guidance or empirical evidence on this issue, despite its obvious managerial relevance for resource-constrained small- and medium-sized enterprises (SMEs). The large body of work on the role of human capital in new and small venture

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internationalization has focused predominantly on the human capital of the entrepreneur or manager/top management team. Factors such as managerial alertness (Oviatt & McDougall, 1994), strategic commitment (Dhanaraj & Beamish, 2003), managerial international market orientation (Armario, Ruiz, & Armario, 2008), or marketing skills (Knight & Kim, 2009) have been extensively studied in the international entrepreneurship and international marketing literatures. The human resource management literature, on the other hand, has predominantly focused on the challenges SMEs face in attracting, training, managing, and retaining human talent (Hornsby & Kuratko, 2003; Kotey & Folker, 2007; Rutherford, Buller, & McMullen, 2003; Williamson, 2000), the distinguishing characteristics of human resource management practices in small firms (Cardon & Stevens, 2004; Kotey & Slade, 2005), or the critical role of human capital for survival and performance (Chandler & McEvoy, 2000; Koch, Späth, & Strotmann, 2013; Rauch, Frese, & Utsch, 2005; Unger, Rauch, Frese, & Rosenbusch, 2011). In short, neither the SME internationalization literature, nor the SME human resource literature has focused on the role of employee human capital for SME internationalization. Our study seeks to address this research gap.

Following Becker (1962, 1993), we conceptualize employee human capital as the aggregate stock of competences, knowledge, and expertise that a firm's employees accumulate through education, experience, or on-the-job training. Our main premise, anchored in the resource-based view of the firm (Barney & Wright, 1998; Campbell, Coff, & Kruscynski, 2012; Hatch & Dyer, 2004; Wright, McMahan, & McWilliams, 1994), is that the aggregate employee human capital is a firm-level resource (Ployhart & Moliterno, 2011), underlying accelerated internationalization (Weerawardena, Mort, Liesch, & Knight, 2007) and an important source of competitive advantage. Employee human capital is important for three main reasons. First, it provides the platform on which firm-level routines and capabilities are built (Campbell et al., 2012; Kor & Leblebici, 2005; Wright et al., 1994). Second, employee human capital underlies the organization's aggregate absorptive capacity (Hatch & Dyer, 2004; Liao, Welsch, & Stoica, 2003; McKelvie & Davidsson, 2009), allowing the firm to learn and benefit from its internationalization experience (Autio, Sapienza, & Almeida, 2000; Zahra, Ireland, & Hitt, 2000). Finally, even if competitors appreciate the value of an organization's employee human capital, its intangibility, complexity, and relative stickiness provide isolating mechanisms preventing easy imitation (Barney & Wright, 1998; Ployhart, Nyberg, Reilly, & Maltarich, 2014). However, consistent with arguments from strategic human resource management (Lepak & Snell, 1999; Wright, Dunford, & Snell, 2001) and the "too-much-of-a-good-thing" effect of resource accumulation, hypothesized by Pierce and Aguinis (2013), we also expect that after an initial boost in the scope of internationalization, employee human capital reaches a threshold effect (contingent on industry context), after which it becomes less productive.

To test our hypotheses, we use data from a panel study of Belgian manufacturing SMEs over an 8-year period (1998–2005). Belgium provides an interesting context for the exploration of the effect of employee human capital on SME internationalization because it is an export-dependent economy with highly qualified human



resources, but not a very efficient labor market (Schwab, 2013). The country's level of development and institutional infrastructure are similar to other middle-sized advanced European economies, such as Denmark or the Netherlands, allowing for possible generalizations of the study's findings.

Our study seeks to make three contributions to the literature on SME internationalization. Conceptually, we theorize that the aggregate employee human capital is an important strategic asset for SME accelerated internationalization and evaluate the dynamics of the relationship between human capital accumulation and scope of internationalization. To the best of our knowledge, with the notable exception of Rodríguez's (2006) study of the effect of employee specific and generic human capital on the internationalization of Spanish manufacturing firms, this area of research has so far remained at the periphery of scholarly attention, despite the importance of human talent for SMEs' international competitiveness. Empirically, we explore a relatively less studied facet of accelerated internationalization, namely, its scope, or the number of foreign markets a small firm operates in. Thus, our findings provide further evidence on the process of accelerated internationalization by SMEs. More broadly, our study speaks on the importance of the firm's resource base for SME internationalization (Al-Aali & Teece, 2014; Westhead, Wright, & Ucbasaran, 2001) and the optimal level of resources supporting firm-level competitiveness, generally (Dierickx & Cool, 1989; Pierce & Aguinis, 2013).

In the following section, we review the theoretical perspectives that inform our study and generate three sets of hypotheses which link employee human capital accumulation to SME's scope of internationalization. Next, we report our methodology and the results from statistical testing. We conclude by discussing our findings and their theoretical and practitioner implications.

## 2 Theory and Hypotheses

### 2.1 *Accelerated Internationalization*

Internationalization, defined as "the process in which firms increase their international involvement" (Johanson & Vahlne, 1977, p. 23), is a multidimensional phenomenon (Zahra et al., 2000), represented by the revenue exposure to foreign market transactions (Shrader, Oviatt, & McDougall, 2000), the scope of international market diversification or the number of foreign markets entered (Hashai, 2011), speed of internationalization (Morgan-Thomas & Jones, 2009; Oviatt & McDougall, 2005; Prashantham & Young, 2009), or the resource commitment to foreign markets (Shrader et al., 2000). It has been extensively studied through behavioral, cognitive, sociological, or economic theory lenses (for comprehensive reviews, see Jones, Coviello, & Tang, 2011; Keupp & Gassmann, 2009).

Accelerated internationalization has three aspects, *timing*, *speed*, and *scope*. *Timing* is perhaps most widely studied in the context of new and small ventures. Starting with McDougall and Oviatt's work in the mid-1990s, scholars have sought

to explain why some firms venture into foreign markets from inception (McDougall et al., 1994). More recently, scholars have also explored the post-entry *speed* of internationalization, identifying different approaches (Morgan-Thomas & Jones, 2009; Prashantham & Young, 2009) and strategic trade-offs between post-entry speed and foreign market commitment (Hashai, 2011; Shrader et al., 2000).

Another aspect of accelerated internationalization is its *scope*, or *the number of foreign markets a firm operates in*. Compare a firm that sells 50% of its output to a single foreign customer to a firm that sells 50% of its output to five customers in five different foreign markets. Although the revenue exposure of the two firms, as measured by their foreign sales to total sales ratio is the same (50%), their scope of internationalization will be very different (a single foreign market compared to five foreign markets, respectively). The scope of internationalization, also known as “international diversification,” or “foreign market diversification” (Hitt, Tihanyi, Miller, & Connelly, 2006) thus captures the complexity of the internationalization process, stemming from the need to operate in multiple competitive and institutional environments. Empirical work has shown that new and small ventures vary widely in their internationalization scope (Hashai, 2011; Morgan-Thomas & Jones, 2009).

In a related stream of work, based on concepts from international marketing, Kalish, Mahajan, and Muller (1995); Stremersch and Tellis (2004); and Sleuwaegen and Onkelinx (2014) have studied the number and speed of product introductions across international markets. These authors argue that firms can choose to internationalize by following an accelerated internationalization or *sprinkler strategy*, in which they target multiple countries at once. This is in contrast to a *waterfall strategy*, in which firms internationalize more slowly and target one market at a time, akin to the “stage” model of gradual internationalization (Johanson & Vahlne, 1977). By internationalizing in more than one market simultaneously, accelerated internationalizers can maximize revenues, exploit economies of scale in R&D and manufacturing, gain substantial first mover advantages, and take advantage of strategic windows of opportunity (Onkelinx, Manolova, & Edelman, 2012).

Tempting as it may appear, accelerated internationalization through foreign market diversification is a risky and resource-intensive strategy. Each additional market an SME decides to enter exposes it to new competition and new institutional pressures, increasing uncertainty (Johanson & Vahlne, 1977). Furthermore, in each additional market the SME faces a liability of foreignness (Hymer, 1976), that is, an inherent disadvantage relative to embedded local competitors. The transaction costs increase as well, because the SME needs to carry out market-specific research and marketing, arrange distribution, and adjust the product and packaging to local customer preferences and legal requirements. Thus, SMEs need to develop a strong resource base and capabilities that would allow them to successfully overcome the foreign market entry barriers and the liability of foreignness relative to multiple sets of endogenous players. In the following section, we elaborate on the importance of SME’s employee human capital for accelerated internationalization.

## ***2.2 Aggregate Employee Human Capital and Accelerated Internationalization***

In Becker's (1962) seminal theory of human capital, human capital refers to the stock of competences, knowledge, and expertise that a firm's employees gain through education, experience, and training (Becker, 1993). Investments in human capital are activities, such as schooling, on-the-job training, medical care, or acquiring information about the economic system, which influence future real income (Becker, 1962, p. 9). All of these investments improve the physical and mental abilities of people and thereby raise their real income prospects while yielding a return over a long period of time. General human capital, including education, knowledge, and skills (acquired through formal education) is applicable to different firms and contexts, while firm or unit-specific human capital accrues through on-the-job training and experience in such a way that knowledge of a job, other employees, and customers becomes increasingly embedded and tacit, and of little value outside the firm (Barney & Wright, 1998; Becker, 1962; Onkelinx et al., 2012; Ployhart, Van Iddekinge, & Mackenzie Jr., 2011).

In our study, we focus on the role of employee education (general human capital) and training (specific human capital). Although many researchers have theorized that firm-specific human capital is more difficult to discern and imitate, less mobile, and hence a stronger source of competitive advantage than general human capital (Campbell et al., 2012; Hatch & Dyer, 2004; Wang, He, & Mahoney, 2009), we do not delve into this distinction here. Instead, we build on Ployhart et al.'s (2011) insight that employee general and specific human capital are both important and interrelated, and argue that both types of capital are positively associated, up to a point, with the SME's scope of internationalization. This is because the development of employee knowledge and skills requires both specialization and experience and can be obtained partly from education and partly through on-the-job training (Becker, 1962; Onkelinx et al., 2012).

The education level captures the knowledge of the employees (Hitt, Bierman, Uhlenbruck, & Shimizu, 2006), as well as their cognitive ability (Hatch & Dyer, 2004; Wright et al., 1994), and achievement motivation (Hatch & Dyer, 2004). Training increases the flow of both codified and tacit knowledge into the stock of aggregate human capital (Hatch & Dyer, 2004; Ployhart et al., 2011), thus improving its quality. Higher levels of knowledge and skills allow employees to engage in complex and nonroutine tasks and perform them efficiently while conforming to high-quality standards, increasing the value added by the firm (Onkelinx et al., 2012). For example, Hatch and Dyer (2004) in their study of the effect of general and specific human capital on the performance of firms in the semiconductor industry found that human capital selection (education requirements and screening), development (through training), and deployment significantly improve learning by doing, which in turn improves firm-level performance.

SMEs typically position themselves as niche differentiators (Miller & Toulouse, 1986), deriving competitive advantages from superior innovation or superior quality,

and careful specialization within the industry value chain (Onkelinx, Manolova, & Edelman, 2016a). The success of a differentiated strategic positioning depends to a critical extent on the quality of the SMEs human resources (Spanos, Zaralis, & Lioukas, 2004). A highly educated and trained workforce supports the development of technological and innovative capabilities (McKelvie & Davidsson, 2009; Subramaniam & Youndt, 2005) and allows an SME to design, develop, and deliver technically complex, innovative, or superior quality products and services to demanding customers overseas.

Further, employees in SMEs following a strategy of accelerated internationalization need specialized knowledge and a set of skills that would allow the firm to simultaneously conduct business across multiple and heterogeneous markets around the world. Examples of such specific skills include language proficiency, familiarity with different technical standards, regulatory requirements, formal and informal norms of doing business, intellectual property protection regimes, or the ability to promptly and adequately adapt products and services to respond to specific foreign market requirements (Onkelinx, Manolova, & Edelman, 2016b).

Finally, better educated and trained employees can significantly facilitate accelerated internationalizers' learning capability. In dynamic and complex environments the aggregate human capital of the SME can improve the firm's ability to sense changes in the environment, devise more effective strategies in response to environmental changes, and implement them quickly and efficiently (Onkelinx et al., 2016a; Wright et al., 1994). As one example, developing an organization-wide system for generating market intelligence regarding customer needs is a critical capability of rapidly internationalizing SMEs (Armario et al., 2008). Hence we hypothesize:

In SMEs following a strategy of accelerated internationalization:

H1a: The aggregate education level of the employees is positively associated with the scope of internationalization.

H1b: The aggregate training of the employees is positively associated with the scope of internationalization.

### **2.3 *The “Too-Much-of-a-Good-Thing” Effect of Aggregate Human Capital***

While we suggest that there is a positive relationship between the aggregate employee general and specific human capital and scope of internationalization, it seems unlikely that this positive relationship can continue indefinitely. This is due to the existence of a saturation point above which an increase in human capital does not translate into increased scope of internationalization (Onkelinx et al., 2012, 2016b). Here, we espouse the “too-much-of-a-good-thing” effect of resource accumulation, hypothesized by Pierce and Aguinis (2013), and draw on perspectives from strategic human capital theory in order to further develop the argument.

Pierce and Aguinis (2013) noted that many antecedent variables in management, widely accepted as leading to desirable outcomes, actually led to negative consequences. The effects could be observed across levels of analysis and management subfields. These observations led them to propose a meta-theoretical “too-much-of-a-good-thing” principle in management, in that all seemingly monotonic positive relations reach context-specific inflection points, after which they turn into asymptotic and often negative, resulting in an overall pattern of curvilinearity.

Pierce and Aguinis’ (2013) intuition is supported by recent formulations of the “stocks and flows” model of intangible resource accumulation. In the original formulation, Dierickx and Cool (1989) posited that because of the lack of efficient markets, a stock of intangible resources cannot be acquired “ready-made,” but needs to be “grown” internally through a path-dependent process of resource accumulation. Knott, Bryce, and Posen (2003), however, developed and tested an intermediate good-production function for intangible asset stocks, finding that intangible asset stocks reach steady state rather quickly. While initially investments in intangible assets help increase the knowledge stock of the firm, once steady state is reached, further investments could only maintain the existing asset stock. We suggest that a similar process may be in place in the accumulation of employee general and specific human capital. While initial accumulation of education and training raises the overall level of employee human capital, additional installments only serve to maintain the existing level (stock) of skills and competencies. In other words, after reaching a steady state, investments in boosting human capital become less productive.

In addition to the limits to human capital accumulation, there are limits to its productive deployment. Strategic human capital theory posits that even if firms have access to a pool of valuable human capital, there are limits to their ability to deploy this capital to achieve strategic impact (Onkelinx et al., 2012, 2016b; Wright et al., 2001). This is because human capital resides in individuals and its value to the firm can be influenced by a number of different contextual factors (Crocker & Eckardt, 2014; Ployhart & Moliterno, 2011). Problems in the productive deployment of human capital include potential redundancies, the increased burden of coordination and control, the need to accommodate complex workforce requirements, agency problems, political turf-building, as well as lower organizational flexibility (Lepak & Snell, 1999). These problems may be particularly vexing for SMEs, for reasons outlined below.

SMEs have lower employer legitimacy (Williamson, 2000) because they are likely to be perceived as peripheral, rather than core employers. Thus, they face challenges in retaining highly educated and talented employees (Heneman, Tansky, & Camp, 2000). Designing effective human resource management systems to motivate and productively deploy highly educated employees is also problematic for SMEs (Hornsby & Kuratko, 2003). This is because SMEs typically lack the formal administrative systems, managerial experience, or sophistication of large corporations (Klaas, 2003; Onkelinx et al., 2012, 2016b).

Employee training presents additional challenges. Training is essential for SMEs, particularly for those that are growth oriented (Rutherford et al., 2003), because SMEs are less likely to find the specific employee skills in the labor market and thus

need to develop them internally (Lepak & Snell, 1999). But training can be costly, and misaligned with the strategic objectives of the firm. For example, Román, Ruiz, and Munuera (2002), in their study of the effect of sales training on sales force performance and customer orientation in the context of Spanish SMEs, found that simply increasing the investment in training did not imply higher levels of customer-oriented selling, unless specific training methods and content were implemented. Such specialized training methods and content may not be affordable for resource-constrained SMEs (Kotey & Folker, 2007). In addition, training may take away crucial time from employees when the internationalization confronts them with increased complexity in their job. This leads us to suggest:

For SMEs following a strategy of accelerated internationalization:

H2a: There is a curvilinear relationship between the education level of employees and the firm's scope of internationalization.

H2b: There is a curvilinear relationship between training of employees and the firm's scope of internationalization.

## 2.4 *The Role of Technology Sector*

Our final set of hypothesis captures the effect of industry context. Industry sectors differ in their requirements concerning the education levels, skills, and competencies of the workforce (Bartel & Lichtenberg, 1987). Industry sectors also differ widely in their structural conditions, competitive logics, and capability requirements affecting new and small venture internationalization (Fernhaber, McDougall, & Oviatt, 2007; Gërguri-Rashiti, Ramadani, Abazi-Alili, Dana, & Ratten 2017). The knowledge intensity of the industry, in particular, affects both workforce competency requirements and internationalization dynamics. Knowledge-intensive industries are characterized by high average research and development expenditures as a percentage of industry sales (Kobrin, 1991) and greater reliance on organizational knowledge and learning in competition (Fernhaber et al., 2007). Prior research in the context of international entrepreneurship has established that new and small ventures in knowledge-intensive industries tend to internationalize early and fast (Autio et al., 2000; Oviatt & McDougall, 1994; Zahra et al., 2000). This is because investment in research and development is likely to result in the introduction of new products, creative design, higher quality, or other desirable product attributes, which provide a source of competitive advantage in global competition. In addition, firms in knowledge-intensive industries have an incentive to quickly increase their sales revenues on a global scale, so they can recoup R&D investments faster (Alvarez & Robertson, 2004).

The higher the knowledge intensity of the industry, the more complex the knowledge-related learning processes (Saarenketo, Puumalainen, Kuivalainen, & Kyläheiko 2004), the need for reconfiguring capabilities (Jantunen, Puumalainen, Saarenketo, & Kyläheiko, 2005), and the higher the dependence on employee

knowledge and skills. Employee human capital enhances the firm's process of innovation (Subramaniam & Youndt, 2005), stimulates knowledge creation capabilities (McKelvie & Davidsson, 2009), and increases the rate of new product introductions (Smith, Collins, & Clark, 2005). Because the requirements for employee education and skills increase as the knowledge intensity of the industry increases, and the benefits derived from the aggregate employee human capital also increase as the knowledge intensity of the industry increases, we propose that the optimal level of employee human capital to support a strategy of accelerated internationalization will differ across industrial sectors (Onkelinx et al., 2016a). Formally:

For SMEs following a strategy of accelerated internationalization:

H3a: The level of the threshold in the curvilinear relationship between the education level of employees and the firm's scope of internationalization will be higher for the high-technology industry sector.

H3b: The level of the threshold in the curvilinear relationship between the training of employees and the firm's scope of internationalization will be higher for the high-technology industry sector.

### 3 Methods

#### 3.1 Context of the Study

Belgium is an advanced economy with a 2012 per capita GDP of \$37,500 (ranked 31st in the world) (World Factbook, 2014) and a founding member of the European Union. According to the 2009 European Commission study on the level of internationalization of European SMEs (European Commission, 2010), about 33% of the SMEs in Belgium recorded exports in 2006–2008, well above the average for the European Union (25%). Belgium is also far above the EU average in terms of the share of SME revenue resulting from foreign subsidiaries (15.2% as compared to 4.6%) and the share of SMEs gaining any income from joint ventures abroad (12.7% as compared to 4.8%).

#### 3.2 Sources of Data

In collaboration with the National Bank of Belgium (NBB), we constructed a comprehensive dataset linking firm-level trade data to annual accounts data. All manufacturing SMEs incorporated in Belgium with at least 10 full-time equivalent (FTE) employees (in at least 1 year between 1998 and 2005) were included in the dataset, to a total of 7771 SMEs. SMEs were selected using the employment criterion of the Eurostat definition, which sets the threshold at 250 FTE employees (European

Commission, 2009). However, consistent with the European Commission's own research (e.g., European Commission, 2007, 2010), we did not impose any restrictions in terms of turnover or balance sheet total, since these thresholds are primarily applied in relation to state aid and community programs (see also Onkelinx et al., 2012).

For the purpose of this study, we selected only those SMEs that started exporting between 1998 and 2005 and followed a strategy of accelerated internationalization, i.e., exported to at least five countries, including one outside the EU, within 5 years of their first export activity (Sleuwaegen & Onkelinx, 2014), to a final usable sample of 2192 SMEs. For firms importing or exporting outside the EU (Extrastat), customs data capture all transactions whose value is higher than 1000 euro or whose weight is bigger than 1000 Kg. For intra-EU trade, firms had to participate in the Intrastat inquiry if their import or export exceeded 250,000 euro per year. Overall, the trade data in our dataset cover 1279 products and 249 countries. Annual accounts data comprise all items from the balance sheets, the income statements, and the social balance sheets. Examples of data from these different sources are fixed assets, sales, and wages.

### 3.3 Measures

**Dependent Variable** To measure scope of internationalization, we used the number of countries to which a firm exports. As we discussed earlier, we chose this measure of accelerated internationalization over the more commonly used measure of export intensity (foreign sales/total sales), as some SMEs may export a large share of their total sales to a single buyer in a single country, often in another EU country.

**Independent Variables** We used data from the social balance sheet to measure employee *education*. We calculated the weighted average education level of people hired (per FTE employee) by assigning a weight of 1 to primary education, 2 to secondary, 3 to tertiary nonuniversity, and 4 to university education. To measure the aggregate specific human capital, we calculated *training cost per employee* as the total spending on training divided by the number of FTE employees. We also included the squared term of the education and training variables in the model.

**Moderating Variables** To test for the contingent effect of knowledge intensity, we followed the OECD (2003) methodology and classified industries into four categories: *high technology*, *medium-high technology*, *medium-low technology*, and *low technology*. We thus split the sample into four groups, based on three-digit industry codes. The list of industries included in the respective technology sectors is provided in the Appendix.



**Table 1** Descriptive statistics

	# obs	Mean	St. dev	Min	Max
Number of export countries	11,348	22.54	22.84	1	160
Education-level newly hired employees	8341	2.22	0.93	1	4
Training cost per employee	8423	552	752	0.58	14,975
Value added per employee	11,977	70,414	31,123	-76,815	166,310
Number of employees	11,978	26.47	32.96	1.3	284.54
Export relative to industry mean	11,348	1.58	3.99	5.12	91.85
Import relative to industry mean	11,458	1.49	4.07	0	83.21
Number of export products	11,348	13.81	17.18	1	272
Firm age	11,952	29.38	19.28	0	142

**Table 2** Correlations

		1	2	3	4	5	6	7	8	9
1	Number of export countries	1								
2	Education-level newly hired employees	.16*	1							
3	Training cost per employee	.04*	.12*	1						
4	Value added per employee	.06*	.13*	.11*	1					
5	Number of employees	.42*	.09*	.12*	.03*	1				
6	Export relative to industry mean	.51*	.08*	.04*	.05*	.56*	1			
7	Import relative to industry mean	.38*	.09*	.05*	.04*	.52*	.83*	1		
8	Number of export products	.55*	.15*	.05*	.04*	.48*	.40*	.40*	1	
9	Firm age	.17*	.06*	.03*	.00	.19*	.10*	.10*	.18*	1

\*p < .05

**Control Variables** Firm-level controls include *size* (number of FTE employees), *age*, *number of export products*, *value of export relative to the industry mean*, *value of import relative to the industry mean*, and *labor productivity* (value added per employee).

The descriptive statistics and correlations for the whole sample are reported in Tables 1 and 2, whereas the descriptive statistics by industrial sector are provided in Table 3.

**Table 3** Descriptive statistics by industry

	# obs	Mean	St. dev	Min	Max
<i>High tech</i>					
Number of export countries	607	31.23	27.77	3	160
Education level	717	2.99	1.08	1	4
Training cost per employee	717	381	624	0	10,272
Value added per employee	717	103,509	34,858	-70,670	127,060
Number of employees	717	23.19	53.23	2.1	263.1
Export relative to industry mean	717	2.34	4.82	0	34
Import relative to industry mean	717	2.37	5.21	0	62.98
Number of export products	717	25.01	23.85	1	142
Firm age	717	28.9	22.45	0	87
<i>Medium-high tech</i>					
Number of export countries	2272	33.73	25.42	1	150
Education level	2633	2.64	1.23	1	4
Training cost per employee	2633	231.84	383.52	0	14,975
Value added per employee	2633	101,396	46,996	-76,046	166,310
Number of employees	2633	35.88	77.59	1.3	273.2
Export relative to industry mean	2633	2.23	6.2	0	69.23
Import relative to industry mean	2633	2.15	5.83	0	74.86
Number of export products	2633	24.03	26.56	1	231
Firm age	2633	30.53	21.08	0	142
<i>Medium-low tech</i>					
Number of export countries	1985	24.97	20.86	1	138
Education level	2283	2.41	1.22	1	3.83
Training cost per employee	2283	154.56	285.76	0	8636
Value added per employee	2283	75,343	36,725	-76,815	136,374
Number of employees	2283	28.29	70.76	5.1	281.1
Export relative to industry mean	2283	2.64	4.52	0	46.98
Import relative to industry mean	2283	2.37	4.48	0	42.09
Number of export products	2283	16.82	18.26	1	129
Firm age	2283	28.72	19.57	1	116
<i>Low tech</i>					
Number of export countries	3955	24.57	18.85	1	113
Education level	4516	2.38	1.08	1	3.86
Training cost per employee	4516	149.04	270.72	0	5001
Value added per employee	4516	63,935	21,786	-69,831	118,664
Number of employees	4516	17.87	26.52	2.1	284.54
Export relative to industry mean	4516	2.58	4.8	0	91.85
Import relative to industry mean	4516	2.31	5.15	0	83.21
Number of export products	4516	14.53	15.31	1	272
Firm age	4516	30.2	18.74	1	104

### 3.4 Statistical Procedure

We performed a fixed effects panel data regression analysis in order to evaluate the relationship between aggregate employee human capital and scope of internationalization. The nature of the dependent variable (a count variable) and the lack of overdispersion (in that the mean of the dependent variable was approximately equal to the standard deviation) called for a Poisson panel data regression (Cameron & Trivedi, 1999). Thus, we used the *xtpois*<sup>1</sup> procedure in STATA 11.0, lagging the dependent variable by a year. In the first model, all firms were included in the analysis. Next, we ran the full model for the four different industry groups. Results are presented in Table 4.

## 4 Results

Hypotheses 1a and 1b predicted a linear relationship between employees' general human capital (education) and between employees' specific human capital (training) and the scope of internationalization. As the results for the full sample (Table 4, first column) show, the linear term of education is positive and significant, whereas the linear term for training is not significant. Thus, Hypothesis 1a is fully supported, but Hypothesis 1b is not supported.

Hypotheses 2a and 2b stated a curvilinear (inverted U) relationship between employees' general human capital (education) and between employees' specific human capital (training) and the scope of internationalization. For the full sample (Table 4, first column), the curvilinear relationship for education is significant; however, the squared term for training is not significant. Thus, Hypotheses 2a is supported but Hypothesis 2b is not supported.

Among the control variables, both firm age and firm size are positive and significant. The number of export products, and the export relative to the industry mean are also significantly and positively associated with the degree of internationalization. Somewhat surprisingly, labor productivity shows a negative association with the scope of internationalization. One can attribute this effect to the need for product customization for each foreign market, which diminishes the ability to generate economies of scale and hence to increase the value added per employee.

Turning to the results for the different industry groups, the results for high-tech (Table 4, second column) and medium-high tech (third column) industries are in line with the results for the full sample, with a curvilinear relationship between education level and scope of internationalization and no significant relationship for training. Further, in line with our predictions, the threshold effects differ. More specifically,

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<sup>1</sup>We also ran a negative binomial panel data regression (*xtnegbin* in Stata), yielding results consistent in sign and significance level. The results (not shown here because of space constraints) are available from the authors upon request.

**Table 4** Regression estimates on the effect of education and training on the degree of internationalization

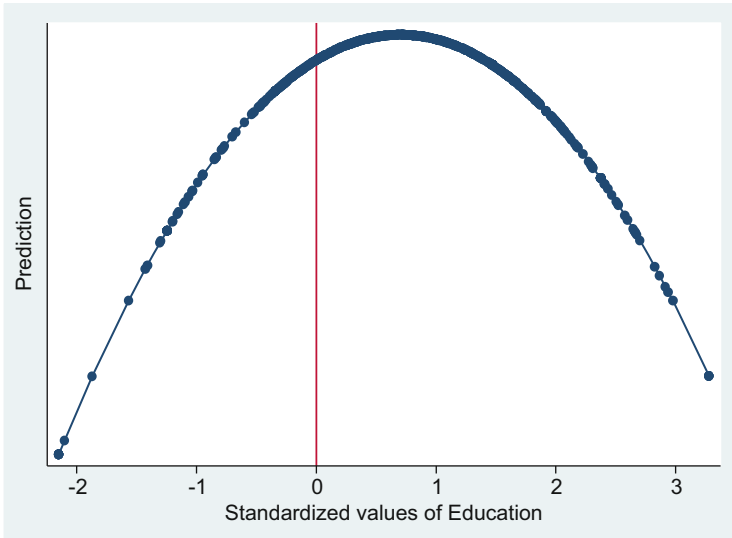
	Full sample	High tech	Medium-high tech	Medium-low tech	Low tech
	b/se	b/se	b/se	b/se	b/se
Education	.013** (.005)	.040* (.018)	.015** (.007)	.019* (.011)	.006 (.007)
Education <sup>2</sup>	-.011*** (.003)	-.028*** (.008)	-.013*** (.004)	-.015** (.007)	-.003 (.004)
Training	-.007 (.006)	.034 (.027)	-.015 (.010)	.073** (.028)	.016 (.015)
Training <sup>2</sup>	-.000 (.000)	-.005* (.002)	.000 (.000)	-.010*** (.003)	-.001 (.001)
Labor productivity	-.078* (.044)	-.048 (.057)	.029 (.079)	-.405*** (.129)	-.063 (.079)
Number of employees (FTE)	0.001*** (.000)	.000*** (.000)	.000*** (.000)	.000*** (.000)	.000 (.000)
Export relative to industry mean	.012*** (.002)	.002 (.004)	.008** (.003)	.013*** (.004)	.015*** (.004)
Import relative to industry mean	-.001 (.002)	-.001 (.003)	.003 (.003)	-.000 (.004)	-.003 (.003)
# export products	.004*** (.000)	.004*** (.001)	.003*** (.000)	.003*** (.001)	.004*** (.001)
Age	.002*** (.001)	.017*** (.004)	.002 (.002)	.003** (.001)	.006*** (.002)
Number of obs	10641	591	2211	1334	3862
Number of groups	2192	114	451	353	732
Wald chi <sup>2</sup>	790	99	199	201	190
Prob > chi <sup>2</sup>	0.0000	0.0000	0.0000	0.0000	0.0000

\*p < 0.1, \*\*p < 0.05, \*\*\*p < 0.01

education peaks at 3 (tertiary nonuniversity) for the high-technology sector and at 2.7 for the medium-high technology sector.<sup>2</sup>

For medium-low technology firms (Table 4, fourth column), we not only find a curvilinear relationship between education and scope of internationalization, but also between training and scope of internationalization. More specifically, education peaks at 2.39 (a little higher than secondary education), and training costs per employee peak at 3730 (euro/employee). Further, the controls for size (number of employees) and age are also positive and significant, whereas labor productivity is negatively associated with the scope of internationalization.

<sup>2</sup>Complete results with predicted values not included here because of space constraints and available from the authors upon request.



**Fig. 1** Effect of education on the scope of internationalization: high-technology sector

Finally, for low-tech firms, (Table 4, fifth column), education and training are not significantly associated with the scope of internationalization. Firm age and the number of export products are positively and significantly associated with the scope of internationalization.

These results offer support for our Hypothesis 3, in that the effects of employee education and training on SME's scope of internationalization differ across industry sectors. Moreover, among the significant relationships, the threshold for the positive effect of education is indeed highest in the high-technology sector. Figures 1, 2, 3, and 4 graph the significant relationships.

## 5 Discussion

We started our exploration of the link between general and specific employee human capital and scope of internationalization on the premise that employee human capital is a strategic resource underlying international expansion, but there are limits to its productive deployment. By examining the human capital of the employees, we shift our perspective away from the manager and to those individuals who, in the context of the SME, are integral to the operations of the organization and hence directly involved in strategy implementation. In doing so, we add to the conversation around the importance of the firm's resource base in supporting SME internationalization. The main findings, within the boundaries and limitations of our study, are discussed below.

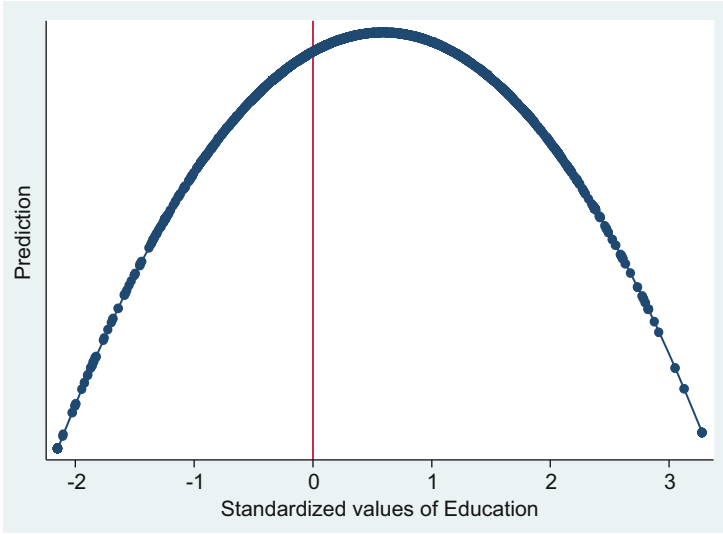


Fig. 2 Effect of education on the scope of internationalization: medium-high technology sector

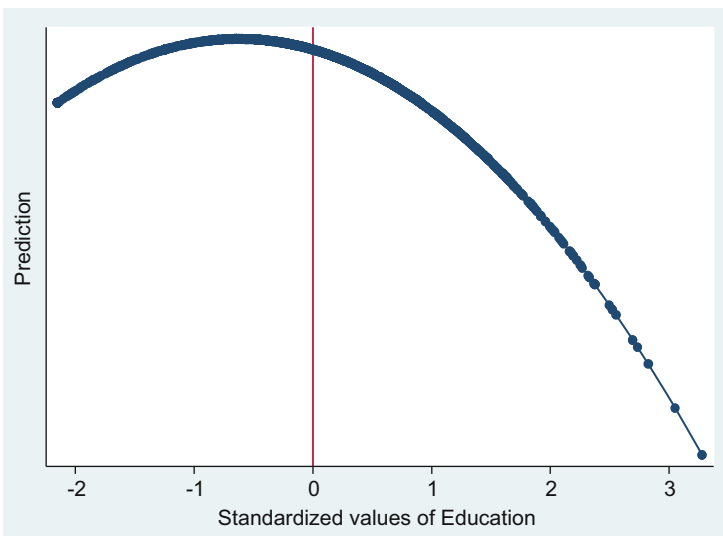
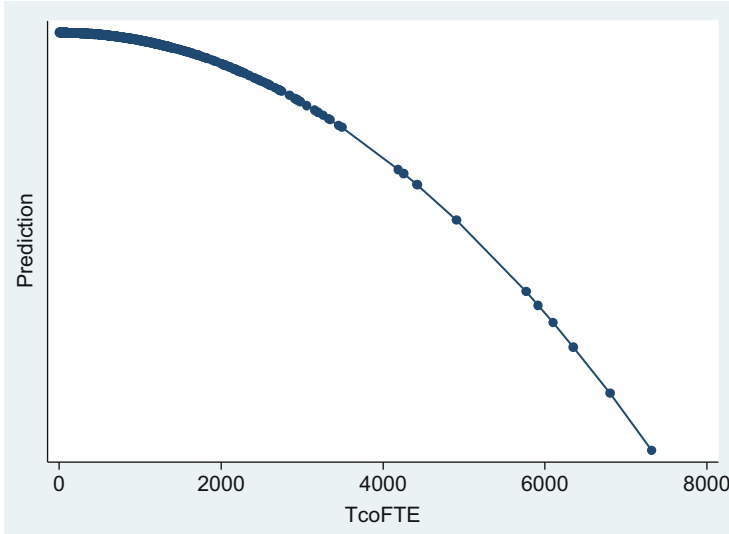


Fig. 3 Effect of education on the scope of internationalization: medium-low technology sector

### 5.1 Main Findings

*Employee general human capital enables accelerated internationalization* Consistent with prior work on the role of human capital, our findings indicate that SMEs benefit from the higher aggregate general human capital



**Fig. 4** Effect of training on the scope of internationalization: medium-low technology sector

of their employees. Better educated employees have higher knowledge levels (Hitt, Bierman, et al., 2006), cognitive abilities (Hatch & Dyer, 2004; Wright et al., 1994), achievement motivations (Hatch & Dyer, 2004), and job performance (Crocker & Eckardt, 2014). These human capital attributes underlie the development of the SME’s technological, marketing, or networking capabilities (Weerawardena et al., 2007), facilitate the productive deployment of these capabilities in multiple foreign markets simultaneously, and enable SMEs to learn from their international experience (Autio et al., 2000). Thus, higher levels of employee education translate into higher scope of internationalization (up to a point, as will be discussed below). This finding supports prior work by Rodríguez (2006), who, in his study of the effects of employee human capital on the internationalization of Spanish manufacturing firms, found that general employee human capital had a positive and significant effect on both the decision to enter international markets and the intensity of sales made in these markets. Our study further establishes that employee general human capital is positively associated not only with export intensity, but also with the scope of SME internationalization, or number of foreign markets the SME does business in.

Our finding brings into focus the importance of the aggregate human capital of the entire organization for the accelerated internationalization of SMEs. Knight and Kim (2009, p. 257) emphasized that the resources and capabilities underlying the international expansion of contemporary SMEs “consist largely of the know-how, skills, and overall business competences that reside in the managers who work at these firms.” Indeed, as we pointed out earlier, the bulk of work in international entrepreneurship and SME internationalization has explored different aspects of the knowledge, education, skills, abilities, or other characteristics of the entrepreneur or entrepreneurial top management team in issues related to internationalization. Not

surprisingly, in their review of empirical work in international entrepreneurship (which predominantly utilizes samples of SMEs), Keupp and Gassmann (2009) reported that the impact of sociocognitive or demographic properties of managers or owners on the propensity to internationalize was studied in 46 of the 179 articles included in the review, the most heavily researched category. Our study suggests that, in addition to managerial human capital, the general employee human capital is also instrumental in SME internationalization. We call for future research to explore the dynamic interactions between managerial and employee competencies in SME internationalization.

***There is a limit to the benefit from employee general human capital*** We found that in rapidly internationalizing SMEs, education is initially positively associated with the scope of internationalization, but the positive effect reaches a threshold above which additional increases do not enhance internationalization. In fact, after an optimum level of general human capital accumulation, further investments in higher levels of employee education become counterproductive, as they are negatively associated with the scope of internationalization. While we did hypothesize a threshold effect, we did not quite expect that beyond the threshold the negative relationship between employee education levels and scope of internationalization would be quite so pronounced (see Figs. 1, 2, and 3). This unexpected finding merits deeper exploration.

To start with, we attribute the complex relationship between average employee education level and scope of internationalization to the challenges SMEs face in developing the managerial tools and administrative systems to manage high levels of employee talent. The literature on “star” employees has suggested that the short- and long-term value of their human capital is highly contingent on the social mechanisms surrounding its utilization (Tzabbar & Kehoe, 2014). The development of a sophisticated human resource management system to properly monitor, assess, and incentivize highly qualified employees may be beyond the administrative capabilities of resource-constrained small players, as many researchers in SME human resource management have noted (Cardon & Stevens, 2004; Hornsby & Kuratko, 2003; Kotey & Slade, 2005).

We further surmise that the counterproductive effect of excessive human capital accumulation may be particularly strong in Belgium, because of the institutional arrangements and inflexibilities of the country’s labor market. According to the 2013 Global Competitiveness Report (Schwab, 2013), Belgium ranks 134th in the flexibility of wage determination, 139th in its hiring and firing practices, and 142nd in the effect of taxation on incentives to work (out of the 148 economies included in the report). Worker termination, in particular, is a lengthy and expensive process. Depending on the reason for dismissal and the length of the overall service, employers must provide between 1 month and several years’ notice before termination, as well as pay a lengthy severance (The World Bank, 2013). This suggests that the decision to add human capital is not only expensive, but can also have lasting consequences in that a pool of highly educated employees may stick with the SME even if it is becoming nonproductive, or even counterproductive. We expect this



dynamic to be in place in other advanced European countries with similar institutional arrangements, such as France, Italy, or the Netherlands, and call for future empirical research to provide further evidence on the shape and context-specific threshold effects in the relationship between general human capital accumulation and scope of SME internationalization.

***The tenuous link between firm-specific human capital and scope of internationalization*** While we found interesting threshold effects when looking at the effects of general human capital, or average level of employee education, our hypotheses were not supported when we examined the specific human capital, or levels of training, of these same employees. This was another surprising finding. Many human capital theorists have suggested that firm-specific human capital is a strong source of competitive advantage (Campbell et al., 2012; Hatch & Dyer, 2004; Wang et al., 2009). By extension, we expected that investments in firm-specific human capital, in the form of employee training, will be more closely associated with the scope of SME internationalization as an indicator of SME international performance.

The insignificant effect of worker training on the scope of SME internationalization may be explained by the difficulties that small firms have in formally training their employees. In rapidly internationalizing firms, training is expensive and requires a monetary commitment that cash strapped smaller firms may not be able to afford. In addition, training may take valuable time away from employees who, in rapidly internationalizing firms, are already busy in managing important day to day activities. Finally, while our measure of training is robust, it is an aggregate measure in that we know the levels of overall training, but not the specifics of the type of training that employees underwent (Onkelinx et al., 2012). A finer level of detail concerning training may help to explain why our results were not significant.

Still, in our finer-grained analysis by industrial sector, we found a significant complex (curvilinear) relationship between employee training and scope of internationalization in one of the four industrial sectors, medium-low technology. This suggests that the relationship between employee human capital and scope of internationalization is indeed contingent on industry sector, as we will discuss next.

***The employee human capital effect on scope of internationalization is contingent on industry sector*** As expected, we found that the effect of employee general and specific human capital on the scope of internationalization varies significantly across industrial sectors. More specifically, we found that in the high technology and medium-high technology sectors the employees' average education levels enhance the SME's scope of internationalization up to a point, after which additional increases in education levels become counterproductive (Figs. 1 and 2). This finding supports labor economics' classic argument that the higher the level of new technology in an industry, the more firms benefit from the education level of their employees (Bartel & Lichtenberg, 1987; Boothby, Dufour, & Tang, 2010). SMEs in the high- and medium-technology sectors of the economy, such as space and aircraft, pharmaceuticals, or chemicals, place high requirements to their employees' knowledge and skills. Employees in these sectors are expected to engage in complex

and nonroutine tasks and perform them efficiently while conforming to high-quality standards, thus providing the SME with a source of competitive advantage which can be exploited globally.

Interestingly, we found that employee training had no significant effect on the scope of internationalization in these two sectors. One possible explanation may be that accelerated internationalizers in the high- and medium-technology sectors do not have the time to organically develop organizational capabilities through training, and rely instead on the individual expertise, knowledge, and skills embodied in the general human capital of their employees. Still, it is worth noting that the training costs per employee in our sample reached as high as 10,000 euro per employee in the high-tech sector and 15,000 euro per employee in the medium-high technology sector (Table 3). Despite the intensity of training, apparently it was focused on areas other than internationalization.

The medium-low technology sector, populated by SMEs in shipbuilding, rubber and plastics, or basic metal fabrication, presents an interesting case, in which both education and training were significantly associated with accelerated internationalization. However, the threshold effect for both types of employee human capital was reached fast, and afterwards the relationship between additional accumulation of human capital and scope of internationalization became negative (Figs. 3 and 4). This suggests that in sectors which combine the need for some knowledge intensity with the need for efficiency in operations, SMEs need to be particularly careful as they calibrate their investments in employees' education and training.

We found no significant effect of employee general or specific human capital on SME's scope of internationalization in the low technology sector. Considering that the low technology sector is populated by traditional manufacturers in the wood, food, or textile industries, where employees are expected to engage in routine tasks, the nonsignificant effect of the average level of employee education on the scope of SME internationalization is actually not that surprising. Somewhat more surprising is the nonsignificant effect of training. Because training improves worker efficiency, particularly when skill requirements are firm specific (Boothby et al., 2010), which in turn results in cost benefits for the SME, our intuition was that training will benefit internationalization initiatives. One reason for the nonsignificant effect may be the low scale of investment in employee training in this sector. Indeed, the average training cost in the low-technology firms in our sample stood at 149 euro/employee (Table 4). This amount of investment in employee training may simply be insufficient to make a difference for the scope of SME internationalization.

Overall, our findings strongly suggest that the knowledge intensity of the technological sector moderates the effect of the aggregate employee human capital on the scope of SME internationalization.

## ***5.2 Boundaries, Limitations, and Directions for Future Research***

Our study is not without limitations, which need to be borne in mind when assessing its implications. While using a large longitudinal dataset provides us with the opportunity to study SME internationalization over time, as with all secondary datasets, we were faced with the trade-offs between reliability and validity. In other words, our data are representative, but construct operationalizations are not as fine-grained as we would have liked them to be. In particular, we were hampered in our operationalization of human capital. Additional information about type of education, type of on-the-job training, the specific international experience, or internationalization-related skills of the SME employees would have made the conclusions of our study more robust.

Further, the data, while extensive, are restricted to SMEs in Belgium, thus limiting our ability to generalize to other contexts. While we are confident that within the European Union there are a number of institutional contexts which face similar constraints to those found in Belgium, we do not have the data to make a comparison. Future researchers could expand this study to other institutional contexts, thus extending our knowledge of the impact of human capital in SME internationalization.

## **6 Implications and Conclusions**

In addition to enhancing our theoretical understanding of SME internationalization, our findings have important practical and public policy implications. SMEs often undertake accelerated internationalization in order to survive, especially in high-technology environments, characterized by high research and development costs combined with short product life cycles. Such small firms are well advised to carefully consider their hiring practices. As the findings from our study suggest, the quality of the SME's human resources significantly affects the internationalization trajectory of the firm. Managers, therefore, need to carefully calibrate the education and training levels of their employees, depending on the level of knowledge intensity of the technology sector they operate in. For public policy makers, if countries are interested in increasing their exports by pursuing a dominant position in knowledge-intensive industries, then resources should be directed toward enhancing worker education as this is the road which leads to accelerated internationalization.

We started this exploration asking if there was an optimal level of employee human capital to support a strategy of accelerated internationalization. We theorized and found that the aggregate employee human capital is an important firm-level resource underlying accelerated internationalization. However, we also found that the relationship between human capital accumulation and accelerated

internationalization is complex and curvilinear, so that after an initial boost in the scope of internationalization, employee human capital reaches a threshold effect (contingent on industry context), after which it becomes less productive. Our findings open a new and interesting discussion around the optimal level of firm-level resource endowments for the accelerated internationalization of small- and medium-sized enterprises. We hope our study will encourage other scholars to participate in this conversation.

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## Appendix

### *OECD Technology Sector Classification*

	ISIC Rev. 3 <sup>a</sup>
<i>High-technology industries</i>	
Aircraft and spacecraft	353
Pharmaceuticals	2423
Office, accounting, and computing machinery	30
Radio, TV, and communications equipment	32
Medical, precision, and optical instruments	33
<i>Medium-high technology industries</i>	
Electrical machinery and apparatus, n.e.c.	31
Motor vehicles, trailers, and semi-trailers	34
Chemicals excluding pharmaceuticals	24 excl. 2423
Railroad equipment and transport equipment, n.e.c.	352 + 359
Machinery and equipment, n.e.c.	29
<i>Medium-low technology industries</i>	
Building and repairing of ships and boats	351
Rubber and plastics products	25
Coke, refined petroleum products, and nuclear fuel	23
Other nonmetallic mineral products	26
Basic metals and fabricated metal products	27–28
<i>Low-technology industries</i>	
Manufacturing, n.e.c.; Recycling	36–37
Wood, pulp, paper, paper products, printing, and publishing	20–22
Food products, beverages, and tobacco	15–16
Textiles, textile products, leather, and footwear	17–19

Source: Based on OECD (2003)

<sup>a</sup>ISIC Rev. 3 (1989)

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# Entrepreneurial Mindset and SMEs' Sustainability



Ramo Palalić, Azra Branković, and Azra Bičo

**Abstract** The chapter aims to describe an entrepreneurial climate in small and medium enterprises (SMEs) in Bosnia and Herzegovina. The study is based on a qualitative approach, using interviews for data collection. It portrays the path way how the *entrepreneurial mindset* is created in SMEs. Each part of the path is elaborated in the way how this mindset is understood, established, and maintained throughout the entrepreneurial cycle. Interviewees are business owners or CEOs of SMEs who are competent to elaborate answers for asked questions. Results show that entrepreneurial mindset and spirit are created out of entrepreneurial orientation (EO) dimensions along with the internal marketing and networking. Contribution and other implications are further discussed.

**Keywords** Entrepreneurial mindset · Sustainability · Entrepreneurial orientation · Internal marketing · Networking · Bosnia and Herzegovina

## 1 Introduction

Entrepreneurship is in focus for decades. It is a phenomenon that creates values to the socioeconomic development of a country by satisfying customers' needs and wants, offers solution for problems in the society, creates new jobs, and boosts the economy's GDP. Simply, it is an "engine" (Fayolle, 2007) that nurtures the "creative destruction" (Schumpeter, 1934) in society. How much positive destructions can entrepreneurship do depends at what level of social development one country is. Western Balkans or former Yugoslavian region is a very specific and complex region due to different contextual factors as discussed earlier by many authors from this region (Dana & Ramadani, 2015; Palalić, 2017; Palalić & Bičo, 2018; Palalić,

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Dana, & Ramadani, 2018; Ramadani, Gërguri, & Fayolle, 2015). These surrounding factors are more or less the same in those countries, but at the same time very unique and specific for each country. As different cultural and religious identities, this region lack of mutual understanding, which sometimes creates barriers to move on, toward prosperous economic development.

For instance, entrepreneurship in Bosnia and Herzegovina (B&H) has many opportunities, but also barriers to create a new venture (Rialti, Pellegrini, Caputo, & Dabic, 2017). In the early stage of the inception of modern Bosnia, the sole entrepreneurs started to rebuild the country's infrastructure (Dana, 1999). In this hard time, they were the first who moved forward the entrepreneurship development in B&H. Despite the fact of very rigid rules while opening a new business, entrepreneurs in these countries are real heroes whose voice is still not well heard by the Government, the one who can make more favorable business environment. With such hard legal barriers, it is difficult to sustain a business in this country, unless the business is working on developing the entrepreneurial mindset that can be the key driver toward the long-term success of SMEs. This perspective is not enough to be sustainable, but we believe that is one of main pedestals in SMEs' growth and development.

For this study, our conviction is that the entrepreneurial mindset made at the first place of EO dimensions: innovativeness, proactiveness, and risk-taking; (Covin & Slevin, 1988, 1989; Miller, 1983). The entrepreneurial mindset is "thinking" and "doing" (Scarborough & Cornwall, 2016, p. 97) *entrepreneurial*. This thought is impossible without the three EO dimensions that leverage the creative thinking, applying new things proactively, observing an uncertain risk in the market.

EO dimensions were examined in many SMEs regarding business performance. With the different sample sizes of SMEs, many of them found that EO has a great positive influence on business performance (Covin & Slevin, 1988/1989; Kraus, 2013; Lee et al., 2001; Miller, 1983; Palalić & Busatlic, 2015; Wiklund & Shepherd, 2005). Similarly, in family firms, the EO is playing one of the crucial roles in long-term sustainability (Mullens, 2018) of its business. Additionally, if family business activity is at the international level, the EO has its contribution to its business performance (Hernandez-Perlines, 2018). If EO is higher, the higher is business performance (Abebe, 2014). Likewise, this study is based and built on the theory discussed in the next section of this chapter.

Our study contributes to the theory above in the sense of bringing new insights from the field, from the region with the specific factors in which EO dimensions, along with networking and internal marketing, create the key survival in the long term of SMEs.

## 1.1 Study Objective

The study aims to investigate factors that create and sustain the entrepreneurial mindset or spirit in small and medium enterprises in Bosnia. Taking into consideration that Bosnia is in a big need of entrepreneurial activities, it is necessary to

analyze successful SMEs to show what factors can bring the prosperity to firms, and further development of the region and the country. Beside the key factors of the SMEs' long-term success, the study emphasizes the importance of entrepreneurial mindset and spirit to get along the challenges and being successful.

## 1.2 *Scope of Study*

Researchers examined eight SMEs that have a successful business history. The SMEs classification is done according to European (EU) Commission (2013) where the least number of employees is 10 and maximum 249. The study has focused on a region in Bosnia, which is known for entrepreneurial activities and contributes to the whole economy. This region belongs to Tuzla Canton, and the city is "Gradačac."

The chapter proceeds as follows. Following section describes the theory and framework with proposed research questions. Second, research approach is introduced through the methodology used in the study. The third is result and discussion part, proceeded with conclusion section that elaborates the findings with recommendations, future works, and limitations.

### 1.2.1 **Overview of "Gradačac" City**

"Gradačac" is a municipality located in the northeastern part of Bosnia and Herzegovina, in Tuzla Canton, Federation of Bosnia and Herzegovina. It has population of 39,340 inhabitants.<sup>1</sup> More precisely, it is located on the "Gradišnica" river, between mountains of "Majeвица" and "Trebava." Municipality of "Gradačac" occupies the area of 218 km<sup>2</sup>, and it is on the altitude of 129 m that gives this area the convenient factors for development of agriculture, as well as other industries.

When it comes to industry, "Gradačac" is characterized by a highly developed processing industry such as wood industry, metal industry, and food industry. "Gradačac" is the micro environment that reports figures on a continuous growth regarding entrepreneurial activities of both, domestic and foreign investors. There are many reasons why "Gradačac" is a good option to invest in, among which already exist like qualified workforce, entrepreneurial spirit, and entrepreneurial tradition industrial zones, a great geographical location (Exhibit 1).

"Gradačac" was first mentioned in 1302 as "župa,"<sup>2</sup> while as town it was mentioned (also as "Gračac") in 1465. It became part of the Ottoman Empire in 1512.

Historical development of the town is identified with the family of Gradašćević. Among them was Husein-Kapetan Gradašćević, who was known as the "Zmaj od

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<sup>1</sup><http://www.investingradacac.ba>

<sup>2</sup>Župa is the term that means district.



**Exhibit 1** Coat of arms of “Gradačac.” Source: Municipality of “Gradačac” (<http://www.investingradacac.ba>)



**Exhibit 2** “Gradačac” Castle (fortress); Photo © 2018 Azra Bičo

Bosne” (Dragon of Bosnia), as the most known figure during that time. “Husein Kapetan Gradašćević” was a ruling beg, and a leader during the Ottoman times, who led an uprising that raised to arms most of the Bosnian captains in 1831.<sup>3</sup>

Now as the legacy reminding us of the times when he has ruled, the fortress (Exhibit 2) built in 1824 remains as testimony of those times.

During the Bosnian war (1992–1995), “Gradačac” was severely bombed.

The entire economy of the country was severely damaged and collapsed. Yet, regardless of inefficient country’s development and reconstruction politics, this region was characterized by low unemployment, high productivity, and of the best example of a positive practice regarding the entrepreneurial activities.

<sup>3</sup><http://www.bhtourism.ba/eng/gradacac.wbsp>

Municipality of “Gradačac” has recognized its entrepreneurial potentials. Currently, it runs projects that follow the growth trends, propose and implement changes, which will boost the present growth even more, and it will make “Gradačac” more desirable place to invest in. For instance, one of the project’s aims is infrastructural development, that is part of the strategic development plan of the municipality of “Gradačac,”<sup>4</sup> and largely infrastructure was improved by putting industrial zone into the function.

The modern “Gradačac” has four existing Industrial zones: Industrial zone I, Free industrial zone II, Economic zone “Vučkovci,” and Economic zone “Porebrice.”<sup>5</sup> Having established an industrial zone with good infrastructure is an excellent precondition for potential investors who are interested in investing in “Gradačac.”

Evidence on favorable business climate is the figures on export and import. For instance, in the 2017, data on the first 11 months are only available, and import was amounting to 297,843,932 BAM, while export was 330,978,707 BAM.<sup>6</sup> Therefore, it is noticed a positive trade balance or trade surplus in the Municipality of “Gradačac.” It signals to potential investors that “Gradačac” is the right place to invest in. Moreover, these figures give positive hopes for the future development of this small region, and it is blossoming due to an increasing trend of entrepreneurial activities.

## 2 The Theory

SMEs around the globe face the challenging calls for its competitiveness and sustainability in the market. Rapid development of the technology and communications pose even more challenges than they used to be. While adapting to external changes, SMEs need to maintain the entrepreneurial spirit which will be sustainable enough so that it will keep them as competitive as it is necessary. In order to achieve this, there should be EO (Covin & Slevin, 1988/1989; Runyan & Swinney, 2008; Wiklund & Shepherd, 2005), but also organizational or leadership’s willingness to establish such atmosphere. While defining EO as the key firm survival (Covin & Slevin, 1991; Miller, 1983), Miller (1983) argues that innovation should be used proactively as well as risk-taking, which opened door for the further development of the EO. The *EO’s fantastic trio* (innovativeness, proactiveness, and risk-taking) was amended with additional dimensions, like *environmental turbulence*, *entrepreneurial style*, *organization structure*, *mission strategy* (Slater & Narver, 2000), *strategic decision-making*; *participativeness strategy formation mode*; *strategic learning from failure* (Covin, Green, & Slevin, 2006), *autonomy*; *competitor aggressiveness*

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<sup>4</sup>[http://investingradacac.ba/images/pdf/strategija/Izvjestaj\\_izvrsenje\\_2017.pdf](http://investingradacac.ba/images/pdf/strategija/Izvjestaj_izvrsenje_2017.pdf)

<sup>5</sup><http://investingradacac.ba/images/pdf/0302/Brosura%20-%20Pregled%20industrijskih-privrednih%20zona.pdf>

<sup>6</sup>[http://investingradacac.ba/images/pdf/strategija/Izvjestaj\\_izvrsenje\\_2017.pdf](http://investingradacac.ba/images/pdf/strategija/Izvjestaj_izvrsenje_2017.pdf)

(Casillas & Moreno, 2010; Lee & Lim, 2009). Earlier than those, Lumpkin and Dess (1996) argued that “aggressiveness” and “proactiveness” are far different despite all their similarities. Today, the world has changed the paradigm even when market needs are concerned. The market is no longer satisfying needs, but pushing wants to customers. In that sense, the aggressiveness (Casillas & Moreno, 2010; Covin et al., 2006; Lee & Lim, 2009) has the pitch and it helps SMEs to survive in the market.

Lumpkin and Dess (1996) define *innovativeness* as eagerness of an SME to be engaged in new and creative things practically proved, which will have a positive impact on business performance in the future. In other words, investigating new things and implementing them on their own processes needs bravery and belief in what they do. The top management must be willing to pursue novelty things and implement them in their own processes. Similarly, the *proactiveness* is an ability of an SME to conjecture and visualize how the market or external environment can be changed (Covin & Slevin, 1989), and foreseeing possible problems that could be turned into business opportunities (Lumpkin & Dess, 1996). Such anticipations are reflected in being the first mover in the market. Well, the first mover brings a dose of risk, whose exact amount cannot be predicted. How much of such risk will be taken depends on a manager’s attitude toward the risk per se (Venkatraman, 1989). In this context, the EO dimensions play the vital role in SMEs’ success (Brettel & Rottenberger, 2013) explaining their entrepreneurial behavior at firm and individual level (Krueger & Sussan, 2017). Such importance of EO as a positive impact on firms’ business performance confirmed previous research (Covin & Slevin, 1988/1989; Kraus, 2013; Lee et al., 2001; Miller, 1983; Palalić & Busatlic, 2015; Rauch, Wiklund, Lumpkin, & Frese, 2009; Wiklund, 1999; Wiklund & Shepherd, 2005; Zahra & Covin, 1995; Zahra, Hayton, & Salvato, 2004).

*The entrepreneurial mindset* has been discussed recently by Krueger and Sussan (2017). They associate mindset with strategic thinking, which is, in fact, entrepreneurial thinking. A parallel exists between the entrepreneurial mindset and entrepreneurial behavior, which have built the basis for the EO. This brief discussion goes along the line of Slevin and Terjesen (2011) who argue that entrepreneurial behavior is anticipated by EO dimensions (Covin & Slevin, 1991; Lumpkin & Dess, 1996). So, having in mind of these arguments (Krueger & Sussan, 2017; Slevin & Terjesen, 2011), entrepreneurial mindset can be defined as *a state of mind (of entrepreneurial leaders: CEOs, business owners, executive directors) that envisions and anticipates future (innovative but risky) opportunities in the market, which brings down its contour to all employees in an organization, and creating a positive attitude and thoughts regarding the firm’s image, internally and externally*. Of course, the entrepreneurial mindset is subject to other views and perspectives. However, such definition is free from dark sides of this phenomenon that can lead to viral and compulsive narcissism (Kets de Vries, 1989; Krueger & Sussan, 2017).

In creating an entrepreneurial mindset and entrepreneurial spirit, a firm additionally needs to have a good networking base. This cannot be neglected because, in its cooperation and collaboration, the firm gains a lot. Firm’s suppliers and clients are a good base for the firm to survive and even to compete in the market. If the firm establishes good cooperation with these two entities, it brings its perspective in the

future. Such synergy has been discussed by Dana, Etemad, and Wright (2000), Dana (2001) and Etemad, Wright, and Dana (2001), emphasizing on “symbiotic life” among the firm and other partners and clients. Additionally, Aldrich and Zimmer (1986) stressed the importance of social networks on the implementing entrepreneurial spirit in SMEs. Along the same line, Ramadani et al. (2015), Rialti, Pellegrini, Caputo, and Dabic (2017) emphasize that even personal network is very important, which could be interpreted a good tool in creating a firm’s external status. Moreover, since this region of former Yugoslavia is, from one side, culturally and ethnically similar (Ramadani, 2013; Ramadani & Dana, 2013), there is an opportunity to establish such business networks (Aldrich, Jones, & McEvoy, 1984; Aldrich & Zimmer, 1986). Simply, it is necessary to keep them as partners, and in regard to large firms, SMEs can serve as “suppliers,” “assemblers,” “distributors,” and “service providers” (Etemad et al. 2001, p. 483) as much as needed to be competitive and survive in the market.

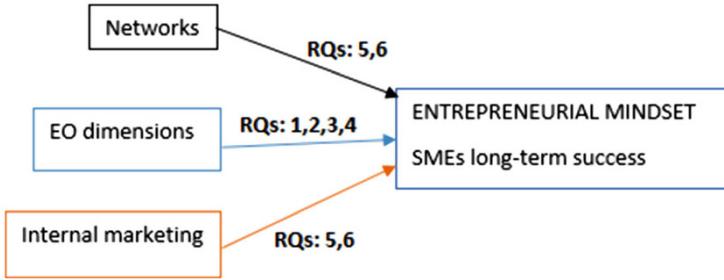
Internal marketing (Bansala, Mendelson, & Sharma, 2001; Kim, Song, & Lee, 2016; To, Martin Jr., & Yu, 2014) is also a very critical aspect of creating an entrepreneurial atmosphere in an organization. It helps and keeps a positive attitude of employees toward the overall picture of the organization. Sharing important information related to the firms’ future perspective eagers employees to be committed and to participate in bringing new solutions. This makes them more critical and creative at the same time, which might result in proposing new things for the company. A positive attitude among employees and managers brings them to the mutual goals, to be competitive and successful, individually, and as the collective.

Besides the operational factors, like the EO, networking and internal marketing, in creating the entrepreneurial mindset, it is important to note that this country, in this region, has rigid Legal procedures and policies regarding entrepreneurship development. For a long time it is present and discussed by many authors on this topic (Bičo & Bajram, 2012; Dana & Dana, 2003; Dana & Ramadani, 2015; Džafić, Zahirović, Okičić, & Kožarić, 2011; Palalić, 2017; Palalić & Durakovic, 2018; Palalić et al. 2018; Palalić, Ramadani, & Dana, 2017). Such rules perhaps affect entrepreneurial spirit and motivation in implementing new ideas and businesses.

Based on the above discussion, we propose the following research questions (RQs):

- RQ 1:** Has entrepreneurship, at the State level, been developed enough that can contribute to overall development of entrepreneurship in this country?
- RQ 2:** Do SMEs have advantages if they are considered entrepreneurial over those who are not?
- RQ 3:** How top management implements the entrepreneurial mindset and spirit in their organizations?
- RQ 4:** How to establish entrepreneurial mindset or spirit in SMEs?
- RQ 5:** Do networking and internal marketing contribute to establishing an entrepreneurial mindset and spirit in SMEs?





**Fig. 1** Research framework. Source: Authors' compilation

**RQ 6:** Do networking and internal marketing contribute to long-term maintenance of the established entrepreneurial mindset and spirit in SMEs?

The framework of RQs is depicted in Fig. 1.

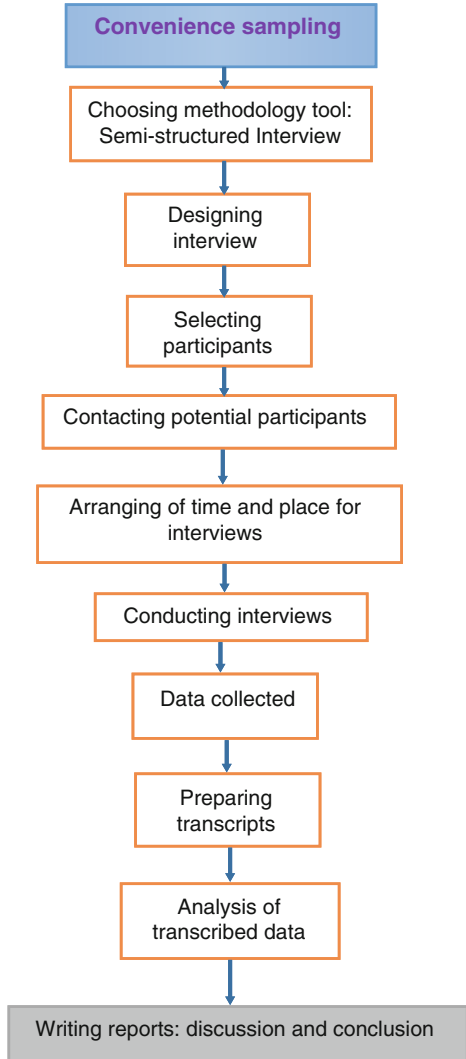
### 3 Methods

This study has implemented qualitative methods relying on convenience sampling method. The choice of this method has prevailed to others due to specific factors in this region (Palalić, 2017), which make difficult when collecting the data even if this is about the qualitative approach. Similarly, the study has been challenged by the sample size, which in this case is kept small (Cooper & Schindler, 2014), but enough to explore and initiate this wink of the entrepreneurship research field. Implementation of this method has concerned the ethical issues relevant to this research case, and we tried to be very clear with the “benefits” of the research, their “rights” and their final “consents” on the whole implementation of interviews (Cooper & Schindler, 2014, p. 28).

Figure 2 portrays the whole method steps the research is performed.

Once the sampling method was chosen, the semi-structured interview, along with open-end questions, was used. With the design of interviews, the next step was selection of the most appropriate participants. After the participants are picked, they have been contacted and asked for their appropriate date and time. This has been done through existing network of the researchers. Then, the time and place were arranged in which the interviews were intended to be performed. After that, the collected interviews were prepared as transcripts, which have been analyzed and prepared for the report, discussion, and conclusion.

**Fig. 2** Methodology framework. Source: Authors' compilation



### 3.1 Questionnaire Design

To design questions which will represent or be the milestone for the entrepreneurial spirit and mindset in organizations, we have chosen the EO developed by Miller (1983), Covin and Slevin (1988/1989). A firm is considered as entrepreneurial if it has been exposed by the organizational culture in a way that promotes proactivity, innovation, and risk-taking (Barringer & Ireland, 2010). In this case, the questionnaire was designed in the way that it treats the three main questions of entrepreneurial spirit in their respective firms. The following questions are constructed:

**(I) Understanding the phenomenon “entrepreneurial”. What is it?**

- (a) How would you define entrepreneurship?
- (b) How do you see this phenomenon in BiH?
- (c) Is your organization entrepreneurial?
  - (i) If yes, how it works?
  - (ii) If no, why is not?
- (d) What are the benefits and advantages of being an entrepreneurial organization?
- (e) Do you support innovative changes in your organization, and how do you that?

**(II) A pathway to success. How to establish?**

- (a) How do you establish your organization as entrepreneurial?
- (b) Is it because you are innovative, proactive, and risk taker, along with your employees?
- (c) Who should sacrifice more, CEO or employees to achieve entrepreneurial atmosphere in your organization?
- (d) Does networking help your organization to be entrepreneurial?
- (e) How do you keep up your vision? Is it necessary to scale up (in terms of new investment) your business?

**(III) Long-term success. How to maintain?**

- (a) What is your main concern for the company?
- (b) Could you, please, tell us top 5–10 things that every organization should do/have/think of/sought to maintain that entrepreneurial mindset?
- (c) Should employees understand/feel/foresee the brand or only Top Management?
- (d) Is internal marketing helpful in creating a good image?
- (e) How do you keep them motivated, creative?
- (f) Do you provide professional development for your employees?

The first set of questions is posed to introduce the topic to participants and get their thoughts on entrepreneurship and the term *entrepreneurial*. Before any response, researchers explained what exactly it is meant by those terms and questions.

The second set of questions is taking participants deeper into the entrepreneurial mindset of their firms. The intention was to make them thoroughly think of their views regarding innovativeness, proactiveness, and risk-taking, as the milestone of entrepreneurial mindset and spirit. Additionally, we introduced “networking” (Dana, 2001; Dana et al., 2000; Etemad et al., 2001) as a very important factor in creating the entrepreneurial environment that will help the firms in establishing and maintaining the entrepreneurial venture in the long term.

The third set is looking forward to answering the maintenance of such entrepreneurial mindset through the *internal marketing* (Bansala et al., 2001; Kim et al., 2016; To et al., 2014).

In each set of questions, there were ancillary questions to open the participants' mind on the topic of an entrepreneurial mindset.

Besides the core questions, the interview contained questions related to firms' general information, which are intended not to be too sensitive for them while revealing them. These are as follow:

1. Company name
2. Industry
3. Type of ownership
4. Year of establishment
5. Number of employees
6. Market orientation
7. Sales in the last 3 years (optional to answer)

### **3.2 Data Collection**

Data collected for this study was performed using the cross-sectional approach. Before implementation of interviews, researchers spent several weeks to arrange time and place that will fit participants. After arranging the time and space, the final data collection was done in 1 month. These arrangements and data collection lasted for two consecutive months.

## **4 Data and Results**

### **4.1 A Brief Profile of SMEs**

1. *Gradex d.o.o. Gradačac is a family business, established in 1991 (before that operating in Germany from 1989 to 1991) with 100 employees. It is a construction company. Market orientation is local and foreign.*
2. *Voće tranzit d.o.o. is a privately owned business (100%) in the sales industry, established in 1989 with 34 employees. The company does sales locally, as well as internationally.*
3. *Balagem d.o.o. is a family business in the construction industry, established 1996 with 150 employees. The company does services locally. The sales in the last 3 years was an increase 4–7%.*

4. *Mlijecna Industrija 99 is a family business, established in 1998 with 94 employees. It is a producer (milk industry). Market orientation is BiH, EU, Serbia, region, Middle East.*
5. *Jordan Castings, d.o.o. is a family business, established in 1999 with 102 employees. It is a manufacturing firm (lighting production). Market orientation is foreign (Germany 100%).*
6. *Ammar, d.o.o. is a family business, established in 1992 with 16 employees. It is a manufacturing firm (metal processing). Market orientation is local (40%), and foreign (60%, Germany).*
7. *Hanibal d.o.o. is a family business, established in 1999. It is a manufacturing firm (furniture design and production), with 51 employees. Market orientation is local (20%) and foreign (80%). It has an increase in sales, in the last 3 years, as of 40%.*
8. *Namjestaj d.o.o. is a privately owned business (96%), established in 1956. It is a manufacturing firm (furniture production and design), with 154 employees. Market orientation is foreign.*

The average of participants' age is 44. Most of them have university degrees. Gender distribution is six males and two females who actively participated in interviews. Their working experience is on the average 19 years.

The following is a discussion of results.

## 5 Discussion of Results

Entrepreneurial orientation is the heart of the entrepreneurial behavior on which the firm's growth is built. This phenomenon was extensively inspected by many authors who brought a clearer perception of relationship between the EO and firms' growth (Brown, Davidsson, & Wiklund, 2001; Casillas & Moreno, 2010; Covin & Slevin, 1991; Lumpkin & Dess, 1996; Stevenson & Jarillo, 1990; Wiklund & Shepherd, 2005). Our study concentrates on the qualitative approach to depict entrepreneurial mindset in SMEs, based on EO, which has a positive effect on performance and growth. Moreover, to support such entrepreneurial mindset, we believe that networking (establishing a network with clients, business partners, distributors, and another kind of cooperation) as argued by Dana et al. (2000), Dana, (2001), Etemad et al. (2001), will nurture entrepreneurial spirit within the company. Similarly, internal marketing (Bansala et al., 2001; Kim et al., 2016; To et al., 2014) can play a motivational role in establishing the entrepreneurial mindset that will turn into a positive effect to business growth of SMEs.

The following results of the study are distributed into three separate studies to answer the research questions and confirm or otherwise, the grounded theory of entrepreneurial behavior, which we named as entrepreneurial mindset or spirit. Each study represents the interview outcome with business owners and CEOs, responsible

for tracing the ideal pathway to success. Some of the questions may not fit the content, and in that case, they will not be included in the discussion.

## 5.1 Study 1: *Understanding the Phenomenon* *“Entrepreneurial.” What Is It?*

Study 1 is an introduction of the discussion on the entrepreneurial mindset in SMEs. We wanted to introduce the audience, the interviewees, with the phenomenon of entrepreneurship and the entrepreneurial spirit by asking questions related to understanding the entrepreneurship from their perspective—how do they see it in Bosnian context, and are their organizations entrepreneurial and how do they implement that.

### **Company 1: “Gradex d.o.o.”**

The owner of Gradex d.o.o., Mr. Šefik Močić, defined entrepreneurship as “a set of all activities organized with the aim to achieve the best possible financial results,” dealing with different processes like “process of production, managing processes of production, managing human resources, managing finance, managing development and projects related to investments. All of them together are practically the synergy that needs to create one positive effect in one organization.”

CEO of Namjestaj d.o.o., Mr. Emir Huskic, defines entrepreneurship as “challenge.” He continues and explained why he sees the entrepreneurship as challenge:

“In these surroundings where we live, it is a challenge. Due to different reasons: *Firstly*, the current situation is an overlap between capitalism and socialism. *Secondly*, entrepreneurship is a challenge that we need to overcome to succeed in the market. In other words, to develop our brands and products for the long-term sustainability. A constant challenge all the time, which has to be overcome to succeed and afloat in the business. A challenge because of a huge deficit of knowledge that modern business requires.” Others see the entrepreneurship as: (1) “Entrepreneurship is a process through which an individual is building him/herself, by trying to make his/her ideas into reality, so that at first he/she achieves his/her goal, and later on the goals of his employees, or even the society’s” (Deputy Director, of Voce Tranzit, d.o.o.). (2) “Entrepreneurship is undertaking the organization and ownership of a business and taking risk in order to get the financial gain” (Muhamed Bilajac, business owner and CEO of Ammar, d.o.o.). (3) “Willingness of a person or a group of people to take a risk for an activity with the expectation of achieving profit” (Mr. Nahid Topalovic, Technical Director of Hanibal, d.o.o.).

In overall, they see entrepreneurship as a process of taking care of all resources to achieve set goals (financial and nonfinancial), which is very similar to definition brought by Hindle (2009/2010), Barringer and Ireland (2010).

How this phenomenon is seen in Bosnia, they say that the main obstacle is the State bureaucracy toward its development (RQ1). When they asked are their companies entrepreneurial, they all agree that their firms are entrepreneurial, because of the way they run the business and the whole atmosphere in them. They all support

innovations and proactivity and give a space for creative thoughts (RQ3), which give them advantages over competitors and competitive advantage for long-term sustainability (RQ2). Basically, they emphasized the three EO dimension's presence in their business confirming our answer for the proposition that EO is crucial in creating the entrepreneurial mindset and spirit in SMEs. That mindset is a predecessor, which will be reflected in the business output altogether (employees and management) they achieve. In other words, this entrepreneurial mindset will positively influence a performance of SMEs in the long term, as argued before by Miller (1983), Covin and Slevin (1988/1989), Lumpkin and Dess (1996), Lee et al. (2001), Wiklund and Shepherd (2005), Runyan and Swinney (2008), Casillas and Moreno (2010), Kraus et al. (2012), Kraus (2013), Palalić and Busatlic (2015). Most of them believe that EO is very important to get a competitive advantage and succeed in the market. This implies that EO is associated with the growth of a company (Brown et al., 2001; Casillas & Moreno, 2010).

Despite the fact that this country has a very specific factors (Palalić, 2017; Palalić & Bičo, 2018), and deviation exists from the free market mode (due to remained policies from the old Yugoslavian system, (Dana, 2010), the reality shows that people are free-market oriented and having an entrepreneurial mind and spirit. They (existing and potential entrepreneurs) eagerly overwatch the market to identify the right opportunity for the right market to serve.

## 5.2 Study 2: How to Establish? A Pathway to Success

The second part of the study is related to a way how to establish it which is the milestone for future success. Researchers asked them how it is established, through the EO dimensions (Covin & Slevin, 1988/1989; Miller 1983), networking (Dana, 2001; Dana et al., 2000; Etemad et al., 2001), and whether the sacrifice should be from the top management or employees. Interesting thought of one of the CEOs in this area stated:

As we discussed aforementioned, at first place it is an empowerment to all employees. This is the way to success. For instance, I removed the Technical Director because he wanted to control all the things; no one could do other things unless he said so. That was horrible! It has suppressed creativity and innovation. (Mr. Emir Huskic, CEO of Namjestaj d.o.o.)

Others are with similar views:

Entrepreneurial company is based on innovation. You always have to try new things. Out of many trials, you will eventually succeed. (CEO of Ammar d.o.o.)

Such attitude opens the door for employees to be creative (innovative), proactive, and upon all risk-takers. The tolerance of ambiguity and failure is tolerated as discussed by Scarborough and Cornwall (2016). This suggests us that in order to establish an entrepreneurial mindset, business owners and CEOs should support innovativeness, proactiveness, and risk-taking by employees and managers, in a way that all of them will contribute to the growth and development of their organizations.

Thus, motivation and commitment will also be high. This is the answer to our research question 4 (RQ4), which explains how the Management implements this establishment of an entrepreneurial mindset in their respective companies.

Regarding responsibility, who is more responsible for this establishment of an entrepreneurial mindset, the management or employees, we observed different views.

The CEOs of Gradex doo and Ammar d.o.o. hold the view that the management (CEOs) is the key mover toward it, while others (CEOs of Balagem d.o.o.; Namjestaj d.o.o.; Hanibal d.o.o.; Jordan Castings d.o.o.; Mlijecna industrija 99; Voce transit d.o.o.) see this as the joint sacrifice, the management and employees, like the team. Both sides have justifications. Astute managers are the leaders who provide the vision and pave the way for their peers (Bass & Avolio, 1992; Bass & Riggio, 2006; Palalić & Durakovic, 2018), and thus it is necessary that someone leads that process. Conversely, the real teamwork is always fruitful and worthwhile. It gives a powerful motivation to employees to be committed to their daily tasks (Fletcher, 1999).

*Networking* is important for the progress, and sometimes, companies depend on each other, living together like rivals, or sometimes business partners. Other networks from the State are helping to increase the entrepreneurial setting and give support to SMEs (Dana, 2001; Dana et al., 2000; Etemad et al., 2001). The following statements (*Does networking help your organization to be entrepreneurial?*) are recorded regarding networks and its impact on the overall performance in SMEs.

Yes, but not fully available! (Balagem d.o.o.)

Due to the nature of the company, perhaps, it is not able to have easily a network that will help the company to grow. But, it seems like the imperative.

Yes! That helps the most! Usually, we get new Contracts via previous clients or business partners. Similarly, we recommend our partners to some clients too. (Hanibal d.o.o.)

Collaboration is always welcomed, regardless of customers and business partners. Upon all, mutual recommendations, as well as worth of mouth (WoM), can be a firm's long-lasting business advantage.

Yes, of course! And we do work on networking, involving, like eight firms to make a strong network towards suppliers, clients, and the State institutions. (Namjestaj d.o.o.)

Using both networks, from the private sector and the State gives a fantastic portfolio and prospects for the future business perspective. For instance, this company skillfully builds the future milestones for sustainable business development.

Networking is very important. You should always meet people. We have cooperation inside that network; they help us gain knowledge that they can provide. We visit our clients abroad or fairs where we can get knowledge. (Ammar d.o.o.)

Not only business networks, but customers play their role in creating a business image internally and externally. In the firm, employees are motivated because their performance is recognized by their customers, as the key factor in creating a sustainable entrepreneurial spirit. Simply, employees are motivated more when it comes to creativity and innovation, once they see the results externally.



We already belong to the network. Jordan castings have three factories in China, two in England, two in Germany and BiH. We cooperate among ourselves. It would be very good to have a network of all BiH producers to present themselves better and more professional in the international market. (Jordan Castings d.o.o.)

Even international network can be of great value for the entrepreneurial mindset. Such companies will be able to translate the business models for their organizations in Bosnia, which somehow for this region, they may be different from their competitors.

We belong to the network of the milk industry. We all have to help each other. We are also networked with all our suppliers (1500 farmers) and work together on the quality of grasslands, livestock, and milk. (Mliječna industrija 99 d.o.o.)

Some industries are in a network by the default of the businesses they do, as presented by this milk industry. They need to be tightened to each other with a mutual correspondence and understanding. In return, the whole organization is better off while employees and management can think of further development that will involve the EO dimensions as the key steps for thinking and implementing entrepreneurial (Scarborough & Cornwall, 2016).

Eight CEOs confirmed the “symbiotic network” (Dana et al., 2000) importance for organizations to be entrepreneurial, which answers our research question number 5 (RQ5). It has its weight if we take into consideration the global market nowadays, and it seems impossible that a firm does not have any network, which will indirectly leverage in the overall performance of that firm. Likewise, once an organization is performing well, the internal motivation and working spirit will be increasing. Moreover, the common sense of belonging to an organization means taking care of all problems, challenges, and successes. Thus, the entrepreneurial mindset is increased if a worthwhile network an organization has.

### ***5.3 Study 3: How to Maintain? The Long-Term Success***

Many businesses fail due to different external and internal factors that affect organization’s performance. A big challenge if not the most crucial, is how to maintain an entrepreneurial mindset that leads to long-term success? Several questions are related to this part in which the most emphasized is internal marketing (Bansala et al., 2001; Kim et al., 2016; To et al., 2014), as another key ingredient of the successful entrepreneurial mindset in organizations.

Internal marketing is an important driver in creating a good image of the company in the eyes of employees that conceive the motivational aspect of employees’ commitment.

An exciting fact that was brought by these SMEs (family businesses) was that they are very much worried (besides other things of the long-term success) is the human capital, which in this country is slowly and steadily fading. They are afraid of the “brain drain” (Dodani & LaPorte, 2005; Gë Rmenji & Milo, 2011; Odhiambo,

2013; Rizvi, 2005) that happens in this region (Western Balkan) lately, and apparently, B&H's employees feel it substantially.

To keep a good image of the company, its brand, the internal marketing and communication among employees and managers must be established. Everyone has to feel like their organizations and feel free to add values in anyhow, as per their positions and job descriptions in their organizations. The following thoughts are observed from the field and important to the internal marketing that creates a good image/brand and helps in maintaining the entrepreneurial mindset and spirit of the company (they were asked as: *Is internal marketing helpful in creating a good image?*).

Yes. Absolutely! To help employees to trust the firm. (Belagem d.o.o.)

Yes! For instance, we involve our employees in all processes. They like to be involved internally in establishing the firm's brand. They like challenges, and we support challenges and creativity. (Hanibal d.o.o.)

All innovations are encouraged. Employees are never criticized for unsuccessful trial but encouraged to continue innovating. Mistakes are tolerated. If people do not try, they will never invent anything. (Ammar d.o.o.)

Yes. We all work together toward the same goal. I trust my employees entirely. I do control just to check if everything goes as we agreed. (Jordan Castings d.o.o.)

Our employees participate in all decision. We have regular meetings with supervisors once a week and with all employees once a month. More often if it is needed. But everybody can come any time to me or stop me in the factory with proposals or anything. I said to all employees that it is their factory and they all have to work to make it a comfortable place for everybody. (Mlijecna industrija 99 d.o.o.)

Yes. The satisfied worker is the one that creates a strong brand. (Voce transit d.o.o.)

From the statements, we can see that most of them apply this internal marketing in different ways. The pitch is to motivate them so that employees see the company as their own. This brings the long-term commitment of employees, which by its nature builds a good atmosphere in the company emulated in a good image and brand of the company. With this, the entrepreneurial mindset is maintained, and the entrepreneurial spirit goes on. The synergy of the teamwork is powerful, regardless of different leadership styles in organizations (Nurmi, 1996). Moreover, the teamwork at all levels is crucial. It smoothly establishes an entrepreneurial mindset, through the synergetic effect.

## 6 Conclusion

Based on the primary research results, we conclude that small and medium companies (SMEs) in "Gradačac" region are with entrepreneurial mindset and spirit, described as entrepreneurial, innovative, proactive, and willing to take the risk (Krueger, 2009; Krueger & Sussan, 2017). They are also well networked locally, regionally, and internationally, and constantly investing and growing. Their employees are innovative, creative, and very well motivated. They are involved in making decisions, and they consider the brand/company as their own. This is truly

entrepreneurial state, and such entrepreneurial atmosphere requires “entrepreneurial thinking,” as argued earlier by Krueger and Brazeal (1994); Krueger (2000/2009). The firms’ state fulfilled these requirements by disseminating the entrepreneurial atmosphere vertically (from the top to bottom) and horizontally (via all departments in mutual collaboration). However, the companies are afraid mainly of external/environmental factors that they cannot influence, like a change of regulations in BiH and export markets, future financial crises and lack of qualified employees. The following subsections will explore the three levels of entrepreneurial mindset that this research has focused on.

### ***6.1 Understanding the Phenomenon “Entrepreneurial”***

Entrepreneurship is a way of living in “Gradačac” area. It is the driving force for the economy and life in the region. Some people became entrepreneurs as they had no job and had to take care of their families. Some were willing to take a risk to make a profit. However, people in this area think that entrepreneurs are born. They have ambitions and constant drive for innovations; very often that spirit has been in the family, and many of them come from entrepreneurial families.

It is disputable if Bosnian people are entrepreneurial. However, people in this region are positive that Bosnian people have an entrepreneurial spirit. Only, this spirit was somehow suppressed in Yugoslavia. Laws did not encourage the entrepreneurship. It was not socially acceptable behavior in BiH at that time. Also, people might have an entrepreneurial idea, but they did not have very often the money to finance it. Even today, it is felt that the public and the state have a negative perception of entrepreneurship. That is why media often present entrepreneurship and entrepreneurs through negative examples such as tax frauds or greedy people who take care only about their profit.

### ***6.2 A Pathway to Success***

Innovations are the key to the success of all firms. They often state if not for innovations, they would have been already closed. It may be innovation regarding technology, raw material, market, quality, equipment, and processes. Products are constantly improving, new brands launching, innovations are constantly introducing. Sometimes innovation is to apply for the first time something that has been implemented in western countries. Some companies have R&D division exclusively for innovation. However, every employee is expected to make innovations. Innovations are rewarded monetary, as a lump sum or salary increase. However, innovators often receive public recognition in the company for their work. Some companies have a selection of the best innovative idea every month. People are not criticized for

unsuccessful innovations, but encouraged to continue with trials. Also, no idea is considered stupid but worth to try.

Companies pay attention mostly to their core business. Some functions are outsourced, very often it is marketing activity. All companies are knowledge based. They develop their staff; however, as they all do business in a fast-changing environment, this might be slow. Firms do not hesitate to buy the necessary knowledge from experts.

All companies are market oriented and in most cases export oriented, proactively engaged with flexibility, they adapt quickly to the market. They can produce different products or variation of the same products even in smaller quantities and ship quickly to EU markets, especially Germany. They have an advantage in comparison to Chinese companies that are able only to produce a big quantity of the same products. Transportation costs from China are high and time to reach Europe is quite long.

All companies are dedicated to the high quality of products. There are laboratories to control quality at each stage of the value chain. Quality control is done internally and often externally. In some cases, universities are involved in doing analyses. Firms have all certificates from their fields.

There is a strong awareness inside companies that they can accomplish their goals only if they are all together in it. However, this awareness is also extended outside. Companies are networked within their specific industry, with companies in "Gradačac" area or even region and with suppliers and clients. Sometimes companies are networked with universities and chamber of commerce. Entrepreneurs in this area have a strong sense for the community. If own foreign company doing business in the region decide to close the facility, the local entrepreneur will often step in and take over the whole business to preserve jobs for employees and suppliers. If some company has a problem, other companies will help it. This responsibility is not limited only to "Gradačac" region, but to the whole BiH and often to the whole region. Entrepreneurs do not compete here but cooperate.

Almost all companies, we have interviewed, have been investing all the time with the outcome of a significant company's growth. Investments are made in new machines, factories, divisions, and land.

### ***6.3 The Long-Term Success***

All companies in the "Gradačac" region agree that people are the most important for long-term success. The care for the people is in the first place. Salaries and payments to the suppliers are a priority and have to be executed on the agreed date. Any problem with liquidity because of late payments from customers has to be solved by the director of companies without affecting employee or supplier. The employee has good, regular salary, all benefits paid, good working conditions; generous vacation time and very often extra money for a vacation, sometimes even for the whole family. Meals, work apparel, and commuting means are usually provided by the

company. Managers have cars at their disposal 24 h, mobile phone, computer, good accommodation, and per diems for business travel. Salary has constantly been increasing regularly and also based on performance. Employees often receive bonuses at the end of the year. Employees are considered as a family. Employees in some cases could take a loan from the company without any interest, fees, and complicated banking procedures. There is no firing. Mistakes are tolerated and considered as lessons learned.

Employees participate in management. Employees are encouraged to solve problems themselves and make decisions without or with minimal involvement of managers. There is a policy of open door in all interviewed companies. The employee may come to the director at any time and put forward his/her idea. There are also boxes for employees' ideas that are checked regularly by supervisors and directors and decisions are made quickly. Meetings with all employees are held regularly, often once a month. The top management never makes any decision unless it has discussed with its employees. Companies consider in most cases that both management and employees are responsible for creating an entrepreneurial atmosphere. They all should work together in obtaining vision and goals that they have established together.

Employees are strongly encouraged to take specializations and master each the company's interests and activities. High school or graduate students are taken as soon as they finish school. Interns are often; they are hired automatically if their performance is satisfactory. There is a lot of training, internally and externally.

Organizations from the region are pretty confident that they can solve any internal problem. However, companies are afraid of threats from the environment that they cannot influence. It is a case when export market countries change regulations like increasing customer duties or introducing new high-quality standards. However, all these obstacles are challenges to find new markets that companies successfully do. Moreover, they are afraid that the BiH government can change regulations that will negatively affect them. Additionally, the next financial crisis (unofficially announced) is a new threat, and they are prepared for it. The main concern in many firms is the lack of labor, which has been substantially decreasing over time, and each coming year represents a headache for the companies.

#### **6.4 Limitations, Future Work, and Implications**

This primary research has its *limits*. It employed a sample of eight companies. These companies are from the field of metal processing, constructions, milk industry, furniture production, and trade. We cannot exclude the possibility that the other companies might give different answers. It remains for future research to investigate more companies and from different industries. The research was concentrated on the area of "Gradačac" area only. It would be interesting to explore the other regions in BiH with successful SMEs like "Tešanj," "Gračanica," "Brčko," "Goražde" and determine key factors for their success. It also remains for *future work* to research

stagnant regions in BiH and see if SMEs can be solutions for the employment and economic development and if successful model of “Gradačac” model can be applied to them.

All interviewed companies stated that government institutions do not support entrepreneurship. They do not offer any assistance for startups, for further development or later on for improving the business climate. Entrepreneurs do not expect any help from the government. They do expect institutions to let them do their own business without interferences. They pay taxes regularly, but complain about high social security contribution.

Additionally, they complain about the extensive, slow, and complicated bureaucracy that requires a lot of papers. Financial institutions also do not support entrepreneurship. Loan's approval requires a lot of time, complicated procedure, and papers even for the successful and solvent companies.

Our *recommendations* go to government institutions and SMEs. Institutional and business environment for SMEs should be improved. The government should assist SMEs by creating favorable regulations for SMEs, providing administrative, financial, and educational support. Due to the complicated administrative system of BiH, government institutions at State, entity, cantonal and municipality level should work together to create a favorable environment for SMEs. All these measures and regulations should be harmonized with EU acquis, as BiH is on its path to the EU and all these companies have been already exporting to the EU. However, all firms should be more proactive in putting forward their requests and lobbying with governments and parliaments to get better regulations for SMEs. International donors like the EU, USAID, SIDA, etc. have been investing a huge amount of money for SMEs. No company from “Gradačac” area reported that they have ever received any support from international donors. Firms should be more proactive in attracting grants from international donors.

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# Exploring the Effects of Learning Organization on Innovative Work Behaviors of White-Collar Workers: Sample from Turkey



Mehmet Biçer

**Abstract** The main purpose of this research is to determine the effects of seven different learning organization types—such as continuous learning, inquiry and dialog, team learning, embedded systems, empowerment, system connection, sharing systems, strategic leadership on innovative work behaviors of white-collar employees who work in different companies. In order to test these effects, an inquiry was conducted on the employees who were the labor of Turkey’s top 500 industrial companies determined by Istanbul Chamber of Industry. Data obtained from 526 participants were used in the analysis of the research. As a result of the correlation analysis, significant and positive relations were determined between all components of learning organization and IWB. Regression analysis was performed to reveal the effects of learning organizations on IWB. According to the results, it has been identified that only continuous learning (0.479,  $p < 0.000$ ) and strategic leadership (0.381,  $p < 0.000$ ) have statistically significant and positive effects on innovative behavior. Whereas, it was found that all the other subdimensions of learning organization (inquiry and dialog, team learning, embedded systems, empowerment, system connection, sharing systems) do not have statistically significant effects on the innovative work behaviors of employees.

**Keywords** Learning organization · Innovation work behavior · Organizational learning

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## 1 Introduction

In today's brutal and competitive business community, information sharing has a vital importance of enhancing innovative talents of organizations' members to estimate and overcome probable obstacles (Johnston & Bate, 2013). Namely, novel opinions produced by members enable organizations' local and global competitive power via diversification and augmentation of new outcomes such as products and related services. Along with increasing innovative accumulation, acting as a learning organization refers to becoming self-aware for improving organizational skills. The mentioned situation may be evaluated as a milestone to make continuation of work activities possible (West, 1994). In this respect, Senge (1990) pointed out that drawing up a prospective action plan providing estimation for tendencies will be shown in the immediate future. Ezzamel, Lilley, and Willmott (1994) suggested that business executives have to be eager to test new methods and principles that are located in at the core of an organization for endeavoring members to enhance their perception for novel opinions and innovative behavioral patterns. Previous studies have reported that challenging with gray business areas, both members and organizations may trust in the correctness of learning (Edmondson & Moingeon, 1998; Senge, 1990). Therefore, a learning organization must perpetually make an effort to generate and perform novel ideas and principles to realize learning notion in every structure of an organization (Hitt, 1995; Hodgkinson, 2000; Rowley, 1998; Sackmann, Eggenhofer-Rehart, & Friesl, 2009). The point to be emphasized is expressed as a movement for holistic learning to form innovative outcomes, principles, and precautions (Corbett, 2005; Harrison, 1993; Rowley, 1998).

To the extant literature, innovative work behavior is generally accepted as a bundle of behavioral patterns corresponding to producing novel opinions, constituting legal basis, and facilitating to apply them through organizational goals (Janssen, 2000; Scott & Bruce, 1998). Currently, organizations unavoidably encounter with sophisticated business conditions, embodied in mobile market structure including external and internal partners (Crossan & Apaydin, 2010). Hence, organizations cannot be contingent upon stereotyped systems and principles to provide an achievement (Janssen, 2000), and thus innovative work behavior is aimed at constituting productive business climate (Kanter, 1988; Scott & Bruce, 1994) by means of producing, generalizing, and applying unique thoughts within the scope of an organization (Yuan & Woodman, 2010). Janssen, Van de Vliert, and West (2004) stated that the term of innovative work behavior is directly associated with current working methods, personal and entire organizational performance, generating new outcomes, fulfillment of external needs and overall effective communication and pleasure.

The notion of learning organization may be evaluated as a revolution or a milestone to enable continual achievement of an organization both in near or far future. Organizations must endeavor its members to alter their innovational perception and enhance their eagerness to corporate learning. Learning organization notion

refers to inspire each other to take joint actions for performance improvements to overcome probable barriers to accomplish the personal and organizational objectives. For the fulfillment of external and internal shareholders' needs, it is crucial to manage perceptions through innovative work behavior notion and its patterns which emerge from thoughts occurring under the umbrella of an organization and its components such as job roles, teams, and entire organization itself. The aim of generating innovative working behavior facilitates learning organizations to go through learning organization components effectively. Regarding this joint action among learning organizations and innovative work behavior, the anticipated outcome is expressed as feasible and prospective cautions to overcome barriers which hinder organizations to attain the objectives.

Regarding the correlation among learning organizations and innovative work behavior, this realm draws scholars' attention that innovative behavioral patterns are in relation with working environment and organizational aspects (Hennessey & Amabile, 2010). From this viewpoint, the purpose of this chapter is primarily to provide theoretical approaches to the concepts of learning organizations and innovative work behavior. In addition, the other main objective of the research is to reveal the reflections of the effects on the innovative work behaviors of the learning organizations in practice by examining the bilateral relationship between the concepts.

## **2 Literature Background**

### ***2.1 Learning Organization***

Central to the entire discipline of management and organization, learning organization is an indispensable research topic that empirical studies argued how working groups or organizations can perform learning phase freely from employees working under the umbrella of an organization (Kezar, 2005). In the history of learning organization notion, a considerable amount of literature has been published on learning organization (Hayes, Wheelwright, & Clark, 1998; Pedler, Burgoyne, & Boydell, 1988) both in the USA and Britain such that the concept may be come out five decades ago. Other studies have considered the learning organization concept deutro-learning that can be explained as learning to learn performance (Bateson, 1973), self-renovation (Gardner, 1963), and self-renovation at a level of company or a working group (Lippitt, 1969). The most striking result to emerge from these studies is that both learning attempts and evaluating systems have vital significance simultaneously while comprehending the core of a learning organization. The past 30 years have seen increasingly rapid advances in the realm of learning organization and was in demand especially in private sector units on the purpose of enhancing business models (Holyoke, Sturko, Wood, & Wu, 2012).

In his seminal article, Argyris (1977) identifies learning organization as a continuum of finding out and reforming an organizational mistake. Detailed examination

of organizational learning by Fiol and Lyles (1985) showed that learning organization is a mechanism of developing proper course of action by means of exact information and comprehension. In their major study of organizational learning, Levitt and March (1988) draw our attention that organizations learn under the favor of past experiences turning into an advantage to solve difficulties connected with probable current situations. This is consistent with the study of Stata and Almond (1989); the authors have pointed out that learning in organizational context arises from common point of view, information and intellectual profundity. Organizations differ from one another due to structural diversities. In this case, this situation leads to different evaluations of learning organizations. Such that, Daniels (1994) suggested that the core of learning organization cannot be explained exactly. This is consistent with the study of Griego, Geroy, and Wright (2000); the authors reported that most studies in learning organization have only been carried out in a theoretical scope, and therefore, comprehending the learning organization notion in depth is indispensable to conduct field researches. In another major study, Calvert, Mobley, and Marshall (1994) argued that there is not a precise learning organization model to observe; purely and simply in current circumstances it has been stated that organizations which display a behavior with certain manner that scholar might anticipate from a learning organization. Conversely, data from several sources have identified learning organization as learning with employees who are working under the umbrella of an organization (Morris, 1993; Pedler, Burgoyne, & Boydell, 1991).

Schön (1975) is probably the best known debater to evaluate the implementation of learning concept within a precise organization. The author draws our attention that efficiency of an organization is bound up with its continual perception for proactive managerial reactions concerned with altering values and diversified circumstances. This is in line with the studies that organizations are able to understand the significance for adapting the altering situations on account of enhancing the efficiency rate of an organization (Argyris & Schön, 1978; French & Bell, 1978; Schein, 1992; Senge, 1990; Watkins & Marsick, 1993, 1996; Wheatley, Tannenbaum, Griffin, & Quade, 2003). Schön (1975) utilized the term of deutro-learning mentioned above to indicate the practices of perpetual design phase. The design phase can be stated as overcoming the problems and planning or developing organizational proceedings, patterns, and procedures in relation to altering probabilities appertaining to internal or external situations. A recent study by Marsick and Watkins (2003) reports that learning within the scope of an organization can be expressed as a jointly gained experience by virtue of being mutual and independent of each other in an organizational context. Moreover, the authors highlight the notion of organizational culture as a monitoring mechanism with the objective to determine the things which must be learned or not. In another major study, Lipshitz, Friedman, and Popper (2007) has pointed out those cultural patterns of an organization to characterize and qualify the efficiency of totally learning stage. Song, Lim, Kang, and Kim (2014) argued that the learning culture and climate of the organization will support and contribute positively to the learning and change processes of the employees and the organization in general. In support of this, Watkins and Marsick's (1993) definition of the learning

**Table 1** Dimensions of learning organization

Aspect	Dimension	Definition
Individual	Enable perpetual learning occasions	Perpetual occasions are enabled for individuals to facilitate learning.
Individual	Foster communication and advice	Organizational culture assists employees' relations, especially experiences.
Team	Bolster cooperation and group learning	Team members are anticipated to work and learn simultaneously; therefore, cooperation is awarded as a prize.
Organizational	Set up a system to facilitate learning organization structure for sharing	Technological developments persuade individuals to participate learning organization.
Organizational	Strengthen individuals' common view	The structure of an organization permits to hold a view; hence individuals take part to perform the necessities of common view.
Organizational	Make contact among the external environment and organization	Individuals are influenced by the relationship between organization and the environmental situations.
Organizational	Enable proper inspiration for learning organization	The movement through learning carries organizational structure one step further.

Source: Based on Watkins and Marsick (1993, 1996), Marsick and Watkins (1999, p. 50)

organization reveals the importance of supportive learning culture in learning and change processes (Song et al., 2014, p. 294). In order to understand the learning organization, Watkins and Marsick (1993, 1996) have examined diverse learning organization dimensions. Accordingly, the proposed model belonging to the authors suggests that learning organization can be evaluated at the individual, team, and organizational aspects. The dimensions of learning organization are shown in Table 1.

Garvin (1993) regarded learning organization as having talent for forming, obtaining, and relaying information and representing the behavioral modifications related with new comprehension. The author indicates that generating a learning organization necessitates diverse components. These components are categorized in Table 2.

To the extant literature, it has been articulated that there are different perspectives related to the learning organization. These perspectives can be categorized as (1) training and education, (2) rewards and recognition, (3) information flow, (4) vision and strategy, and (5) individual and team development. A longitudinal study of learning organizations by Gephart, Marsick, Van Buren, Spiro, and Senge (1996) reports that training phase is crucial for learning and at the same time an anticipated result learning has a significant effect on overperforming. A number of studies have found that training notion maximizes employees' efficiency (McManus, 1995; Nadler & Nadler, 1994). The authors reached a consensus about the concept of learning having three aspects. These aspects can be classified as (1) skills, (2) knowledge, and (3) attitude. Numerous studies have suggested that skills and knowledge must be improved on the purpose of constituting learning organizations (Iles, 1994;

**Table 2** Learning organization components

Components	Definitions
Systematic problem-solving	The mentioned component is related to academic point of view rather than different simple assumptions
Experimentation with new approaches	Examining new information is based on modern viewpoints
Learning from their experiences and past history	Checking reasons of achievements and failures
Learning from experiences and best practices of others	Comparing and contemplating the external circumstances of an organization
Transferring knowledge quickly and efficiently throughout the organization	Information may be transferred rapidly within the organization via oral and verbal notifications, rotation in organization, vocational briefings, etc.

Source: Based on Garvin (1993)

Robinson, Clemson, & Keating, 1997). Bennett and O'Brien (1994) suggest that rewards and recognition facilitate and bolster organizational and individual learning. Authors have indicated that dignifying employees assist learning and provide numerous advantages to the organization. In his analysis of learning environment, Lippitt (1997) asserts that learning within the boundaries of an organization is a foregone conclusion of four aspects such as training, education, recognition, and mastery. The author is in the opinion that an organization's human resources unit must develop rewarding policies to hearten innovative behavior and learning. Davis (1997) pointed out that employees complain about the authority that misadvises or distorts the subject. Under the circumstances the anticipated outcome is probably unsuccessful. With regard to vision and strategy, vision is a vital function in learning organizations. The notion of vision enables an instruction to employees to meet their objectives (Pedler et al., 1991; Senge, 1990). Marquardt (1996) argued that if a certain learning environment occurs in an organization, the employees will be more willing to learn. Regarding this, Robinson et al. (1997) asserted that starting point of learning in an organization has two antecedents such as common view and a sophisticated ambience to meet the learning objectives. Common view indicates diverse purposes in future, and this situation draws a road map for the organization (Bennett & O'Brien, 1994). In another study, Garavan (1997) reported that common view may be accepted as a trigger action for reflecting organization's culture. This kind of learning culture creates innovative behavior and carries organization to success. Individual and team development as a perspective belonging to learning organization has a vital importance in organizational life cycle. Namely, Bennett and O'Brien (1994) suggested that employees working under the umbrella of a learning organization should be encouraged to self-improvement in order to increase teamwork skills. Members and their team may be accepted as indicators to test effective learning by means of recreating the area of responsibility. The authors claimed that companies following the learning organization method believe that both team and individual learning are necessary aspects. This finding is compatible with the study



of Senge (1990) such that forming a team plays a key role for learning organizations. Personal motivation is crucial for potential achievements, and along these lines forming a team is a basic principle to enhance the learning capability of an organization. Consequently, group or team learning prefaces with communication in which enabling information flow persuades staff members to exhibit innovative behavior and creative intelligence for concentrating on the organizational purposes (Appelbaum & Goransson, 1997; Gardiner & Whiting, 1997).

### 3 Innovative Behavior

To the extant organization and management literature, the innovation concept cannot be precisely and generally described at present time (Amabile, 1988; Brazeal & Herbert, 1999; Cummings & Oldham, 1997; Patterson, 2000; Woodman, Sawyer, & Griffin, 1993). The concept of innovation may be interpreted as diverse and broad perspectives. These are categorized in the shape of consumers' perception, managerial implications, employees' comprehension, and realities of macro economy. Consumers' perception refers to affordable outputs with high-level quality to come up the personal life standards. Managerial implications reflect the notion of corporate growth and increasing organization's profitability. Employees' comprehension related to innovation denotes with altering work roles to improve employees' involvement level which necessitates cognitive capability concluding with opportunity for earning extra compensation. From the viewpoint of macro economy the term innovation leads industrial efficiency and welfare (Ramadani & Gërguri, 2011). In their seminal article, the authors have stated that organizations face diverse obstacles for fulfillment of internal and external shareholders' needs; due to this, organizations may make a perpetual and spontaneous decision to overcome both problems related with tangible outputs or intangible ones.

Data from several sources have identified innovative behavior as a combination of idea generation, idea promotion, and idea implementation in order to show performance throughout an organization and also work role and working groups (Van der Vegt & Janssen, 2003; West & Farr, 1989). Detailed examination of determinants related to innovative behavior by Scott and Bruce (1994) showed that employees' innovative behaviors in an organization are accepted as a performance indicator and it has stated that innovative behavior is an essential component for motivation. The authors have pointed out that the terms innovation and creativity can be substituted with each other with diverse origins. Such that, the concept of creativity is expressed as a behavior that reveals beneficial and original thoughts (Amabile, 1983; Mumford & Gustafson, 1988). Moreover, Woodman et al. (1993) have defined creativity as the way of trying something primarily. Besides this, West (2002) characterizes creativity as an indispensable element of innovative work behavior in order to solve diverse problems or accomplishing the performance objectives. On the other hand, Janssen et al. (2004) draw our attention that the term innovation refers to a sophisticated operation, that is to say it indicates a

movement with the aim of generating and making changes related to opinions (Van de Ven, 1986). A number of studies have highlighted that innovation concept can be evaluated in the shape of both generating inventive opinions and enhancing overall performance within an organization (Janssen et al., 2004; Kanter, 1988; Scott & Bruce, 1994; West & Farr, 1989). Scott and Bruce (1994) suggested that personal innovativeness arises from three phases. These phases can be categorized as (1) problem identification, (2) basing opinions in a formal basis, and (3) testing the innovative behavior at all levels of working groups or all in an organization. In the course of problem identification, a member of an organization identifies a problem and makes an effort to solve the problem. Regarding basing opinions in a formal basis, it notes that an employee shapes its solution-oriented approach via testing its validation and rationality to corroborate both internal and external environment of an organization. Finally, the member developing an innovative behavior implements the solution or opinion via building a model that can be utilized and performed within the scope of a working group or a role (Kanter, 1988).

Ramadani and Gërguri (2011) draw our attention to innovation that the notion has a vital importance for small-scale enterprises. The authors indicated that based on numerous researches, small-scale enterprises set a framework for entire business community. This reality compels the mentioned enterprises to be more innovative to carry on the activities in the scope of devastating competitive business environment. Furthermore, detailed examination of innovation and economic development by Ramadani, Gërguri, Rexhepi, and Abduli (2013) propounded that innovation concept may be evaluated as a milestone for altering valid and current organizational conditions to provide organizational advantages. Besides this, competitive environment heartens the organizations to generate novel opinions for making progress in professional business life.

A recent study by De Jong (2006) has described the innovative work behavior notion as behavioral patterns that arise from creative opinions launching within the scope of job roles, working group, or overall organization. The author has stated that the mentioned creative opinions are also effective in the emergence of undiscovered practices and outcomes such as novel products considering them in the form of tangible outputs. De Jong's (2006) assertion is consistent with the studies of Janssen (2000, 2005) accepted innovative work behavior as a sophisticated phenomenon including producing novel, opinions, becoming prevalent and implementing these behaviors to diverse segments of an organization. Janssen (2000) draws our attention to innovative work behavior that the term indicates innovativeness level in daily basis contingent upon individuals' propensity for making an endeavor to enable profitable distinctive organizational consequences. Detailed examination of De Jong and Den Hartog (2007) showed that innovative work behavior encapsulates current and non-negligible operational barriers, unmet requirements of employees, or signals that personal or organizational propensities will be changed in near future. A number of studies have pointed out that innovative work behavior is a distinctive structure for individuals to participate building innovational environment. Regarding this, organizational and cognitive patterns of innovation may be evaluated as two phased transaction enclosing an origination phase reflecting to problem

identification and producing genuine opinions at personal basis and application phase indicates supporting inventive opinions (Amabile, 1988; Oldham & Cummings, 1996; West, 2002). Kanter (1988) highlights that these phases include various bundle of exercises necessitated for enhancement of innovation. Messmann and Mulder (2011) suggested that these exercises can be formed in tangible or intangible environment and can occur in communal environment.

Data from several sources related to innovative work behavior have characterized diverse aspects which are generally associated with several phases of innovation activities. Scott and Bruce (1994) have reported that innovative work behavior may be regarded as multiphase activity. Based upon the study of Kanter (1988), Scott and Bruce (1994) categorized the innovative work behavior phases such as (1) idea generation, (2) coalition building (idea championing), and (3) idea implementation. The significance of idea generation emanates from integrating and giving information exactly (De Jong & Den Hartog, 2010). To the extant literature, idea generation is connected with empathizing the subject carefully to detect the reasons in terms of low productivity level (Kanter, 1988). The author draws our attention to idea generation, so the term may be accepted as a state of flux that leads to readjust and change the valid and present working issues over. Idea championing becomes crucial following idea generation phase. According to Kanter (1988), idea championing indicates prevalence of ideas within a formal basis under the umbrella of an organization. Additionally, Kanter (1988) pointed out that those ideas will boost organizational efficiency in the event that not lead to cost burden during generation of mentioned ideas. In his analysis of innovation process, Shane (1994) suggested that innovation advocates concentrating on employees in unauthorized working roles who generate and stand against organizational obstacles and facilitate accomplishment of organizational objectives. Recent evidence suggested that idea championing (coalition building) refers to be insistent, find right members, emotional attachment, and having no doubt about meeting the objective (Howell, Shea, & Higgins, 2005). Idea implementation is the third phase of innovative work behavior; it has been observed that the importance of endeavor and being outcome oriented are the essential components to put the innovative behavior into practice (De Jong & Den Hartog, 2010). According to Kleysen and Street (2001), idea implementation concurrently involves bringing novelties to present working policies besides trying and making changes (Kanter, 1988). Opportunity exploration indicates the detection and understanding of the obstacles and necessities in an organizational context that conceive a chance for alteration and advancement. As mentioned above, idea generation covers the innovative behavioral changes by means of proposing novel opinions for tangible and intangible outcomes that are feasible and triggering eagerness to take advantage of these alterations among the members of an organization. Idea championing reflects to receive social support and project employees as collaborators to give briefing precisely. Idea implementation implies making a trial for novel opinions via generating cognitive models of innovation to investigate innovative work behavior's proficiency from the managerial viewpoint (Messmann & Mulder, 2012).

#### **4 Relations Learning Organizations (LO) and Innovative Work Behavior (IWB)**

Individual characteristics such as eagerness, flow, problem solving ability, or organizational aspects like leadership and communication have a significant effect on the term innovative behavior (Janssen, 2004; Young, 2012). Moreover, positive organizational culture through innovative behavior plays a key role owing to producing novel opinions (Park, Song, Yoon, & Kim, 2014). At the same time, Isen (2001) reported that positive working environment enhances individual willingness to alter present working conditions. A recent study by Young (2012) pointed out that organizational integrity enables innovative thinking by virtue of emerging organizational contribution. In another study, Scott and Bruce (1994) found that employees' anticipation concerning effective leadership in the work environment has an impact on innovative work behavior. Park et al. (2014) asserted that personal involvement and interpersonal communication are essential factors that lead concentration on innovative work behavior, detailed examination of leadership and innovative behavior. Pieterse, Van Knippenberg, Schippers, and Stam (2010) pointed out that leadership concept bears upon innovative behavior. Previous studies have reported that ability related to learning organization and information supply may be evaluated as starting points of members' innovative work behavior (Monica Hu, Horng, & Sun, 2009; Wang & Wang, 2012). Several studies have revealed that members who are concentrating on innovation may act courageously in the case of encountering diverse problems (Cadwallader, Jarvis, Bitner, & Ostrom, 2010; Dulaimi, Ling, & Bajracharya, 2003; Zhang & Bartol, 2010). In relation to that, Zhang and Bartol (2010) stated that employees' self-reliance to overcome possible barriers provide an opportunity to produce unique thoughts to dedicate individual overexertion to discharge their responsibilities. Previous research finding about relation between learning organization and innovative work behavior suggested that affirmative circumstances enable innovative behavior (Binnewies, Ohly, & Sonnentag, 2007; Saks, 2006; Salanova, Agut, & Peiro, 2005; Salanova & Schaufeli, 2008; Vinarski-Peretz & Carmeli, 2011). Binnewies et al. (2007) stated that there is a positive correlation among individual attempt and idea creation. According to the authors, this leads to continual effect on making an endeavor through all innovation phases. A recent study by Salanova, Schaufeli, Xanthopoulou, and Bakker (2010) revealed that motivated individuals to generate innovative work behavior patterns need positive organizational attitude relevant to learning. Leiter and Bakker (2010) propounded that participation to work is influenced by interpersonal aspects between employees and organizational management. Previous research findings into learning organization's culture is in connection with innovation and its behavioral patterns (Hirst, Van Knippenberg, & Zhou, 2009; Škerlavaj, Song, & Lee, 2010; Yoon, Song, Lim, & Joo, 2010), namely learning organization is influential in augmenting personal innovative behavior. These findings are in line with the studies that individual psychological conditions such as motivation and affectively based attitudes estimate innovative work behavior style and level (Amabile, 1996; Binnewies

et al., 2007; Isen, 2001; Vinarski-Peretz & Carmeli, 2011). Park et al. (2014) submitted that enhancing a robust innovational intelligence require suitable working environment both providing information among all members and arousing curiosity for novelties via concentrating on personal and corporate scale.

## 5 Research Methodology

### 5.1 Sample and Data Collection

Turkey's largest 500 industrial companies determined by Istanbul Chamber of Industry in 2016 constitute the universe of this research. The number of white-collar employees working in these enterprises referred to by ISO data form the sample of this research. A total of 1200 surveys were delivered to 35 enterprises operating in different sectors in Turkey. Only 582 employees were able to contribute to the research questionnaire. As a result of the evaluations, it was determined that some of the questionnaires were not suitable for the analysis due to various reasons. Finally, 526 questionnaires were included in the analysis of the research.

27.8% of the participants who contributed to the research were female ( $n = 146$ ) and 72.2% of them were male ( $n = 380$ ). However, 54.8% of the participants were between the ages of 30 and 39 years ( $n = 288$ ) and 36.9% were between 40 and 49 years ( $n = 194$ ). In terms of education, 62.2% of the participants have university degree ( $n = 327$ ) and 23.9% have master's or doctorate degrees ( $n = 126$ ). The research questionnaire was implemented in nine different departments which can be found in a corporate business. The most participation in the research has been from the production department (24%,  $n = 126$ ). White-collar human resources working in finance (6.7%,  $n = 35$ ), human resources (10.6%,  $n = 56$ ), marketing (17.1%,  $n = 90$ ), public relations (2.3%,  $n = 12$ ), accounting (7.8%,  $n = 41$ ), administration (4.4%,  $n = 23$ ), quality (16.2%,  $n = 85$ ), and Research and Development (11%,  $n = 58$ ) departments have also supported research as a participant.

### 5.2 Measures

The survey method was preferred as a data collection instrument to determine the effects of learning organizations on white-collar employees' innovative work behaviors. The survey scales consisting of 53 statements in total are demonstrated below.

**Learning Organization Questionnaire (LOQ)** Dimensions of the Learning Organization Questionnaire (DLOQ) which has been originated by Watkins and Marsick (1997) is considered to be appropriate for this research. Watkins and Marsick (1997) developed DLOQ with the contribution of their studies in 1993 and 1996. The original version of the scale consists of 43 items to measure the presumed seven

**Table 3** Reliability statistics

Variables	Components	<i>N</i>	( $\alpha$ )
Learning organization (LO)	Continuous learning	7	0.939
	Inquiry and dialog	6	0.906
	Team learning	6	0.928
	Embedded systems	6	0.891
	Empowerment	6	0.928
	System connection	6	0.935
	Strategic leadership	6	0.943
	<b>Learning organization</b>	<b>43</b>	<b>0.983</b>
Innovative work behavior (IWB)	<b>Innovative work behavior</b>	<b>10</b>	<b>0.956</b>

basic dimensions of LO including continuous learning, inquiry and dialog, team learning, embedded systems, empowerment, system connection, strategic leadership. The original version of the scale is used in this study.

***Innovative Work Behavior Questionnaire (IWBQ)*** An innovative behavior scale consisting of ten expressions was used to examine and identify the employees' innovative work behavior levels. The 6-item scale developed by Scott and Bruce (1994), the 9-item scale developed by Janssen (2000), and the 14-item scale developed by Kleysen and Street (2001) form the basis of the scale used in this research. De Jong and Den Hartog (2008) progressed a scale including 17 items with the reference of these previous researches; Scott and Bruce (1994), Janssen (2000), Kleysen and Street (2001). De Jong and Den Hartog (2008) found that only ten statements measured the innovative behavior as a result of their pilot study. Ten-item scale developed by De Jong and Den Hartog (2008) was used and IWB was considered only one dimension in this research.

In order to determine the reliability of the scales used in the questionnaire of the study, the most preferred Cronbach Alpha ( $\alpha$ ) coefficient was used in the calculation of the reliability coefficients of the Likert scale expressions. As it can be seen in Table 3, the Cronbach Alpha reliability coefficients of the variables and sub-dimensions were above the acceptable reliability level ( $\alpha > 0.70$ ).

### 5.3 Analysis and Findings

In this part of the study, in order to test the existence of the relationships between learning organizations (independent variable) and innovative work behavior variables (dependent variable), the results of the correlation and regression analysis will be explained in order to reveal the severity, direction, and level of the existing relations.

### 5.3.1 Correlation Analysis

The results extracted from the correlation analysis of this research are illustrated in Table 4. According to the correlation analysis, it was determined that IWB of the employees are generally affected positively by all the LO practices at the significance level of 0.01.

Table values indicate that strategic leadership practice had the strongest correlation ( $r = 0.733, p < 0.01$ ) with IWB of employees. Similarly, continuous learning which is another application of LO were found to be strongly correlated ( $r = 0.706, p < 0.01$ ) with IWB. Depending on these indicators, it can be said that employees who have a tendency to learn and who are supported by their managers/leaders behave more innovativeness. Furthermore, it was found that inquiry and dialog ( $r = 0.582, p < 0.01$ ) and team learning ( $r = 0.577, p < 0.01$ ) practices have positive, but less strong relations between IWB at the level of 0.01 significance. Additionally, the other practices of LO, embedded systems ( $r = 0.633, p < 0.01$ ), empowerment ( $r = 0.650, p < 0.01$ ), system connection ( $r = 0.608, p < 0.01$ ) were correlated with IWB of employees relatively strong in positive direction. Consequently, correlation analysis findings of the research revealed that all LO practices have significant ( $p < 0.01$ ), positive relations and linearly associated with IWB of employees. In conclusion, results indicate that IWB of employees will have been positively affected by positive perceptions of LO practices in organization.

### 5.3.2 Regression Analysis

Regression analysis was conducted to test the effects of learning organization on employees' innovative behaviors. The results of the analysis revealed that organizational learning perceptions and levels have a significant effect on the innovative behaviors of the employees.

The  $F$  value ( $F = 91.373$ ; Sig. = 0.000) of the regression analysis results in Table 5 indicates that the research model is rational and significant. The adjusted  $R^2$  value of the research model was determined to be 0.577. Therefore, it can be stated that the learning organization explains 57.7% of the changes in IWB of employees. This is another important finding of the analysis as a contribution to this research.

The findings of the regression analysis that we conducted to test the relationships between the concepts indicated that perceptions of LO had a statistically significant impact on employees' IWB. It has been found that only continuous learning and strategic leadership have statistically significant impacts on employees' IWB. The findings indicated that strategic leadership (0.479,  $p < 0.000$ ) had the highest, positive, and significant effect on IWB. Likewise, it was found that continuous learning (0.381,  $p < 0.000$ ) had a positive effect on IWB. On the other hand, it has been determined that inquiry and dialog ( $-0.091, p < 0.139$ ), team learning ( $-0.083, p < 0.200$ ), embedded systems ( $-0.064, p < 0.329$ ), empowerment

**Table 4** Means, standard deviations, correlations

	Means	St. Dev.	IWB	Cont. Learn.	Inq. Dialog	Team Learn.	Embedd. Syst.	Empow.	Syst. Connec.	Strateg. Leader
IWB	3.9918	0.64724	1	0.706**	0.582**	0.577**	0.633**	0.650**	0.608**	0.733**
Cont. Learn.	3.5847	0.68940		1	0.832**	0.834**	0.758**	0.788**	0.788**	0.810**
Inq. Dialog	3.7842	0.60751			1	0.824**	0.777**	0.712**	0.802**	0.726**
Team Learn.	3.7208	0.68016				1	0.719**	0.707**	0.840**	0.700**
Embedd. Syst.	3.8805	0.63291					1	0.791**	0.776**	0.852**
Empow.	3.7497	0.69987						1	0.824**	0.764**
Syst. Connec.	3.8831	0.70741							1	0.726**
Strateg. Leader	3.8349	0.68757								1

\*\*Correlation is significant at the 0.01 level (two-tailed)



**Table 5** Learning organization and innovative work behavior regression analysis

Coefficients						
Model	Unstandardized coefficients		Standardized coefficients		t	Sig.
	B	Std. error	Beta			
(Constant)	1.330	0.124			10.768	0.000
Cont. Learn.	0.357	0.066	0.381		5.451	0.000
Inq. Dialog	-0.097	0.065	-0.091		-1.482	0.139
Team Learn.	-0.079	0.062	-0.083		-1.284	0.200
Embedd. Syst.	-0.065	0.067	-0.064		-0.977	0.329
Empow.	0.065	0.051	0.075		1.275	0.203
Syst. Connec.	0.084	0.061	0.092		1.372	0.171
Strateg. Leader	0.451	0.059	0.479		7.640	0.000

*Dependent variable:* Innovative work behavior

$R^2 = 0.582$ ; adjusted  $R^2 = 0.577$ ;  $F = 103.231$ ; Sig. = 0.000

(0.075,  $p < 0.203$ ), system connection ( $-0.092$ ,  $p < 0.171$ ), and sharing systems have considerable effects on the IWB of employees.

## 6 Discussion

Organizations operating within the social or economic system have been created to serve specific goals and achieve the objectives. The ability of an organization to achieve the goals in line with its objectives differs from the internal and external environmental factors. Many factors such as management style, strategy and planning, organizational structure, organizational culture, manufactured goods and services, customer relationship management, labor quality, organizational learning, education policies, knowledge management, human resources policies, innovation, and innovative behaviors of employees can directly or indirectly affect the performance of organizations. Especially in recent years, it is a fact that it cannot be ignored for the organizations by providing high performance with all internal and external environmental elements, to provide competitive advantage, to be permanent and to adapt to the developments with the processes of change in order to catch the future. Accordingly, employee organizational learning trend is highly vital for organizations in terms of comprehending and accepting changes and developments. In addition, it is of strategic importance for organizations to be creative and innovative in adapting to changes.

The organizations trying to provide value to the customer and enable competitive advantages should first obtain the information that is the basic input of innovation through learning and transform them into outputs in order to express value. Organizations that can reach information before their rivals and turn the information into a value that can be presented to the customer by going beyond sharing at the level of employees and executives will also provide superiority in competition. It is

important that such an organization is a learning organization. Learning organizations are organizations that have the basic input of innovation as organizations that use and share knowledge. Supporting innovation with proactivity will also provide competitive advantage to organizations.

Correlation coefficients of this research revealed that there was a significant and positive relationship between all LO practices (continuous learning, inquiry and dialog, team learning, embedded systems, empowerment, system connection, sharing systems, strategic leadership) and IWB of employees. Positive perceptions of LO practices throughout the organization have increased the tendency of employees to behave in an innovative way. It will be inevitable that innovative climate will prevail in organizations that have the knowledge and share this knowledge with their employees. It will be correct to say that management processes of organizations by obtaining, producing, processing, and sharing knowledge with employees will increase the tendency to be innovative throughout the organization. But, the process of managing information is not sufficient for the competitive advantage and growth continuity of the organizations. LO practices should organize information in line with the needs of the organization. Learning process will provide a competitive advantage by creating a perception of innovation in employees if the knowledge presented by the LO practices are adopted, used, and evaluated by all employees. The realization of learning at the level of all employees will create opportunities for creating different values in the organization. Thus, knowledge will be included in the production process of innovative products and services.

The regression analysis findings of the research showed that LO practices have significant positive role (Adjusted  $R^2 = 0.577$ ,  $p < 0.000$ ) on the employees' IWB. Regression analysis results of this research are similar and supported with the research results of Hurley and Hult (1998), Awang, Sapie, Hussain, Ishak, and Yusaof (2014). However, Er-ming and Han (2008), Rhee, Park, and Lee (2010), Eshlaghy and Maatofi (2011) found in their studies that organizational learning had a significant and positive strong effect on innovation. In addition, Weerawardena, O'Cass, and Julian (2006) stated that as the level of learning of the employees increased, the level of innovation of enterprises increased.

Unlike previous studies, the most prominent finding of this research is that only the continuous learning and the strategic leadership practices have significant and positive effects on IWB. Strategic and supportive leadership practices create an achievable future for organization employees and also anticipate the future to initiate the changes. Supportive and strategic leadership practices, which constitute a friendly working climate, involve an advanced level of paying attention to employees and also dealing with them. These practices increase the willingness of the employees to learn based on their job satisfaction and ability to achieve their jobs. With supportive and strategic leadership practices, a friendly and ethical work environment can be created throughout the organization. Cavus and Bicer (2016) in their research supporting this view argued that ethical management practices are positively related to the innovative behavior of employees. Through continuous learning practices nourished by this point; we can say that employees will be more innovative by improving their creativity. As supportive strategic leadership practices

in learning organizations create an organizational climate in which continuous learning opportunities are created, an increase in the employees' innovative behavior will occur.

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# Features of the Entrepreneurial Mindset of SMEs' Owners in the Moldavian Unfriendly Environment



Elena Aculai, Alexandru Stratan, and Natalia Vinogradova

**Abstract** This chapter examines the specifics of entrepreneurial mindset of owners of small- and medium-sized enterprises (SMEs), who operate their business in an unfavorable environment, under an emerging market economy based on the examples of the Republic of Moldova. Taking into account specific examples, it is demonstrated that in Moldavian economy, business strategies based on entrepreneurial mindset (i.e., those aimed at increasing competitiveness, using innovative approaches focused on development of the human capital, organizational change, and cooperation) represent an important factor in the preservation and development of SMEs. At the same time, the hypothesis is presented according to which the implementation of some original business strategies, also oriented toward the development of the enterprise and which take into account the specific features of a particular business and the general situation in the country, can contribute to the growth of enterprises only in an unfriendly environment. Accordingly, in long term in conditions of improvement of the business ecosystem and increase of the standards of living of the population, such business strategies will not motivate, but on the contrary, limit business development, especially in the long run. The presented ideas and conclusions are based predominantly on the results of interviews with Moldavian entrepreneurs carried out in recent years with the participation of authors.

**Keywords** Entrepreneurial mindset · Small- and medium-sized SMEs · Unfriendly environment · Transition economy · Republic of Moldova

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## 1 Introduction

Despite the fact that the establishment of market relations began almost 30 years ago in the Republic of Moldova, it still belongs to the countries with an emerging market economy. Nowadays, the situation in Moldova is characterized by the poor quality of work of institutions, a significant share of the shadow economy, high level of corruption, lack of trust between business and government, limited access of enterprises to financial resources and personnel, which together allow us to characterize the environment as unfriendly to the business. The negative influence of the environment has an impact on enterprises of all sizes, but to a greater extent—on small- and medium-sized enterprises (SMEs), which, despite their flexibility, are not able to affect significantly the demand on the domestic market, to protect and defend their interests.

The entrepreneur—owner or a hired manager (in Moldavian SMEs it is often one person)—always plays the key role in a market economy, since he/she makes major decisions regarding the preservation and development of the business. In an unfriendly environment, the role of the entrepreneur, entrepreneurial mindset, developed business strategies, used management methods, etc. become even more significant because, along with the usual risks of a market economy, he/she has to overcome additional barriers associated with the shadow economy, corruption, etc.

This chapter is focused on identifying and analyzing business strategies of owners of Moldavian SMEs based on entrepreneurial mindset, which are flexible, promote competitiveness, take into account environmental features, such as personnel training directly at the enterprise; organizational changes, cooperation with other entrepreneurs, etc. However, according to the authors' hypothesis, the implementation of some original business strategies that are tailored to the specifics of a particular business, contribute to the development of enterprises only in an unfriendly environment. With the improvement of the business climate, such business strategies will no longer motivate, but on the contrary, limit business growth, especially in the long run.

## 2 Literature Review

In the Republic of Moldova, the process of transition from a socialist to a market economy began in 1991, after the adoption of the Declaration of Independence and the country's withdrawal from the USSR. Since then, the period of the "mixed economic system" began in Moldova, which, according to Janos Kornai, represented a combination of elements of the socialist and capitalist systems (Kornai, 2000, pp. 27–42). However, there is still no consensus on "when and whether the transition is over" (Chepurensko & Sauka, 2017, p. 3).

The beginning of the transformation in the Republic of Moldova was characterized by a rapid "self-destruction" of the economy due to hyperinflation (the inflation

rate in 1992 and 1993 accounted for over 1200% annually), breakdown of production ties within the former Soviet Union, outflow of qualified personnel, rise in prices of imported energy and raw materials, loss of sales markets. In such difficult economic and political conditions, there was a formation of private business in the country (Gudim, 2001, p. 66).

It should be noted that in the beginning of the 1990s, the former socialist countries found themselves at different stages, in terms of the development of private enterprises. In a number of Eastern European countries, for example, Hungary, Czechoslovakia, the GDR, and Poland, private business had some opportunities for development even in the period of a planned economy. Therefore, the process of formation of the small private business sector did not start from scratch in these countries (Smallbone & Welter, 2009, p. 164). In the new independent states created on the territory of the former Soviet republics, including Moldova, there was no private business sector before the beginning of economic reforms. New owners and managers of enterprises were forced to learn the laws of market economy in the process of work, without having the necessary knowledge and experience. The mentality of entrepreneurs was changing very slowly, which was and still is one of the major obstacles to business development (Cotelnic, 2008, pp. 20–25).

Nowadays, in the Republic of Moldova, three decades after the beginning of the transition period, a complex, unfriendly external environment forces entrepreneurs to use not only successful strategies that lead to the growth of enterprises, but also strategies that allow them to survive, which is also considered a kind of success. In a certain way, this can be associated with the classification of entrepreneurs into “genuine” and “willy-nilly” (forced), depending on the degree of their entrepreneurial skills and entrepreneurial behavior (Aculai, Rodionova, & Vinogradova, 2006, p. 78; Kansikas, 2007, p. 49; Scase, 1997, pp. 13–21; Williams & Thompson, 1998, p. 291).

The existing research in the field of business strategies of enterprises covers various aspects of business management: personnel development (Michie & Sheehan, 2005, pp. 45–464), production management (Terkaj, Tolio, & Valente, 2009, pp. 1–18), sales promotion (marketing) (Jansson, 2007, p. 72), business internationalization (Incze, 2008, pp. 147–169; Tsai & Eisingerich, 2010, pp. 114–135), and others. Studies of business strategies in transitional economies that evaluate and compare the influence of traditional methods for planned economy of doing business with the methods of doing business adopted in a market economy are of particular interest. Thus, Peng and Luo (2000), when studying the relationship of firm strategy and firm performance in transition economies, demonstrated that conventional wisdom (“blat”) in the form of managerial networks with executives at other firms and with government officials' accounts for 18 and 11% of performance differences in market share and return of assets. At the same time, market strategy variables, such as quality, payment terms, advertising, pricing, and delivery alone explain 38 and 20%, of the variance of market share and return on assets, respectively. Thus, they demonstrated that conventional wisdom inherent to a planned economy is not sufficient for good performance in market relations (Peng, 2000; Peng & Luo, 2000, pp. 486–501).

The scientific literature suggests that there is no single optimal business strategy that is equally applicable to all firms. On the contrary, depending on the business environment, enterprises must apply different business strategies (Contingency theory) (Gardner, Johnson, Lee, & Wilkinson, 2000, pp. 25–34). However, in any economic system, in the conditions of significant constraints and contingencies from external environments, firms' competitiveness depends on their ability to monitor the environment and adapt their strategies accordingly (Boyd & Fulk, 1996, pp. 1–21; Nandakumar, Chobadian, & O'Regan, 2010, pp. 907–939).

### **3 Profile of the SMEs Sector and Assessment of the Business Environment in the Republic of Moldova**

The private business in the Republic of Moldova is mainly represented by the SMEs sector. A brief analysis of the development of this sector makes it possible to conclude that SMEs play an important role in the economic and social activity of the Republic of Moldova. In 2017, the number of SMEs accounted for 98.6% of the total enterprises. 61.2% of all employees from the economy are involved in this sector; they have obtained 41.6% of total sales revenue registered by domestic enterprises. The SMEs' sector is not only characterized by significant results, but also through the relevant potential: the share of SMEs sector's assets accounted for 48.3%; the share of investments—51.2% of the total.

Despite the significant contribution of SMEs to the national economy, SMEs are characterized by a rather low figure regarding the density of SMEs per 1000 inhabitants (15.1 enterprises). A high proportion of unprofitable enterprises (48.1%) also should be noted, and this indicator in recent years has exceeded the share of SMEs who have earned a profit—46.9% (Table 1).

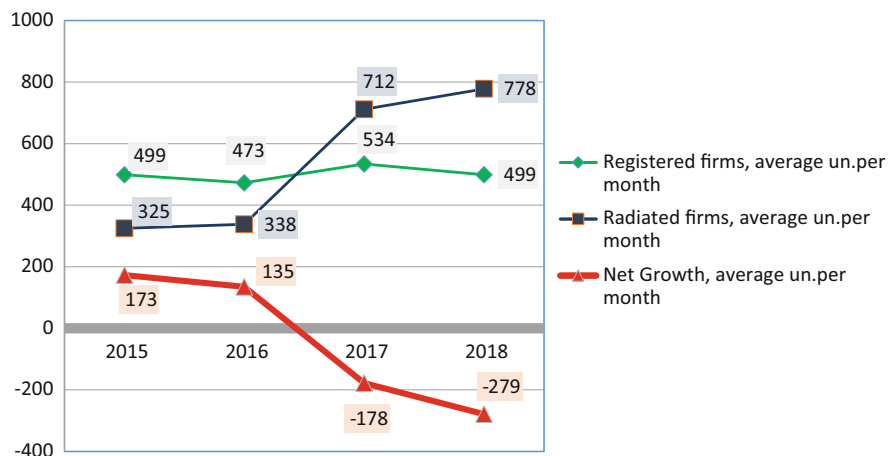
The negative trends in the development of entrepreneurship are confirmed by the data of the State Register of legal entities and individual entrepreneurs. The difference between the number of registered enterprises and the radiated ones presents a negative value (“minus” sign) in recent years (2017–2018). Moreover, this negative trend has progressed in the last 2 years: in 2017, the monthly reduction of the number of enterprises accounted for 178 units, and 279 units in 2018. There are several factors explaining this trend (mainly the simplification of the business liquidation procedure, a more constructive approach of the potential entrepreneurs toward starting their own businesses), but, however, the register data present the *existence of significant problems faced by the local entrepreneurs* (see Fig. 1).

The business environment in Moldova continues to be unfavorable despite the Government's policy of supporting entrepreneurship. This is evidenced by both, the assessments of international organizations and opinions of entrepreneurs. Thus, according to the World Bank's assessment made in 2018 (The World Bank, 2018), Government's policy reform agenda is good on paper have yet to materialize. A vulnerable political system, polarized society, adverse external environment, and

**Table 1** The contribution of SMEs to the economy of the Republic of Moldova, 2015–2017

Main indicators	Units of measure	SMEs		
		2015	2016	2017
Number of SMEs	Units	49,770	51,626	53,573
	%	97.2	98.7	98.6
Average number of employees in SMEs	Persons	281,408	313,533	323,277
	%	55.2	61.2	61.2
Total financial investment	mil. MDL	16520.5	19893.3	20820.1
	%	48.2	51.0	51.2
Total assets (Total balance sheet)	mil. MDL	177704.3	181423.7	189915.2
	%	50.5	48.9	48.3
Profit/loss till taxation	mil. MDL	3037.5	5878.5	10,569
	%	88.0	39.1	41.6
Number of SMEs that earned a profit	Units	21,078	22,784	25,115
	%	42.4	44.1	46.9
Number of enterprises that incurred losses	Units	25,662	26,128	25,752
	%	51.6	50.6	48.1
Share of SMEs in GDP (2015–2016)	%	33.5	31.4	...

Source: Calculated by the authors, based on National Bureau of Statistics of the Republic of Moldova (2018)

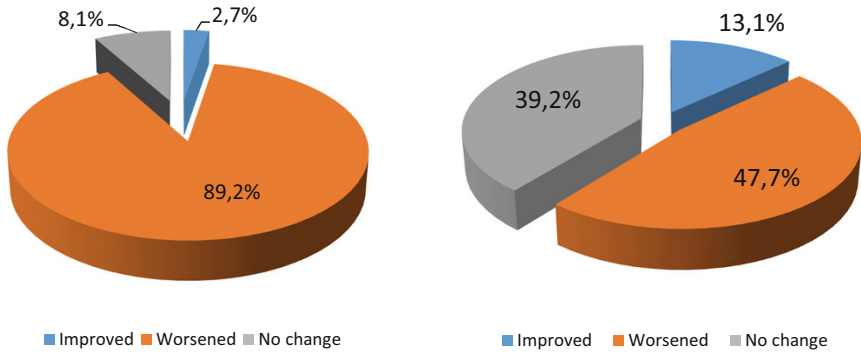


**Fig. 1** The number of registered and radiated enterprises from the State Register of legal entities and individual entrepreneurs in 2015–2018 (Source: Based on data from the State Chamber of Registration of the Republic of Moldova (2018))

skills mismatch in the labor market, as well as climate-related shocks, are Moldova's biggest economic challenges. Also, transparency, accountability, and corruption are crucial concerns; business confidence is low, and the macroeconomic framework remains vulnerable.

The results of a number of surveys and interviews organized with the participation of the authors also indicate on the existence of problems in the development of entrepreneurship in the Republic of Moldova. Entrepreneurs point out many barriers when assessing the business environment as unfriendly. First of all, these are unfavorable factors that are not directly related to the development of entrepreneurship, but affect all spheres of life: high level of bureaucracy and corruption; significant political influence on any activity, primarily, the judicial one; political and economic instability in the country, etc. Another group of adverse factors is related to the peculiarity of the implementation of the business development policy. According to the owners and managers of SMEs, there is a high burden of regulatory influences, a non-stimulating taxation system, as well as instability and unpredictability of legislation in the field of entrepreneurship. In addition to those noted, there are also internal problems of businesses related to access to resources: first of all, financial resources and qualified labor force (Institute of Economy, Finance and Statistics of the Republic of Moldova, 2013; National Institute for Economic Research of the Republic of Moldova, 2018). In particular, the instability of legislation and its impact on business is evidenced by a quotation from a young entrepreneur's interview: *“Constant changes in legislation, which for a SME is very difficult to get informed about them timely, lead to unintended violations of the laws by enterprises. However, state control bodies never advise entrepreneurs, but only impose fines, penalties, freeze bank accounts, etc., which negatively affects the results of entrepreneurial activity, as well as the psychological state of the owner and other workers* (National Institute for Economic Research of the Republic of Moldova, 2018). An illustration of another significant problem for a business presented in the study of Transparency International is represented by the significant investment of time to fulfill the numerous and laborious requirements of public administration authorities. In accordance with its results, entrepreneurs spend about 17% of their working time on solving problems with the officials from state institutions (Transparency International Moldova, 2018).

Entrepreneurs from underrepresented groups in business like women, persons with disabilities assess the business environment more negatively. For example, during the survey of *women entrepreneurs* conducted with the participation of authors at the initiative of the Organization for Small and Medium Enterprises Sector Development, when assessing the change of the business environment in 2016—the first half of 2017, almost half of the respondents (47.7%) indicated that the business environment worsened and only 13.1%—that it has improved (Organization for Small and Medium Enterprises Sector Development of the Republic of Moldova, 2017). The Questionnaire for *entrepreneurs with disabilities*, carried out within the National Institute for Economic Research of Moldova in partnership with the Association of Disabled Entrepreneurs from the Republic of Moldova, showed that the business environment in 2016—the first half of 2017 has worsened for 89.2% of the respondents and only 2.7% of the respondents perceived improvements (National Institute for Economic Research of the Republic of Moldova, 2017) (see Fig. 2).



*In the opinion of entrepreneurs with disabilities*

*In the opinion of women entrepreneurs*

**Fig. 2** Evaluation of the change of the business environment in 2016—the first half of 2017 (*in the opinion of different groups of entrepreneurs*) (Source: Developed by authors based on Organization for Development of SME Sector of the Republic of Moldova (2017), National Institute for Economic Research of the Republic of Moldova (2015))

The above-mentioned examples illustrate the unfavorable conditions in which Moldavian entrepreneurs have to operate.

#### 4 Business Strategies of Moldavian Entrepreneurs in an Unfriendly Environment

The unfavorable conditions for business development in the Republic of Moldova largely determine the specifics of entrepreneurial mindset of owners and managers of SMEs. Despite the significant barriers that entrepreneurs have to overcome, many of them manage to find new opportunities to grow their businesses. An entrepreneur from the USA, David Smith, who carries out a business in Moldova, characterizes the business environment in the country in the following way: “*Three years later (after opening a restaurant) I understand that we were naive. It turned out worse than we thought. But at the same time, the opportunities that are opened here, regardless of what you intend to open—sushi bar, restaurant or anything else—are much wider than we thought. That is, here you can do any kind of business, although it is very difficult*” (Gilan, 2019).

An analysis of the main obstacles faced by Moldavian entrepreneurs showed that they have been putting the problem of a lack of financial resources on the first place for many years, and personnel problems on the second place. And if the attraction of financial resources is quite complicated for entrepreneurs themselves, and the acquisition of new equipment and technologies also largely depends on funding, then there are many opportunities for solving organizational and personnel problems that often do not require significant financial investments. In this context, many

Moldavian entrepreneurs already realize nowadays that the development of human resources, as well as solving organizational issues, are decisive for the growth of competitiveness.

The possibilities and ways of developing human resources depend on the specific problems that Moldavian business faces. In an interview conducted in 2018 with the participation of the authors (National Institute for Economic Research of the Republic of Moldova, 2018), entrepreneurs were asked to concretize the problems related to personnel. Almost all respondents indicated, first of all, the difficulty of finding and hiring personnel of the necessary qualifications (including workers and specialists), or even the lack of personnel in certain professions and specialties. The problem of lack of qualified personnel in the labor market is aggravated, as a result of the mass departure of active and trained people abroad: over the past year, more than 100 people leave Moldova daily (Actualitati.Md, 2014). In the words of one of the entrepreneurs, *“the qualified ones are already abroad, only 2–3 persons of 10 are the ones that do what they have to do”* (National Institute for Economic Research of the Republic of Moldova, 2018). In turn, the recruitment of persons of lower qualifications causes additional difficulties in the business: poor quality and untimely execution of orders, conflicts in the team, great fluctuation of personnel, and, consequently, losses within the enterprise. The owner of a small restaurant illustrated this situation as follows: *“An acute shortage of skilled chefs, waiters, and bartenders forced to recruit often random people. This led to customers being deducted, a significant excess of the established norms of the broken dishes, embezzlement, lower profits and other indicators of the enterprise’s activity”* (National Institute for Economic Research of the Republic of Moldova, 2018).

Experiencing difficulties in hiring workers and specialists with the necessary qualifications, managers are forced to hire people without proper training, thus supposing their subsequent training at the enterprise. Thus, co-owner of a shoe company, Olga, gives the following example: *a month ago she gave an advertisement about hiring, but in 30 days there were only two phone calls from job applicants. Previously, the company hired four people without proper training based on the recommendation of relatives, as they were characterized as “smart, handy,” and later were trained in production.* That is, when hiring workers it was implied that if a person wants to work, he/she can be taught directly at the enterprise, and it is much easier to do this than to find an employee in the market with the necessary profession and qualification (MyBusiness.Md, 2015).

Owners of SMEs, having limited financial resources, monitor the quality of training services they need, which are offered at different prices, and sometimes free of charge (funded by the government or external donors). A common method of training employees in an enterprise is to attend short-term courses offered by various business service providers—government agencies, chamber of commerce, professional, or business associations and other institutions. You can get both, basic training and a deeper level of knowledge at these courses. For example, the state agency—the Organization for Small and Medium Enterprises Sector Development (ODIMM) has been implementing for many years the lifelong education program “Effective Business Management” (GEA), which provides free training of business



skills for entrepreneurs and potential entrepreneurs in various fields of activity (personnel, finance, accounting, etc.). Thousands of managers and specialists have already been trained. Another example: the Chamber of Commerce and Industry (in particular, the Entrepreneurship Training Centre), at the beginning of this year, organized a seminar “Acquisitions through MTender—the practical way of using it” in connection with changes in public procurement procedures. Absolutely, all managers of enterprises can send their employees to such courses, as the more active of them use such opportunities, the quality of programs and the price of training.

Business owners care about training and building up managerial and professional experience not only in relation to workers and employees, but also to themselves. For this purpose, original methods are used in conditions of limited resources. For example, *an entrepreneur-restaurateur, with the intention to improve his qualifications, got a job as an intern manager for four months in one of the best restaurants; as a result, he gained the necessary experience* (National Institute for Economic Research of the Republic of Moldova, 2018). A student who intends to create his/her own business and who wants to know more about the features of chosen field of activity, *went to the USA within the framework of the Work & Travel program, where he undertook some ideas for his future business, returned home and organized his own business* (National Institute for Economic Research of the Republic of Moldova, 2018).

A relatively new opportunity to improve the qualifications of the personnel from Moldavian enterprises in recent years are various courses offered through the Internet, as well as many training materials from the Internet space, allowing them to independently improve their skills. For example, an entrepreneur—the owner of a medical clinic, with a high experience in profession and business, noted in an interview: *“If at the beginning of the activity it was necessary to invest funds in purchase of educational materials related to the specialty (books, manuals, magazines), then at the moment, there is no need for this, because there is Internet, you have only to want”* (National Institute for Economic Research of the Republic of Moldova, 2016). Today in the Internet space, there are many seminars and conferences with free participation. Everyone can participate by himself and listen to colleagues, learn new things in his/her profession.

According to Moldavian entrepreneurs, an additional advantage of using training via the Internet is that you can find training courses at different prices. Even if the courses are expensive and their price exceeds the financial capabilities of the business, the entrepreneur can try to get a discount. For example, one of the entrepreneurs mentioned in an interview that if he does not have the means to fully pay for the training of his employees, although this knowledge is very important for his business, he *can discuss with the training organizers so that employees can only attend the course without obtaining a certificate/diploma. In terms of obtaining knowledge, this is enough. Perhaps, in the future, the entrepreneur will have the financial opportunity to pay for not only knowledge, but also for a diploma* (National Institute for Economic Research of the Republic of Moldova, 2016).

In recent years, in order to attract workers of certain professions and qualifications to business, managers of some enterprises have begun to develop long-term

cooperation strategies with universities, colleges, and other educational institutions, where education of potential employees for their business takes place. As a result, enterprises receive relatively more opportunities to attract young people with the necessary qualifications. For example, a survey of employers with experience in working with vocational education institutions showed that absolutely all respondents were prepared to cooperate more closely with vocational–technical education institutions to improve the process of preparing the personnel. Analyzing possible forms of cooperation, the greatest interest was noted in relation to the job placement for pupils in order to carry out the production internship—without remuneration for work (61.5%) and graduates’ employment (53.8%). Accordingly, nowadays, entrepreneurs are not very interested yet in investing financial resources in the activities of educational institutions, as well as in participating more actively in the educational process (developing curricula or taking part in the exams). This conclusion is not surprising, since the process of cooperation between business and educational institutions is at an early stage and today, not all entrepreneurs realize the importance of such partnerships and have the opportunity to invest their time and money in this (Centrul Pentru Educatie Antreprenoriala si Asistenta in Afaceri, 2017).

The business strategies of some owners of Moldavian SMEs imply teamwork, if necessary—combining the efforts of all employees, regardless of their position and functions. This means the willingness of managers in certain situations to perform any functions required by the business, to work together with employees. This approach is used almost always within the framework of a small family business, since the collective of such enterprises is often perceived by business owners as a large family. At the same time, the teamwork of owners/managers with their subordinates and their interchangeability is used in Moldova not only in family enterprises. For example, entrepreneur Gleb, who opened one of the country’s largest online stores in terms of sales, believes that *although he currently has a good team (directors, managers, operators, couriers), but if there are a lot of orders, he sits in the car by himself, goes to the warehouse, takes the goods and delivers them to the client. And this rule is applied to all team members: it does not matter who you are—the general director, commercial director, manager or operator. If you have a free minute, you perform the functions required by the business* (Cojuhari, 2019).

When developing a business development strategy for the long term, a number of entrepreneurs are paying attention to maintaining their reputation and creating a positive image of the enterprise. Thus, the example of a business owner and the head of a knitwear manufacturing company demonstrates that *public opinion and reputation are very important for her, and not only in matters related to business: she’s better lose money than her reputation. The entrepreneur tries to be completely honest with customers and partners and is waiting for the same attitude in response. This allows her to maintain long-term business contacts with those she trusts* (Aculai, Vinogradova, & Welter, 2008).

Some entrepreneurs not only understand the importance of the reputation and image of the business, but also try to cultivate these qualities in their employees, promoting corporate values. In this context, one of the “trendy” directions within small- and medium-sized enterprises is holding of trainings/seminars aimed at staff

development (leadership development, time management, team building, etc.). Events are organized on the territory of the enterprise itself or during a trip to nature, on a tour, combining the acquisition of new knowledge with collective recreation. Events are usually paid from the funds of the enterprise. Within the framework of such events, informal relations are established, trust among employees is strengthened, and the foundations of corporate culture are laid. At micro and small enterprises whose owners are aware of the importance of corporate values, but lacking financial resources to invite professional coaches, managers independently try to form desired relationships and values in a team, like relationships in a good family. That is, managers are often familiar with the spouses and children of their employees, they are aware of the main events in their personal and family life. The team necessarily organizes congratulations to all employees on their birthday, they give gifts from the team, and they can even celebrate holidays together or organize joint vacations.

A special informal, trusting style of relations between owners and hired staff is often common in family businesses, where, as a rule, many relatives work. We can give an example of such an enterprise (engaged in the installation and repair of autonomous heating systems and plumbing equipment): *at the time of establishment of business and today, the owner and director of the enterprise is a young man. His wife serves as an accountant and clerk. Father and godfather are the employees who perform key functions in production. Mother and sister are voluntary (not formalized and unpaid) assistants who are recruited by necessity* (National Institute for Economic Research of the Republic of Moldova, 2015).

Innovative business strategies practiced by Moldavian entrepreneurs are not only aimed at solving personnel problems, they are also extended on the production of new products/services. Since the market is only being formed in the country, and many niches are empty, the new products of enterprises, intended for realization on the domestic market, are often new and innovative exclusively for the Moldavian market. In particular, a young entrepreneur believes that *Moldova is a "raw" country (in terms of market development). "There are many business ideas that are already implemented abroad, but which are still new for our market. Please, you can find an idea, start developing it in Moldova, and you will be the first to do it here. Therefore, despite the gaps in legislation, personnel hunger and general pessimism, one can do business in the country"* (Cojuhari, 2019).

In some cases, entrepreneurs are not limited to offering a new product for the Moldavian market, but also participate in the formation of demand for it. For example, spouses *Ludmila and Ivan* organized their business of producing biomass fuel briquettes in 2008, when biofuel was an innovation for Moldova, but there was no demand for it yet: *"People asked what fuel briquettes are, but now consumers perceive the different types of biofuels and carefully choose the right one for them"*. In this case, not only the production of a new product for the Moldavian market represents an innovative approach, but also the solution for a number of other tasks important for both business and society. According to the entrepreneur, *"more than half of families in the Republic of Moldova heat their houses with the help of stoves, and the efficiency of briquettes is 50% higher than that of firewood. By the way, in*

2015, the consumption of firewood in the country exceeded 130 thousand tons. That is, by replacing firewood with briquettes, consumers not only reduce their costs, but also help reduce deforestation.” Therefore, biomass briquettes are in demand on the Moldavian market today (MyBusiness.Md, 2017a).

The interviewed entrepreneurs do not only care about improving the skills of their employees through online courses (as noted above), but also are involved in their development. For example, an entrepreneur offering tailoring services, after 7 years of entrepreneurial activity, being in a crisis situation, began to look for additional activities. As a result, she decided to create a video course on teaching modelling and sewing and sell it on the Internet, especially since she has a successful teaching experience, plus the entrepreneur is a highly qualified specialist. During the interview, the respondent completed the studies on announcers’ courses in order to present her video course more professionally (National Institute for Economic Research of the Republic of Moldova, 2018).

The development of market relations requires Moldavian enterprises to grow their competitiveness, especially since Moldova’s economy is open to many European countries after the signing of the Association Agreement RM-EU. Achieving competitive advantages is determined by the introduction of modern equipment and technologies, the use of new materials or changes in the organization of production and management. Moldavian entrepreneurs, as part of their business strategies, use the full range of opportunities for this. For example, Olga, co-owner of a shoe company, has acquired high-quality production equipment in order to achieve a competitive advantage. She describes her story in this way: “In 2005 we started with old Soviet sewing machines, but in four years we completely modernized our production. Today, the company uses modern machines of such a class, which are almost absent in the city. This is the merit of my husband, as he is a fan of sewing equipment, constantly monitors all production innovations. Representatives of competing firms turn to him for advice quite often” (MyBusiness.Md, 2015).

Often, changes in the organization of management process represent a less costly method of growth of competitiveness. For example, the owner of a restaurant business, analyzing the previous negative experience of enterprise management, pointed out on the following problems: the presence of contradictions between individual owners; lack of a business development strategy in a long term; inefficient delegation of authority; and insufficient attention to risks. The entrepreneur illustrates these problems and their subsequent solution as follows: “the premises were modernized, for which considerable funds were spent, and then it turned out that the term of renting the premises would soon end and would not be extended.” After the closure of this business, the owners created a new enterprise, completely adjusting the strategy of doing business: “first, the composition of the owners changed—only the persons who were directly involved in the management and had a common vision of the enterprise’s development remained as business owners. Secondly, the management functions were redistributed and the responsibility of each manager and specialist for solving certain issues was established, which made it possible to improve the quality of management decisions (there was no clear distribution of functions between managers and specialists; the work was done by the one who had

*spare time). Finally, thirdly, the planning horizon significantly increased, more attention was paid to identifying risks and planning measures to overcome them. As a result, business is developing more successfully than before” (National Institute for Economic Research of the Republic of Moldova, 2018).*

Another feature of modern mindset of Moldavian entrepreneurs is their association with the goal of protecting and promoting common interests. Nowadays, in the Republic of Moldova, creation of clusters represents the most promising form of association of enterprises. Although the only policy document in this area (the Concept of cluster development of the industrial sector of the Republic of Moldova) was approved by the Government back in 2013, in fact, the process of initiating clusters in the country is just beginning. For example, at the end of 2018, with the support of TAIEX experts, the Textile Cluster SORINTEX was established in the northern region of the Republic of Moldova. It brings together 38 companies and is aimed at promoting the interests of the textile industry, in particular: joint marketing at the national and international levels; timely access and exchange of information; joint participation in national and international exhibitions/fairs; accumulation of new ideas and knowledge to improve the quality of goods; introduction of new technologies; expansion of exports of textile products, etc.

Although many Moldavian entrepreneurs do not have yet the need for cooperation, considering that they can solve the problems of their business alone, examples of cooperation of enterprises are not infrequent, even if for the implementation of one project. For example, *the owner of a private rehabilitation company specialized in physiotherapy needs a special tape, which is not available on the local market. His competitor brings these tapes from abroad, but only for his clinic, and is not interested in selling it to other clinics, including our entrepreneur. However, the latter is also engaged in the professional development of medical workers, and he offers these services to his competitor on favourable terms. As a result, competitors become partners and both enterprises benefit from their cooperation* (National Institute for Economic Research of the Republic of Moldova, 2016).

In some cases, business associations may be created in response to the decisions of the authorities, in protest or in order to force the authorities to engage in dialogue with the business. For example, by decision of the municipal authorities in Chisinau, the kiosks selling flowers for which businessmen had permits began to be demolished. The merchants were indignant: *“Our flowers are domestic, grown in Moldova. And the overwhelming majority of merchants are retired and disabled. Why are we denied the right to work and the small income that this business brings?”* (MyBusiness.Md, 2019). The businessmen, speaking in a consolidated manner, protested at the mayor's office with demands to change the government's decision, and partially succeeded.

A high level of corruption in society has a negative effect on business. Experts call corruption one of the main problems of Moldova. A citizen of Moldova bribes an average, once every 3 months, while a Moldavian businessman once every 2 months. These are data from a UNDP study (Gilan, 2019). However, many entrepreneurs want to adhere to ethical standards in business, and do not agree to pay bribes. Thus, according to a survey by Transparency International, when asked

whether entrepreneurs are ready to offer a bribe, 49.3% of the surveyed entrepreneurs answered that they are not ready; 45.5%—depends on the circumstances; and 5.2% of respondents indicated that they are ready to offer a bribe (Transparency International Moldova, 2018).

Co-owners of the Smokehouse restaurant are among such entrepreneurs who show determination and do not give bribes in principle. One of them, Vladislav, describes the situation this way: “*A period of up to 30 days is officially set for receiving a permit from any state institution. And this is catastrophic, especially since without this document I cannot get the next document. Nobody extorts money directly, but in fact every official who has the opportunity to complicate the life of an entrepreneur creates the conditions for the development of corruption.*” The principled approach of entrepreneurs who not only refuse to pay bribes, but also describe in detail on social networks the difficulties they face, serves to improve the business environment and represents a good example of entrepreneurial ethics (Gilan, 2019).

Many business strategies discussed above, reflecting entrepreneurial mindset, allow preserving and developing the business both, in the conditions of modern Moldova and in a more developed market economy. However, some business strategies actively used by Moldavian entrepreneurs represent a way to survive in an unfriendly environment, but they are unlikely to be effective in more favorable conditions. The perception by entrepreneurs of the business environment as unfriendly and unstable stays at the heart of such strategies, which causes them to be overly cautious, choosing to maintain or slowly develop the business with low risks instead of rapid growth in conditions of unpredictable environmental changes.

Such strategies are often based solely on the use of internal resources (primarily financial), which limit the opportunities and growth rates of their business. For example, many Moldavian entrepreneurs, even when they are in need of funds, prefer not to take loans from banks and microfinance institutions, but try to use their own funds or use money borrowed from relatives, friends, and acquaintances (National Institute for Economic Research of the Republic of Moldova, 2018). There are many reasons for this, as objective ones (banks offer loans at a high interest rate; require collateral, which significantly exceeds the cost of a loan; economic and political instability in the country does not give confidence in the development and return of debt, etc.), as well as subjective—fear of timely return of the loan; in general, the absence of desires and traditions to live in debt. For example, family members of sheep farmers from the Hincesti district for 15 years of developing their business *have never taken any loans from the bank, never had any state support. Everything was done by themselves, based on their capabilities. And this is in conditions when the enterprise has no access roads, no water supply, no electricity; the village is outside the coverage area of mobile networks* (MyBusiness.Md, 2017b).

Another strategy, reflecting the excessive caution of Moldavian entrepreneurs, is associated with their unwillingness to actively promote their products, limited mainly to their regular customers. For example, florist Alexandra notes in an interview “*The first orders always come from relatives and friends who want to support your business. They begin to make orders, in addition, you give yourself*

*your goods (in this case—bouquets of flowers) for birthdays or other holidays. If the first customers are satisfied—they recommend you to their friends, so little by little the business is growing”* (Publica.Md, 2019). Entrepreneurs justify the choice of such strategies by the fact that regular customers show great interest in the product they are used to; respectful and friendly relations develop between entrepreneurs and customers. Working primarily with regular customers ensures the preservation and sometimes even slow development of business. In some cases, targeting a narrow circle of clients may be associated with work in the informal economy.

A common way to save a business or develop at the expense of its own resources, even limited ones, is to focus on the development of an individual or family business. Such a strategy often takes place in the period when the enterprise overcomes the crisis, given the previous negative experience of relations between the founders or the presence of conflicts in the team. Entrepreneurs explain this approach not only in terms of financial savings, but also with distrust toward strangers, with a desire to rely on their relatives, whose work is often not paid (National Institute for Economic Research of the Republic of Moldova, 2018).

In the absence of the ability to hire workers and specialists with the necessary qualifications, entrepreneurs are often willing to hire nonqualified personnel. Managers consider it quite acceptable to train workers directly at the enterprise, in case they really have a desire to work. The proof is provided by the results of a survey implemented on the initiative of the Centre for Entrepreneurial Education and Business Support—CEDA (Centrul Pentru Educatie Antreprenoriala si Asistenta in Afaceri, 2017). Employers were asked to evaluate what qualities should pose first of all, graduates of the vocational training institutions for their work in the enterprise. Absolutely, all the respondents (managers) indicated that the *desire to work* is a very important trait. At the same time, 92% of employers (the prevailing number, but not all!) noted the importance of such qualities as *hold of professional competencies and responsibility* (Centrul Pentru Educatie Antreprenoriala si Asistenta in Afaceri, 2017).

Building relationships that do not imply trust between partners represents another feature of business strategies that are unlikely to be justified in a more favorable environment. The example of one of the owners of a business who is on the verge of bankruptcy is illustrative: *“Previously, cooperation with major suppliers and consumers was carried out on the basis of a verbal agreement, in fact on trust, without concluding written contracts. As a result, the delay in payments from partners put the company on the verge of bankruptcy. After overcoming a difficult financial situation, managers began to conclude written contracts with all partners. Moreover, they started documenting all the actions, trying to argue them with other documents and facts, as if they would need to go to court tomorrow”* (National Institute for Economic Research of the Republic of Moldova, 2018).

Some of the above-mentioned business strategies, while improving the business ecosystem and raising the standard of living of the population will not motivate in the long term, but on the contrary, limit business development, especially in the long run.

## 5 Some Conclusions

The Republic of Moldova belongs to countries with emerging market economies, which are characterized by an unfavorable business environment. In such conditions, the role of the entrepreneur, entrepreneurial mindset, and developed business strategies is particularly significant, since along with the usual risks characteristic for a market economy, the entrepreneur has to overcome additional barriers associated with the shadow economy, corruption, etc.

Analysis of the business strategies of owners of Moldavian SMEs showed that many of them are flexible, contribute to the growth of competitiveness and take into account the peculiarities of the environment, meaning that they are based on entrepreneurial mindset. The implemented business strategies are aimed mainly at *the development of human capital, organizational transformations, and cooperation of businesses*. These strategies involve the training of workers directly in enterprises, being also implemented through online training. Trainings aimed at the formation of corporate values are conducted. Long-term strategies for cooperation with educational institutions where potential employees for their business are being trained are also implemented.

The implementation of some business strategies, which are also original and take into account the specific features of a particular business, contributes to the growth of enterprises only in an unfriendly environment. At the core of such strategies is the perception by entrepreneurs of the business environment as unfriendly and unstable, which causes them to be overly cautious, choosing to maintain or slowly develop a business with low risks. These strategies include, for example, the lack of willingness to take out loans from banking institutions, and reliance solely on their own resources; restriction mainly to the number of regular customers (which is comfortable, does not require significant costs and increases the opportunity to work in the informal economy); orientation toward the development of an individual or family business (given the previous negative experience of relations between the founders or the existence of conflicts in the team). With the improvement of the business climate, such business strategies may no longer contribute, but on the contrary, limit business development.

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# Skill Sets, Employee Types, and Strategies for Remediation: Analytical and Clinical Considerations for the Workplace



Peter R. Maida

**Abstract** Many disciplines such as human and organizational development, psychology, social psychology, sociology, conflict resolution, psychiatry, and economics have applied their unique perspectives in analyzing and describing workplace dynamics. After all, most humans throughout the world spend the greater part of their days working. When workplace conflict, dissatisfaction, unacceptable productivity, and even homicide occur, naturally solutions are sought. This chapter describes one of the many possible frameworks to explain workplace communication. Observing employee interaction exposes several obvious skills including, trust, collaboration, ego-strength, and communication. Assessing how each employee expresses these skills yields a profile or ideal prototype such as the Workplace Optimizer, the Pressured Employee, and the Low-Level Underperformer. Employee prototypes become the gateway to effective workplace problem resolution. In other words, the combination of skill sets subsumed under the rubric of specific prototypes helps guide human resource professionals and others in their efforts to improve workplace communication, suggest remediation work with specific employees, and ultimately aid in achieving the organization's mission. The reader is offered practical solutions for working with conflictual and unproductive interaction in the workplace.

**Keywords** Skill sets · Employee types · Strategies for remediation · Workplace

## 1 Introduction

For years, understanding the dynamics of workplace communication has been an interest of both human and organizational development studies as well as academic disciplines such as psychology, social psychology, sociology, conflict resolution, psychiatry, and economics. The reader will be presented with, first, an introduction

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to a heuristic approach for understanding more clearly workplace behavior. Second, skills that professionals have found useful to help those who are asked to reduce friction between employees, employers, and staff will be outlined. Third, employee prototypes are developed to help classify employees based on the skill sets they bring to the workplace. Fourth, suggestions are offered for strategies addressing, remediating, as well as avoiding, and workplace conflict. This framework of ideas is offered to aid organizations in achieving the goal of a smooth-running organization resulting in employee satisfaction. Ultimately, satisfied employees are necessary for an organization to be financially successful (Baumann, Kazén, Quirin, & Koole, 2017; Brown et al., 2018; Carsten, De Dreu, & Gelfland, 2008; Schwartzhoffer, 2009; Zedek, 2011).

Workplace interaction is of interest to many who have been charged with remediating a workplace issue. The most important piece of this is the necessity to understand employees and how their thoughts and behaviors color the dynamics of the workplace. Methodologies and theories abound and are useful in learning about organizational behavior, whether the setting is private or public. For example, team building literature, human resource research, psychological literature, and communication studies focus on how workplace dynamics evolve when a group of people must complete a task together. Organizational systems theory, for example, explains how and why organizations must function in order to be efficient. Some efforts, specifically conflict studies, exchange theory, and leadership studies characterize what is important to understand when people conflict with one another in the workplace. How experiences, goals, and commitments may vary. Last, clinical studies, executive coaching, and counseling inform those who work in organizational settings of the techniques that can be used to defuse workplace conflict.

In each of the above areas, people work with organizational dysfunction either system wise or with work groups, or individuals. Some prepare for careers as human resource professionals, dispute resolution professionals, or for careers in counseling to become specialists whose focus is organizational remediation. It has long been recognized that organizational dysfunction is normal and must be addressed. Therefore, several different routes exist that prepare human resource personnel to work to reduce workplace dysfunction. The body of information informing this work, today, comes from many different disciplines as mentioned previously whether working at the system level, the group level, or the individual level (Maida, 2008; McShane & Glinow, 2019; Scott, 2006; Volti, 2008).

The material that follows is the result of direct experience in working with organizations under the mantle of a dispute resolver or mediator. Other professionals who also work in a remediation capacity include human relations professionals, EAP professionals, counsellors, organizational specialists, systems analysts, lawyers, and employers. Remediation work has common goals regardless of professional background. There are, of course, many possible and valid approaches to prepare for remediation in a workplace setting. These approaches prepare the groundwork for effective coaching and counseling (Biron, Karanika-Murray, & Cooper, 2011; Chapman-Clarke, 2016; Colquitt, LePine, & Wesson, 2019; Furnham & Treglown,

2017; Hayes, 2011; Parker & Patterson, 2012; Somers, 2007; Stone, 2007; Stone & Heen, 2014; Sutha, 2019).

The role of mediators and other workplace human relations professionals have been central to understanding the dynamics of conflict in the workplace. Their clinical approaches may be different from one another. However, they do share some concepts and their goals are similar. Generally, any of the above professionals may be asked to assess workplace dynamics involving either a single employee or a team, or the organization itself. The goal of any professional who is asked to ameliorate problems that interfere in accomplishing the mission of the organization will generally be the same; that is to bring about positive change. Each may have a preferred way to analyze and coach and counsel for change, but as stated, the goal is the same (Cloke & Goldsmith, 2011; Crawley & Graham, 2007; Dingle & Sephton, 2017; Doherty & Guylar, 2008; Donais, 2014; Hoffmann, 2011; Liddle, 2017; Masters & Albright, 2002; Raines, 2013; Tjosvold, 2015).

## 2 Focusing on Specific Skills

The “building blocks” of interpersonal interaction consist of shared skills. The focus, herein, is on specific skills operative in person-to-person interaction. The operative definition of skill in this chapter is an exhibited “aptitude” or “strength.” Therefore, every skill defined below indicates that an employee in the workplace utilizes strengths, proclivities, and abilities interacting with other employees. Employees are usually evaluated based upon whether they exhibit skill proficiencies. Workplace settings rely on employees using well-established skills to be successful in achieving their goals. People, however, vary to the degree in which they use these building blocks; some manifest strengths, others, and weaknesses.

To resolve workplace issues, certain steps must take place. First, deciding which skills are important for an individual employee as well as for the organization. This will reveal whether an employee is in sync with others as well as with the overall important objectives of the workplace. Annual evaluations and interviews with employees will result in a profile of what skills are necessary for success and what the concerns are for the employer, supervisor, or employee. Difficult interactions, lack of communication, conflict, low morale, dysfunctional behavior, inaction, passive-aggressive behavior, leadership deficits, job dissatisfaction, and express the most commonly used descriptions when differences between people are negative to a significant degree. Cooperative, team player, positive, committed to the organization, collaborative, and trustworthy are terms used to describe the employee who is in sync with other employees and the goals of the organization (Fox & Spector, 2005; Kellett & Matyok, 2016; Lutgen-Sandvik & Davenport Sypher, 2009; Tourish & Hargie, 2004). “Problem behaviors” become a pattern that requires intervention if the workplace and employees are to change, becoming more constructive and positive.

Thus, understanding patterns of interaction between personnel in a workplace is important. This can be accomplished by: observing interactions; interpreting work evaluations; understanding plans with respect to improving job performance; interviewing supervisors to understand how they communicate with employees; understanding how personnel reports form the basis of communication; and assessing employee's impressions of one another. Those who work to ameliorate dysfunction in the workplace must use analytical tools upon which their professional judgment about the most effective counseling and coaching approach is based. Businesses know that maintaining or increasing productivity in the workplace is crucial and satisfied employees are essential to meet the goals of the organization. This can be done when human resource personnel increase the accuracy of strategies to change workplace behavior. All employees can help identify what is necessary for positive change, increasing clarity about what is necessary for individual's job success. It is important to identify what "appropriate behavior" while performing job duties, means to employees. However, employee opinion may not always focus on furthering the goals of the organization. This important to assess.

To summarize, every workplace employee's behavior reflects their reliance on behavioral skills. The success with which these skills are utilized will vary. Theoretically and for practical purposes, an employee's skill-mix is important. Everyone's behavior is the result of the skill-mix they bring to any task. The skill-mix will be an important determinant of employee job approval, job performance, ability to get along with other employees, and the basis for periodic evaluations. Problems that employees and organizations experience are often the result of the mismatch between the employee and the workplace. The employee may express this mismatch in the form of a complaint against another employee, the employer, or the organization. Dissatisfaction can be expressed in several ways. Other employees as well as the employer may also be the first to express how another employee is "difficult." Situations like this often form the basis of calls for remediation. That is, expressed in the following: "We need to do something about this problem." This will often form the basis of a complaint filed by an employee or a complaint by an employer. However, mismatches between the employee and the workplace often do not result in filed complaints. As will be seen, some employees would rather stay where they are and not leave their employment and some employers are loathe to complain about their employees. And, some organizations continue to exist, albeit, at a level of performance lower than their potential because of skill deficits.

The focus here is where an employee or employer moves to do something about a problem situation for them. A typical scenario might be, the employee wishes to leave the current job but does not know what to do, the employee is aggrieved and files a complaint alleging improper treatment, or, the employee and another employee are involved in a disagreement that the employer must resolve but who needs assistance. Often, an employer will ask for professional help to assess the situation when there is an employee who is dissatisfied or acting inappropriately, or whose level of performance is below par. Therefore, an assessment of skill level would be appropriate to determine if and how changes could be made. After this assessment, a strategy would be developed in order to remediate the problem. The

strategy would be tested with suggestions for changes in the workplace. A strategy might involve working in the organization for a period to allow proposed changes to occur.

### **3 Interpersonal Interaction Skills**

What personal interaction skills in the workplace have an impact on every employee regardless of position? When workplace staff interact with one another, an observer will notice which interpersonal skills are important. Identifying these specific skills in a work setting will help determine what remediation strategies to use. Often, a number or combinations of skills are relevant in describing the nature of the interpersonal interaction between employees. No personal interaction is fully characterized by only one skill. Of course, hybrids would make identification of types of problem employees more precise but more difficult and remediation more difficult. However, when combinations of skills are observed, the planned intervention strategy would be more effective. Therefore, strategies to bring about change should precisely identify skill-deficit problems. The challenge in identifying skills and utilizing effective strategies for change is: the ability to develop a valid and reliable picture of the issue; the participation of appropriate personnel to support the effort; funds for remediation; and organizational support for activities such as retraining.

What are some important interpersonal skills and how are they used to develop ideal employee prototypes for coaching and counseling purposes? Identifying an employee's interpersonal skills is the first step. Also, learning that employees may be more complex than describing them as exhibiting one skill only is important. Low or even high-level interpersonal skills may be catalysts for and signal potential problems in their interaction with others in the workplace and in the performance of their responsibilities. This is particularly true if employees, whether at an optimal or below par skill level are out of sync with other employees, the employer, organizational regulations, or other workplace requirements.

The skills highlighted below will help characterize the nature of workplace interaction regardless of whether it is between employer, employee, supervisor, supervisee, team members, or members of the organization's staff. Human resource people often refer to the following skills by their behavioral manifestations and not necessarily as they are identified here. For example, the lack of trust maybe described as avoidance behavior. The following skills are divided into two groups: the first consists of four which identify specific skills important in analyzing workplace interaction; the second consists of five continua along which staff behavior and attitudes can be evaluated. The following list is not inclusive. Other skills can be used to analyze workplace interaction. The nine categories of skills that follow are often identified by dispute resolution professionals, including dispute resolution trainers, as having utility in resolving workplace issues. Also, each professional may have a list of skills that are useful for analyzing interpersonal interaction. The



methodology, in any case, is to develop strategies for remediation that are appropriate regardless of the skill.

**Trust** is the first of the skills to be highlighted. Trusting others in the workplace regardless of the situation allows the individual worker to have confidence in the predictability of others and situations (Searle & Skinner, 2011). Trust is an ability that is rooted in emotion (Lord, Klimoski, & Kanfer, 2002). For example, if employees can trust that the supervisor will evaluate their work fairly, then work becomes a haven. Emotional comfort is the product. Trust is related to the need for security in, and predictability of, what the individual can expect in the future, near, or distant. Trust in the workplace creates a safe atmosphere and some say allows risk-taking, which in turn is related to creativity. So, the human resource person may look at specific outcomes of interaction and may identify the outcome as to whether it is or is not a manifestation of trust. The importance of clearly identifying an individual's behaviors that are manifestations of trust or lack of trust is necessary for identifying specific strategies to change workplace behavior.

**Collaboration** is a skill that enhances productivity in the workplace (Engeström, 2008; Hayashi, 2013). Some employees are comfortable with collaboration while others avoid it. When in a collaborative work mode, competition between employees is lessened. That is not to say that competition disappears completely. Employees, supervisors, and employers work together to reach common goals; everyone is rewarded for the part they play in helping aid the organization's mission. At times, collaboration involves immediate and direct problem solving and at other times, day-to-day interaction in the workplace is characterized by its "collaborative" nature. Collaborative skills include recognizing the interests of others as well as the ability to incorporate the opinions of others in reaching a goal. Human resource specialists may speak about "honest communication." Collaboration requires honest communication characterized by veracity. Direct communication should be respectful, and kind. Willingness to seek common solutions to problems that meet the needs of many, rather than a few, should exist. Lack of collaboration often results in conflict and impasse (Engeström, 2008; Hayashi, 2013).

**Communication Skills** are the reason why some workers are "successful" in the workplace. The absence of communication skills is often a predictor of workplace dysfunction and internecine battle between workers. Communication skills include active listening, empathy, and objective and nonjudgmental language that is valid and reliable. These are some communication skills that enhance the exchange of information between staff. Information exchange between staff whereby active listening is stressed is empathic and reduces misunderstandings.

**Ego Strength** is the by-product of a healthy self-interest. Ego strength reflects a focus on the self that is not characterized as ego-centrism and ego-absorption. One's importance is always balanced with the importance of others so that a meeting of the minds is possible when combined with trust, collaboration, and communication skills. Everyone's ego is strengthened by interacting in an "honest" manner with others.

**Risk–Certitude** refers to how the average worker balances risk-taking with non-risk-taking behavior while at work. Optimum behavior—that is behavior positively reinforced in the workplace—involves judgment about the safety of risk-taking. The ideal is not to be too risky in behaviors and decisions, believing that the balance between risk and certitude produces the most optimum result for not only the individual but also the organization. This balance will produce workplace decisions that will be acceptable to all, employer, fellow employees, and oneself. Workplaces themselves require a certain balance between risk and certitude. Some work environments thrive on a focus on risk or certitude.

**Adaptability–Inflexibility** is understandably connected to the previous skills. If an employee is too adaptable or inflexible, give-and-take communication does not occur. Too much adaptability may reflect a deficit in ego structure. Whereas too much inflexibility might indicate a rigid ego. In a workplace, the “average” person balances adaptation with inflexibility of workplace demands. Optimum behavior, therefore, involves judgment about how inflexible or adaptable one should be. That is, deciding how to behave and what to say when faced with numerous possibilities. Over-adaptability can be dysfunctional as can inflexibility. Every satisfied, successful employee in an organization achieves some stasis that is appropriate as far as this continuum is concerned. A workplace can also be characterized as one in which adaptability is valued more than inflexibility, or vice versa. Yearly personnel evaluations will often cite an employee’s willingness to adapt.

**Emotion–Rationality Axis** Workplace behavior that is totally emotional is often labeled as “out-of-control.” This does not mean that emotions are totally inappropriate. Totally rational behavior is often interpreted as cold and inappropriate for many personnel situations that arise. In most human discourse in the workplace, a balance between these two extremes is appropriate. In other words, emotional intelligence—a balance between emotionality and rationality serves most situations well. Flexibility in these two extremes that adapt and are appropriate for the situation serves office communication well. A safe and predictable workplace regarding this balance engenders trust in employees (Dacre-Pool & Qualter, 2018; Emmerling, Shanwal, & Mandal, 2008; Hawkins & Noakes Fry, 2012).

**Autonomy–Group Focus** is a challenge that most employees experience. Whether to behave totally in one’s self-interest or concede to the interests of the group (Lewis, 2016). Autonomy is often behind creative thought and action whereas focusing on the group can stifle creativity. Whereas, on the one hand, autonomy from “group-think” supports mental health, commitment to groups’ needs can make for a smooth-running organization. The balance between these polar extremes has been researched and written about by many experts including social psychologists, experts in child-rearing practices, human resource experts, and specialists in workplace dynamics. The optimal combination consists of balancing one’s needs with the needs of the group or organization.

**Future–Past Thinking** This is the last of the interactional skills to be addressed. Focusing on the past often limits opportunities for employees in the future. The past

**Table 1** Employee interpersonal interaction skills

Trust	Trusting others in the workplace regardless of the situation allows the individual worker to have confidence in the predictability of others and situations.
Collaboration	Employees, supervisors, and employers work together to reach common goals; everyone is rewarded for the part they play in helping aid the organization's mission.
Communication skills	Communication skills include active listening, empathy, and objective and nonjudgmental language that is valid and reliable.
Ego strength	Ego strength reflects a focus on the self that is not characterized as ego-centrism and ego-absorption.
Risk–certitude	Refers to how the average worker balances risk-taking with non-risk-taking behavior while at work. Optimum behavior—that is, behavior positively reinforced in the workplace—involves judgment about the safety of risk-taking.
Adaptability–inflexibility	In a workplace, the “average” person balances adaptation with inflexibility of workplace demands.
Emotion–rationality	In most human discourse in the workplace, a balance between these two extremes is appropriate. In other words, emotional intelligence—a balance between emotionality and rationality serves most situations well.
Autonomy–group focus	The optimal combination consists of balancing one's needs with the needs of the group or organization.
Future–past thinking	Past successes and failures can be used as guideposts for action in future decision-making.

Source: Author

is important particularly if there were lessons to be learned that help an employee adjust to organizational change and avoid mistakes in the present and future. Past successes and failures can be used as guideposts for action in future decision-making. Table 1 summarizes employee's interaction skills.

Given the above interactional skills, assessing individual behavior through annual evaluations, observation, self-reports, and other means yields not only a typology of employees but also leads to strategic interventions to increase morale, retain committed competent employees, and generate alternatives for employees who do not support, either knowingly or unconsciously, the mission of the organization. Following is a description of types of employees using as predictors, skill level in addition to other unique characteristics. All employees can be ranked according to skill level. The average skill level of an employee provides a basis for the following prototypes. These prototypes help the professional who has been commissioned to develop appropriate remediation strategies to address workplace issues.

## 4 Employee Prototypes

The first of these employee prototypes is the *Workplace Optimizer*. This would be the ideal employee when assessed for characteristics such as trust, collaboration, and communication at the same time balances risk–certitude and autonomy–group needs. These skill levels can be assessed using several tools: interviews, reports, and employer interviews. In this prototype, the employee and the workplace are in sync meaning that the employee is doing nothing that contradicts that which is in the job description, is not insecure, and has normal relations with all. This individual is a high achiever who experiences a significant level of satisfaction with assigned responsibilities, fellow employees, and supervisors. Thereby helping the organization meet its goals increasing its reputation among the public and its peer organizations. Usually, the behavior and attitudes of these employees are not seen as problems. Although these individuals are likely to remain in the organization, they may have their sights on other opportunities that would allow them to optimize their career path. They also are perfect targets for raiding by other competing organizations. During interviews, these employees will express satisfaction with their work but will also speak about “greener pastures” possibly awaiting them outside of the organization. Generally, they are not the objects of dissatisfaction probes. That is, unless their employers learn of their plans to move on to another opportunity.

Second, is the *Aware Underperformer*. These are individuals with average skill levels such as moderate difficulty working with others, unwilling to depart from what works for them, and often allowing emotions to govern their interactions with others. They value the workplace but do not seem to be living up to what the workplace expects from them. Their periodic evaluations reflect some concern that they are not reaching their potential from the organization’s point of view. They would agree that their interactions with fellow employees are not optimum. They may be thinking about transferring to another job, and they are insecure about their tenure in their current job. During interviews, these employees will express their dissatisfaction usually with workplace expectations, peers, and supervisors. Likewise, employers usually will describe the aware underperformer as someone who is not living up to his or her potential and is aware of this fact. The source of this awareness is either through periodic evaluations or through self-analysis.

The *Pressured Employee* is a third type of workplace employee. This is probably the most dissatisfied of all employees. Although they view their job as having potential filled with opportunities for advancement, they are not reaping any of the benefits. Their annual evaluations reflect their lack of achievement about benefits offered by the workplace. Employers question what seems like the lack of commitment of these employees to the goals of the organization. Often, they are described as “dead wood.” Depending upon the years of work already invested, these employees will seek new opportunities elsewhere, or be resigned to the fact that they are “stuck” in their current job. Their level of dissatisfaction is palpable. Supervisors and managers often describe these employees as needing more training, needing to transfer to other offices in the agency, or ripe for dismissal if possible. The pressured

employee is different from the aware underperformer in that assessments describe them as seemingly more insecure and nervous about their futures. Evaluators may also express doubt about whether this employee will survive in the organization. This insecurity often emerges as a theme in face-to-face interviews with a professional trying to address their problems as perceived by supervisors and other employees. Often these employees are sent to, or contact, themselves, the Employee Assistance Program.

Fourth, the *Situationally-limited Optimizer* has limited skills whether trust, communication, focusing more on individual needs versus group needs, unwilling to take the risk associated with new developments in the organization. They believe very strongly they are in a work environment that could be more supportive and in sync with what they have to offer. They consider themselves and their ideas more important than those of the organization. This is their opinion, although evaluations often describe this employee as someone who is out of step with the organization's needs. These are the employees who are thinking about how they can achieve their full potential despite the workplace and others around them. Their intention is not to leave the organization, rather, their intention is to remain and hopefully get the organization to change. One finds these employees supporting change in the organization to match what they believe is their potential. They do not understand or sympathize with supervisor's needs. These employees are most critical of others in the organization including workmates, supervisors, and employers. A move to another position may not be out of the question for situationally limited optimizers. Leaving the current job might or might not happen. The situation is frustrating for all concerned.

The *In-sync Employee* is, as the name implies, not out of step with the interests of the workplace. This employee and the workplace are functioning at a low level of accomplishment. Although the workplace reaches some of its goals, its overall accomplishment is considered lack-luster. No one in the organization excels at what they do, thus, the organization may fail. These employees are comfortable in their jobs but may not succeed as much as they would like vis-a-vis promotions, recognition, or salary increases. Even though the organization does not reach its goals, employers and supervisors may identify this employee as the root of the problem. Here is an employee who follows all the rules yet may be puzzled why no rewards are forthcoming from management. This employee might be thought of as the "Identified patient"; that is, identified as the problem where the problem really lies somewhere else in the organization. This employee is seen as the perfect one to blame for any number of reasons. Successful change for all concerned probably results from focusing on the organization rather than an individual employee.

*Low-level Underperformers* resemble *Aware Underperformers* described above. The difference between these two types of employees is that for *Low-level Underperformers* the level of underachieving is greater. This is because of their belief that the workplace does not provide an environment that nurtures success. Generally, communication between employees and supervisors/managers is unsatisfactory. These employees imagine finding opportunities in other parts of the organization or in totally different organizations but are unable to optimize their

potential. Upgrading skill level is often absent or not available to an employee who does not meet performance expectations in the organization. They have skill deficits that limit their appeal in other work settings. Periodic evaluations are often the basis for dissatisfaction and employee grievances. The current work situation is blamed by the employees for their subpar production and personal dissatisfaction.

Probably the most dissatisfying work situation is experienced by the *Outward-looking Employee*. Seeing themselves as highly competent, and possessing interpersonal skills, these employees successfully interact with all levels of personnel. Yet, the workplace is viewed by them as stultifying. They are not inclined to work at a high level of performance because of impediments, real or perceived. They choose not to perform well. These impediments are perceived as blocking their success in the workplace. Outward-looking employees routinely look for employment elsewhere. Interviews often reveal plans to exit their current employment.

The *High Criticizer* is characterized by an average level of dissatisfaction with the job; not too uncommon in most organizations. In addition, this employee does not set high-performance goals. With average interpersonal skills, these individuals blame their dissatisfaction on what they consider to be an under-functioning work environment. The organization is believed to fail in providing support for interpersonal skills that would facilitate communication between and among staff. These are employees who are most critical of organizational leadership. Their dissatisfaction and anger are expressed to a few others in the workplace or in staff meetings. They can always be counted on as a negative force in interpersonal communication and group meetings. Importantly, they do not plan to leave the organization.

The last employee type is the *In-sync Underperformer*. If you looked for a dysfunctional organization as far as meeting its mission and employee morale, this type of employee would be in abundance. No conscious recognition of the importance of high standards; low interpersonal and work skills is the standard *modus operandi*. In this type of organization, employees do not acknowledge anything is wrong. When a goal is not met, the failure may be attributed to a cause that reflects either regressive or delusional thinking. That is, in the past, failure has always been met with inaction or criticism and so the employee regresses and responds as they did in the past with perhaps an appropriate response for a 5-year old but not appropriate for a mature adult.

Not all prototype employees will leave their jobs for other opportunities. Nor, does one type or another have a better chance of receiving subpar evaluations. When a professional is asked to help an organization resolve an employee issue, the triggering event could be something unrelated to any specific employee characteristic. Experience has shown that employers often express dissatisfaction with an employee for reasons that may not have any bearing on reality. An Employee Assistance Program (EAP) professional may discover that the problem is a personal one originating with the supervisor, employer, or employee team members. So, the above prototypes do not necessarily always predict the origins of a workplace problem. However, they provide a start for the assessment. It may be found that the problem lies somewhere else in the organization and through careful probing, this fact will reveal itself.

**Table 2** Employee prototypes

Workplace optimizer	The ideal employee when assessed for characteristics such as trust, collaboration, and communication at the same time balances risk–certitude and autonomy–group needs.
Aware underperformer	Individuals with average skill levels such as moderate difficulty working with others, unwilling to depart from what works for them, and often allowing emotions to govern their interactions with others.
Pressured employee	They view their job as having potentially filled with opportunities for advancement; however, they are not reaping any of the benefits and will seek new opportunities elsewhere or be resigned to the fact that they are “stuck” in their current job.
Situationally limited optimizer	Has limited skills, e.g., lack of trust, poor communication, focusing more on individual needs versus group needs, unwilling to take the risk associated with new developments in the organization.
In-sync employee	Not out of step with the interests of the workplace but the employee and the workplace are functioning at a low level of accomplishment.
Low-level underperformer	Subpar performance, evaluations, and personal dissatisfaction.
Outward-looking employee	See themselves as highly competent, and possess interpersonal skills, usually successfully interacting with others, yet, view the workplace as stultifying.
High criticizer	Characterized by general job dissatisfaction with the job, does not set high-performance goals, has average interpersonal skills, blaming their dissatisfaction on what they consider to be an under-functioning work environment.
In-sync underperformer	No conscious recognition of the importance of high standards; low interpersonal and work skills, not acknowledging anything is wrong, and failure may be attributed to a cause that reflects either regressive or delusional thinking.

Source: Author

Given the identification of skills useful in the workplace for structuring and analyzing interpersonal relationships, e.g., trust, collaboration, and identification of employee styles, how can this knowledge be utilized? What is its connection to coaching and counseling? Information that increases efficiency in workplace interaction can ultimately lead to “mission accomplished” for the organization. Recognizing that working not only with the “identified patient” but also with others in the organization may be necessary. Although necessary, it may be impossible to accomplish for monetary, interpersonal, and budgetary reasons. Table 2 is a graphic-summary of the employee prototypes.

## 5 Introduction to Coaching and Counseling

The above skills and classifications of employees can be helpful to inform coaching and counseling employees. Attitude and behavioral changes that are beneficial for not only employees but also for organizations that want to remain competitive, is necessary. The objective of coaching and counseling is the reason that those in charge of, or responsible for, the behavior of employees, ask human relations' personnel, outside dispute resolvers, outside behavioral specialists, or team builders to assess personnel problems and to suggest solutions to these problems. Every professional specialist in workplace behavior has their own manner of assessing personnel problems. The objective of their work is to bring about change in behavior and attitudes through training and counseling. If this change is not possible, then the goal may be that the employee has a decision to make with respect to conforming to the desires of the workplace if confirming is possible or wanted, or, seek employment elsewhere. Ultimately, the choice of resolution remains with all the involved parties.

Any employee, even those who are satisfied with their positions and are not considering a job move, can be helped in several ways. Employees benefit from understanding how they interact with work-mates. For example, work evaluations need not involve defensiveness and demeaning comments nor does competition for recognition among employees have to result in workplace conflict. Plans for improving performance can be jointly developed and agreed upon. Employee job satisfaction increases when working with supervisors to reach mutually agreed upon goals and develop mutual understanding about how they communicate with one another. This is particularly important when it involves reviewing work evaluations and work progress. This is one way that attitude and behavioral change can result from professional coaching and counseling.

Working with disorganization in workplace settings produces several definite impressions as to important distinguishing characteristics between employees. Recognizing, of course, that hybrid types can be found. Also, it is important to keep in mind that one's clients—single employee, employer, organization—define themselves and their roles in a manner that they may not be willing to reveal. In addition, one will have very little information about other influences on the work style of the employee. Perhaps family issues and economic factors play a significant role in workplace behavior. Certainly, one can ask, but many influences will be beyond the reach of the human relations specialist. To more precisely distinguish the above categories of employees, based upon a consideration of their general specific behavioral indicators may help. They can be used for each party to indicate their own thinking and their thinking about others in the organization. For example, employees can be asked about how they would rate their own behavior as well as the behavior of other employees and the employer. The following provides a summary of what has been previously discussed. Any of the following could be singled out as candidates for workplace remediation. To home in on more focused characteristics, human resource and organization specialists can look for indicators as indicated in Table 3.



**Table 3** Indicator and possibilities

Workplace optimizer	The employee and workplace are “in sync”; This is a high achiever; Job satisfaction is high; High level of satisfaction with fellow employees; Helps meeting organizational mission; Recognition of quality work by employee; May be looking outside current job for career advancement; May be the object of a “raid.”
Aware underperformer	Generally, a person with average skills into the position and workplace; Does not live up to the demands of the workplace; Periodic evaluations reveal concern by others that this employee’s potential is not realized; Sub-optimum interaction with other employees.; Is not out of the question to think of leaving for a more promising job.
Pressured employee	High level of job dissatisfaction; Yet, positive attitude toward workplace; Job stagnation: not going anywhere in job; Evaluations are “satisfactory” or below by those in a position to judge; Negative interactions with others; Resigned to stay in job particularly if they have seniority; Identified as “a problems” by those in a position to judge, e.g., supervisors, other employees, CEO; Would benefit from training to build skills whether technical or communication.
Situationally limited optimizer	Optimal transactional skills; Believes the workplace is out of sync with them and look to the workplace to change; Believe their potential is being stifled; Attempt to reach what they believe is their potential despite the workplace. Attempts to change the workplace; Most critical of managers, fellow employees, and organization; A move to another agency, or organization may not be out of the question.
In-sync performer	Employee and workplace are in sync; Staff and organization characterized by low-level performance; Workplace reaches some goals, but overall success is lack-luster; Even though workers are in sync with the workplace, no one excels; General job satisfaction.
Low-level underperformer	Similar, but distinguished from the aware underperformer in that underachieving is greater and blame is attributed to the workplace; Interaction with peers and supervisors is unsatisfactory; Would like to leave job but skill deficits prevent this action; Periodic evaluations are the basis for dissatisfaction and grievances; The level and support for retraining in the organization is limited or lacking.
Outward-looking employee	Experiencing the most dissatisfying work situation; These employees see themselves as highly competent; Possess skills for successfully communicating with others in the workplace; For these employees, the workplace is stultifying; Lack of commitment to high level performance; The most outward looking of those in the workforce.
High criticizer	Some dissatisfaction with the job; Believes that expectations for performance are low; Believes that the total work environment underperforms; Little support in the office for positive communication between workmates. No support in the organization for continued skill development; Critical of agency’s work output; Critical of agency’s leadership; Planning to leave the organization.

(continued)

**Table 3** (continued)

In-sync underperformer	The employee is in a highly dysfunctional workplace; Employee identifies his or her skill attainment as low. Employee has a negative opinion about the workplace; All employees and company leadership are resigned to low-level performance; Lack of awareness of skills necessary to increase success in accomplishing goals; High level of dissatisfaction and low motivation to leave job.
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Source: Author

Many methods of collecting information to prepare for remediation exist. These include, personal interviews, questionnaires, observation, actual employee evaluations, and suggestion boxes. One or a combination of these might be enough to prepare those asked to deal with workplace dysfunction. The form of questions, then, depends upon other considerations including budgetary as well as organizational constraints. Employees could be asked about: job satisfaction; whether they plan to leave their employment; how they “mesh” with their peers; whether their ideas are appreciated; attitude toward supervisor. Employers could be asked; whether an employee lives up to expectations, whether the employer is planning to relocate, whether the organization meets its goals and why or why not. Team members could be asked about why they are having difficulty reaching goals.

Another technique that may give the person assigned to resolve workplace issues a perspective involves using the normal curve to develop an overall impression of the context in which they are asked to work. This often helps one understand the employee’s role in the workplace. Important to remember is that assessing the whole organization might be necessary to determine what can be done when an individual employee is identified as the problem. The organization may not want to do this or even consider this approach necessary. Using a normal-curve approach produces workplace profiles that depend upon the characteristics of those who constitute the workforce. They help a professional understand the total context in which all employees work. Next, is deciding whether the whole system needs remediation, whether the focus is one or two employees, or both even though this approach is not on the agenda of the organization.

Those responsible for order in the workplace and mission attainment may identify the problem as one or two individuals. The human resource person/dispute resolver may uncover a generic issue that affects everyone. Yet, further investigation reveals that the generic issue disappears by focusing on a single employee. For example, if one were to learn after investigating the culture of the workplace that most employees are dissatisfied with X (some condition in the workplace) the general health of the workplace could be assessed. A professional has a responsibility to state such an opinion even though it may go nowhere. If this makes sense to the organization, a systems approach might be implemented. How to work not only with the workplace’s overall values but also how to work with individual skill development would be informed by the assessment. For the individual employee, reducing dissatisfaction and facilitating decision-making about whether to remain on the job, seek training, seek the services of the Employee Assistance Program, or to seek employment elsewhere is important.

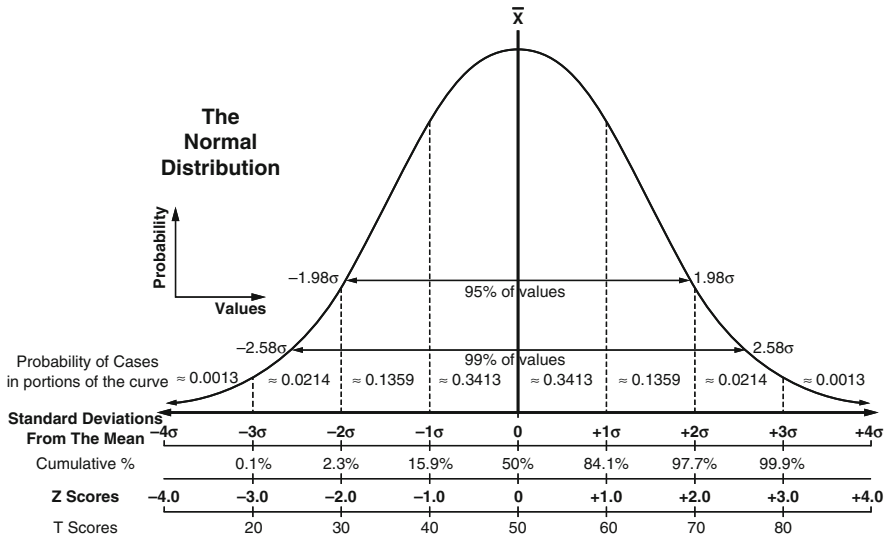


Fig. 1 Distribution of skills (Source: Author)

Thus, considering the distribution of such skills becomes a heuristic device. For example, taking any of the employee characteristics, let us say trust, and plotting on a normal curve (See Fig. 1) based on the results of employee skill assessments, could result in the following: (1) a small number (perhaps 1 employee or 1%) has no trust in either other employees or decisions made by the organization, does not communicate well, and has no collaborative skills; (2) the majority (98%) generally lie in a middle range; and (3) a small number (perhaps 1 employee or 1%) has a high level with respect to the skills being measured. Plotting every employee’s skill level using a normal curve will also isolate particular problems and strengths of the total organization. The decision to be made is, where to focus remediation? Employees are usually a combination of a number of traits. Just choosing only one employee prototype would point to a number of behaviors and attitudes to work with. With hybrids, strategies also have to be combined. What ultimately determines the strategies used depends upon budgets, interests of the organization, whether the remediation would be one time or a continuing effort, skill of the human relations staff, personnel policies, to mention a few considerations.

If highlighting an employee with a low level of trust, who is a very poor communicator, who cannot successfully function, and resists further skill training, the challenge will be different. This would point to different strategies than one in which trust, for example, is a total workplace issue. Or, for example, whether collaboration is impossible in the workplace. This does not mean that professionals are asked to only focus on one issue. In any situation they will focus on many issues. In conclusion, after assessing the situation, a human resource person must choose an appropriate intervention. If the conclusion is, after assessment, that 98% of employees do not trust the organization as reflected in the number of staff who

look for employment elsewhere, the strategy must be different. A professional communicates the preferred focus yet the organization decides what the focus will be.

## 6 Strategies

The following interventions or strategies involve several different techniques. It is important to remember that individuals generally cannot be characterized by a single skill, for example, the ability to trust. Every person is a combination of several skills. The work of a human relations/organizational specialist/dispute resolver is to determine both at the individual level and at the organizational level which skills are relevant. An intervention should remove impediments that influence workplace morale, employee/employer satisfaction, or those that interfere in reaching the organization's goals. The direct charge for the person asked to help with the workplace situation will determine whether the focus is a specific employee or the organization.

Following is a reconsideration of the above-identified employee skills from the point of view of what general strategies may be appropriate. Most professionals have a repertoire of strategies for employee and workplace remediation based upon their professional focus, experience of what works, specific training, and preferences. These strategies are numerous. They range from therapeutic techniques (such as paradox but not clinical therapy), to focused role play, focus groups, action plans, one-on-one discussions, job satisfaction counseling, observation, paper-pencil tests, how to initiate employment counseling, and "what if" problem solving.

**Trust** Interventions that are appropriate are effective at both the individual and the group levels. An outward-looking employee may have a high level of trust but finds it difficult to communicate with others which makes it difficult to focus on activities that are goal oriented. The secret to success is to look for skills or lack thereof, identify the employee prototype, and then plan an intervention strategy. Many useful techniques or strategies for resolving workplace conflict exist. A dispute resolver/human relations professional conducts preliminary interviews and then develops an intervention strategy based on what would be considered worthwhile because of their potential usefulness. This work will be a combination of best guess, experience with techniques that work, and a combination of numerous techniques or strategies.

What is helpful when addressing an issue of lack of trust, for example, maybe the following. The human resource specialist can question an employee or group of employers where, in the organization, trust may be an issue for them. Groups of gathered employees may be less willing than an individual employee speaking to another outside person to reveal lack of trustworthiness. Questions can be framed in a manner that allows the employee a safe place to be when identifying sources of untrustworthiness. For example, a question could be framed in this manner: "In any organization where do you think the fault lines are when it comes to whether one can

trust one's employer, other employees, reasons for annual evaluations?" Keeping questions general is helpful and gives the employee room to navigate. It is important to know what the employee thinks can be done to encourage trust in any organization. What does the employee think the conditions of work are than engender or destroy trust?

Those who work in organizational settings, or who are considered experts in systems analysis, have developed and tried many strategies to create a trust-centered work environment. For example, asking what "traded assurances" should be implemented so that all parties to decision-making can trust the motives and actions of others. The use of the focus group technique and resulting action plans working with groups of employees helps generate statements of what the trust issues are and ways to ameliorate them. The purpose of a focus group is to gather suggestions and then offer ways of implementing them. On the individual level, discussing "betrayal" hot spots is useful. For employees, what are the work situations where they think they are most vulnerable?

**Collaboration** Some helpful strategies follow. Helping employees identify common interests is the first step in supporting collaborative behavior. Often having employees either as a group or individually focus on finding common interests particularly while working on a specific task will initiate and facilitate collaboration. Generally, what common interests do they share, helping employees reach their personal goals as well as accomplish the mission of their organization? However, finding common interests based upon their individual needs can also be useful. It may not come as a surprise that a common interest for most employees is a workplace where psychological needs are met. Discovering those needs is important and can improve the ability to work together. Everyone needs to be taught how to put positioning aside when working with others. It is certainly acceptable to present opinions that may disagree with those of others. However, collaboration requires the ability to put positions aside while seeking solutions that meet the needs of the majority. While collaborators muffle positioning, they must be prepared to genuinely recognize the interests (positions) of others. Managing positioning and other-recognition is a step toward developing common principles. Common collaborative principles evolve out of acknowledgment of the needs of others through mutually beneficial discussions. Employees should be consciously aware of how collaborative work may be different from how they have worked in the past. And, collaboration may help erase skill deficits for certain employees.

**Communication** Learning about how one communicates with others and how one's communication is received is crucial in the workplace. Employees communicate verbally, through body language, and e-mail for example. Utilizing methods that assess the way it is sent, the intended message, and the way it is received, is necessary. With training and sensitivity, an employee does not waste valuable time and energy. Honest and effective communication, with practice becomes routine. For some prototype employees, difficulties arise when their communication outward is blocked or when it is not received. This is frustrating. Focusing on how to correct these situations requires training for both the senders and receivers of information.

What impedes communication intended to elicit a reasonable comment or action? And, why is the communication not received as it was intended? One problem area concerns intractable differences between an employee and the employer and other employees. An employee may not agree with reasonable rules in the workplace. This may serve as a rationale for an employee's decision that a transfer out of the agency into another or leaving the employment permanently, is necessary. How does the decision-making structure in an organization impede communication?

If the decision-making structure impedes communication, counseling strategies could mitigate this situation. Such strategies could include active listening training. It is not uncommon when communication difficulties arise, individuals are not listening to one another. Active listening requires a certain amount of self and other-awareness awareness. Most people need to be trained to use active listening skills if they lack them. Opening channels of communication; giving people permission to state their opinions with having them dismissed by others, and facilitate open communication. Regular meetings focused on hearing everyone's input as to an issue without critical judgments is important.

Employees should listen to what others have to say without dismissing their proposals. Ultimately, an employer has the decision-making authority to decide what will happen. Employers should also be held to the standard of listening to and respecting contrary opinions. Graphing the track of opinions to see where communication originates and where it ends is useful. Who speaks, and who responds to whom is important to track. Opening closed channels often results in facilitated communication. Providing opportunities for communication beyond regularly scheduled meetings may help. In addition, human resource experts should themselves be models of good communication.

**Ego Strength** Some professionals monitor ego strength of clients to assess its elasticity. This is often neglected in efforts to work with employee attitudes and behaviors because it sounds like the work of a therapist rather than a human resources/dispute resolver. Judgments about the strength of an employee's self-image are often made by employers. Ego strength is related to the degree of flexibility a person has in addressing not only everyday but also new situations. The objective of this approach need not be therapeutic but as in most interventions can have the effect of being therapeutic.

An annual evaluation that is less than par, should not destroy a person. To be totally resistant to suggestions for change is not constructive nor is willingness always to change. Work situations sometimes are unfair, and a person needs a strong ego to survive them. A balance between external challenges and the ego is necessary. Ego strength provides that balance. Every time a person is asked to back down from a position they have taken involves an ego challenge. Can the employee turn this into a positive situation allowing the ego to remain flexible and intact? This will depend upon ego strength. How willing a person is to remain flexible with respect to countervailing forces in the workplace determines their work success. An employee can learn to balance workplace challenges with a flexible self-image; one who meets any circumstance with the appropriate response. Nothing is allowed to destroy the

employee's self-image. An employee "rolls with the punches." Some situations bolster the ego, and some demolish the ego. Challenges in moderation are healthy for supporting the ego. The extremes such as sadistic or dishonest patronizing reactions can be destructive to ego strength. Often an employee will seek the services of a private counselor or the Employee Assistance Program when ego victimization occurs. Not that the employer would label what has happened to them as such.

Gaining an understanding of whether employees resent healthy egos among their peers or whether an individual is reluctant to lead with a strong ego, i.e., state their likes and dislikes, will often help to understand that employee's behavior in the organization. An employee's dissatisfaction with the work situation or desire to leave, or being resigned to things as they are, will often be the result of a mismatch between the employee's ego and conditions in the workplace. Questions about how sure or unsure an employee is in various situations will give the human relations specialist some idea of ego strength and its role in employee behavior, employer behavior, and job satisfaction. Also, whether employees are unsure about their behavior and choices will tell reams about self-image. This leads to a consideration of the next skill.

**Risk–Certitude** Does the workplace require risk-taking and what types of risks do employees face? Certainly, any workplace is filled with risks; job security, sub-par evaluations, conflict with supervisors and employers, and employee conflicts. If risks become too onerous, the results usually are negative. Lack of initiative, erosion of ego strength, underground divisive activity, plans to retire or seek employment elsewhere, closed and closing communication channels, lack of buy-in to workplace goals are possible outcomes. For the workplace to be productive and for individual employees to be productive a balance between risk and certitude must exist. The balance between the two is a challenge for every employee. Too much employee certitude may stifle risk-taking and thus reduce creative behavior. Too much employee risk-taking might result in an abundance of restrictions on the employee's behavior. Balancing of risk and certitude always must match the workplace's plate of risk and certitude that is served up. A workplace that is a risky place might serve an employee who is not risk-adverse well. Whereas a workplace where certitude, i.e., nothing is left to chance, is dominant, a risk-taking employee might be uncomfortable.

Any system analysis that focuses on risk–certitude for the purposes of providing solutions to workplace problem behavior needs to develop appropriate measures to analyze the situation. After analysis, some strategies include the following. Look at how risk and certitude are balanced in individual employees by asking questions about whether an employee values risk taking. For example, does an employee think that others view his or her contributions as too risky? Or would these contributions not be accepted by others because they are contrary to the status quo? They would be considered outside the realm of acceptable norms. In an employee's opinion, how does the workplace respond to statements that are outside of what is normally accepted? Exercises in which employees can practice risky and acceptable behavior and articulate risky and acceptable ideas will help discover how the workplace

evaluates certain behaviors. Assessing what employees consider “hot spots” or those activities in the workplace that can be ranked based upon risk–certitude will provide an understanding of workplace limits on attitudes and behavior. Then, appropriate strategies such as focus groups and action planning can be applied to the situation.

***Adaptability–Inflexibility*** Willingness to change is important in any workplace. A productive workplace is generally not static; change is inevitable. Some employees are flexible enough with respect to change, however, some changes begin to challenge an employee’s comfort level. Lack of “comfort” requires a response on the part of the employee. Some dig in and resist, others think about employment elsewhere, still others go underground and are a divisive force in the workplace. Learning about each employee’s tolerance for structure will reveal a great deal about workplace dynamics. In turn, this knowledge will inform appropriate, needed changes in both the individual and organization.

A human relations professional will inquire as to those situations in which employees are adaptable or inflexible. New tasks and old routines can be challenges for employees. For example, an employee may be very adaptable with respect to new routines; the workplace is not threatening. Yet, new routines or new personnel may be threatening to those employees who are not adaptable because skills necessary to deal with changing people and situations are lacking. The situation may produce lack of trust, inability to work with others, which in turn results in a disgruntled employee.

Characterizing employees using an assessment of their ability to adapt suggests certain strategies. Helping an employee think about what they experience when new people or situations arise is useful. Is it fear, communication-shut down, or desire to leave the job? Sometimes having employees consider options available to them that are the opposite of what their initial reaction to a situation creates not only some comfort but also adaptation skills. The use of paradox the technique where an individual is presented with the absurd extreme of what they imagine will happen is often eye opening. Realism about the consequences of overreacting to flexible or rigid situations is also useful. Discussion with employees about their fear of adapting or inflexibility sometimes is a breakthrough for the employee (Keegan, 2015; Vakola & Petrou, 2018).

***Emotion–Rationality*** Exploring how employees balance these two extremes can be done in several ways. Individual strategies include presenting an employee with a situation and assessing whether an emotional response is more prevalent than a rational response. Every workplace achieves a balance as to these two extremes. This does not imply that the balance is functional as far as the mission of the organization. It just means that in the workplace there is stasis; a relationship between emotionality and rationality, however, dysfunctional. For the employee, what situation or event tends to draw one or another response? Does any evidence exist, for example, in annual evaluations that the employee’s responses to situations are inappropriately rational or emotional as viewed by the supervisor? Is the employee able to assess a response to a situation as appropriate or not, based upon whether the response was



too emotional or too rational? Is the employee, sometimes with help, able to respond to workplace situations in a more balanced manner?

Professional work based on emotional intelligence ideas provides insight into the balance between emotionality and rationality. There are personality tests that glean how an employee responds emotionally and rationally to events and people in the workplace. Supervisors and other employees may be polled as to the appropriateness of a peer's responses to workplace situations. All these techniques would focus upon the balance between emotional and rational responses. Modeling what might be considered consensus opinions with respect to appropriate responses to select situations can be instructive. A consensus opinion can be based on testing what employees think are appropriate reactions to situations (emotional or rational) since that would reflect something that is central to the culture of the organization. Discussing emotional and rational reactions can point the way to more situationally appropriate and acceptable employee responses. That will be the reality for the employee in this workplace.

At some point, the employee as well as the organization need to evaluate either's responses. Are one's responses out of sync with organizational expectations? If a consensus opinion distracts from goal achievement, the organization has a choice to change or not. If a consensus opinion differs from what an employee is comfortable with, at least four possibilities exist. First, the employee could change; second, the employee could seek employment elsewhere; third, the organization could change; and fourth, the employee could seek help with change. Human resource professionals, depending upon the possibilities, could provide counseling so the employee understands what choices would be appropriate in any, or all three situations. The bottom line is that every employee must be in sync with the emotional-rationality balance in the workplace.

***Autonomy-Group*** Most employees are not isolated from others in the workplace. When involved in autonomous thought or behavior, the employee risks being labeled "strange," a "loner," a "problem," not a "team player." As with the previous dichotomy, a balance between these two extremes of thought and behavior is necessary. An employee either has expectations imposed by others in the workplace or has self-imposed expectations as far as what to think and how to interact day-to-day with peers. Again, since balance between the workplace and the employee is productive, the employee must sync internally as well as with the workplace. Generally, if an employee is out of sync as far as the workplace setting, with other employees, with the employer, or internally, friction is the result. Social psychologists might describe this as a system "out of balance." Out of balance interaction will be to the detriment of the employee, other employees, employer, the organization, or all of these. Accomplishing an organization's mission will be difficult. The individual employee will be dissatisfied, and either will remain in the job, not be professionally fulfilled, or seek to leave.

This situation needs an acknowledgment of the necessity to sync with the workplace. And, acknowledgment that chronic dissatisfaction is a normal response but unacceptable response by the employee. For this employee, perhaps leaving the

position is necessary to achieve peace of mind. At the individual level, a human resource professional can provide an assessment of the lack of balance and help the employee analyze the situation and see if resources such as counseling are available to help with the situation. This might be where the employee makes an appointment with the Employee Assistance Program. The choice of what to do is the employee's. Either acknowledge the lack of balance, decide that the status quo is the preferred option, or look for a new job.

Often, a worker thinks about whether being an individual is valued less than "group think." Workers may find themselves thinking that no one appreciates their thoughts that lay outside of what the group thinks. This situation needs to be resolved not only for the individual but also the group. Remediation professionals use assessment techniques to bring the individual and organization together. This can be accomplished by focusing on and analyzing the decision-making of the employee. "How and why did you make this decision?" "What do you think others thought of the decision?" "What did you think (rationality) and feel (emotionality) when you reached the decision to do or say what you did?"

Annual assessments contain relevant information for the professional to discuss with the worker. If the professional has professional knowledge of projective tests that assesses individuality and group-think, these could be used. Or, a paper-pencil test constructed by the professional could be used to garner this information directly from the employee. The goal of a discussion following assessment of an employee's fit in the workplace based upon autonomous-group think is: to have the employee make a judgment as to comfort in the workplace; perhaps greater understanding of the judgment of peers and employer; desirability of remaining in the workplace; the possibility that peers and the workplace will change and be more accepting; to point to what might be necessary for the employee to change; to determine whether the organization has resources to facilitate any change in either the employee or the organization. Learning what an employee thinks about what the ideal workplace is can be instructive. Whether the actual workplace, in the employee's opinion, demands too much conformity is also important to assess. This often gives clues as to the fit between an employee and the workplace vis-a'-vis autonomy and group thinking.

***Past-Future*** A delicate balance exists in most lives between past and future thought. An ideal balance is beneficial. In employment settings, people like to think that what they worked for in the past would lead to future security. The unusual person is not concerned with either. Thus, a person focusing more on past efforts and events may be very different from one who focuses on the future. However, each must be balanced not only in their individual lives but also with present organizational goals. To the degree that an emphasis on one or the other conflicts with present goals, and that conflict is recognized and acknowledged, the workplace has a problem. A workplace that only focuses on past accomplishments might have a problem keeping up with the need to modernize. Similarly, a workplace that focuses only on the future may be abandoning past practices that made them competitive.

As with each of the previous dichotomies, balance is important at the individual level, workgroup level, and total organizational levels. Unless a professional who is called into the workplace or one who is already there is a certified therapist, therapeutic counseling would be inappropriate and unethical. Therapeutic counseling would be appropriate if an employer engages a therapist to work with an employee. So, all, mediators, human resource professionals, organizational specialists, must utilize other strategies to resolve workplace issues. These strategies would generally be short-term rather than long-term as therapy might necessitate.

As with the other dichotomous skills, balance is the operative word; what matters is whether the employee's balance is in sync with the organization's balance. There is need for balance whether for good or bad in the individual, employee work group, and organization. The employee may focus on the past and be in sync with an organization that also stresses the importance of the past. Lack of agreement in focus creates problems in the workplace. Whether a supervisor or employer acknowledges the problem and wants an internal or outside human resource professional to address the problem depends on many factors including awareness that professionals exist who do this kind of work, to budgetary constraints.

An assessment of the employee's past-future balance using either existing assessment tools or private interviews is helpful. Also, learning how work activities and people are viewed in the light of a past-future focus. For example, are certain tasks seen as difficult simply because the employee tends to favor past experiences that offered security. If an employee is future oriented, certain work activities could be interpreted as irrelevant if they appear to the employee as rooted in the past. A satisfied employee would be one who is, again, in sync with the culture of the workplace. Being out of sync may result in the employee being resigned to not fitting in and therefore choosing to remain in the job or thinking that fitting in would be more comfortable in a different job setting.

Teamwork activities and the total organization can be analyzed by looking at past and future orientation. The tools used to gather information may be the same or different from those used with the individual employee. The results of role play, focus groups, action plans, and follow-up interviews would be useful techniques to inform coaching and counseling. Ultimately, the objective of any of these efforts is to help maximize the success of the organization's mission. A "continuous verification loop" involves assessing—verification—coaching—change. Table 4 summarizes some of the more important and relevant strategies. They can be used, at times, interchangeably and the professional can determine which are most important to resolve the issue at hand. Also, depending upon the background of the professional, some may be more familiar and in that person's repertoire. And, there may be others who are not mentioned who are appropriate for the situation.

**Table 4** Summary of some of the more important and relevant strategies

Trust	Provide safe place when identifying sources of untrustworthiness. Question could be framed in this manner: "In any organization where do you think the fault lines are when it comes to whether one can trust one's employer, other employees, and reasons for annual evaluations?" General questions give employees room to navigate. What does the employee think can be done to encourage trust? What conditions of work engender or destroy trust? Develop "traded assurances" so that all parties to decision-making can trust the motives and actions of others. Use of the focus group technique and resulting action plans to generate statements of what the trust issues are and ways to ameliorate them. Discussion of "betrayal" hot spots. What work situations are the work situations create the most vulnerability?
Collaboration	Identify common interests supporting collaborative behavior. Find common interests based upon individual needs. Focus on how to put positioning aside when working with others. Teach how to present opinions that may disagree with those of others. Teach how to put positions aside while seeking solutions that meet the needs of the majority. What are the steps in recognizing the another's interests? How to manage positioning and other recognition, while developing common principles. Analyzing how past efforts interfere with the ability to collaborate.
Communication	Inquire about methods of communication. Distinguish verbal communication from body language, and e-mail. Assess the way communication is sent, the intended message, and the way it is received. Is communication honest and effective? Identify situationally appropriate communication techniques through role play. Techniques for resolving intractable differences. How the decision-making structure in an organization impedes communication. Active listening training. Program opening channels of communication. Regular meetings with rules for communicating to give people permission to state their opinions without having them dismissed by others. Develop rules for being held to the standard of listening to and respecting contrary opinions. Graph the track of opinions to see where communication originates and where it ends. Learn to track who speaks and who responds. Providing opportunities for communication beyond regularly scheduled meetings may help. Modeling good communication behavior.
Ego strength	Monitor ego strength to assess elasticity. Practice steps necessary to accept change. Exercises to balance external challenges with the ego. How to remain open and flexible with respect to change? How to balance workplace challenges with a flexible self-image? How to recognize sadistic or dishonest attacks on one's ego? Seeking the services of a private counselor or the Employee Assistance Program. How to lead with a strong ego without alienating or threatening the egos of others in the workplace? Practice exercises in expressing one's ego.
Future-past thinking	Learning to identify whether one focuses on the past or future in a way to jeopardize the present. How one's focus on the past or future meshes with the needs of the workplace. Using other professionals, counselors, human resource persons, therapists, EAP personnel, and others who can assess whether the employee is "present" for workplace decisions and tasks. The use of psychometric tests that assess an employee's ability to balance past and future experiences and knowledge with the present. Analyzing yearly reports for clues as to the relevance of a past-future continuum. Assessing the results of role play, focus groups, action plans, and follow-up interviews

(continued)

**Table 4** (continued)

	in understanding an employee’s appropriate or inappropriate reliance on the past or present in workplace assignments.
Risk–certitude	Explore with the employee how risk and certitude are balanced. Ask whether an employee values risk-taking. In an employee’s opinion, how does the workplace respond to statements that are outside of what is normally accepted? Exercises in which an employee can practice risky and acceptable behavior and articulate risky and acceptable ideas. Assessing what employees consider “hot spots” or those activities in the workplace that can be ranked based upon risk–certitude. Use of focus groups and action planning.
Adaptability–inflexibility	Use an assessment of an employee’s ability to adapt. Help an employee think about what they experience when new people or situations arise. Have employees consider options available to them that are the opposite of what their initial reaction to a situation may be. Use of paradox whereby an individual is presented with the absurd extreme of what they imagine will happen. Assess whether how the employee views the consequences of overreacting to flexible or rigid situations is realistic. Discuss an employee’s fear of adapting or inflexibility to any workplace demands.
Emotion–rationality	Present an employee with a situation assessing whether an emotional response is more prevalent than a rational response. Have the employee describe those situations or events that elicit one or another response. Use annual evaluations that might characterize an employee’s responses to situations as to whether they are inappropriately rational or emotional. Use emotional intelligence ideas to frame how the employee balances emotionality and rationality in the workplace. Use personality tests that measure how an employee responds emotionally and rationally to events and people in the workplace. Within reason, poll how other employees view the appropriateness of an employee’s responses to workplace situations. Model what might be consensus opinions with respect to appropriate responses to select situations. Test consensus opinions by testing what employees think are appropriate reactions to situations.
Autonomy–group focus	These questions are useful. “How and why did you make this decision?” “What do you think others thought of the decision?” “What did you think (rationality) and feel (emotionality) when you reached the decision to do or say what you did?” Search annual assessments that may contain relevant information about how the employee relates to others in the workplace vis’-a-vis autonomous or group thinking. If the professional has knowledge of projective tests that assess individuality and group-think, these could be used. Use a paper-pencil test constructed by the professional to collect information directly from the employee. Following an assessment, discuss the employee’s fit in the workplace based upon autonomous-group think. Have the employee make a judgment as to whether the workplace is a comfortable place to work. What is the employee’s opinion about whether the actual workplace demands too much conformity?

Source: Author

## 7 Discussion and Conclusions

The previous discussion highlighted skills that are important in analyzing person-to-person interaction in the workplace. Every professional assesses these skills differently. With some skills, different professions acknowledge their universal importance, for example, communication. After important basic interaction skills in the workplace are identified, employee prototypes can be constructed describing an employee's ability to use these skills. These prototypes lead to relevant strategies for remediation. Most mediators, counselors, coaches, human relations personnel, develop intervention strategies that make sense as far as how they view the workplace and what may work with an employee, employer, workplace teams, or the total organization. Thus, training of professionals who work to analyze and ameliorate problems in an organization should focus on both assessment skills and how to coach and counsel based upon an employee's skill level.

Adequately trained professionals should be able to provide guidance not only in assessing the employee pool, but also identify the resources that are needed to create a workplace that is able to reach its goals. What approaches and resources are needed to reinforce or change employee behavior and attitudes? Organizational change is possible by creating new structures within the organization through restructuring the status quo, supplying new ways of thinking about problems, and reinforcing new modes of interaction. Periodic assessment by eliciting feedback from employees will test the accuracy of one's observations.

Remediation of workplace issues does not necessarily have to be a one-time event. Some organizations have in-house professionals who can continuously work with the employee pool as well as with employers. Or, organizations could hire outside consultants to work with the employees, employers, and employee teams. The bottom line is to reduce employee turnover, increase effective communication, and improve production. Evaluation research should be always be part of any remediation program. Questions such as "Are my observations valid and reliable?" are important for any remediation. A plan that facilitates developing professional communication demonstrates that the organization is interested in the well-being of employees. A simple action can often bring about a change in communication skills and consequently employee attitudes.

Skills such as the ability to trust and collaborate; using effective communication; expressing ego needs appropriately; the ability to risk and be flexible in one's thinking and behavior; adapting to the demands of the workplace with appropriate emotions; balancing one's needs with those of the group; and always balancing, appropriately, past experiences with future goals are important determinants in predicting the behavior of employees. Often, in annual evaluations behaviors related to these skills are used to describe how the employee either fits or does not fit into the organization. They also often serve as a basis for recommendations by supervisors for needed change, promotion, and salary increases. Skill deficits also help human relations personnel plan a strategy for remediation. Combinations of these deficits

and employee prototypes help determine programs for employee coaching, counseling, and support.

Human relations personnel, counselors, mediators, and others can develop and institute reasonable and potentially effective coaching and counseling strategies to address workplace dysfunction and employee dissatisfaction. Several strategies can be developed when an employee reflects characteristics of more than one prototype. For example, if an employee cannot communicate; be involved in collaborative work; fear reprimand or failure; avoid group activities; the ego becomes rigid and focuses on past failures and successes; and prefers to leave the place of employment, the way to remediation consists of addressing each of these skill deficits. This can be done through individual coaching. Time with the employee assessing skill level forms the basis for an appropriate program of coaching and counseling.

Ranking an employee either low, medium, or high for each skill is valuable. Discussing and getting the employee's opinion of the skill ranking is necessary if change is to happen. When general agreement about the description of the employee's skill level exists, the professional coach or counselor can then, with the employee, address each skill and help the person develop a remediation plan that they think will work for them. If, for some reason, there is general disagreement about what remedies make sense to the employee, an alternate, realistic remediation plan suggested by the employee that is acceptable to the employer would be another possibility for change.

Some work sites might meet an employee's suggestions for change, positively. If the workplace is not going to change to comply with the wishes of the employee, then a decision must be made. Sometimes, having a few sessions with an Employee Assistance Program counselor might help. If not, some employees will seek legal help particularly if they think their status as a "protected class" (race, gender) member has been violated. Sometimes, individual psychological counseling is necessary. Many cases of job dissatisfaction and differences of opinion about what has happened in the workplace conclude with the employee seeking legal assistance or engaging a private therapist.

Reasons for the failure of a remediation strategy include, the employer may not be willing to change, the employee is unwilling to change, or the employee wants a resolution that is contrary to workplace regulations. Reasons given by employers include "This employee is a problem." Or, "The rules are clear and this employee refuses to follow the rules." Or, "The work of this employee is subpar." Or, "We can't make an exception for everyone that wants things to go their way." Remediation programs succeed when all parties cooperate and support what would be necessary for change. In other words, the employee, employer, any relevant team, and the total organization through its regulations may have to weigh-in if an employee is going to change. Sometimes, the problem goes away when the supervisor or employer leaves. When none of this happens, employees may become even more entrenched in their behavior or may decide to retire, leave, and go to court, if any of these options are available.

Resolving workplace problems, in many instances, are successful. Those that are, stand out because of the following. First, the organization accepts the fact that

analysis and assessment by an outside professionally trained observer is helpful and will resolve the situation. Second, the organization has funds available for a remediation program. Third, a capable professional is available. Fourth, the assessment results in valid and reliable results. Fifth, a remediation program is developed to address the assessment results effectively. Sixth, a follow-up remediation program is developed and used if necessary. These steps are necessary. However, depending on factors, such as budget, time constraints, single versus multiple focus, support from employers and supervisors, a remediation program may simply be a one-day seminar. No magic formula exists that would suggest a one-day seminar is less effective than spending a year to resolve a workday problem. Everyone involved in a remediation will judge whether the solution to the problem was effective.

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# Human Capital and Innovation: An Analysis of Western Balkans



Emil Knezović, Ognjen Ridić, and Mubarak Adam Ibnu Chambas

**Abstract** The relationship between human capital and innovation has been mostly observed through the lens of the macroeconomic theory. However, recent studies started to apply the microeconomic approach, since the actual innovation takes place at a firm's level. A number of studies tried to explain the determinants of innovation by taking different perspectives. One of the perspectives highlighted human capital (HC) as one of the key drivers behind the innovation. Therefore, this chapter addresses several important points. First, it explores the importance of human capital and innovation in the contemporary business environment. Second, it examines the mechanisms through which human capital contributes to innovation in firms by focusing on entrepreneurial mindset within a firm. Finally, since the existing research on human capital and innovation is very scarce when it comes to micro approach, this chapter analyzes these two constructs at a firm level by focusing on Western Balkan's (WB) region with a slight comparison to some EU countries by utilizing the Enterprise survey developed by World Bank Group in 2013.

**Keywords** Human capital · Innovation · Entrepreneurial mindset · Western Balkans

## 1 Introduction

In a global context where a rigorous competition exists, an important role in steering firms and subsequently the economic growth is played by the innovation (Sun, Li, & Ghosal, 2017). Therefore, it is of crucial importance to understand the determinants of innovation in order to properly manage it. As firms become more innovative and creative, there is an expectancy of faster economic development of the country. For example, within the period from 2000 to 2009, the private investments and

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innovation contributed to 27% of labor productivity growth in the UK (Kodjo & Owusu, 2014). It is also evident that in this current global world the countries, such as China, Japan, and South Korea are transforming their economies through innovation and currently competing with other developed economies. According to Van Uden, Knobon, and Vermulen (2014), the innovation is being steered by the knowledge that acts as its core aspect, and the ability to be innovative is due to the performance in problem-solving processes. Therefore, there is an imperative to continuously develop knowledge that helps in the further development of skills, competencies, and abilities. This brings us to the simple definition of human capital (HC) described as “the knowledge, skills, competencies, and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being” (Keeley, 2007, p. 21).

The importance of human capital in contemporary business can be observed through the prism of two dimensions. The more applied dimension is a macro-perspective, where according to the World Bank (1999), “the economic strength of a nation will become more dependent upon its ability to develop, utilize and manage its human resources” (p. 9). The less applied approach takes a micro-perspective by which human capital is considered as one of the most important assets of the organization (Barney, 1991). Having in mind that competition intensifies each day, the need for innovative human capital grows. According to Getz and Robinson (2003), innovative employees represent the biggest generators of new ideas. That is why organizations are trying to create a climate that stimulates innovation within their workforce. An important element of such a climate is an entrepreneurial mindset, which enables employees to be more proactive. In his large-scale international study, Stam (2013) concludes that entrepreneurial employees are important “not only because entrepreneurial employee activity is equally prevalent as an independent new entrepreneurship in many developed economies, but also because entrepreneurial employees’ activity is much more strongly related to knowledge than independent new entrepreneurship” (p. 896). Within the contemporary dynamic environment, the need for entrepreneurial employees is growing and organizations tend to rely on these types of employees to a higher extent.

However, the literature regarding human capital, as an essential component of innovative performance at a firm’s level is mostly focused on developed countries and significantly less research has been devoted to developing countries (Van Uden, Knobon, & Vermulen, 2016). In contextual comparison to developed countries, the developing ones are mostly lacking the infrastructure for human capital development. This makes managing human capital limited since the strategic approach to human capital is mostly non-existent. Therefore, there is a need to shift the focus to more developing countries, where a unique perspective of the effects of human capital for innovation can be attained. One of the interesting regions for this is the Western Balkan’s (WB) region, where human capital and innovation are still to be emphasized. Regarding the human capital, this region is still in the process of transition from operative to the strategic one. This significantly affects the companies and economies, which places the countries to very bad positions according to the Global Competitiveness Index (World Economic Forum, 2018). That is why

there is a need to conduct more empirical studies regarding human capital and innovation. Authors in this region mainly rely on a more qualitative approach (Svetlik et al., 2010; Venegas, 2012; Zjalić, 2009), while the quantitative are non-existent or with really small samples (Duraković, 2011). Furthermore, according to Schneider, Günther, and Brandenburg (2010), the analysis of micro-perspective is substantially lower than the one of a macro-perspective. However, the micro-perspective must not be neglected since it represents the root for firms' success, through internal marketing activities, which may involve different nonmonetary motivational tools (i.e., training and development).

As we can conclude, the entrepreneurial mindset and human capital are fundamental principles beyond increased innovation, which is one of the key factors for economic development. In exploring the potential for the economic development of Western Balkans, a number of questions arise: What is the actual framework through which these three phenomena are related? What is the current economic situation of WB? And, What is the degree of human capital development and innovation of WB in comparison with the EU? Therefore, this chapter engages with the broader theme of economic development, by contributing to the current understanding of micro-perspective of human capital and innovation through the lens of an entrepreneurial mindset. Therefore, at first, we explore the mechanism through which entrepreneurial mindset stimulates human capital development and innovation. Then, we describe the specificities of the Western Balkan's region through historical and contemporary focus. Finally, we present a comparative analysis of human capital and innovation between Western Balkans and selected countries in the European Union.

## **2 A Framework of the Entrepreneurial Mindset, Human Capital, and Innovation**

Entrepreneurship can be considered as an element of socioeconomic change and therefore creative change is vital in developing business structure. These creative changes are related to the innovation processes and these are fed by, both, initiative and entrepreneurial capacities. Schumpeter (1943) refers to these changes as the desired lack of equilibrium, which is positive and associated with creative destruction. The Schumpeterian theory of creative destruction can be related to entrepreneurship as it focuses on the strengths and values, which are inherent in the lack of equilibrium with the nexus of cause and effect of an entrepreneurial change. Entrepreneurship can be described as a way of managing opportunities and can be further viewed as a strategic ability for companies to respond to innovative opportunities, linking risk to opportunity and it is dependent on three fundamental elements, namely people, opportunities, and resources. This viewpoint includes the notion of competencies, especially those linked to management, since they influence the company's performance in a decisive and elegant way (Martins, Martins, Pereira,

& McCabe, 2010). Whether the organization is big or small, it faces dynamic changes in the environment that force it to rethink its business models. Plaztek, Pretorius, and Winzker (2014) argue that companies, today, require the models that offer them high adaptability through which they can pursue growth and long-term objectives. Therefore, regardless of their size, they need to integrate an entrepreneurial mindset which is “the inclination to discover, evaluate, and exploit opportunities” that helps the organization to be competitive in the market (Bosman & Fernhaber, 2018, p. 13).

The early studies were arguing that an entrepreneurial mindset is mostly related to the managers. However, significantly less explored area is being represented in the entrepreneurship within a firm (Nyström 2012). This kind of phenomenon is also known as an intrapreneurship and it represents an extension of the basic entrepreneurial model on employees. To understand this, firstly, we need to understand how an entrepreneurial mindset works. According to Neneh (2012), an entrepreneurial mindset is regarded as a “way of thinking about business and its opportunities that capture the benefits of uncertainty” (p. 3364). This is reflected in an individual’s human capital that despite uncertainty recognizes opportunities and improves productivity (Becker, 1975; Higdon, 2005). These individuals are not necessarily managers, and we can find them at different levels of an organization. For Woodruffe (2006), employees are the most important asset of an organization and all business outcomes are moderated by the strength of its workforce. The contemporary business requires proactive employees who are able to critically think and generate new ideas. Furthermore, “the human capital is more important than ever before, because more output needs to be produced with fewer employees” (Knezović, Palalić, Bičo, & Đilović, 2018, p. 157). Therefore, being an “entrepreneurial employee” within a company is a must for employees (Bosma, Stam, & Wennekers, 2012). Furthermore, these employees are able to adapt quickly to uncertain happenings that are present in a dynamic business environment. That is why we can argue that the ability to successfully implement entrepreneurial mindset within the firm is highly constrained by contextual influences, such as organizational structure, culture, and design (Zahra & Covin, 1995). In accordance with this, more and more companies are willing to encourage creativity among their employees for the purpose of entrepreneurship and firm-level innovation (Shalley, Zhou, & Oldham, 2004). Such an approach opens the door for an innovative culture that is a building block of a first mover advantage in the market (Zahra & Covin, 1995).

Rendon (1994) analyzed factors determining the competitive nature of organizations among which are learning and experience, seen to be important only when there is a framework supporting technological progress. In this context, he further highlights other factors that also determine the competitive nature, such as an organizational culture, the learning supply, geographical proximity, achievable professional qualifications, training of managers, and strengthening the relationship between universities—business cooperation. Jones and George (2008) exemplified a competitive advantage as the capacity of one organization to outclass other organizations due to the fact that it produces wanted goods or services more efficiently and effectively in comparison to the competition. According to them, competitive

advantage is built upon four main components: efficiency, responsiveness to customers, quality, and innovation. The innovation is actually the only component that influences the other three as well, since the innovation is observed as the progression of producing new or enhanced goods and services that client's desire, and evolving better ways to yield or provide goods and services. It is an intentional and deliberate source of problem creation. Resolving these problems entails identifying appropriate instruments and their application. According to Duran, Kammerlander, van Essen, and Zellweger (2016), innovation is a process which enables the organizational change, although Nonaka and Takeuchi (1995) see the innovation as a process of obtaining knowledge via the conversion of knowledge through information, data, and previously gained experience. Therefore, intragroup cooperation and continuous interaction are essential conditions for implementing innovation processes and strengthening organizational gains (Bontis, Crossan, & Hulland, 2002; Pavitt, 1990). Innovation can be regarded as being the result of organizational capacities (Grant, 1996) and it seems apparent that there may be some conflict between learning, work, and innovation. However, these three concepts are interrelated and complementary. Consequently, training represents the learning process. It allows for the transfer of knowledge from one mind to the other, which will impact the employees' performance and consequently company's performance through entrepreneurship and innovation (Martins et al., 2010; Shukarov & Marić, 2016). As an essential factor for economic growth and a firm's competitive advantage, innovation has been researched thoroughly in contemporary times. One of the particular aspects of the investigation was about the potential drivers of innovation where one important domain emerged: the human capital.

By thoroughly exploring the literature, we have identified that the rapid advancement of innovation is directly related to the economic growth due to new product development, shorter product life cycles, and increasing technological evolution (Mariz-Pérez, Teijeiro-Alvarez, & García-Alvarez, 2012). Accordingly, the capacity for a firm to be innovative depends on intangible assets and knowledge of the firm. Intangible assets are mostly referred to as the intellectual capital that is composed of human capital, structural capital, and relational or social. Therefore, since innovation is knowledge intensive and essence for competition, it is expected to be directly related to human capital, as it is the main source of knowledge and activities that promote knowledge acquisition in individuals at the firm level. In alignment to the previous argument, the contemporary literature supports the view that human capital plays a major role in how firms successfully convert innovation inputs to innovation outputs (Fonseca, de Faria, & Lima, 2019). One of the pioneering works regarding the importance of human capital in the creation of competitive advantage was written by Barney (1991) who emphasized that in order to gain and sustain the competitive advantage, an organization has to attract, develop, and retain the human capital that is valuable, rare, non-imitable, and sustainable. Even though his theory faced much criticism in regards to the integration with the organizational and environmental dynamics (Kraaijenbrink, Spender, & Groen, 2010), this work is still regarded as one of the breaking points in terms of considering human resources as the vital asset in the organization.

The term “human capital” has evolved over time, and today there is a general agreement on what this term means. A broader definition of human capital includes not just individual or employees’ knowledge but also the aspect of knowledge that is acquired from employee relations or social capital. Furthermore, the human capital includes tacit knowledge, which exemplifies employees’ personal attributes that have been acquired through experience, and communication skills and these are all drivers of innovation in firms (Mariz-Pérez et al., 2012). In the same article written by Mariz-Pérez et al. (2012), the authors identified several models of intellectual capital with respect to their impact on human capital and also establishing the relationship between human capital and innovation. From the moment where the human capital ceased to be a cost and became more as an investment, the authors strongly emphasized knowledge, skills, competencies, and abilities that are highly determined by individual traits, experience, education, and training (Martins et al., 2010; Pendergast, 2009; Radulović, Duarte, Radovanović, Shpak, & Vuković, 2015; Stevanović, Ivanović-Đukić, Rađenović, & Radović, 2018). Since these are the prerequisites for the framework through which an organization can achieve the innovation, Dakhli and de Clercq (2004) indicated that the relationship between human capital and innovation is coined in what is termed as the “conversions” implying that, various forms of capital can be transformed into resources and other benefits. In general, the concept is that individuals with higher or better education, have more work experience, invest more time and energy to improve their skills, are better able to attain higher benefits and are more valuable to the society. It is also evident that the investment in formal training and education influences productivity and competition at the firm’s level (Black & Lynch, 1996). However, an organization perceives an individual as human capital only in the case when he/she can fit the organizational environment, characteristics, and capabilities.

Therefore, one of the key components that enable the efficient transformation of human capital in innovation output is the entrepreneurial mindset of the organization. For example, the entrepreneurial elasticity ought to be founded on an inventive individual advancing flexibility. Augmented by these new attitudes, the innovative organization counterbalances outdated progressions and products and, rather, places attention on its potential. To attain superiority, new principal capabilities must be achieved. These must account for all human assets and not only those with technical or conceptual proficiencies. The continual fluctuations in the entrepreneurial settings are connected to the sort of suppleness. Obligations, open-mindedness, participation, inclination to take risks—represent dynamic pillars to warrant these organizations are more intricate and less bureaucratic (Bublitz, Nielsen, Noseleit, & Timmermans, 2018; Poutziouris, O’Sullivan, & Nicolescu, 1997).



### 3 Methodology

As the aim of this chapter is to explore the historical and contemporary role of an entrepreneurial mindset, human capital, and innovation in the context of Western Balkans, we identified that the available literature was insufficient. Therefore, we needed to utilize different methods of data collection.

In order to develop a deeper understanding of the historical Western Balkans context and to further research the theoretical claims made by Vanek (1971) and Kennett (2004), we performed a face-to-face (F2F) in-depth type interview with the former manager (1969–1989) of the basic organization of associated labor (BOAL), Mr. Kruno Ridić. He earned his master's degree from Engineering and Shipbuilding Faculty, Zagreb University in 1968. His university education was virtually free and he was also granted stipend of his future organization of associated labor (OAL) named "Mine and Ironmongery Vareš" (Riž) Vareš, which numbered between 3500 and 5000 employees. In 1969, he obtained the position of the Works Manager at the Central Mechanical Workshop under BOAL "Maintenance," where, later that year he became the managing director managing between 900 and 1100 workers. The main task of his BOAL was maintenance and non-interrupted workflow of heavy machinery employed at the City of Vareš Iron Mine. We used this opportunity to develop a rapport and comfortable communicative relationship, with the interviewee. The report assisted us to engage the interviewee in the interview process that included an open, confidential, formal, and honest communication through which the interviewee had the time and space to express their individual perspective on and experience of, the phenomenon under investigation (Quinlan, Babin, Carr, Griffin, & Zikmund, 2015).

Furthermore, for the purpose of analyzing the development of human capital and innovation within the micro-perspective of Western Balkans, we observed the data from Enterprise Survey (2013). We consider this data relevant since, in the time, before 2014, at the Western Balkans, there was an obvious dire economic situation, bilateral disputes, and instability among the countries, which were not part of the European Union (EU). As a result of these and other issues, a European Commission statement that indicated "five year-halt on enlargement" was disseminated (Lilyanova, 2016, para. 1). This distancing from membership prospects has been perceived as very negative; however, this was a part of a bigger plan that included a 5-year period of real progress. This package was known as the Berlin Process and was regarded as a mechanism for boosting the EU-related reforms and accelerating the EU enlargement process (Nicić, Nechev, & Mameledžija, 2016b). It includes several interconnected objectives, such as future orientation toward the EU, regional cooperation, "good" governance, and prosperity through sustainable economic development. Even though this data is old, there were no big changes in this period when it comes to WB. By comparing the data regarding competitiveness and doing business, we can see that some countries progressed while some of them dropped in the last few years leaving the region in a very similar position.

The population for Enterprise Survey came from more than 139 countries of which over 134,371 firms were selected through a stratified random sampling method. This method involves grouping the population units within a homogeneous group and using simple random sampling techniques to select units within the group. This promotes precision in calculating estimates for each stratum, as well as population estimates. The size of the sampling eliminates the variations within different strata in the selection process. Using stratified sampling is more precise and accurate than simple random sampling and therefore having a lower standard error. Furthermore, the Enterprise survey strata includes firm size 5–19 (small), 20–99 (medium), and 100+ employees (large-sized firms), a geographic region within a country (cities/regions collectively contain the majority of economic activity), and the business sector (Manufacturing and service). Considering the fact that, most firms in developing countries are small and medium firms, the Enterprise survey oversampled the larger firms since it is considered as the engine for job creation. The Enterprise survey unit used two instruments: The Manufacturing Questionnaire and the Services Questionnaire.

From these questionnaires, we focused on several variables regarding human capital and innovation. The focus on human capital was made by addressing the manager's experience, training opportunities for employees, and main constraints regarding the labor. Regarding the innovation, we focused on the product and process innovation and investment in research and development (R&D). These variables were used by utilizing basic descriptive statistics.

#### **4 Peculiarities of the Western Balkans Region**

In order to discuss the terms, such as entrepreneurship, human capital, and innovation in the region of Western Balkans, we need to understand this region in a more thorough way. Since ancient times, the geographic and economic area of Western Balkans was intertwined with numerous special features. Following the break-up of the Roman Empire, it was the area of influence peddling between the Byzantine and the remnants of the Holy Roman Empire. With the expansion of the Ottoman Turkish Empire, the area came into focus as the focal point of clashes between the Austro-Hungarian and Ottoman Empires. In 1878, at the Berlin Congress, the area came under the increasing influence of the Austro-Hungarian Empire. First World War (WW1) started in the center of the region, as the result of the assassination of the Austro-Hungarian Arch Duke Franz Ferdinand on June 28, 1914, in today's Bosnia and Herzegovina's capital Sarajevo. In November 1918, the Central Powers (German and Austro-Hungarian Empire) were defeated and Ottoman Empire was dissolved. Kingdom of Serbs, Croats, and Slovenes was formed, later to be named to the Kingdom of Yugoslavia, an unstable creation of the Treaty of Versailles plagued by national, class, and religious strife in addition to the dictatorship of King Alexander.

Before the sad happenings in the 1990s and after the WWII, this region was under a Socialist Federative Republic of Yugoslavia (SFRY) that was founded in 1945 by the Communist Party, led by its charismatic leader, Marshall Josip Broz Tito and the Central Committee. From the 1960s, it adopted the form of the participatory economy called market socialism and socialist labor management; in an attempt to find the middle way between liberal market capitalism and planned Soviet-type Socialism (Kennett, 2004). In that system, the enterprises were utilizing the capital owned by the entire society. As opposed to capitalist and largely private ownership, in the market economy, the means of production were owned by the state. While in other Eastern bloc states the aggregate economic planning was conducted by centralized planning, in SFRY, since the 1960s, the coordination was, to the large extent, commanded by the market forces. Labor management implied that state-owned capital was managed by workers, or more accurately by workers' selected and appointed management. The theory of labor management in the economy was developed by economic researcher Jaroslav Vanek, who pioneered the term "participatory economies," since workers, to a great extent, were involved in decision-making and their income was the function of generated profit (Kennett, 2004; Vanek, 1971). This model encompassed five principles:

1. Participation in management—A form of representative democracy in which employees delegate their daily responsibility to an elected chief executive, a board of directors, and workers' council to make decisions on workers' behalf.
2. Sharing of income—As opposed to being paid a fixed wage, workers compensation is determined by the division of income in an equitable fashion determined by formula democratically adopted by workers themselves.
3. Coordination of the business unit and economy as the whole by the market forces and not by the centralized planning. There is still need for government intervention via indicative planning and other mechanisms in dealing with abuses stemming from the monopoly power and market failure.
4. Freedom of employment—The ideal is exemplified in unrestricted (total) liberty of the individual to choose his or her occupation and employer. Socialist participatory market economy was plagued with the finding and enforcement of the appropriate dismissal grounds due to the protective influences of Syndicates (Unions) and workers' councils.
5. Capital ownership is to be all encompassing and owned by a Socialist society as the whole. Capital in any enterprise is not owned by that enterprise like in capitalism, or by the employees. It is owned by the Socialist state, which rents out the capital and receives the contractual fee. The fee amount shall reflect the economic opportunistic cost and scarcity, and be not merely of nominal nature and size.

According to Kennett (2004), in the capitalistic economy, the profit maximization shall be the primary goal of the firm, while in the centrally planned economy it is more due to the preferences of politicians, planners, Communist party members, rather than the actual employees. In a labor-managed firm, the overarching objective is to maximize income (exemplified in a more abstract notion of "well-being" for the

firm's workers). In comparison to the liberal capitalist economy, the participatory, market-socialist, labor-managed economy was providing some advantages in terms of HC, innovation, and entrepreneurial performance, such as:

1. Participatory economy, as exemplified from the 1960s till 1990 in the former SFRY, is benefited with a reduced tendency toward monopolization. By doing so, it will materialize in increased consumer welfare, relative to the capitalist economy.
2. HC managed enterprises shall produce reduced friction in workflow, with lesser incidence striking activity in comparison to capitalist (market forces)-based enterprises. The striking activities come about as the dispute between relative returns to invested capital and HC. When the owners are technically the same, the principal-agent issue becomes circumvented (i.e., which is tried to be supplanted by the equity grants in some, yet a minority, capitalist enterprises).
3. Nonproductive expenditures tend to be lower in comparison to capitalism.
4. Greater tendency to full employment of HC.
5. A lower long-run tendency toward inflation—due to resistance to size and monopolization and due to the absence of labor unions.
6. Increased social responsibility in comparison to the capitalist firm.

Regarding the discourse emphasized by Vanek (1971) and Kennett (2004), Mr. Kruno Ridić stated that from the aggregate (total) receipts of the BOAL depreciation, material, and interest expenses were deducted in addition to the membership fees. What remained represented the “Revenue of the Firm,” from which fees for collective consumption, reserve, and investment fund(s) were allocated. What remained following the above-listed deductions was “Gross Personal Income” from which taxes, housing fund, educational, social and health insurance contributions, and childcare were funded. What remained at the end equaled to “Net Personal Income” (NPI) (Kennett, 2004; Mr. Ridić—Personal interview, 8.3.2019).

As far as HC and Innovation development was planned, there was annually planned (budgeted) innovation and investment fund from which various courses, education, and re-education of workers were funded. Re-education and even full-time education of workers were paid in full and workers received a length of service during their full-time education. In Mr. Ridić's opinion, investment in HC and Innovation was significantly better organized, larger and virtually all-encompassing in comparison to 1990–till present time capitalist economy period. Social, health, pension, disability, and childcare contribution payments were a must, mandated, and enforced by the government (which is not the case in numerous businesses in today's WB). The core educational system was more demanding and stronger in basic sciences, mathematics, chemistry, physics, natural sciences, and theory.

The system had issues with practical application of theoretical education and was plagued with abuses of the jealous Communist party members moral-political fit, where everybody could be labeled as bureaucrat or technocrat, just for wanting larger application of organizational performance measures and to be degraded, for envy, jealousy, or verbal delict purposes by the incompetent apparatchiks coming

from the Central Social Republic's Communist Committee, Syndicate (Union) and workers' council. It is important to note that entrepreneurship was generally seen as the individualistic, materialistic, and capitalistic nuisance, which had to be discouraged and tightly controlled and monitored by the one party Communist government. Individual Entrepreneurship was limited to three employees up to 1965, five employees (from 1965–1983), and up to ten employees (that an entrepreneur could employ since 1983) (Palalić, Dana, & Ramadani, 2018). It was largely limited to relatively few and rare black smith businesses (like the individual mini iron–steel black smith and hardware producing shops in the village of Očevija, north of the City of Vareš, Cental Bosnia and Herzegovina). More prevalent entrepreneurial businesses were in the following economic areas (i.e., fast food, coffee shops, restaurants, pastry shops, souvenir, and crafts' shops at Baščaršija neighborhood of Sarajevo). Everybody could apply for the innovation grant, which was assessed by the Innovation committee. There was also the public announcement and the innovation funding from the level of the Socialist Republics. In today's time in WB countries, a significant number of young, highly educated, and innovative HC are leaving the region departing for Western, Northern and Central Europe, USA, Canada, and Australia. There is a serious issue of earning of fake, incomplete, or poor quality diplomas from the private and state universities. A human capital that is developed on pure diploma without proper training and obtained knowledge, skills, and competencies is a poor predictor of the future. This is especially true in the state/government/public institutions where former Communist, moral–political fit was replaced by party membership, loyalty, and nepotism fit. This argumentation points to the theoretical assumptions of the negative features of the participatory–labor-managed economy, which was less responsiveness to customers' demands than the capitalist enterprises and was plagued by limited innovation capability, especially for its smaller firms (due to fact the R&D represents the fixed cost, where high sales volume and revenue could be spread out across the larger number of output units (Kennett, 2004; Mr. Ridić—Personal interview, 8.3.2019).

Regarding the managerial positions in one former Yugoslav textile factory, they ranged from top managing director down to the technical director, works manager, sales manager, and foreman. The professional white-collar position was exemplified in an accountant, while blue-collar positions ranged from skilled weaver and spinner all the way down to the truck driver and female cleaner. Each of these managerial and nonmanagerial and professional and nonprofessional job descriptions was assessed according to the seven objectively verifiable assessment criteria being: educational level, skill and experience, level of commanded authority, responsibility level, physical effort, mental effort, and working conditions. The highest assessed compensation levels were commanded by the managing director, followed by technical director, and sales and works manager. It is important to note that work points provided a sound basis for the individual worker's income determination. It was arbitrary in nature and did not pay significant attention to HC supply and demand. By being so, it could not ensure that all HC positions would be staffed by qualified and best fit (the most productive and performance-oriented workers). In conclusion, the difference between the wages of senior management and the

workforce was extremely important to note. When analyzing the multiple of average earnings, the top management in former SFRY was relatively poorly paid in comparison to the capitalist and other Socialist countries. In the case of Zagreb textile factory from 1961, the managing director (CEO) received only five times the income of a cleaning person and double amount of compensation of the foreman. On the other hand, there are extremes in the compensation of the CEOs of the multinational corporations, especially in the USA, which frequently exceed 300 times multiple of average earnings of an employee in a capitalist economy. This extreme, reduces HC motivation and job satisfaction, thus, increasing employee turnover (Kennett, 2004; Mr. Ridić, Personal interview, 8.3.2019).

The SFRJ ceased to exist in June of 1991 when its western republics Slovenia and Croatia declared independence and became recognized by the major world powers. On March 01 and 02, 1992, Bosnia and Herzegovina voted for its independence from SFRJ. The bloody war of aggression, ethnic cleansing, and economic destruction started in 1991 and only ended in June of 1999, with the end of the Kosovo war (Banac, 2009). The 1990s encompassed the magnitude of European policies in the Western Balkans. The region was important to the European Union because of violent and destructive behavior from the past that was happening at their borders. The intensity of European interest significantly declined upon the cessation of war activities. Unfortunately, the cessation of violence did not translate into the absence of serious issues. The region is constantly struggling with various issues (Alexander, 2008; Baklacioğlu, 2015; OSCE BiH, 2019) (Exhibit 1).

The region is being constantly plagued by repeated ethnic strife, frail economy, and an increase in citizens' discontent of their public representatives. A decrease in Europe's focus for its distressed backyard created the room for outside national states, such as Russia and China to commence the affirmation of their influence (Preljević & Mustafić, 2018). A renewed engagement with the Western Balkans



**Exhibit 1** Area of Western Balkans depicting connections relating to EU. Source: Drawn by authors

seems to be the only viable option for the European Union to sustain its sway. Looking back to history, Europe tried to separate itself from the many-sided aggressions and conflicts in the Balkans in the 1990s. International reaction was primarily led by the UN, NATO, and the USA. The EU, for its part, started taking the major role to guarantee the stability from the early 2000s (Alexander, 2008; Baklacioğlu, 2015; Vogel, 2000; OSCE BiH, 2019).

The period after the 1990s war is regarded as a transition period. The countries experienced major economic transformation through comprehensive rebuilding and reform. Some of the major changes were the ones regarding global trade for which it was required to open the boundaries, private ownership, and regulations that provide environment in which such enterprises can develop, institutions needed to support the market economy, and creation of a banking sector, usually from the scratch (Murgasova, Ilahi, Miniane, Scott, & Vladkova-Hollar, 2015). However, these processes were far away from smoothness, and during the process, the Western Balkans countries faced many challenges. The most turbulent period was the mid-2000s where the process experienced “fatigue” which later on was complemented by the World Economic Crisis in 2008. These events highly affected the development of WB in the coming years. In addition, the development process was affected by the EU decision to put enlargement process “on hold” which was the result of the incomplete reform process that prevented the better convergence with EU countries (Murgasova et al., 2015; Knezović, 2018). In the meantime, German Chancellor Angela Merkel initiated a framework called “Berlin Process” with the aim of coordinating the pace of Western Balkans’ integration (Shtetiweb, 2018). Through this framework, the focus on Western Balkans was partially extended by EU since it provided the opportunity for member states (e.g., Albania, Bosnia and Herzegovina, North Macedonia, Kosovo, Montenegro, and Serbia) to improve their economic and political relations. Even though this framework did not represent a replacement for the EU membership, it showed the willingness of the EU to further engage in the Western Balkans’ development. This diplomatic initiative was very important for WB states at their path to the EU integration because the 2015 EU Enlargement Strategy was emphasizing positive neighborhood relationships, as well as regional cooperation as essential factors (Nicić, Nechev, & Mameledžija, 2016a). With the recent closure in London, we cannot be satisfied with the outcomes of this process, since it failed at some important parameters, such as creating specific and measurable goals, as well as timeline schedule with clear responsibilities of member states. Because of this, it is not possible to analytically measure the successfulness of the process. Therefore, it can be stated that the Berlin Process was a positive initiative with blurry results, but definitely a foundation for further platforms.

## 5 Current Economic Situation of WB

It is evident that WB countries are lagging behind not just the EU countries but also the other non-EU countries that are primarily located in Eastern Europe. According to Uvalić (2011), the main reasons for the lag are political instability, EU politics toward the Western Balkans, inadequate economic models, and the failure of the transition model. EU politics toward the Western Balkans have already been discussed through the lens of the Berlin Process and its outcomes. In the following part, we focus mostly on the economic aspects of WB.

There is an unsubstantiated view that particular factors, such as small business and entrepreneurship contribute to the economic development in most countries (Radović-Marković, Grozdanić, & Jevtić, 2014). The inability to provide an attractive business environment negatively affected the Western Balkans countries and distanced them from the EU integration. Taking everything into consideration, one has to ask what the key to the future process is. According to Murgasova et al. (2015), the key aspects on which WB has to work are maintaining the low inflation, dealing with the regular problem of liquidity, reducing the trade deficit through the improvement of competitiveness of domestic companies, and full focus on the private sector. Regarding the economic indicators, we based our analysis on unemployment, Gross Domestic Product (GDP) per capita, and Foreign Direct Investments (FDI). Table 1 represents the indicators for six WB countries, the average of the region, and the EU average.

From the presented data, we can see that the WB countries are clearly lagging behind the EU. Klapić (2011) argues that for the purpose of the economic analysis of a country or region, one should start from its unemployment, since unemployment usually reflects the economic and social development. Not a single country of WB is even close to the average of the EU when it comes to the unemployment. Zeneli (2015) characterizes the position of WB as unfavorable due to low income and high unemployment, which dates from the beginning of the 1990s. As far as GDP per capita is concerned, the leading country in this region is Montenegro, while the

**Table 1** Basic macroeconomic indicators for WB

Country	Unemployment 2018 (%)	GDP per capita 2017 (US\$)	FDI 2017 (\$ millions)
Albania	15.13	4537.58	1022.13
Bosnia and Herzegovina	26.06	5148.21	462.73
Kosovo	–	3957.44	324.8
Montenegro	16.12	7782.84	560.29
North Macedonia	22.3	5414.61	380.74
Serbia	13.08	5900.04	2878.82
WB Average	18.54	5456.79	938.25
EU average	6.94	33,723.27	604,920.21

Source: Based on World Bank (2019)



**Table 2** Global competitiveness in WB

Country	GCI (2017 score)	GCI (2017 rank)
Albania	4.18	75
Bosnia and Herzegovina	3.87	103
Kosovo	–	–
Montenegro	4.15	77
North Macedonia	4.14	73
Serbia	4.14	78
WB average	4.1	
EU average	4.8	

Source: Based on World Economic Forum (2018)

lowest score is obtained by Kosovo. However, the average of WB is far away from the EU average, which perfectly illustrates the disparity of the integration process, as well. In the context of aggregate global FDI, it is important to note that WB accounts for less than 1%. The institutional and political quality tends to strongly affect FDI inflows. A major study of FDI flows is based on a gravity approach suggesting the main generators of investment and trade are based on the host economy's size, source economy's size, and distance between the two (Asllani & Statovci, 2017; Elbasani, 2008; Kekić, 2005; Ruma, 2014; Zeneli, 2015).

The slow economic development is a result of many factors, but in WB the determinants of such situation are social and economic inequalities, nature and complexity of the transition process, and eventually the relations among the countries. However, one of the key indicators for such economic halt is the general competitiveness of companies from this region (Knezović, 2018). For the purpose of illustrating the situation of WB in terms of competitiveness, we present the Global Competitiveness Index (GCI) for the year 2017 that includes the factors, such as infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation (World Economic Forum, 2018, p. 11) (Table 2).

The competitiveness of the Western Balkans is not adequate to engage in a fierce and competitive fight with foreign and multinational companies. There are many factors that contribute to these low scores, such as the business environment, rule of law, political instability, and corruption. Although some improvements have been made, especially in the private sector through reforms to make more appealing investment environment (Zeneli, 2015), one of the biggest obstacles in improving the competitiveness in WB is an innovation, which is plagued by the inability to generate sufficient funds (Krstić & Džunić, 2014). The innovation index for WB is quite low compared to the benchmarking model of the EU. Therefore, Kostoska and Hristoski (2017) argued that “Western Balkans need to bring the competitiveness agenda back to the heart of the economic policy by addressing the factors that determine the region's level of productivity” (p. 510).

**Table 3** Corruption in WB

Country	CPI score (2014)	CPI score (2017)	Country rank 2014 (out of 174)	Country rank 2017 (out of 180)
Albania	33	38	110	91
Bosnia and Herzegovina	39	38	80	92
Kosovo	33	39	110	87
Montenegro	44	46	76	64
North Macedonia	45	35	64	109
Serbia	41	41	78	78
WB average	39.2	39.5		
EU average	64.2	64.6		

Source: Based on Transparency International (2014, 2017)

One of the key factors for economic development stagnation in WB is corruption, which directly distorts the market competition and innovation (Zeneli, 2015). The corruption has been assessed as one of the largest blocks to the overall economic investment and development in the region since it represents a crime, which ruins societies, downgrades economies, and degrades cultures (Kaufmann & Wei, 1999). Low incomes and high unemployment tend to fuel vicious corruptive effects. As a worldwide phenomenon, it represents a major obstacle and challenge to market economies and democratic governance. In addition, it generally depicts the abuse of entrusted power for individual/private gain, thus, being responsible for creating the toxic environment of poor political stability, deficient economic development, administrative inefficiency, poor customer service and dissatisfaction, destruction of economic value, and retarded economic development. Table 3 presents the data for the Corruption Perceptions Index (CPI) for the WB region.

As Table 3 shows, Montenegro has the highest CPI of 46 depicting the lowest level of public sector corruption, whereby on the scale between 0 and 100, 0 signifies the most corrupt and 100 the least corrupt public sector in particular country. On the other extreme, the highest level of the public sector's corruption was assigned to North Macedonia with a score of 35. The CPI positioning of countries is based on perceptions regarding the corruption of the public sector (Džafić, Zahirović, Okičić, & Kožarić, 2011; El Ouardighi & Somun-Kapetanović, 2007; Zeneli, 2015). However, what is even more worrying is the fact that the average of WB is “miles away” from the EU average.

## 6 Analysis of Selected Indicators in WB

Having in mind that the innovation is one of the most prominent research topics, especially in the case of competitiveness (Despotović, Cvetanović, & Nedić, 2014), we address the model of linked activities: entrepreneur—human capital development—innovation. For the purpose of this analysis, we used the Enterprise Survey

(2013) data. However, this survey does not provide the data for all EU countries and it excludes some of the most developed ones, such as Germany, Denmark, and France. The sample on which we calculated EU average (named as EU limited) includes the following 12 countries: Bulgaria, Czech Republic, Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia, and Sweden. We can see that most of the included countries are actually less developed countries in the EU.

### 6.1 Human Capital

The first element that we observe is the human capital of managers. Armstrong (2009) argues that, in the simplest term, the human capital consists of knowledge, skills, and abilities (KSA) and it can be applied to both managerial and nonmanagerial positions. There is a strong theoretical support for the relationship between owner/manager and business performance through the lens of human capital (Baum, Locke, & Smith, 2001; Chrisman, Bauerschmidt, & Hofer, 1998). The KSA framework will highly determine the decision-making process and strategy implementation. Hambrick and Mason (1984) go one dimension higher by arguing that organizations tend to be the reflection of their leaders.

The main problem with human capital, as already mentioned, is the framework for measuring it. However, the education and experience are considered as the most relevant in obtaining the components, such as KSA. Exhibit 2 presents the data regarding the top manager’s experience in WB.

From the data presented, we can see that all countries except Kosovo have, on average, less experienced top managers in the business, even though the data for the EU is limited. Except for Albania, the numbers are comparable with EU average, but to have a complete insight we are missing the experience in the managerial role since this data only reflects the total years of experience in firm’s sector.

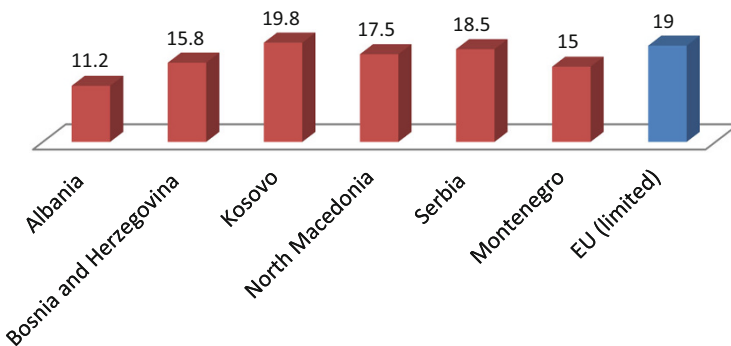
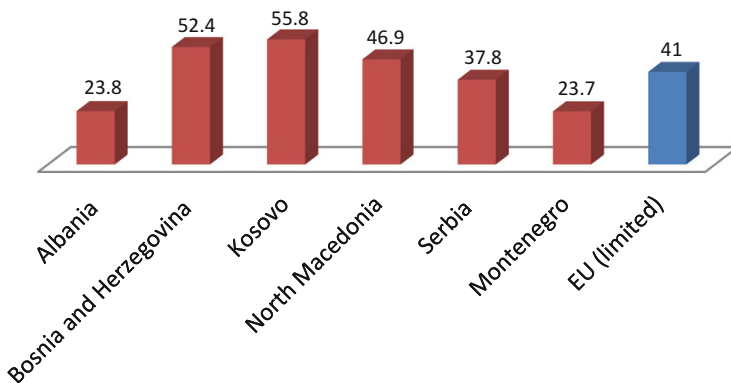


Exhibit 2 Top manager’s experience. Source: Based on Enterprise Survey (2013)



**Exhibit 3** Percentage of firms offering formal training. Source: Based on Enterprise Survey (2013)

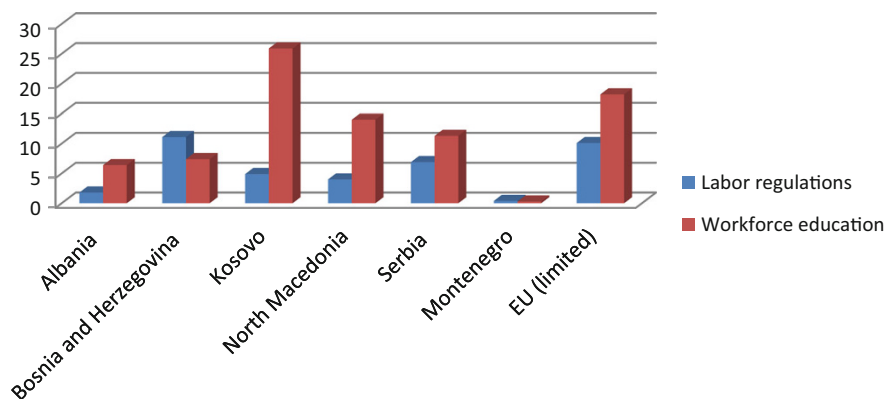
As already mentioned, a valuable contribution to human capital development in the company is exemplified by the education. Dynamic changes in the market in terms of technology, diversity, and legal regulations place significant of pressure on companies to adapt, but at the same time to increase their performance. The contemporary business environment requires companies to invest in their human capital, which makes training and development programs more important than ever (Gómez-Mejía, Balkin, & Cardy, 2012; Torrington, Hall, & Taylor, 2005). In accordance with the emphasis on these HR components, we present the investment in human capital in WB and EU (Exhibit 3).

By observing the data regarding the formal training in the companies, we can see that the three countries have higher percentage than EU selected countries. However, the data here is limited to the percent of formal training offered and it does not provide any metrics for its effectiveness, which could represent the situation in a more valid and reliable sight.

Even though the development of human capital requires a thorough planning and adequate resources, especially the financial ones, the ability to execute this strategic activity is not solely on the company. Many other factors outside the company's control affect the outcome regarding human capital development. Therefore, in order to better understand the challenges that companies face regarding human capital, we present the data on major constraints in Exhibit 4.

As we can see from the data presented, some of the countries in WB have more favorable environment regarding the workforce than selected EU countries. However, Bosnia and Herzegovina seems to experience more problems when it comes to labor regulations. When we speak about this particular country, it is inevitable not to mention the system of taxes and the logic in comparison with the OECD recommendations (Table 4).

A large part of the state budget is funded by taxing wages, which additionally pushes the economy down. Furthermore, CPU (2014) states that, according to the current tax regulations in B&H, the fiscal burden of work is at a very high level, which puts this country in top 10 countries when it comes to salary tax. When it



**Exhibit 4** The major constraints regarding the labor. Source: Based on Enterprise Survey (2013)

**Table 4** Comparison between OECD and Bosnia and Herzegovina

	OECD recommendations	Situation in Bosnia and Herzegovina and Federation
1	Tax on immovable property	Taxing wages
2	Taxes on consumption	Taxes on consumption
3	Taxing wages	Taxes on capital
4	Taxes on capital	No tax on immovable property <sup>a</sup>

Source: CPU (2014)

<sup>a</sup>Tax on immovable property was made in 2009 on Canton level (Tax Administration of FBiH, 2015), but the ranking stays the same

comes to the overall situation in Western Balkans in terms of labor regulations, we can state that the EU is facing more restrictions. However, labor regulations do provide certain advantages to the workforce in terms of job security, insurance, and retirement options. All these benefits that should come with the regulation system are highly questionable in this region and this could be one of the reasons why we have a large brain drain from WB in recent years.

Taking everything into consideration, we can state that Western Balkans countries do not lag behind the selected EU countries in terms of human capital or human capital opportunities. However, the question to be raised here is the quality of development opportunities, as well as the effectiveness of a particular training. Furthermore, we need to take into consideration that most of the developed countries have not been included when calculating the EU average, which in alignment with other data would most probably increase the average.

## 6.2 Innovation

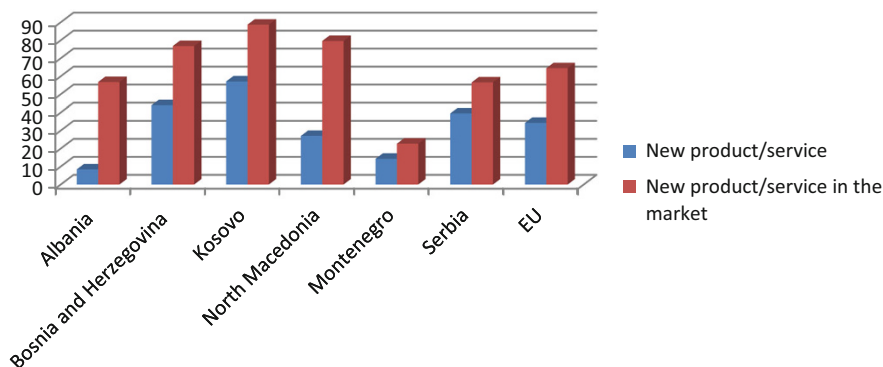
The ability to be innovative in a firm is significant to the capacity of continuously making new products, services, and complex system that eventually promotes firm's competitive advantage and benefits all involved stakeholders in a firm's industry. When analyzing the innovation in the countries of WB, we pay attention to two key components: innovation in actual business output, such as product or service and innovation in the process that supports the business output.

Product/service innovation involves the introduction of new products or services in order to meet a particular need in the market. Product innovations are related to tangible parts, while service innovation is more related to the intangible parts of a business. Exhibit 5 presents the data for both: new products/services and new processes.

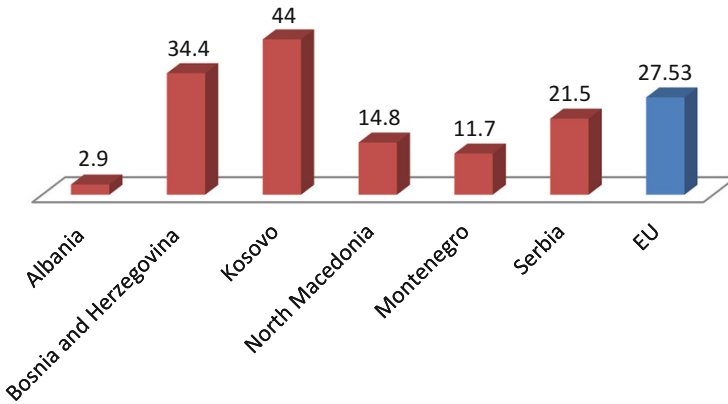
The data presented in Exhibit 5 shows that countries in the Western Balkans are launching new products to a high degree, but what is more important is that most of these products are new in the market. Based on the available data, Kosovo is leading in the race closely followed by North Macedonia and Bosnia and Herzegovina, while Albania tends to innovate the least.

Regarding the new process innovation, it involves the introduction of new elements in the various aspects of processes executed in a firm. The integration of these aspects of innovation varies in the stages of the organizational development. It also involves the method of operation in the sense that a firm is improved and developed with new performances. This form of innovation does increase the bottom-line profitability and cost reduction; it is more efficient and drastically increases employee satisfaction. Exhibit 6 outlines the data for new process innovation.

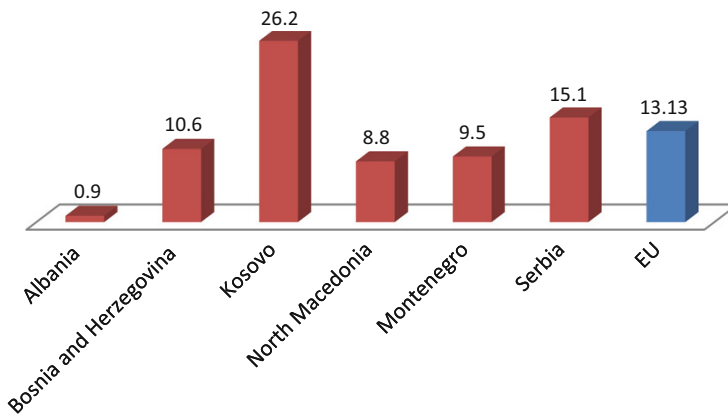
In regard to the process innovation, Kosovo is still the leader. However, in comparison to product innovation, we can see that WB countries are far less advanced and that more countries fall below the EU average.



**Exhibit 5** Innovation in WB. Source: Based on Enterprise Survey (2013)



**Exhibit 6** Percent of firms introduced a process innovation. Source: Based on Enterprise Survey (2013)



**Exhibit 7** Percent of firms that spend on R&D. Source: Based on Enterprise Survey (2013)

Finally, we are observing the indicators regarding the research and development (R&D) since there is a strong argument that the increase in R&D investment increases the probability of product/service or process innovation (Baumann & Kritikos, 2016). Therefore, Exhibit 7 shows the data regarding the R&D in WB.

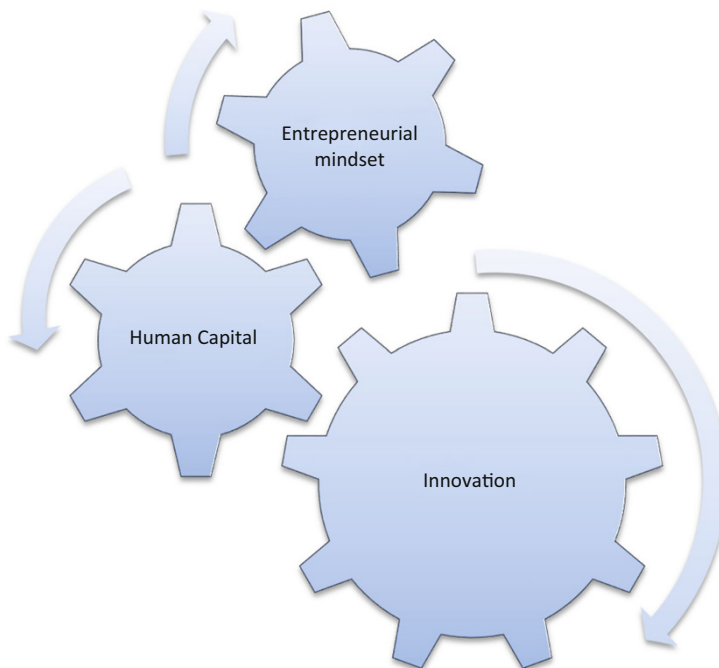
The same situation is in terms of R&D when it comes to the leader in the WB region. Here, we can see some disturbing data, such as in the case of Albania. Still, most of the countries are below the EU average.

By taking the data regarding product innovation, process innovation, and R&D into consideration, we can state that some countries are above the average of selected EU countries in particular areas. There are only a few extreme cases where WB countries fall significantly behind the EU average, which raises the question regarding a big disparity in overall economic terms between EU and WB countries.

## 7 Conclusion

Since the business sector is one of the key drivers of the economy, it is important to address the mechanisms through which businesses gain a competitive advantage. One of the very important competitive advantages is the capability to innovate in the market in terms of products or services for the purpose of satisfying the dynamic needs of consumers. Despite the recent emphasis on the entrepreneurial mindset, human capital, and innovation, the mechanism that embodies them is yet to be developed. In its conceptual model of innovation, Meeta and Rajen (2009) indicate the required elements, such as the organizational structure, culture, learning, technology, leadership, and knowledge management. All these components are effective if the quality human capital is presented. Therefore, this work explores the model of the entrepreneurial mindset that contributes to innovation by mediating with human capital. To illustrate it, we present Exhibit 8.

We can state that this work provides several theoretical implications. Firstly, by highlighting the importance of entrepreneurial mindset within the company, this study helps further researchers to thoroughly investigate this phenomenon. As we already stated, most of the studies were focusing on an entrepreneur as the focal point for creating an entrepreneurial mindset. Even if there is strong evidence for this argument, we cannot neglect that the entrepreneur is not the only factor that



**Exhibit 8** The framework of human capital and innovation. Source: Authors



influences such organizational culture (Nyström, 2012). Secondly, we explore an entrepreneurial mindset as an important determinant of innovation. We argue that organizations that are entrepreneurial tend to innovate more. Finally, we address human capital as an important connection between the entrepreneurial mindset and innovation. Here, we take a micro-perspective approach arguing that entrepreneurial employees are a prevailing factor that strengthens the mechanism of innovation.

Furthermore, this work highlights the macro-perspective of this mechanism. As innovation within the country advances so does the economic development (Mariz-Pérez et al., 2012). The inevitable factor for fertilizing landscape for innovation comes from the labor market (World Bank, 1999). Therefore, this study should not only be interesting for researchers and managers but also for the government. It is important to note, that the analysis we made in the region of Western Balkans gave us conflicting results. By comparing the actual data regarding human capital and innovation between WB countries and selected EU countries, we can see that the deviations are smaller than when we compare the actual economic output of countries. This brings us to the question of what really causes the halt in economic development. To understand the potential determinants, we have to observe the organizational ecosystem. According to Daft (2009), a company is an actor in the interactive environmental network that consists of different actors at different levels. Furthermore, he claims that “organizations around the world are embedded in complex networks of confusing relationships” (p. 177), where organizations have to compete and collaborate under the umbrella of larger environmental forces that they cannot control, such as political and legal system, technology, and natural environment. Therefore, we can extend the model presented in Exhibit 8 by adding the uncontrollable effect of the environment that can highly decrease the pace of the economic development.

More than ever, it is evident that without serious investments in innovation, it is impossible for a country to be competitive and to economically develop. As innovation became the leading topic in the world, the region of Western Balkans tried to follow this trend. As this region still has not fully shifted to the capitalist economy, the innovation progress has been rather steady. However, there are several strong pieces of evidence that the countries in this region started to take innovations serious and in stark contrast to many other platforms. Therefore, in 2013, ministers of education of WB countries developed a regional strategy on research and development (R&D) for innovation in Western Balkans (World Bank, 2013). Two years later, the ministers agreed on the establishment of Center for Research and Innovation in the Western Balkans with the overarching aim to “promote cooperation in research and innovation and sustainable economic development and social cohesion and European integration in general” (Akta, 2015, para. 3). For the effective implementation of activities related to the strategy and the center itself, the high quality of human capital is needed. In their joint report regarding human capital in the Balkan countries, it was stated that “although economic and labor market performance differ between selected countries, they have in common many challenges to confront - overcoming the post-crisis period, adjustments to structural changes, rising unemployment rates and improving the quality of human capital”

(Center for Democratic Transition & The Balkan Forum, 2017, p. 3). One of the biggest challenges in the next decade will be the unemployment of youth and the intensive brain drain.

## 7.1 *Limitations and Future Research*

This study has advanced the emphasis on the link between the human capital and innovation capacity by taking into consideration both micro and macro business perspectives. It represents a continuation of previous works, which emphasized the theoretical importance of human capital in the innovation model in the Western Balkans (Josipović, 2018; Muškić & Mladenović, 2015). However, we need to acknowledge several limitations that we faced. Firstly, we used the survey data obtained in 2013. Even though we argue that the situation in the Western Balkans is very similar, the objectively verifiable indicators might have changed from then. Secondly, we used the data that was created for some different purpose, which limited our analysis to the descriptive one. Thirdly, our theoretical building on the previous studies was constrained in a way that we did not examine ways through what framework the entrepreneurial mindset is implemented in the company. Finally, the measure of human capital is very limited and it does not take the factors, such as personality traits or type of education, as relevant.

Taking everything into consideration, we believe that more concrete studies, such as an empirical research are more than welcome in order to overcome the gap that exists between contemporary trends of innovation in the world and early stage of innovation in this region. Also, we need a deeper examination of factors that allow the existence of an entrepreneurial mindset with the company. Furthermore, the model of education and experience as relevant indicators has to be extended to more personal factors that can be determinants of human capital.

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# Entrepreneurial Marketing Mindset: What Entrepreneurs Should Know?



Nora Sadiku-Dushi and Veland Ramadani

**Abstract** Marketing is regarded as one of the most essential activities for the survival and growth of small and medium enterprises, but, at the same time, it is considered as the greatest challenge for the SMEs. The lack of resources, knowledge, and expertise make it difficult for SMEs to perform traditional marketing practices. Consequently, operating in an environment with increasing dynamics, turbulence, and competition suggests that entrepreneurs have to overpass the conventional marketing principles and change them with new innovative ideas and actions such as the Entrepreneurial Marketing (EM). Entrepreneurial marketing is a relatively new field of study that has emerged at the intersection of marketing and entrepreneurship fields when it was noticed that the traditional marketing practices are not suitable for the small and medium companies. The aim of this chapter is to offer an overview on the history of the foundation of this relatively new field, the most common definitions that may be found in literature, the main types of EM, the EM dimensions, as well as the main differences between EM and traditional marketing. Finally, this study will emphasize the importance of this new marketing paradigm for small and medium enterprises. In the end, the study will provide recommendations for the use of entrepreneurial marketing by SMEs and will propose future research directions in this field.

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## 1 Introduction

The actual business environment has become very challenging, especially for small and medium enterprises (SMEs). This environment can be characterized by increased risk, uncertainty, chaos, change, and contradiction. All these characteristics have a high impact on marketing in a global economy because nowadays customers are constantly becoming more and more demanding (Hills, Hultman, & Miles, 2008). There is general accordance that marketing is very important for the success of every organization. It can also be argued that this importance is even higher in small and medium enterprises (SMEs) whose survival is often determined by loss or a gain of a single customer (Becherer, Helms, & McDonald, 2012). These changes in the business environment have increased the curiosity of many researchers to study if the traditional marketing practices found in the literature are appropriate also for small and medium enterprises. What appeared to be evident for researchers is that traditional marketing practices are often seen as inappropriate for SMEs. Therefore, entrepreneurial marketing can be considered as a new paradigm, which integrates important portions of entrepreneurship and marketing into a broader concept, where marketing becomes a process that may be used by companies to act entrepreneurially (Collinson, 2002). As a result, in the actual business environment characterized by increased dynamics, disorder and high competition, entrepreneurs have to leave aside the traditional marketing principles and replace them with new innovative actions and ideas which are integrated into entrepreneurial marketing (Hills, Hultman, Kraus, & Schulte, 2010). Consequently, the term “entrepreneurial marketing” is frequently related with marketing actions in small companies that due to their limited resources have to rely on novel and easy tactics. This expression is also used to illustrate unplanned and original marketing activities undertaken by entrepreneurs (Morris, Schindehutte, & LaForge, 2002).

Entrepreneurial marketing was initially introduced in 1982. Since then, even though many authors have tried to define it (Hills & Hultman, 2011; Morris et al., 2002; Stokes, 2000), there is still no generally accepted definition. But, despite that fact, entrepreneurial marketing is thought-out as a new growing and promising research field born at the intersection between marketing and entrepreneurship as two most important areas of business administration (Hills et al., 2010). Entrepreneurial marketing is described as an organizational orientation composed of seven basic dimensions such as proactiveness, innovativeness, customer intensity, calculated risk-taking, opportunity focus, resource leveraging, and value creation (Hisrich & Ramadani, 2017; Morris et al., 2002). The most recognized types of entrepreneurial marketing are guerilla marketing, buzz marketing, ambush marketing, and viral marketing (Hisrich & Ramadani, 2018). These marketing types are considered very useful for SMEs because they are considered as inexpensive and innovative forms of doing marketing.



Empirical studies in this field have found that entrepreneurial marketing positively impacts the SME performance (Becherer et al., 2012; Hacıoglu, Eren, Eren, & Celikkan, 2012; Hamali, 2015; Hamali, Suryana, Effendi, & Azis, 2016; Morrish & Deacon, 2012; Mugambi & Karugu, 2017; Rashad, 2018; Sadiku-Dushi, Dana, & Ramadani, 2019) enhancing the belief that EM could be very important if used by small and medium companies.

The aim of this study is to answer the question: What we know and what we should know about the entrepreneurial marketing? The first part of this question will be answered by presenting the history of the foundation of this relatively new field, the most common definitions that may be found in literature, the main differences between EM and traditional marketing as well as the main types of EM and the EM dimensions, whereas the second part of the question will be answered by emphasizing the importance of this new marketing paradigm for small and medium enterprises. Besides, in the end the study will propose future research directions in this field.

## 2 Literature Review

### 2.1 *History and Evolution of Entrepreneurial Marketing*

When entrepreneurial firms expanded, marketing researchers have noticed that there is a difference in the approach that entrepreneurs have in marketing their businesses compared to larger firms (Carson & Gilmore, 2000; Morrish, Miles, & Deacon, 2010). This situation has raised a new question among academics and has encouraged new areas of research and discussion: “What does it mean for marketing to be entrepreneurial?” (Morrish et al., 2010, p. 303). As a consequence, academics have decided to shed some light on this new upcoming field of interest which later will be called “entrepreneurial marketing.”

Entrepreneurial marketing was introduced for the first time in 1982 at a conference organized at the University of Illinois, Chicago that was funded by two of the leading academic and professional association, the American Marketing Association (AMA) and International Council for Small Business (Hills et al., 2008). Even though this conference played a central role in recognizing the most important research topics, the marketing researchers’ interest in this field was still limited at that time. The higher level of interest among academics was shown when the first symposium on entrepreneurship and marketing was organized in 1986 (Hills et al., 2010). The symposium can be considered as very successful because it had continued to be organized on a yearly basis. In 2017, the symposium was held for the 30th time and constantly brings its own book series and conference proceedings.

In August 1988, a group of academics who were part of the Symposium formed a Task Force in Marketing and Entrepreneurship which initially had eight members. This number has grown to 12 members in 1990. The main objective of the task force was to create and manage the Marketing and Entrepreneurship Interest Group

(MEIG) consisting of 400 professionals and academics who were interested in marketing and entrepreneurship interface. This task force had also an advisory role for the annual symposium on Marketing and Entrepreneurship (Entrepreneurial Marketing SIG History, 2019).

The entrepreneurial marketing topic spread in Europe for the first time in 1995, when the Academy of Marketing arranged a symposium dedicated especially to this field (Ionitã, 2012). Since 1999 the EM researchers had a possibility to publish their works in the *Journal of Research in Marketing and Entrepreneurship*. Soon after, in the year 2000, the special issue of *Journal of Marketing Theory and Practice* on entrepreneurship and marketing interface provided the new venue for the scholars interested in EM (Hills et al., 2010). The continuously growing interest in the intersection of these two fields has led to the establishment of other devoted journals such as *International Journal of Technology Marketing* founded in 2005, and also special issues of the *European Journal of Marketing*, *Marketing Education Review and Management Decision*, and the *Journal of Marketing: Theory and Practice* (Hills et al., 2010). In 2001, Lodish, Morgan, and Kallianpur have published the book named *Entrepreneurial Marketing: Lessons from Wharton's Pioneering MBA Course*. This textbook has enhanced the credibility of entrepreneurial marketing because of the high reputation of Wharton's Business School (Hills et al., 2008).

The topic had the opportunity to cross the Anglo-American borders in 2003, when the first symposium related to marketing, entrepreneurship, and innovation was organized in Karlsruhe, Germany (Ionitã, 2012). Later, academics from Australia, Asia, and New Zealand have also joined the Special Interest Group (SIG). In 2005, with the purpose of linking the technology and marketing issues, the *International Journal of Entrepreneurship and Innovation Management* was created. Special issues of the *Journal of Small Business Management* in 2008, and *International Journal of Entrepreneurship and Innovation Management* in 2010, showed that EM has penetrated into the entrepreneurship literature (Ionitã, 2012).

In 2010, a group of academics met in a "Charleston Summit" that was organized in Charleston, USA in order to discuss the history and the future of EM (Hansen & Eggers, 2010). During this summit, the discussion was focused on four research approaches. The first approach was focused on the things that entrepreneurship and marketing have in common. The second approach was focused on the elements of entrepreneurship in marketing. The third approach focused on the elements of marketing in entrepreneurship. And, the last approach discussed not the commonalities between those two fields, but instead, what is the unique meaning that the intersection of those two fields creates something typical and new (Ionitã, 2012).

Even though the EM field is relatively new, there has been considerable progress made. As a result, nowadays there are numerous journals where researchers and scholars may publish their studies in this field. Besides, there are also many books published (e.g., Bjerke & Hultman, 2002; Carson, Cromie, McGowan, & Hill, 1995; Chaston, 2000; Chaston & Mangles, 2002; Hills, 1994; Hisrich & Ramadani, 2018; Lodish, Morgan, & Kallianpur, 2001; Nijssen, 2017; Sethna, Jones, & Harrigan, 2013) that have created substantial new knowledge about EM. Because of the

growing interest and importance of this subject, many universities around the world have incorporated EM in their study programs.

The most significant milestones of evolution and the impact they had on the advancement of EM are shown in Table 1.

## ***2.2 Entrepreneurial Marketing as a Research Field***

EM as a new and dynamic field has gone through many parallel research streams. According to Hills et al. (2010), there are four main categories that cover some basic parts of EM research:

- SME marketing
- EM as an early phase of marketing development
- Kirznerian EM
- Schumpeterian EM

The first stream has focused on SMEs marketing behavior. Even though SMEs are not always considered entrepreneurial, this stream was very important in the context of EM and symbolizes the first attempts in this field (Hills et al., 2010). Research in this stream has helped in understanding that marketing in SMEs is different from marketing that is applied within large firms because generally small firms have different behavior and characteristics from larger companies which is often a combination of management knowledge and the limited base of customers (Carson, 1985). This type of marketing is considered as marketing that is determined by the objectives, preferences, and personal characteristics of the owner, who makes a marketing decision based on limited information and limited resources (Hills et al., 2010). Given the fact that not all SME owners are entrepreneurs, this stream is not considered “pure” EM but regardless of that the stream of SME Marketing has offered very important contributions to the research field of EM (Hills et al., 2010).

The second stream considers EM as an initial phase in the traditional marketing paradigm. At this stream, marketing is considered as a “premature” stage in the larger firms’ marketing procedures and as “not conceptually different but relatively undeveloped” (Hills et al., 2010, p. 11).

According to Hills et al. (2010), the two last streams are considered purer EM because based on Schumpeter and Kirzner “entrepreneurial behavior can be linked to disruptive innovative behavior and/or opportunity recognition” (Hills et al. 2010, p. 11). The third stream is known as Kirznerian EM in which the typical EM behavior is found. The seeking of opportunities is of repetitive nature as the entrepreneurs repeat the same business models over and over. Applying the same models in new markets and location has nothing to do with innovative or disruptive behavior, but still, it is entrepreneurial in chasing opportunities (Hills et al., 2010). The examples of companies that have succeeded based on this EM behavior are IKEA, H&M, and Würth since they successfully applied the same business models in every new location at different countries (Hills et al., 2010). The fourth category is

**Table 1** The milestones of EM evolution

Year	Milestone	Impact
1982	First marketing and entrepreneurship research conference (G. Hills)	The concept of Entrepreneurial Marketing was brought to light
1985	First empirical study of the marketing/ entrepreneurship (G. Hills)	Start of the empirical research at MEI and acknowledged its importance
1986	First symposium of Marketing/Entrepreneurship (G. Hills)	Offered marketing researchers the place to share EM-related research
1986	Dickinson, P. & Giglierano, J. "Missing the boat and sinking the boat: A conceptual model of entrepreneurial risk," <i>Journal of Marketing</i>	First Journal of Marketing article which focused directly on entrepreneurship
1987	Morris and Paul published "The relationship between entrepreneurship and marketing in established firms," in <i>Journal of Business Venturing</i>	The article represented an empirical study of the marketing and entrepreneurship relation, which helped to move EM in a higher academic standing by acceptance from Journal of Business Venturing
1989–1991	Establishment of a Task Force in Marketing and Entrepreneurship. First Tracks are created in the AMA summer (1990) and winter (1991) conferences for EM	These events produced credibility for the EM studies
1995	First textbook Marketing and Entrepreneurship in SMEs (Carson et al., 1995)	It helped in establishing the content and structure of EM courses
1995	First Academy of Marketing symposium (UK) (D. Carson, Andrew McAuley). Market orientation and learning organization, published in <i>Journal of Marketing</i> by Slater and Narver	These two milestones helped transfer some researcher to look at the similarities between marketing and entrepreneurship
1999	Creation of <i>Journal of Research in Marketing and Entrepreneurship</i> (J. Day, P. Reynolds, D. Carson, G. Hills)	The journal was dedicated to EM which increased the acceptance of EM scholarship
2000	The publication of special issue of <i>Journal of Marketing: Theory and Practice</i> on the MEI	This has provided additional credible publication location for EM scholars
2001	Lodish, Morgan, and Kallanpur have published a book based on their pioneering MBA course in Entrepreneurial Marketing	This book improved the trustworthiness of EM as a result of the high reputation of Wharton Business School
2002	Bjerke and Hultman have published <i>Entrepreneurial Marketing: The Growth of Small Firms in the New Economic Era</i>	This text offered additional direction on content and framework of EM
2002	Morris, Schindehutte, and LaForge have published a paper "Entrepreneurial marketing: A construct for integrating an emerging entrepreneurship and marketing perspective"	This has increased the visibility and credibility of work in Entrepreneurial marketing and helped define and clear the EM construct
2003	The first conference on marketing, entrepreneurship, and innovation interface was organized in Karlsruhe, Germany	This expanded the interest outside the Anglo-American area

(continued)

**Table 1** (continued)

Year	Milestone	Impact
2004	Buskirk and Lavik have published Entrepreneurial Marketing	Entrepreneurial Marketing textbook moved in the direction of the mainstream in the US market
2005	<i>International Journal of Technology Marketing</i> was created	This was another academic journal started at Marketing/Entrepreneurship Interface with emphasis on technology-intensive products
2007	Lodish, Morgan, and Archambeau published Marketing that Works: How Entrepreneurial Marketing Can Add Sustainable Value to Any Sized Company, in Wharton Publishing	This work provided strategies, tools, and techniques for global enterprises startups
2008	Special issue of <i>Journal of Small Business Management</i> on the EM	Reestablished the EM importance research field
2009	Marketing Under Uncertainty: The Logic of an Effectual Approach published by Read, Dew, Sarasvathy, Song, and Wiltbank	This article offered effectuation as an approach that formed the vision of the entrepreneur in the market
2010	The Special issue of <i>International Journal of Entrepreneurship and Innovation Management</i> on the EM was created	This has created the additional venue where more characteristics of Entrepreneurial Marketing entered the mainstream of the entrepreneurship literature
2010	Charleston Summit was held	This summit has redefined MEI and presented a conceptual framework for future researches
2010	Morrish, S.C., Miles, M.P. and Deacon, J.H. (2010), "Entrepreneurial marketing: acknowledging the entrepreneur and customer-centric interrelationship", <i>Journal of Strategic Marketing</i>	The article highlighted dimensions of EM and fostered toward the customer-centric relationships
2011	Hills and Hultman (2011) published paper: Academic Roots: The Past and Present of Entrepreneurial Marketing	This paper contended that small business marketing and entrepreneurial marketing are regarded as separate research fields, however related (Pluralistic View to EM)
2013	Bjerke and Hultman (2013) have published an article: The Role of Marketing Rational and Natural Business Start-ups. Sethna et al. (2013) have published a book <i>Entrepreneurial Marketing: Global Perspectives</i>	These latest publications continued to display the increasing awareness for the EM globally
2014	Miles et al. (2014) published the article Exploring entrepreneurial marketing in <i>Journal of Strategic Marketing</i>	By developing three schools of entrepreneurial marketing thought this paper furthers the conceptual development of entrepreneurial marketing (EM) as theory
2017	Nijssen (2017) published a book <i>Entrepreneurial Marketing: An Effectual Approach</i>	The book explains the effectual approach and explains how to use it creatively for marketing new innovative products

(continued)

**Table 1** (continued)

Year	Milestone	Impact
2018	Hisrich and Ramadani (2018) published a book <i>Entrepreneurial Marketing: A Practical Managerial Approach</i>	The book provides an in-depth, comprehensive, and practical explanation of marketing, its aspects, and implementation

Source: Extended and adopted from Hills et al. (2010), Ionitã (2012) and Sadiku-Dushi et al. (2019)

known as Schumpeterian EM and is related to innovation. This type of behavior is characterized by the purposeful use of innovation with the intention of destabilizing the market. Innovation is used for gaining competitive advantage and changing the marketing rules of competition. Based on this type of marketing that is more entrepreneurial, owners/managers constantly develop new and creative business models in order to achieve more profit. The best examples are companies such as Polaroid, Apple's Macintosh, and the iPod who have set new market rules by using innovation (Hills et al., 2010).

There are a considerable number of alternative marketing approaches that are developed over time, such as subversive marketing, expeditionary marketing, guerilla marketing, or radical marketing that fit into the Schumpeterian EM, while EM is regarded as marketing that fits into all of the above groups (Hills et al., 2010).

### 2.3 *Emerging Nature of Entrepreneurial Marketing*

As mentioned before the fourth era of marketing evolution was characterized by many changes in the business environment such as market globalization, the sophistication of technology, intense competition, and more demanding customers. As a result, firms found themselves operating in highly turbulent and often chaotic environments characterized by disorder, disequilibrium, and uncertainty (Bettis & Hitt, 1995) in which the traditional 4Ps have started to be considered as not very useful framework (Day & Montgomery, 1999; Grönroos, 1997) to respond to these changes. Therefore, there were a number of different marketing approaches that have emerged over time. The aim of these approaches was to find innovative ways to market in this complex environment (Morris et al., 2002). These marketing perspectives vary in term of their emphasis toward promotion and other elements of the marketing mix, on their focus on small versus large firms and on their focus on tactical or strategic considerations (Morris et al., 2002). These different perspectives are summarized in Table 2.

Despite the differences in these marketing perspectives, they also have many common characteristics such as efficiency in marketing budgets, resource leveraging, finding creative ways for managing different marketing variables, ongoing product innovations, customer intensity, and the capability to influence changes in

**Table 2** Perspectives on the emerging nature of marketing and EM

Year	Name	Factors leading to its use	Type	Source
1971	Social marketing	Integration of social sciences and social policy, and commercial and public sector marketing approaches	Paradigm	Kotler and Zaltman
1983	Relationship marketing	Sophisticated customers want individualized attention, new technology, maturing markets	Paradigm, perspective/ approach	Berry (1983)/ Gronroos (1990, 1994, 1999)
1985	Services marketing	Focus on dynamic characteristics of services and service quality	Strategy/ approach	Zeithaml, Parasuraman, and Berry (1985)
1992	Expeditionary marketing	Increased focus on speed (cycle time), quality, and cost	Strategy	Hamel and Prahalad (1992)
1993	Guerrilla marketing	Changes in markets, media, methods, marketing; limited budgets, resources, time	Tactic	Levinson (1993)
1993	One-to-one marketing	Technology-generated discontinuities; emergence of 1:1 media	Strategy/ approach	Peppers and Rogers (1993)
1994	Service profit chain marketing	Strategic marketing initiatives of service quality: implementations include referrals, related sales and retention	Strategy/ approach	Heskett, Jones, Lovemore, and Sasser (1994)
1995	Real-time marketing	Information technology, high speed communication, customized software	Strategy	McKenna (1995, 1997)
1996	Disruptive marketing	Discontinuities	Process/ methodology	Dru (1996, 2002)
1997	Viral marketing	Internet boom	Tactic	Jurvetson and Draper (1997)
1998	Digital marketing	IT-enabled interactivity	Strategy	Parsons, Zeisser, and Waitman (1998)
1999	Network marketing	Networking can be harnessed into proactive marketing infrastructure	Tactics	Gilmore, Carson, O'Donnell, and Cummins (1999)
1999	Permission marketing	Advent of the Internet and e-mail	Approach	Godin and Peppers (1999)
1999	Radical marketing	Focus on growth and expansion rather than short-term profits; limited financial resources	Approach	Hill and Rifkin (1999)
2000	Buzz marketing	Rise of Internet; cost-effective WOM; growing dissatisfaction with standard set of solutions	Tactic	Rosen (2000)
2000	Customer-centric marketing	Increased pressure to improve marketing productivity; increased market diversity; emerging technology	Orientation	Sheth, Sisodia, and Sharma (2000)

(continued)

**Table 2** (continued)

Year	Name	Factors leading to its use	Type	Source
2002	Convergence marketing	Internet as commercial platform; empowered/hybrid consumer	Strategy	Wind, Mahajan, and Gunther (2002)
2004	Dominant logic marketing	Service provision rather than goods is fundamental to economic exchange	Strategy	Vargo and Lusch (2004)
2005	Innovative marketing	Focus on risk-taking, proactive marketing tactics to gain competitive advantage through marketing outcomes	Tactic	Maritz and Nieman (2005)
2006	Value creating marketing	Shift from thinking about consumers to thinking about cocreators of value	Strategy/ orientation	Hearn and Pace (2006)
2008	Social network marketing	Online social networks present an efficient platform to use in distribution marketing messages	Tactic	Gilmore et al. (1999)

Source: Adapted from Morris et al. (2002) and Maritz, Frederick, and Valos (2010)

the environment. These common elements address a number of criticisms of contemporary marketing (Morris, Schindehutte, & LaForge, 2001; Morris et al., 2002).

Even though there were no previous attempts to integrate these various approaches under one common name, Morris et al. (2001) have used the term entrepreneurial marketing to capture all these approaches that characterize entrepreneurial thinking and acting.

## 2.4 *Entrepreneurial Marketing Definition*

As a new field of study EM has given an opportunity for the advancement of several research streams resulting in a number of views and definitions of the EM concept. One stream that is considered as central was presented in studies engaged in SME marketing when it was noticed that small companies are not the tiny versions of large companies (Storey, 1989), and there was a call for finding a different marketing approach that could be useful to small businesses as well. The main contribution of this stream in the EM context is the argument that traditional marketing that is usually found in literature may not be completely functional in small and medium companies (Kraus, Rigtering, Hughes, & Hosman, 2012). Another EM research stream is focused on the entrepreneur's behavior (Hills & Hultman, 2011). This stream has seen EM as a more promising option to explain the marketing in small companies that have limited resources but are driven by entrepreneurial actions. Further, the range of research has stretched from small companies toward large ones (Ionitã, 2012) where the EM is seen as marketing that could be useful to all types of companies despite their size (Kraus, Harms, & Fink, 2009; Whalen et al., 2016).



**Table 3** EM definitions

Year	Definition	Author
2000	“EM is marketing carried out by entrepreneurs or owner-managers of entrepreneurial ventures.”	Stokes (2000, p. 2)
2002	“Proactive identification and exploitation of opportunities for acquiring and retaining profitable customers through innovative approaches to the risk management, resource leveraging and value creation.”	Morris et al. (2002, p. 4)
2002	“Marketing of small firms growing through entrepreneurship.”	Bjerke and Hultman (2002, p. 15)
2009	“A particular type of marketing that is innovative, risky, proactive, focuses on opportunities and can be performed without resources currently controlled.”	Kraus et al. (2009, p. 30)
2011	“EM is a spirit, an orientation as well as a process of passionately pursuing opportunities and launching and growing ventures that create perceived customer value through relationships by employing innovativeness, creativity, selling, market immersion, networking and flexibility.”	Hills and Hultman (2011, p. 6)
2012	“EM is a set of processes of creating, communicating and delivering value, guided by effectual logic and used a highly uncertain business environment.”	Ioniță (2012, p. 147)
2012	“The marketing processes of firms pursuing opportunities in uncertain market circumstances often under constrained resource conditions.”	Becherer et al. (2012, p. 7)
2016	“EM is a combination of innovative, proactive, and risk-taking activities that create, communicate, and deliver value to and by customers, entrepreneurs, marketers, their partners, and society at large.”	Whalen et al. (2016, p. 3)

Source: Based on Sadiku-Dushi et al. (2019)

The foundation of many EM research streams in those past three and a half decades has resulted in numerous attempts to define the concept of EM resulting in many EM definitions varying from the ones that refer exclusively to marketing in small companies (Hill & Wright, 2000), ones that make no difference concerning company’s age or size (Kraus et al., 2009; Morris et al., 2002), and ones that give emphasis to value creation (Morris et al., 2002; Whalen et al., 2016) and innovativeness (Stokes, 2000) as the aspects of EM. Nevertheless, all EM definitions have something universal; they all include elements of both entrepreneurship and marketing disciplines.

The most common EM definition found in the literature describes EM as “proactive identification and exploitation of opportunities for acquiring and retaining profitable customers through innovative approaches to the risk management, resource leveraging and value creation” (Morris et al., 2002, p. 4). The other EM definitions that are more frequent in literature are chronologically presented in Table 3.

Knowing that the EM field is created on the meeting point of marketing and entrepreneurship, neither of which has a commonly accepted definition (Stokes &

Wilson, 2009) and also knowing the heterogeneity of both these fields, it is very complex to come up with the generally acknowledged definition of EM (Kraus et al., 2009). Based on the existing definitions and the extensive review of the related literature in simple words the EM can be explained as *an inexpensive form of marketing that is suitable especially for SMEs who due to their limited recourses take innovative approaches and calculated risk-taking actions, and proactively use every opportunity to attract more customers through creating superior value in order to increase their performance.*

## 2.5 Differences Between Traditional and Entrepreneurial Marketing

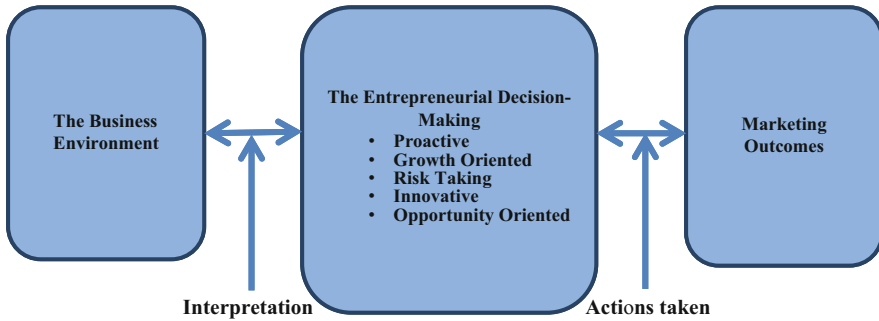
It is found that EM has some characteristics that differentiate it from traditional marketing. The differences between traditional and entrepreneurial marketing can be discussed based on context and practice. From the context perspective, the differences between traditional and EM can be viewed based on the different characteristics that small and large companies have because SMEs are contextually different from larger companies and as a result, they use marketing differently (Hills & Hultman, 2006; Hills et al., 2008). From a practical perspective, the main difference is viewed in terms of how marketing is done by entrepreneurs compared to managers. The SME owners think and behave differently regarding marketing comparing to large organizations (Gilmore et al., 1999). According to Zontanos and Anderson (2004), the active role of the entrepreneur is what distinguishes traditional marketing from entrepreneurial marketing. It is found that entrepreneurial marketing is affected by the personal characteristics of the entrepreneur, and there is a compromise on how entrepreneurs make decisions about marketing practice (Ionitã, 2012). According to Dew, Read, Sarasvathy, and Wiltbank (2009) there are five main differences between the entrepreneurs' way of thinking (effectual logic) and the non-entrepreneurs' way of thinking (predictive logic) (Table 4).

Based on the effectual logic entrepreneurs do not believe that the future is predictive and they believe that its prediction is not beneficial. They take action

**Table 4** Differences between how entrepreneurs and non-entrepreneurs think

Issue	Non-entrepreneurs	Entrepreneurs
View of the future	Predictive	Creative
Basis for taking action	Goal-oriented	Means-oriented
Bias toward risk and resources	Expected return	Affordable loss
Attitude toward outsiders	Competitive analysis	Partnerships
Attitude toward unexpected contingencies	Avoiding	Opportunities for innovation creation

Source: Adapted from Dew et al. (2009)



**Fig. 1** Elements of entrepreneurial marketing. Source: Adapted from Hills and Hultman (2011)

based on the means that they have on disposition and they choose their options based on how much they can afford to lose when choosing that option. Effectual logic favors building collaboration and partnership to create new markets. In addition, entrepreneurs look at contingencies as opportunities for innovation creation. This way of entrepreneurial thinking (effectual logic) disagrees with the traditional marketing models which have an upside-down approach where the market is divided based on rigorous research, the targeted segments are chosen based on predicted risks and returns, and then new strategies are developed for attracting the chosen market segments. The effectual logic is another way round: the entrepreneur identifies a partner or a customer from his own personal network and then he adds other partners or customers along the way by gradually extending and defining the market for his product (Ionitã, 2012).

Hills and Hultman (2011) gave an important differentiation between traditional marketing and EM. According to them, EM is marketing that is practiced by entrepreneurs and is the result of their understanding of information, the way they make decisions and take marketing actions (Fig. 1).

Stokes (2000) has identified four differences between marketing as presented in standard textbooks and marketing as practiced successfully by entrepreneurs and managers of entrepreneurial ventures. He reviewed the diversities between entrepreneurial and traditional marketing in terms of the business concept, strategic perspective, and tactical perspective and in terms of market intelligence (Table 5).

1. From the business concept perspective, the differences may be seen in terms of customer orientation. While traditional marketing is customer oriented and market driven, EM is more innovation driven and intuitive. While the traditional marketing waits for customers to express their needs in order to respond to them, in EM it happens vice versa by initially starting with an idea, after that creating the product and only then trying to discover a market for it. This “logic” is alike to the logic of the way of thinking of entrepreneurs comparing to non-entrepreneurs.
2. At the strategy level, traditional marketing is mostly formal, analytical, market-led, and engage in reactive processes that marketing managers must undertake in order to achieve success. The sequence of actives has usually top-down approach

**Table 5** Entrepreneurial marketing processes compared to traditional marketing concepts

Marketing principles	Traditional marketing	Entrepreneurial marketing
Concept	Customer-orientated: Market-driven, product development follows	Innovation oriented: Idea-driven, intuitive assessment of market needs
Strategy	Top-down segmentation, targeting, and positioning	Bottom-up targeting of customers and other influence groups
Tactics	The marketing mix, 4 Ps	Interactive marketing methods Word-of-mouth marketing
Market intelligence	Formal research and intelligence systems	Informal information gathering and networking

Source: Adapted from Stokes (2000)

and it begins with segmentation, then targeting and only then positioning. As opposed to this, the EM process is mostly informal and proactive, often involving ad hoc activities, mostly driven personally by the entrepreneur team (Carson et al., 1995; McPherson, 2007; Stokes, 2000) which is usually characterized by a doing rather than thinking culture (Lancaster & Waddelow, 1998). This means that an EM strategy is different from the traditional marketing strategy because entrepreneurs use the reverse process from the bottom up, who often start with a few interested customers, by then gradually increasing the number of customers depending on experience and available resources. The customer base grows accidentally, as new customers are gained by the recommendations of the previous ones (Hisrich & Ramadani, 2017).

- At a tactical level, the main concern of EM is strategy implementation. Firms using traditional marketing initially have to decide about products (assortment, feature, design, packaging, etc.), then create a price (the unit price, discounts, payment terms, etc.), decide about place (channels of distribution) and the activities related to promotion (advertising, promotion, personal selling, direct marketing methods, etc.). EM does not fit into the 4P model because entrepreneurs usually implement the interactive marketing approach by giving priority to direct and personal contacts with their customers. Even though the goal is the same, the way this goal is achieved is different, since entrepreneurs are considered as very active networkers; they usually consider marketing more a social and personal activity than an organizational function (Gilmore, Carson, & Grant, 2001; Gruber, 2004; Hills et al., 2008; O'Donnell 2004, 2014). They prefer to work closely with their existing clients and mostly rely on word-of-mouth communications in finding new ones (Stokes, 2000). Therefore, the personal interaction between the entrepreneurs and their customers and other stakeholders is considered as the most important marketing tool in EM.
- In terms of market information gathering, in EM information are gathered informally from personal contacts and networks, as opposed to the systematic information gathering that is advised in traditional marketing textbooks. This

**Table 6** Differences between EM and traditional marketing

Traditional marketing	Entrepreneurial marketing
<ul style="list-style-type: none"> <li>• An essentially reactive stance with respect to the external environment</li> <li>• Marketing strives to follow customers</li> <li>• Serving existing markets</li> <li>• Focal point is efficient management of the marketing mix</li> <li>• Risk is to be minimized</li> <li>• Marketing as an objective, dispassionate science</li> <li>• Reliance on proven formulas and established rules of thumb</li> <li>• Marketing supports the innovation efforts of other functional areas of the firm, most notably R&amp;D</li> <li>• Marketing as a functional silo</li> <li>• Promotion and customer communication receive the greatest amount of attention from marketers</li> <li>• Scarcity mentality, zero-sum game perspective on resources</li> <li>• Heavy dependency on survey research</li> <li>• Marketing facilitates transactions and control</li> </ul>	<ul style="list-style-type: none"> <li>• The firm attempts to influence or redefine aspects of the external environment</li> <li>• Marketing strives to lead customers</li> <li>• Creating new markets</li> <li>• Focal point is new value creation for the customer through relationships, alliances, resource management approaches, and the marketing mix</li> <li>• Risk is necessary and marketing’s job is to manage the firm’s risk profile in a calculated fashion</li> <li>• While acknowledging value of science and learning, recognition is given to the roles of passion, zeal, and commitment in successful marketing programs</li> <li>• Psychology of challenging commonly shared assumptions</li> <li>• Marketing is the home of the entrepreneurial process in the organization</li> <li>• Marketing as a cross-disciplinary and interfunctional pursuit</li> <li>• The relative investment or resources in different areas of the marketing mix is context specific</li> <li>• Opportunity is pursued regardless, or resource controlled; philosophy of resource leveraging is paramount</li> <li>• Skeptical use of conventional research; employment of alternative methods (e.g., lead user research, “backward” research)</li> <li>• Marketing facilitates speed, change, adaptability, agility</li> </ul>

Source: Based on Morris et al. (2001)

rejection of formal information gathering derives from the logic that entrepreneurs believe that the future is unpredictable.

According to Morris et al. (2001), when EM dimensions are treated together they cause a type of marketing that is different from traditional marketing. They consider EM as an opportunity-seeking and opportunity-driven way of acting and thinking. Table 6 covers the 13 divergences found between EM and traditional marketing by Morris et al. (2001).

Also, in a study undertaken by Hills et al. (2010) it is found that entrepreneurial firms frequently have marketing behavior that is different from classic marketing found in the literature. The findings show that traditional marketing differs from EM also regarding market/customer immersion, networks and relationship, passion for customers, time horizon, and formal plans.

## 2.6 Entrepreneurial Marketing Types

EM can be considered as a set of alternative marketing approaches. The relation of EM to promotional activities is mainly based on finding cheaper alternatives to communicate with the clients. The growth of the customer base is mainly done through the word-of-mouth communication and recommendation (Stokes, 2000). The goal of EM is also targeting the customers which are not accessible on TV or printed media (Kraus et al., 2009) by finding and attracting them using alternative approaches. According to Kraus et al. (2009) the best recognized and the most successful EM approaches to promotion are Guerrilla, Viral, and Buzz Marketing. In addition to these, Hisrich and Ramadani (2017) have considered also Ambush Marketing as a type of EM marketing, while Maritz et al. (2010, 2011) claim that Social Media Marketing or as they call it Social Network Marketing is another significant EM approach which may be described as an “interface between technology, radical innovation, and EM” (Maritz, De Waal, & Verhoeven, 2011, p. 32). All these EM forms have at least one thing in common; they are in a large part based on the word-of-mouth marketing. Main characteristics of these five main types of EM are presented in Table 7.

### 2.6.1 Guerrilla Marketing

Guerrilla marketing has been applied for more than 50 years. In 1960, small and medium enterprises in the USA were forced to search for alternative methods of promotion which were innovative, low cost, and effective. This was done in order to compete with larger companies and thus to try to respond to market changes by using unconventional means of marketing (Hutter & Hoffmann, 2011). The concept has gained its popularity when Levinson (1984) has published his first book about

**Table 7** Types of EM in field of promotion

Form	Characteristics
Guerrilla marketing	Low cost, effective communications; cooperative efforts and networking; leveraging resources, using energy and imagination
Buzz marketing	Consumer-generated information distributed verbally through personal networks
Viral marketing	Self-replicating promotion fanning out over community webs and spreading like a virus, multiplying and mutating as like-minded people market to each other
Ambush marketing	Strategic placement of marketing material and promotions at events that will attract consumer and media attention. Creating the impression that the company is the general sponsor of an event when it is actually not
Social media marketing	Internet and technology specific. A dynamic shift in how people are using the Internet: creating and participating in social spaces through the Internet; extension of convergence marketing

Source: Based on Morris et al. (2002)

**Table 8** Characteristics of guerilla marketing and corresponding instruments

Effect	Definition	Instruments
Surprise	Surprising the consumers with unusual activity to draw their interest in the advertising message	Ambient marketing Sensation marketing
Diffusion	Providing ways of increasing the number of individuals exposed to the marketing message without increasing marketing campaign cost	Viral marketing Buzz marketing
Low cost	Evoked by diffusion effect and low budget needed for performing these activities	Ambush marketing

Source: Based on Hutter and Hoffmann (2011)

guerrilla marketing which has provided the guiding principles for small businesses. Guerrilla marketing is considered as an antecedent of other entrepreneurial marketing forms (Levinson, 1984). According to Levinson (1984), every kind of advertisement that is innovative and eye-catching is considered to be a part of the guerrilla marketing concept. Therefore, guerrilla marketing is often described as being unusual, fancy, provoking, original, different, dynamic, flexible, innovative, and imaginative (Hutter & Hoffmann, 2011). It can be said that it represents the unconventional marketing activities intended to get maximum results from minimal resources. It is assumed to be “surprising, efficient, rebellious, infectious, and in the best case even spectacular, thereby bursting through conventional perceptions and leading to a ‘wow factor’” (Kraus et al., 2008, p. 27). According to Hutter and Hoffmann (2011), other marketing types such as buzz marketing, ambush marketing, and viral marketing can be included in guerrilla marketing. They emphasize that guerrilla marketing has three characteristics that could be evoked by different instruments: the surprise, diffusion, and the low-cost effect (Hutter & Hoffmann, 2011). The main purpose of the surprise effect is to surprise the customers with remarkable activity and to draw their attention in the advertising message which is done through ambient and sensation marketing (ambient and sensation marketing are instruments that openly try to surprise customers by putting the advertisement where no one expects them (see more in: Luxton & Drummond, 2000). The diffusion effects’ duty is in finding new ways of raising the number of people who are exposed to the promotional message without raising the cost of the marketing campaign. This is usually done through the use of viral and buzz marketing. The low-cost effect is evoked by the diffusion effect and the low budget needed for performing these activities is mainly done through ambush marketing (Table 8).

It is worth stressing that as far the marketing mix elements (product, place, price, and promotion) are concerned, the main focus of guerrilla marketing is on activities and tools related to promotion (around 70%), while this focus is much lower on other three elements (approximately 10% each) (Hisrich & Ramadani, 2017). It is usual for guerrilla marketing activities to be carried out only once. Besides, these activities should be distinctive and limited to one specific event, because in case they are used again, they usually show no effect (Kraus et al., 2009). Initially, guerrilla marketing

was intended especially for small businesses; however, nowadays it is successfully being employed also by larger companies (Hisrich & Ramadani, 2017).

### **2.6.2 Ambush Marketing**

Ambush marketing known also as parasite marketing refers to any message or action “from which one could reasonably infer, that an organization is associated with an event, when in fact it is not” (Payne, 1998, p. 324). Ambush marketing is mostly associated with the sponsorship of most important events and it is mainly found in events related to sport (Olympic Games, NFL Super Bowl, FIFA World Cups, etc.) (Hisrich & Ramadani, 2017). The idea of ambush marketing is in strategic placement of promotional and marketing material that will draw the attention of people and media at different events. This happens when a company, usually a competitor of the official sponsor, tries to redirect the attention of the audience from the official sponsor to itself (Meenaghan, 1998). Ambush marketing may be described as a purposive attack on a rival’s official sponsorship in an “effort to gain market share, and to confuse consumers as to who is the official sponsor” (Sharma, 2015, p. 2).

### **2.6.3 Buzz Marketing**

Buzz marketing represents another form of the word-of-mouth marketing that turned out to be a response to the fact that the increased number of customers is critical comparing to classic methods of advertising (Kraus et al., 2008). Buzz is a type of EM by which a specific product or service gets promoted from one person to another, with no direction, supervision, or assistance of the company (Hisrich & Ramadani, 2017). This is done by using the recipient’s e-mail or mobile network in order to create a “buzz” about the product and then leaving the actual advertising to customers (Kraus et al., 2009). The target people in buzz marketing are those who are considered opinion leaders and have large social networks because it is expected that they will spread the message exponentially (Kraus et al., 2008). Buzz marketing is considered to be more effective than other forms of marketing, due to the fact that people tend to trust more on information that they receive from members of their family, relatives, colleagues, friends, or neighbors than the information received directly from a company (Hisrich & Ramadani, 2017; Kraus et al., 2008). This form of promotion has its strengths and weaknesses. The biggest strength is its credibility because people trust more on people they know than they trust advertising. The weakness of buzz marketing may occur in cases when customers are not convinced about the product and the effect of this type of promotion may be counterproductive (Kraus et al., 2008). Buzz marketing is most appropriate for products and service that are new to the customer and are perceived as innovative and exciting (Kraus et al., 2008).



### 2.6.4 Viral Marketing

The expression “viral marketing” was for the first time used in 1997 as a new type of entrepreneurial marketing that is strongly associated with Internet development. Being aware of the customer’s resistance to the traditional form of TV and newspaper advertising the companies found new alternative approaches such as viral marketing (Kraus et al., 2009). Viral marketing is also known as “word-of-mouth” marketing (Hisrich & Ramadani, 2017, p. 95). It is usually used as a way of doing marketing through social networks in order to increase the awareness for different products or brands by distributing messages like a “virus” (Dobele, Toleman, & Beverland, 2005, p. 148; Phelps, Lewis, Mobilio, Perry, & Raman, 2004). According to Dobele et al. (2005), viral marketing can be defined as “making email into a form of advocacy or word-of-mouth referral endorsement from one client to other prospective clients” (Dobele et al., 2005, p. 144). Practically, it is done by forwarding the message with the attached advertisement from one person to the list of his email contact. The success of viral marketing largely relies on customers’ will, desire, and his own benefit to further continue distributing the information to his personal network of friends, family, colleagues, etc. (Dobele et al., 2005; Hisrich & Ramadani, 2017; Kraus et al., 2009). The spread of information to the wide audience through viral marketing is very quick and can be achieved with very little cost and efforts (Dobele et al., 2005; Hisrich & Ramadani, 2017). This form of marketing can be considered as impersonal (with no face-to-face contact) as well as the technology version of buzz marketing (Kraus et al., 2009).

### 2.6.5 Social Media Marketing

Social media has become very popular over the past few years because of the shift in the way of how people use the Internet. Even though there is no general and accepted definition of the social media they are usually described as web-based services that allow users to create profiles and communicate or share different content which is easily accessible by others (Ellison, 2007). In a technical sense, these media offer the participants the ability to post, comment, tag, review, like, dislike, follow, and many more options (Sadiku-Dushi, 2017). Content sharing is one of the main functions of social media. Being such, social media is considered as highly effective at spreading messages, mainly when users of these media find the messages entertaining, surprising, and/or humorous. That’s why “when a message is shared widely within a relatively short period of time, it is said to have ‘gone viral’” (Barger & Labrecque, 2013, p. 6) what increases the awareness for both the message and its creator. Social media have drawn the attention of not only individuals but also companies. Companies may engage with their customers in a less expensive and more efficient way than they have done through traditional communication tools since social media is considered as a cost-effective way of performing marketing activities (Paridon & Carraher, 2009). That is why social media have become relevant for every company

**Table 9** Most popular social media

Social media	Use of media
Facebook	Connecting with people, sharing photos and videos
Instagram	Sharing photos videos, online videos
LinkedIn	Connecting with people
Twitter	Connecting with people
YouTube	Sharing videos
Pinterest	Sharing photos

Source: Based on Sadiku-Dushi and Ramadani (2019)

regardless of their size (Sadiku-Dushi, 2017). But still, the use of social media is not considered an easy task since it requires a new way of thinking (Kaplan & Haenlein, 2010). Social media should not be considered only as a tool for marketing, but it is a place where the company interacts with its existing and potential customers; therefore, communication is considered to be the key for success on social media (Sadiku-Dushi, 2017). Companies that decide to use social media for promotional purposes have to understand that they need to be truly dedicated to communication and to be aware that this task requires time and effort to respond to all customers' messages and comment (Edosomwan, Prakasan, Kouame, Watson, & Seymour, 2011). Regardless of that, social media marketing is considered as a very useful and as a vital element of being successful in online marketing (Vinerean, Cetina, Dumitrescu, & Tichindelean, 2013).

Table 9 highlights the types of the most popular online communication media which can be used as alternative marketing approaches. When choosing among these online media, the important things that should be taken into consideration are the purpose of the specific media and the participant in the given media, because the same marketing message may not be suitable for all the platforms as well as may not be successful in all of them. This may happen because the communication style that is effective in one of them may not be consistent with the brand image (Barger & Labrecque, 2013).

## 2.7 Entrepreneurial Marketing Dimensions

Recently researchers have used diverse categorizations when examining firms' EM behavior. Those categorizations vary depending on the study framework and vary not only in the content they are used but also in the number of the dimensions that they apply. Although the EM behaviors are broadly studied, there is still no general accordance regarding the number of EM dimensions (Kilenthong, Hills, & Hultman, 2015).

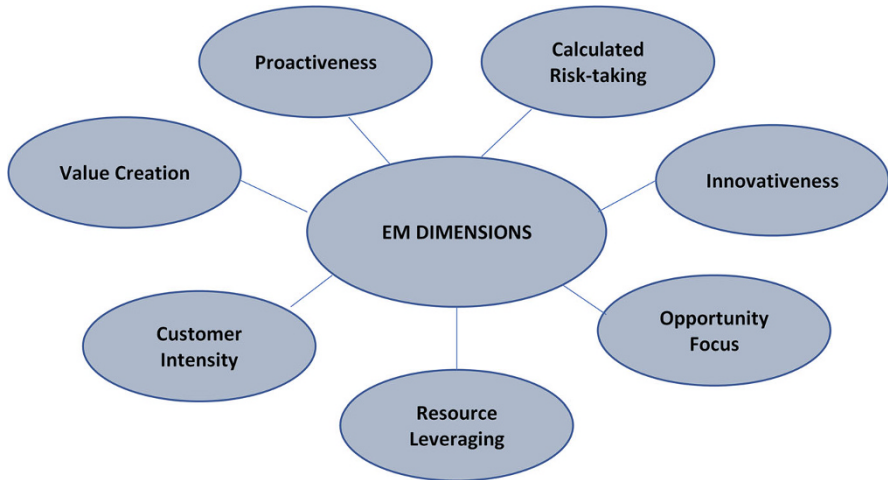
Previous studies in the field have found a number of entrepreneurial marketing behaviors such as innovation (Hills & Hultman, 2013; Morrish, 2011; Whalen et al., 2016), calculated risk-taking (Hills & Hultman, 2011), focus on opportunity

recognition (Hills & Singh, 1998), and flexible approaches to markets (Shaw, 2004). Diverse number of characteristics given by different researchers opened a number of debates in the literature regarding the nature of the entrepreneurial marketing construct, its dimensions (Hills & Hultman, 2006; Morris et al., 2002) the association of the dimensions (Kilenthong, Hultman, & Hills, 2016) as well as their nature (Hills & Hultman, 2006).

According to Bjerke and Hultman (2002), there are four pillars of entrepreneurial marketing, namely entrepreneurship, actors, processes, and resources. Hills and Hultman (2013) on the other side, in a study that looked into how entrepreneurial companies utilize their marketing practices, have found several marketing behaviors that are typical for entrepreneurial firms. Those behaviors are not implementing the marketing mix concept, importance on high-quality products, the use of intuitive decision-making, the use of personal networks in doing marketing, low dedication on research, and of owner's personal goal's influence on the marketing goal of the company. The above behaviors have also been used in similar studies (Hills & Hultman, 2013; Stokes, 2000). Shaw (2004) has investigated the EM in the context of social entrepreneurship. He has classified EM behaviors by four themes such as entrepreneurial effort, opportunity recognition, entrepreneurial organizational culture, and networks and networking. Gruber (2004) when studying the marketing in small and new companies suggested three important dimensions like newness, smallness, and uncertainty and turbulence. Additionally, Jones and Rowley (2010) came up with a framework known as EMICO. This framework is composed of 15 dimensions that derive from literature on entrepreneurial orientation (EO), innovation orientation (IO), market orientation (MO), and customer and sales orientation (CO/SO). While in a more recent study Kilenthong et al. (2015) have proposed six EM dimensions: opportunity orientation, growth orientation, creation of value through networks, full customer focus, informal market research, and proximity to the market.

The most frequently used EM dimensions that could be found in literature are the dimensions developed by Morris et al. (2002) who have identified seven entrepreneurial marketing dimensions, namely proactiveness, opportunity focus, calculated risk-taking, innovativeness, resource leveraging, customer intensity, and value creation (Fig. 2). According to them, the first four dimensions derive from entrepreneurial orientation literature. The fifth dimension, resource leveraging, is very common in guerilla marketing and also it is very frequently found in the entrepreneurship literature. The two last dimensions derive from marketing orientation literature.

**Proactiveness** is considered as a behavior by which entrepreneur does not consider the external environment as a place in which the organization must be accustomed. The external environment is more seen as a possibility where marketers try to redefine its elements in order to decrease the vulnerability and dependence within the firm (Morris et al., 2002). Proactiveness is an answer to opportunities. Proactiveness gives the company the ability to foresee the changes or market demand and be among the first to react to them (Lumpkin & Dess, 2001). Proactive



**Fig. 2** EM dimensions. Source: Based on Sadiku-Dushi et al. (2019)

orientation has to do with realizing and meeting the hidden and unspecific customer needs through gathering information from customers and competitors (Keh, Nguyen, & Ng, 2007). A company that is proactive is considered a leader rather than a follower, since it is determined to grab new opportunities, even if sometimes it may not be the first doing so (Covin & Lumpkin, 2011). Proactiveness means implementing something new or undertaking everything that is necessary in order to predict and perform upon an entrepreneurial opportunity (Rezvani & Khazaei, 2014).

**Calculated Risk-Taking** represents the company's ability to take calculated actions in order to reduce the risk when pursuing an opportunity (Becherer et al., 2012). An entrepreneur undertakes calculated risks and always tries to find ways to control the causes that make those risks appear (Hisrich & Ramadani, 2017). Companies that employ entrepreneurial marketing take measured, rational, and calculated risks. One way to oversee the risk is to collaborate with different parties, which may provide additional capability, and this way help to transfer the risks to other parties (Miles & Darroch, 2006). Calculated risk-taking has to do with the readiness of a company to chase opportunities that appear to have a realistic chance of producing lower losses or significant performance discrepancy (Morris et al., 2001). The risk is not uncontrollable but instead is reasonable and can be calculated and managed (Morris, 1998). In other words, risk-taking represents the company's ability to allocate its resources on projects that have a considerable likelihood of failure but may also bring chances of high profits (Qureshi & Mian, 2010).

**Innovativeness** is thought-out as a crucial factor for the company's survival and as a vital determinant of firms' performance (Calantone, Cavusgil, & Zhao, 2002; Danneels & Kleinschmidt, 2001; Hult, Hurley, & Knight, 2004; Read, 2000; Wiklund & Shepherd, 2003). The innovation process in marketing operations is

permanent, given that managers constantly employ new approaches to pricing, packaging, segmentation, customer relationship management, brand management, and other different operational processes (Hacioglu et al., 2012). Innovation is defined as the company's skill to keep up a stream of new fresh ideas which can be used to create new products, services as well as technologies or markets (Morris et al., 2001; Otieno, Bwisa, & Kihoro, 2012). Regardless of their limited resources, entrepreneurial firms have a particular ability to innovate (Freel, 2000). Focus on innovation may help companies to move ahead of opportunity recognition, by using existing or new resources in new and innovative ways (Morris et al., 2002). The importance of innovation in the entrepreneurial process has been highlighted since the influential work of Schumpeter. As a result, innovation is included as one of the most important dimensions of entrepreneurial orientation (Covin & Lumpkin, 2011; Covin & Wales, 2012; Lumpkin & Dess, 1996; Miller, 1983; Wiklund & Shepherd, 2005).

**Opportunity Focus** stand for overlooked market positions that may be potential sources of profit. They derive from the market imperfections and knowing how to use them in the right way is what makes entrepreneurial marketing to be different (Morris et al., 2002). Companies that employ entrepreneurial marketing constantly scan the environment in order to notice or generate new opportunities, access these opportunities, and then use them in order to gain competitive advantage (Morrish et al., 2010). Focus on the opportunities goes far beyond the identifying new business idea to including in everyday activities of the company (Hills & Hultman, 2013). Nowadays opportunity recognition has a significant role in entrepreneurship theory and entrepreneurship research (Hills et al., 2010). "Commitment to opportunities" and "opportunity recognition skills" are recognized as factors that differentiate EM from traditional marketing (Hills et al., 2008, p. 107). The company's ability is seen in selecting the best opportunity that determines success (Becherer et al., 2006). According to Kilenthong, Hills, Hultman, and Sclove (2010) creativity and innovation are the most important tools that may help entrepreneurs to convert opportunities into reality.

**Resource Leveraging** represents the entrepreneurs' excellent ability at leveraging resources given that their ambitions always exceed their available resources. In SMEs, instead of being constrained by resource limitations, by resource leveraging the firms are able to use resources by utilizing them to a maximum level (Becherer et al., 2012). Morris et al. (2002) claim that entrepreneurs can leverage resources in different ways, like distinguishing resources not seen by others, using others' resources in order to complete their own idea, combining different resources to enhance their value, using resources to find other resources, and extending resources more than others have done before. Leveraging is a process that is more creative than a mechanical process and is not something that one just decides to do. It is obvious that not all are the same in the resource leveraging since some may be more creative than others in using resources. It requires experience, skills, and insight to successfully identify not fully used resources, to find out how to use the specific resource in a nonconventional way, and to encourage those who have control over the resource

to allow the entrepreneur to use it. The same implies also for the ability to get the employees to work overtime, to encourage different departments to complete tasks they usually do not perform, or combining the sets of resources in order to give more output. The most critical task within resource leveraging is the skill to use other's resources to complete own firms' purpose. This may be done by borrowing, leasing, recycling, renting, sharing, and outsourcing (Morris et al., 2001). Morris et al. (2001) also point out that it is important not to misunderstand the resource leverage. The philosophy of leverage is not about cutting or squeezing resources in an attempt to increase productivity. It is about finding and using resources more creatively, more intelligently and in a more focused way.

**Customer Intensity** represents the need for a creative approach for the attraction, retention, and growth of the customers (Morris et al., 2002). This element builds up the passion for the customers as well as employees' appreciation for products and services as the most important values of the company (Hisrich & Ramadani, 2017). Customer intensity is a crucial EM dimension as well as the central element of market orientation construct (Kohli & Jaworski, 1990). EM has a high intensity of customer orientation. Entrepreneurs are often deeply involved and personally committed to serve customers and to respond to their needs and wants (Hills, 2012). Entrepreneurs are continuously involved in the market, and they always have in mind their vision and customers' preferences (Hultman, 1999). Hills et al. (2008) found that entrepreneurs are often ready to put significant efforts and costs in order to satisfy customers' preferences and that they use this ability to make quick decisions and to quickly adapt to customer needs. They are aware that customer retention is never granted, but instead involves continuous investments (Homburg, Schneider, & Schäfer, 2012).

**Value Creation** is related to the focus on the transactions and customer relationships since the most important point of entrepreneurial marketing is the fact that it is innovative and is oriented on value creation, and as a result, the entrepreneurs' job is to find the unexploited source of customer value and use it to create an exclusive combination of different sources to create more value (Morris et al., 2002). In EM, value creation is combined with a focus on innovation and thus "the focal point of EM is innovative value creation, on the assumption that value creation is a prerequisite for transactions and relationships" (Morris et al., 2002, p. 8). Companies that implement entrepreneurial marketing processes have more ability to recognize and utilize opportunities and take advantage of them to improve the benefits of their offer and lower the cost of the offer, which results in a greater value for the customer (Miles & Darroch, 2006).

### 3 Conclusions and Further Research Directions

The aim of this study was to offer an overview of entrepreneurial marketing as a relatively new field of study by trying to answer the question of what we know and what should we know about EM.

In a summary what we know about EM, is that is a relatively new field of study that is created on the intersection of the field of marketing and entrepreneurship when it was found that traditional marketing was not suitable for SMEs due to their lack of resources and expertise. The other known thing is that the EM has passed through a number of research streams and as a result, there is no universally agreed definition of it. EM also has specific characteristics that distinguish it from traditional marketing. The most common EM types are guerrilla marketing, buzz marketing, viral marketing, ambush marketing, and social media marketing. Even though there is no consensus on the number of EM dimensions, the seven dimensions such as proactiveness, opportunity focus, calculated risk-taking, innovativeness, customer intensity, resource leveraging, and value creation proposed by Morris et al. (2002) are the EM dimensions that are more frequently found in the literature. Another undisputed fact found through empirical research is that EM positively impacts the performance of small and medium enterprises. Based on all the known facts about the EM and in order to answer the second part of the question as a conclusion it could be said that we should know and understand that entrepreneurial marketing is extremely important for the success of especially small and medium enterprises and may be considered as the only suitable way of doing marketing for SMEs which due to their limited resources are forced to find alternative ways of doing marketing in order to survive in today's chaotic environment. The other thing that we should know is because of the importance that EM has for the SMEs so they can deal with today's chaotic and challenging environment. The subject of the EM should be incorporated in the university syllabuses in order to be better understood and implemented by the SME owners or managers.

It is obvious that much is already done in advancing this field and that the progress is evident. But, there are still many gaps that make this research field full of research opportunities. Further research directions should be focused on linking the EM theory to practice by empirically investigating in more details all the areas of this field including EM strategies, EM types and different EM dimensions and linking them to the measurable SME outcomes.

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# Corporate Entrepreneurship: From Structures to Mindset



Olga Belousova, Dagmar Y. Hattenberg, and Benoît Gailly

**Abstract** Corporate entrepreneurship dispersed throughout an organization and leveraging the entrepreneurial potential of all its employees bears significant benefits for those organizations that embrace it. However, it appears more difficult to instill and requires strong investment in the development of human capital and entrepreneurial mindset among the employees and across the organization. In this chapter, we discuss the essence of corporate entrepreneurship mindset and show that across an organization, there might be different entrepreneurial mindsets that correspond to different people, opportunities, and contexts. Although different, they all lead to enactment of entrepreneurial projects. This chapter, thus, contributes to the discussion regarding the nature of corporate entrepreneurial mindsets, and their development and stimulation within an organization, from both academic and practical view.

**Keywords** Corporate entrepreneurship · Entrepreneurial mindset · Diversity · Profile · Opportunity

## 1 Introduction

### 1.1 Challenge of Corporate Entrepreneurship

*“Organizations are filled with sensible people and usually led by smart managers. Why is anything but incremental change often so difficult for the most successful*

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*organizations?”* (Tushman & O’Reilly III, 1996). The challenges of being an entrepreneurial organization arise from a dilemma between routines and change. Organizational routines are needed to sustain and facilitate short-term performance. Changing them is both risky and costly. Consequently, managers would love to have new routines in place, but do not want to face the uncertainties and incur the costs of losing the existing ones.

Varying perspectives have been suggested to resolve this issue: a structural, or focused, approach finds the solution in mechanisms of structurally separating novel and mainstream activities (Tushman & O’Reilly III, 1996), in entities such as “corporate incubator” or “new venture division.” The contextual, or dispersed, approach considers building a set of processes or systems to encourage individuals across the organization to make their own judgments (Gibson & Birkinshaw, 2004). Furthermore, organizations may engage in temporal alterations between the two setups (Simsek, Heavey, Veiga, & Souder, 2009).

To date, the most influential studies of corporate entrepreneurship (CE) have been done in “focused” settings of new venture or research and development departments: semi-autonomous entities with little formal structure, availability of “patient money,” and management support for risk-taking and creativity, whose mandate is to identify and nurture new business opportunities for the firm (e.g., Burgelman, 1983a, b, c; Garud & Van de Ven, 1992; O’Connor & Veryzer, 2001). Dominance of these studies has led to a more formal understanding of the CE process as a strategy, making it appear overly prescribed, deterministic, and structured, with a higher level of corporate control (Miles & Covin, 2002), while undermining the importance and potential of the contextual, or, dispersed, CE.

Dispersed CE assumes that every individual in the company has the potential for both managerial and entrepreneurial behavior (Birkinshaw, 1997). Compared to the focused approach, the dispersed CE relies on the individual (or small team) effort and can lead to greater diversity of opportunities recognized and pursued. This is because the firm’s entrepreneurial capability is dispersed geographically and hierarchically throughout the organization, rather than restricted to the “new venture department” and may be of particular importance for large firms with thousands of potential corporate entrepreneurs. However, it appears more difficult to instill, as it requires strong investment in the development of human capital for competencies, incentives, processes, and cultures to be internally aligned through a common strategic intent, and orchestrated by a team, capable of managing these inconsistent alignments in a consistent fashion, which requires from them a significant cognitive complexity (Brazeal, 1996; O’Reilly III & Tushman, 2008).

Exchanges between management and employees which aim at employee human capital development and instilling personal involvement and commitment are a key challenge for organizations striving to become entrepreneurial (Birkinshaw, 1997). Prior research suggests that naïve or ungoverned involvement of employees in the innovation process is counterproductive for stimulating CE outcomes (Kesting & Ulhøi, 2010), and that managerial communication forms a crucial link between a firm’s entrepreneurial strategy and the behaviors and actions the individuals who act as entrepreneurs within this organization (Rigtering, Weitzel, & Muehlfeld, 2019).

However, although the literature agrees that systematic empowerment of employees by the organization is needed in order to engage them in the process of organizational innovation and entrepreneurship (Self Dennis & Bandow, 2010), the exact understanding of the mechanism of how organizations may grow more entrepreneurs remains a challenge.

We argue that this challenge may be overcome if we embrace the notion of the entrepreneurial mindset (EMS). Shepherd et al. (2010, p. 62) define EMS as “*the ability and willingness of individuals to rapidly sense, act, and mobilize in response to a judgmental decision under uncertainty about a possible opportunity for gain.*” Specifically, Shepherd et al. (2010, p. 62) indicate that an entrepreneurial culture and EMS are “*inextricably interwoven,*” resulting in a learning spiral or “*deviation amplifying loop.*” From the literature we know that the development of an entrepreneurial culture is a key antecedent to employee initiatives (Covin & Slevin, 1991; Ghoshal & Bartlett, 1994; Kanter, 1985; Stopford & Baden-Fuller, 1994), while at the same time an initiative by an employee (and the consequentially managerial actions) can strongly influence the organizational culture (Belousova & Gailly, 2013). However, the two have rarely been considered from a dynamic, interactive perspective. It is, therefore, necessary to understand the process of the development of individual entrepreneurialness, or, EMS, within organizations.

## ***1.2 Extending the Literature to Understand the Corporate Entrepreneur***

CE can encompass diverse activities aimed at creating new business ventures, products and services, as well as technologies and administrative techniques within established firms, in order to extend their activities in areas marginally related to their current domain of competence (Antoncic & Hisrich, 2003; Burgelman, 1983a; Zahra & Bogner, 2000), offering promising and beneficial outcomes (Phan, Wright, Ucbasaran, & Tan, 2009). However, while several organizational approaches consider motivational aspects of employee entrepreneurship, the research community still lacks a comprehensive understanding of CE at the individual level (Dess et al., 2003; Hornsby, Kuratko, & Zahra, 2002; Kuratko, 2007; Kuratko, Ireland, Covin, & Hornsby, 2005; Phan et al., 2009).

Ireland, Covin, and Kuratko (2009) argue that in order to tackle the individual aspect of CE, one needs to pay attention to both elements: individual (corporate) entrepreneurial cognitions and entrepreneurial processes and behavior. EMS seems to be a prime concept to capture these cognitions and processes through willingness and ability of individuals (or combined willingness and ability of individuals in small teams) to engage in entrepreneurial behavior. Whether one is willing (i.e., an affective state) as well as able (i.e., skills and cognition) to sense and seize an opportunity underlies the actual enactment of (corporate) entrepreneurial behavior. In the literature, we could not identify any model of corporate EMS, suggesting that

other models (e.g., Ireland, Hitt, & Sirmon, 2003; Robinson, Neergaard, Tanggaard, & Krueger, 2016; Shepherd et al., 2010) need to be extended.

EMS captures whether one has, and perceives to have, the skillset and abilities to act entrepreneurially, whether one would actually like to be entrepreneurial and whether one is able of making a judgment call about the consequences of one's acting on an opportunity (Culkin & Mallick, 2011). McGrath and MacMillan (2000) conceptualize EMS as a superordinate concept. The willingness and ability aspects each contain three elements named affect (Campos et al., 2017; Makimurto-Koivumaa & Belt, 2016; Shepherd et al., 2010), skills (Culkin & Mallick, 2011; Laalo & Heinonen, 2016), and cognition (Campos et al., 2017; Haynie, Shepherd, Mosakowski, & Earley, 2010; Robinson et al., 2016). Thus, although approaches to EMS come from different backgrounds, their essential focus is on cognitive processes, skills-related developments (both captured in ability), and affective changes (captured in willingness).

- *Affect* refers to whether one likes to be entrepreneurial, such as a positive attitude (Makimurto-Koivumaa & Belt, 2016), emotions (Noble, 2015), and identity (Shepherd et al., 2010).
- *Skills* refer to the skillset and abilities of individuals, for instance growth and exploitation skills, and abilities (Haynie et al., 2010).
- *Cognition* refers to the judgment call and cognition needed to make such a decision, think for instance metacognition (Patel & Mehta, 2016) and knowledge (Shams & Kaufmann, 2016).

The literature converges on the idea that willingness and ability are both necessary for entrepreneurial behavior to occur (Haynie et al., 2010; Shepherd et al., 2010), reinforcing the notion of the nexus of entrepreneur and opportunity (Sarason, Dean, & Dillard, 2006; Shane & Venkataraman, 2000). Indeed, new ventures are a product of individual's consequent actions assuming willingness and agency (Krueger, 2007; Krueger & Brazeal, 1994). Nevertheless, it remains questionable how EMS can be applied to the field of CE directly.

Within a CE context, employees with EMS need to be able to spot opportunities within the organization and/or the market: both within and outside the business (Kyrgidou & Petridou, 2011), which requires not only entrepreneurial cognitions (beliefs, attitudes, and values) regarding entrepreneurship (Ireland et al., 2009), but also a strong organizational judgment to see where and how this opportunity fits within the organizational objectives (Hornsby, Kuratko, Holt, & Wales, 2013; Howell & Higgins, 1990). Furthermore, to seize opportunities, (corporate) entrepreneurs need to strategically mobilize and allocate resources (Shams & Kaufmann, 2016), such as internal individual resources (knowledge and skills) (Shepherd et al., 2010), and external resources such as coworkers (i.e., social resources and human resources) (Robinson et al., 2016; Shams & Kaufmann, 2016), investments or funding (i.e., financial resources) (McGrath & MacMillan, 2000; Mitchell, 2007) or tools (i.e., technical resources) (Mitchell, 2007). These processes may require different approaches within the organizational environment (Hisrich, 1990; Kelley, Peters, & O'Connor, 2009; Whittle & Mueller, 2008).



We suggest extending existing models of EMS, to accommodate for the specific aspects brought on by the organizational environment. More specifically, we suggest that employees go through different phases with regard to exploring and exploiting entrepreneurial opportunities. Here, we build on Gollwitzer (2012) theory of action phases in mindset development, where an individual decides on setting a goal or striving for an opportunity (pre-decision phase), decides to act on it (pre-action phase), executes the behavior (action phase) and evaluates for growth and development purposes (post-action phase). If we translate this to the field of CE, in order to be able to deal with the individual aspect, we need to resolve the following issues:

- **Pre-decision phase:** What type of goals or opportunities, i.e., the potential targets or outcomes, would individuals set that result in CE activities?
- **Pre-action phase:** What actions can be expected of employees within the boundaries of the context of the firm, to develop entrepreneurial projects?
- **Action phase:** How will the set actions translate into behavior in the firm, the influence on others and by others, and how can managers/organizations provide incentives or boundaries to steer the actions? What activities and behaviors should potential corporate entrepreneurs thus be willing, supported, and capable to perform?
- **Post-action phase:** How can these steps be integrated into an organizational culture and learning curve? What does this mean for employees' growth process?

The abovementioned issues suggest that an understanding of the individual aspect of CE requires a clear specification of the goal and targets of CE, actions and boundaries involved, the context where it occurs, and the interaction with the organizational culture. The following section presents an explorative study that illustrates why understanding the target, the context, the timing, and the activities of CE is important.

## 2 Explorative Case

### 2.1 *Research Setting and Data*

The explorative study was conducted within one of the Business Units (BU) of a large industrial company, which we call ChemCo, in the span of 18 months of participative observations. It included frequent meetings with the Business Performance Improvement Manager (BPIM) of the BU with occasional participation of the BU General Manager (GM), participation in the internal audit program (CE was one of the criteria of the audit), following several business development initiatives, several interviews with the leading entrepreneurial teams of the BU, and eventually participation in a 3-day-long seminar that united all middle managers of the BU in order to create a common understanding of CE, and develop a future plan for supporting it.

ChemCo designed the seminar internally, and the participants were assigned to form five groups of 8–10 people. The facilitators assured that no function, location, or business dominated within each group. The opinions of the participants were gathered in two stages: first, they had to offer a semantic description of a corporate entrepreneur by naming his/her most important characteristics; second, they had to describe an entrepreneurial planet with a specification of what was stimulating and what was a barrier for CE within the BU/company. The role of the researcher at the design stage consisted in discussing important aspects of CE with the facilitators and providing theoretical support during the preparatory meetings. During the seminar, the position of the researcher could be described as participatory observation. After the seminar all the observations, audio and video recordings, photographs and notes were classified, coded, and analyzed.

More specifically, we used the following sources to derive the results:

- Data from the meetings with the BPIM during which we would discuss the ongoing life of the BU and the Company, and the preparation process for the Seminar (100+ pages of notes)
- 50 posters (information about the participants and their challenges at work)
- 5 team presentations of CE characteristics
- 5 team presentations and posters describing an entrepreneurial planet
- 22 posters with projects resulting from the exchanges during the seminar (usually by teams of two)
- Video (28 min) or sound (82 min) recordings
- Other meeting notes (15+ pages)

## **2.2 Data Analysis**

For the purpose of the study, the materials were entered into NVivo and Mindjet Mind Manager Software. The programs allow organizing ideas, tasks, and meeting notes to transform into intuitive visual maps. Each of the sources of information was content analyzed and themes were coded. We performed three types of analysis: descriptive, thematic, and graphical analysis. The discussion proceeds accordingly.

### **2.2.1 Descriptive Analysis**

Being asked to describe corporate entrepreneurs and their behaviors in a “creative” way, the five groups produced together 87 characteristics which are reported in Table 1. “Creative” meant here that the groups had to present their opinions in an “out-of-the-box” way, thus allowing not only to name a characteristic, but also to convey its meaning as intended by the presenting teams. These performances, thus, helped us interpret some of the characteristics.

**Table 1** Illustrative example: characteristics of corporate entrepreneurship provided by the groups

G1	G2	G3	G4	G5
<ol style="list-style-type: none"> <li>1. Risk-taking</li> <li>2. Internal market-ing</li> <li>3. Internal lobbying</li> <li>4. Resilience</li> <li>5. Leadership</li> <li>6. Luck</li> <li>7. Aligning</li> <li>8. Support</li> <li>9. Follow</li> <li>10. Control</li> <li>11. Opportunity identification and seizing</li> <li>12. Be selective</li> </ol>	<ol style="list-style-type: none"> <li>1. Energetic</li> <li>2. No bureau-cracy</li> <li>3. Take initia-tive</li> <li>4. Empower-ment</li> <li>5. Pro-active</li> <li>6. React quickly</li> <li>7. Emotion</li> <li>8. Not dictat-ing</li> <li>9. Networking</li> <li>10. Achieve-ment motiva-tion</li> <li>11. Uncer-tainty man-agement</li> <li>12. “Relax and be yourself”</li> </ol>	<ol style="list-style-type: none"> <li>1. Thinking out of the box</li> <li>2. Self-assess-ment</li> <li>3. Self-confi-dence</li> <li>4. Hard work</li> <li>5. Trustworthy</li> <li>6. Honest</li> <li>7. Good listener</li> <li>8. Learn from others</li> <li>9. Intuition</li> <li>10. Luck</li> <li>11. Seize and create opportu-nities</li> <li>12. Be yourself</li> <li>13. Be optimis-tic</li> <li>14. Be initiative</li> <li>15. Persever-ance</li> <li>16. Resistance to frustration</li> <li>17. Empower-ment</li> <li>18. Innovation</li> <li>19. Challenging the status quo</li> <li>20. Able to convince people</li> <li>21. Vision</li> <li>22. Leadership</li> <li>23. Open minded</li> <li>24. Self-moti-vation</li> <li>25. Courage</li> <li>26. Capacity to anticipate</li> <li>27. Risk-taking</li> <li>28. Stretch your freedom</li> </ol>	<ol style="list-style-type: none"> <li>1. Decider/decisive</li> <li>2. See, catch opportunity</li> <li>3. Appropria-tion</li> <li>4. Empower-ment</li> <li>5. Act</li> <li>6. Determina-tion</li> <li>7. Resilience</li> <li>8. Passion</li> <li>9. Patient</li> <li>10. Open mind</li> <li>11. See and manage risks</li> <li>12. Communi-cator/listener</li> <li>13. Team work</li> <li>14. Team com-mitment</li> <li>15. Anticipa-tion</li> <li>16. Like changes</li> <li>17. Challenge existing beliefs</li> <li>18. New ways of existing</li> </ol>	<ol style="list-style-type: none"> <li>1. Seize opportu-nities</li> <li>2. Management of fear</li> <li>3. Accept risk</li> <li>4. Challenge rules</li> <li>5. Stretch your comfort zone</li> <li>6. Leadership</li> <li>7. Open minded</li> <li>8. Enthusiasm</li> <li>9. Use your degree of freedom</li> <li>10. Appropriate (good) ideas</li> <li>11. Push ideas</li> <li>12. Communica-tion (two ways)</li> <li>13. Attract high-quality coworkers</li> <li>14. Set up attrac-tive working con-conditions</li> <li>15. Ability to con-vince and</li> <li>16. Make things happen</li> </ol>

Source: Authors

Counterintuitively, none of the characteristics was mentioned in all groups and only 6 out of 87 were mentioned in the majority (3 out of 5) of groups. These were: opportunity identification/creating and seizing; risk-taking/accepting/managing;

challenging the status quo/rules/beliefs; empowerment; leadership; and open minded. Further six characteristics (ability to convince; appropriate (good) ideas; be yourself; communicator/listener; luck; and resilience) were mentioned in two out of five groups, and others were mentioned only once.

### 2.2.2 Thematic Analysis

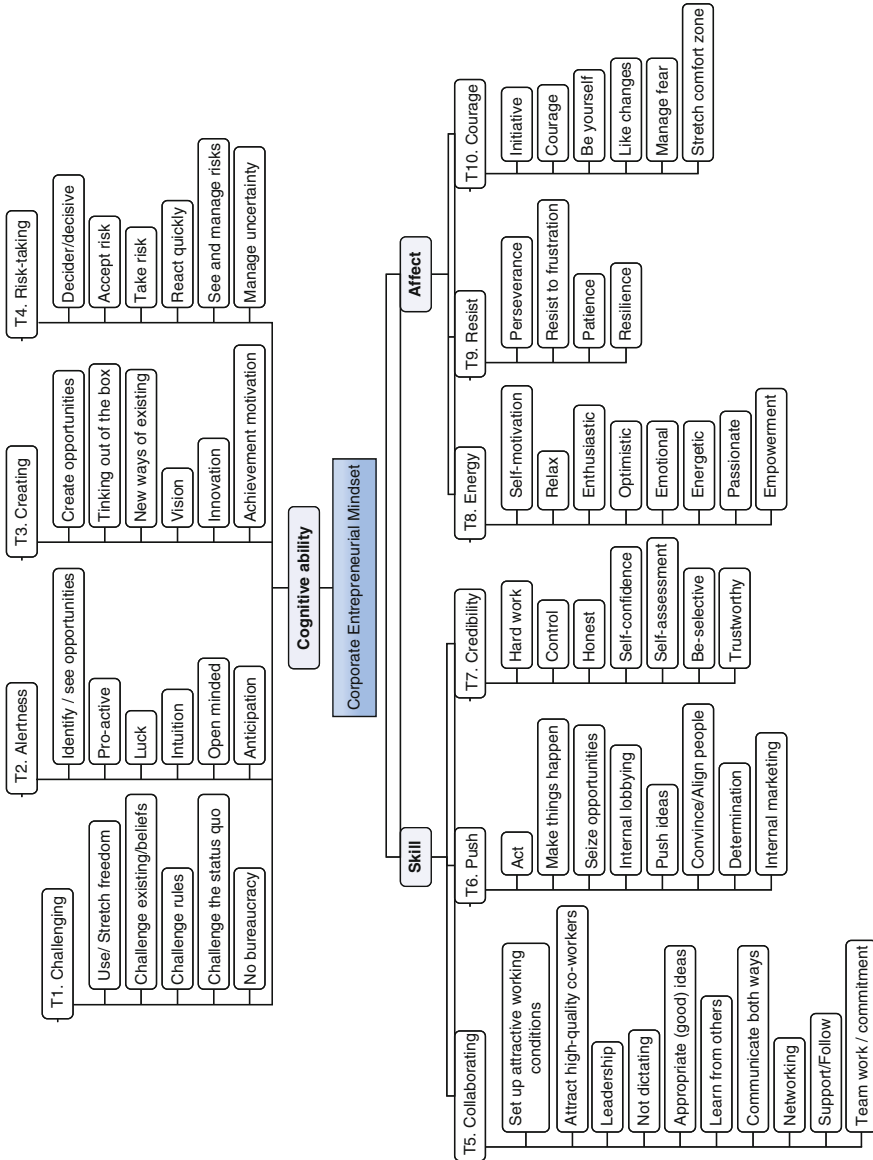
To make the thematic analysis, similar to the notion of axial, or second-order, coding, we grouped the 87 characteristics along several distinct themes. We formed these themes by building content-wise close groups. For example, Theme 1 “Challenging” is built out of challenging beliefs, rules, and status quo. It also includes stretching one’s freedom and rebelling against bureaucracy. The meaning of this item was derived from the presentation of the group when they described it as a new challenging way of working. These five characteristics form the theme “challenging.” Altogether, we obtained ten themes: challenging, creating, risk-taking, communicating, collaborating and pushing, alertness, energy, credibility and courage.

As a next step, we further analyzed the themes from the perspective of EMS: affect, cognition, and skills. Figure 1 presents the results of the thematic grouping. This way, challenging, alertness, creativity, and risk-taking were assigned to cognitive ability, ability to collaborate, push the project, and work hard to gain control and credibility were assigned to skill, and, finally, energy, resilience, and courage were assigned to affect.

### 2.2.3 Combining Descriptive and Thematic Analysis

Table 2 presents the combined results using the themes defining corporate entrepreneurs, and the way groups used them. Most of the groups had a dominant theme (highlighted in italic)—it was calculated as a number of words associated with one specific theme. These dominants have given the names to the characters presented by the groups: they can be found in the second line of Table 2.

The table allows observing a diversity in the understanding of CE: Group 1 (G1) suggested that entrepreneurs are those people who collaborate and push projects as an “ordinary” job which does not require that much energy or courage: anchoring in the previous literature on championing strategies (Howell & Higgins, 1990; Shane & Venkataraman, 1996) we call this kind of entrepreneur “rational.” Group 2 (G2), on the contrary, stresses the importance of being empowering and energetic, risk-taking, and collaborative. This profile got the name of “participative” entrepreneurship. Group 3 (G3) paid the most attention to describing such characteristics as alertness to arising opportunities, creativity in designing new opportunities and ways of working and credibility. Such a personality we propose to call “opportunity-driven.” Group 4 (G4) provided the most balanced picture, with a slight focus on alertness and collaboration, which we named “networker.” Finally, Group 5 (G5) highlights that the most important characteristic is the ability to



**Fig. 1** Thematic analysis. Source: Authors

**Table 2** Characteristics of CE, split by themes and groups

		G1	G2	G3	G4	G5	Total
		Rational	Participative	Opp-driven	Networker	Renegade	
Cognitive ability	Challenging		1	2	1	3	8
	Alertness	2	1	4	3	1	11
	Creating		1	4	1		6
	Risk-taking	1	2	1	2	1	7
Skill	Collaborating	3	2	3	4	5	17
	Pushing	3		1	2	3	9
	Credibility	2		5			7
Affect	Energy		3	3	2	1	9
	Resist	1		2	2		5
	Courage		3	3	1	1	8
Total		12	13	28	18	15	87
		G1	G2	G3	G4	G5	Total
		Rational	Participative	Opp-driven	Networker	Renegade	
Cognitive ability		3	5	11	7	5	31
Skill		8	2	9	6	8	34
Affect		1	5	8	5	2	21
Total		12	13	28	18	15	86

Source: Authors

challenge the status quo, collaborate and push an initiative through the organizational boundaries. We named this profile “Renegade”.

This suggests that if a company is calling for more CE projects, some people will ask themselves if they have the necessary expertise and credibility to spot the right opportunity, some will wonder if they have enough energy to push and persist, while others will reach out to their networks for opportunities and support, thus illustrating different types and uses of EMS, depending on the collaboration groups and context.

The following section presents the findings from the third type of analysis: analysis of drawings where the participants were asked to describe the context of CE, or their entrepreneurial planets.

### 2.2.4 Context Analysis: How Is CE EMS Enabled?

The second exercise included drawings of entrepreneurial planets of their BU. The teams had about 1.5 hour to discuss their understandings and draw the pictures. Two of the drawings are presented below and all five drawings with short descriptions are presented in Fig. 2 (markers added by the researcher). In the analysis, we also used video recordings of poster presentations.

Figure 2 shows that Group 5 described entrepreneurship in a “focused” way by separating (see the balloon flying away, marker 7) it from the rest of organizational

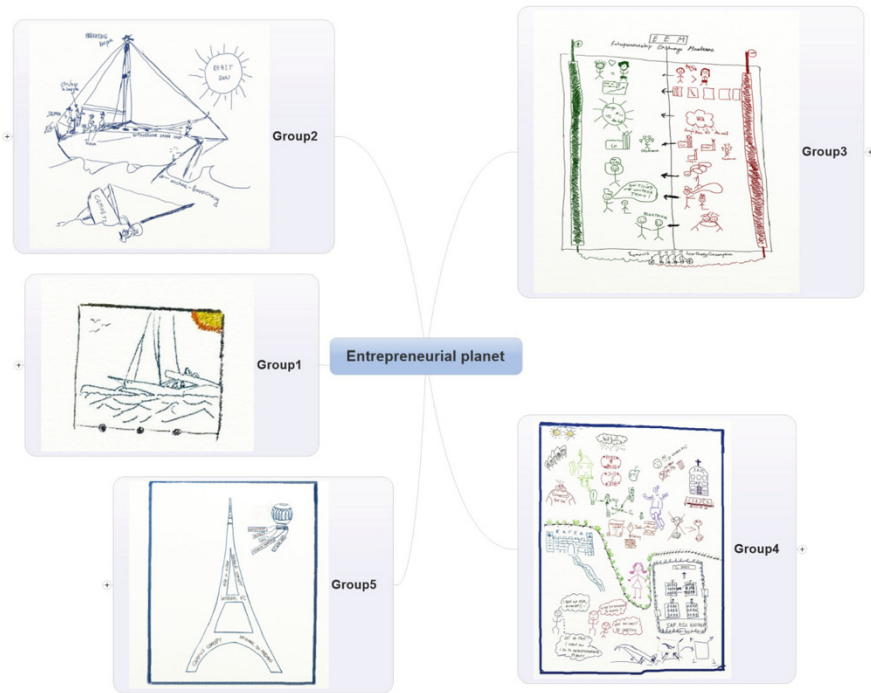
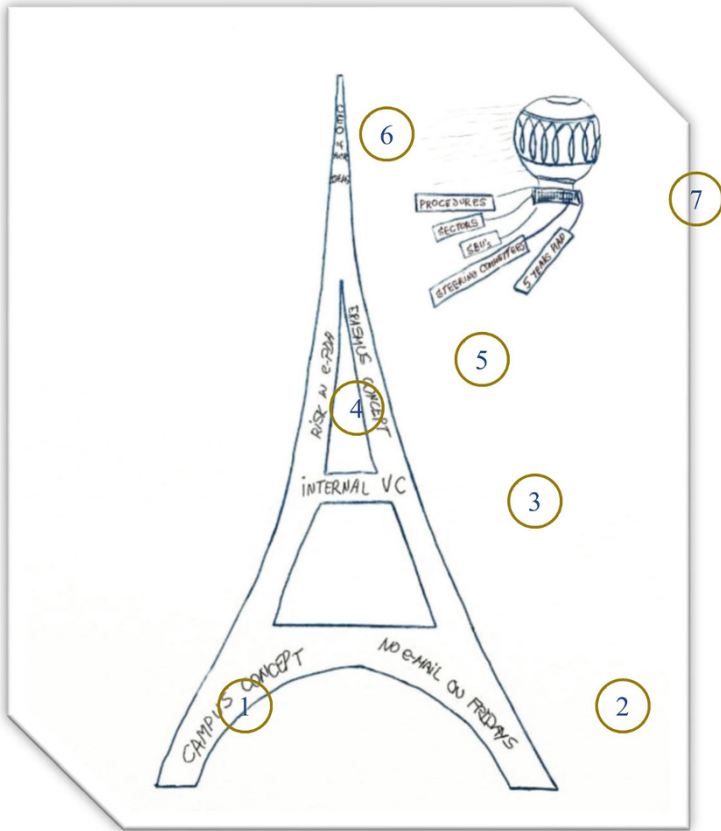


Fig. 2 Activating CE EMS. Source: Authors

procedures, sectors, business units, steering committees, and 5-year plans. This observation is supported by the introduction of a “campus concept” (marker 1) and “no email Fridays” (marker 2). The campus concept was understood as analogous to the “skunk-works”: the team would like to be located separate from the rest of the company, but close to it. The “Erasmus concept” (marker 5) was introduced to highlight the need to establish cross-departmental communications. The group would also be given a full responsibility for their projects (“CEO of your ideas,” marker 6) and their finances (Internal VC, marker 3). The team further suggested that the company would introduce risk-taking in yearly evaluations (marker 4).

The second poster (Fig. 3) presents an opposite situation: entrepreneurship is considered to take place embedded in the organizational context with all the difficulties and conflicts that may arise. See below on the picture (marker 1) the dialog of disbelief: “I have an idea, a concept. . . Why do you want to move? Are you sure? Be careful!,” and the scene of a fighting “army” (marker 2, the tiny humans with guns shooting at each other). Compared to the rest of the organization CE is associated with a “fighter jet” (marker 3) and its energy is depicted through a double-sun and “red bull” rain type (marker 4). This group highlighted the importance of supporting ideas, even if they are just at a “concept” stage (again, marker 1). They suggested



**Fig. 3** Illustrative example: Vision of CE by G5. Source: Authors

that prizes should be given not for coming up with innovation, but rather for taking risks and making failures, because it is the only way to come up with something really entrepreneurial (marker 5). The group has further highlighted a number of other characteristics such as gender and functional diversity, own time management, dependence of the salary on the success of their CE projects, rotation of jobs and bosses, as well as a need for the boss to be a leader (area around marker 6 Fig. 4).

These pictures are only two examples out of the five posters prepared by the participants. Still, they present the extremes (other “planets,” if imagined on a continuum, would be placed in the middle between the two described above).

The following section presents a brief discussion of the results in the light of EMS and EMS development.



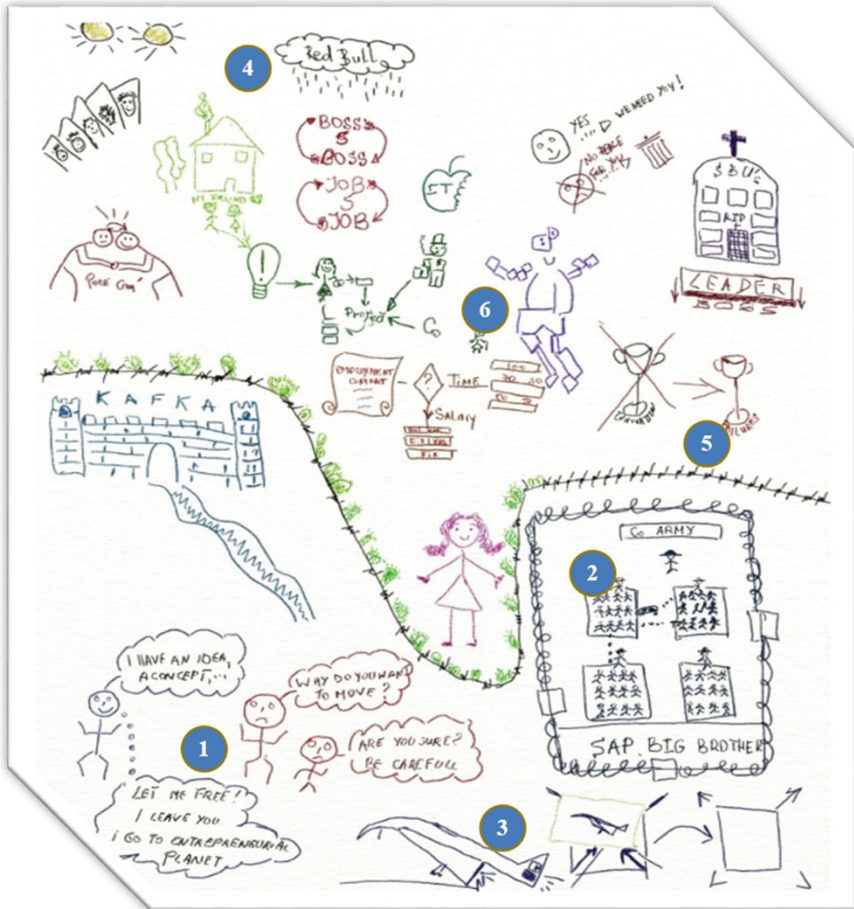


Fig. 4 Illustrative example: Vision of CE by G4. Source: Authors

### 3 Discussion

#### 3.1 Who Is a Corporate Entrepreneur?

Our descriptive analysis shows that no two groups of managers described a corporate entrepreneur in the same way, and this is despite the fact that they belong to the same company and even the same BU, something that has already been pointed out by Gartner (1988)—*who* is an entrepreneur, is the wrong question. Variety and breadth of academic definitions of the concept impede the accumulation of knowledge in the field, but also translate into the everyday use and understanding of it: what is *the most* defining characteristic of an entrepreneur? Three out of five studied groups suggest that opportunity discovery, creation and seizing, risk-taking, challenging the

status quo, empowerment, leadership, and open mindedness might be the common characteristics of corporate entrepreneurs. However, they were each time combined with an array of other, varying characteristics.

We may note the similarity to the discussion that Lumpkin and Dess (1996) raised in their “Clarifying the entrepreneurial orientation construct. . .” article, suggesting that although components of a firm’s entrepreneurialness might pertain across companies, there is not merely one way of being entrepreneurial, but rather a set of profiles resulting from the combinations of the underlying dimensions. Similarly, Dimov (2017) discusses that varying configurations of the human capital dimensions can lead to “*qualitatively different sets of entrepreneurs*” (p. 223). There is, therefore, some evidence for the future research possibility of different entrepreneurial pathways within the organization, which may clarify and reinforce previous findings on stimulating organizational entrepreneurial behavior (Hornsby et al., 2013; Hornsby, Kuratko, Shepherd, & Bott, 2009). As a practical implication, managers may need to proactively instill an image of an entrepreneur by highlighting characteristics of their company values and rewards.

### 3.2 *The Faces of a Corporate Entrepreneur*

Our thematic analysis supports the descriptive findings. The groups highlighted importance of varying combinations of the characteristics: while Group 1 described the need for hard work, collaboration, and credibility in order to develop a CE project, Group 2 focused on the energy, courage, and risk-taking, Group 3 highlighted alertness and creativity combined with hard work, Group 4 emphasized such characteristics as alertness and collaboration, and finally, Group 5 described a well-networked challenger, pusher, and collaborator. Looking back at the studies conducted on the nature of championing processes we could compare the process described by Group 1 as a rational championing of CE projects: “*In this process, the champion has a compelling vision regarding the potential of information technology for the organization, a vision that may or may not coincide with top management’s. If it does, both champion and top management envision a future . . ., and the organization’s culture supports creative risk taking and the exploration of new ideas*” (Howell & Higgins, 1990, p. 46). Group 5, on the other hand, describes the renegade model (Howell & Higgins, 1990; Shane & Venkataraman, 1996): “*The renegade process represents a deliberate violation of bureaucratic rules to realize a personal vision of technological innovation*” (Howell & Higgins, 1990, p. 51). Three other emerging profiles could be named participative (based on collaboration, energy, and courage aspects), opportunity-driven (the only profile that extensively relied on the alertness and creativity, combined with hard work), and networker (harmonious profile with a slight dominance of collaboration and alertness). Rediscovering the results made three decades ago suggests that in our quest for discerning the core of the activity and reducing it to a compact quantitative measurement instruments (see, e.g., Howell, Shea, and Higgins, 2005), we might have

been missing too much of the richness of the reality needed to grasp the employee entrepreneurial behavior.

The presence of multiple types of entrepreneurial processes suggests a strong dependence on an individual's ability to judge the situation and spot an opportunity, gather and display energy to push an idea through the organization, and mobilize the resources to do so: despite being located in the same organization, the teams developed different visions regarding their entrepreneurial strategies. Thus, the individual judgment, agency, and human capital are crucial to the understanding of the entrepreneurial processes within an organization, and we cannot and should not remove the "dancer from the dance" (Sarason et al., 2006; Shane & Venkataraman, 2000). EMS embraces precisely this: ability for judgment of an uncertain situation, mobilization of resources to exploit it, and willingness to do so (Shepherd et al., 2010).

If we plot the results of the thematic analysis on the EMS scheme (cognitive ability, skill, and affect) we will further see that, while two of the profiles span all three dimensions (opportunity driven and networker), the participative profile relies rather on the ability to spot an opportunity and empower people around the leader (cognitive ability and affect), while the renegade model uses the cognitive ability and skill aspects to challenge the existing situation within the company and pushes the project through the boundaries and gates. It furthermore appears that an entrepreneurial process can also be instigated based on skills only (as suggested by Group 1's rational process).

Previous research suggests that a relationship between the organizational vision and culture and the judgment of the corporate entrepreneur may explain the choice of the behavioral strategy for a specific project or idea (Belousova & Gailly, 2013; Howell & Boies, 2004; Howell & Higgins, 1990), and if the ideas of corporate entrepreneurs are in line with the strategy of organization, the behavior may even appear induced by the organization (Burgelman, 1983a, b, c). Thus, we can see that varying organizational factors, project fit, and individual characteristics may trigger different mindset profiles and strategies adopted by corporate entrepreneurs. This could explain, for example, why organizational factors explain less than half of the variance in adoption of entrepreneurial behaviors by the employees (Brazeal, 1996; Hornsby et al., 2002), and why different managerial levels react to them differently (Hornsby et al., 2009). The next section explores the nature and influence of the environment for CE by means of a graphical analysis.

### ***3.3 Contextual and Situational Nature of EMS***

Our graphical analysis expands the previous discussion and reveals differences in perception of not only the mindset and role of a corporate entrepreneur, but also CE projects and their phases of decisions and actions. As such, the first two groups focus on short- to mid-term financial outcomes, while Groups 3 and 4 strive for proactively tackling the future, despite having different starting points

(coordination vs. fighting), and Group 5 targets challenging the status quo, what could be compared to strategic renewal of the basic principles of the company (Birkinshaw, Hamel, & Mol, 2008; Sharma & Chrisman, 1999). This suggests that different opportunities correspond to the pre-decision phase of EMS development and trigger different aspects of an EMS. From the developmental cognitive psychology point of view this effect can be explained by the presence of deep beliefs regarding the role of a corporate entrepreneur (financial improvement, new horizon seeking, or maverick behavior), shaping the personally relevant opportunities (Gaglio & Katz, 2001), and being shaped by varying work experiences related to previously accepted and supported CE projects within the organization, and lessons learned from these “developmental” experiences (Krueger, 1993, 2007).

Thus, different EMS profiles might be triggered by different situation: in case the entrepreneur and the supervising manager are aligned in their vision of the future business development, push and collaboration could be sufficient for an entrepreneurial venture to start. However, a conflict of expectations could also trigger an entrepreneurial initiative. Lichtenstein, Carter, Dooley, and Gartner (2007) indicate in their paper that entrepreneurial individuals need an adaptive tension to be able to spot and seize opportunities: the organizational environment needs to provide certain factors that cause them to feel the need to change something in this environment. At the action phase, such action orientations as “just do it,” market orientation, outside orientation on customers, stretching autonomy, and breaking the status quo could be expected from entrepreneurial initiatives. Furthermore, four out of five profiles reply explicitly on collaboration throughout the organization, whether in a leadership or participative role, suggesting an important role of the community (small team, larger organizational, and even extra-organizational scale) (Flora & Flora, 1993; Kelley et al., 2009). Table 3 summarizes the analysis for all five groups.

### 3.4 *Corporate EMS*

The mindset is often considered a developmental concept (Haynie et al., 2010; Ireland et al., 2003; Shepherd et al., 2010), suggesting that one can go from a novice to an expert level (Krueger, 2007). However, Ericsson and Charness (1994) argue that becoming an expert requires considerable “deliberate practice” at activities directly related or adaptable to the expertise in question. Specifically for CE context, Shepherd et al. (2010) indicate that EMS develops together with an entrepreneurial culture via a feedback loop. Hence, it is not surprising that Ireland et al. (2003) discuss the necessity for developing this ability as part of strategic entrepreneurship on firm level. Thus, as varying authors converge on the fact that EMS is dynamic and should not be seen as independent of the environment it engages with, it is logical to consider multiple phases in this process of establishing CE and developing an entrepreneurial activity or initiative, as has also been suggested for new venture development by Lichtenstein et al. (2007).

**Table 3** Contexts and stages of EMS

	G1	G2	G3	G4	G5
	Rational	Participative	Opp-driven	Networker	Renegade
Pre-decision phase	Financial + diversity	Financial	Try new, make difference	Develop ideas even with failures	Develop ideas, rejection of rules
Pre-action phase	Collaborate and push	Show energy, lead	Show creativity, credibility and alertness	Collaborate, push, be alert and show courage	Be courageous and push hard
Action phase	Do, dare, anticipate	Market strategic orientation	Make own rules, develop relations w customers	Stretch autonomy, communicate, learn	Communicate and exchange; take risks and responsibility
Post-action phase	Yacht: autonomy/relaxed	War ship autonomy/fight	Bicycle coordination and understanding	Two suns, Redbull, Fighterjet (fighting vs. understanding)	Tower/balloon rebel, departure
Message	We are in the sea, let's be prepared for tsunami!	Competitors—die!	We drive the same tandem:)	'We need you here!'	approach Be CEO of your ideas!

Source: Authors

As we build on Gollwitzer's (2012) theory of action phases in mindset development, where an individual decides on setting a goal or striving for an opportunity (pre-decision phase), decides to act on it (pre-action phase), executes the behavior (action phase), and evaluates for growth and development purposes (post-action phase), we now discuss the possibility to adjust the definition of EMS to the corporate context along the following dimensions:

- **Pre-decision phase:** Our results suggest that both goals aligned with short- and long-term objectives of the company can serve as triggers for the CE behaviors. However, also the dissatisfaction with the current environment may trigger an entrepreneurial initiative. Thus, both positive and negative experiences within the organization can change the beliefs about entrepreneurship and serve as developmental episodes (Krueger, 2007).
- **Pre-action phase:** Our results show that several cognitive and skill factors can enable the launch of the action. In the corporate setting, collaboration and push, energy and leadership, creativity and alertness are the abilities that fuel this process. While creativity and alertness clearly indicate the need for spotting or creating an opportunity (Alvarez & Barney, 2007; Gaglio & Katz, 2001), collaboration, push, and leadership indicate the importance of networks for organizational mindset (Björklund & Krueger Norris, 2016; Flora & Flora, 1993; Kelley et al., 2009).
- **Action phase:** Adaptive tension, as developed by Lichtenstein et al. (2007), seems to be a good theoretical lens on understanding the behavioral triggers of corporate EMS. Our explorative study does not let us differentiate between the constructive or dialectic type of tension (Van de Ven & Poole, 1995), which could be a topic for further examination, but based on our exploration of the pre-decision stage, we can assume that both positive and negative developmental experiences may pre-shape the deep beliefs about the role and nature of entrepreneurship, thus creating the trigger activated by the external adaptive tension.
- **Post-action phase:** This phase answers the question of how entrepreneurial actions could be integrated into an organizational culture and learning curve. While our findings in this areas are also quite diverse (e.g., from a yacht to a bicycle to an air balloon), there is a sense of movement forward in each of them, which may suggest that while the specific set of actions and behaviors depends on the style and opportunity of the entrepreneurial team, the forward-looking future-oriented perspective (Frederiks, Englis, Ehrenhard, & Groen, 2019) unites them.

## 4 Conclusion

The aim of this chapter was to discuss the stimulation of CE and its central challenge—stimulating CE behaviors of the employees through analyzing the CE mindset. Embracing CE bears benefits for firms, which develop and harbor their entrepreneurial capability. Indeed, a number of studies have confirmed that an

entrepreneurial firm is likely to enjoy a better financial performance and/or better nonfinancial characteristics of growth and prosperity. However, the task of becoming more entrepreneurial while maintaining the achieved level of operational excellence in existing businesses is a well-known challenge. To solve this, both structural (focused) and contextual (dispersed) approaches have been suggested in the literature; and while structural devices (such as separating entrepreneurial activity from the body of the organization and letting it develop in a skunk-work) are being thoroughly researched, the dispersed approaches (simultaneous demonstration of managerial and entrepreneurial behaviors) remain an issue.

Still, behavior is central to the entrepreneurial process (Covin & Slevin, 1991), and stimulating it should be core to unlocking the potential of CE. As we show by our illustrative example, in practice the employees from whom more CE behaviors are expected may perceive and imagine the goals, process, boundaries, and context of CE differently. Therefore, as scholars, we have to make sure that under the concepts we study we understand the same thing as other researchers and the same thing as the individuals participating in our research.

From this chapter, we also learn the importance of different entrepreneurial mindsets that correspond to different people, opportunities, and organizations. Forward-looking future-oriented cultures may provide the most stimulating context for entrepreneurial initiatives, whether short- or long-term oriented. These initiatives and underlying opportunities may, however, be enabled by different skillsets,

**Table 4** Implications for practice

	Don'ts	Do's
Individual level	Focus on one set of routines, ignoring individual characteristics	Take the time to discover profiles of entrepreneurial mindset and behavior in your company, integrate them in your routines
	Focus on what people are instead of what people can develop into	Allow for experimentation, risk-taking, challenging the status quo as they provide deliberate practice possibilities for employee entrepreneurship, developing EMS
	Just focus on a bottom-up relationship: acknowledge the importance of the environment of the opportunity and the social network	Manage learning experience, rather than avoiding conflicts. Conflict as a "good thing"
(Small) team level	Remain focused on BU, department, or set teams	Have different profiles work together
	Focus on merely self-steering teams: allow for managerial sparring and tensions	Have groups determine their own focus points, provide freedom in role structure (i.e., CEO of ideas, internal VC)
	Mainly focus on short-term goals	Realize that varying objectives and beliefs may trigger entrepreneurial mindsets and behaviors within your organization

Source: Authors

suggesting the use of varying EMS profiles for CE. To rephrase: “. . . *the success of entrepreneurship within established organizations rests not necessarily with a few lone entrepreneurs, but with the greater number of potential entrepreneurs. To the extent that organizations can thoughtfully provide provision for innovative activities, a long-term entrepreneurial focus may be attained*” (Brazeal, 1996).

We would like to conclude this chapter with a few practical suggestions that can be made for organizations to apply (Table 4).

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