Contributions to Management Science

Nezameddin Faghih
Ali Hussein Samadi *Editors*

Legal-Economic Institutions, Entrepreneurship, and Management

Perspectives on the Dynamics of Institutional Change from Emerging Markets

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Editors

Legal-Economic Institutions, Entrepreneurship, and Management

Perspectives on the Dynamics of Institutional Change from Emerging Markets

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Editors
Nezameddin Faghih
Cambridge, MA, USA

Ali Hussein Samadi
Department of Economics
Shiraz University
Shiraz, Iran

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Photo by the author

This book is dedicated to the loving memory of Rokneddin Faghih (1926–2000), a cherished philanthropist and agricultural entrepreneur who mastered the legal framework on water rights, rules of the game and calculative practices for combinations of land and water ownership systems, and constantly strived to enhance water resources in alignment with social aspirations in Estahban (Fars, Iran), the land of figs and saffron.

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Contributors

Wafa Alwakid Universitat Autònoma de Barcelona, Bellaterra, Spain

Sebastian Aparicio Durham University, Durham, UK
Fudanción ECSIM, Medellín, Colombia

Blesilda P. Badoc-Gonzales Graduate School, University of Santo Tomas, Manila, Philippines

Eric V. Bindah Faculty of Law and Management, University of Mauritius, Reduit, Mauritius

Tanya Chavdarova Department of Sociology, Sofia University St. Kliment Ohridski, Sofia, Bulgaria

Elvisa Drishti Faculty of Economy, University of Shkodra "Luigj Gurakuqi", Shkodër, Albania

Nezameddin Faghih UNESCO Chair Professor Emeritus, Cambridge, MA, USA

Ermira Hoxha Kalaj Faculty of Economy, University of Shkodra "Luigj Gurakuqi", Shkodër, Albania

Bresena Dema Kopliku Faculty of Social Sciences, University of Shkodra "Luigj Gurakuqi", Shkodër, Albania

Mindaugas Laužikas Vilnius University Business School, Vilnius, Lithuania

Duc Nha Le Faculty of Business Administration, Ton Duc Thang University, Ho Chi Minh City, Vietnam

Ma. Belinda S. Mandigma University of Santo Tomas, Manila, Philippines

Coccia Mario National Research Council of Italy, IRCRES-CNR (Collegio Carlo Alberto), Moncalieri, TO, Italy

Aistė Miliūtė Vilnius University Business School, Vilnius, Lithuania

Julio J. Nogues National Academy of Economic Sciences (Academia Nacional de Ciencias Economicas), Buenos Aires, Argentina

Ernesto A. O'Connor Facultad de Ciencias Económicas, Universidad Católica Argentina, Buenos Aires, Argentina

Kameliia Petrova Department of Economics and Finance, State University of New York College at Plattsburgh, Plattsburgh, NY, USA

Bryan Radegonde Open University of Mauritius, Reduit, Mauritius

Ali Hussein Samadi Department of Economics, Shiraz University, Shiraz, Iran

Jackson Tan University of Santo Tomas, Manila, Philippines

David Urbano Universitat Autònoma de Barcelona, Bellaterra, Spain

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An Introduction to: Legal-Economic Institutions, Entrepreneurship, and Management: Perspectives on the Dynamics of Institutional Change from Emerging Markets

Nezameddin Faghih and Ali Hussein Samadi

This second king set foot in the evil way
that was originated by the former king.
Whoever establishes an evil tradition,
towards him goes malediction every hour.
The righteous departed and their ways remained,
and from the vile there remained injustice and execrations
Until the Resurrection, the face of every congener of those
wicked men who comes into existence is turned towards that one

Rumi (1207–1273).

Abstract This introduction serves as an overview of the *Legal-Economic Institutions, Entrepreneurship, and Management: Perspectives on the Dynamics of Institutional Change from Emerging Markets*. The emphasis is mainly on legal-economic institutions and the role of management and entrepreneurship on institutional change in emerging market economies. It describes the contents of the book and contributed chapters reflecting the research and analysis undertaken by a number of outstanding researchers, experts, and academics who are educating, conducting research, and engaged in addressing and discussing the most recent issues in the interdisciplinary area of institutional change and development. Moreover, the book can contribute to a better comprehension of the corresponding aspects and evidence of institutional change and development dynamics and satisfy the scholarly and intellectual interests.

N. Faghih (✉)
UNESCO Chair Professor Emeritus, Cambridge, MA, USA

A. H. Samadi
Department of Economics, Shiraz University, Shiraz, Iran
e-mail: asamadi@rose.shirazu.ac.ir

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Keywords Institutions · Institutional change · Emerging market economies · Dynamics · Legal-economic institutions · Entrepreneurship · Management · Hybrid market · Labor market · Green entrepreneurship · Poverty and inequality · Efficiency-driven economies · Innovation-driven economies

The dynamics and quality of institutional change can have significant impacts on the long-run performance of economies, economic growth, and development of nations, and play a fundamental role in societies. The study of dynamics of institutional change in emerging market economies is a subject of great interest in contemporary political economy. Moreover, in the era of contemporary globalization, the interplay of institutional quality of neighboring and competing economies, and institutional spillovers across countries, may occur and lead to mutual impact on their implemented laws and regulations; e.g., when meeting the expectations of multinational firms for foreign investment, or the process of international coordination of standards (such as member states within the Group of Twenty—G20), may also spur harmonizing institutional quality across member economies, or achieving general integration in bilateral, regional and global integration. This is especially the case for the economic groups of major advanced and emerging economies, which have joined forces to achieve their goals through targeted planning, aligning their laws, regulations, rules of games, and conducting harmonious dynamics of institutional change.

"Globalization" can refer to several descriptions and meanings, and a set of interdependent processes and concepts (Inglis 2005; Faghih 2019). In addition, there are positive and negative impacts of globalization on both developing and developed countries, in the South and the North, and convoluted loops of feedbacks and interactions between them (Faghih 2004a, b, c). Nonetheless, international trade and globalization processes can lead to fundamental institutional change and have profound effects on domestic institutions during the transformation to a market-oriented economy (O'brien and O'Brien Kevin 1990; Puga and Trefler 2014).

Moreover, some empirical results show no causal relationship between legal-economic institutions and economic globalization in the short run. Nevertheless, in the long run, there is at least one causal relationship from globalization process to legal-economic institutions. Additionally, both in the short and in the long run, social globalization exhibits a unidirectional causal relationship with political and social institutions, from globalization processes to political and social institutions (Samadi 2018, 2019a, b).

However, institutional economics has been studying legal-economic processes since the late nineteenth century. The institutional approach to economics and law investigates the dynamics, interactions, and interrelationships between economic performance, and legal reasoning and change, emphasizing the evolutionary nature of legal and economy, the tension between change and continuity, the issue of order, the correlative, reciprocal, and convoluted nature of legal-economic issues, and the dual nature of rights (Medema et al. 1999).

Nevertheless, the earliest foundations of economics and law partly originate from the institutionalist tradition of economics but go well beyond it. Early contributions to the legal-economic institutional approach include the work on economics and Jurisprudence, the relation of the distribution of wealth to property and contract, and the legal grounds of the economic system (Adams 1897; Veblen 1899, 1904; Pound 1911a, b, 1912; Ely 1914; Commons 1924, 1925, 1934; Llewellyn 1925; Frank 1930; Hamilton 1932; Hale 1952; Samuels 1993; Medema et al. 1999).

The objective of this edited volume is to explore dynamics, trends, and implications of institutional change in emerging economies, focusing on legal-economic institutions, entrepreneurship, and management. A number of academics, scholars, and researchers, who are educating and conducting research in the area of institutions and institutional change, address and discuss the most recent issues in this field. Thus, it is hoped that the book can provide creative discussions, and satisfy the scholarly and intellectual interests, regarding legal-economic institutions, entrepreneurship, and management, in the era of emerging market economies. It is also hoped that the book is appealing to a wide range of global audience and can also serve as a useful reference work in education and research. The book consists of eleven chapters, including this introductory chapter, and is divided into two parts.

Part I contains five chapters focusing on Legal-Economic Institutions. It begins by considering the institutionalization of an economy integrated by market mechanisms in Central and Eastern Europe, essentially as a process of transferring and imposing the formal market institutions of capitalism. The newly established institutions that resulted from imitating foreign models can basically be either isomorphic, which was the intended aim, or they can deviate from the models, triggering a process that increases heterogeneity (Beckert 2010). Nonetheless, institutions have become more heterogeneous in Central and Eastern Europe, and the paradigm of the transition to the market economy has been gradually replaced by a multiplicity of theoretical schemes. Thus, as an interesting study in this regard, the first chapter of this part examines the specific character of the market order in Bulgaria by employing theoretical tools related to research on neopatrimonialism. The central assumption is that the neopatrimonial type of political dominance shapes a hybrid social order in Bulgarian society. It involves informal rules and practices penetrating formal institutions in all areas of public life. A core feature of this hybrid social order is institutional uncertainty, which results in low levels of institutional trust. It is claimed that under the conditions of such a neopatrimonial social order, an institutional lock-in effect is taking place which hybridizes market institutions and makes them dependent on the political regime. The manifestations of market hybridization are studied through secondary analysis of comparative data related to the ambiguity of formal market institutions and the dominance of systemic corruption as a key informal institution.

By the same token, the role and effects of labor market institutions have been a controversial and a much-disputed subject within the field of labor market performance, for emerging market economies. The next chapter of the book studies the efficiency and distributional effects of selected labor market institutions in Albania, a rather under-researched economy. An initial overview of the post-communist developments articulates why Albania has the poorest labor market performance among other South East European economies. Using a set of mixed qualitative and descriptive quantitative methods, this study attempts to find evidence of inefficient segmental effects and a predatory structure of labor market institutions which noticeably diverge from the efficient institutions point of reference. The institutional/welfare regime at the cross-national level points out at a relationship between the labor market institutional framework and labor market performance, as measured by unemployment. At the country level, a disproportional relationship between the “de jure” labor market regulation and unemployment is identified, which is also moderated by the interaction between labor market and economic institutions. Overall, this chapter attempts to provide a plausible appraisal of selected labor market institutions in the Albanian labor market and sets out to make four contributions for the case of Albania. Initially, concerning the post-communist labor market, institutional framework of a relatively underdeveloped economy is considered, which represents an interesting and striking research context that has been paid far too little attention in terms of institutional evolution. Second, it elaborates on the hybrid post-communist welfare regimes in general, and for Albania in particular, by identifying the institutional regimes clusters. Third, to be able to relate to the efficient institutions view, an attempt is made to establish whether labor market regulation is disproportionally related to the unemployment rate, from a cross-national comparative approach. This will help to conclude whether different underlying national characteristics affect the efficiency of economic institutions. And finally, it deals with certain aspects of labor market institutions: minimum wage and employment protection legislation in terms of efficiency and distributional effects.

Additionally, efficient institutions and good governance are essential prerequisites for long-run economic development. Besides, socioeconomic studies focus on relation among inequality, poverty, and institutional change that affects economic growth. In fact, high income inequality in societies leads to social conflicts and violence that can harm economic growth. In this context, efficient institutions and efficacious institutional change directed to poverty and inequality reduction are important factors for fostering the appropriate functioning of economies (Acemoglu et al. 2005; Stiglitz 2013; Pullar et al. 2018; Breunig and Majeed 2019; Chen and Pan 2019; Coccia 2019; Zou et al. 2019). The third chapter of this part of the book analyzes how institutional change, measured with a set of governance indicators, can reduce poverty and inequality in society as essential prerequisites for supporting sustainable economic growth. The study investigates 191 countries to explain the relationships between institutional variables and socioeconomic factors of nations with different levels of development. Central findings suggest that a good governance of institutions supports a reduction of poverty and income inequality. Results here show that the critical role of good governance for reducing inequality and poverty has a higher effect on stable economies than emerging and fragile economies. Overall, this chapter reveals that economies should focus on institutional change directed to improve governance effectiveness and rule of law that can reduce the poverty and inequality, and as a consequence support the long-run socioeconomic development. Further, it explores several key issues, e.g., whether and how a good governance of institutions affects poverty alleviation and inequality reduction; the relationship between governance of institutions, income inequality and poverty across nations; how governance of institutions affects inequality and poverty reduction in economies with different levels of development; and, finally, whether this relation is stronger in emerging or advanced nations.

Nevertheless, in global international organizations that deal with some specific rules between nations, such as the World Trade Organization (WTO) that deals with the rules of trade between nations, under multilateral trade rules, obligations come hand in hand with rights. A nation's obligations to follow certain rules, e.g., compliance with multilateral safeguard rules, automatically entail that nation's right to demand that other member states also comply with such obligations. In this way, members ensure that their trade institutions (rules of the game) remain at par with that of their trading partners. Thus, it can be argued that when WTO agreements provide no rules on certain trade policies, absence of rules in one area cripples the system and opens the door to policy arbitrariness. Such absence also raises legal difficulties as occurs, for instance, when importing countries seek to counteract the negative consequences of policy arbitrariness associated with some unregulated trade flow. The next chapter argues that the adoption of the WTO rules for administering import barriers on contingent protection (mainly antidumping and countervailing measures) entailed a major positive institutional shift away from the high degree of trade policy arbitrariness that prevailed before. In contrast, strong pressures against liberalization of agricultural trade resulted in failure to establish rules on primary agricultural export barriers. Included among these are escalated export taxes that entail input subsidies. This chapter reviews the experience of importing countries' contingent protection measures that sought to compensate the input subsidies from escalated export taxes in biodiesel imports from Argentina. The result of a WTO that is empty of rules on primary agricultural export barriers has been the implementation of arbitrary policies taken by both the exporting and some importing countries. The chapter concludes that in much the same way that WTO rules on import barriers reduced the high degree of arbitrariness that used to characterize developing countries' import-substitution policies, multilateral rules on agricultural export barriers would imply a further positive institutional change for the benefit of both exporting and importing countries.

Furthermore, since Vietnam officially became a member of WTO in 2007, it has been integrating dynamically into the multilateral trading system, which is characterized by the increasing convergence of national institution and international norms. This trend has been called institutional integration (Willemyns 2016; Tian and Xia 2017; Campos et al. 2019). In fact, institutional changes are prevailing in almost every aspects of the member economies, thus comprehensively affecting their business environment. Consequently, several challenges are being faced by business environment for reform toward an enabling playing field for all participants regardless of ownership structure. This is critical to comprehensive economic integration and innovation-driven development. As a result, non-discrimination, or competitive neutrality principle (CNP), plays a pivotal role in markets with the participation of state-owned enterprises (SOEs) and private enterprises. The functioning of CNP has been studied and reported by national authorities and global institutions. Nevertheless, little has been known for the case of transitional economies. Thus, the final chapter of this part of the book reviews recent literature on the CNP and analyzes its impacts on economic institutional changes regarding SOEs in Vietnam. Furthermore, it contributes a CNP-based dynamic canvas framework regarding policy establishment and review process, which allows cross-country analysis of legal environments. Most noticeably, this study reveals that misperception of local authorities and business community about the role of SOEs in the market is the major obstacle to CNP application. This is exacerbated by the incomplete awareness of CNP of subnational agencies. In addition, enforcement capacity positively influences the effectiveness of CNP implementation. Vietnam has just been at the primary stage of economic transition since 1986; thus CNP application is nascent and needs to be consolidated. Besides, policy implications are discussed which aims at smoothing the transition period of Vietnam's institutional changing process. Specifically, the precondition of CNP implementation is the commitment of high-ranking officials and the consistency of execution throughout the steering hierarchy at subnational levels. In other words, the top-down approach is suitable for CNP application in an almost centralized mechanism of Vietnam. Furthermore, CNP application should be the starting point of economic institutional change in Vietnam. More importantly, SOEs privatization should occur gradually rather than radically, which means the divestment of state capital in markets of consumer goods and services should be the choice of governments in the primary stage of transition. In line with that, a roadmap approach should be applied to SOEs privatization in Vietnam. In terms of SOEs-related policy areas, corporate governance, performance benchmarking, transparency and accountability, and public involvement should be adopted by line ministries and ownership-holding institutions.

Part II consists of five chapters that study the role of management and entrepreneurship on institutional change in emerging markets. The correspondence between entrepreneurship and institutional change is an important issue in the institutions and entrepreneurship literature. Most studies have focused on how institutions and institutional frameworks provide a supportive environment for entrepreneurs or deter entrepreneurial actions in certain circumstances. This is while the literature on whether and how entrepreneurship affects institutions is lacking and very few studies have investigated the effect of entrepreneurship on institutions. Thus, the first chapter of this part offers an extensive overview of how entrepreneurs influence institutional change in emerging market economies. It refers to documents that entrepreneurs can affect institutions at local, regional, and national levels. While a methodical approach is still absent, it has been documented that institutions do change, and that entrepreneurs, and their exploits and accomplishments, induce a change in the institutional environment at all levels. This necessitates a step toward examining a reciprocal relationship between institutions and economic agents. Another way of explaining how entrepreneurs can impact institutions is known in the literature as institutional embeddedness. It should be noted that embeddedness has become a key concept in various fields, from characterizing the role of social institutions in non-market societies and market economies, to foundations of economic sociology, economic geography, business studies, organization theory, network analysis, and network embeddedness. Moreover, the embeddedness of economic actions in networks of interpersonal relations, dyadic relations between actors (relational), and the network structure of relationships between multiple actors (structural embeddedness) have been distinguished and emphasized. The embeddedness of most organizations in a variety of interorganizational networks has also been argued, and that in forming new alliances, organizational decision-makers mostly rely on the past partnership networks (Granovetter 1985, 1992; Gulati and Gargiulo 1999; Polanyi 2001; Lee and Restrepo 2015). Nonetheless, institutional change caused by entrepreneurs' actions is often presented through the lens of institutional entrepreneurship. Entrepreneurs influence institutions through three main channels: political action, innovation, and direct action. Most of the documented examples of entrepreneurs' impact are from post-socialist countries, countries in transition and emerging market economies. Additionally, institutional entrepreneurs are economic agents who, acting on their own behalf, summon resources and lobby support and assistance to bring transformation into the existing institutional framework that will directly benefit them, and the socioeconomic and political environment sets the stage that allows entrepreneurs to bring the desired results. Overall, this chapter provides an account of the interaction between entrepreneurship and institutions, signifying that a "bidirectional" relationship exists between the two, and that there are lessons to be learned on how influencing institutions and the institutional environment in emerging economies may stimulate economic growth.

The next chapter in this part is an exploratory study that analyzes the influence of governmental supportive policies on green entrepreneurial activity, using data analysis and institutional economics as a theoretical framework. It illustrates the positive influence of governmental supportive policies (i.e., environmental, innovation, and entrepreneurship policies) on green entrepreneurial activity, as a possible solution to humanitarian, economic, and environmental issues. Institutional economics is used to theoretically frame the literature review and analysis. This is complemented with an empirical approach based on balanced panel data. The findings of this study have several implications for different audiences. Firstly, national, and local governments are encouraged to adopt influential and suitable policies to develop entrepreneurial activities that solve environmental problems. Governmental supportive policies can strongly influence environmental commitment and solving environmental issues, and such accomplishment may encourage government staff and managers from private companies to create new policies and strategies that improve policy instruments and public–private collaborations that attract entrepreneurs. Secondly, governments need to help create an environment where entrepreneurs engage with environmental commitments. For instance, governments can increase the emotional engagement of green entrepreneurs by building strong bonds with managers or colleagues from other companies, as well as with other new ventures. Green entrepreneurship can be cognitively engaged by understanding the clear mission and purpose of new business and by receiving information and appropriate feedback regarding social needs. If green entrepreneurs have strong bonds with governments, they feel valued by local and national entities, so their opinions and actions are highly considered in sustainable developmental processes. This allows entrepreneurs to internally develop an emotional engagement that aids a new venture to succeed concerning its goals. Additionally, government support for green entrepreneurship is beneficial for a more sustainable environment. This may be the first step toward a more environmentally conscious society and for the conservation of resources for future generations. The governments can continue to promote such policies. They may be interested in publicizing the results to increase legitimacy and support from managers and the entire population. Practitioners in non-governmental organizations and businesses could claim the need for similar regulations and measures, including fiscal benefits and founding green actions. This chapter also provides several contributions to the literature in the field of green entrepreneurship and government policy, and also show that environmental, innovation, and entrepreneurship governmental supportive policies exert a significantly positive influence on green entrepreneurship. Additionally, future implications for policymaking and managerial decisions related to targeted awareness raising and environmental care can be derived from this study.

The third chapter in this part focuses on global trends of modern technologies (blockchain, mechatronics, artificial intelligence, and augmented or virtual reality, etc.) that affect entrepreneurial activities in the short and long run. Research on technology's effects on business development is gaining momentum. The purpose of the research is to examine the role of modern technologies on entrepreneurship dynamics in high-income countries (in the efficiency- and innovation-driven categories). The research question is how to leverage the economic and social value-added of entrepreneurship activities via modern technologies, create synergy among stakeholders, and reach business sustainability. The research methodology combines primary and secondary data analysis: the literature review and secondary Global Entrepreneurship Monitor (GEM) 2018/2019 data were supported by primary, qualitative, semi-structured interview results with technology-driven entrepreneurship experts from four high-income countries (Lithuania, Malta, Canada, and South Korea), which backed the conceptual model created after the scientific literature review and GEM 2018/ 2019 data analysis. Besides, this chapter argues that modern technologies penetrate other industries at a volatile and rapid pace: the function of human resources will shift to an intermediary role between customers and next-generation technology solutions. Digital platforms should enable entrepreneurs, managers, investors, employees, and customers through a reshaped perception, attitude, and high ethical and moral standards. Such technological transformation is impossible without lifelong learning. Thus, the change should start from the level of management and creative leadership. The decision-making process should come from a bottom-up and/or horizontal management approach, where society, community, customers, clients, and employees can contribute to effective strategy formation and execution where technology, production, and value creation are part of synergetic collaboration and knowledge and resources sharing. Moreover, to leverage the potential of modern technologies in entrepreneurial projects, it is critical to know and speak investors' language, which helps to raise funds, commercialize innovations, and create a stronger corporate image, while modern technologies improve returns on investment in marketing, sales, research and development, and human resources. Moreover, business intelligence techniques play an important role in business sustainability. The countries that lag behind in terms of educational impacts on entrepreneurship success should consider the creation of entrepreneurship-related study programs or the introduction of technological aspects in existing education programs (big-data management, artificial intelligence, mechatronics, etc.). Countries that, based on global indicators, are higher ranked in terms of the role of education on entrepreneurship should focus on creativity and innovation enhancement systems, and knowledge transfer from educational organizations to business. An innovation system with significantly diverse entrepreneurship centers, knowledge and technology transfer organizations, business accelerators, and many other research and development transfer entities can boost entrepreneurial intentions, help identify good opportunities in the market, encourage innovation commercialization processes, facilitate business growth, contribute to sustainability, strengthen brand and reputation, and engage consumers and employees via digital networks.

Further, in the global trends of modern technologies, growth of the internet has amplified online shopping activities around the globe and is expected to have more significant impact on grocery retailers (Hill and Beatty 2011). Besides, the retail industry is characterized as being dynamic and especially recently the "rules of the game" for retailers seem to have changed. These changes in retailing as well as changes in its environment have developed research interest in this area. Retail institutions may modify their strategy, format, and retail activities to remain competitive and be able to serve and satisfy the customers. Worldwide, the technology, more precisely internet, is growing rapidly. All stakeholders of the society have somewhere used these developments to their advantage. For businesses, they are using these opportunities to build their strengths by innovating and creating an edge over competition. In the grocery retail sector around the globe many major players have used technology and internet to develop a new sales pitch. In fact, apart from their in-store activities they started to sell grocery on web portals to increase their revenue and face competition. In many countries this new business model has been successful as several advantages like time saving, convenience, and better information have been welcomed by customers. Nonetheless, online grocery shopping has been launched recently in some countries and till now it seems that this concept is very unpopular, and many people are unaware of it. There are several factors (like trust, risks, shoppers' behavior, etc.) that contribute either to online grocery shopping success or failure. Consequently, it is of upmost importance to explore these factors at least in the context of a case study to know about the adoption dimensions. The fourth chapter of this part undertakes the task to shed light on the adoption dimensions of online grocery, and investigation of customer's view and opinion about the different factors mentioned earlier. The final recommendation is directed toward online grocery shopping providers so that they get a better insight about the actual situation.

Finally, the last chapter studies the case of institutional change of disaster risk reduction management offices in selected areas of post-Haiyan Philippines. The effects of Typhoon Haiyan caused an institutional change in the disaster risk reduction (DRR) response of the urban and rural Disaster Risk Reduction Management (DRRM) offices. The change resulted in the clearer implementation of the Philippine DRRM Act of 2010 (DRRM ACT). The implementation of the Act expanded the scope of services from mere national disaster relief response to DRR management. This chapter presents an examination of the DRRM plans and interviews with DRRM officers of the two most heavily affected areas of the typhoon. A majority of enterprises in these localities were (and still are) micro, small and medium enterprises (MSMEs), with both locations classified as Tourism Development Areas by the National Economic and Development Authority (NEDA) of the Philippines. The chapter uses qualitative content analysis of documents and thematic analysis of interview transcripts. Findings show that there were different institutional changes implemented by both urban and rural DRRM offices before and after Haiyan. Most of the changes revolved around the focus and structure of DRRM institutions. DRRM offices were tied to post-disaster relief only, and their organization was limited in scope before Haiyan. After the typhoon, these offices had their scopes increased to provide proactive measures and more inclusive DRRM. However, there were limited disaster resilience interventions specific to post-disaster tourism MSMEs. Thus, this chapter analyzes the institutional changes through the lens of the four dimensions of resilience, namely, social, environmental, governance and economic. Consequently, the chapter recommends an outline of a Resilience Program and a Framework for Post Disaster Tourism MSMEs. The contents of this chapter could provide insights for policies that are specific to post-disaster tourism MSMEs. However, post-disaster areas with tourism potentials could also benefit from future studies on disaster resilience that are peculiar to other tourism sectors such as the accommodation, food and beverage, travel and tours, and transportation.

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Part I
Legal-Economic Institutions

Institutional Uncertainty: The Hybrid Market Order in Bulgaria

Tanya Chavdarova

Abstract This chapter examines the specific character of the market order in Bulgaria by employing theoretical tools related to research on neopatrimonialism. The central assumption is that the neopatrimonial type of political dominance shapes a hybrid social order in Bulgarian society. It involves informal rules and practices penetrating into formal institutions in all areas of public life. A core feature of this hybrid social order is institutional uncertainty, which results in low levels of institutional trust. It is claimed that under the conditions of such a neopatrimonial social order, an institutional lock-in effect is taking place which hybridises market institutions and makes them dependent on the political regime. The manifestations of market hybridisation are studied through secondary analysis of comparative data related to the ambiguity of formal market institutions and the dominance of systemic corruption as a key informal institution.

Keywords Market · Hybrid social order · Institutional uncertainty · Neopatrimonialism · Formal and informal institutions · Institutional ambiguity · Corruption · Cronyism · Institutional trust · Bulgaria

1 Introduction

The institutionalisation of an economy integrated by market mechanisms in Central and Eastern Europe after 1989 was essentially a process of transferring and imposing the formal market institutions of capitalism. Imitating the well-established order of advanced capitalist economies saved learning costs and compensated for the impossibility of an *ex ante* rational assessment of the institutional effects. The newly established institutions that resulted from imitating foreign models can basically be either isomorphic, which was the intended aim, or they can deviate from the models, triggering a process that increases heterogeneity (Beckert 2010).

T. Chavdarova (✉)
Department of Sociology, Sofia University St. Kliment Ohridski, Sofia, Bulgaria
e-mail: tchavdarova@phls.uni-sofia.bg

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Institutions have become more heterogeneous in Central and Eastern Europe, and this process has been intensively researched over the last three decades. The paradigm of the transition to the market economy has been gradually replaced by a multiplicity of theoretical schemes which underline the hybrid nature of post-communist capitalism (for an overview see Rapacki 2019; Szelényi and Mihályi 2020). Among these, the "varieties of capitalism" approach has received particular attention. In this framework, a "dependent market economies" model was proposed to be applied to Central and Eastern Europe (Nölke and Vliegenthart 2009). This model is characterised by an alternative type of insertion into the global economy, related to international value chains controlled by Western multinational companies. The "diversity of capitalism" approach has produced alternative ideas. In this type of reasoning, Bohle and Greskovits (2012) identified three types of post-socialist models (neoliberal, embedded neoliberal and neo-corporatist). This set of works questions the role of state mediation to counterbalance market-led dependencies.

Following the abrupt opening of post-socialist economies to the global market, both approaches have been used extensively to study the role of *exogenous* factors shaping the institutional landscape of capitalism in Central and Eastern Europe. In contrast, the role of *endogenous* factors has not been studied in such a systemic manner. This chapter focuses on endogenous factors by examining the impact of the political order on the market order. Focusing on the example of Bulgaria, it aims to examine the consequences of the functioning of the political regime on formal and informal market institutions.

The analysis applies theoretical tools related to research on neopatrimonialism, originating in association with the academic work of G. Roth (1968). Neopatrimonialism is a commonly used concept in political science that indicates a hybrid mode of political order (Erdmann and Engel 2007: 95). It is characterised by a mixture of modern and patrimonial systems: modern order presupposes a legal-institutional framework on which citizens can rely, while under patrimonialism, rules are applied informally and with partiality. Under neopatrimonialism, patrimonial logic is incorporated into bureaucratic institutions (Bratton and van de Walle 1997: 62).

Neopatrimonialism is the prevalent form of political dominance in the non-OECD world and the examples of Africa and Latin America have been widely studied (von Soest 2010: 2). Countries described as neopatrimonial usually have common characteristics, such as colonial legacies, a weak state and unfair elections or no elections at all (Erdmann and Engel 2007: 114). A growing body of literature on neopatrimonialism in some contemporary societies in the European periphery has appeared in the last decade. This may be surprising as they have no colonial legacy, their bureaucratic institutions are capable of operating elections, or they are categorised as strong states. More recently the term gained popularity as a tool to understand contemporary Russia and the post-Soviet region (e.g. Robinson 2013; Gel'man 2016; Skigin 2017). It has also been applied in studies on Romania (e.g. Stanciugelu and Niculescu 2012), Turkey (e.g. Ugur-Cinar 2017) and Bosna-Herzegovina (e.g. Puljek-Shank 2017) for various research purposes.

The applicability of the theoretical perspective of neopatrimonialism to Bulgaria has never been examined in a dedicated work. In research on institutions in many ex-socialist countries, reference is commonly made to patronage and clientelism to explain the abuse of public resources and the failure to achieve the intended outcomes of intervention. This is also relevant for Bulgaria, where most of the research in the area is devoted to relations between oligarchic groups and political parties (Petkov 2019), party patronage (Spirova 2012), lobbying (Hristova-Valcheva and Toneva-Metodieva 2014), state capture (Barnes 2007) and political risks to international business (Stoychev 2017). This type of research tends to focus on Western-type political and institutional set-ups. Neopatrimonialism, in contrast, is more normatively neutral in the way it describes patterns of interaction (Puljek-Shank 2017: 672). By adopting the concept, this chapter contributes to understanding the structural possibilities and limitations on the agency of economic actors in the state and society.

Originating in political science, the cited literature delivers insights mostly into neopatrimonialism as a *political* regime. Due to poor interdisciplinary communication between political science and business studies, the economic aspects and consequences of neopatrimonialism have been studied to a considerably lesser degree (Laruelle 2012: 305; Robinson 2013: 137). Notable exceptions include studies on entrepreneurial adjustments to institutions of the neo-patrimonial order (e.g. Leitner and Meissner 2017; Meissner 2018; Wegner 2019); on interpretations of neopatrimonialism through economics and its relevance for economic development (Sindzingre 2011; Kelsall 2011; Mkandawire 2015); and on the impact of a neopatrimonial regime on tax administration (von Soest et al. 2011). This chapter aims to contribute to interdisciplinary dialogue by studying the *economic* aspects of neopatrimonialism from a sociological viewpoint. Studying a hybrid market order can provide insights into its origins and dependence on the political order. The central assumption is that a neopatrimonial type of political dominance shapes the hybrid social order in Bulgarian society. It is characterised by penetration of informal rules and practices into formal institutions in all areas of public life. A core feature of this hybrid social order is institutional uncertainty, which results in low levels of institutional trust. It is claimed that, under the conditions of a neopatrimonial social order, the market order can only have a hybrid nature.

As the hybridisation of patrimonial and modern orders is always unique, neopatrimonialism as a concept does not allow societies to be measured quantitatively as less or more patrimonial (Meissner 2018). However, a comparative perspective is possible by operationalising and studying the key variables that make up the neopatrimonial order. This chapter seeks to enrich comparative theory on hybrid social orders by exploring the hybrid state of market institutions in Bulgaria. The methodology involves secondary data analysis and empirical results are used from various comparative datasets.

In the first part of this chapter, the neopatrimonial market order is examined from a theoretical point of view. Formal market institutions are associated with the public market order, whereas informal ones are seen as conventions of private market ordering. Following Erdmann and Engel (2007), the analysis assumes that a neopatrimonial social order can be considered as institutionalised when institutional uncertainty becomes the main feature of a social order. Furthermore, the institutional uncertainty of the market order is operationalised through two core variables: institutional ambiguity and systemic corruption. The second section briefly outlines the economic development and the quality of governance in Bulgaria over the last few decades. The third section focuses on institutional uncertainty in Bulgaria and its manifestations through the institutional ambiguity of formal market institutions and systemic corruption, both in its monetary and its non-monetary forms. The last section is devoted to studying the level of public trust in institutions as a consequence of institutional uncertainty.

2 Theoretical Background

Institutions are rules that structure everyday life, thus reducing uncertainty (North 1990: 13). There are formal as well as informal institutions, which are interconnected. Formal institutions are defined as written rules and procedures for fulfilling social roles, determining the structure of the social order and introduced, maintained and enforced through official channels. In modern capitalist societies, the main formal market institutions involve legal regulations concerning property rights, exchange, competition and security of contracts. They stem from and are based on public authorities (basically the government), thus creating the *public* market order.

Formal institutions are characterised by their incompleteness, meaning that they cannot cover all contingencies. Consequently, the actors involved develop informal institutions: "socially shared rules, usually unwritten, that are created, communicated and enforced outside of officially sanctioned channels" (Helmke and Levitsky 2004: 727). Informal institutions expedite actors' work or address problems not anticipated by formal rules (ibid. 730). Accordingly, these players themselves create a *private market ordering* through voluntarily introduced and voluntarily observed rules. Whereas public order refers to the *rules of the game* imposed by public policy, private ordering refers to the *playing of the game* between "bilateral traders as they attempt to perfect their trading relations in a self-help way" (Williamson 2002: 438). Private market ordering institutions therefore have an informal character.

In this perspective, market institutions should be studied as an interplay between the rules of the game and actually playing the economic game. However, the economic sphere only has relative autonomy, as the rules of the game are the point of intersection between the economy and the state, between the economic and the political regime. It is logical to assume that contemporary market economies need modern systems of political dominance. Under a modern political order, relations between officials (ruling elites/bureaucracy) and private actors are formal and impersonal. In contemporary research on non-OECD countries, however, there is a substantial body of empirical evidence for a hybrid mode of social organisation in which "the public and the private, the political and the economic, the individual and the collective, the 'old' and the 'new', all overlap" (von Soest 2010: 2). This special type of social order involving "conflicting modes of organisation and their legitimisation" is often described as "neopatrimonialism" (Robinson 2013: 137).

In contemporary political science literature, neopatrimonialism refers to the simultaneous operation of two ideal-typical Weberian forms of domination: a traditional sub-type, patrimonial domination,[1] and modern, legal-rational bureaucratic domination (see Bratton and van de Walle 1997; Erdmann and Engel 2007: 104; von Soest et al. 2011: 1309). Hence, neopatrimonialism is conceived as a *hybrid order*. Erdmann and Engel define it as a system in which two forms of logic and institutional patterns exist side by side: the patrimonial system of personal rule and the legal-rational system of modern statehood:

> The patrimonial penetrates the legal-rational system and twists its logic, functions, and output but does not take exclusive control over the legal rational logic. That is, informal politics invades formal institutions. Formality and informality are intimately linked to each other in various ways and by varying degrees; and this mix becomes institutionalised. (Erdmann and Engel 2007: 105)

Since formal rules are dependent on and shaped by informal politics, the core characteristics of the neopatrimonial political order is "*insecurity* about the behaviour and role of state institutions (and agents)" (ibid.). The lack of calculable institutions makes actors insecure about the proper (formal or informal) means they should apply in any particular situation. The two types of logic are mutually reinforcing, which means that insecurity is reproduced in a systemic way (ibid.). This is in fact a situation where the institutional uncertainty created by public institutions is constantly reproduced (ibid. 108). Stemming from the political realm, *institutional uncertainty* diffuses itself among all areas of public life. It thus becomes the main feature of neopatrimonialism as a *social* order.

Institutional uncertainty, for its part, has some core manifestations in neopatrimonial hybrid systems. In various studies, depending on the aims, they are related to different variables. The focus, however, has been mostly on patron–client bonds or systemic clientelism/patronage/favouritism, capture, predation, cronyism, systemic corruption, rent extraction, conditional property and institutional ambiguity (see Laruelle 2012; Skigin 2017; Meissner 2018). The analysis here elaborates on two *interrelated* attributes: *institutional ambiguity* and *systemic corruption*. These are considered as central to studying institutional uncertainty, as to a large degree they contain and/or presuppose all of the other variables.

Institutional ambiguity means that the legitimate rules of the game are unclear. Ambiguity can appear both between formal and informal institutions and among formal institutions (Meissner 2018). Concerning the first case, Robinson (2013: 138) points out that under neopatrimonialism, formal and informal rules are not mutually supportive but rather work against one another. Concerning the second

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[1] According to Weber, "Patrimonialism (…) tend[s] to arise whenever traditional domination develops an administration and a military force which are purely personal instruments of the master" (Weber 1978: 231).

case, ambiguity among formal institutions means that procedures, regulations and laws are unclear or even contradictory, since the ruling elites tailor them to fit their particular interests. Laws are underdetermined (unclear or contradictory) so that the rulers can interpret them according to their needs. In the economic sphere, this form of arbitrariness applies to all areas of trade, competition and tax law, as well as to administrative regulations. Property and contract rights are best secured through personal connections.

The second attribute, *corruption,* is most widely defined as "misuse of public office for private gain" (Rose-Ackerman 1978). Corruption goes hand in hand with the (informal) concentration of power (von Soest et al. 2011: 7). Systemic corruption constitutes a key part of the neopatrimonial order in its two forms: monetary (bribery) and non-monetary (systemic favouritism). In its monetary form, corruption involves using one's authority to sustain status and wealth by extracting bribes. Bribery means a direct and often one-off payment for specific services. Bribery, although not absent on high political levels, is particularly used as a term to characterise relationships between the lower strata of society or smaller firms and members of administrative authorities (Aligica and Tarko 2014: 159). Monetary corruption is always associated with a significant degree of arbitrariness and a lack of predictability, although certain "going rates" may apply.

In its non-monetary form, corruption involves different forms of favouritism. In the discourse of political sciences, *systemic clientelism* is considered as an integral part of neopatrimonialism (Bratton and van de Walle 1997: 62, Erdmann and Engel 2007: 106, von Soest et al. 2011: 4). Clientelism involves awarding personal favours in order to secure political support and obedience. Such favours include public sector jobs or distribution of public resources through licenses, contracts and projects (Bratton and van de Walle 1997: 65). Actors turn to clientelism in order to reduce the insecurity produced by institutional ambiguity. In this way, however, insecurity spreads, provoking further investment in clientelism. This is how clientelism contributes to the reproduction of institutional uncertainty (ibid. 108).

Whereas clientelism implies a dyadic and asymmetric relationship between patron and client (Erdmann and Engel 2007: 107), "cronyism" indicates the overlap between the political elite and business groups, mainly large businesses (Aligica and Tarko 2014). It means that firms which are politically connected to the government enjoy "benefits that unconnected firms do not" (Sindzingre 2011: 98). Unlike bribery, cronyism is based on reciprocity and exists over a long period of time. The academic discourse strongly associates cronyism with rent-seeking (e.g. Haber 2002; Aligica and Tarko 2014; Szelényi and Mihályi 2020). Cronyism is driven by the incentive of rent-seeking (Aligica and Tarko 2014: 158). "Rent" is defined here as "that part of the payment to an owner of resources over and above that which those resources could command in any alternative use" (Buchanan 1980: 3). Rent is typically created when government limits competition to the privileged group by using "licenses, quotas, permits, authorisations, approvals, franchise assignments - each of these closely related terms implies arbitrary and/or artificial scarcity created by the government" (ibid. 9).

When cronyism becomes a norm in relationships among economic and political elites, then rent-seeking behaviour becomes a structural and systemic feature of the market order. In such an order, politics and economics are syncretically linked and sustain each other. The functioning of economic institutions can be understood only in the light of their connection to political institutions. The essence of this connection is the penetration of informality into formal market institutions through their control or even capture by a small number of people and their networks.

3 Economic Development and Quality of Governance in Bulgaria

Hybrid systems owe their existence to a large extent to material exchange built up between the ruler and the ruled. However, as Ugur-Cinar (2017: 327) points out, material exchange is necessary but insufficient for the system to reproduce. It is sustained by discursive mechanisms which explain how a regime is legitimised in the eyes of the citizens. This legitimisation is closely related to informal rules inherited from the past. In the Bulgarian case, the neopatrimonial hybrid order is a historical legacy. During the first capitalist period following the national Liberation of Bulgaria from the Ottoman Empire (1878–1944) and thereafter during the socialist period (1944–1989), the state occupied strategic redistributive positions in economics. After the Liberation, given the scarcity of private capital in the context of economic backwardness and poverty, private capital was formed from that of the state; its holders expected the state to determine its goals, which it duly did. Even in the best periods for private capital, the state maintained its extraordinary role in the economy, especially with regard to its institutional structure (Avramov 2007). Thereafter, socialism provided fertile ground for further strengthening the role of the state in the economy. This is why the economic ethics of prosperity in the country's modern history allowed, tolerated and even required informal connections with political figures. Informal rules of the market game such as *vruzki* (personal connections), corruption and clientelism in particular became institutionalised (Chavdarova 2000, 2013).

After 1989, the Bulgarian economy was abruptly opened to the global markets and consequently the role of exogenous market development factors substantially increased. Conditions were thus created for breaking with the legacy of the past and for emancipation of the market from politics. The Bulgarian economy has developed significantly in the last 30 years, undergoing four stages in its development. The first stage (1989–1997) involved a huge degree of uncertainty (even chaos) leading to substantial year-to-year variations in all socio-economic indicators. The pace of privatisation was slow and accompanied by contradictory government tax and investment policies and bureaucratic red tape which kept foreign direct investment (FDI) at a level among the lowest in the region. Then 1996 and 1997 were crucial years, both economically (with the bankruptcy of 16 banks, hyperinflation

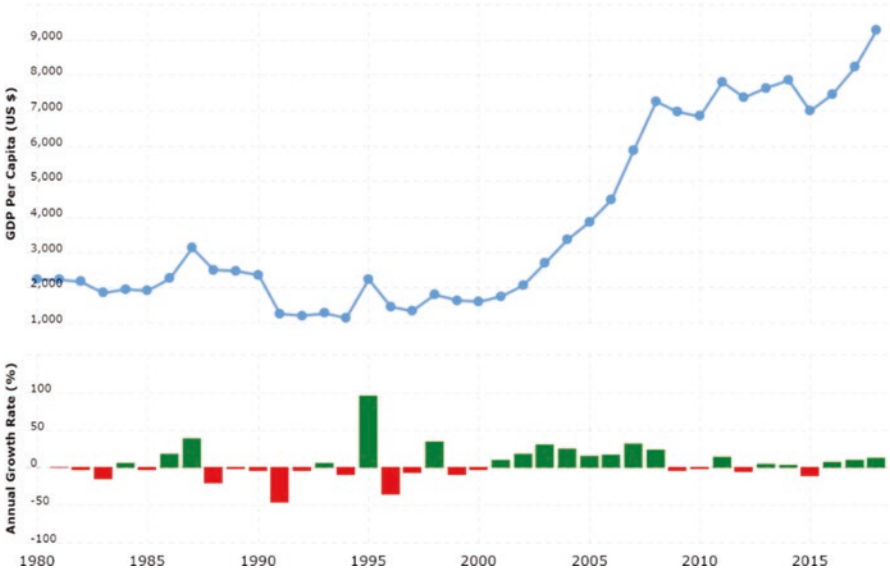

Fig. 1 Bulgaria GDP per capita 1980–2020. (Source: World Bank cit. in Macrotrends 2020)

and the introduction of a currency board) and politically (with the onset of intensive public protests which brought down the government).

The second period (1998–2008) was more settled in terms of conditions for doing business. After 1997, Bulgaria speeded up privatisation and began to attract substantial FDI, showing stable growth in GDP per capita after 2000 (see Fig. 1). In 2005, with the end of the privatisation of the major state-owned companies, a slowdown in FDI was observed. After the start of negotiations in 1999 on the accession of Bulgaria to the European Union (EU), an extensive process began of harmonising Bulgarian legislation with European legislation. In the course of this process, the European Commission (EC) became and still is the key conditionality actor for Bulgarian institutional reforms, along with the International Monetary Fund (IMF) and the World Bank. After joining the EU in 2007, Bulgaria registered a peak in FDI of about 6 billion euros, although low productivity and competitiveness remained a significant obstacle to economic development.

The third stage (2009–2011) began with the unfolding of the global economic crisis. It seriously affected the backbone of the Bulgarian economy, the small businesses sector,[2] putting strong pressure on small firms to improve productivity and diversify their markets. Bulgaria saw its economy decline by 5.5% in 2009, but quickly restored positive growth levels to 0.2% in 2010.

[2] Micro-firms (less than 10 employees) account for 92.6% of the total number of non-financial enterprises in Bulgaria; large enterprises account for 0.2% (NSI 2019). From 2008 to 2013, the value added by SMEs declined by 4%, whereas for large companies it increased by about 8% (EC 2014).

The fourth stage, marked by stable GDP per capita growth, began with the first signs of economic recovery after 2011. Yet Bulgaria's income per capita is still the lowest in the EU. Higher growth in productivity is therefore critical to accelerating convergence. Productivity will need to grow by at least 4% per year over the next 25 years if Bulgaria is to catch up with average EU income levels (World Bank 2019). This is a challenging task, as the country is currently facing highly unfavourable demographic developments (an aging and declining population), huge labour emigration and relatively low private investment.

Both theoretical and empirical research has reaffirmed the critical importance of institutions in explaining variations in economic development (Rodrik et al. 2004). In these circumstances, given the unfavourable conditions described above, economic development in Bulgaria is crucially dependent on institutional performance. The IMF estimates that improvements in the quality of Bulgaria's institutions, especially through promoting the independence of the judicial system and the impartiality of courts and through protecting property rights, could bring about efficiency gains of almost 20% (IMF 2016: 2).

Institutional performance is typically related to good governance, or to the capacity of institutions to effectively formulate and implement public policies and to keep the trust of citizens. Quality of governance is widely studied using the World Bank's Worldwide Governance Indicators (WGI) that summarise the views of enterprises, citizens and experts responding to surveys (World Bank 2020). Six aggregate governance indicators have been reported for over 200 countries since 1996. Four of them are directly related to market developments and will be considered here[3]: G*overnment effectiveness* (perceptions of the quality of public services and the degree of its independence from political pressure, the quality of policy formulation and implementation and the credibility of the government's commitment to such policies); *Regulatory quality* (perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development); *Rule of law* (perceptions of the extent to which agents have confidence in and abide by the rules of society and in particular the quality of contract enforcement, property rights, the police and the courts, as well as the likelihood of crime and violence); *Control of corruption* (perceptions of the extent to which public power is exercised for private gain, including both petty and large-scale forms of corruption, as well as the capture of the state by elites and private interests) (ibid.).

For Bulgaria, none of the four indicators shows any drastic fluctuations in the 1996–2014 period after their initial increase between 1996 and 2002 (see Fig. 2). *Regulatory quality* is comparatively the best over the whole period in question. The government's ability to effectively implement the regulatory framework is weaker. The weakest link is in the closely related *Rule of law* and *Control of corruption* indicators, which have not undergone any significant change since Bulgaria's accession to the EU in 2007.

[3] The other two indicators are *Voice and accountability* and *Political stability and absence of violence/terrorism* (World Bank 2020).

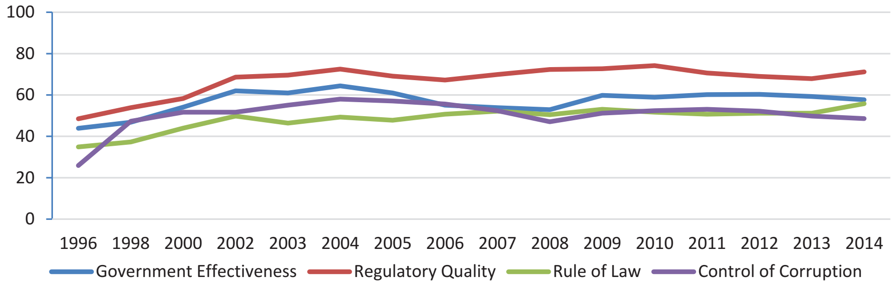

Fig. 2 Bulgaria 1996–2014: Aggregate governance indicators. Note: The lines on the graph show Bulgaria's percentile ranking with regard to each of the four governance indicators. The percentile rank among all countries ranges from 0 (lowest) to 100 (highest) and indicates the percentage of countries worldwide that rank lower than the indicated country, i.e. higher values indicate better governance scores. (Source: World Bank 2015)

These results show firstly that there is no correlation between growing GDP per capita and stable governance indicators, especially after 2000. These results call into question the cited IMF estimate. They are in line with some findings about the connection between neopatrimonial governance and economic development based on the example of some African states. Research on case studies from Kenya, Côte d'Ivoire, Malawi and Rwanda provides evidence that neopatrimonial mechanisms, with a view to the long term, can be harnessed for developmental purposes (Kelsall (2011). Based again on African studies, Mkandawire (2015) concludes that neopatrimonialism has no predictive value with respect to economic policy and performance.

Secondly, the relative stability over an extended period of the governance indicators, especially *Rule of law* and *Control of corruption*, may indicate that the dramatic changes in formal institutions have been counterbalanced by the stability of inherited informal institutions. This would mean that the importance of the exogenous factors ensuing from the opening of the Bulgarian economy has been undermined by endogenous factors that have prevented a break from historical legacy.

4 Institutional Uncertainty of the Hybrid Market Order

4.1 Institutional Ambiguity: The Legal Framework and its Enforcement

Over the whole period after 1989, the legal framework in Bulgaria has been marked by instability and by major or minor inconsistencies in legislation, with resulting inadequacies and contradictions. This situation occurs frequently in the numerous and often incoherent changes in market legislation. The Commerce Act, for instance, was amended 25 times in the period from 1991, when it entered into force, until

2000. In the same period the Labour Code and the Income Tax Act were amended 24 times (Gancheva 2000). A number of laws simultaneously stipulate enforcement rules and a constantly increasing number of other bylaws, resulting in contradictions and discrepancies in the regulations (Valtchev et al. 2011). The pace of amendment of the legislation has not decreased over the years. O. Gerdjikov, a prominent Bulgarian lawyer, former chairman of the National Assembly and a former Prime Minister, aptly defined the current National Assembly as a "rapid reaction corps", making "continuous amendments to amendments to laws according to a particular situation in a specific case" (Dnes.bg 2019). These practices nurture institutional ambiguity as a systemic feature of social order.

The means for effectively imposing market laws in the country have consolidated over time and especially during the 2000s. However, the legal framework of markets remains unbalanced. Some elements regulating the market environment have been substantially improved, while others are persistently problematic.

Relative strengths of Bulgaria include fiscal health and the income tax burden. The country made a substantial improvement in fiscal and budget transparency after 2006 and simplified the collection of personal income tax by levying a flat rate of 10% since 2008. The revenue institutions are highly efficient: the key management and risk management practices of the revenue administration are well aligned with those of other EU countries (IMF 2019). There are also some positive trends in the conditions for doing business, along with improved security of property rights and an increasing level of economic freedom. Bulgaria takes fourth place in the list of countries making huge strides in the *Index of Economic Freedom*: from 48.6 in 1995 (the first measured year) to 69 in 2019. It is ranked in 37th place among 180 countries as a moderately free economy (Miller et al. 2019: 4).

The most problematic institutional fields are related to the rule of law and control of corruption. Rule of law has two highly critical aspects: a low level of government integrity (index −35.1) and effectiveness of the courts (index −41.9) (ibid. 18). Bulgaria lags behind its peers in terms of the public perception of judicial independence and control of corruption. On the basis of Global Competitiveness Reports, the independence of Bulgaria's courts is perceived to be lower than average for New Member States and the EU during 2007–2017. In addition, the 2018 Eurobarometer result shows that, despite improvements, only 30% of respondents from both the general public and companies (compared to EU averages of 56% and 48%, respectively) believe that courts and judges are independent (IMF 2019: 22).

Prosecution offices and regional, district, appellate and supreme court judges also share this opinion, according to the results from nationally representative studies among them conducted in 2016 (BILI 2016). Assessments of prosecutors show considerable scepticism: 64% of them believe that significant changes are still absent and almost three quarters of them (73%) do not believe that people with the highest moral and professional qualities obtain promotion in the prosecution office hierarchy. Perfunctory and unjust assessment of the work of the courts are among the key factors depleting the internal self-regulating mechanisms of the judiciary. This problem has been closely identified by both prosecutors (75%) and judges (67%). The practice of high-ranking magistrates giving oral instructions on the outcome of cases is pointed out by 40% of prosecutors and 34% of judges. The lack of a clear and fair environment for career advancement makes magistrates susceptible to pressure and places them in various dependencies (ibid.). It is therefore not surprising that only 1.7% of small businesses with contractual problems have referred them to court (Gancheva 2000: 40).

Control of corruption is particularly weak in the area of public procurement. In this regard (and in relation to the governance of state-owned enterprises) Bulgaria does not compare well with its peers (IMF 2019: 16). The Public Procurement Act has been amended 18 times between 2014 and 2019 (Cherneva 2019), which explains why 70% of businesses perceive public procurement bids as a put-up job (Bakurdzhiev 2017). Thus, despite many reforms since EU accession, the public perception of weak judicial independence and widespread corruption has changed little (IMF 2019: 22).

4.2 *Systemic Corruption*

4.2.1 Public Perceptions of Corruption

Empirical research identifies corruption as one of the most problematic factors for doing business in Bulgaria, although, for obvious reasons, it is difficult to measure it accurately using quantitative indicators. Corruption in the country appeared to have diminished throughout the course of the EU accession process and shortly afterwards, but deteriorated after 2010 and remained high (IMF 2019: 22). According to the 2018 Corruption Perception Index (CPI) data of Transparency International (TI) for Europe, Bulgaria's CPI stands at 42 points, with the country in 77th place in the world ranking[4] (TIB 2019). This score has dropped six places in the world ranking (from 71st in 2017), which is an indicator of retreat.

In the regional ranking of EU Member States, Bulgaria remains in last place (the average value of the EU index is 64.6). Analysis of TI–Bulgaria for the 2012–2018 period shows a negative trend in comparison to positive developments in many other EU countries. The data show that despite relative political and economic stability, the main weaknesses in this seven-year period are related to efficiency in the use of public resources, the functioning of supervisory institutions and the court system in the country (ibid.).

The 2017 report of the EU Special Eurobarometer on corruption confirmed these findings. It showed that almost 90% of respondents in Bulgaria believe that there is corruption in national public institutions and agree that bribery and connections

[4] The CPI ranks countries in terms of their perceived levels of corruption, as determined by expert assessments and opinion surveys, on a scale from 100 (very clean) to 0 (highly corrupt). Use of the CPI should be considered carefully as it is derived from perception-based data. Nonetheless, they have a strong impact on expectations and, correspondingly, on the decisions and behaviour of ordinary people and businesses.

often make it easier to obtain public services. It also revealed that 12% of Bulgarians – among the highest in the EU – have experienced or witnessed corruption (IMF 2019: 22).

The data discussed provide evidence that corruption in Bulgaria is neither incidental nor just institutional or confined to particular sectors of activity; it is not episodic, but *systemic*. Moreover, data from various qualitative studies on small businesses in Bulgaria testify that corruption has become routine and is accepted as a means of conducting everyday transactions, i.e. it has become *institutionalised* (Chavdarova 2014). From an economic tool that lubricates transactions, corruption has pervaded the whole of society and has become its organisational principle; from a problem it has turned into a solution to the problem. Institutionalised corruption is to a large extent determined by institutional ambiguity: it is a rule that is known with certainty, whereas there is insecurity about the other rules. By offering regulation of business relationships through hidden redistribution, corruption functions as a fundamental informal institution of the private market ordering.

4.2.2 Cronyism: The Link between Politics and Economics

In the market environment of institutional ambiguity, non-monetary corruption mostly takes the form of cronyism. Large businesses take the lead, since they typically have privileged access to government officials. The cronyism merging the authorities with large businesses has received ample confirmation. Only in the last 5 years (2015–2019), Bulgaria had been torn by a series of scandals testifying to rampant political corruption, cronyism and rent-seeking on the highest levels of society. In 2015, recordings of conversations between two judges were leaked, in which the Prime Minister Boyko Borisov and the Prosecutor General Sotir Tsatsarov tell them how to decide cases (this case was dubbed *Yaneva-Gate*). In 2017, a meeting took place between the Prosecutor General and a businessman in which the former warned the latter to be careful about his political views (the so-called *Tzum-Gate* scandal). The prosecution terminated the two investigations without convictions in 2017. In 2016, the investigator B. Atanasov publicly stated that there was a special unit at the Prosecutor's Office whose role was to initiate bogus criminal proceedings against government opponents.

Under these conditions, the European Commission started identifying progress in Bulgaria's justice system. The Commission published *Bulgaria's 2018 Cooperation and Verification Mechanism (CVM)*[5] *report*, which declared three of the six benchmarks monitored by the Commission as closed: judicial independence, legal framework and organised crime (EC 2018). The Bulgarian public and some international organisations were outraged. Many reputable judges and established

[5] The Cooperation and Verification Mechanism of the EU was set up in 2006 to ensure the progress of judicial and anti-corruption reforms at the time of Bulgaria's accession to the EU in 2007.

civil society members made statements that the 2018 report does not provide an objective evaluation (for details see Vassileva 2019).

The year 2019 was marked by an escalation of social tension stemming from cases of corruption and systemic favouritism. Especially blatant was a property scandal with a real estate development company named Arteks Engineering. In March 2019, two Bulgarian media and the non-governmental Anti-Corruption Fund revealed that four high-level government officials from the ruling GERB coalition bought luxury apartments at discount prices from Arteks and that GERB lawmakers had amended the country's Construction Code to the benefit of Arteks. They resigned from office amid a criminal investigation launched after their suspicious real estate deals. But after a three-month investigation the Anti-Corruption Commission concluded there was no conflict of interest on the part of any officials. Even the head of Bulgaria's Anti-Corruption Commission had to resign in 2019, as he had failed to include some of his assets in his tax declaration.

In July 2019, the Supreme Judicial Council (SJC) nominated only one person (Ivan Geshev) as Prosecutor General of Bulgaria. Civil society actors consider this nomination to be inadmissible due to his track record of human rights violations. It is also argued that the nomination procedure was flawed (ibid.). Bulgaria was shaken by mass protests (October–December 2019), firstly against Geshev's nomination and the SJC itself and, afterwards, against his election and re-election by the SJC, after the President had vetoed the election.

Despite these developments, the European Commission reaffirmed in its CVM report published on 22 October 2019 that the judicial independence, legal framework and organised crime benchmarks had been closed because of satisfactory progress. It recognised that some work remained regarding the other three benchmarks (continued reform, general corruption and high-level corruption). Nonetheless, the Commission concluded that "the progress made by Bulgaria under the CVM is sufficient to meet Bulgaria's commitments made at the time of its accession to the EU" (EC 2019).

The Commission clearly became lenient with regard to the long-standing problems of high-level cronyism in Bulgaria. On the surface, it is easy to see that the European People's Party provided support to GERB, the ruling party in Bulgaria, in an unprincipled manner as its "family member" and other political deals behind the scenes, leading to double standards and growing Euroscepticism in Bulgaria. One may also raise arguments about the Commission's faulty progress evaluation methodology, lack of transparency, etc. At a deeper level, however, the Commission's support to a government that assaulted the rule of law may be interpreted as a symptom of the *globalisation of cronyism*.

5 Trust in Institutions

With regard to the historical legacy and data discussed above, systemic distrust in the proper functioning of formal institutions appears to be a logical consequence. Data from the nationally representative European Quality of Life Surveys (EQLS) conducted in 2007, 2011 and 2016 by the European Foundation for the Improvement of Living and Working Conditions (Eurofound) provide convincing evidence that institutional trust is at a critically low level in Bulgarian society. EQLS measures overall trust in institutions as constructed from trust in the national government, parliament, legal system, police and media. The index of overall trust in institutions in Bulgaria was estimated at 3.5 in 2007; 3.5 in 2011; 3.9 in 2016 (Eurofound 2018b: 13, see Fig. 3).

In 2007, Bulgaria showed the lowest levels of overall trust in institutions among EU Member States. In 2011, it showed the second lowest levels of institutional trust (after Greece, 3.0 and the same level as Croatia and Romania). In 2016, Bulgaria again ranked second (together with Greece), while the minimum value was for Croatia (3.8) (ibid.) The survey suggests that although a crisis of trust was observed in European societies in the aftermath of the financial crisis, in many of them the decline in trust was a temporary phenomenon during the recession. Trust had not

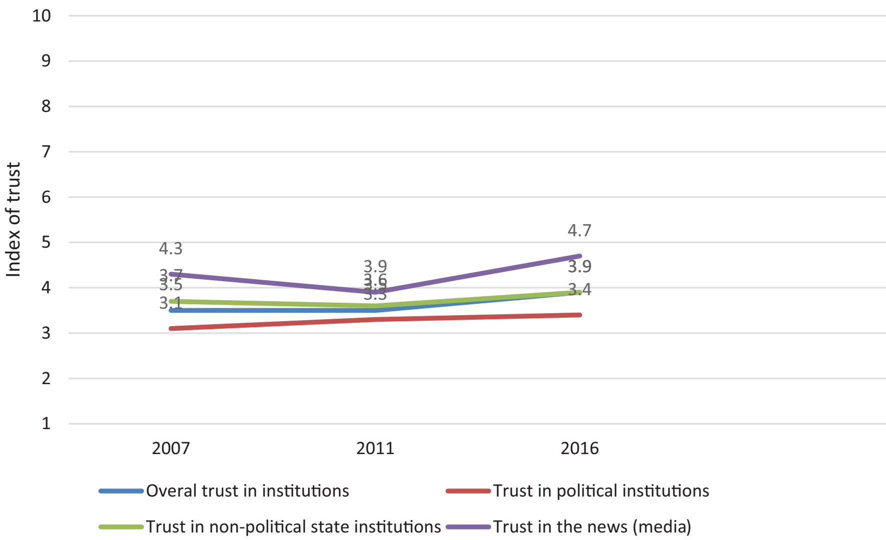

Fig. 3 Trust in institutions in Bulgaria: 2007–2016. Notes: (1) Overall trust in institutions is the average of trust in the national parliament, trust in the national government, trust in the legal system, trust in the police and trust in the news/media. Trust in political institutions is the average of trust in the national parliament and trust in the national government. Trust in non-political state institutions is the average of trust in the legal system and trust in the police: (2) the index of trust varies between 1 = "does not trust at all" and 10 = "trusts completely". (Source: Eurofound 2018b: 13–16)

fully recovered in a number of Southern and Eastern European countries and among them Bulgaria stands out with its particularly low levels (Eurofound 2018a: 2).

The composite index of trust in the national parliament and the national government (i.e. trust in political institutions) is the lowest, as compared with trust in non-political institutions and media. Nonetheless, it showed gradual improvement in the period under consideration. In this respect, Bulgaria scores the fourth lowest in the EU after Greece, Slovenia and Croatia (Eurofound 2018a: 18). Trust in non-political state institutions, measured by the average score for trust in the legal system and trust in the police, is roughly the same as overall trust. Although it displays a similar positive trend, Bulgaria is at the bottom of the list of EU Member States in terms of this index for 2007, 2011 and 2016 (ibid. 19).

Numerous studies over the last 30 years show a low level of trust in the legal system in particular. A recent (2018) nationally representative survey conducted by the Open Society Institute, Sofia, revealed that most Bulgarian citizens (76%) do not believe that everyone is treated equally by the law in the country (barely 8% believe the opposite) and remain isolated from public life. Hardly a third (29%) of the respondents believed that the laws are fair, whereas 58% are of the opposite opinion. Only 14% considered the laws to be clear and comprehensible (67% express the opposite opinion) (Ivanova et al. 2018).

Weak control over corruption is a substantial factor undermining trust in institutions. The impact of corruption on trust is the most robust result among all macro-level variables studied by EQLS. Respondents living in countries with higher levels of perceived corruption have less trust in institutions and increases in perceived corruption are associated with a decline in trust in institutions (Eurofound 2018a: 45).

The low level of institutional trust casts doubt on the legitimacy of institutions and contributes to entrenchment of the legacy of conflict between legality and legitimacy in Bulgaria. Trust in institutions is an essential precondition for good and effective governance. It can increase compliance with rules and regulations and reduce the cost of enforcement. At the same time, trust reflects good institutional performance (OECD 2013). People will comply with rules if they see regulations as fair and legitimate. In post-socialist countries, where drastic structural transformations have been carried out, trust would enable authorities to implement structural reforms with serious short-term costs, but long-term benefits. In the Bulgarian case, this enabling factor is missing.

6 Conclusion

When the socialist regimes were dismantled in 1989, the dominant and somewhat naïve expectation was that new regimes would develop into democratic states with market economies that would quickly integrate into the EU. This expectation has been shattered. This chapter highlights some of the incongruities of market institutionalisation in Bulgaria and its results so far.

The possibilities of the neopatrimonial approach have been examined. The (neo-) Weberian concept of neopatrimonialism has been transferred from political science and used as an analytical tool to describe the institutional environment of market activities. Neopatrimonialism has been conceptualised as a hybrid social order in which the patrimonial logic of personal, informal power relationships penetrates into the rational-legal logic of impersonal, formal relationships. This analysis has highlighted how this hybrid social order translates into a hybrid market order in the Bulgarian case. It has been demonstrated that, under hybrid social order conditions, an institutional lock-in effect is taking place which also hybridises market institutions and makes them dependent on the political regime. It has been shown that institutional hybridity, as reflected in the quality of governance, does not correspond directly with economic development. The link between the country's economic development and the quality of governance has been discussed by comparing GDP growth and governance indicators. No match has been identified to concur with other research findings that see neopatrimonial governance, under certain conditions, as compatible with a growth-enhancing climate. Accordingly, the predictive value of neopatrimonialism with respect to economic performance has been questioned.

Institutional uncertainty has been identified as a core characteristic of a hybrid social, and hence market order. Institutional uncertainty has been operationalised through two key interdependent variables: institutional ambiguity and systemic corruption. Ambiguity in formal market institutions in Bulgaria has been revealed as embodied in the deliberate coexistence of legal norms and arbitrariness. Analysis of comparative datasets has provided evidence that systemic corruption has been institutionalised. Corruption has been revealed to be closely interrelated with institutional ambiguity. Through corruption, actors reach private agreements about playing the market game. These are an unintended outcome of repetitive conflicts and compromises in a specific socio-economic context that infuse order. Corruption has been conceived as a major informal private market ordering institution that helps actors to overcome the insecurity stemming from hybridised application of rules. Special attention has been given to cronyism as a non-monetary form of corruption. It has been discussed through analysis of recent cases of cronyism in merging political and economic actors.

It has been argued that institutional uncertainty produces low institutional trust. Various forms of trust in institutions in Bulgaria have been examined through secondary data analysis. Low levels of trust have contributed to the entrenchment of the legacy of the conflict between legality and legitimacy. In terms of market developments over the last 30 years, this means that formal market institutions may be legal but their legitimacy is questionable. Free market exchange was officially institutionalised as the economic integration pattern, whereas basic informal institutions assert reciprocity and hidden redistribution as integrative modes. During the period of socialism, the redistributive economy was simultaneously lubricated and subverted by reciprocity and hidden market mechanisms. Likewise, the present-day market economy in Bulgaria is simultaneously sustained and undermined by crony reciprocity and hidden redistribution resulting from rent-seeking practices.

The approach of neopatrimonialism underlines the role of endogenous forces in the process of institutional change and, in particular, the important role of inherited informal institutions. The neopatrimonial optics allows study of the various types of hybrid mix of patrimonial, informal and rational-bureaucratic, formal institutions in a world where *hybrid orders are the norm, not the exception*. Correspondingly, the concept of neopatrimonialism should be conceived in neutral terms and should be released from the connotations imposed by a Western-centric viewpoint on the evaluation of institutional developments.

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Efficiency and Distributional Effects of the Two-Tracked Labor Market Institutions in Albania

Elvisa Drishti, Ermira Hoxha Kalaj, and Bresena Dema Kopliku

Abstract This study examines the efficiency and distributional effects of selected labor market institutions in Albania, a rather underresearched country. An initial overview of the postcommunist developments articulates why Albania has the poorest labor market performance among other South East European countries. Using a set of mixed qualitative and descriptive quantitative methods we find evidence of inefficient segmental effects and a predatory structure of labor market institutions which noticeably diverge from the efficient institutions' point of reference. The institutional/welfare regime at the cross-national level points out at a relationship between the labor market institutional framework and labor market performance, as measured by unemployment. At the country level, a disproportional relationship between the "de jure" labor market regulation and unemployment is identified, which is also moderated by the interaction between labor market and economic institutions.

Keywords Albania · Labor market regulation · Welfare regime · Unemployment · Labor market institutions

1 Introduction

Matters regarding the role and effects of labor market institutions have been a controversial and a much-disputed subject within the field of labor market performance, for both developed and developing countries (Bentolila and Dolado 1994; Bertola

E. Drishti (✉) · E. H. Kalaj
Faculty of Economy, University of Shkodra "Luigj Gurakuqi", Shkodër, Albania
e-mail: elvisa.drishti@unishk.edu.al; ermira.kalaj@unishk.edu.al

B. D. Kopliku
Faculty of Social Sciences, University of Shkodra "Luigj Gurakuqi", Shkodër, Albania
e-mail: bresena.kopliku@unishk.edu.al

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et al. 2001; Betcherman 2012; Blanchard and Landier 2002; Botero et al. 2004; Freeman 2005; Kahn 2012; Lehmann and Muravyev 2010; Skedinger 2010). The generalizability of much published research in this topic offers two levels of inconclusive debate: (i) the "within" the labor market opposing views, where, on one hand, the "institutionalists" or "interventionists" standpoint largely subscribe to the efficient institutions' approach suggested by the Political Coase Theorem, and, on the other hand, prevails the "deregulation" strand of research which considers institutions as "distortions" or "imperfections" of the competitive labor market (Acemoglu 2003; Acemoglu and Robinson 2008; Betcherman 2012; Freeman 2005; Heckman 2007); (ii) the "between" markets perspective which argues that the pure institutional approach (Lehmann and Muravyev 2010), which initially dominated labor economics and macroeconomics research, has been challenged by several lines of evidence which put forward arguments in favor of an interaction of labor market institutions with economic performance (Bertola et al. 2001; Blanchard and Wolfers 2000).

This chapter attempts to provide a plausible appraisal of selected labor market institutions in the Albanian labor market, at both abovementioned levels. It sets out to make four contributions for the case of Albania. Initially, concerning the postcommunist labor market institutional framework of a relatively underdeveloped country, which represents an interesting and striking research context that has been paid far too little attention in terms of institutional evolution. Second, it elaborates on the hybrid postcommunist welfare regimes in general, and for Albania in particular, by identifying the institutional regimes clusters. Third, to be able to relate to the efficient institutions view, an attempt is made to establish whether labor market regulation is disproportionally related to the unemployment rate, from a cross-national comparative approach. This will help to conclude whether different underlying national characteristics affect the efficiency of economic institutions. And finally, it deals with certain aspects of labor market institutions: minimum wage and employment protection legislation in terms of efficiency and distributional effects.

A combination of quantitative and qualitative descriptive (narrative) methods was used in the data analysis. The quantitative methodological approach taken in this study is reported at the cross-national level. The data analysis method conducted at the macroeconomic level relied on using descriptive statistics and graphical inspections between labor market regulation and unemployment. The research data in this chapter is drawn from three main sources: (i) valuations of labor market regulation (LMR) have been obtained by Doing Business database of The World Bank for 2017; (ii) unemployment rates data from the International Labour Organization (ILO) database for the year 2017; and (iii) the 2017 Gross Domestic Products at market prices with chain-linked volumes indexed with the 2010 base (as 100) were obtained from Eurostat. The cross-national nature of these data represents a limitation in terms of estimation of fixed effects that isolate the national unemployment differences along a period in which the labor market institutional variation has transpired. Ideally longitudinal microlevel data would have bridged this deficiency.

The use of qualitative analysis is a well-established approach in labor market institution studies when the explanation of complex interactions between labor market institutions is intended to explain the effects in the most prominent labor market outcome, i.e, unemployment.

The findings make an important contribution in terms of whether, and to what extent, have labor market institutions in Albania adapted to the economic requirements of the country and whether the welfare regime is related to unemployment in such fashion that moderates the flexibility – unemployment relationship.

This chapter has been divided into five parts, including this introductory one. The second part deals with a chronological dynamic of the labor market structure and employment composition in Albania and outcomes in terms of labor market flexibilization. The third part lays out the theoretical dimensions of the welfare regimes cluster at the cross-national levels, and looks at the rationale of the "post-communist" welfare cluster in particular. The fourth part is concerned with the labor market institutions and the deregulation effects in terms of labor market segmentation and unemployment at the country level. Finally, the conclusion gives a brief summary and reflections on the findings.

2 Labor Market Structure and Employment Composition in Albania

The Albanian labor market faces a number of challenges due to the severe problems that characterize the emerging market economies which are not currently EU members. Persistent poor labor market performance and outcomes have been linked to the difficult economic situation and inadequate economic governance. According to the Albanian Institute of Statics[1] (INSTAT), the labor force in 2013 was around 1.18 million[2] in absolute terms, and participation in the labor market reached 70.2% for men and 50.4% for women.[3] These figures reflect a clear decreasing trend which was more noticeable for women following the financial and economic crisis.

Generally speaking, overall activity rates in the Western Balkans are lower because of low female participation. Male activity rates in Albania compare well with those of the EU peer countries, while female participation is significantly lower. Inactivity is higher among women, young people, and those with low educational attainment. The share of people outside the labor market in Albania is 36% (World Bank 2017).

[1] All the figures were taken from this link: http://www.instat.gov.al/en/themes/labour-market-and-education/employment-and-unemployment-from-lfs/#tab3

[2] Total registered population in Albania is 2.9 million, according to INSTAT.

[3] In retrospective, these figures were: 2012: 74.4% and 56.7; 2011: 76.1% and 60.3%; 2010: 72% and 52.8%; 2009: 73.3% and 51.8%; 2008: 72.1% and 52.8%, respectively for men and women.

Prior to the 1990s, the expansion of the service sector in capitalist economies was associated with a steady expansion of female participation and prevalence of flexible employment (Feldman and Doerpinghaus 1992; Tilly 1991). In centralized economies however, the service sector progress was suspended but the communist doctrines sustained the de-familization of women (Esping-Andersen 1999), which resulted in misleadingly augmented gender equality. This endeavor was motivated by the quest of communist governments to achieve the imperative of industrialization (Pollert 2003). Being faced with the problem of labor force shortages, public policy required working-age women (15–55 years) to work around 70 h per week,[4] and their participation fluctuated between 70% and 90%. Accordingly, under communism, nonstandard work was absent and full employment was in effect reached. Yet, gender equality in terms of participation was more of a quantitative then qualitative nature since the majority of women were employed in "light" manufacturing (e.g., textile) industries and caring occupations and occupied the lower 24% of jobs on career ladders (Pollert 2003).

After the transition (1992–1995), the property rights of most of the state-owned enterprises were transferred to unions and workers, and unemployment rose since many vulnerable groups of workers (i.e., women, young, and low-skilled) were made redundant. By 1998–1999, sectors such as retail, hotels, and finance flourished and tended to hire on part-time and/or temporary basis which translated into lower union coverage. It is important to point out that the weakening of trade unions and the lack of well-established labor laws (code) were associated with a higher level of part-time and temporary employment arrangements (Clegg 2007; Ebbinghaus 2006) and worker exploitation. In addition, the well-developed communist public childcare system disappeared, making it difficult for women to arrange childcare and employment and therefore encouraging the shift to part-time carer/worker (Saxonberg and Sirovátka 2006). This way, within the first decade of the market economy, the relative improvements in gender-related human development achieved during communism were eroded (Pollert 2003). The capitalist regime, by reinstalling traditional "familization" (Saxonberg and Sirovátka 2006) and prompting women to return to the home as unpaid family workers (housewives), encouraged conservative family views, division of gender roles (Esping-Andersen 1999), and transferred full-time work back to men (Toots and Bachmann 2010). For all these reasons, the demand for flexible jobs in Albania was initially, both, employee- and employer-driven.

Nevertheless, the aforementioned initial labor force supply factors were not likely to play a major role in explaining the persistent growth in nonstandard employment arrangements. In the course of the last couple of decades, there were three converging forces that contributed to a rapid accommodation of the flexibization reforms in Albania and the region: (i) new political leaders seeking to solve economic problems, especially chronic and long-term unemployment, and to increase job creation rates; (ii) domestic businesses that benefited from side-stepping

[4] The work week had 6 days.

high costs and bureaucratic legal procedures transcended from past legacies and the need to meet technological and demographical changes introduced by the new capitalist economy. Both these two forces were the main facilitators of the shift toward increased labor market flexibility; and furthermore, (iii) a fragile rule of law and a large informal sector, typical for developing countries, lead to an augmented real (de facto) compared to legislative (de jure) flexibility (Boeri and Garibaldi 2005; Cook 2010; Djankov and Ramalho 2009). To summarize, conservative communist era legacies merged with rapid neoliberal reforms and led postcommunist Albania to match EU developed economies in terms of diminished labor market interventions. Newly created jobs were characterized by low job security and entrapment of workers in repeated spells of nonstandard jobs or exit to unemployment, a completely new employment pattern compared to the life-long secure and predictable jobs that prevailed under the communist system.

In terms of labor market issues, the most notable stem from the deep and difficult to tackle structural imbalances and a high presence of structural unemployment in overall unemployment. The roots of such imbalances can be found in several factors, including a lack of regional mobility, deindustrialization of the economy during the transition period, and the resulting mass unemployment of low-skilled and hard-to-adapt labor, i.e., agricultural workers, and weak links between education systems and industry requirements (Numanović et al. 2016). Without any doubt, the high unemployment rate is worrying. For example, in 2013, the ratio of unemployed persons to the working-age population (aged between 15 and 64) was 18.3% for men and 13.8% for women[5] compared with 9.3% and 9.5% in the euro area and 11.1% and 9.6% among the new member states[6] of the European Union, for men and women respectively. Unemployment trends in general and for the youth[7] (aged 15–29) in particular are worrying. Despite that the National Strategy for Development and Integration[8] – which combines the European Integration agenda with the sustainable socio-economic development of the country – sets the promotion of employment as a principal objective for 2015–2020, unemployment figures[9] are constantly rising. Similarly, as part of the "National Strategy for Employment and Skills 2014–2020[10]," active labor market policies are given a prominent position as one of the key instruments for achieving defined goals, while concrete measures are defined by annual action plans aligned with the Strategy. Nevertheless, in reality,

[5] In retrospective, these figures were: 2012: 15.2% and 12.0%; 2011: 13.8% and 14.1%; 2010: 12.8% and 15.9%; 2009: 12.2% and 15.9%; and 2008: 12.5% and 13.5%, respectively for men and women.

[6] Croatia, Slovenia, Bulgaria, and Romania.

[7] In retrospective, these figures were: 2015: 32%; 2014: 32.5%; and 2013: 27.2%.

[8] https://ssl.kryeministria.al/SKZHI_FINAL_QBZ.pdf

[9] In retrospective, these figures were: 2016: 28.9% and 15.6%; 2015: 33.2% and 17.5%; and 2014: 32.5 and 17.9% for the 15–29 and 15–64 age segments respectively.

[10] The four strategic objectives of the above strategy are: (i) decent work opportunities through effective policies of the labor market; (ii) education and vocational training for youth and adults; (iii) social inclusion and regional cohesion; and (iv) analysis of labor market dynamics and sustainability of the performance evaluation system.

little to no positive outcomes have been evidenced so far. Slow job creation rates and a generally underdeveloped labor market institutional framework have also contributed to these patterns.

These fundamental developments in the labor market stimulate feelings of job insecurity among employees (this is also the case, to different extents, for the Balkan countries[11] of South Eastern Europe) and have been the source of major social concerns. The very low youth employment rate has stalled the process of investing in human capital, specifically for men, and instead made migration to other developed countries (usually Germany and France[12]) a more appealing option. Indeed, at present, significant shares of the population aged between 15 and 25 have sought asylum in France and Germany (Balkan Insight 2017; McGuinness 2017) despite the fact that the country is not in war.

The social support system is inefficient and dependency on it is unmanageable. The situation is even worse for low-skilled land owners working in the agricultural sector in the country side. Along the immediate postsocialist years, abandonment of cropland in peripheral rural areas with low population and forest-cover loss was evidenced (Müller and Munroe 2008). In the last decade, Albania has been given the status of the "Europe's outdoor cannabis capital" (Pressly 2016) since struggling farmers desperate for work have no other survival options.

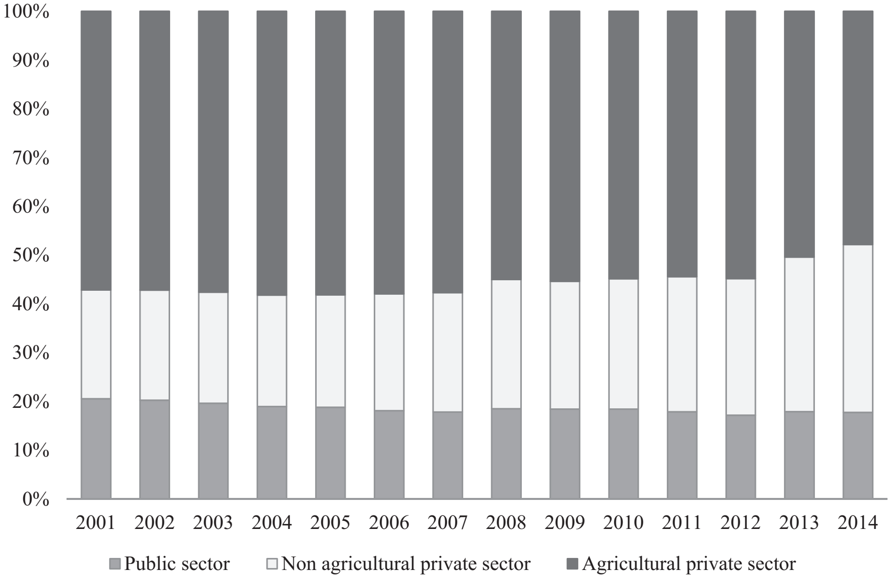
Albania has the poorest performance in the region, e.g., compared with the South East Europe (SEE) 2020 Strategy standard of achieving 44.4% employment for the total working population (over 15 years old), lagging far behind from the main labor market indicators (World Bank 2017). This is because employment in 2010–2016 has grown in all countries but Albania and Bosnia and Herzegovina. However, in 2015 and in 2016, Albania's growth in employment was 4.8% and 6.8% respectively, mainly as a result of the national campaign addressing the informal economy (World Bank 2017).

The share of highly educated people among the employed increased in the wider region between 2010 and 2016, but Albania exhibited the highest share of low-skilled (46.7%) and the lowest share of high-skilled people employed in the Western Balkans (World Bank 2017). This is explained by the fact that paid employment was still dominated by the agricultural sector, and the services sector. As a rule of thumb, rising economic growth would be associated with a shift in employment from agriculture to the nonagriculture private and public sector which is translated into more jobs in services and industry.

Graph 1 indicates that the workforce is divided almost in half between the agricultural sector and the public and nonagricultural private sector. From 2001 to 2014, there was shrinkage of almost 10 percentage points of the private agricultural sector in favor of mainly the nonagriculture private sector, which marks the first steps of an improvement – from lower income with a larger rural sector toward less low income with slight job growth.

[11] Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Montenegro, and Serbia, all post-communist countries.

[12] A major cause of the fierce opposition of France to open EU accession talks for Albania in October 2019.



Graph 1 Employment by sector in Albania. (Authors' own figure; Source of data: INSTAT)

In conclusion, Albania as part of the Western Balkan countries is characterized by low employment rates. High and persistent long-term unemployment has become a salient feature of the labor market. In fact, the lead economist and author of the World Bank's recent "South East Europe Regular Economic Report," Gallina A. Vincelette, maintained that "*unemployment remained very high in the region at an average rate of over 24% in 2013. Persistently high unemployment rates and chronic unemployment are particularly prevalent among vulnerable groups, such as youth, women, and the low-skilled*". International migration plays an important role in mitigating the problem of unemployment, and remittances have become an important source of income. In addition, almost the entire region is facing population aging and shrinking due to low birth rates and high emigration (World Bank 2017). Substantial informal sector activities, as will be explained in the next section, are another prominent feature of the Albanian economy, creating significant challenges. These circumstances further exacerbate weak labor market performance and high levels of job insecurity.

3 Welfare Regimes Clusters and Implications for Unemployment

Keeping in account that little adequate analysis is available for Albania, initially, a location of the country in the "welfare map" is contended. In this section, an attempt is made to relate the poor labor market performance of the Albanian labor market with its institutional context, i.e., welfare regime, from a cross-national comparative outlook. Another related reason of employing such an approach relates to the need to address the call for more inclusive research on labor market regimes in countries with different macroeconomic and labor performance (Lehmann and Muravyev 2010) since the majority of such investigations and seminal work are carried out in large and prosperous OECD countries (Aleksynska and Cazes 2014; Kahn 2012; OECD 2015) and only a few recent studies have instigated the integration of developing postcommunist countries and new (candidate) EU countries in their cross-national comparisons (Bassanini and Duval 2006; Betcherman 2012; Botero et al. 2004; Feldmann 2008). Indeed, the inclusion of different, small and less efficient, and developed economies in such comparisons brings to the picture more variations in terms of labor market regulations and institutional regimes as well as economic performance, even though the availability of standardized and reliable data is an issue. The national differences in labor market regulation and institutional welfare state regimes are predicted to have explaining power upon the variation of unemployment rates among countries (Gallie 2007; Holman 2013; Kahn 2012). The main institutional theories pertinent to this investigation across Europe are quite a few. In this chapter, the "varieties of capitalism" (Hall and Soskice 2003) typologies will be used to capture the tendency that countries have to cluster when there is convergence of their complementary practices in different spheres.

3.1 The "Post-communist" Welfare System

Albania diverges significantly from other Central and Eastern European countries with regard to population, economic standards, and political status. Each of these countries has experienced their own path of transition. However, Albania has pursued a comparable economic and political track compared with other postcommunist countries following the Second World War (Cook 2010[13]; Lehmann and Muravyev 2010; Savić and Zubović 2015). This is reflected also in contemporary postcommunist labor markets. The theoretical rationale for such similarity is that analogous socio-cultural and/or politico-economic backgrounds stimulate analogous sets of institutions that regulate the labor markets and the welfare regimes across nations (Esping-Andersen 1990; Kemmerling and Bruttel 2006; Schubert et al. 2009). Homogeneity in labor market institutions has also been linked with consistency in labor market performance (Boeri and Ours 2009).

Cross-national research has frequently made use of typological analysis which captures the tendency that countries have to cluster when there is convergence of their complementary practices in different spheres. The typologies used in this investigation have been mapped along a continuum from traditional conservative to liberal welfare regimes (Esping-Andersen 1990) or across the dimensions that

[13] The author investigates these postcommunist countries: In Europe: Bulgaria and Romania, Czech Republic, Hungary, Poland, Slovak Republic, and Slovenia, and in the Former Soviet Union: Latvia, Lithuania, and Estonia.

distinguish coordinated from liberal market economies (Hall and Soskice 2003). According to the first typology, the distinct "post-communist" welfare regime is a hybrid between the bismarckian/interventionist/coordinated and liberal/uncoordinated welfare regimes. The policy-making context is comparable to the "continental-conservative" typology, reflecting the pre- and communist-era legacies (Aidukaite 2011; Cerami and Stubbs 2011; Cerami and Vanhuysse 2009; Toots and Bachmann 2010). The Labour Laws (Codes) under communism, e.g., in terms of permanent full-time employment as the standard, reflect an extensive utilization of strong employment protection legislation by means of generous redundancy costs and strict hiring and firing rules to slow down job separation (Doing Business 2017).

Using the "varieties of capitalism" categories (Hall and Soskice 2003), four clusters of EU countries, plus Albania, can be distinguished (see Table 1). The postcommunist group, however, is heterogeneous, and there are differences within this group. The postcommunist EU members that are most similar to Albania are Bulgaria and Romania. Slovenia is closer to the coordinated market economies (CMEs) while Estonia is closer to the liberal market economies (LMEs). The Czech Republic has some similarities with the CMEs and LMEs. Poland is a mixed CME. The Western Balkans, Albania, and Croatia, are still transitioning toward different paradigms of capitalism, Croatia is evolving toward the CMEs while Albania toward the LMEs. Building on Esping-Andersen's (1990) welfare regimes, Gallie and Paugam (2000) proposed the "employment regime" typologies aimed at integrating aspects relating to the organization of social welfare including unemployment benefits, employment protection legislation, and financial reimbursement. These typologies lead to the classification of six different welfare regimes as shown in Table 2.

Social protection and social rights exist in postcommunist countries (Whelan and Maître 2010), but as discussed, flexibility has been on the rise. Albania is located in

Table 1 Varieties of capitalism (Hall and Soskice 2003)

Liberal market economies	Coordinated market economies	Mediterranean	Postcommunist
UK	Austria	France	Poland
Ireland	Belgium	Italy	Bulgaria
	Denmark	Spain	Romania
	Finland	Portugal	Slovakia
	Germany	Greece	Latvia
	Netherlands		Lithuania
	Norway		Estonia
	Sweden		Slovenia
	Switzerland[a]		Czech Republic
			Hungary
			Croatia
			Albania

Authors' own table

[a]Not an EU country, but it was included in the analysis for its resemblance of the "bismarckian" cluster, i.e., Germany, Austria

Table 2 Employment regimes[a]

Liberal regime	Social democratic regime	Corporatist regime	Southern European regime	Postcommunist corporatist	Postcommunist liberal
UK	Denmark	Germany	Italy	Czech Republic	Bulgaria
Ireland	Finland	Austria	Spain	Hungary	Romania
	Norway	Belgium	Portugal	Poland	Latvia
	Sweden	France	Greece	Slovenia	Lithuania
	Netherlands	Switzerland		Slovakia	Estonia
				Croatia	Albania

Authors' own table
[a]According to Bukodi and Róbert (2007) and Gallie and Paugam (2000)

Table 3 Per-capita GDP by welfare and employment regime and GDP per head[a]

Liberal regime	Social democratic regime	Corporatist regime	Southern European regime	Postcommunist corporatist	Postcommunist liberal	Postcommunist 2007 and after accession[b]
UK	Denmark	Germany	Italy	Czech Republic	Latvia	Bulgaria
Ireland	Finland	Austria	Spain	Hungary	Lithuania	Romania
	Norway	Belgium	Portugal	Poland	Estonia	Albania
	Sweden	France	Greece	Slovenia	Croatia	
	Netherlands	Switzerland		Slovakia		

Authors' own table
[a]According to Eurofound (2013)
[b]To the EU

the "post-communist liberal" regime group. However, this group is heterogeneous due to very different per capita GDP figures (reflected in the year of accession to the European Union, i.e., 2007 and after[14]). As mentioned earlier, less affluent societies are characterized by low levels of per-capita GDP and lie below the convergence point of the per-capita GDP – happiness relationship (Costanza et al. 2007; Helliwell et al. 2017). In this relationship, countries such as Albania are located in the "economic gains" section, where additional economic gains translate in a multiplied positive effect on utility (welfare). Taking into account welfare regimes, employment regimes, and differences in per-capita GDP patterns, EU countries and Albania can be categorized into seven distinctive clusters as shown in Table 3. Albania holds the EU candidate country status and was rejected to open negotiations for EU membership in 2020 for failing to meet the EU integration requirements. Albania is therefore located in the postcommunist 2007 and after accession group.

In an effort to provide a diverse cross-national comparison and also compare Albania with similar small South-East European contexts which are in the same

[14] Romania, Bulgaria, and Croatia.

phase regarding EU integration, Kosovo,[15] Montenegro, North Macedonia,[16] have been included in the database. In the same fashion, post-communist non-EU countries such as Bosnia and Hercegovina and Serbia have been added.

3.2 *Welfare Regimes as a Moderator of Economic and Labor Market Performance*

This section is concerned with the question of whether welfare regimes are related to unemployment and macroeconomic performance to assess whether it moderates the rigidities–unemployment relationship.

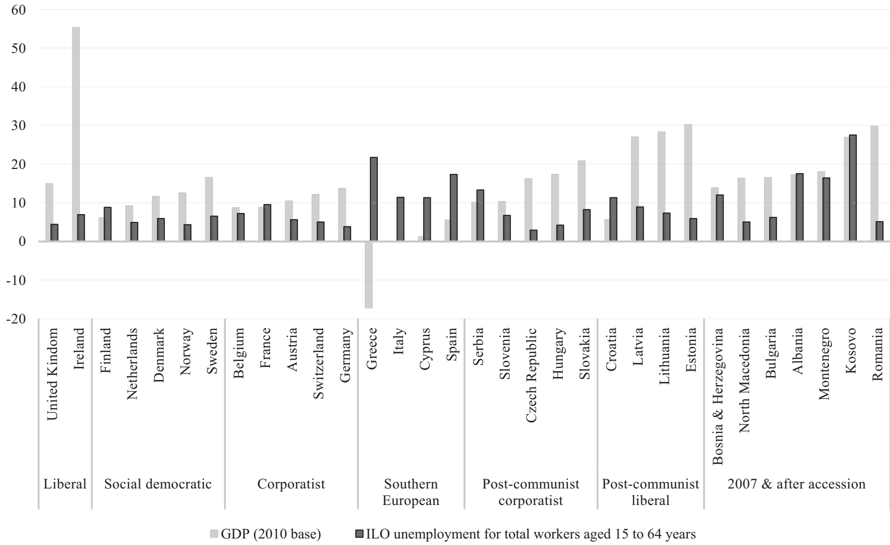
The first two clusters include the "liberal" and "social democratic" countries. The low unemployment share can be explained by their welfare regime and social protection which provides high unemployment benefits and social protection and fosters partial labor market participation or different types of nonstandard forms of employment (NSFE). For these countries, the labor market qualifies as efficient, and voluntary reduced labor supply is typical predominantly from the side of women who chose this form of work to meet their work-life balance. Graph 3 shows that the United Kingdom, Netherlands, Norway, Germany, Czech Republic, Hungary, and Romania have the lowest levels of female unemployment, while the opposite is true for Mediterranean countries such as Italy, Albania, Greece, and Spain, and also postcommunist countries such as Serbia and the rest of non-EU countries in the Balkans.

The corporatist countries show more comparable trends with the social democratic cluster and the United Kingdom in particular in terms of equally gendered low unemployment, under 10%, and moderate GDP growth (above the 100% base GDP in 2010). Altogether, compared to the southern European and postsocialist clusters, the social democratic and corporatist countries qualify as efficient in terms of labor market performance. In fact, the pattern is reversed when the southern European cluster is considered. The prominent low economic performance is related to high levels of unemployment, mainly female dominated. With the exemption of Cyprus where unemployment is male dominated, Spain and Greece have very large shares of unemployment and very low, even negative, economic performance for 2017. From the cluster level shares of types of employment and unemployment presented in Graphs 2 and 3, it can be assumed that the countries under the social democratic, corporatist, and liberal institutional regime are characterized in general by equally dominated shares of unemployed and a descending pattern of stable and moderate economic performance.

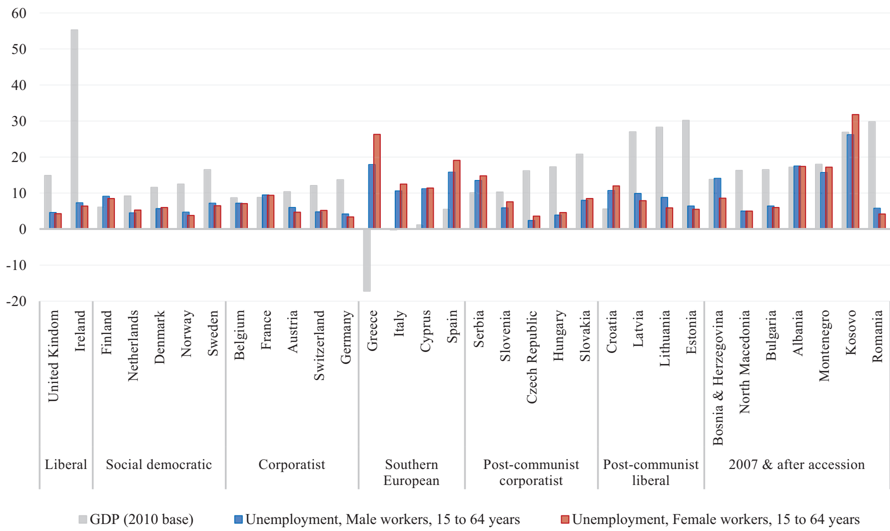
The southern European cluster demonstrates the higher share of unemployment among EU countries, complemented by very low rates of GDP growth. On the one hand, the postcommunist countries which have been integrated in the EU have

[15] Albanian-speaking country.

[16] Montenegro and North Macedonia include Albanian-speaking minorities.



Graph 2 GDP growth (base 2010) and total unemployment by country and welfare regime. (Authors' own figure; Source of data: Doing Business Database, The World Bank 2017; ILO Unemployment data, 2017; Eurostat GDP at market prices data, 2017)



Graph 3 GDP (base 2010) and gendered unemployment by country and welfare regime. (Authors' own figure; Source of data: Doing Business Database, The World Bank 2017; ILO Unemployment data, 2017; and Eurostat GDP at market prices data, 2017)

higher levels of GDP growth associated with higher unemployment rates. It is interesting to point out the emerging pattern which suggests that countries with the highest unemployment rates, i.e., Mediterranean and postcommunist non-EU countries have also higher female unemployment shares. This means that as the labor market gets tighter, women are the first to become unemployed and return as unpaid family workers. On the other hand, countries with low unemployment rates, i.e., United Kingdom, social democratic countries, and Central European EU-member countries, have balanced gendered unemployment.

High labor market regulation and employment protection result in high shares and unbalanced unemployment. Typically, countries with higher GDP growth[17] (compared to that of 2010), which are usually developing economies such as the postcommunist clusters and peripheral areas, show patterns of high male and higher shares of female unemployment rates. This explains why their unemployment rate is higher and unbalanced between both genders. On the other hand, more affluent countries have higher absolute values of GDP per se, but lower GDP growth because their 2010 baselevel was already high. The effects of the macroeconomic performance, measured by GDP growth, when included in the above graphs, indicate a positive effect on unemployment, which means that fewer workers will be working and the female shares of unemployment are the first to peak.

4 Labor Market Institutions

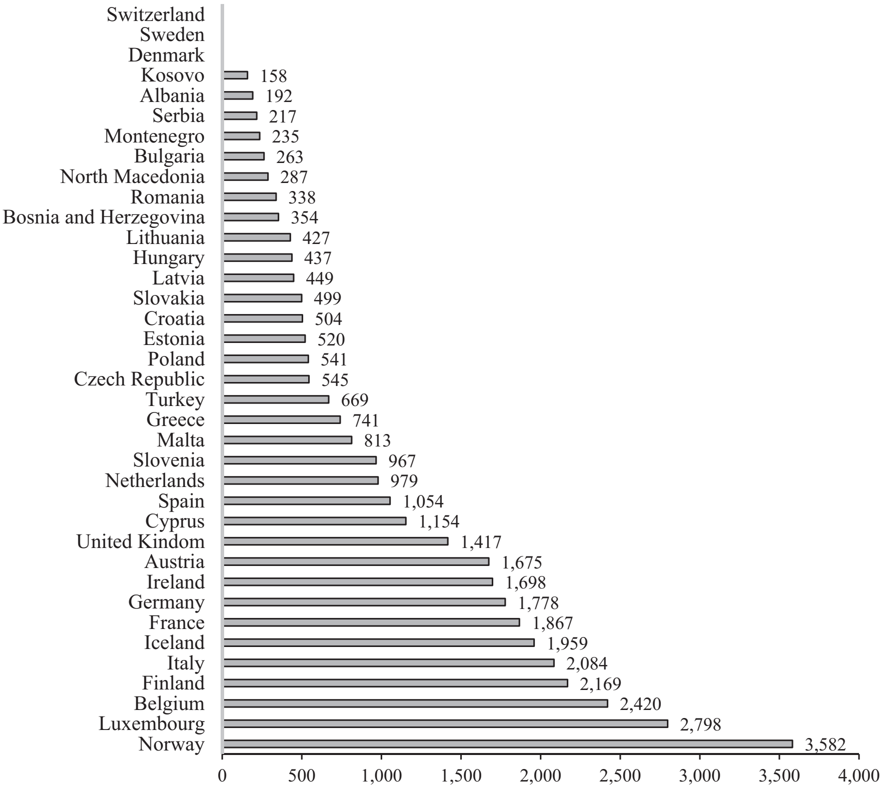
4.1 Minimum Wage

The minimum wage of a country is the minimum floor amount (lowest salary) per hour, per day, or per month that employers should legally pay to workers. The interventionists/institutionalists argue that the minimum wage instituting serves the anti-exploitation dimension of the employment relationship and provides a baseline income to prevent vulnerable workers from in-work poverty. It is considered a basic right in terms of "decent work" and social policy agenda and increases efficiency and distributions effects as per the efficient view of institutions. However, for the case of Albania, there are several shortcomings and unintended penalties from minimum wage.

In 2019, the national minimum wage in Albania remained fixed at 234.23 US$ per month, i.e., 26,000 Lek per month, and accordingly, the minimum wage has been raised by 2000 Lek per month from the previous year, 8.33% in the last year. The level of the minimum wage is taken into account for social security contributions and health insurance calculations. Regardless of the fact that minimum wage in Albania tends to be the lowest in the region, the ratio of the minimum wage to value added per worker[18] is in fact relatively high (see Graphs 4 and 5). According

[17] Year-on-year growth is high for developing countries in general as they start from a lower base.

[18] The average value added per worker is the ratio of an economy's GNI per capita to the working-age population as a percentage of the total population.

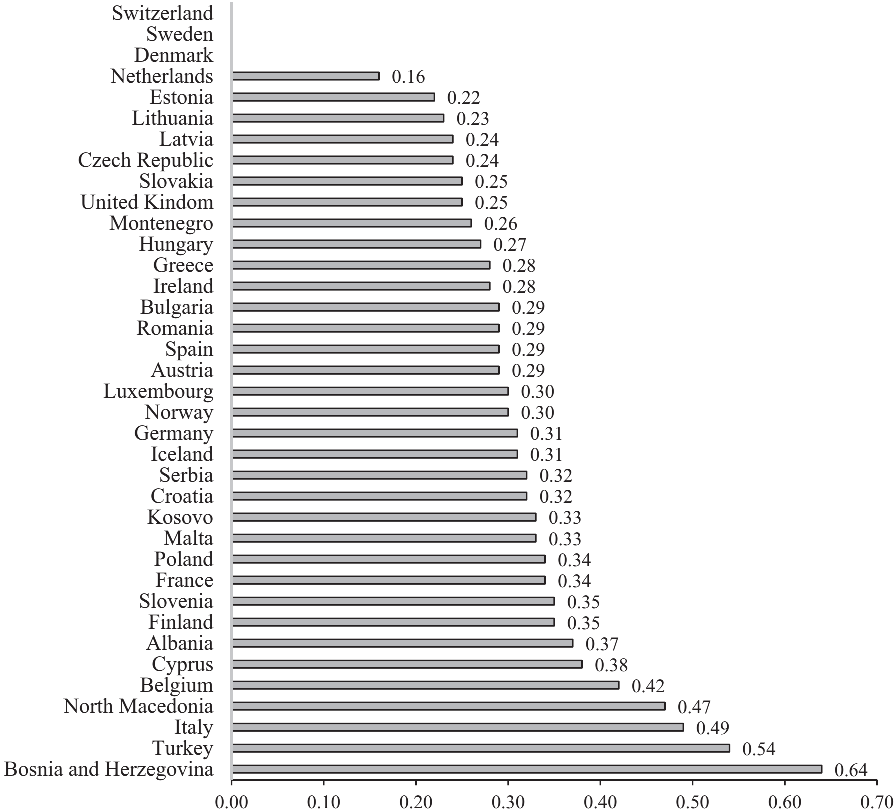


Graph 4 Minimum wage for a full-time worker (US$/month). (Authors' own figure; Source of data: Doing Business Database, The World Bank for 2017)

to the competitive labour market theory, a potential drawback is that a higher minimum wage may discourage firms from employing low-wage workers because of the increased labor costs, which suggest that the minimum wage is set beyond the competitive equilibrium wage.

The fairly high minimum wage compared to the value added per worker discourages employers from formalizing more jobs which remains a major structural challenge. The Albanian government attitude toward the low minimum wage tends to emphasize its competitive advantage in terms of labor market flexibility and is promoted to attract foreign direct investments in the private sector.

Yet, considering that the unit of analysis of this study is "corrupt me please" Albania, the official minimum wage tells only one side of the story, i.e., that of the public sector. In the private sector, labor market regulation is not enforced. For vulnerable groups, such as low-educated, women, and the youth, a considerable share of employees work without contract (Kosta and Williams 2018; MSWY 2014). In many cases, private companies arrange paper work (i.e., working contract, minimum wage payment, bank receipts, social security, etc.) and conform the legislation, but workers are requested to give back almost as much as half of their minimum



Graph 5 Ratio of minimum wage to value added per worker. (Authors' own figure; Source of data: Doing Business Database, The World Bank for 2017)

wage in cash to their employer. In view of the lack of proper and depoliticized union coverage, corrupted and politicized labor Inspectorates and local tax offices are instructed to "keep an eye closed," as this way, employment figures are quantitatively improved and foster the propagandized improved labor market performance to meet the EU integration requirements.

In addition to the agricultural and unpaid family workers, segments of vulnerable workers in the private sector are almost completely excluded from the minimum wage, social protection, and union (unemployment) protection. The results indicate the emergence of a segregated/segmented applicability of minimum wage floor: the formal public sector playing according to the rules and the informal private sector paying workers below minimum wage, e.g., the case of light manufacturing (such as the textile) industry. The minimum wage has contributed in fact to push low-productivity female workers into the off-the-books/informal labor market, damaging precisely these vulnerable workers which the minimum wage is set out to help from the policy in the first place. Low-educated female workers, mainly migrating

Table 4 Key segments of the contemporary postcommunist Albanian labor market

<table>
<tr><td></td><td colspan="4">Demand side: Employers</td></tr>
<tr><td rowspan="3">Supply-side: employees</td><td colspan="3">Private sector – Not regulated and liberal</td><td rowspan="3">Public sector – highly politicized but conservative</td></tr>
<tr><td rowspan="2">Primary segment</td><td colspan="2">Secondary segment</td></tr>
<tr><td>Formal</td><td>Informal</td></tr>
<tr><td rowspan="3">High productivity</td><td>High wage</td><td>Low wage</td><td>High wage</td><td>Low wage</td></tr>
<tr><td>Standard jobs</td><td rowspan="2">Involuntary/ Voluntary nonstandard jobs</td><td>Nonstanard jobs</td><td rowspan="2">Standard jobs</td></tr>
<tr><td>Involuntary nonstandard jobs</td><td>No contract</td></tr>
<tr><td rowspan="2">Low productivity</td><td rowspan="2">Crowded out via flexible work arrangements that overcome initial information asymmetry – human rather than social capital is rewarded</td><td>Low wage</td><td>Low wage</td><td rowspan="2">Crowded in as social rather than human capital is rewarded</td></tr>
<tr><td>Involuntary/ Voluntary Nonstandard jobs</td><td>Involuntary/ Voluntary Nonstandard jobs</td></tr>
</table>

Authors' own table

from rural to urban areas, are exploited for as much as 100 Euro-monthly wages working in poor working conditions and with diminishing morale and living circumstances, productivity, and consumer spending (Invest in Albania 2020). The "de jure" minimum wage regulation and enforcement is more of a quantitative rather than qualitative aspect of the labor market, mainly to converge with international labor ILO Convention 131 (1970) (Ahmad and Drishti 2019), but "de facto," it is only applied for the public sector segment (See Table 4 below).

Policymakers usually endogenously determine minimum wages since increased minimum wages may help address public demands to fight rising inequality. Minimum wage is set to rise again in 2021, and considering the fact that Albania is a developing country, the effect will result in increased and innovative ways of informal employment in the private sector. Due to an upsurge in informal labor supply, contracted wages ultimately will be resulting in an augmented informal sector. This is aligned with the economic theory which predicts that increasing the minimum wage decreases the formal employment of minimum-wage workers, when labor market is assumed perfectly competitive.

4.2 Employment Protection Legislation

Employment Protection Legislation (EPL) is a means of inflicting job security for workers by setting rules of hiring and firing. In this section, two main aspects of EPL for the Albanian case are discussed: nonstandard forms of employment (temporary/fixed-term contracts and part-time hours) and redundancy rules. According to Botero et al. (2004), the main determining factor of EPL is the national legal tradition. From an efficient institutions view, the introduction of EPL is related to the provision of workers coverage against the job insecurity of being made redundant of and to force employers to comply with social responsibility in the sense of legal and psychological contract.

4.2.1 Nonstandard Forms of Employment Arrangements and Labor Market Segmentation

Between 2007 and 2013, around 20% of employment was arranged via temporary contracts, either on full- or part-time hours. Over 80% of this work was reported as involuntary, that is, not by choice (INSTAT).

Graphs 6 and 7 include nations where the labor market regulation predicts an impediment of fixed-term contracts for permanent tasks.[19] The Albanian labor market regulation abides by this rule, but given the fact that the length of single and repeated fixed-term contracts is not restricted, it has been positioned in the very upper-right point with countries that have the same regulation. Maximimum values in this case are have been introduced in order to not exclude from the graph the “no limits” cluster (Turkey, Albania, and Croatia).

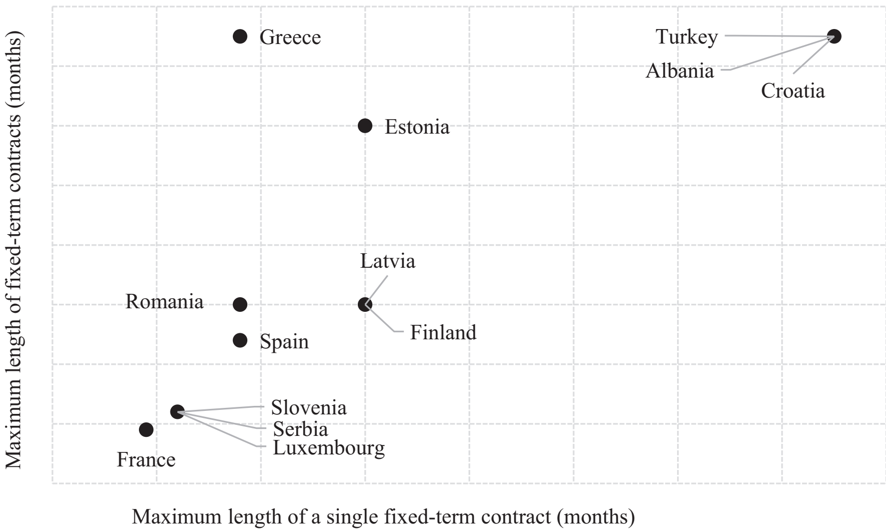
High turnover of civil servants at the central and local level is evidenced mainly at every postelection period when a new winning political force takes office. This was a familiar method of militant politicization in communism. In 2018 alone, the court bill of unfair political dismissal of public sector workers costed Albanian taxpayers some 13.4 million Euros (BIRN 2019). Recruitment of low-productivity outsiders without skills and experience but who support the political party’s coalition generates crowding in for standard jobs since political active membership which we have denoted as a form of social capital, rather than human capital,[20] is rewarded (Meyer-Sahling 2004, 2008, 2009). The introduction of flexibility into the labor market in postcommunist European countries has taken place in the context of established and stringent labor market regulations, e.g., high firing costs. Previous studies have reported that, on the one hand, labor market regulations such as higher firing costs translate into higher job security in favor to the so-called insiders in the primary labor market segment. While, on the other hand, they allow for the creation of more nonstandard jobs[21] in this already highly regulated setting, meaning that fewer of these nonstandard forms of employment (NSFE) will be converted into standard forms of employment (SFE).

Albania is quite liberal in terms of length of single and repeated flexible jobs, even though the Labour Code (Law) imposes de jure prohibition of fixed-term contracts for permanent tasks. NSFE have contributed toward the segmentation/dualization of the labor market, which is now characterized by the increased incidence

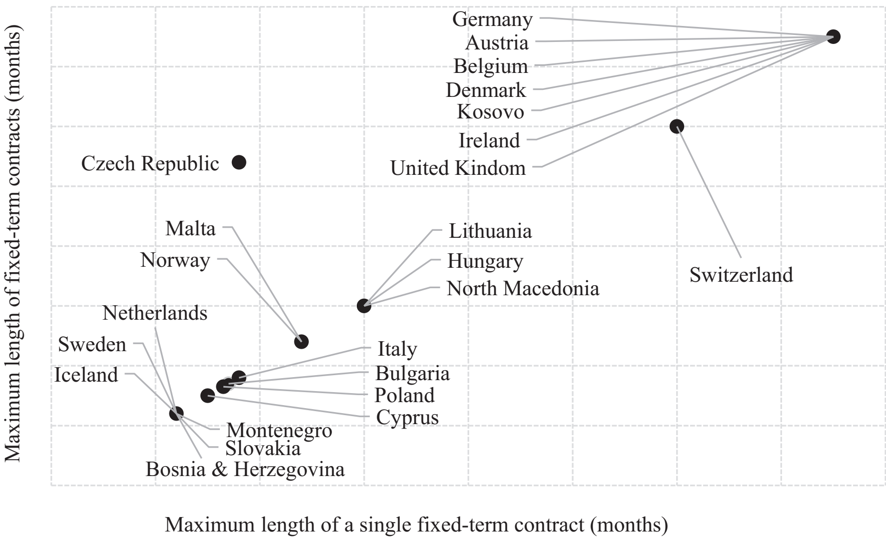
[19] For illustrative purposes, in Graphs 6 and 7, countries where the lengths of single and sequential fixed-term contracts had no restrictions are given the maximum scores of the abscissa and ordinate axis.

[20] Labour market experience, tenure, training, or further education over the minimum level in the job description.

[21] Albania has no legal limits for the maximum duration of “fixed term contracts”.



Graph 6 Fixed-term contracts prohibited for permanent tasks



Graph 7 Fixed-term contracts not prohibited for permanent tasks. (Authors' own figure; Source of data: Doing Business Database, The World Bank for 2017)

of precarious jobs and contraction of the standard employment base. The reason for this is that large firing costs are an incentive for employers to sequentially use and abuse NSFE – even for tasks that would otherwise be done by standard workers – rather than transform them into SFE. As a result, allowing for the creation of NSFE stimulates both job creation and destruction – boosting hirings and firings – but the second effect (destruction) is amplified by strict labor market regulation, and by default, the overall net effect is higher unemployment (Botero et al. 2004; Cahuc and Postel-Vinay 2002; Djankov and Ramalho 2009). For many individuals, this then translates in repeated spells of nonstandard jobs (Blanchard and Landier 2002; European Commission 2014; Gagliarducci 2005; Kahn 2010). In Albania, the incidence of NSFE has been influenced by the use of rigid labor market regulation for SFE jobs while the regulation for NSFE is absent.

Notwithstanding the fact that de jure temporary employment is not permitted for permanent tasks, the weak rule of law, high levels of corruption, and fictive industrial relations have never provided any de facto protection for nonstandard workers.

Research on this matter advises that the more heavily regulated a labor market, the more inclined employers will be to hire via flexible terms (Bentolila and Dolado 1994; Blanchard and Landier 2002; Cahuc and Postel-Vinay 2002). For example, in these studies, findings suggested that countries where an approval from a third party is necessary in order to dismiss a redundant worker,[22] the probability of hiring via temporary jobs is higher than in a country where such a request is not necessary. Regarding part-time employment, the prohibition of fixed-term work can increase part-time (permanent) employment. However, the incidence of part-time employment is lower when notification and obtaining an approval from third parties are required before dismissing an employee (Bentolila and Dolado 1994; Blanchard and Landier 2002; Cahuc and Postel-Vinay 2002).

This setting implies that "flexibility of" rather than "flexibility for" employees (Alis et al. 2006; Gash 2008) has been the outcome of nonstandard work expansion in Albania. Over the course of the last decade, in the nonagricultural sectors, approximately one in five jobs created has been in nonstandard employment – temporary and/or on part-time terms. Moreover, according to INSTAT, the share of informal work in the private nonagricultural sector was approximately one-third or 31.9% in 2016, and apart from those who work without a written contract and do not pay social and health benefits, it also includes employees who report lower wages (usually minimum wage).[23]

From the supply-side, the labor force includes high- and low-productivity workers, an analogy made in terms of "cherries" and "lemons" in Akerlof's (1970) seminal work "The Market for Lemons." From the demand-side, the contemporary postcommunist labor market reveals a multiple (Peck 1996) rather than dualistic (Doeringer and Piore 1985) segmentation, following the weakening or eradication of industrial relations structures and state regulation. The radical polarization into primary and secondary sectors (Doeringer and Piore 1985; Gordon et al. 1982) resulting from technological advancements or workplace politics may be more typical of the formal private sector. Critically, the secondary private segment has a considerable share of informal employment that has been "nourished" by a weak rule of law and corruption (see Table 4).

[22] This is not the case for Albania as industrial relations and tripartite systems are quite fictive and corrupt.

[23] In 2015, this figure was 34.1%
http://www.instat.gov.al/media/1914/tregu-i-pun%C3%ABs-2016.pdf

One argument to explain this is that firms in the private sector, prior to hiring, are unable to observe the productivity of job applicants (Farber 1999) which represents a situation of asymmetric information and embeds the risk of “hiring a lemon” (Gibbons and Katz 1991). The only information the firm has for a job applicant is his or her current labor market status. In the case of employed workers (who engage in on-the-job search), the signaling effect (Spence 1973) of being in employment is positive as it signifies high productivity and human capital accumulation, which is translated into higher prospects of being hired in standard jobs. For unemployed, inactive (student, trainees, interns, etc.), or other forms of nonparticipation, the utilization of nonstandard jobs allows employers to observe their productivity, and this strengthens his/her probability of transitioning to standard employment.

The problem with this “stepping-stone” argument is that in many postcommunist settings, studies show that flexible work arrangements more frequently lead to repeated spells of nonstandard jobs (Babos 2014; Tilly 1991). Kugler and Saint-Paul (2004) argue that since during downturns, firms dismiss low-quality workers who generate lower profits, in equilibrium, employed workers are more productive than the unemployed. Thus, firms concerned about the high firing costs will generally find it worthwhile to recruit on standard basis primarily from the pool of those in employment, be it standard or nonstandard.

The public sector in Albania is characterized by the strong EPL inherited from the past interventionist regime; therefore, the incidence of standard jobs in the public sector is higher than in the private sector. However, this sector is highly inefficient and bounded by two types of selectivity: (i) From the demand-side, it is characterized by resilient “partisan politicization” (Meyer-Sahling 2008, 2009). (ii) From the supply-side, the public sector is strongly preferred by Albanians in general, reflecting communist-era fatalist views of life and the need/expectation of job security/protection (D’Orlando and Ferrante 2009).

To some extent, this gives rise to selection bias since the sector attracts less-risk-taking individuals. Moreover, the public sector is attractive to some because it requires fewer demands on employees in relation to their productivity (e.g., hours of work, quality of work, and additional holidays) and offers multiple options for corruption and bribery. This comes from practices that were common throughout the communist regime when everyone worked in the state, i.e., the “public” sector, and individuals became more and more creative about ways to steal[24] from the state to generate additional benefits. The results of this study are in-line with these arguments, since for individuals working in the public sector (controlling for education), previous labor market status had no impact on the probability of working in a standard job.

[24] Workers would accept third shifts (from 12 p.m. to 07) and would steal from production lines or stocks to sell in the black market. Anecdotes in democracy for such practices would justify them as activities to “weaken/damage the communist regime” in charge.

4.2.2 Redundancy Rules

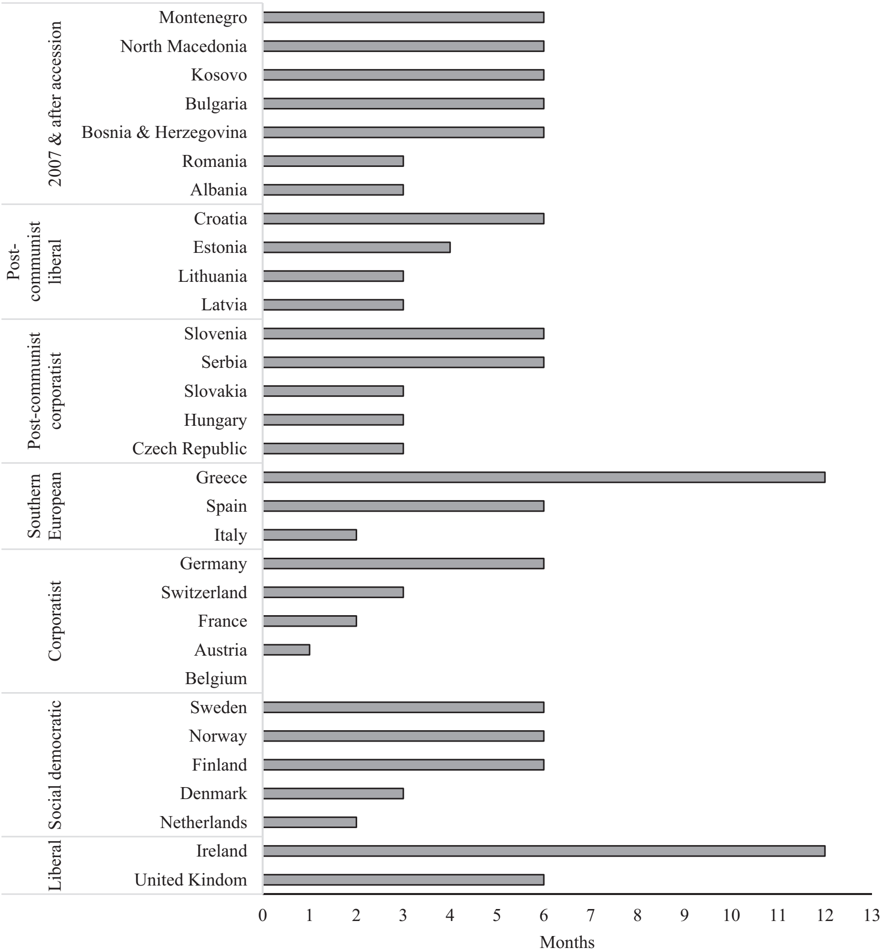
Redundancy rules refer to regulatory provisions related with hiring and firing, particularly those governing the maximum length of probationary period, third party consultations for one and nine worker/s dismissal, and rules for precedence of redundancy, reemployment, and retraining or reassignment. These "hiring and firing" rules, together with other labor market institutions such as NSFE and minimum wage, will be addressed as EPL.

The labor market effects of stringent EPL, as mentioned above, foster labor market segmentation and duality between the so-called "insiders" and "outsiders" which in turn translate to augmented labor market rigidity, inequality, and social exclusion requiring additional costs for their mitigation. Loss of security and protection from an "insider" or "primary segment" job implies loss of privileges and exposure to uncertainties of the labor market which also prevents them from moving to more productive jobs elsewhere (Cazes and Nesporova 2003). Overall, a highly regulated labor market diverges from a competitive one.

The Albanian EPL provisions a maximum 3 months of probationary period after which an employer must decide whether or not to hire a worker. In terms of firing, there are no requirements of notifying and let alone obtain approval from third parties (unions) neither for one nor for a collective dismissal of nine workers. In terms of labor market flexibility, this induces less frictions and interventions and stimulates labor movement, even though there are potential issues related to unfair dismissal.

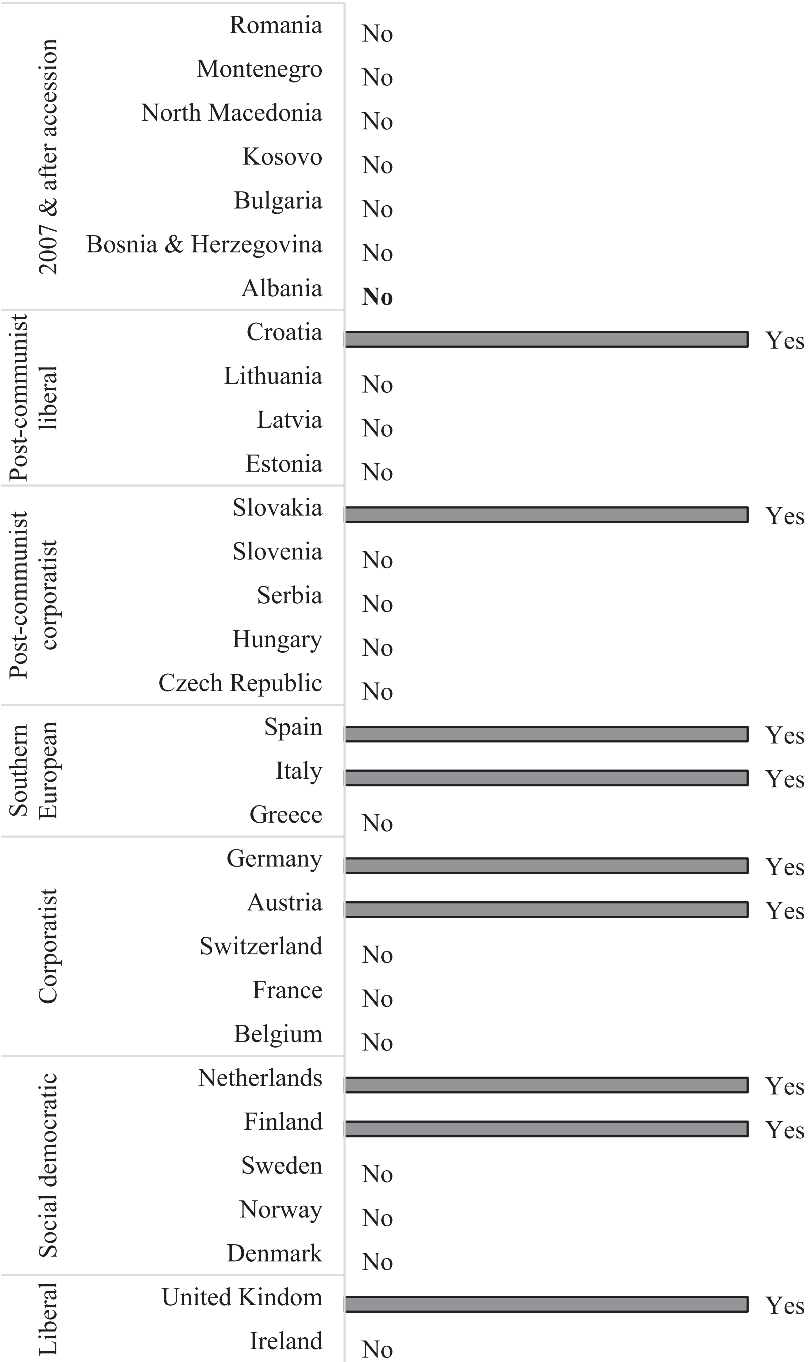
From an efficient perspective, the lack of social dialogue and negotiations diverges from Ronald Coase's political theorem of labor market-efficient outcomes. The ILO favors labor market interventions and tripartite arrangements since industrial relations would provide efficient results. Notwithstanding the arrangement of property rights, negotiating is sought to achieve an optimal distribution of resources providing transactions costs are low (Graphs 8 and 9).

Labor institutions play a redistributive role in terms of income for employees without damaging economic efficiency (Freeman 2005). Requiring the notification of a third party, obligating employers to prior retraining and reassignment before making a worker redundant, and the prevalence of priority rules with respect to reemployment of ex-employees after they have been dismissed, is predicted to have the same positive effect on job security and social responsibility of employers. In this regard, the Albanian labor regulation is less interventionist and quite flexible; however, previous evidence suggests that interventionists practices typical of CMEs result in better labor market performance (Graph 10).

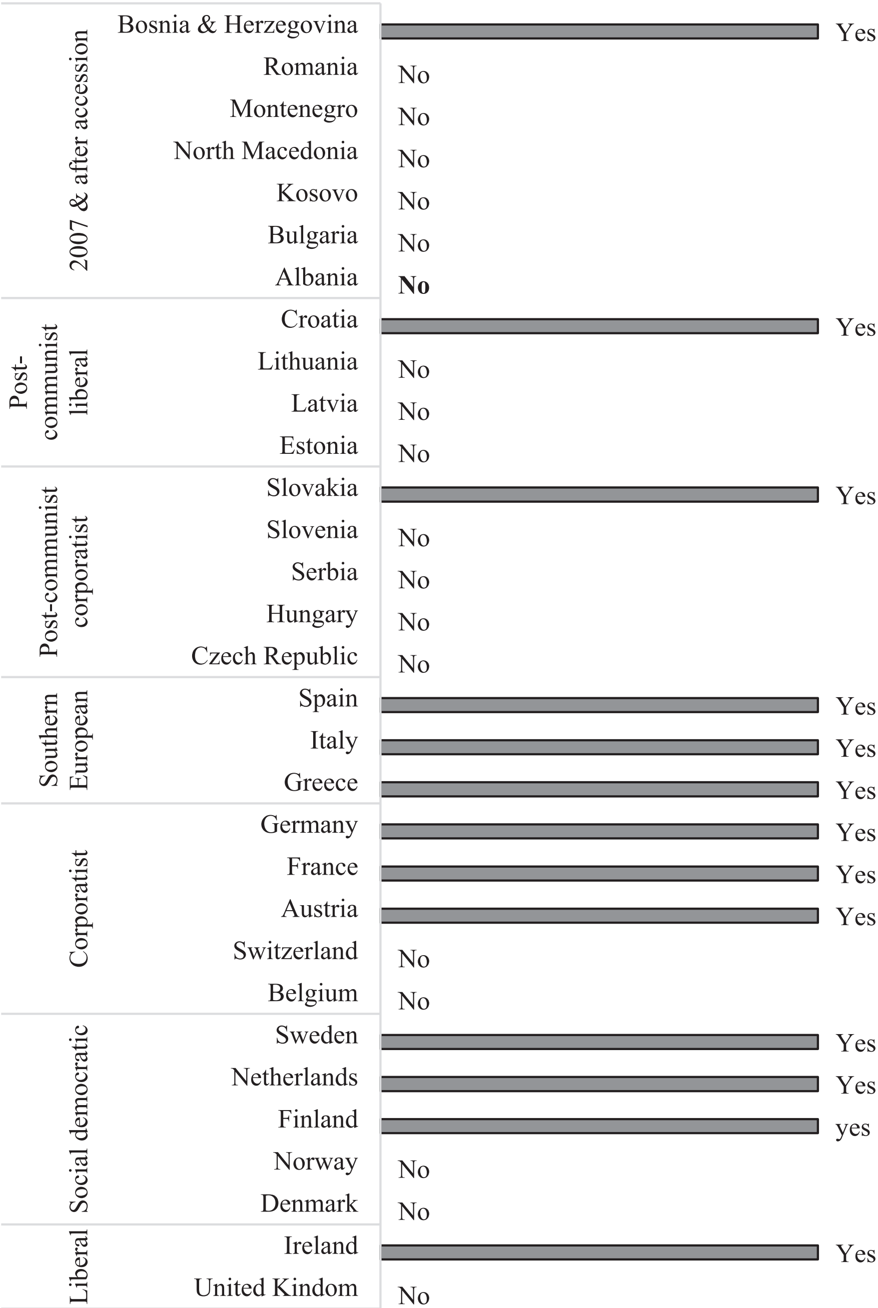


Graph 8 Maximum length of probationary period (months). (Authors' own figure; Source of data: Doing Business Database, The World Bank for 2017)

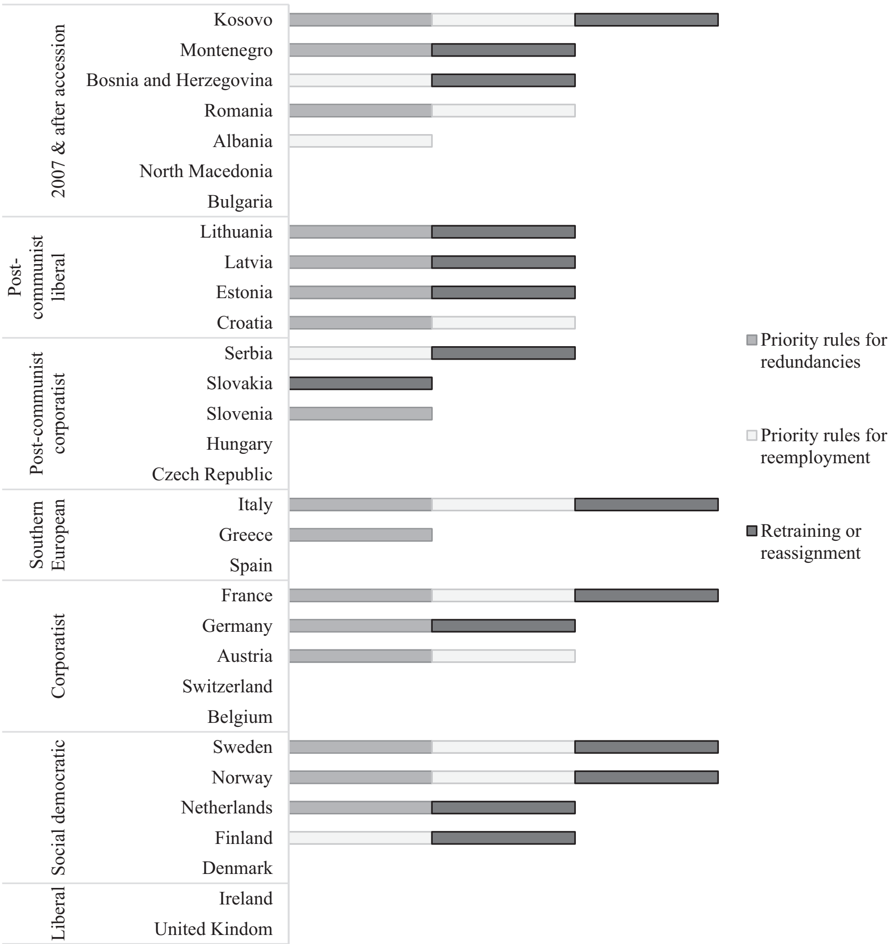
Tripartite systems which provide workers with proper union coverage result in higher wages, less working hours, and more training and tenure. At the national level, high union coverages contribute to lesser inequality and in-work poverty and have positive spillovers in terms of expanding economic performance – by lowering unemployment and inflation, and increasing productivity and faster adaptation to shocks (Freeman 2005, Graph 11).



Graph 9 Third-party notification if one worker is dismissed. (Authors' own figure; Source of data: Doing Business Database, The World Bank for 2017)



Graph 10 Third-party notification if nine workers are dismissed. (Authors' own figure; Source of data: Doing Business Database, The World Bank for 2017)



Graph 11 Rules for precedence of redundancy, reemployment, and retraining or reassignment. (Authors' own figure; Source of data: Doing Business Database, The World Bank for 2017)

5 Conclusion

The purpose of the current chapter was to determine whether institutions and macroeconomic performance explain labor market performance in Albania. The efficiency and distributional effects of both, welfare/institutional regime and labor market institutional context, were analyzed. We found that the promotion of institutional deregulation, i.e., flexibilization to lower the high shares of unemployment in postsocialist Albania, resulted in higher levels of labor market polarization and inefficiency, and ultimately higher unemployment. Standard employment is strictly protected and not easily accessible by nonstandard workers, therefore restricting them from upward mobility. The latter is typical of the "entrapment" or "dead end" hypothesis (Babos 2014; Booth et al. 2002).

The Albanian institutional/welfare regime is one of hybrid nature, which mixes conservative communist era legacies merged with rapid neoliberal reforms which translate in a simultaneous use of interventionist and flexible labor market institutions. This has given rise to a segmented labor market where different rules apply to different categories of workers in which the highest burden is placed on the most vulnerable groups such as female workers, with low educational attainments, and/or young workers who remain at risk of remaining entrapped in repeated spells of low-skilled and labor-intensive jobs and/or exiting to unemployment. Such an effect is moderated by the prominent low-economic performance and results in higher shares and unbalanced unemployment. Typical of countries with high unemployment rates, i.e., Mediterranean and postcommunist non-EU countries, is the higher female unemployment shares. This means that as the labor market gets tighter, women are the first to become unemployed and return as unpaid family workers. These labor markets are considered inefficient, and standard labor supply is reduced involuntarily.

Regarding the labor market institutions analyzed in this chapter, minimum wage, and employment protection legislation, the main key factor to keep in mind is the segmentation of the labor market between the public and private sector. The interventionist side of the hybrid institutional context of Albania is a characteristic of the public sector, which is more regulated in terms of minimum wage, but when it comes to employment protection legislation (nonstandard forms of employment and redundancy rules), high turnover of civil servants is driven by militant politicization. For the private sector, nonstandard jobs have contributed to a broadened segmentation of this sector which is characterized by an increased incidence of precarious jobs and contraction of the standard employment base.

The main institutional barriers are lack of proper and depoliticized union coverage, fragile institutional capacities such as corrupted and politicized labor inspectorates, and local tax offices which are hired by the party militants' base. Indifference toward the law enforcement is related to the government's interest to quantitatively inflate employment figures and the propagandized improved labor market performance to meet the EU integration requirements, reflecting the shortermizm of Albanian policymakers rather than a long-term approach which targets qualitative policy labor market instruments that increase the creation of decent jobs. On the other hand, migration and gender segregation, sluggish economic activity, and fiscal adjustments aimed at decreasing public deficit have hindered labor market institutions' performance. The "de facto" labor market institutions in Albania do not comply with Ronald Coase's theorem of efficient institutions' view as they contribute toward lower job quality, higher informal employment, and a predatory labor market structure.

This research has thrown up many questions in need of further investigation. Further research in this field would be of great help regarding the complementary nature of labor market institutions and policies and provide a rationale for the implementation of broad labor market reform packages. This means that the institutional arrangements beyond the labor market, i.e., product market, financial market, entrepreneurship capital, etc., need to have a proper investigation in order to provide additional insights for the reformation of the labor market institutions if unemployment, as a key efficiency indicator, is to be improved. Therefore, in terms of macro-level analysis, the divergent labor market outcomes in postcommunist EU countries and Albania cannot be credited to economic performance or labor market institutional regimes only, rather interactions of both had to be better well-thought-out as latent variables for this equation.

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How a Good Governance of Institutions Can Reduce Poverty and Inequality in Society?

Mario Coccia

Abstract The main aim of this chapter is to explain how institutional change, measured with a set of governance indicators, can support the reduction of poverty and inequality in society that is an essential prerequisite for supporting economic growth of nations. This chapter shows a study that investigates 191 countries to clarify the relationships between institutional variables and socioeconomic factors of nations with different levels of development. Central findings suggest that a good governance of institutions supports a reduction of poverty and income inequality in society. In particular, results of this study show that the critical role of good governance for reducing inequality and poverty has a effect in countries with stable economies higher than emerging and fragile economies. Overall, then, the study described in this chapter reveals that countries should focus on institutional change directed to improve governance effectiveness and rule of law that can reduce poverty and inequality, and as a consequence support the long-run (*sustainable*) socioeconomic development of nations.

Keywords Institutional change · Governance indicators · Economic governance · Government effectiveness · Rule of law · Income inequality · Equality · Poverty · Developing countries · Institutional framework · Governance approach · Institutions · Society and institutions · Institutional theory · Institutional development

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M. Coccia (✉)
National Research Council of Italy, IRCRES-CNR (Collegio Carlo Alberto), Moncalieri, TO, Italy
e-mail: mario.coccia@cnr.it

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1 Introduction

Social scholars argue that the development of human societies is due to good institutions that enable the definition and defense of political rights, civil liberties, and formal property rights (Aoki 2001; Bathelt and Glückler 2014; Campbell 2004; Coccia 2018a, 2019a; Dacin et al. 2002; Di Maggio and Powell 1991; Greif 2006; Kingston and Caballero 2009; North 1990; Ostrom 2005; Selznick 1996). Efficient institutions and good governance are essential prerequisites for long-run economic development of countries (Acemoglu et al. 2005; Coccia 2019a, b; Dixit 2009; Kotschy and Sunde 2017; Breunig and Majeed 2019). Economic literature reveals that democracy grants economic freedom, higher civil and political rights, and better rule of law, which support the economic growth of nations (Acemoglu and Johnson 2005; Acemoglu et al. 2008; Kyriazis and Karayiannis 2011). Socioeconomic studies focus on the relation among inequality, poverty, and institutional change, which affects the economic and social change of countries (Breunig and Majeed 2019; Kotschy and Sunde 2017; Pullar et al. 2018). In fact, high-income inequality in society leads to social conflicts and violence that can harm economic growth (Stiglitz 2013; Wilkinson and Pickett 2010; cf., Coccia 2017a). In this context, efficient institutions and efficacious institutional change, directed to poverty and inequality reduction, are important factors for fostering the appropriate functioning of economies (Chen and Pan 2019; Chong and Calderon 2000; Chong and Gradstein 2007a, b; Pullar et al. 2018; Ravallion 2001, 2002, 2016; Zou et al. 2019). The contribution here expands these research topics by asking *whether* and *how* a good governance of institutions affects poverty alleviation and inequality reduction between countries. In particular, this chapter endeavors to clarify two research questions:

- *How* is the relationship between structure and governance of institutions, income inequality, and poverty across countries?
- *How* structure and governance of institutions affect inequality and poverty reduction in countries with different levels of development? Is this relation stronger in emerging or advanced nations?

The response to these questions can explain the critical relationships between institutional change, measured with governance indicators, and levels of poverty and inequality in society. In short, the basic argument of this chapter can be schematically summarized as follows:

Institutions and Institutional change directed to **good governance**	➡	↓ *REDUCTION OF INEQUALITY* ↓ *REDUCTION OF POVERTY*

The chapter design here is based on a dataset of 191 countries. Statistical analyses seem to reveal that a good governance of institutions has a higher impact on reducing poverty, rather than income inequality in society. Specifically, this chapter shows that good governance reduces poverty both in poor and rich countries, though advanced and stable nations have a stronger effect of reduction. This result suggests that a good governance of institutions is a main policy for poverty alleviation to improve socioeconomic conditions within countries and sustain long-run economic growth. Section 2 provides a theoretical background and a brief review about studies related to these topics. Data, measures, and study design are described in Sect. 3. Statistical analyses are in Sect. 4, focusing on the interaction between indicators of good governance, inequality, and poverty, both using data of all countries worldwide and data of countries categorized with different levels of development and socioeconomic fragility. The final Sect. 5 suggests implications for the political economy of growth, based on good practices of governance targeted to reduce inequality and poverty for supporting socioeconomic development of countries.

2 Theoretical Framework

The main purpose of this chapter is to determine *if* and *how* governance of institutions affects and reduces levels of poverty and income inequality in society. The solution of this problem can lay the foundations for best policies that increase the efficiency of economic system and support determinants of the growth of countries. Firstly, it is important to clarify the concept of governance, which is basic for this chapter here. Manifold definitions about the concept of governance are present in literature (cf., Campos and Nugent 1999; Campos 2000; Streeten 1996; Dethier 1999; International Monetary Fund 1997). The World Bank (1994, 1995, 1996) has also proposed different approaches to operationalize the concept of governance for empirical studies (cf., Kaufmann et al. 1999). In particular, governance is based on vital dimensions, such as: rule of law, executive, bureaucracy, the character of policy-making process, and civil society (cf., Campos 2000). These institutional dimensions are associated with good governance if the executive branch of government is accountable for its actions; the quality of the bureaucracy is high such that it is efficient and capable of adjusting to changing social needs; the legal framework is appropriate to circumstances and has command broad consensus; the policy-making process is open and transparent so that all affected groups may have inputs into the decisions to be made; and finally, civil society is strong so as to enable it to participate in public affairs. These dimensions of good governance have complementary relationships (World Bank 1994). Secondly, it is important to discuss the main effects of good governance in socioeconomic systems, considering studies at micro level (cf., Pritchett et al. 1997; Coccia and Benati 2018) and at macroeconomic level of a single characteristic of governance between countries (cf., Ball and Rausser 1995). In general, governance characteristics affect the behaviour of socioeconomic systems over time and space. In this context, Persson and Tabellini (2003) claim that constitutional arrangements have the ability to influence economic policies and thus patterns of socioeconomic development of nations (cf., Coccia 2017e). Acemoglu et al. (2008) argue that political and economic development paths are mainly interwoven. In particular, liberal democracy (with effective legal system and political competition) can support a good governance that will translate into improved social cohesion, control of violence, and economic performance of nations (Acemoglu et al. 2008; Coccia 2010; Farazmand and Pinkowski 2006; Farazmand 2019; cf., Coccia 2017a, 2018a, b, c, d; Coccia 2019b, e, f; Coccia and Bellitto 2018).

One of the important issues in institutional theory is to analyze *how* the concept of good governance is associated with socioeconomic indicators to explain relationships supporting the development of nations. Especially, it is important to clarify *if* institutional dimensions of good governance generate stronger effects on specific factors of socioeconomic development (UNDP 1995). Overall, then, relations among good governance indicators, inequality, and poverty play a vital role for the economic growth of nations.

2.1 Governance and Inequality in Society

Kotschy and Sunde (2017) point out that excessively high levels of income inequality erode institutional quality even in democracies, up to the point that democracies cannot implement good institutional framework and governance in the presence of high income inequality in society. Piketty (2014) shows that inequality can lead to a breakdown of good governance and institutional quality in democracies. However, emerging countries can overcome the problem of weak governance of institutions by achieving a democratic consolidation (cf., Faghih and Zali 2018; Guzmán et al. 2019; Lindseth 2017; Aidt and Jensen 2013; Bartlett 1996). In general, the interaction between activities of political institutions and level of inequality shapes institutional governance. In fact, De Tocqueville (1835) argued that high economic inequality can generate a deterioration of the equality of rights. Lipset (1959) claimed that income and equality are basic prerequisites of universal civil rights and economic freedom for the wealth of nations. In this context, Acemoglu et al. (2005) suggest that political institutions and the distribution of resources are critical factors for supporting institutional and economic change of countries. In particular, these factors can explain how institutions affect economic performance and the allocation of resources in society (cf., Olson 1982; Coccia 2005b). Many studies suggest that efficient political institutions and moderate income inequality are conducive to economic growth (Acemoglu et al. 2005). Berg et al. (2018) show that low inequality is associated with faster and more durable economic growth. These scholars also find that more unequal societies tend to redistribute more, but that redistribution does not generate a major effect on economic growth. Cingano (2014) suggests that high inequality has a negative impact on economic growth, because income inequality negatively interacts with human capital and prevent growth. Coccia (2017a) reveals that a high income inequality increases violence in society, creating problems that harm economic growth. The study by Gründler and Scheuermeyer (2018) also reveals negative effects of inequality in poor and middle-income countries. This effect is due to fragile public infrastructure, inefficient institutions, capital market imperfections, and other problematic factors of socioeconomic systems (cf., Coccia 2009). Moreover, processes of redistribution are positive mechanisms for development of poor and middle-income countries but harmful for economic growth in rich countries. Generally, studies suggest a variety of results: inequality limits growth, inequality does not affect development, inequality fosters economic growth, etc. (cf., Cingano 2014; Halter et al. 2014; Lazear and Rosen 1979; Foellmi and Zweimüller 2006). As a matter of fact, high-income inequality could lead to social conflict and exclusion that harm growth of countries (cf., Coccia 2017a; Stiglitz 2013; Wilkinson and Pickett 2010). Some scholars also claim that inequality reduction can decrease investment in education and accumulation of physical capital, and as a consequence, deteriorate long-run economic growth (Checchi et al. 1999; Mookherjee 2006; Okun 2015). Halter et al. (2014) show that high inequality stimulates economic performance and growth in the short run, but high inequality has a negative effect on long-run economic growth (cf., Forbes 2000). Galor and Moav (2004) and Galor and Zeira (1993) state that inequality can affect economic growth by depriving the poor of healthcare and education that are basic factors for human capital development and overall efficiency of institutions and of nations. Finally, Perotti (1996), on the one hand, shows that more equal societies have lower rates of fertility and higher levels of investments in education and research & development that support economic growth. On the other hand, high inequality is associated with economic-political instability and high violence that reduce economic growth of nations (Perotti 1996; cf., Coccia 2017a); furthermore, growth of inequality in land and income ownership has a negative effect on economic development (Alesina and Perotti 1996). Overall, then, a fruitful interaction between income inequality and efficient institutions is basic for supporting economic system and social stability of nations.

2.2 Good Governance and Poverty in Society

Another vital factor in economic system is the level of poverty. Breunig and Majeed (2019) argue that the negative effect of inequality on growth seems to be concentrated in countries with high levels of poverty. Studies suggest that effective and efficient institutions can support a good governance to achieve long-run social and economic objectives, such as low levels of inequality and poverty. Sachs (2005) argues that low income can confine societies to a poverty trap because of a less productive workforce. Bowles et al. (2006) discuss the role of institutions and governance in perpetuating poverty traps. In addition, poverty can increase the growth rates of population, which retard economic growth (Ravallion 2016). In this context, López (2006) and López and Servén (2009) argue that low investments in education and health sector and a low accumulation of physical capital affect both level of poverty and of economic growth. Azariadis and Stachurski (2005) point out that poverty impedes the accumulation of physical capital, human development, and diffusion of new technology that are critical drivers of economic growth (cf., Coccia 2005a, b, c; Coccia 2006a, b, 2008, 2015, 2017c, d, e, 2020b, c; Coccia and Wang 2015). In short, economic literature shows that poverty seems to have a negative effect on investments and growth of countries having a fragile economic and financial structure (Perry 2006).

Hence, how (*good*) governance of institutions affects poverty alleviation can clarify vital relations underlying social cohesion and economic growth of countries.

This chapter, within this theoretical framework, endeavors to explain the interrelationships among levels of good governance indicators, poverty, and inequality to suggest economic and institutional policies for supporting economic growth of nations.

3 Method

Let start remarking that the measurement of the various dimensions of good governance is a hard topic in social sciences because these characteristics have multidimensionality (cf., Campos 2000; Long 1970; Raiser et al. 2000; Rocco and Thurston 2014). The study here considers a set of indicators to analyze institutional change of economies over time. The concept of governance and its institutional dimensions by World Bank (1992, 1994, 2008, 2013) provide the basis for study design here (Norris 2008; cf., Campos 2000).

3.1 Data and Their Sources

The study is based on a dataset of $N = 191$ countries with variables in different years (2000, 2004 and 2007), which are combined in a logical model as explained later. Sources of data are: Norris (2008), the OECD (2013), the World Bank (2008), and the Worldwide Governance Indicators (2019).

3.2 Measures

- *Institutional Change and Good Governance Indicators*

Institutional change is measured here with the level of good governance across countries (World Bank 1992). In this context, the concept of good governance is different from economic governance, which is defined as: “the structure and functioning of the legal and social institutions that support economic activity and economic transactions by protecting property rights, enforcing contracts, and taking collective action to provide physical and organizational infrastructure. Economic governance is important because markets, and economic activity and transactions more generally, cannot function well in its absence" (Dixit 2009, p. 5*ff*). Good governance is measured with indicators of formal laws or rules and indicators that measure practical applications or outcomes of these rules (Kaufmann et al. 1999). The indicators applied to measure good governance in this study are listed here, and the description of details is in Appendix A:

- Kaufmann Voice and Accountability Index in year 2000
- Kaufmann Political Stability and Absence of Violence/Terrorism in year 2000
- Kaufmann government effectiveness in year 2000
- Kaufmann government regulatory quality in year 2000
- Kaufmann Rule of Law in year 2000
- Kaufmann Control of Corruption in year 2000

Another main indicator of governance is "summary good governance 1996" by Kaufmann and Kraay, having a range [−2; +2] from the lowest to the highest level (cf., Norris 2008). This indicator is associated with indicators of governance just mentioned that are rather stable over the course of time (cf., Kaufmann et al. 1999, 2008, 2010; Norris 2008; Worldwide Governance Indicators 2019; Thomas 2010). This set of indicators is a main base to analyze institutional change of economies over time (cf., Campos 2000).

- *The socioeconomic indicators* used here are:
  - Income inequality that is measured with Gini coefficient in the year 2004
  - Poverty that is measured with poverty index value (%) in the year 2004

and some analyses also use the following socioeconomic variables:

- Gross Domestic Product (GDP) per capita based on purchasing power parity (PPP) in the year 2007
- Annual population growth rate, average 1975–2002 period
- The Human Development Index (HDI) in the year 2004

3.3 Statistical Analyses, Model Specification, and Estimation Method

Firstly, descriptive statistics (based on arithmetic mean, std. deviation, skewness, and kurtosis coefficients) assess the normality of distributions and if necessary distributions of variables are fixed with a *log*-transformation. Statistical analyses are also performed categorizing the countries with 3-categories of fragile states in 2006 (cf., Norris 2008; see Appendix B in this chapter here):

(a) *Fragile* (proxy of emerging countries)
(b) *Intermediate* (proxy of low- and middle-income countries)
(c) *Stable* (proxy of advanced countries)

The classification of stable, intermediate, and fragile countries is associated with the type of economy of nations measured with the level of Gross Domestic Product per Capita (GDPPC) in purchasing power parity (World Bank 2009): i.e., countries with *High* GDPPC (\$15,000+) ≈ stable economies, *Medium* GDPPC (\$2000–14,999) ≈ intermediate economies, and *Low* GDPPC (\$2000 or less) ≈ fragile economies. These categories of nations also have a decreasing intensity of democracy from high to low levels of GDPPC (cf., Coccia 2020a). This approach can show the effects of good governance indicators between countries with different levels of socioeconomic development.

Secondly, bivariate and partial correlation verifies relationships (or associations) between variables understudy and measures the degree of association.

Thirdly, the statistical analysis here investigates the relation between independent and dependent variables. In particular, dependent variables (poverty or income inequality, accordingly) are considered as a linear function of a single independent variable or multiple explanatory variables given by good governance indicators and other socioeconomic variables listed in the previous section. Dependent variables have in general *a lag of 4–8 years* in comparison with explanatory variables to consider long-run dynamic effects of predictors on dependent variables understudy. In general, the relationships here are supported by arguments of Acemoglu et al. (2005), Bowles et al. (2006), Breunig and Majeed (2019), and Olson (1982).

The specification of linear model is:

$$y = \alpha + \beta x + u \tag{1}$$

α = constant, β = coefficient of regression, and u = error term.
y = dependent variable is income inequality (GINI coefficient 2004) or poverty (human poverty index % 2004), respectively.
x = explanatory variable is a measure of the good governance given by: summary good governance 1996 by Kaufmann-Kraay, *or* Kaufmann government effectiveness 2000, *or* Kaufmann government regulatory quality 2000, *or* Kaufmann Rule of Law 2000.

In addition, this study extends the analysis with a multiple regression model to assess how different good governance indicators can affect either income inequality or poverty (as dependent variables). The specification of the dependent variable as a linear function of more explanatory variables x_i (i indicates different variables from 1, …, to n) is:

$$y = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \cdots + \beta_i x_i + \cdots + \beta_n x_n + \varepsilon \tag{2}$$

α = constant, β_i = coefficients of regression, and ε = error term.
y = dependent variable is income inequality (GINI coefficient 2004) *or* poverty (human poverty index % 2004), respectively.
x_i = explanatory variables: Kaufmann voice and accountability 2000, Kaufmann political stability 2000, Kaufmann government effectiveness 2000, Kaufmann government regulatory quality 2000, Kaufmann rule of law 2000, and Kaufmann corruption 2000.

The statistical analysis also considers the standardized coefficients Beta of estimated relationships to analyze in a comparable framework the different effect of good governance indicators on inequality reduction and poverty alleviation. The relationships (1) and (2) are analyzed considering all sample and subsets of the sample based on fragile, intermediate, and stable economies (as described before) to assess how good governance affects inequality and poverty in countries with different levels of development and socioeconomic stability. Before discussing the empirical results of this study, it is important to remark that the statistical analysis here is exploratory because there is not a specific formal model but a general theoretical framework in which the proposed findings can be checked against to assess consistency. In addition, in this study, institutions are assumed to be exogenous to the socioeconomic indicators of countries under study, thereby justifying the use of the method of Ordinary Least Squares (OLS), as performed by other scholars (cf., Campos 2000). In particular, OLS method is applied for estimating the unknown parameters of relations in linear regression models (1 and 2). Statistical analyses are obtained with the Statistics Software SPSS® version 24.

4 Results

The purpose of the present results is to see whether statistical analyses can explain the research questions stated in Introduction. In particular, the contribution here endeavors to clarify *whether* and *how* good governance of institutions affects poverty alleviation and inequality reduction between countries. In addition, results have also to clarify, whenever possible, how good governance indicators affect poverty reduction in emerging or advanced economies. The results can extend the empirical studies in this field of research for explaining the relationships between institutional change, measured with good governance indicators, and levels of poverty and inequality to support best practices of political economy in society.

The statistical analyses show results considering overall sample of countries ($N = 191$) and three subsets of countries categorized with socioeconomic fragility (i.e., stable, intermediate, and fragile countries) to explain, as far as possible, the relationships between good governance indicators, poverty, and income inequality in society.

Table 1 shows that fragile and intermediate countries have a high average level of income inequality and poverty. This result is associated with negative indicators of good governance. By contrast, stable countries, richer and with a consolidated democracy, have a lower level of poverty and higher levels of good governance, such as Kaufmann voice and accountability, political stability, government effectiveness, government regulatory quality, rule of law, and corruption control (cf., Fig. 1).

Table 2 reveals that a reduction of poverty has a high association with the improvement of government effectiveness, rule of law, and corruption control, synthesized with an improvement of the indicator of “summary good governance”

Table 1 Descriptive statistics

Classification of fragile states (Recoded from Stable2006)			Income inequality GINI coefficient 2004	Poverty index (%) 2004	Kaufmann government effectiveness 2000	Kaufmann government regulatory quality 2000	Kaufmann rule of law 2000	Kaufmann Kraay summary good governance 1996
Fragile	*N*	Valid	42	44	58	58	58	52
		Missing	16	14	0	0	0	6
	Mean		40.05	29.76	−0.77	−0.72	−0.85	−0.74
	Std. Deviation		8.67	14.58	0.59	0.80	0.64	0.62
Intermediate	*N*	Valid	52	38	68	68	68	58
		Missing	16	30	0	0	0	10
	Mean		42.95	29.72	−0.19	−0.18	−0.27	−0.18
	Std. Deviation		10.18	16.84	0.81	0.84	0.73	0.69
Stable	*N*	Valid	32	13	60	60	60	40
		Missing	32	51	4	4	4	24
	Mean		35.69	18.84	0.86	0.73	0.91	0.99
	Std. Deviation		11.36	16.53	0.85	0.80	0.70	0.57

Source: Author's own table based on statistical analyses performed in 2020

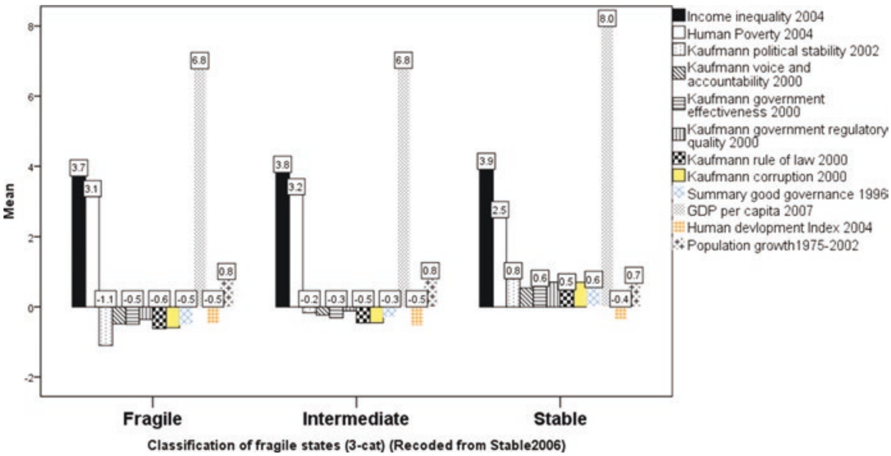

Fig. 1 Clustered bars of variables per fragile states (3-categories)
Note that some variables are in *log* scale to improve the visual representation of the bar graph in a comparable framework of arithmetic mean on *y*-axis.
*Source***:** Author's own figure based on statistical analyses performed in 2020

(r = −0.40, p-value = 0.001). Instead, a reduction of income inequality has a high association mainly with the improvement of government effectiveness and rule of law (r = −0.33, p-value = 0.001; r = −0.34, p-value = 0.001 respectively, cf., Table 2).

If correlation analysis is performed considering the categorization of countries in fragile, intermediate, and stable, based on their level of development and stability, results suggest that (Table 3):

- In *fragile countries*, the reduction of poverty has a high association with increases of the indexes of voice and accountability, government effectiveness, rule of law, and corruption control, synthetized with an improvement of the indicator of "summary good governance" (r = −0.50, p-value<0.001).
- In *intermediate countries*, the reduction of poverty has a high association with the increase of indicator of government effectiveness (r = −0.36, p-value<0.001).
- In *stable countries*, the reduction of poverty has a high association with increases of the indexes of political stability, government effectiveness, rule of law, and corruption control, synthetized with an improvement of the indicator of "summary good governance" (r = −0.68, p-value<0.05).

Table 4 shows that high coefficients of partial correlation, controlling income inequality, are between poverty and government effectiveness (pr = −0.50, p-value<0.001), government regulatory quality (pr = −0.51, p-value < 0.001), and summary of good governance (pr = −0.45, p-value<0.001).

If the partial correlation (controlling income inequality) is performed considering the classification of fragile, intermediate, and stable economies, results reveal that the impact of good governance on poverty is higher in stable countries

Table 2 Bivariate correlation between inequality, poverty, and different good governance indicators

	Poverty index (%) 2004	Income inequality GINI coefficient 2004	Kaufmann voice and accountability 2000	Kaufmann political stability 2000	Kaufmann government effectiveness 2000	Kaufmann rule of law 2000	Kaufmann corruption 2000	Kaufmann-Kraay summary good governance 1996
Poverty index 2004	1	−0.064	−0.357***	−0.308***	−0.504***	−0.442***	−0.391***	−0.395***
N	95	70	95	95	95	95	95	80
Income Inequality 2004	−0.064	1	−0.230**	−0.233**	−0.327***	−0.342***	−0.298***	−0.295***
N	70	126	126	126	126	126	126	119

Note: ***Correlation is significant at the 0.001 level (2-tailed)
**Correlation is significant at the 0.01 level (2-tailed)
Source: Author's own table based on statistical analyses performed in 2020

Table 3 Correlation between different good governance indicators, inequality, and poverty per classification of fragile states

		Poverty index (%) 2004	Income inequality GINI coefficient 2004	Kaufmann voice and accountability 2000	Kaufmann political stability 2000	Kaufmann government effectiveness 2000	Kaufmann rule of law 2000	Kaufmann corruption 2000	Kaufmann Kraay summary good governance 1996
Fragile	Poverty index (%) 2004	1	−0.140	−0.472***	−0.379**	−0.595***	−0.586***	−0.421**	−0.497***
	N	44	32	44	44	44	44	44	39
	Income inequality GINI coefficient 2004		1	0.193	0.035	−0.049	−0.176	−0.153	0.042
	N	32	42	42	42	42	42	42	39
Intermediate	Poverty index (%) 2004	1	−0.081	−0.100	−0.034	−0.356*	−0.049	−0.156	−0.212
	N	38	30	38	38	38	38	38	31
	Income inequality GINI coefficient 2004	−0.081	1	−0.171	−0.284*	−0.266	−0.285*	−0.197	−0.206
	N	30	52	52	52	52	52	52	49

(continued)

Table 3 (continued)

		Poverty index (%) 2004	Income inequality GINI coefficient 2004	Kaufmann voice and accountability 2000	Kaufmann political stability 2000	Kaufmann government effectiveness 2000	Kaufmann rule of law 2000	Kaufmann corruption 2000	Kaufmann Kraay summary good governance 1996
Stable	Poverty index (%) 2004	1	0.319	−0.419	−0.589*	−0.543*	−0.660**	−0.501	−0.679*
	N	13	8	13	13	13	13	13	10
	Income inequality GINI coefficient 2004	0.319	1	−0.485**	−0.440**	−0.403*	−0.398*	−0.282	−0.395*
	N	8	32	32	32	32	32	32	31

Note: ***Correlation is significant at the 0.001 level (2-tailed)
**Correlation is significant at the 0.01 level (2-tailed)
*Correlation is significant at the 0.05 level (2-tailed)
Source: Author's own table based on statistical analyses performed in 2020

Table 4 Partial correlation, controlling income inequality

Control variable, Income inequality GINI coefficient 2004		Kaufmann government effectiveness 2000	Kaufmann government regulatory quality 2000	Kaufmann rule of law 2000	Summary good governance 1996	Poverty index (%) 2004
Kaufmann government effectiveness 2000	Correlation	1.000	0.846***	0.879***	0.864***	−0.503***
	df	0	62	62	62	62
Kaufmann government regulatory quality 2000	Correlation	0.846***	1.000	0.787***	0.829***	−0.513***
	df	62	0	62	62	62
Kaufmann rule of law 2000	Correlation	0.879***	0.787***	1.000	0.888***	−0.391***
	df	62	62	0	62	62
Summary good governance 1996	Correlation	0.864***	0.829***	0.888***	1.000	−0.454***
	df	62	62	62	0	62
Poverty index (%) 2004	Correlation	−0.503***	−0.513***	−0.391***	−0.454***	1.000
	df	62	62	62	62	0

Note: ***Correlation is significant at the 0.001 level (2-tailed)
Source: Author's own table based on statistical analyses performed in 2020

($pr_{\text{stable economies}} = -0.77$, p-value = 0.04), rather than fragile and intermediate countries (Table 5). These findings suggest that other factors, such as higher political stability and democratization, generate reinforcing effects on fruitful interaction between poverty alleviation and good governance indicators.

Tables 6 shows regression analysis: the linear model considers income inequality as dependent variable. The reduction of income inequality here, driven by good governance, is high within stable countries ($\beta = -7.80$, p-value = 0.05), whereas in fragile and intermediate countries the results are not significant. In stable countries, the coefficient R^2 explains about 16% variance in the data (cf., Fig. 2 for estimated regression line using data of $N = 118$ countries). Although R^2 is low in the model for all sample and for stable countries, the Ftest is significant (p-value<0.001 and p-value = 0.03, respectively), then independent variable reliably predicts dependent variable (i.e., income inequality).

Tables 7 considers the poverty as a dependent variable. In this case, the reduction of poverty in stable countries, driven by good governance of institutions, has a coefficient of regression $\beta = -22.15$ (p-value = 0.05) that is roughly twofold than magnitude in fragile countries ($\beta = -13.31$, p-value = 0.001). Fragile countries have a coefficient R^2 that explains more than 25% variance in the data, whereas the coefficient R^2 in model of stable countries explains about 46% of variance in the data (cf.,

Table 5 Partial correlation per classification of fragile states, controlling income inequality

	Control variable, Income inequality GINI coefficient 2004		Summary good governance indicator 1996	Poverty index (%) 2004
Fragile	Summary good governance 1996	Correlation	1.000	−0.539**
		df	0	26
	Poverty index (%) 2004	Correlation	−0.539**	1.000
		df	26	0
Intermediate	Summary good governance 1996	Correlation	1.000	−0.408*
		df	0	25
	Poverty index (%) 2004	Correlation	−0.408*	1.000
		df	25	0
Stable	Summary good governance 1996	Correlation	1.000	−0.772*
		df	0	5
	Poverty index (%) 2004	Correlation	−0.772*	1.000
		df	5	0

Note: **Correlation is significant at the 0.01 level (2-tailed)
*Correlation is significant at the 0.05 level (2-tailed)
Source: Author's own table based on statistical analyses performed in 2020

Table 6 Parametric estimates of the relationship of good governance of institutions on income inequality across countries (*simple regression analysis*)

Explanatory variable: summary of good governance 1996				
Dependent variable	Constant α (St. Err.)	Coefficient β (St. Err.)	R^2 (St. Err. of the Estimate)	*F-test* (sign.)
Gini coefficient 2004	39.93***	−3.44***	0.09	11.15
• *All sample*	(0.88)	(1.03)	(9.60)	(0.001)
Gini coefficient 2004	40.36***	0.73	0.001	0.07
• *Fragile countries*	(2.02)	(2.84)	(8.15)	(0.80)
Gini coefficient 2004	41.87***	−3.10	0.04	2.09
• *Intermediate countries*	(1.40)	(2.15)	(9.59)	(0.16)
Gini coefficient 2004	43.95*	−7.80**	0.16	5.36
• *Stable countries*	(4.14)	(3.37)	(10.72)	(0.03)

Note: ***Significant at 0.001
**Significant at 0.01
*Significant at 0.05
Source: Author's own table based on statistical analyses performed in 2020

Fig. 3 for estimated regression line, using data of $N = 79$ countries). The linear model with poverty, as a dependent variable, has the F value that is significant (p-value<0.001 for all sample and p-value < 0.05 for stable economies), as a

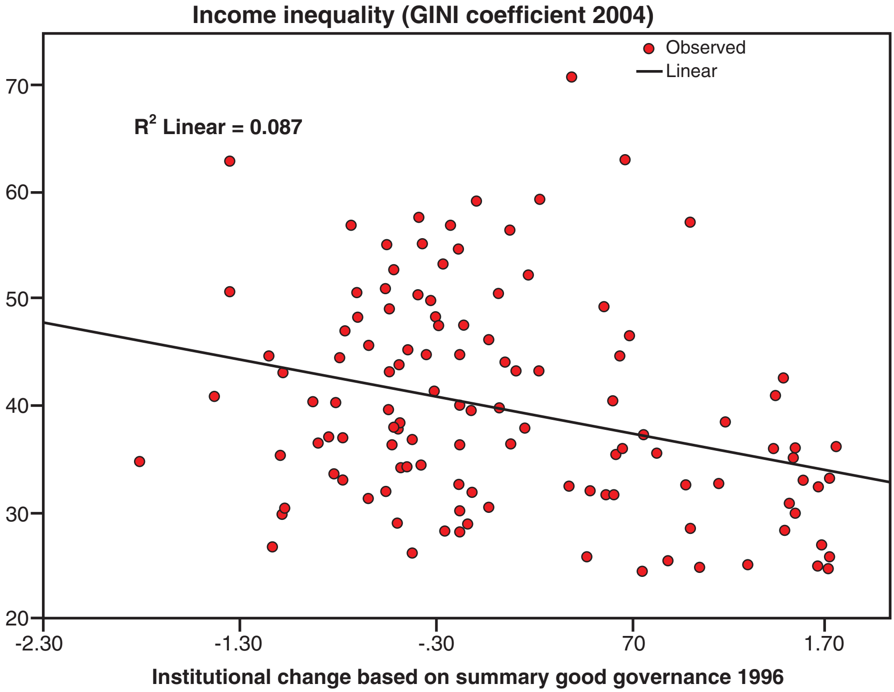

Fig. 2 Regression line of good governance 1996 on income inequality 2004
Eq. *income inequality 2004*=39.93−3.44 *good governance1996* +ε
Source: Author's own figure based on statistical analyses performed in 2020

Table 7 Parametric estimates of the relationship of good governance on poverty (*simple regression analysis*)

Explanatory variable: summary of good governance 1996				
Dependent variable	Constant α (St. Err.)	Coefficient β (St. Err.)	R^2 (St. Err. of the Estimate)	*F-test* (sign.)
Poverty Index 2004	23.02***	−10.13***	0.16	14.45
All sample	(1.99)	(2.67)	(14.79)	(0.001)
Poverty Index 2004	18.65***	−13.31***	0.25	12.15
Fragile countries	(3.27)	(3.82)	(12.46)	(0.001)
Poverty 2004	25.25***	−8.41	0.05	1.36
Intermediate countries	(4.14)	(7.20)	(17.45)	(0.25)
Poverty Index 2004	32.66***	−22.15*	0.46	6.86
Stable countries	(6.24)	(8.46)	(13.98)	(0.03)

Note: ***Significant at 0.001
*Significant at .05
Source: Author's own table based on statistical analyses performed in 2020

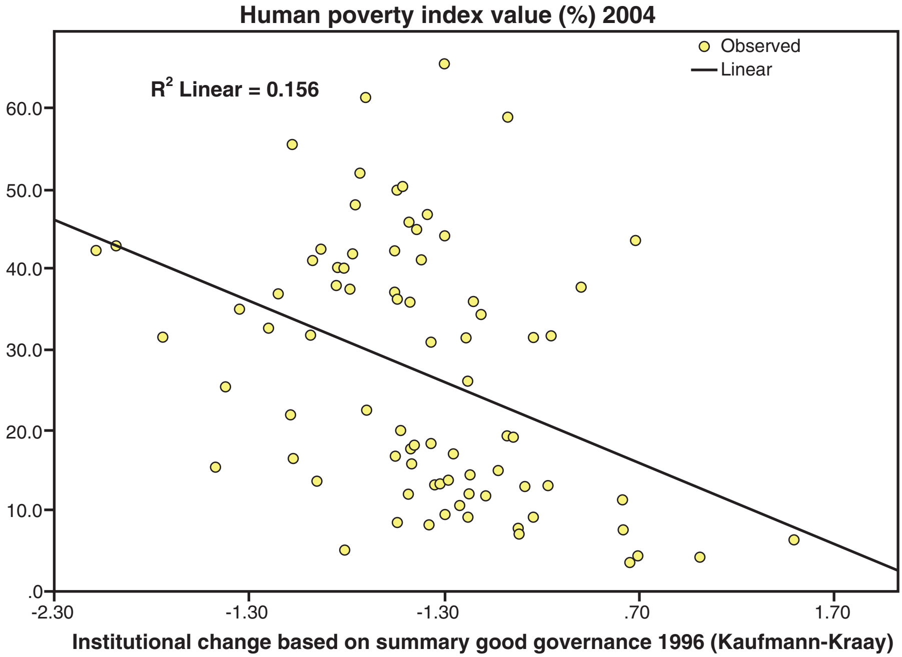

Fig. 3 Regression line of good governance 1996 on poverty index 2004
Eq. *Poverty Index 2004* = 23.02−10.13 *good governance1996* +ε
Source: Author's own figure based on statistical analyses performed in 2020

consequence, the explanatory variable of "summary good governance" reliably predicts the level of poverty between countries.

Table 8, using standardized coefficients, shows that good governance indicator has a higher impact on poverty alleviation, rather than inequality reduction. Moreover, results here confirm that the impact of good governance indicator on poverty reduction is higher in stable rather than fragile countries.

Finally, Table 9 shows results of estimated relationships with different good governance indicators on income inequality and poverty. In particular, multiple regression analyses suggest that if Kaufmann government effectiveness increases (or Kaufmann rule of law increases in the model with income inequality), it generates a higher reduction of levels of poverty and income inequality. The coefficient R^2 of these models explains more than 24% variance in the data. Studies confirm that even noisy and high-variability data – with low R^2 in regression analysis – can have a significant trend, i.e., predictors still provide information about the trend of dependent variable (cf., Figs. 2 and 3). However, different levels of variability in data can also affect the precision of prediction (cf., Draper and Smith 1998; Kennedy 2008). Finally, multiple regression analyses here show that the F test is significant with

Table 8 Standardized coefficients of regression to assess the impact of good governance on income inequality and poverty for all countries and per types of fragile states

Good governance on income inequality	Standardized coefficients beta	*Good governance on poverty*	Standardized coefficients beta
All sample	−0.295***	All sample	−0.395***
Fragile countries	nsf	Fragile countries	−0.497***
Intermediate countries	nsf	Intermediate countries	nsf
Stable countries	−0.395**	Stable countries	−0.679**

Note: *nsf* = not a significant value; *** significant at 0.001; ** significant at 0.01
Source: Author's own table based on statistical analyses performed in 2020

Table 9 Parametric estimates of the relationship of institutional change, based on good governance indicators, income inequality, and poverty (*multiple regression analysis*)

	Dependent variable: Income inequality GINI 2004	Std. coeff. Beta	Dependent variable: Poverty Index 2004 (1)	Std. coeff. Beta	Dependent variable: Poverty Index 2004 (2)	Std. coeff. Beta
Explanatory variables	Coefficient (St. Err.)		Coefficient (St. Err.)		Coefficient (St. Err.)	
Constant	39.41*** (0.95)	−0.007	23.74*** (1.86)	0.011	22.64* (9.83)	−0.208
Kaufmann voice and accountability 2000	−0.081 (2.11)	0.223	0.21 (3.09)	0.089	−5.25 (4.02)	**0.166**
Kaufmann political stability 2000	2.51 (1.75)	−0.947	1.71 (2.75)	−0.646	3.74 (3.29)	−0.794
Kaufmann government effectiveness 2000	−10.04* (4.31)	**0.801**	−15.25* (6.65)	−0.021	−22.31** (8.24)	−0.294
Kaufmann government regulatory quality 2000	9.18*** (2.76)	−1.052	−0.44 (4.74)	−0.154	−7.86 (5.71)	0.035
Kaufmann rule of law 2000	−11.17** (4.28)	**0.746**	−3.67 (6.32)	**0.264**	0.99 (7.76)	**0.559**
Kaufmann corruption 2000	7.60* (3.56)	−0.007	6.32 (5.29)	0.011	15.26* (7.22)	0.054
Income inequality GINI coefficient 2004					0.098 (0.211)	−0.208
F	6.14***		5.40***		6.003***	
R^2 (St. Err. of the Estimate)	0.24 (9.28)		0.27 (14.19)		0.40 (13.72)	

Note: *** significant at .001; **significant at .01; *significant at .05
In **bold** standardized coefficients with a higher impact on dependent variable
Source: Author's own table based on statistical analyses performed in 2020

p-value < 0.001; as a result, explanatory variables provide a reliable prediction of the dependent variable understudy (i.e., income inequality and poverty).

5 Conclusions and Limitations

Breunig and Majeed (2019) argue that higher levels of poverty and inequality negatively affect economic growth. In particular, the negative impact on economic development increases as poverty increases. Ravallion (2002) finds a negative impact of poverty on growth, and Gründler and Scheuermeyer (2018) confirm that inequality within poorer countries has a strong negative impact on economic growth. In short, there are a variety of good reasons because countries have to reduce inequality and poverty in society.

The goal of this chapter was to analyze how a set of good governance indicators can explain levels of income inequalities and poverty that are prerequisites for development of nations. A fundamental question in these research topics is: *how does governance of institutions reduce poverty and income inequality between countries?*

In general, good governance can decrease income inequality and poverty within and between countries, with reinforcing effects given by higher economic and political stability, democratization, government effectiveness, and rule of law of countries (cf., Coccia 2020a). This general relation is represented in the scheme of Fig. 4. As a matter of fact, Djankov et al. (2002, 2006) and Jalilian et al. (2007) argue that democratization can provide higher levels of political accountability that reduce protection of vested interests. Tarverdi et al. (2019) suggest that the effectiveness of governance increases with education of people and economic development of nations (cf., Farazmand and Pinkowski 2006; Farazmand 2019). Moreover, political and economic stability and the securing of property rights create appropriate socio-economic environments for institutions to apply interventions of good governance to reduce both income inequality and poverty of nations (Coccia 2016, 2017b).

Empirical results of this study are schematically summarized in Fig. 5 to support institutional and economic policies directed to inequality reduction and poverty alleviation, considering their association and relation with good governance indicators. The central findings here suggest that a good governance of institutions provides a main reduction of poverty, rather than income inequality (cf., Fig. 5).

In fact, economic policies, based on good governance to alleviating poverty and income inequality, play a vital role for supporting countries toward sustainable development goals. In general, this chapter offers new insights into the important relationship among good governance, inequality, and poverty for supporting the economic growth of nations. In particular, policy implications of this study are:

- *Income inequality* can be reduced mainly with institutional policies directed to improve government effectiveness ($r = -0.35$, p-value = 0.001) and rule of law ($r = -0.34$, p-value = 0.001).

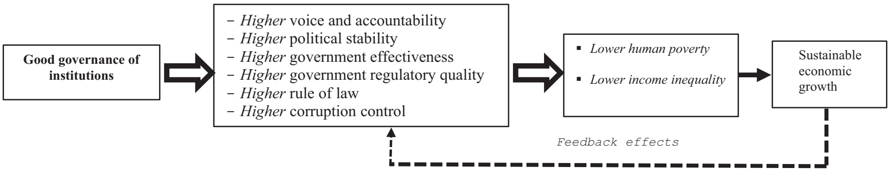

Fig. 4 Relation running from institutional change to alleviating income inequality and poverty, and as a consequence reduction of economic growth (with *feedback effects*)
Source: Author's own figure based on statistical analyses performed in 2020

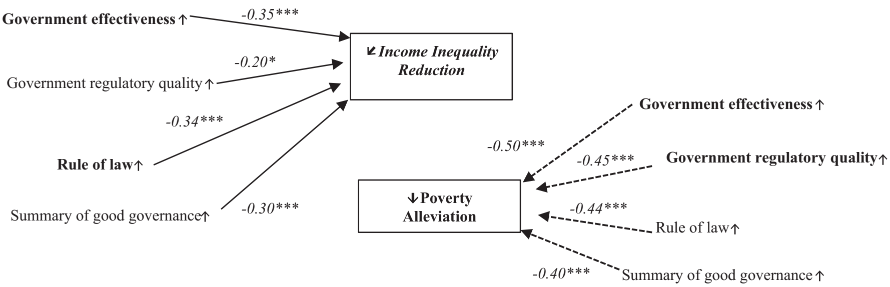

Fig. 5 Effects of the association between improvements of good governance indicators, inequality reduction, and poverty alleviation for supporting political economy of growth
Note: Values are based on bivariate correlation (cf., Table 2). In **bolt** variables with high association
***Correlation is significant at the 0.001 level (2-tailed)
*Correlation is significant at the 0.05 level (2-tailed)
Source: Author's own figure based on statistical analyses performed in 2020

- *Poverty* can be alleviated mainly with best practices directed to increase government effectiveness ($r = -0.50$, p-value = 0.001), government regulatory quality ($r = -0.45$, p-value = 0.001), and rule of law ($r = -0.44$, p-value = 0.001).

In addition, results in this chapter demonstrate that the fruitful interaction between a good governance and reduction of income inequality and poverty is higher in the presence of stable economies because of a regular economic growth and the emergence and diffusion of new technology in society (Coccia 2005a, 2008, 2010, 2015; Coccia 2017f; Coccia 2018e, f; Coccia 2019c, d; Coccia 2020a, b, c; Coccia and Watts 2020; Faghih 2018). Effective institutions and institutional change targeted to a high level of transparency, participation, and representation can improve good governance both in emerging and in advanced countries (cf., Dixit 2009; Faghih and Zali 2018; Lindseth 2017; Aidt and Jensen 2013; Bartlett 1996). Hence, the improvement of good governance, in the presence of stable economies with consolidated democracies, amplifies the reduction of inequality and poverty supporting long-run economic development of nations (cf., Castelló-Climent 2008; Faghih 2018; Tarverdi et al. 2019). However, Voigt (2013, p. 22ff) points out that econometric findings that explain variation in dependent variables may be a weak basis for modifying institutions at will. In general, the findings here suggest that policymakers for supporting economic growth, *ab initio* (Latin, from the beginning), have to improve governance effectiveness of institutions and implement sound policies and regulations aimed at reducing poverty and inequality in society. These institutional policies, alleviating poverty and inequality, improve social cohesion and well-being of people, which are vital prerequisites for sustainable development goals of countries (Pullar et al. 2018; Chen and Pan 2019; Coccia 2017a, 2018c, 2019b; Zou et al. 2019). In fact, Rodrik et al. (2004, p. 156) argue that institutions are more relevant for explaining development than both geography and trade, and that institutions ought to be conceptualized as "the cumulative outcome of past policy actions."

Overall, then, the policy implication of this chapter is that a good governance of institutions based on a high level of governance effectiveness, associated with economic and political stability, has main effects on poverty reduction, supporting consumption growth and social cohesion, which have beneficial effects for economic growth of nations; whereas, the reduction of income inequality with redistribution interventions seems that not reduce poverty and not improve socioeconomic patterns of development of nations.

These conclusions are of course tentative. There is need for much more detailed research into the relations between institutional change, good governance indicators, levels of poverty and inequality in society. To conclude, the challenge for institutional scholars and economists of development is to continue the theoretical and empirical exploration within this *terra incognita* of the relation between good governance of institutions, income inequality, and poverty of countries to support new findings for appropriate socio-institutional policies directed to sustainable development for widespread social, economic, health, and/or environmental benefits .

Appendices

Appendix A

Description of Good Governance Indicators
Kaufmann Voice and Accountability index in 2000 captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. Range [−2; +2] from min to max level.
Kaufmann Political Stability and Absence of Violence/Terrorism 2000 measures perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism. Range [−3; +2] from min to max level.
Kaufmann government effectiveness 2000 captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Range [−2; +2] from min to max level.
Kaufmann government regulatory quality 2000 detects perceptions of the ability of government to formulate and implement sound policies and regulations that permit and promote private sector development. Range [−2; +2] from min to max level.

Kaufmann Rule of Law 2000 captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular quality of contract enforcement, property rights, police, and courts that also reduce the likelihood of crime and violence. Range [−2; +2] from min to max level.
Kaufmann Control of Corruption 2000 measures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. Range [−1; +3] from min to max level.
Description of Socioeconomic Indicators
Income inequality is measured with Gini coefficient 2004 (World Bank 2013). Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A Lorenz curve plots the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or household. The Gini index measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. Thus, a Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.
Poverty with Human poverty index value (%) 2004 (UNDP 2019). This index measures how people experience poverty in multiple and simultaneous ways. It identifies how people are being left behind across three key dimensions: health, education, and standard of living, comprising ten indicators. Data of this index is for $N = 97$ countries having a range from 2 (low poverty) to 65.5 (high poverty, e.g., many African countries: Ethiopia, Mali, Niger, etc.).
Gross Domestic Product (GDP) per capita *based on purchasing power parity (PPP) 2007.* GDP is gross domestic product converted to international dollars using purchasing power parity rates. An international dollar has the same purchasing power over GDP as the US dollar has in the United States.
Annual population growth rate for year t is the exponential rate of growth of midyear population from year $t-1$ to t, expressed as a percentage (average 1975–2002). Population is based on the de facto definition of population, which counts all residents regardless of legal status or citizenship.
T*he Human Development Index (HDI) 2004* is a summary measure of average achievement in key dimensions of human development: having a long and healthy life, being knowledgeable, and having a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions.

Source: Author's own table based on study design of this contribution here

Appendix B

Classification of Fragile States in the Year 2006
Fragile Countries
Afghanistan, Algeria, Angola, Azerbaijan, Bangladesh, Bolivia, Bosnia and Herzegovina, Burundi, Central African Republic, Chad, Colombia, Congo Dem. Rep., Congo, Rep., Cote d'Ivoire, Ecuador, Egypt, Eritrea, Ethiopia, Georgia, Guatemala, Guinea, Guinea-Bissau, Guyana, Haiti, India, Indonesia, Iran, Islamic Rep., Iraq, Jordan, Kenya, Kyrgyz Republic, Lebanon, Liberia, Macedonia, Myanmar, Nepal, Nigeria, Pakistan, Papua New Guinea, Peru, Philippines, Russian Federation, Rwanda, Saudi Arabia, Somalia, Sri Lanka, Sudan, Syrian Arab Republic, Tajikistan, Thailand, Togo, Turkey, Uganda, Uzbekistan, Venezuela, Yemen, Zimbabwe
Intermediate Countries

Albania, Argentina, Armenia, Bahrain, Belarus, Belize, Benin, Brazil, Bulgaria, Burkina Faso, Cambodia, Cameroon, China, Comoros, Croatia, Cubism Cyprus, Djibouti, Dominican Republic, El Salvador, Equatorial Guinea, Fiji, France, Gabon, Gambia, Ghana, Greece, Grenada, Honduras, Israel, Italy, Jamaica, Kazakhstan, Korea Dem. Rep., Korea Rep., Kuwait, Lao PDR, Lesotho, Libya, Madagascar, Malawi, Malaysia, Mali, Mauritania, Mexico, Moldova, Morocco, Nicaragua, Niger, Panama, Paraguay, Poland, Romania, Senegal, Sierra Leone, Solomon Islands, South Africa, Spain, Suriname, Swaziland, Tanzania, Trinidad and Tobago, Tunisia, Turkmenistan, Ukraine, United Kingdom, United States, Vietnam, Zambia
Stable Countries
Andorra, Antigua and Barbuda, Australia, Austria, Bahamas, Barbados, Belgium, Bhutan, Botswana, Brunei Darussalam, Canada, Cape Verde, Chile, Costa Rica, Czech Republic, Denmark, Dominica, Estonia, Finland, Germany, Hungary, Iceland, Ireland, Japan, Kiribati, Latvia, Liechtenstein, Lithuania, Luxembourg, Maldives, Malta, Mauritius, Micronesia, Monaco, Mongolia, Mozambique, Namibia, Netherlands, New Zealand, Norway, Oman, Palau, Portugal, Qatar, Samoa, San Marino, Sao Tome and Principe, Seychelles, Singapore, Slovak Republic, Slovenia, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Sweden, Switzerland, Tonga, United Arab Emirates, Uruguay, Vanuatu, Marshall Islands, Nauru, Taiwan, Tuvalu

Source: Author's elaboration based on dataset by Norris (2008)

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Escalated Export Taxes and WTO Rules as Trade Institutions: Lessons from Argentina's Biodiesel Exports

Julio J. Nogues and Ernesto A. O'Connor

Abstract For developing countries, the Uruguay Round had mixed results: some positive, some negative, and some negotiating areas only made marginal progress. In our view, adoption of the WTO rules for administering import barriers on contingent protection (mainly antidumping and countervailing measures) entailed a major positive institutional shift away from the high degree of trade policy arbitrariness that prevailed before. In contrast, strong pressures against liberalization of agricultural trade resulted in the failure of this Round to establish rules on primary agricultural export barriers. Included among these are escalated export taxes that entail input subsidies. This chapter reviews the experience of importing countries' contingent protection measures that sought to compensate the input subsidies from escalated export taxes in biodiesel imports from Argentina. The end result of a WTO that is empty of rules on primary agricultural export barriers has been the implementation of arbitrary policies taken by both the exporting and some importing countries. We conclude that in much the same way that WTO rules on import barriers reduced the high degree of arbitrariness that used to characterize developing countries' import-substitution policies, multilateral rules on agricultural export barriers would imply a further positive institutional change for the benefit of both exporting and importing countries.

Keywords Tarde policy institutions · Biodiesel · Argentina · Agricultural export barriers · Contingent protection · European Union · US unilateralism · WTO Appellate body

J. J. Nogues (✉)
National Academy of Economic Sciences (Academia Nacional de Ciencias Economicas), Buenos Aires, Argentina
e-mail: noguesjuliojorge@gmail.com

E. A. O'Connor
Facultad de Ciencias Económicas, Universidad Católica Argentina, Buenos Aires, Argentina
e-mail: eoconnor@uca.edu.ar

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JEL Codes F13 · F14 · and Q18

Acronyms

AD	Antidumping
AB	WTO Appellate Body
AFIP	Administración Federal de Ingresos Públicos
CARBIO	Cámara Argentina de Biocombustibles
CVD	Countervailing duty also Countervailing agreement
DSB	Dispute Settlement Body
GATT	General Agreement on Tariffs and Trade
GOA	Government of Argentina
ICSID	International Center for Trade and Sustainable Development
INAI	Instituto para las Negociaciones Económicas Internacionales
INDEC	Instituto Nacional de Estadísticas y Censos
INDECOPI	Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual
IS	Input subsidy
MECON	Ministerio de Economía y Finanzas Públicas
POI	Period of investigation
QRs	Quantitative restrictions on exports
UR	Uruguay Round
USDA	United States Department of Agriculture
WTO	World Trade Organization

1 Setting the Issue: WTO Rules as "Institution Building"

Under multilateral trade rules, obligations come hand in hand with rights. A country's obligations to follow certain rules, say compliance with multilateral safeguard rules, automatically entail that country's right to demand that other WTO Members also comply with such obligations. In this way, Members ensure that their trade institutions (rules of the game) remain at par with that of their trading partners.[1]

What happens when WTO Agreements provide no rules on certain trade policies? We argue that absence of rules in one area cripples the system and opens the

[1] The WTO is under attack from Trump's trade policies (Bown and Irwin 2019). Although these events do not detract from our message, Trump's trade actions have made further progress on multilateral unlikely at least while the US unilateral policies prevail. We come to this again below.

door to policy arbitrariness. Such absence also raises legal difficulties as occurs, for example, when importing countries seek to counteract the negative consequences of policy arbitrariness associated with some unregulated trade flow. This will come out quite clearly in our analysis of Argentina's biodiesel-exporting experience presented below.

This section sets the scenario. It starts with a brief discussion of Argentina's arbitrary and high taxation against primary agricultural exports and some of their productive consequences. This high taxation translated into low cost of inputs (subsidized inputs) to agro-processing industries such as biodiesel production. The discussion then stresses the institutional significance of WTO rules on contingent protection policies (essentially antidumping and subsidy/countervailing), particularly for developing countries. These were also the rules that importing countries used in order to compensate for the negative effects of subsidized biodiesel from Argentina. This country's biodiesel industry paid prices for their major primary inputs (soybean and soybean oil) that were more than one-third below international prices (sect. II).

1.1 Industrialization Through Escalated Export Taxes

Following the pressures that came mostly (but not exclusively) from industrial countries, the Uruguay Round failed to liberalize agricultural export barriers (ICSID 2014, 2018).[2] This failure opened the door to the implementation of escalated export tax policies that entail input subsidies. This escalation, according to which the export tax rate on the processed product is lower than the rate applied on its major intermediate primary inputs, results in subsidies that may cause injury to the competing industries of importing countries.

Between 2003 and late 2015, the WTO legal vacuum on agricultural export barriers led Argentina's governments to once again set high barriers against the country's major agricultural products. Table 1 shows that for three of these products, barriers included high export taxes as well as discretionary quantitative export controls (QRs). As mentioned, the numbers in the last row indicate that on average,

Table 1 Export barriers on wheat, maize, bovine meat, and soybean around 2014 (%)

Type of barrier	Wheat	Maize	Bovine meat	Soybean
Ad-valorem export tax	23	20	15	35
Equivalent export tax of quantitative restrictions (QRs)	16	17	20	0
Aggregate export barrier	39	37	35	35

Source: Author's elaboration on the basis of data presented in Nogues (2016)

[2] This is one major shortcoming of this Round, but there are others that we have reviewed in Finger and Nogues (2003).

during these years,[3] primary agricultural producers received prices for their products that were at least one-third below international prices.[4]

These excessively high export barriers had visible costs on the country's aggregate agricultural output.[5] For example, in 2014, wheat accounted for 3.6 million hectares, but by 2019, when the barriers on exports had been mostly lifted, the area had increased to 5.3 million hectares or by 47%. Table 1 shows that wheat was the product most highly discriminated by export taxes and QRs. Likewise, the heavy-handed QRs against bovine meat exports that were implemented during these years are the leading policy explaining a reduction in the bovine stock from around 60 million heads to around 50 million heads.[6] More generally, while the cereal output of the four principal products (soybean, maize, wheat and sunflower) was around 113 million tons in 2015, by 2018 when export barriers had been significantly reduced, it had increased to around 130 million tons.

Argentina has a long tradition of promoting industrialization through high and discretionary trade barriers. Except for short periods of time, ambitious import-substitution policies have been sustained since the early 1930s. The highly protectionist bent of the early postmillennial governments saw, in the WTO legal vacuum on export barriers, an opportunity for further industrialization of primary products by establishing escalated export taxes through higher rates on primary inputs than on the processed products. Under such a policy, soybean oil, wheat, and maize were taxed at higher rates than biodiesel, wheat flower, and meat. This resulted in subsidized exports of these products. For example, while the export tax on chicken meat was 5%, the tax on maize was around 37% (Table 1) implying a 25% input subsidy rate per dollar exported (Nogues 2016).

The biodiesel industry was born and initially grew rapidly by the Government's arbitrary tuning of these export barriers. The goal was to develop a new agro-processing industry that would add further value to the 50–55 million tons of soybean that the country was producing annually. Consequently, in only 3 years, biodiesel output increased from 215,000 liters in 2007, to 2,800,000 liters in 2012 while exports grew by close to 10 times from 163,000 tons in 2008, to 1,557,000 tons in 2012. By this year, Argentina had become the leading world exporter of biodiesel.

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[3] Time series of these barriers can be consulted in Nogues (2016). The numbers in Table 1 are representative of the height of barriers that prevailed between 2007 and 2015.

[4] Quantitative export restrictions on wheat and bovine meat were instituted in early 2006 as a response to the 2006–2008 food-price inflation that became a major international crisis (FAO 2014). The criticisms to this response come not so much from the policy itself but from the fact that these QRs were maintained well after the crisis had receded.

[5] Several studies have addressed the long-run consequences of Argentina's price discrimination against agriculture including among others Colome et al. (2011), Diaz Alejandro (1975), Nogués (2011, 2016), Reca (1980), and Sturzenegger and Salazni (2007).

[6] Wherever export QRs were applied, easy rents were created, and over these years, their dollar value reached a minimum of USD 9 billion (Nogues 2016). How these rents were distributed is anyone's guess.

. Quite suddenly, here was a country that was rapidly encroaching international biodiesel markets, but it so happened that some of the destinations housed domestic industries that their governments were ready to protect from "unfair competition." By resorting to the WTO agreements regulating the establishment of import barriers, a group of major importing developing and developed countries sought ways to compensate the implicit subsidy in biodiesel imports from Argentina. The evidence, discussed below in sect. III, shows that under existing rules on contingent protection (antidumping and countervailing), barriers implemented by importing countries have not always prevailed. In fact, in one clear and sounding WTO dispute, the EU was mandated by this organization's Appellate Body to reduce quite significantly its initially high level of antidumping barriers. This ruling, as we shall argue, can also be traced to the fact that in the WTO, escalated export barriers remain unregulated.

During most of the period we study, the WTO remained in full control of its mandate. Since then, Trump's nationalistic policies have crippled this Organization's Dispute Settlement Body (DSB) by refusing to appoint judges to its Appellate Body (AB) that now remains nonoperational.[7] We argue below that Argentina may have had a chance of winning further WTO disputes similar to the one it won against the EU, but now the WTO dispute mechanism is nonfunctioning.

1.2 Developing Countries and WTO Rules on Contingent Protection: Antidumping and Countervailing Measures

In order to compensate for the negative impact of subsidized biodiesel imports, major importing countries implemented barriers that had clear negative effects on Argentina's biodiesel exports. These barriers have mainly taken the form of antidumping surcharges (regulated by the WTO "Agreement on Implementation of Article VI of the General Agreement on Tariff and Trade 1994" published in WTO 1995), and in some cases countervailing measures (regulated by the WTO "Agreement on Subsidies and Countervailing Measures" also in WTO 1995).

As one of the importers is a developing country (Peru), it is of interest to highlight the institutional significance of these countries' adoption of the WTO contingent protection policies (antidumping and countervailing policies). The conclusion of the Uruguay Round in 1994 implied two major changes in the administration of developing countries' import barriers resulting in a major positive institutional shift. First, the binding of a maximum tariff rate,[8] and second, in order to go beyond this maximum level, countries have to abide by the rules embedded in three major multilateral agreements: the antidumping agreement, the subsidy/countervailing agreement, and the agreement on safeguards (WTO 1995). In relation to the antidumping

[7] See The Diplomat (2019).

[8] In the case of Argentina, the bound maximum rate stands at 35%.

and the subsidy/countervailing agreement, the safeguard agreement has been used less often and was never used by importing countries for regulating biodiesel imports from Argentina.[9]

Several regulations embedded in these agreements had been followed for decades by industrial countries (some of them since the creation of the GATT in 1947 and even earlier),[10] but for developing countries who until the Uruguay Round negotiations requested and received "special and differential treatment" from industrial countries (Hoekman et al. 2004), adoption of these rules implied a major institutional change. Developing countries' traditional "institutional structures" for administering import policies had been long characterized by high degrees of freedom that often translated into arbitrariness. One description characterizes these traditional institutional structures as including "…Many different import control instruments… *such as*…tariffs, surcharges, benchmark custom values, import licensing and export prohibitions. Application of restrictions was done through processes that allowed wide discretion to government officials. Safeguards and antidumping measures as the GATT and WTO define them were rarely used" (Finger and Nogues 2006, p 25).

Under most definitions of "institution," adoption of these WTO rules implied a major institutional shift. According to North (1990): "…Institutions are the humanly devised constraints that structure political, economic and social interactions" (p 97). Quite clearly then, for developing countries, the adoption of WTO rules on contingent protection implied a significant institutional shift to the constraints that structure their international trade relations.[11]

It is of significance to highlight that the institutional shift that we stress here was in line with the liberal trade policies that many developing countries were adopting at the time. Starting in the late 1980s and early 1990s, Latin American countries began implementing ambitious trade reforms that represented the first time in decades they were moving toward outward-oriented policies. This opening-up process was not the outcome of multilateral negotiations as has been argued, for example, by Bagwell and Staiger (2010). These liberalization policies were taken by the leadership elites that saw in the poor economic performance associated with high and often prohibitive protection the need to move away from their decades-long experiences with import-substitution policies. Most of these trade liberalization measures preceded the signing of the Uruguay Round agreements by several years. Although some of them were financially supported by the Bretton Woods

[9] Article XX of the GATT 1994 (WTO 1995) establishes other exceptions for raising import barriers on grounds such as moral objectives. Also, Article XXI of GATT 1994 (WTO 1995) allows countries to raise import barriers on national security grounds. This rule was invoked by Trump when raising import barriers against China and against steel imports from certain origins. These measures marked the initial steps of what Bown and Irwin (2019) have recently called "Trump's assault on the global trading system".

[10] For the history of the antidumping regulations, see Nelson (2006).

[11] We stress with emphasis the significance of ***rules* vs *discretion,*** but this does not necessarily imply an open support to these WTO agreements. For example, criticisms to the WTO antidumping agreement abound, but it is not the purpose to address them here. See Finger (2003), and Nelson (2006).

institutions, the leading ideas and policy leadership came from within these countries (Finger and Nogues 2006).[12]

This Round came to a close while patterns of trade and production were still adjusting to these unilateral liberalization policies. In this context, adoption of the WTO contingent protection agreements was functional to the political-economy needs of those who, at the time, had the responsibility of leading these liberalization processes. Among others, these politicians sought to create binding constraints to ensure that openness would be sustained when others came to administer their countries' trade regimes.[13] The political-economy also required that flexibilities through escape valves that permitted raising barriers beyond WTO bound levels should be institutionalized. This is precisely what the adoption of the WTO contingent protection policies provided.

How did developing countries adjust to this significant institutional shift from arbitrariness to a new rules-based system? An assessment conducted around the tenth anniversary of the adoption of these WTO rules concluded that Latin American countries were performing well: many petitions for higher import protection had been turned down, and few disputes had been raised by exporting countries against contingent measures taken by these countries. To a significant extent, this outcome was driven by the professional staff that had been selected for working at the offices specially created for this purpose (Finger and Nogues 2006, chap. 1).[14]

The rules embedded in the AD and CVD agreements sought to distill which petitions for import protection merit being investigated from those that did not. Requests for import protection against biodiesel from Argentina were raised to governments in three destinations: the EU, Peru, and the USA. To what extent were these instruments capable of counteracting the effects of biodiesel imports that were subsidized through escalated export taxes?

To answer this and related questions, the rest of the chapter is organized as follows. In order to provide a benchmark number against which to compare the surcharges applied by importing countries, Section II offers an estimate of the subsidy rate created by escalated export taxes benefiting the biodiesel industry. Section III provides an overview of the cyclical trend of Argentina's biodiesel exports related to the trade measures that over time were taken by the EU, Peru, and the USA. Section IV offers a brief summary of the dispute against the EU's antidumping measures where the WTO Panel and its Appellate Body ruled in favor of Argentina. Section V concludes.

[12] In the political arena, financial support, to a trade liberalization program, has no binding constraint to sustain it. The borrowing country may use the funds and easily reverse part or the whole liberalization program with no significant consequence. Binding multilateral trade rules supported by an operative AB are another matter simply because if a country is found in violation, the WTO may open the door to the approval of retaliatory measures to be taken by the country that suffers the consequence of such violation.

[13] From the perspective of "institution building," Baracat and others (2015) offer an assessment of how these binding rules were or were not helpful in sustaining open markets in Argentina and Peru.

[14] As far as we know and except for Argentina, the other countries that we studied (Brazil, Chile, Colombia, Costa Rica, Mexico, and Peru) continued the process of "institutionalizing" these WTO rules.

2 Input Subsidies from Escalated Export Barriers: Estimate for Argentina's Biodiesel Exports

Under escalated export taxes, the dollar value of the input subsidy per ton exported (ISj) can be shown to equal:

$$\mathrm{ISj} = -\mathrm{PIjDj} + \mathrm{a1jPIa1jD1} \tag{1}$$

where ISj: input subsidy per ton of biodiesel exported; PIj: international FOB price of biodiesel per ton; Dj: export tax rate on biodiesel; a1j: quantity of soybean oil necessary to produce one ton of biodiesel; PIa1: FOB price of soybean oil per ton; and D1: export tax rate on soybean oil. Equation (1) is the difference between revenues without and with escalated export taxes. Since other inputs are assumed not to be affected by export policies, taking this difference nets them out of eq. (1).[15]

The first term on the right hand side with a negative sign represents the reduced income from the tax on biodiesel exports while the second term with a positive sign represents the savings from lower input prices due to the export tax on soybean oil. The logic of this expression is as follows: Input subsidies from escalated export taxes increase: (i) as the tax rate on biodiesel exports (Dj) is lowered; (ii) with the physical intensity of soybean oil required to produce 1 ton of biodiesel (a1j), and (iii) the higher the export tax rate on soybean oil (D1). The time invariant parameters of this equation include: (i) a1j = 1, 1 according to industry experts 1 liter of biodiesel output requires approximately 1,1 liters of soybean oil, and (ii) D1: 32% is the export tax rate on soybean oil that remained unchanged between 2008 and late 2015 when they began to be gradually reduced.

Therefore, the aggregate yearly dollar value of input subsidies, received by biodiesel exporters (ARj), is estimated by:

$$\mathrm{ARj} = \mathrm{ISj} \times \mathrm{Ej} \tag{2}$$

where Ej is yearly tons of biodiesel exports.

Table 2 presents estimates of eqs. (1) and (2) for the years between 2010 and 2015.[16] Except for 2013, the numbers in the last column show that the input subsidy rate varied between 21% and 31%.[17] On the other hand, the aggregate dollar value of these subsidies estimated from expression (2) peaked in 2011 with USD 384 million and bottomed 2 years later in 2013 with USD 34 million. This significant decline was mostly caused by two factors: (1) the increase in the tax rate on biodiesel exports from 17% to 22%, and (2) a 27% decline in exports, primarily explained by lower demand from the EU after it initiated antidumping and

[15] Soybean oil represents around 80% of biodiesel input costs (Cowley and Hillman 2017).

[16] Table 2 covers the years of high policy instability when Argentina's discretion on its trade policies reached a record level including not only high barriers on agricultural exports but also the application of bureaucratic quantitative controls on all imports. For a discussion of these controls and their multilateral repercussions, see Baracat and others (2015).

[17] These input subsidy rates are not that different from the rates estimated for other agro-industries whose exports during these years also benefited from escalation of export taxes (Nogués 2016).

Table 2 Input subsidy accruing to biodiesel producers from export tax escalation

Year	FOB biodiesel prices per ton (USD)	FOB soybean oil prices per ton (USD)	Export tax on biodiesel (Dj)	IS per ton exported (USD) (a)	Biodiesel exports (000 tons)	Total IS (mill USD)	Rate of input subsidy (b)
2010	1068	914	14%	172	1545	266	29.7%
2011	1608	1211	14%	201	1910	384	31.1%
2012	1404	1157	17%	169	1770	289	25.4%
2013	1430	967	22%	26	1296	34	4.0%
2014	1074	833	16%	121	1315	159	20.5%
2015	881	682	6.6%	182	895	163	26.4%

Notes: (a) estimated from eq. (1) and, (b) IS per ton exported/value of exports per ton.
Source: Author's elaboration based on data from: (i) FOB biodiesel prices: Biodiesel-National Weekly Ag Energy Roundup, USDA-Agricultural Marketing Service, http://www.ams.usda.gov/mnreports/lswagenergy.pdf, and Diesel-U.S.DOE, Energy Information Administration, Monthly Retail On-Highway Diesel Prices http://www.eia.gov/oog/info/wohdp/diesel.asp; (ii) FOB soybean oil prices: Ministerio de Agricultura, Argentina, (iii) export tax rate on biodiesel and soybean oil from AFIP (Agencia Federal de Impuestos Publicos) and, iv) biodiesel exports from Bolsa de Cereales de Rosario (2019), and value of exports per ton estimated from Secretaria de Agroindustria (2019b)

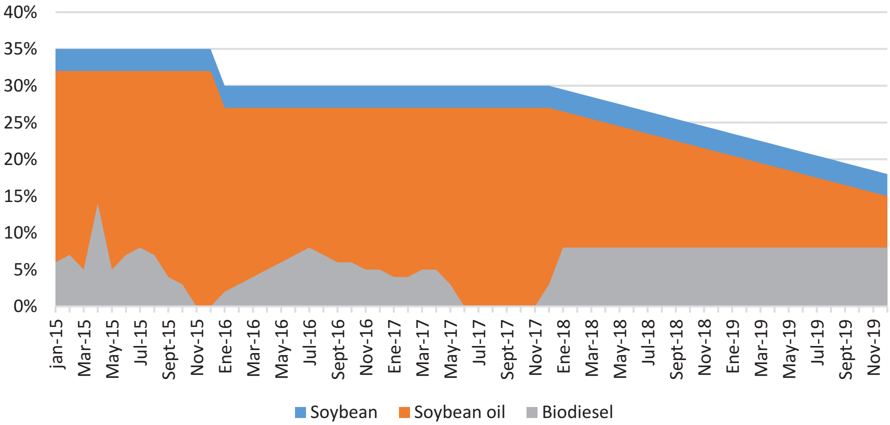

Fig. 1 Export tax rates on soybean, soybean oil and biodiesel (2015–2019). (Source: Author's elaboration on the basis of the figure in INAI (2018a) p13)

countervailing investigations (sect. III). The reverse occurred during 2014, when the value of input subsidies increased again caused primarily by a reduction in the average tax on biodiesel exports from 22% to 16%.

These are two instances illustrating just how unstable export taxes on biodiesel have been and the extent to which they impact on the amount and rate of input subsidies. For more recent years, Fig. 1 offers a graphic illustration of this policy instability. It shows high and quite stable export tax rates on soybeans and soybean oil that lasted until 2018 when a period of sliding reductions was announced.[18] In contrast, until this year, the tax rate on biodiesel exports remained highly unstable including zero rates in some periods. On average, during the period included in Fig. 1 and even before as shown in Table 2, the export tax rate on biodiesel remained well below those applied on soybean and soybean oil.[19]

In Argentina, the Executive holds the power to establish trade policies, and therefore, the changing value of export taxes on biodiesel should be seen as reflecting changing circumstances surrounding trade in biodiesel including, as we shall see, attempts to ameliorate the impact of contingent barriers applied against its biodiesel exports.[20]

Summing up, Argentina's biodiesel exports have received important input subsidies from escalated export taxes that – and this is important to keep in mind – have been fully financed by thousands of soybean producers who have sold their produce at prices that on average and until late 2015 were one-third below international prices. While biodiesel exporters gained handsome rents from these barriers, the national economy suffered major losses from very high export barriers on primary agricultural exports (sect. I).[21]

3 Contingent Protection Against Biodiesel Imports from Argentina: Measures and Trade Impacts

As mentioned, Argentina's biodiesel is made mainly from soybean oil, so developing this industry was seen by private interests and the Government as an opportunity to advance one step further in the processing stages of domestically harvested soybeans.[22] Around 2007, Argentina's biodiesel industry was nonexistent, but by 2011/12, it had become the fourth world producer and the leading world exporter. How did this occur so rapidly?

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[18] This preannounced sliding reduction was not always complied with as the discussion of the US contingent measures in sect. III will show. See also INAI (2018b).

[19] The new Government assuming power in December 2019 rapidly revised export tax rates, and for soybean it now stands at 33%.

[20] Such numerous adjustments of the export tax rate on biodiesel that most of the times sought to maintain high-input subsidies (rents) fall within what Krueger (1974) has characterized as rent-seeking behavior. As occurs most of the times with arbitrary policies, the distribution of the rents they create remains unknown.

[21] We note that the bulk of soybeans harvested is not owned by biodiesel producers. The biodiesel and the soybean oil industries are owned mostly by the same multinational grain exporting firms that hold no significant investments in primary agricultural land.

[22] Biodiesel, it has been asserted, has environmental benefits as it is biodegradable, produced from a renewable resource and mostly free of sulfur and aromatic compounds that are potentially carcinogenic. It lowers CO2 emissions thus reducing greenhouse gases (http://carbio.com.ar/certificacion/) Nevertheless, there also are valid claims arguing that environmental benefits are not as important as claimed by the industry, in part because the expansion of soybean production has been at the expense of the depletion of forests. See Keles and Choumert (2017) and Murnaghan (2017).

In 2006, concentrated multinational soybean oil exporters having a high degree of overlap with major multinational grain trading companies[23] agreed with the government on a policy package that would attract accelerated investment flows into biodiesel production. Law 26,093 was passed in 2006, and its regulatory Decree 109 was issued in 2007. The initial takeoff of the biodiesel industry relied on export sales that were supported by input subsidies from escalated export taxes. Starting in 2008, soybean oil exports faced a tax of 32% that remained unchanged until late 2015 when it began to be gradually reduced (Fig. 1). After passage of this legislation, several of the firms, exporting soybean oil with a 3% tax differential with soybeans (32% export tax on soybean oil vs 35% export tax on soybeans as shown in Table 1), shifted production from soybean oil to biodiesel whose exports enjoyed a much higher tax differential. For example, for 2010 and 2011, the tax differential was 18% (a 32% tax on soybean oil vs a 14% export tax on biodiesel) resulting in input subsidies that during these years reached USD266 million and USD384 million respectively (Table 2). As mentioned, although over time this differential has fluctuated, it has since remained well above the tax differential between soybean and soybean oil.

Because during the takeoff years input subsidies supported high-export growth, it is no surprise that biodiesel producers in major importing countries sought to compensate this advantage with import barriers. Initially, the first importer to react was the EU because during these years it was the major destination. Table 3 summarizes the salient contingent protection actions taken by the EU, Peru, and the USA, i.e., the three destinations that have challenged Argentina's escalated export policies. In what follows, we review these cases and their impact on Argentina's biodiesel exports.

3.1 European Union

Table 4 shows biodiesel exports for 2007–2018. In the case of the EU (mostly Spain), Argentina's exports peaked during 2011/2012, but by 2013, the boom receded when the industry began facing foreign-trade barriers. In August 2012, the EU initiated an antidumping investigation, and in November of this year, it also initiated a countervailing investigation against biodiesel imports from Argentina (and Indonesia).[24]

Around the time that these investigations were initiated, exports to the EU started falling. Between 2011 – the peak year of Argentina's exports to this destination – and 2014 when the final determination of the antidumping investigation was published, they had fallen by 56% (Table 4 shows that Spain). Nevertheless, because

[23] Some of the major firms include Cargill, Bunge, Vicentin, LDC Argentina, Molinos, etc.

[24] It should be said that in many countries biodiesel domestic markets are heavily regulated. For a review of the EU's and the US policies, see Moschini and others (2012).

Table 3 Contingent protection measures against biodiesel imports from Argentina

Country	Date	Type of action	Note	Measure	Source
European Union	29/8/2012	AD	Initiation	Na	Diario Oficial de la UE (29/8/2012)
	26/11/13	AD	Final determination	22–26%	Diario Oficial de la UE (26/11/2013)
	10/11/12	CVD	Initiation	Na	Diario Oficial de la UE (10/11/12)
	25/4/2014	WTO panel on AD duties	Panel established	AD	WTO document: WT/DS473/AB/R
	26/10/16	WTO appellate body	Report circulated	EU should adjust its AD	WTO document: WT/DS473/AB/R
	18/10/2018	Revision of AD duties	Implementation of the appellate Body's ruling	4,5–8,1%	Diario Oficial de la UE (19/10/2018)
Peru	21/7/14	CVD	Initiation	Na	
	19/10/2016	CVD	Final determination	USD15–31 per ton	Res 011–2016/CDB-INDECOPI
	26/04/2015	AD	Initiation	Na	El Peruano 25/10/2016*
	25/10/2016	AD	Final determination	USD ton 122–192	Res 0145–2018/SDC-INDECOOPI
	5/12/2018	Consultation	Na		WTO (2016)
US	7/4/2017	CVD	Initiation	Na	International Trade Administration: https://enforcement.trade.gov/download/factsheets/factsheet-multiple-biodiesel-ad-cvd-initiation-041317.pdf
	9/11/17	CVD	Final determination	71–72%	International Trade Administration: https://www.trade.gov/enforcement/factsheets/factsheet-multiple-biodiesel-cvd-final-110917.pdf
	9/7/2109	CVD	Change of circumstances: Final determination	0,2–10%	Federal Register 9/7/2019: https://www.federalregister.gov/documents/2019/07/09/2019-14556/biodiesel-from-argentina-preliminary-results-of-changed-circumstances-reviews-of-the-antidumping-and

Country	Date	Type of action	Note	Measure	Source
	7/4/2017	AD	Initiation	Na	
	26/4/2018	AD	Final determination	60–86%	Federal Register 4/25/2018 https://www.federalregister.gov/documents/2018/04/26/2018-08775/biodiesel-from-argentina-and-indonesia-antidumping-duty-orders
	9/7/2019	AD	Change of circumstances	71–72%	Federal Register 9/7/2019: https://www.federalregister.gov/documents/2019/07/09/2019-14556/biodiesel-from-argentina-preliminary-results-of-changed-circumstances-reviews-of-the-antidumping-and

na: not applicable.
Source: Author's elaboration with information from sources indicated in the last column
*This petition was initially presented to INDECOPI in 2014, but at this time, it was turned down. Later, the domestic biodiesel producer appealed this decision, and the investigation was officially initiated on April 26, 2015: https://www.indecopi.gob.pe/documents/20182/956827/Resoluci%C3%B3n+N%C2%BA+189-2016CDB-INDECOPI.pdf/408703ac-a29c-f538-85bb-0830de9531e5
As mentioned, this list is not exhaustive of all the trade policy actions taken by these three countries against biodiesel imports. For example, Peru still maintains measures against biodiesel from the USA, and several of the cases covered in Table 3 also included imports from Indonesia

Table 4 Argentina's biodiesel exports by country of destination (000 tons unless otherwise noted)

Country	2007	2011	2012	2013	2014	2015	2016	2017	2018
Spain	21	890.0	869.4	270.5	390.0	6.3	0	90.0	0
USA	112.3	0	0	413.6	159.1	593.5	1473.9	963.3	0
Peru	0	193.2	166.5	197.6	261.7	164.3	145.5	42.7	16.2
Subtotal	133.3	1083.2	1035.9	881.7	810.8	764.1	1619.4	596.0	16.2
Total (000 tons)	162.5	1681.9	1557.4	1149.2	1602.7	788.2	1626.3	1650.1	1401.3
Total (million USD)	133.1	2076.5	987.5	987.5	1244.3	486.7	1175.8	1244.1	977.7

Source: Data published in Secretaria de Agroindustria (2019a): https://www.agroindustria.gob.ar/sitio/areas/bioenergia/informes/_archivos//000003_Informes%20Biocombustibles%202019/190700_Informe%20biocombustibles%20(Julio%202019).pdf

Argentina found new export opportunities mostly in Peru and the USA, during these years, aggregate biodiesel exports fell by only 5% (Table 4).

It has long been shown that imports to a given destination start declining around the date when this country initiates an antidumping and/or a CVD investigation. For example, in an early paper on this subject, Prusa (1996) found that even "… AD actions that are rejected still have an important impact on named country trade, especially during the period of investigation…" (reference from this paper's abstract).[25] The EU completed its AD investigation in November 2013 when Argentina's exports stood at 270.5 million tons a reduction of 70% from the amount exported in 2011.

The EU proceeded to implement barriers that varied between 22% and 26% according to the exporting company (Table 3).[26] These orders of magnitude are not far from the rates of input subsidies reported in Sect. II. This is unlike the experience of Argentina in the US market discussed below.

Nevertheless, Argentina's legal advisors concluded that the EU's investigation had flaws, and consequently, its Government decided to challenge its AD measures particularly the way in which it determined the margin of dumping. The next section offers a brief summary of why the WTO Appellate Body sided with Argentina. In spite of this, we note that during the length of time elapsed between the initiation of the antidumping investigation and the AB ruling, the EU industry continued receiving high level of antidumping protection.[27]

Although as said, in late 2012 the EU dropped the subsidy investigation, it is of interest to cite the reason why it was opened in the first place: *"The subsidies consist of the provision of inputs (soybean or soybean oil in case of Argentina and palm oil in case of Indonesia) at below-market prices by means of government policies*

[25] For other similar trade responses to contingent protection investigations see Finger (2003).

[26] The investigation's findings showed higher margins of dumping than those reported in Table 3. Nevertheless, given the EU's lesser duty policy, the effective rates the EU Commission finally imposed are those shown in this table.

[27] More generally, assuming that a trade action is subject to a WTO dispute, the lapse of time between the initiation of an investigation and the AB ruling covers several years. Table 3 shows that in the case of biodiesel this lapse of time was 6 years.

implemented and enforced by a policy of export taxes. In both countries concerned, an export tax is charged on the input product(s), at rate(s) which is/are often higher than that charged on the export of biodiesel. This approach effectively obliges the input producers to sell on the domestic market, thus creating an excess of supply, depressing prices to a below-market level and artificially reducing the costs of the biodiesel producers. It is alleged that the above schemes are subsidies since they involve a financial contribution from the Government of Argentina and Indonesia (in the form of the entrustment and/or direction of the input producers to provide goods to the domestic biodiesel industry, or through income or price support) and confer a benefit to the recipients because the goods are provided for less than adequate remuneration. They are alleged to be limited to certain enterprises producing a subset of products in the agricultural sector, and are therefore specific and countervailable" (European Union 2012). Why did the EU drop this investigation remains unclear. One possibility is that according to the CVD Agreement, a countervailing duty has to meet two tests: 1) there must be a financial contribution by the government (Article 1 of the CVD agreement), and 2) such a contribution should confer benefits to a specific firm or industry (Article 2 of the CVD agreement (WTO 2016). On this basis, it may have appeared at the time that a CVD barrier to compensate a generalized export tax on soybean and soybean oil that lowered their prices to all domestic buyers may have, in the event of a dispute, not been found to comply with the specificity test. In addition, there was no direct financial contribution from the government, and therefore, a CVD barrier was, according to the rules, vulnerable.[28]

3.2 Peru

After the boom and burst experience of Argentina's biodiesel exports to the EU, the export pattern continued to be cyclical growing initially fast to new markets, but quite promptly it started declining around the time these countries initiated AD and/or CVD investigations. In much the same way as shown by the experience in the EU, Peru became a chosen market that, although not as significant, maintained open trade for biodiesel, or so it appeared initially. Upon the request from the domestic biodiesel producer, the government initiated a CVD investigation in August 2014 and an antidumping case in April 2015, the year when exports to this destination bottomed. Definite CVD measures were implemented in 2015,[29] and definite AD duties in 2016 (Table 3). Consequently, exports to Peru declined from 262,000 tons in 2014, to only 16,000 tons in 2018 or by 94% (Table 4). We note that Argentina's exports to Peru were already at a high level before 2014 in part because earlier this

[28] The CVD rules and their applicability in this case are discussed in detail by Cowley and Hillman (2017).

[29] An analysis of the programs countervailed by Peru can be found in Report 007–2016/CBD-INDECOPI

country had implemented AD duties against biodiesel imports from the USA that were still in place by 2015 (https://enforcement.trade.gov/trcs/foreignadcvd/peru.html). Consequently, at the time, Peru's biodiesel traders shifted import sources from the USA to other countries including Argentina.

Although the definite CVD measures were low, the antidumping duties reported in Table 3 are higher although not as high as those that were initially established by the EU.[30] It is of interest to note that in this case INDECOPI (Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual), Peru's agency in charge of administering the WTO contingent protection agreements[31] also opted for "reconstructing" Argentina's domestic price. The investigation by INDECOPI argued that prices and quantities of biodiesel sales in Argentina's domestic market are regulated by the government and therefore, they cannot be taken as market prices (Res 0145–2018/SDC-INDECOPI).[32]

As with the EU, Argentina had problems with INDECOPI's investigation, and in December 2018, it began the initial steps (consultation) required for eventually moving to a full-fledged dispute under the rules of the WTO Dispute Settlement Body. Argentina contended that "…Peru failed to determine the margin of dumping by comparison with the cost of production in the country of origin plus a reasonable amount for administrative, selling and general costs and for profits…" as indicated by the Antidumping Agreement (WTO 2016).[33] Argentina's arguments never became part of a full-fledged WTO dispute probably because Trump's attack on the WTO was crippling its Dispute Settlement mechanism and as nentioned, eventually shortly after, its Appelate Body would become non-functioning.[34]

[30] Using the simple average of the extreme AD duties in Table 3 (USD 122 and USD 192 per ton) and the 2014 biodiesel price in Table 2, Peru's implicit average AD rate is 15%. An independent estimate presented in the Biodiesel Magazine puts Argentina's "underpricing of biodiesel exports" to Peru in the 17–31% range. When commenting on Peru's AD measures, this source explained that "…Argentina biodiesel pricing benefits from differential export taxes which help to keep prices lower than most products in the destination markets to which it is exported": http://www.biodieselmagazine.com/articles/1770088/peru-imposes-stiff-antidumping-duties-on-argentine-biodiesel

[31] Peru's INDECOPI is one of the several agencies created by Latin American countries in order to administer the WTO agreements on contingent protection. As mentioned, at the time of its assessment, this agency was shown to be another example of a professional administration of the WTO rules (Finger and Nogues 2006).

[32] See also Sonnet and others (2014) for a detailed discussion of Argentina's governmental regulations in the biodiesel domestic market

[33] In regard to the CVD measures, Argentina argued that "…Peru failed to conduct an objective examination, based on positive evidence, of other factors that may have caused injury to the domestic industry and, consequently, attributed the injury caused by other factors to the allegedly subsidized and dumped imports…" (WTO 2016). See also Cowley and Hillman (2017).

[34] The reason lies in the US opposition to support candidates that have come up for filling the vacant chairs in the Appellate Body. Currently, there is only one judge, while three out of a maximum of seven is the minimum required for quorum (The Diplomat 2019). This has paralyzed the WTO dispute settlement mechanism at a time when demands for its services are running at an all-time high

3.3 USA

After exports to the EU and Peru collapsed, the USA became a major destination of Argentina's biodiesel exports. History, by repeating itself once again, would show that export growth to this destination was also soon to collapse. Initially, Table 4 shows that biodiesel exports to the USA increased from 159,000 tons in 2014 to 1,474,000 tons in 2016, or by more than nine times in two years. In 2017, the USA initiated antidumping and CVD investigations that eventually ended in unexplainable high-import barriers. Consequently, by 2018, biodiesel exports to the USA were nil! (Table 4).

In the CVD case, the US line of argumentation was as follows: *"…In the CVD investigation, we concluded that domestic prices for soybeans were below world market prices by more than $100 per metric ton, depending on the month, as a result of the export tax on soybeans. We also concluded that "the effect on soybean prices paid by the respondents is not incidental to, but a direct result of, a system designed by the GOA to ensure the availability of relatively low-priced soybeans for domestic processing industries, notably the biodiesel industry."*

As to the targeting rule required by the CVD agreement, the US Government explained that the GOA had stated that *"…export duties are a valid development tool, since they enable many developing countries to cease being mere suppliers of raw materials …"* (International Trade Administration as referenced in Table 3). This argument by Argentina was a shot in its foot as it was used by the USA to argue that export tax escalation is a development tool and therefore the input subsidy they create is a specific subsidy. In the final determination reached in November 2017, the USA established absurdly high-CVD duties of 71–72% (Table 3).

In estimating the margin of dumping, the US government concluded that: "*We consequently find that the subject imports had significant price effects. They significantly undersold the domestic like product and this underselling led to a significant shift in market share away from the domestic industry and towards subject imports throughout the period of investigation. They also prevented the domestic industry from increasing prices commensurately with costs in 2016 and in 2017"* (USITC 2017, p31 reference in Table 3). Consequently, in April 2018, the USA established final antidumping duties also absurdly high ranging from 60% to 86% (Table 3).

Adding the initial CVD surcharges and the antidumping duties raised the US import barrier against imports from Argentina to an economically unjustifiable rate of around 150%, i.e., around six times higher than our estimate of the input subsidy from escalated export taxes (Sect. II), and still higher differences with the barriers that the EU and Peru had implemented earlier. In attempting to reduce the damage to its biodiesel industry, the government of Argentina issued a series of Decrees that reduced quite considerably the degree of escalation of export taxes by raising the rate on biodiesel. The expectation was that the USA would reconsider the height of the import barriers it had initially imposed as it happened. The Federal Register (2019 reference in Table 3) stated that: *"…as of September 2018, the export tax on soybeans stood at 28.3 percent (nearly identical to where it was during the POIs)* *and the export tax on biodiesel stood at 25.3 percent (versus 3.96 percent through May 2016 and 5.04 percent from June 2016 until June 2017, at which point it was lowered to zero) …"* (reference in Table 3). Consequently, with this action, the USA accepted to undertake a review of *"change of circumstances"* that eventually led to the establishment of much lower CVD surcharges (Table 3).

Nevertheless, the USA stood by its earlier decisions on antidumping duties: *"…after reviewing the record evidence … under the totality of circumstances analysis of the AD investigation, we find that there remains a price gap that still exists between domestic and world prices, as a result of the export tax on soybeans, which continues to impede external trade and competitive domestic pricing for soybeans. Thus, we find that there are insufficient changed circumstances to warrant a reconsideration of our finding that the GOA's intervention in soybean pricing through the export tax on soybeans renders prices paid by biodiesel producers outside the ordinary course of trade…"* (Federal Register 9/7/2019 see Table 3).

The US antidumping measures remain well above reasonable orders of magnitude of input subsidies to a degree that they are likely to be in violation of the WTO rules. If so, Argentina would have likely had a chance of contesting successfully these US barriers but for the reasons mentioned regarding the nonoperationality of the WTO Appellate Body; this option is no longer open.

4 WTO Appellate Body Ruling Against the EU's AD Duties[35]

As mentioned, in March 2014, Argentina requested the WTO to form a Panel that should decide whether the EU antidumping investigation had abided by the WTO rules in the Antidumping Agreement. The Panel's Report sided with Argentina, and following appeal by the EU, the AB distributed its findings in October 2016 upholding the Panel's decision. The driving issue referred to the EU's estimate of the margin of dumping defined in the AD Agreement when a product "…is introduced into the commerce of another country at less than its normal value, if the export price of the product from one country to another is less than the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country…" (WTO 1995, article 2.1 of the Antidumping Agreement p 168). Therefore, the higher the domestic price in relation to the export price, the higher the margin of dumping and consequently, the higher the AD barrier that authorities are entitled to establish.

Most often this margin is estimated by comparing the price of sales in the home market ("normal value" in the language of the AD agreement), with the export price or the price at which it is sold in the importing country. The AD agreement identifies two cases when the normal value can differ from the home market price: i) when

[35] This section relies quite heavily on Cowley and Hillman (2017). A summary of this case can be found in WTO (2016).

there are no significant home market sales, or ii) when there are particular home market situations that prevent relying on home market prices. The EU's investigating authority (EU Commission) concluded that the price of biodiesel in Argentina's market was distorted by Governmental regulations.[36] When i) or ii) is present, the rules in the AD agreement allow the "normal value" to be estimated from "cost of production." The EU considered that the export tax on soybeans created an unfair cost advantage to biodiesel producers, so it decided to reconstruct prices.

Argentina's line of argumentation was that, in estimating normal value, the Commission should have used "… actual prices paid for goods in the country of origin, no matter how distorted or far from reality such prices might be." In turn, the EU argued that the rules do not require to "… blindly follow actual prices paid if those prices bear no rational relationship to a 'real price' due to governments intervention that distort the actual prices…" (Cowley and Hillman 2017 p7). In the event, both the WTO Panel and its Appellate Body sided with Argentina, and eventually, the EU had to reduce the antidumping rates quite significantly (Table 3). According to this ruling, Argentina was free to set input subsidies through escalated export taxes, but under the WTO rules, the EU was prevented from compensating this unfair policy.

In the abstract of their paper, Cowley and Hillman (2017) summarized the outcome of the AB ruling by stating that: *"In this case, the EU made adjustments to the price of biodiesel's principal input – soybeans – in determining the cost of production of biodiesel in Argentina. The adjustment was made based on the uncontested finding that the price of soybeans in Argentina was distorted by the existence of an export tax scheme that resulted in artificially low soybean prices…"* The adjustment to the domestic price of soybeans and soybean oil took into account the impact of export taxes falling on these products. Nevertheless, the AB "*...found that the EU was not permitted to take tax policy-induced price distortions into account in calculating dumping margins."* Consequently, the AB ruled that the EU should adjust its antidumping duties against biodiesel imports from Argentina, and in October 2018, it announced lower revised antidumping surcharges of 4,5–8,1% (Table 3).

The AB ruling in the Argentina-EU case would appear to have closed the door for other countries attempting to compensate with antidumping duties, input subsidies created by escalated export taxes. This, nevertheless, has not been the case. Since the Appellate Body ruling was circulated in 2016, Peru and the USA initiated and reached final positive determinations in AD investigations (Table 3). The antidumping measures these countries have implemented eventually brought biodiesel imports from Argentina to a halt (Table 4). As mentioned, Argentina initiated consultations with Peru that sought to challenge this country's barriers, but this case never became a full-fledged WTO dispute. Argentina might have also opted to challenge the apparently unreasonably high US barriers, but unless the Trump-driven

[36] The bulk of biodiesel sales in the domestic market is bought by the petroleum industry for blending purposes. These prices are regulated by the government (Sonnet and others 2014).

measures that have translated into a nonoperational AB are ended, WTO "rules can no longer be enforced as envisaged."[37]

5 Final Remarks

Our analysis of contingent measures against subsidized biodiesel imports from Argentina through escalated export taxes points to a number of conclusions on multilateral trade rules as institution building. They include that: (i) Lack of rules on primary agricultural export barriers facilitated discretionary export taxes resulting in important input subsidies in favor of a nascent biodiesel industry, and in a few years, Argentina became the world-leading exporter; (ii) because of this vacuum in multilateral rules, application of WTO contingent protection policies by importing countries encountered difficulties to an extent that in one instance, a WTO Panel and its Appellate Body ruled in favor of Argentina and against the EU's antidumping duties; (iii) this ruling can also be traced to the absence of WTO rules on agricultural export barriers, (iv) in spite of this ruling, other importing countries (Peru and the US) initiated and implemented contingent measures that also brought to a halt biodiesel imports from Argentina; and (v) absence of rules plus a nonfunctioning AB has opened the door to the possibility of arbitrary measures by importing countries as the case of the absurdly high US contingent barriers indicate. Argentina can no longer challenge these countries' measures as Trump's policies have undermined the WTO Dispute Settlement Mechanism.

Beyond these conclusions on WTO rules as trade institutions, the study stresses Argentina's heavy taxation on primary agricultural exports that have translated into significant output and export costs. We conclude that in much the same way that adoption of WTO rules on contingent protection reduced the arbitrariness that used to characterize developing countries' trade policies under the import-substitution strategy, if ever multilateral negotiations are to restart, new rules on barriers to agricultural exports would imply a further positive and quite significant institutional change for the benefit of Argentina and the world trading system.

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[37] This quotation is from an anonymous referee who stressed this point forcefully. On Trump's policies, see Bown and Irwin (2019) and Krueger (2020)

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A Dynamic Canvas Framework of Competitive Neutrality Principle (CNP) for Economic Institutional Changes Regarding State-Owned Enterprises: A Case from Vietnam

Duc Nha Le

Abstract Several challenges are being faced by business environment reform toward enabling a level playing field for all participants regardless of ownership structure. This is critical to comprehensive economic integration and innovation-driven development. As a result, *non-discrimination* or *competitive neutrality principle* (CNP) plays a pivotal role in markets with the participation of state-owned enterprises (SOEs) and private enterprises. The functioning of CNP has been studied and reported by national authorities and global institutions. Nevertheless, little has been known for the case of transitional economies. Thus, this chapter reviews recent literature on the CNP and analyzes its impacts on economic institutional changes regarding SOEs in Vietnam. Furthermore, it contributes a CNP-based dynamic canvas framework regarding policy establishment and review process, which allows cross-country analysis of legal environments. Most noticeably, findings reveal that misperception of local authorities and business community about the role of SOEs in the market is the major obstacle to CNP application. This is exacerbated by the incomplete awareness of CNP of subnational agencies. In addition, enforcement capacity positively influences the effectiveness of CNP implementation. Vietnam has just been at the primary stage of economic transition since 1986; thus, CNP application is nascent and needs to be consolidated.

Besides, policy implications are discussed which aims at smoothing the transition period of Vietnam's institutional changing process. Specifically, the precondition of CNP implementation is the commitment of high-ranking officials and the consistency of execution throughout the steering hierarchy at subnational levels. In other words, the top-down approach is suitable for CNP application in an almost centralized mechanism of Vietnam. Furthermore, CNP application should be the starting point of economic institutional change in Vietnam. More importantly, SOEs' privatization should occur gradually rather than radically, which means the

D. N. Le (✉)
Faculty of Business Administration, Ton Duc Thang University, Ho Chi Minh City, Vietnam
e-mail: leducnha.nelah@gmail.com

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divestment of state capital in markets of consumer goods and services should be the choice of governments in the primary stage of transition. In line with that logic, a roadmap approach should be applied to SOEs' privatization in Vietnam. In terms of SOEs-related policy areas, corporate governance, performance benchmarking, transparency and accountability, and public involvement should be adopted by line ministries and ownership-holding institutions.

Keywords Competitive neutrality principle (CNP) · CNP-based dynamic canvas framework · Economic institutional changes · State-owned enterprises (SOEs) · Transitional economies

1 Introduction

Since Vietnam officially became a member of the World Trade Organization (WTO) in 2007, it has been integrating dynamically into the multilateral trading system, which is characterized by the increasing convergence of national institution and international norms (Brou and Ruta 2011; Efrat 2016; Malesky and London 2014; Tian and Xia 2017; Willemyns 2016). This trend has been called *institutional integration* (Campos et al. 2019; Guiso et al. 2016; Hofmann et al. 2017). As the scope of *new generation* free trade agreements (FTAs), which include rising mega-regional deals, has been extended both geographically and beyond the customs borders, a number of policy areas other than market access, which is mainly facilitated by tariff and non-tariff measures (Bown 2017; Guiso et al. 2016; Willemyns 2016; Wilson 2015), have been included in the negotiation agenda such as competition, investment, labor, environment, electronic commerce, anti-corruption, small and medium-sized enterprises (SMEs), and SOEs. Institutional changes are prevailing in almost every aspects of the member economies, thus comprehensively affecting their business environment.

Traditionally, the existence of SOEs in the economy is rationalized by their public objectives granted by the government to better intervene in the market, serve the national well-being, rectify market failures, achieve other social priorities, support infant industries, accelerate industrialization, and deploy policy experimentation (Chan and Rosenbloom 2010; Christiansen 2013; Del Bo and Florio 2012; Musacchio and Lazzarini 2014; Tonurist and Karo 2016). Specifically, SOEs are established for long-term and large-scale investment projects with low profitability, employment creation, provision of services of general interests *or* services of universal needs (such as water and electricity supply, telecommunications, postal services, waste treatment, public transport), and price monitoring and control (Cuervo-Cazurra et al. 2014; Levine 2005; Van de Walle 2008), which ultimately turns SOEs into a macroeconomic and development instrument of the governments (Daiser et al. 2017; Etling et al. 2009; Jones and Zou 2017).

In the context of transitional economies, SOEs and their role in competitive markets have been revisited as this is the barrier to private investment as the former has been reportedly receiving excessive support and undue backing from the government due to state ownership in the capital structure (Abramov et al. 2017; Cai and Li 2019; Belloc 2014; Benito et al. 2016; He et al. 2016; Hong et al. 2015; Huang et al. 2017; Nguyen and Van Dijk 2012; Miner 2016; Putniņš 2015; Willemyns 2016). Not only in domestic transactions, international trade and investment are also considered to be distorted by the actions of SOEs (Benito et al. 2016; He et al. 2016; Hong et al. 2015; Miner 2016; Willemyns 2016). Much scholarly research has pointed out that the dominance of SOEs is not conducive to market competition, resource allocation, and economic efficiency (Huang et al. 2017; Kovacic 2017; Opie et al. 2019; Tan et al. 2018; Tkachenko et al. 2017; Xu 2000; Yu 2014; Zhou et al. 2017). Thus, competitive markets of those SOEs-dominated economies need to be neutral and facilitated by a non-discriminatory institutional framework for better performance and economic functioning (Huang et al. 2017; Li et al. 2019; Yi et al. 2017; Zhou et al. 2017). Competitive neutrality is a common denominator of SOEs' reform in transitional economies (Cai and Li 2019; Capobianco and Christiansen 2011; Li et al. 2019; Xu 2000; Yu 2014), which not only helps to increase productivity, innovation, transparency and accountability, and overall performance of SOEs, but also to facilitate the level market competition for private enterprises. Nevertheless, little has been known for the situation of transitional economies, especially those from emerging ASEAN[1] despite the fact that SOEs in ASEAN countries have been major obstacles to economic development in general and regional integration effort in particular (Jones 2016; Hill and Menon 2012; Verhezen et al. 2016).

This chapter aims at building insights into CNP components, application preconditions, and monitoring and enforcement mechanism. In addition, a CNP-based dynamic canvas framework is proposed for SOEs-related policy establishment and review, which is subsequently applied to institutional changing process regarding SOEs in a transitional economy. The remaining contents of this chapter are fourfold. Section 2 provides statistical evidence on Vietnam's SOEs' performance and their contribution to the economy, which justifies the necessity for economic institutional changes regarding SOEs. Section 3 includes theoretical backgrounds of CNP and how it could help the economic institutional changes regarding SOEs of transitional economies, which ultimately establishes a CNP-based dynamic framework. Section 4 applies the framework to the situation of Vietnam's SOEs. Section 5 contributes overall assessment and policy implications to economic institutional changes regarding SOEs in Vietnam.

[1] Association of Southeast Asian Nations (ASEAN), including Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

2 Overview of SOEs in Vietnam

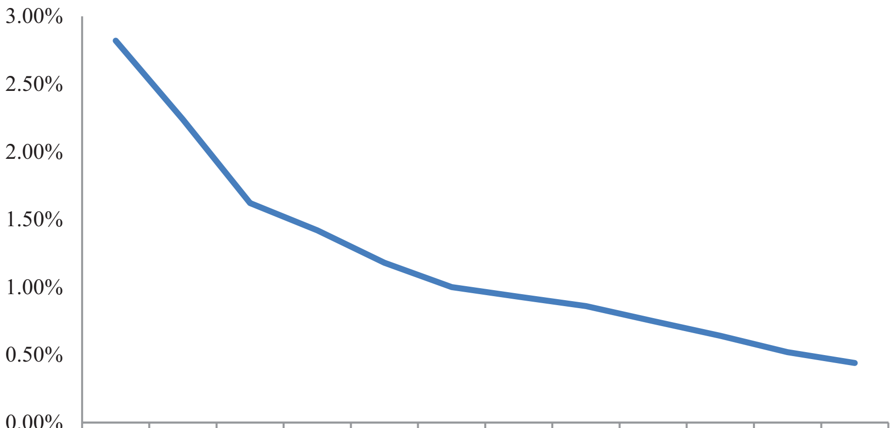
In Vietnam, the dominance of SOEs has been limited since the WTO accession in order to better integrate into the international *playing field*, especially to attract foreign direct investment (FDI) and foster domestic micro-, small-, and medium-sized enterprises (MSMEs). Figure 1 indicates that the percentage of Vietnam's SOEs has been sharply shrinking due to the wave of privatization since its WTO accession in 2007. The divestment of state capital from SOEs has been the driver of gaining fairer competition status of Vietnam's market.

The privatization of SOEs in Vietnam has been opening greater development opportunities for nascent private enterprises and ill-informed foreign entrants. Moreover, the national budget revenue has been less dependent on SOEs since 2013 (Fig. 2).

In addition, investment from state sector, which includes a majority of SOEs, has been slightly decreasing, which means SOEs have no longer played the determining role in productivity enhancement and economic expansion of Vietnam (Fig. 3). Nevertheless, Fig. 3 reveals that investment of domestic and private sectors has not expanded as expected despite several incentives taken into account by the Vietnamese government.

Furthermore, Fig. 4 demonstrates a steady contribution of state sector, which includes SOEs, to the gross domestic product (GDP) of Vietnam in 2007–2018.

In recent years, the Vietnamese government has recognized the significance of market competition and the driving role of private sector in a *socialist-oriented market economy*. In 2017, the *Resolution No. 10-NQ/TW regarding development of*

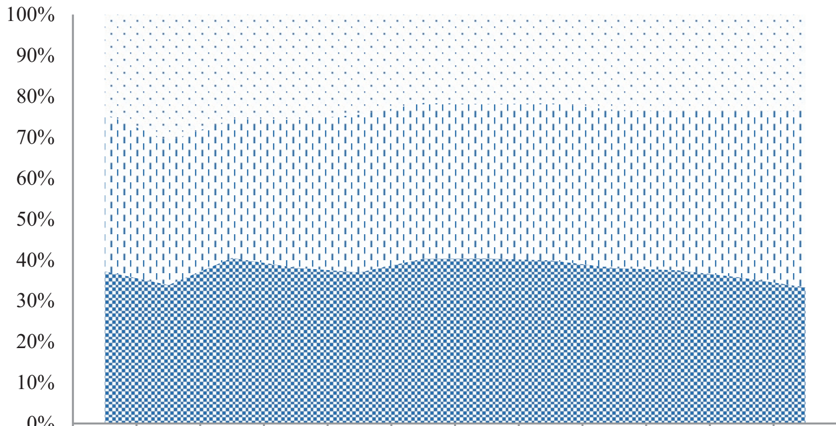


	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
%	2.82%	2.24%	1.62%	1.42%	1.18%	1.00%	0.93%	0.86%	0.75%	0.64%	0.52%	0.44%

Fig. 1 Percentage* of Vietnam's acting SOEs with business outcome reported, 2006–2017 (%). *Including SOEs, domestic private enterprises and foreign investment enterprises. (Source: Vietnamese General Statistics Office, 2006–2017). (Author's own figure). (Author's own figure)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Others**	71.1%	70.2%	68.9%	70.3%	71.5%	70.1%	66.7%	68.3%	79.3%	83.2%	85.7%	86.7%
SOEs	28.9%	29.8%	31.1%	29.7%	28.5%	29.9%	33.3%	31.7%	20.7%	16.8%	14.3%	13.3%

Fig. 2 Percentage* of revenue from SOEs in 2007–2018 (%). *In domestic revenue (excluding oil revenue). **Including revenue from foreign investment enterprises, non-state sector, agricultural land use tax, tax on high income earners, license tax, lottery, gasoline fee, fees, land and houses, and others. (Source: Vietnamese General Statistics Office, 2007–2018). (Author's own figure)



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Foreign	24.3%	30.9%	25.6%	25.8%	24.5%	21.6%	21.9%	21.7%	23.3%	23.6%	23.7%	23.4%
Non-state*	38.5%	35.2%	33.9%	36.1%	38.5%	38.1%	37.7%	38.4%	38.7%	38.9%	40.6%	43.3%
State	37.2%	33.9%	40.5%	38.1%	37.0%	40.3%	40.4%	39.9%	38.0%	37.5%	35.7%	33.3%

Fig. 3 Percentage of investment at current prices by type of ownership, 2007–2018 (%). *Including *collective*, *private* and *household* ownership. (Source: Vietnamese General Statistics Office, 2007–2018). (Author's own figure)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Others*	0.0%	0.0%	0.0%	12.6%	11.5%	10.0%	10.1%	10.1%	10.0%	10.0%	10.0%	10.0%
Foreign	17.0%	17.4%	17.3%	15.2%	15.7%	16.0%	17.4%	17.9%	18.1%	18.6%	19.6%	20.3%
Non-state	47.7%	47.5%	48.0%	43.0%	43.9%	44.6%	43.5%	43.3%	43.2%	42.6%	41.8%	42.1%
State	35.4%	35.1%	34.7%	29.3%	29.0%	29.4%	29.0%	28.7%	28.7%	28.8%	28.6%	27.7%

Fig. 4 Structure of GDP at current prices by types of ownership, 2007–2018 (%). * Products taxes less subsidies on products. (Source: Vietnamese General Statistics Office, 2007–2018). (Author's own figure)

private sector in driving the socialist-oriented market economy has pointed out guiding principles in developing the private sector, which encourages private enterprises to acquire SOEs' shares in the privatization and divestment process. This means that Vietnam has appreciated the superior management capacity of private sector in globally integrated competitive markets. Furthermore, the *Resolution No. 12-NQ/TW regarding restructuring, innovating and enhancing performance of state-owned enterprises* in 2017, on one hand, has revisited the roles of SOEs in the economy, which includes ensuring effective implementation of macro-stabilization policies, controlling inflation, solving market fluctuations, creating a large revenue for state budget, contributing to the establishment and development of socio-economic infrastructure systems and economic restructuring, and performing national defense and security tasks and social welfare programs. On the other hand, the *Resolution No. 12-NQ/TW* has pointed out that the performance of SOEs has not been commensurate with state investment resources. The corporate governance of SOEs has been stagnant and ineffective, which has not been in line with international practices and standards. Transparency and accountability, especially those of the public leaders, are restricted. Most importantly, the *Resolution No. 12-NQ/TW* has provided a definition of SOE as *an enterprise with 100% charter capital or stocks held by the state or with state-dominated capital portion, which is organized* *and operated in the form of a joint stock company or a limited liability company*. In terms of ensuring fair competition among market participants, the *Resolution No. 12-NQ/TW* has confirmed to phase out the mechanism of *direct administrative intervention*, state subsidies, discrimination against enterprises in other economic sectors which include preferential access to resources, finance and land, greater investment and business opportunities, and tax incentives. These efforts are to ensure that SOEs are operating in compliance with market rules, considering economic efficiency as the ultimate objective, and enhancing accountability and governance. This means that economic institutional changes in Vietnam would primarily take place in public sector with the presence of SOEs. This viewpoint had been previously echoed in the *Resolution No. 11-NQ/TW regarding completing the institution of socialist-oriented market economy* in 2017, which emphasizes that businesses of all economic sectors are subject to market rules and be treated non-discriminatorily regardless of form of ownership.

In the age of globalization, Vietnam has reportedly signed twelve free trade agreements with its partners since the accession to WTO.[2] Among those trade deals, Chap. 17 of The Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) and Chap. 11 of EU-Vietnam Free Trade Agreement (EVFTA) are considered to be the stepping-stones for Vietnam to bridge the institutional gaps and rectify market distortion made by the dominance of SOEs in the economy. Especially, the CPTPP and its primary version—TPP (Trans-Pacific Partnership) is considered to shed new the light on national legal framework for SOEs in developing members (Miner 2016; Sylvestre Fleury and Marcoux 2016; Willemyns 2016). Most remarkably, CPTPP has defined SOEs as businesses with two characteristics, namely, *commercial activities engagement* and *state relationship*. Commercial activities are taken by *profit-seeking enterprises* which determine the quantities and prices to provide goods and services to consumers. Meanwhile, state relationship sets the thresholds of *direct state ownership*, *state control of voting rights* or *top-management personnel appointment power of the state*. In addition, CPTPP has ruled the policy treatment toward SOEs in accordance with the *commercial considerations*, which aligns SOEs' operation in competitive markets to that of private enterprises in the conventional commercial decision-making process. The guiding principle of CPTPP is to ensure SOEs enter into commercial purchase and sales contracts based on commercial considerations. However, this is not adequate for comprehensive institutional changes of Vietnamese economy in which public sector has been deeply rooted and dominated since the French withdrawal from Northern Vietnam in 1954 and Reunification in 1975.

The process of international economic integration requires Vietnam to build a *market economy mechanism* in association with *socialist orientation* in which resources are allocated by market rules while social well-being is guaranteed for the majority of nationals. The economic institutional framework is designed to eliminate distorted competition between SOEs and private enterprises. Yet, there

[2] WTO, Regional Trade Agreements Gateway, 2019.

has been no widely recognized and applied principle of treatment like Most-Favored Nation (MFN) and National Treatment (NT) relevant to foreign and domestic enterprises in international trade. Competitive neutrality needs to be stringently assured as a market principle. However, Vietnam's public sector has been a large component in the overall economic structure. Many SOEs, on one hand, hold a monopolistic position in certain key economic sectors and still receive significant incentives from the state. On the other hand, their weaknesses in corporate governance are increasingly uncovered, which results in many bankruptcy cases or ineffective and over-outspread *side-line business investment*. Transparency and accountability of SOEs are still indistinguishable and have become an unceasing concern of policy-makers and congressmen. Competitive neutrality has not been implemented broadly and officially. Therefore, establishing and maintaining this principle in the market must be considered as one of the top priorities in the near future, which could be achieved based on assessing the situation of Vietnam and learning international experience. Competitive neutrality should be recognized as an indispensable requirement of the international economic integration, which aims at improving national competitiveness, levelling competitive environment, attracting foreign investment, promoting innovation, and ensuring allocative efficiency of the economy.

3 What and Why CNP?

3.1 CNP and Institutional Changes in Transitional Economies

CNP was first mentioned as a concept in national competition policy and law in the early 1990s in an Australian Government report on competition in 1993. CNP is considered a principle or a market status which requires all businesses irrespective of ownership (public and private) and nationality (domestic and foreign) comply with the similar rules and law, and either *de jure* or *de facto* connection with the government, both *ownership* and *involvement*, does not equip the enterprise with *undue competitive advantages* compared to any actual or potential market participants (OECD 2012, 2015). This is the fundamental difference between the concept of *competitive neutrality* and the conventional *competition* concepts, which clearly identifies the covered subject of CNP including SOEs and private enterprises. CNP does not reject the legality of state-led interventions. CNP is only applied to rectify those distorting competitive markets.

Competitive neutrality positively impacts economic growth and is the driving force of the socioeconomic development process. Fair and legal competition increases consumer welfare through increased access to a wide range of products at reasonable prices and improved quality. Fair competition promotes the development of productive forces through the process of eliminating ill-performed actors and encourages innovative activities of businesses toward sustainable development and enhance social responsibility. However, when it comes to fair competition, most of us understand that this concept only refers to private businesses including domestic enterprises and foreign investment enterprises. Meanwhile, there is little concern given to SOEs. In economies that are in transition to market mechanisms like Vietnam today, the role of the public sector in general and SOEs in particular is an important *knot* that needs to be removed. The participation of SOEs in the market has been questioning the *fairness* or *equality* of the competitive environment when these entities are considered one of the macro-policy instruments of the state to lead domestic market and national economy. Thus, the neutrality of policies is considered a requirement that needs to be ensured in a market economy, which Vietnam has been declaring to pursue, to create an effective and sustainable business environment, in other words to maintain neutral status of the competitive environment. This comes from the following rationales.

From the economic perspective, CNP improves the allocation efficiency of resources in the economy. Accordingly, goods and services will be produced and supplied by the most efficient business entities. The private sector is facilitated with equal business conditions. This encourages the development of production, research, and innovation in order to increase the affordability and accessibility of energy, environment-related services, telecommunications, transportation, infrastructure, health, education, etc., which were previously exclusively provided by the public sector and considered as *services of general economic interest (SGEI).*[3] Consumers and then the entire economy are able to benefit from CNP due to reduced budget spending burden and negative impacts of monopolistic pricing being eliminated.

From the political perspective, CNP promotes the implementation of international economic commitments and enhances the national political status in the international arena, thereby further promoting international integration. CNP minimizes the risk of a *trade war* or *trade retaliation* which is the core cause of political conflicts in cases when governments provide SOEs with excessive subsidies or unnecessary support. In addition, in the context of signing new-generation FTAs, especially the CPTPP, ensuring CNP in shaping national policies will minimize the risk of the regulatory authorities being sued by foreign investors under the *investor-state dispute settlement (ISDS)* mechanism. The commitment to ensuring CNP demonstrates a nation's political determination for sustainable development, especially countries with transitional economies like Vietnam.

From the policy perspective, CNP has a close relationship with competition policies in particular and policies on socioeconomic development in general. CNP contributes to improving a national competition policy. The contents of CNP are basically not in conflict with the objectives of competition policy and socioeconomic policy. CNP also plays a role in setting up preeminent economic models, in which the equal competition among the market participants is considered a top priority. CNP is the driving force of development and a measurement of economic advances.

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[3] Defined by European Commission as *economic activities that public authorities identify as being of particular importance to citizens and that would not be supplied (or would be supplied under different conditions) if there were no public intervention.*

3.2 Aspects of CNP

Competitive neutrality status of the market is established and maintained through the application of CNP in the establishment and implementation of policies in eight key areas, hereinafter called aspects of CNP (see Fig. 5).

(1) *Streamlining legal forms of business operations of public entities*: (a) Corporatizing business activities of public sector, promulgating a set of governance rules exclusively for SOEs and the other public entities with business

<table>
<tr>
<td>Legal forms of operation
Corporatization of public entities;
Commercial & non-commercial separation;
Transparency, efficiency and accountability of state involvement</td>
<td colspan="2">Cost allocation mechanism
Established basis for calculating costs of commercial & non-commercial activities
Transparency and information accessibility for community</td>
<td>Business performance measurement
Clearly-targeted commercial rate of return (ROR)
Equivalent to measurement of private business performance</td>
</tr>
<tr>
<td>Public services and compensation
Clearly-determined services/goods to be provided by SOEs
Legitimized SOEs monopoly and/or direct compensation</td>
<td colspan="2">CNP monitoring and oversight
Designated office;
Ministry of finance and/or economy;
Subnational/sectoral regulators;
Government procurement agencies;
State audit agency;
National assembly and subordinate legislatures;
Local authorities;
Consumer-protecting organizations;
Prosecution authorities or courts</td>
<td>Regulatory neutrality
Ensuring non-discrimination of common and regional/sectoral regulations</td>
</tr>
<tr>
<td>Financial incentives and debt neutrality
Debt relief, debt guarantee and debt freezing for SOEs
Access to capital and incentives for interest rates, maturities and payment obligations of SOEs</td>
<td colspan="2">Government procurement
Identifying and eliminating undue competitive advantages of SOEs in the bidding process
In-house procurement (SOE-SOE transaction)</td>
<td>Tax neutrality
Ensuring similar tax rate and taxation regime imposed on SOEs and its private competitors</td>
</tr>
<tr>
<td colspan="4">CNP application preconditions
Corporatized public entities → SOEs; Mixed competitive market; Commercial nature of SOEs activities; Cost-benefit balance of the application.</td>
</tr>
<tr>
<td colspan="4">CNP enforcement</td>
</tr>
<tr>
<td colspan="2">Ex ante measures
Including state support and SOEs anti-competitive behaviours in relevant rules and regulations</td>
<td colspan="2">Ex post measures
Undue competitive advantages valuation and financial offsetting</td>
</tr>
</table>

Fig. 5 CNP dynamic canvas framework. (Source: Adapted from OECD 2012). (Author's own figure)

activities and selecting the legal form of SOEs to equalize them with other enterprises regarding legal regulations and policy treatment; (b) Separating commercial and non-commercial activities, allowing competition to take place in a way that is compatible with the objective rules of the market, in other words, this is the process of separating business functions (competitive) with public policy functions (not competitive) of the same public entity; and (c) Establishing clear and transparent objectives of state ownership in the capital structure of public entities, which ensures transparency, efficiency, and accountability in performing public policy functions.

(2) *Determining the cost of performing designated functions*: Establishing and developing a reasonable *cost allocation mechanism* for SOE commercial and non-commercial activities, while ensuring transparency and information accessibility of the community;

(3) *Achieving targeted commercial rate of return (ROR)*: Determining the minimum quantitative threshold of business performance that SOEs must achieve equivalent to private businesses in the market, which ensures that SOEs are not motivated to implement anti-competitive behaviors and market distortions.

(4) *Obligations to provide public services and forms of compensation*: Determining which services will be provided by the SOEs to ensure that it does not eliminate business opportunities of private enterprises and to increase supply efficiency in the market. Besides, this aspect also mentions two compensation forms including legitimizing the *monopoly* of SOEs in some market segments and *direct compensation* from state budget. In addition, transparency and access to information about these activities are also emphasized in this aspect.

(5) *Neutrality of tax policy*: Ensuring that business activities of SOEs are carried out in the same tax environment with private enterprises. This implies that the business activities of SOEs must bear a similar tax rate as their private competitors.

(6) *Neutrality of legal regulations*: Ensuring business operations of SOEs are conducted in a similar regulatory environment as private enterprises. A regulatory environment is understood as a set of common documents that regulate business operations of enterprises and *sectoral* or *market-specific* documents of corresponding authorities. Legal regulations need to be non-discriminatory for all types of businesses with different forms of ownership.

(7) *Financial incentives and debt neutrality*: Limiting to the minimum financial incentives for public entities, especially SOEs, with direct support to businesses that are "too big to fail" and minimizing access to capital as well as incentives for interest rates, maturities, and payment obligations of credits for SOEs.

(8) *Government procurement*: Identifying undue competitive advantages that SOEs suppliers can be given by the government and establishing mechanisms to eliminate or neutralize these advantages in the bidding process. In addition, this aspect also requires transparency and access to information throughout the bidding process from tender invitation notices to implementation and completion of bidding packages. In addition, *in-house procurement* (SOE-SOE transaction) is also involved in this aspect because the CNP may be violated if there are no regulations limiting the scope and conditions to allow internal procurement to be conducted and not subject to regulations related to public procurement.

3.3 Preconditions of CNP

The scope determines which state activities are subject to CNP and whether CNP is able to be applied or not. Accordingly, there are four preconditions, including:

(1) *Form of operational organization or legal form of a SOE*: This is a precondition to determine if the SOE is conducting activities of the state in the market. In general, *public entities* are divided into three categories: (i) Corporatized SOEs in the process of privatization; (ii) Public agencies not yet corporatized; and (iii) Other forms of public organizations that engage in commercial activities. Besides, SOEs are also considered in national and subnational levels. In Vietnam, SOEs may be controlled and monitored by national or subnational line authorities.

(2) *Market of doing business*: The market in which SOEs operate is a *mixed competitive market*. The heterogeneity of markets is reflected in the fact that the *co-existence* and *co-operation* of SOEs and private enterprises in the market take place in practice or are permitted by law. This implies that CNP is not effective in the market if the state exerts its legislative power on stipulating specific goods and services that can exclusively be supplied by SOEs and the other public entities.

(3) *Commercial nature of activities*: The operations in the market of SOEs must be commercially based. It depends on whether or not the considered activity is generating revenue or profit. This can be determined by assessing the settled price of goods or service fees. In addition, this goods and services provision must take place in a *mixed competitive market*. In other words, there are actual or potential competitors in the market that can be able to participate in the provision of such goods or services unless it is prohibited by law.

(4) *Cost-benefit balance of applying CNP*: The laws of some countries have provisions on the applicability of CNF based on considering the benefits and costs of implementation.

3.4 CNP Monitoring and Enforcement

In general, the authorities responsible for supervision, investigation, and enforcement of CNP will be regulated depending on the effective and applicable legal documents of each national institutional framework. Authorities recorded as responsible for the above-mentioned tasks varies among nations, which could be a designated office for receiving and resolving CNP-related complaints, Ministry of Finance or national treasury and subordinate department/committee in charge of budget oversight, ministries in charge of national economy monitoring and management, subnational/sectoral regulators, government procurement agencies, state audit agency, national assembly or subordinate legislatures, local authorities or consumer-protecting organizations, and prosecution authorities or courts (OECD 2012).

The enforcement measures are mainly employed to eliminate undue competitive advantages of SOEs to neutralize the aspects of CNP, which ultimately makes the competitive environment between SOEs and private enterprises become equal or level. Accordingly, undue competitive advantages are valued and subsequently offset by a financial compensation mechanism to eliminate distortions that arise from those advantages. This is called *ex post* measures, which implies that they are *reactively* deployed to correct discriminatory impacts of the implementation of SOEs-favored regulations. In addition, undue competitive advantages in practice can be *proactively* restricted by prohibiting state incentives for anti-competitive acts of SOEs which is stipulated in the relevant rules and regulations. Those applied in this manner are called *ex ante* measures.

4 Institutional Changes of Vietnam's Economy Toward a Socialist-Oriented Market Model: Through the Lens of the CNP

4.1 National Policy Framework and Building Blocks of CNP

Vietnam has not yet developed a separate policy framework for CNP application. Aspects of CNP are incorporated into several laws and by-law documents of relevant issues. The legal document most clearly reflecting CNP application is the Law on Competition No. 23/2018/QH14 issued in 2018 whose scope has been extended to include enterprises supplying public products and services, enterprises operating in sectors of state monopoly and public non-business units in Vietnam. Noticeably, as stipulated in Article 8 of the Competition Law 2018, state acts that distort and restrict competition in the market are prohibited. Among those, discrimination between businesses and abusing positions and powers to illegally intervene in competitive activities are highlighted which demonstrates the application of CNP in the law.

Figure 6 includes legal documents that indicate the nascent emergence of CNP in the institutional economic frame of Vietnam. In addition, the canvas can also help policy-makers review current institutional economic frame to make sure the violation of CNP does not exist.

Legal forms of operation	Cost allocation mechanism	Business performance measurement
+ Law on Enterprise 68/2014/QH13 (Article 188, Article 9; Article 4.8); + Law on Management and Use of state capital invested in production and business of enterprises 69/2014/QH13 (Article 3.8); + Law on Competition 23/2018/QH14; + Decision on Approving the Project "Restructuring of State-owned Enterprises with the focus on state economic group and state corporations in the 2011-2015 period" 92/QĐ-TTg (2012); + Decree on Transferring SOEs and one-member limited liability enterprises with 100% invested charter capital held be state into joint stock companies 126/2017/NĐ-CP; + Decree on State economic group and state corporations 69/2014/NĐ-CP (Article 9); + Decree on assigning and decentralizing the exercise of rights, responsibilities and obligations of the State in SOEs 99/2012/NĐ-CP; + Decree on supervising state capital investment in enterprises 87/2015/NĐ-CP; + Decree on State capital investment in enterprises, and management and use of capital and assets at enterprises 91/2015/NĐ-CP; + Law on Management and Use of State capital invested in business and production at enterprises 69/2014/QH13 (Article 59); + Decision on Criteria and List of categories of State-owned Enterprises 37/2014/QĐ-TTg; + Decree on Performance of Rights and Obligations of the Representative of State ownership at the SOEs No. 10/2019/NĐ-CP; + Resolution 55-NQ/TW on orientation towards the energy development strategy of Vietnam to 2030 with a vision to 2045 (Section III.2, Section III.5, Section III.6)	+ Decree on State economic group and state corporations 69/2014/NĐ-CP (Article 39); + Decree on Delivery, ordering, or bidding for the provision of public products and services using the state budget from regular expenditure fund 32/2019/NĐ-CP (Article 2.2; Articles 3.6 & 3.7; Article 8; Article 27); + Decree on Information disclosure of SOEs 81/2015/NĐ-CP; + Circular on Accounting system of enterprises 200/2014/TT-BTC; + Decree on State capital investment in enterprises, and management and use of capital and assets at enterprises 91/2015/NĐ-CP; + Circular 219/2015/TT-BTC on Guidance of the *Decree 91/2015/NĐ-CP*; + Decree on Information disclosure of SOEs 81/2015/NĐ-CP.	+ Law on Management and Use of state capital invested in production and business of enterprises 69/2014/QH13; + Decree on Information disclosure of SOEs 81/2015/NĐ-CP (Article 9.3; Articles 33.1 & 33.2; Articles 28.2, 28.3 & 28.4) + Circular on Accounting system of enterprises 200/2014/TT-BTC; + Decree on State capital investment in enterprises, and management and use of capital and assets at enterprises 91/2015/NĐ-CP (Article 5); + Circular 219/2015/TT-BTC on Guidance of the *Decree 91/2015/NĐ-CP*; + Decree 33/2018/NĐ-CP on amendments to Decree 91/2015/NĐ-CP; + Decree on State capital investment in enterprises and financial management of enterprises in which the state holds 100% of charter capital 71/2013/NĐ-CP; + Decree on Information disclosure of SOEs 81/2015/NĐ-CP.
Public services and compensation + Law on Enterprise 68/2014/QH13 (Article 4.22);	**CNP monitoring and oversight** Competition Administration Department under the	**Regulatory neutrality** Market entry; Operations in the market; and Withdrawal from the

Fig. 6 CNP dynamic canvas framework of Vietnam. (Source: Reviewed and synthesized by the Author, 2019). (Author's own figure)

+ Decree on Delivery, ordering, or bidding for the provision of public products and services using the state budget from regular expenditure fund 32/2019/NĐ-CP; + Decree on Goods, services and geographical areas with state monopoly in commercial activities 94/2017/NĐ-CP; + Law on Management and Use of state capital invested in production and business of enterprises 69/2014/QH13; + Law on Fees and Charges 97/2015/QH13 (Articles 3.1 & 3.2) + Law on Prices 11/2012/QH13 (Articles 19, 20 & 21); + Law on Electricity 28/2004/QH11; + Law on Postal industry 49/2010/QH12 (Article 33.6); + Law on Telecommunication industry 41/2009/QH12 (Article 19.2.a); + Decree on State capital investment in enterprises, and management and use of capital and assets at enterprises 91/2015/NĐ-CP (Article 5); + Circular 219/2015/TT-BTC on Guidance of the *Decree 91/2015/NĐ-CP*; + Decree on Information disclosure of SOEs 81/2015/NĐ-CP.	Ministry of Industry and Trade; Competition Council established by the government; Ministries and departments such as the ministry of planning and investment, ministry of finance, ministry of industry and trade; Line ministries in charge of specific industries/markets; Ministerial-level agencies such as the state audit, government inspectorate; Committees in charge of specific issues established under specific legal documents; Committees under the national assembly; and Region-specific and area-specific courts The Commission for the Management of State Capital at Enterprises (CMSC) The State Capital Investment Corporation (SCIC)	market. + Resolution 10-NQ/TW on promoting the development of private sector towards an important driver of the socialist-oriented market economy; + Resolution 50-NQ/TW on orientation for institution and policy improvement, and enhancing the quality and efficiency of foreign investment cooperation by 2030; + Law on Competition 23/2018/QH14; + Decree 71/2014/NĐ-CP on guidance of the *Law on Competition 23/2018/QH14* regarding violations punishment in competition; + Decree on Sanctioning of administrative violations in the field of planning and investment 50/2016/NĐ-CP; + Decree on Sanctioning of administrative violations of tax and forcing the implementation of tax administrative decisions 129/2013/NĐ-CP; + Decree on Transferring SOEs and one-member limited liability enterprises with 100% invested charter capital held be state into joint stock companies 126/2017/NĐ-CP; + Decree on Goods, services and geographical areas with state monopoly in commercial activities 94/2017/NĐ-CP.
Financial incentives and debt neutrality	**Government procurement**	**Tax neutrality**
+ Law on Management and Use of state capital invested in production and business of enterprises 69/2014/QH13; + Decree on Management of Debts of enterprises with 100% charter capital held by the State No. 206/2013/NĐ-CP; + Decree on State capital investment in enterprises, and management and use of capital and assets at enterprises 91/2015/NĐ-CP; + Decree 32/2018/NĐ-CP on amendments to Decree 91/2015/NĐ-CP; + Decree on State capital investment in	+ Law on Anti-Corruption No. 55/2015/QH11 (Article 13) + Law on Bidding No. 43/2013/QH13 (Articles 6, 8, 21, 22.1.e, 89 and 90); + Decree on Guidance of the Law on Bidding No. 43/2013/QH13 regarding contractor selection No. 63/2014/NĐ-CP (Article 54, Article 2.4.a, Article 2.5); + Decree on Information disclosure of SOEs	+ Law on Corporate Income Tax No. 14/2008/QH12; + Law on Fees and Charges 97/2015/QH13 (Article 11.1) + Decree on detailed provisions and guidance on implementation of *the Law on Corporate Income Tax* No. 218/2013/NĐ-CP (Article 2.1); + Decree on detailed provisions and guidance on implementation of *Law on Investment* No. 118/2015/NĐ-CP (Articles 4, 16,

Fig. 6 (continued)

<table>
<tr>
<td colspan="2">enterprises and financial management of enterprises in which the state holds 100% of charter capital 71/2013/NĐ-CP;

+ Decree on State capital investment in enterprises, and management and use of capital and assets at enterprises 91/2015/NĐ-CP;

+ Circular 219/2015/TT-BTC on Guidance of the Decree 91/2015/NĐ-CP;

+ Decree on Information disclosure of SOEs 81/2015/NĐ-CP.</td>
<td>81/2015/NĐ-CP.</td>
<td>17 and Annex);

+ Circular No. 78/2014/TT-BTC on guidance on implementation of Decree No. 218/2013/NĐ-CP;

+ Circular No. 96/2015/TT-BTC on amendment and modification of some provisions of Circular No. 78/2014/TT-BTC;

+ Decree on Information disclosure of SOEs 81/2015/NĐ-CP.</td>
</tr>
<tr>
<td colspan="4">CNP application preconditions

(1) Precondition for form of operational organization:

+ Law on Enterprise No. 68/2014/QH13;

+ Decree on Transferring SOEs and one-member limited liability enterprises with 100% invested charter capital held be state into joint stock companies 126/2017/NĐ-CP;

+ Law on Management and Use of state capital invested in production and business of enterprises 69/2014/QH13 (Article 3.8).

(2) Precondition for market of doing business:

+ Decree on State capital investment in enterprises, and management and use of capital and assets at enterprises 91/2015/NĐ-CP;

+ Decree on Goods, services and geographical areas with state monopoly in commercial activities 94/2017/NĐ-CP.

(3) Precondition for the commercial nature of activities:

+ The Law on Trade No. 36/2005/QH11 (Article 3.1)

(4) Precondition for cost-benefit balance of applying CNP: Not yet to be established.</td>
</tr>
<tr>
<td colspan="4">CNP enforcement</td>
</tr>
<tr>
<td>Ex ante measures

+ Decree on Sanctioning of administrative violations of tax and forcing the implementation of tax administrative decisions 129/2013/NĐ-CP;

+ Decree on Guidance of the Law on Bidding No. 43/2013/QH13 regarding contractor selection No. 63/2014/NĐ-CP (Article 7).</td>
<td colspan="3">Ex post measures

+ Law on Competition 23/2018/QH14;

+ Decree 71/2014/NĐ-CP on guidance of the Law on Competition 23/2018/QH14 regarding violations punishment in competition;

+ Decree on Sanctioning of administrative violations in the field of planning and investment 50/2016/NĐ-CP.</td>
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Fig. 6 (continued)

4.1.1 Legal Forms of Operation

In 2012, the Vietnamese government launched the process of restructuring SOEs sector by issuing the Decision No. 92/QĐ-TTg (see Fig. 6) which mainly focuses on three main contents:

(1) Promoting privatization to gradually decrease the number of SOEs in competitive and commercial markets;
(2) Divesting state capital from incumbent SOEs in certain markets or market components in order to separate commercial and non-commercial activities of public entities;

(3) Enhancing governance capacity of SOEs to improve their efficiency in a way that is consistent with international managerial practices.

Transparency and accountability of SOEs are also emphasized and legislated into the regulations at Decree 99/2012/NĐ-CP and Decree 87/2015/NĐ-CP (see Fig. 6). In addition, the government also stipulates criteria for evaluating and classifying enterprises and managers in Article 59 of the Law on Management and Use of State capital invested in business and production at enterprises 69/2014/QH13. However, the above regulations have not separated the management and ownership functions of the state. In particular, state management agencies continue to work concurrently as representatives of the state equity.

In terms of control of market access related to the separation of commercial activities (competitive components) and non-commercial activities (non-competitive components), legal documents have not specified specific measures to separate the two types of activities mentioned above. As regulated in the Decision 37/2014/QĐ-TTg (see Fig. 6), the percentage of charter capital held by the state has been still disproportionate. Also, every sector is vertically divided into many different components of which the state holds at least 50% of charter capital. In 2019, Resolution 55-NQ/TW on orientation toward the energy development strategy of Vietnam to 2030 with a vision to 2045 has allowed the establishment of a mechanism to encourage private investment in national electricity grid (see Fig. 6), which was historically monopolized by the EVN (Vietnam Electricity)—a state corporation of Vietnam's Ministry of Industry and Trade (before November 2018) and the Commission for the Management of State Capital at Enterprises—CMSC (from November 2018 to current).

In terms of setting clear goals for the state to maintain its share in the capital structure of SOEs and to periodically review these goals, as regulated in the Decree 87/2015/NĐ-CP and Decree 91/2015/NĐ-CP (see Fig. 6), the government cabinet and the prime minister are responsible for setting goals and criteria to assess the objectives of state ownership in the enterprises. The review is carried out annually by the Ministry of Finance and pertinent ministries. The National Assembly is responsible for supervising the government in the implementation of the above tasks at the year-end meeting based on the government's report. However, the Law 69/2014/QH13 (see Fig. 6) has not clearly stated the agency in charge of reviewing proposals for increase or decrease of state capital, but only included the obligation of Ministry of Finance to propose solutions to the investment, management and use of state capital in enterprises.

4.1.2 Cost Allocation Mechanism for Designated Functions

The Vietnamese government has issued Decree No. 81/2015 on information disclosure of SOEs. Accordingly, the annual report on the results of the performance of public duties and social responsibilities specified in Annex VI of the Decree includes costs incurred and revenue related to the products and public services performed. In addition, the Decree imposes disclosure obligation of financial information on SOEs. However, the Decree applies only to SOEs with 100% state capital and SOEs operating in the fields of finance, banking, insurance, lottery, and securities; hence, transparency in the operation of SOEs is not completely guaranteed under this Decree. For separating accounts related to expenses of commercial and non-commercial activities, the Decree No. 81/2015 requires SOEs to include the arising costs and revenues related to public duties and social responsibilities in the Annual Report.

4.1.3 Business Performance Measurement

Also in the Decree No. 81/2015 on information disclosure of SOEs, enterprises with 100% state-owned charter capital are required to publish their annual production and business report on the last three years and annual and five-year business and investment plans of the enterprise. In those reports, the items "Total revenue" and "Profit before tax" which establish the basis for calculating ROR and *benchmark ROR*[4] must be included. In addition, this Decree also requires SOEs to publish the balance sheet according to form B01-DN prescribed in Circular No. 200/2014 of the Ministry of Finance which includes "Total assets" and "Equity" items that facilitate the calculation of the return on equity rate (ROE) and the return on total assets rate (ROA). In addition, Article 9 (Clause 3) and Article 33 (Clause 1 & Clause 2) of the Decree regulate the monitoring of production and business activities of SOEs with 100% and less than 100% state capital subject to which business performance are measured by revenue, profit, ROE and ROA. However, the government has not issued specific regulations on how to calculate *benchmark ROE* and *benchmark ROA* (BROE and BROA) as a basis for performance monitoring. Based on current legal documents, it is only possible to calculate the *estimated BROR* (*ex ante* BROR) based on the *annual business plan* and 5-year *development investment plan* of the SOEs as there are two items required to be included in the plans, namely "Target total revenue" and "Target profit before tax". Finally, the ROE (along with the necessary adjustments) is included in the criteria for evaluating SOEs managers according to Article 28 (Clause 2 & Clause 4). However, it is only applied to SOEs with 100% state capital. In addition, Clause 3 of Article 28 exempts the ROE assessment for businesses assigned to perform public tasks. However, the government has not yet issued specific measures to be taken if those enterprises fail to meet this criterion.

[4] Being measured as the ROR of private enterprises operating in the same market which has a different cost structure compared to public enterprises)

4.1.4 Public Services and Compensation

Clause 22 of Article 4 in Law on Enterprise No. 68/2014/QH13 defines public services as *essential services for the socio-economic performance of the country, the population community of a territory which the State needs to ensure for the common interests or to ensure national defense and security, and the production and provision of this service under market mechanism is hard to offset the costs incurred*. Regarding compensation for the obligation to provide public services, SOEs are compensated from two main sources which are state budget and fees for using those public services. Regarding to accounting the compensation for public services provision from the collection of charges for use of public services, the Law on Fees and Charges No. 97/2015/QH13 has established the principle of determining fee rate to ensure adequate compensation for *public policy objectives* of SOEs and openness, transparency, and equality of the compensation. In addition, the Law on Prices 11/2012/QH13 outlines the pricing principles, pricing basis and pricing methods of goods and services subject to state monopoly production and trading, and public services funded by the state budget. Furthermore, sectoral regulations also stipulate the bases for determining the price of supply of public services in accordance with the pricing principles in the Law on Prices 11/2012/QH13. Cross-subsidization between market segments such as the wholesaling and retailing components is allowed in the electricity market as regulated by the Law on Electricity No. 28/2004/QH11. Meanwhile, it is prohibited in the Law on postal industry No. 49/2010/QH12 and Law on telecommunication industry No. 41/2009/QH12. Most noticeably, in 2020, Resolution 55-NQ/TW on orientation toward the energy development strategy of Vietnam to 2030 with a vision to 2045 (Sect. III.6), cross-subsidization is not allowed in electricity pricing between segments and regions. Nevertheless, this is only the primary perspective from the Central Communist Party (the Politburo), more specific and detailed laws and regulations will be established accordingly in the near future. This signals a market-based approach to the functioning of this energy sector, which has historically been dominated by SOEs due to its importance to national security.

4.1.5 Tax Neutrality

As regulated by the Law on Corporate Income Tax No. 14/2008/QH12 and the Decree on detailed provisions and guidance on implementation of the Law on Corporate Income Tax No. 218/2013/NĐ-CP, SOEs operating in the form of a limited liability company or a joint stock company are subject to the same corporate income tax treatment as those of the private sector. In addition, as regulated in the Decree on detailed provisions and guidance on implementation of Law on Investment No. 118/2015/NĐ-CP, these SOEs may enjoy some income tax incentives for revenue generated in case they are assigned to perform public policy functions in certain regions and sectors. The incentives can be either *geographical* or *sectoral* which aims at stimulating investment in strategic economic sectors and remote regions with unfavorable socioeconomic conditions. Specifically, SOEs may be exempt from taxes on income generated from production and supply activities in certain regions and sectors.

4.1.6 Regulatory Neutrality

In general, Vietnam's legal documents (de jure) do not discriminate between SOEs and private enterprises in three major areas: market entry; operation in the market; and withdrawal from the market. However, in fact, the limitations of law enforcement and the behaviors of the state (de facto) have brought about many advantages, privileges, and rents for SOEs, hence increasing sectoral entry barriers for private enterprises. By allowing SOEs to dominate several strategic markets such as electricity, petroleum, minerals, telecommunication services, transportation, finance, and credit, Vietnam's government has created undue competitive advantages through resource allocation mechanisms and other preferential treatment. The state ownership representative agency concurrently regulates the market and issues policies, which creates great advantages for SOEs. Besides, the government has frequently reduced, extended, and written off debts and rescued many inefficient and unprofitable SOEs.

Most recently, in 2017, Resolution 10-NQ/TW on promoting the development of private sector toward an important driver of the socialist-oriented market economy has clarified the overall direction perspective which highlights the encouragement to private enterprises to acquire the ownership of privatized SOEs (see Fig. 6). In addition, Resolution 10-NQ/TW implicitly confirms the non-discrimination between SOEs and private enterprises when affirms the elimination of all deeply rooted private enterprises-related barriers and prejudices, and creation of favorable conditions for the development of private sector with well-oriented trajectory. Noticeably, regulatory non-discrimination between SOEs and foreign enterprises has been recently confirmed in the Resolution 50-NQ/TW on orientation for institution and policy improvement, and enhancing the quality and efficiency of foreign investment cooperation by 2030 (see Fig. 6).

4.1.7 Financial Incentives and Debt Neutrality

Vietnam's SOEs receive grants from the state budget for non-commercial activities or for *too big to fail* businesses due to their size and significance in the economy. In many cases, due to the strategic establishment of *national champions*, SOEs are large recipients of financial preferential treatment, debt relief and favorable credit conditions. Besides, the budget constraints are not tight enough to prevent these SOEs from doing business inefficiently which has caused losses and wastefulness. The government provides SOEs with unlimited financial support and easy conditions of requesting subsidy from state budget. In addition, government is either implicitly or explicitly committed to rescuing and supporting SOEs in the case of bankruptcy or insolvency. This makes the SOEs rely more or less on the support from the state while facing less pressure and less tightened budget constraints. Moreover, government has to ask credit institutions for considering interest rates reduction, loans payment extension for a number of struggling SOEs, debts relief for SOEs, and using budget to repay SOEs' debts which are government-guaranteed or re-borrowed from government's foreign loans.

4.1.8 Government Procurement

In terms of transparency, the Law on Anti-Corruption No. 55/2015/QH11 and the Law on Bidding No. 43/2013/QH13 have regulations on public disclosure of information related to public procurement on the national bidding network system. Joint Circular No. 07/2015/TTLT-BKHĐT-BTC provides detailed guidance of the provision and posting of information regarding online bidding and contractor selection. For the assurance of competition in bidding process, the Law on Bidding No. 43/2013/QH13 stipulates conditions to ensure financial and legal independence of contractors. In addition, the Law on Bidding No. 43/2013/QH13 includes prohibited acts in the bidding process and forms of violations punishment. In some special cases, CNP may not be applied. Then, instead of *open bidding*, government can employ *restrictive bidding* or *direct contractor-appointing*. However, the government also has regulations to minimize CNP violations such as the *maximum threshold* of *direct contractor-appointing* in the Decree on contractor selection No. 63/2014/NĐ-CP. Nevertheless, *in-house procurement* through bidding with the participation of subsidiaries belonging to the same state economic group is allowed in the Decree No. 63/2014/NĐ-CP.

4.2 Preconditions of CNP Application in Vietnam's Legal Framework

1. *Form of operational organization* or *legal form of a SOE*: As regulated in the Law on Enterprise No. 68/2014/QH13 and the Decree No. 126/2017/NĐ-CP, a *wholly state-owned enterprises* can be (i) *one-member limited liability enterprises with 100% invested charter capital held by the state* which is the parent company of either a *state economic group* or a *state corporation*, (ii) *individual one-member limited liability enterprises with 100% invested charter capital held by the state*, or (iii) *enterprises with 100% invested charter capital held by the state but not yet transformed into one-member limited liability company*. Meanwhile, the Article 3.8 of the Law No. 69/2014/QH13 stipulates that *state capital* includes capital from the state budget (or derived from state budget), capital from development investment funds at enterprises (or business arrange-

ment assistance fund), credit capital guaranteed by the government, and credit state development investment capital.
2. *Market of doing business*: Currently, the markets in which Vietnamese SOEs are involved are *mixed competitive* except for markets in which activities or goods and/or services fall under the portfolio of industries and goods/services with state monopoly in the Decree No. 94/2017/NĐ-CP and Decree No. 91/2015/NĐ-CP (Article 5).
3. *Commercial nature of activities*: The Law on Trade No. 36/2005/QH11 defines commercial activities as activities for profit-making purposes, including goods sale and purchase, service provision, investment, trade promotion and other profitable activities.
4. *Cost-benefit balance of applying CNP*: Vietnam has not established a separate mechanism for benefit-cost analysis in the process of shaping and implementing policies in general and the CNP application in particular.

4.3 CNP Monitoring and Enforcement

In the field of competition regulations, responsible agencies are the Competition Administration Department under the Ministry of Industry and Trade and the Competition Council established by the government. In other legal areas, the agencies responsible for supervision and implementation include ministries and departments, such as the Ministry of Planning and Investment, the Ministry of Finance, the Ministry of Industry and Trade, line ministries in charge of specific industries/markets, agencies, ministerial-level agencies such as the state audit, government inspectorate, committees in charge of specific issues established under specific legal documents, committees under the national assembly, and region-specific and area-specific courts. The scope of supervision, investigation, and enforcement covers issues related to the competitive environment between entities engaged in business activities in the market, SOEs' activities including business activities, procurement, working reports, and other activities assigned by the state. Vietnam's practice recognizes CNP violations that are largely related to abuse of a dominant market position or monopoly position prescribed in competition law. Therefore, the measures applied in this case will be classified as *corrective measures* (ex post) including sanction warning, financial penalties, and criminal prosecution. The *ex ante measure* is information disclosure obligation of SOEs to ensure the effectiveness and efficiency in management and supervision activities of state agencies and society. In addition, information regarding bidding process of government procurement is required to be published.

In 2018, the Decree 131/2018/NĐ-CP on functions, tasks, powers, and organizational structure of the Commission for the Management of State Capital at Enterprises (CMSC) has granted this ministerial commission the representative rights of *state ownership* in enterprises with 100% state-owned charter capital and *state capital* invested in joint stock companies or multiple-member limited liability companies. CMSC has the decision-making power in the operation of 19 SOEs in petroleum and gasoline, chemicals, rubber processing, coal and minerals, telecommunication, postal service, tobacco, airlines, shipping lines, railways, highways, airports, coffee, food, and forestry. Especially, the State Capital Investment Corporation (SCIC) established by the Decision 151/2005/QĐ-TTg in 2005 (currently directed and managed by CMSC) is granted representative rights of state capital invested in SOEs other than 19 CMSC-held SOEs. Thus, SCIC-held firms are subnational SOEs.

5 Conclusions

5.1 Overall Assessment of CNP Application to SOEs-Related Economic Institutional Changes in Vietnam

CNP application to the establishment and implementation of national policies and regulations regarding SOEs helps Vietnam successfully shape a multi-sectoral economy at the primary stage of transition and gradually change its economic institution toward a market-based system at later stages. In general, findings indicate that the awareness of Vietnam's government of the CNP has been improved, although it has not been explicitly declared as an implementation commitment by high-ranking officials. This is reflected in the limited application of some CNP's aspects to the certain areas and industries. However, the application has not been completed yet. With respect to each aspect of CNP, the scope of application is limited to statement of non-discriminatory treatment between SOEs and private enterprises. There are still many exceptions for SOEs. In practice, there are still many limitations mainly due to enforcement capacity and misperception about the function of SOEs in the market at subnational levels. SOEs' business activities also reveal many weaknesses and inefficiency. Competition distortion has still been prevalent in the market, thereby causing adverse impacts on the business performance of private sectors. The mechanisms and institutions which help to monitor and enforce CNP have been underdeveloped. CNP has not been considered as a separate issue from competition law in particular and the system of national policies and regulations in general.

5.2 Policy Recommendations for Vietnam

With respect to awareness of CNP, ensuring the implementation of CNP should be shown as one of the key objectives in the Party and State's guidelines and policies on establishing and completing the market economy institution. Governments should demonstrate a commitment to implement and maintain the neutrality of the competitive environment. *With respect to further process of SOEs' privatization*, state capital divestment, and improving corporate governance capacity, the government should annually review the operational performance and capital structure of each SOE to report to the National Assembly and inform the community, and propose recommendations related to the maintenance or withdrawal of state capital from SOEs.

With respect to cost allocation mechanism for designated functions, the government should issue a unified accounting system related to public duties, social tasks, and business activities of SOEs and improve enforcement efficiency in ensuring transparency and access to information related to SOEs' operational costs. *With respect to performance measurement and benchmarking,* the government should provide specific guidance on calculating ROR, ROE, ROA, BROE, and BROA for SOEs to ensure the effectiveness of the operation periodical monitoring and evaluation. Besides, the government needs to provide additional measures in case SOEs fail to achieve the goals related to the above-mentioned indicators such as investigating the responsibilities of the heads, considering divesting capital from SOEs, and taking measures to improve the above indicators.

Regarding public services obligations and compensation, direct subsidies for public service obligations or emergency rescue of SOEs need to be carefully considered and to be consulted by the community and experts. Subsidy information is required to be published to the mass media or online websites for public monitoring. *Regarding tax and regulatory neutrality,* government should review and revise sectoral and subnational documents and evaluate whether current mechanisms and incentives are detrimental to the formation of private enterprises, location decision of foreign investors, and efficiency of unprivatized SOEs. *In terms of financial incentives and debt neutrality,* the government should tighten fiscal discipline on SOEs. Sideline business projects levered by financial and credit incentives need to be thoroughly monitored, which could become a fertile land for grand corruption, misappropriation, and poor governance. *In terms of government procurement,* information of procurement projects should be transparent and the coverage should be extended from tender notice to completion of the projects.

Furthermore, in short term, a *roadmap approach* should be considered, which means CNP could be applied selectively and gradually in some certain components prior to the others. However, in the long term, Vietnam needs to formulate a specialized policy framework on CNP, which contains a mechanism that allows the review, detection, and adjustment of non-neutral components. In addition, the government needs to establish specialized agencies to be in charge of the review, complaints receipts, investigations, and adjustments relevant to CNP. This agency should be under the national parliament to ensure objectivity and integrity. In addition to raising public awareness, the government needs to facilitate public involvement by building a national portal on CNP or a separate section of CNP on the websites of pertinent agencies and line authorities. A top-down approach should be employed to enhance public awareness at national and subnational levels, which means that the starting point of CNP application should be positioned at the top level and central governments by stronger and more explicit commitments to the comprehensive CNP application.

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Part II
Entrepreneurship and Management

Entrepreneurship and Institutional Change in Emerging Markets

Kameliia Petrova

Abstract It has been documented that entrepreneurs can affect institutions at local, regional, and national levels. Most studies in entrepreneurship, however, look at how institutions and institutional frameworks support or deter entrepreneurial actions, while the literature on whether and how entrepreneurship affects institutions is lacking. This necessitates the examination of a two-way relationship between institutions and economic agents. Institutional change caused by entrepreneurs' actions is often presented through the lens of institutional entrepreneurship. Entrepreneurs influence institutions through three main channels: political action, innovation, and direct action, which may involve "passive adaptation and evasion, active adaptation and resistance to change." Most of the documented examples of entrepreneurs' impact are from postsocialist countries, countries in transition, and emerging market economies. This chapter offers an extensive overview of how entrepreneurs influence institutional change in emerging market economies.

Keywords Entrepreneurship · Institutions · Institutional entrepreneurship · Institutional change · Mechanisms of institutional change

1 Introduction

The topic of entrepreneurship and institutional change has dominated the entrepreneurship literature for quite some time now. Most of the published studies have focused on how institutions and institutional frameworks provide a supportive environment for entrepreneurs or deter entrepreneurial actions in certain circumstances. For the longest time, institutions have been looked upon as a long-standing, exogenous part in a preset societal framework that remains unchanged. Economic agents and their actions, on the other hand, are limited within this framework. This very

K. Petrova (✉)
Department of Economics and Finance, State University of New York College at Plattsburgh, Plattsburgh, NY, USA
e-mail: kpetr001@plattsburgh.edu

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characteristic led to their significant role in the entrepreneurship literature. Very few studies have investigated the effect of entrepreneurship on institutions. While a methodical approach is still absent, it has been documented that institutions do change, and that entrepreneurs and their exploits and accomplishments induce a change in the institutional environment at local, regional, and national levels. This necessitates a step toward examining a reciprocal relationship between institutions and economic agents. Another way of explaining how entrepreneurs can impact institutions is known in the literature as institutional embeddedness.

Institutional change caused by entrepreneurs' actions is usually presented through the lens of institutional entrepreneurship. Institutional entrepreneurs are economic agents who, acting on their own behalf, summon resources and lobby support and assistance to bring transformation into the existing institutional framework that will directly benefit them. Still, some authors argue that the role of institutional entrepreneurs may be overstated and that they may not always intend the outcome of their actions. The socio-economic and political environment sets the stage that allows entrepreneurs to bring the desired results. Entrepreneurs influence institutions through three main channels: political action, innovation, and direct action, which may involve passive adaptation and evasion, active adaptation, and resistance to change. Most of the documented examples of entrepreneurs' impact are from postsocialist countries, countries in transition, and emerging market economies.

The rest of the chapter is structured in the following manner. Section 2 begins with a short introduction of the concepts of institutions and institutional fields, followed by a discussion on institutional change through the lens of institutional embeddedness and institutional entrepreneurship. The section ends with an overview of the interaction among institutions, entrepreneurship, and economic growth and how it relates to institutional change. Section 3 documents how entrepreneurs bring institutional change. It presents a summary of different categorizations of how entrepreneurs affect institutions and then examines international evidence across emerging economies for institutional change through a political process, innovations, and direct actions. Section 4 looks at entrepreneurship and institutional change in transition countries in recent years. Section 5 concludes the chapter.

2 Institutions and Institutional Change

2.1 What Are Institutions?

Early definitions of institutions focus on deep-rooted habits, customs, and traditions that developed over time and governed societal interactions (Hodgson 2006). In sociology, institutions are viewed as perceptual constructs, defined by culture, with regulative and normative components (Scott 1995). The regulative components refer to rules and regulations, and the normative components infer duty and responsibility. The emphasis on the cultural factor is very important because it forms the background for a meaningful interaction (Powell and DiMaggio 1991).

In economics, institutions are defined as the "rules of the game" that aid, but could also restrict economic actions (North 1990). Established and well-functioning institutions help lessen the risk and uncertainty in the economy and mitigate the transaction cost undertaken by economic agents. North postulates that institutions are formal and informal. Formal institutions include legal and legislative structure, while informal institutions comprise cultural norms, traditions, and values that show collective development. The interaction between institutions and economic agents outlines the institutional context and composition of the economy (North 1994).

Kalantaridis and Fletcher (2012) advance the interesting notion of institutional fields, which has only recently gained popularity in entrepreneurship. An institutional field is a well-defined and coordinated system enacting rules and regulation over economic agents who compete for access to resources, shares, and interests (Bourdieu 2005; Garud et al. 2007; Powell 2007). Kalantaridis and Fletcher argue that institutions and institutional fields differ in four aspects: theoretical origin, definitions, scope, and meaning of change. An institutional field is a mixture of institutions. The mixture creates an environment or an ecosystem where economic agents, including organizations, conduct business. One institutional field may incorporate both new and current institutions. Individual institutions may be field-specific or may operate across several institutional fields. The differentiation between institutions and institutional fields is important because of its direct link to institutional change. For institutional fields, a change may reflect a unique new combination of existing institutions that may be a part of other institutional fields. For institutions, a change involves transforming existing rules and regulations that govern economic agents' behavior.

2.2 Institutional Change and Entrepreneurship

Most of the literature on institutions and entrepreneurship is focused on how institutions and institutional frameworks support or hinder entrepreneurs (Aldrich and Fiol 2007; Bowen and De Clercq 2008; Bruton et al. 2010; Busenitz et al. 2000; Dau and Cuervo-Cazurra 2014; El-Harbi and Anderson 2010; Estrin et al. 2013; Fuentelsaz et al. 2018; Lee et al. 2007; Mitchell and Campbell 2009; Muralidharan and Pathak 2016; Nyström 2008; Stenholm et al. 2013; Sambharya and Musteen 2014; Sobel 2008; Spencer and Gomez 2004; Stephen et al. 2005; Urbano and Alvarez 2014; Valdez and Richardson 2013; Westlund and Bolton 2003). A group of empirical studies examines how institutions affect opportunity and necessity entrepreneurship as separate constructs (Angulo-Guerrero et al. 2017; Aparicio et al. 2016; Brixiova and Egert 2017; Fuentelsaz et al. 2015; Fuentelsaz et al. 2018; Samadi 2018; Simon-Moya et al. 2013). This one-directional approach is due mainly because institutions are exogenous, stable, and social constructs (Kalantaridis and Fletcher 2012). The supposition that institutions are resistant to change has been put to the test (Bjørnskov and Foss 2016). But while a systematic theoretical treatment is still lacking, studies have documented that institutions do change, and that entrepreneurial actions bring change at both the regional and national levels (Baez and Abolafia 2002; Fuentelsaz et al. 2015; Greenwood and Suddaby 2006; Kalantaridis and Fletcher 2012; Kozul-Wright and Rayment 1997; Kuchar 2015; Yu 2001). Thus, we must allow for a two-way interaction between institutions and economic agents and between formal and informal institutions (Bjerregaard and Lauring 2012; Henrekson and Sanandaji 2011; Samadi 2018, 2019; Smallbone and Welter 2012). Informal institutions may form not only from deliberate actions but also because of changes in the formal rules and regulations. They help interpret and understand laws and legal structures. Another element of importance in the relationship between formal and informal institutions and their interaction with entrepreneurs is the system that ensures that the "rules of the game" are properly enforced (Oliver 1991). Informal institutions are governed by normative settings. Formal institutions depend on rules and regulations set by the government/state. Local and national policies determine the participation, commitment, and engagement of entrepreneurs. In a supportive environment, where informal institutions complement formal institutions, entrepreneurs thrive. In the presence of failing and inadequate formal institutions, entrepreneurs' actions are constrained.

Illustrating the process of institutional change requires introducing two concepts: institutional embeddedness and institutional entrepreneurship. Institutional embeddedness is an attribute of institutions, referred to in the literature as the paradox of an embedded agency (Granovetter 1992; Rao 1998; Seo and Creed 2002; Sewell 1992). In the process of interaction with institutions, economic agents exert influence over institutions. Thus entrepreneurs, as economic agents, play a significant role in the institutional framework development and formation. This is related to the notion of institutional entrepreneurship (IE) introduced by DiMaggio (1988). IE outlines the actions of economic agents who use resources, seek support, and expand political capital to bring changes to the institutional framework and environment for their own benefit (Dorado 2005; Leca et al. 2008). The introduction of IE reflects a shift from the notion that institutions play a leading part in societal interactions toward accepting the role of economic agents as strategic drivers of change (Dorado 2005; Garud et al. 2007, 2013). While this shift started a new branch in the literature, some studies caution against exaggerating the capacity of individual entrepreneurs to transform institutions (Bika 2012; Lounsbury and Crumley 2007; McCarthy 2012; Smallbone and Welter 2012). Institutional changes can only happen when socio-political, cultural, economic, and other factors interact to create a proper environment (Kalantaridis and Fletcher 2012). Another potential matter with IE is the implicit assumption that entrepreneurs fully intend to bring institutional changes, while that may not always be the case (Bika 2012; Dorado 2005).

2.3 Institutions, Entrepreneurship, and Economic Growth

A separate branch of the entrepreneurship literature looks at the relationship between institutions, entrepreneurship, and economic growth (Acs 2006; Acs et al. 2018; Acs and Amoros 2008; Aparicio et al. 2016; Bjørnskov and Foss 2013, 2016; Wennekers and Thurik 1999; Youssef et al. 2018). While not directly related to entrepreneurship and institutional change, it derives important implications. Bjørnskov and Foss (2016), who survey the literature with a focus on empirical studies, point to several gaps linked to entrepreneurship and institutional change. They argue that the entrepreneurship literature suffers from lack of consistency when outlining institutions and institutional quality. Definitions vary from the traditional economics view in-line with North (1990) to a more comprehensive concept introduced in sociology (Kalantaridis and Fletcher 2012; Scott 1995). There is no clear distinction between formal and informal institutions on the one hand, and market and government institutions on the other (Voigt 2013). Limited studies exist on "whether the impact of entrepreneurial activity is systematically heterogenous across different institutions." Bjørnskov and Foss contend that theoretical studies on "institutional complementarities" and how institutions interact with entrepreneurship to produce economic growth are in early stages. Likewise, they observe that very few studies provide theoretical guidelines on causality about the effect of institutions and entrepreneurship. Thus, the definition inconsistency and lack of theoretical underpinning further complicate the study of the bidirectional relationship between institutions and entrepreneurship.

In response to Bjørnskov and Foss (2016), Acs et al. (2018) develop a theoretical model proposing that institutions and entrepreneurship work together and form what they refer to as an *ecosystem* that is the "missing link" in explaining economic growth. Acs et al. unite institutions and entrepreneurship in a National System of Entrepreneurship (NSE). Using data from the Global Entrepreneurship Index (Acs et al. 2014) to measure the NSE, they found that institutions and entrepreneurship act together as an *ecosystem*, with only marginal individual effects of institutions and entrepreneurship on economic growth. While the study does not discuss the causality issue mentioned by Bjørnskov and Foss (2016), it provides a useful theoretical framework for a further investigation.

3 How Do Entrepreneurs Bring Institutional Change?

Although entrepreneurial responses to institutions' failure and institutional embeddedness have been studied and documented a lot recently, there is no agreement in the literature on the exact categorization of those responses (Elert and Henrekson 2014, 2016; Henrekson and Sanandaji 2011; Kuchar 2015; Oliver 1991; Troilo 2011; Welter and Smallbone 2011; Yu 2001). Most authors use as a starting point the classification of behavioral responses to an institutional framework provided by

Oliver (1991). Oliver identified five such responses: "conformity or acquiescence, compromise, avoidance, defiance and manipulation." Welter and Smallbone (2011) explain how these five categories apply to entrepreneurial behavior. While conformity and compromise signal that entrepreneurs are adapting to institutional changes; avoidance, defiance, and manipulation show nonconforming behavior. There are various degrees of nonconformity, with avoidance being considered as more of a passive and hidden reaction, and defiance and manipulation as showing an active form of challenge and resistance to institutions. Manipulation is the most involved form of entrepreneurial behavior that mounts an active attempt to change the status quo of the institutional framework.

A somewhat different classification of how entrepreneurs affect institutions is: abiding, evasion, and acting to alter the institutions (Elert and Henrekson 2014, 2016; Henrekson and Sanandaji 2011, 2012). Welter and Smallbone (2011) reconcile Elert and Henrekson's and Henrekson and Sanandaji's behavioral mechanisms with those proposed by Oliver. Abiding is comparable to what Oliver refers to as conformity, while altering behavior is comparable to Oliver's manipulation category (Welter and Smallbone 2011). Evasion is aimed at weakening institutional effectiveness.

Based on their extensive studies of the former Soviet economies, Welter and Smallbone (2011) documented six behavioral responses to the institutional environment: prospecting, evasion, financial bootstrapping, diversification and portfolio entrepreneurship, networking, and personal contacts and adaptation. "Prospecting" is a term that Welter and Smallbone borrow from Peng (2000), who uses it to describe firms with innovative behavior such as new product adoption and organizational change. Welter and Smallbone caution that prospecting may not fully apply to businesses trying to survive in transition economies, because such businesses introduce changes as a strict reaction to the limitation of the institutional framework. "Financial bootstrapping," while common for nascent entrepreneurs under different economic conditions, is especially important for entrepreneurs in transition economies. Bootstrapping is defined as a "process of finding creative ways to exploit opportunities to launch and grow businesses with the limited resources available for most start-up ventures" (Cornwall 2010). Welter and Smallbone identify serial entrepreneurship as a very successful form of bootstrapping in transition economies. "Diversification and portfolio entrepreneurship" have been recognized as a common occurrence in transition economies (Lynn 1998). Welter and Smallbone report that this is done not only to address uncertainty but also to fight corruption by staying unnoticed and keeping unnecessary attention away. "Networking and personal contacts" is another well-established strategy for most entrepreneurs. This behavior takes on a different meaning in the former Soviet economies. Ledeneva (1998, 2001), for example, describes the existence of the Soviet *blat*–"the widespread use of personal networks to obtain goods and services in short supply" – considered an essential part of the Soviet system. Following this, "unwritten rule" has served as successful networking to entrepreneurs against barriers to entry and dealings with government agencies. The other two responses, evasion and adaptation, are discussed later in this chapter.

Kalantaridis and Fletcher (2012) offer, by far, the most expansive and encompassing classification of what they refer to as the "processes" used by entrepreneurs to influence institutional change. Kalantaridis and Fletcher identify change through a political process, innovation, and direct action. Actions recognized under the first category are "lobbying, state capture and double entrepreneurship," while direct actions incorporate "passive adaptation and evasion, active adaptation and resistance to change."

In what follows, I explore the entrepreneurial responses to institutional embeddedness across emerging markets loosely based on the Kalantaridis and Fletcher (2012) categorization, together with detailed accounts.

3.1 Institutional Change Through Political Processes

Institutional change through a political process is a legislative change that affects both formal and informal rules (North 1993). One method of achieving change through the political process is "collective action" and "organization membership" (Kalantaridis and Fletcher 2012). Smallbone and Welter (2012) present an interesting example of an unsuccessful attempt to start a change after several Central and Eastern European countries entered the European Union. In most developed countries, nongovernmental organizations and networks exist to protect the interests of entrepreneurs and small businesses and serve as a liaison with the government (Kalantaridis 2007). Forming such organizations in the postsocialist Central and Eastern European countries was difficult with limited or no previous experience with norms and customs in the functioning and governance of such entities. Thus, Smallbone and Welter report that the first attempts to set up mediating organizations who can lobby on the behalf of entrepreneurs were unsuccessful. An added challenge was the difficulty in convincing business owners to take advantage of the mediation process (Hart 2003; Kalantaridis 2007).

Another group of studies introduces the "corporate political entrepreneur" as someone who establishes strong connections with policymakers with the goal of influencing legislative decisions to the benefit of business organizations (Gao 2008; Mintrom 1997; Schneider and Teske 1992), and corporate political strategy as a form of business strategy (Gao 2006, 2008; Hillman and Hitt 1999; Schuler et al. 2002). Modifying Li et al. (2006) categorization of institutional changes instigated by corporate political entrepreneurs, Gao (2008) introduces the following four approaches as applied to China: "private lobbying, breaking an unreasonable institution in private, mobilizing social force, and taking legal action." Private lobbying, while popular in China (Gao 2006; Hillman and Hitt 1999), has somewhat different characteristics than lobbying in Western countries (Gao 2008). For example, Gao explains that lobbying in China is done by corporate executives, informally, and in the form of gift giving. "Breaking an unreasonable institution in private," a form of evasive entrepreneurship, is explained further in the chapter. "Mobilizing social forces" is the exposure of unfair and excessive laws and regulation to the public.

Gao (2008) presents a case study of the Geely Holding Groups, whose chairman, Li Shufu, overturned the Chinese auto industry regulatory agency's ban on the production of sedans by private companies. Li Shufu tried lobbying, unsuccessfully, before he turned to the media. According to Gao, the last strategy, legal action, is not characteristic for China, but mostly for Western countries. Citing China as an example, Ge et al. (2019) further argue that political and family ties can successfully counteract institutional voids in emerging markets, and that family ties often substitute for political ties.

Elert and Henrekson (2020) cite a similar example of a "corporate political entrepreneur" in China's banking sector. Chinese entrepreneur, Jing Shuping, lobbied government officials to allow private ownership of banks. His campaign convinced the authorities, and in 1996, Jing Shuping founded the first mixed-ownership commercial bank, China Minsheng Banking Corp. Citing Li et al. (2006), Elert and Henrekson note that over the next 10-year period, close to 20 more banks with a comparable structure were established. Li et al. (2006) point out that such institutional changes were influenced by the extension of the other aspects of the financial markets. Liberalization of interest rates and private ownership in the automobile industry followed.

A somewhat different demonstration of institutional change through the political process is a "state capture." State capture is an interaction between the state and businesses, observed in postsocialist economies, where newly formed firms exercise a concerted influence over the state (Hellman et al. 2003; Kalantaridis and Fletcher 2012; Yakovlev 2006; Zimmer 2004). Enterprising firm owners, known as oligarchs, use unlawful private payments to manipulate politicians, governmental officials, and administrators, to reshape the laws and regulations in a way that is beneficial to their businesses, but at a significant cost to society. Hellman et al. (2003) report that the oligarchs resort to state capture when the government "underprovides" public goods related to market entry and property rights. State capture, thus, is a channel for eliminating barriers to entry, competition, and growth in an environment where a weak and dysfunctional state cannot defy powerful "interest groups." Yakovlev (2006) posits that in the 1990s, there were two main strategies for growing a business in Russia: state capture and "free entrepreneurship." What determined the choice of strategy was the institutional quality, local and regional distribution of resources and possession, or lack thereof, of prior experience in business and amassed capital. Free entrepreneurship is described in the following section under passive adaptation. Further evidence of how state capture occurs is detailed in the literature on privatization of previously state-owned companies (Bortolotti and Perotti 2007; Kryshtanovskaya and White 1996; Mickiewicz 2009; Wedel 2003). Besides state capture, Hellman et al. (2003) discuss two other forms of interaction between the state and firms*: influence and administrative corruption*. The former occurs when firms influence the laws and regulation without private payments, while the latter is the use of small-scale bribery methods by firms to relax existing regulations. Hellman et al. point out that, contrary to state capture and influence, administrative corruption is not linked to particular advantages and gains for the firm.

The interaction between the state and firms, however, is a two-way street (Wedel 2003; Yakovlev 2006). State officials used their power and resources to lavish support on private interests. Wedel (2003) reports that in Poland, managers of formerly state-owned enterprises became the private owners of the enterprise or parts of it, while high-ranking government officials established consultant companies providing services for the departments they oversaw. The lines were further blurred with the formation of nongovernmental agencies with state resources. Kaminski (1997) points out that such convoluted interactions were deeply entrenched, with "considerable tolerance of conflict of interest." Similar to the Polish experience, in Russia state officials privatized segments under their supervision and became private consultants for their supervised divisions (Kryshtanovskaya and White 1996). In Ukraine, the phenomenon has been documented at the regional level (Van Zon 2001, 2005; Zimmer 2004, 2007). Van Zon and Zimmer, who offer an overview of the regional development of Donbas, an industrial region in eastern Ukraine during the transition period, assert that the local economy was dominated by local organized "clans." The clans fought to counteract external economic interests and eradicate competition, engaged in ruthless rent-seeking and sought horizontal and vertical integration of commodity chains. The clans not only colluded with the local government but also exerted significant power outside of the region trying to influence the laws and regulations at the national level (Swain 2006). Swain points out a specific example where certain areas in the region were given temporary preferential treatment by the central government to secure the local support for the state regime.

"Double entrepreneurship" is another form of interaction between the state and business owners that brings institutional change (Smallbone and Welter 2012; Yang 2002, 2007). The term, introduced by Yang (2002), explains the significant and successful expansion of entrepreneurship in China in the presence of weak and flawed institutions. During the period of economic reforms in the 1980s and 1990s, Chinese private businesses had functioned in the absence of property rights, while navigating the existing government bureaucracy (Smallbone and Welter 2012). Entrepreneurs were forced to form close connections with local officials in the form of alliances and "collective licenses" that helped spur the growth of nonstate-owned enterprises (Chen 2007; Liang 2006). Such collusion tactics allowed newly formed companies to operate unconcerned with the ban against private business ownership. An informal banking sector has developed to help the needs of the private enterprise segment lacking financial resources and access to financial institutions (Smallbone and Welter 2012). Yang (2002) argues that entrepreneurs in China must recognize market opportunities and secure the socio-political environment to make sure that their businesses will be successful. The former is the backbone of the standard definition of an entrepreneur. The latter is a characteristic strictly associated with entrepreneurship in China, manifesting itself in the proficient use of bureaucratic rules and loopholes and manipulating them when necessary. Entrepreneurs achieve a level of bargaining power with the local authorities to broker institutional change. Smallbone and Welter (2012) thus contend that, in the context of the Chinese economic transition, institutional change is an exercise of collaboration and learning, with institutional reforms occurring after experimental entrepreneurial developments had taken place.

3.2 Change Through Innovation

Yu (2001) argues that new technologies, inventions, and breakthroughs that entrepreneurs generate help create market instabilities. The newly established realities require economic agents to adapt and navigate in an uncertain environment. Existing institutions are no longer effective because they cannot successfully manage the new environment. Thus, Yu contends, there is room for imitative entrepreneurial activities that succeed in modifying the rules and laws of markets functionality. Such a process results in creating new institutions in sync with the markets.

Along these lines, Onsongo (2019) presents an interesting case of social innovation in the financial services industry in Kenya. In 2007, Vodafone Group Plc, together with its local representative Safaricom Kenya Ltd., launched M-Pesa, a mobile phone-based platform for money transfers. The goal of M-Pesa was to service the population with no access to commercial banking. The financial services delivered by M-Pesa were unmatched in comparison with other platforms adopted globally. Vodafone and Safaricom, according to Onsongo, recognized that an unidentified institutional void existed. The multinationals took advantage of the lack of interaction between the banking and telecommunications sectors that resulted in a policy void. Thus, the case of M-Pesa is an example where multinational companies embraced the role of institutional entrepreneurs through social innovation. M-Pesa spread to many other African countries (Burns 2018). In Tanzania and Uganda, the adoption was effective because of the functional financial institutions in the former, and the high urban population density and economic freedom levels in the latter. Zimbabwe and Somalia, despite being predominantly rural countries, with no dominant mobile operator and weak banking institutions, allowed multiple network operators and achieved great success. In other countries, such as Nigeria and South Africa, the operation failed. Burns (2018) argues that the most significant component for a successful adoption of this mobile innovation is the quality of the regulatory environment.

Another example of how innovations bring institutional change is the agricultural innovation platforms (IP) in Africa (Nyikahadzoi et al. 2012; Pamuk and Van Rijn 2019; Van Paassen et al. 2014). The IP were created by partnerships, researchers, NGOs, private agents, and others. In their role of institutional entrepreneurs, the IP helped disseminate knowledge, establish learning programs and supporting networks, defend the interests of those left on the fringes, and work toward resource deployment through collective actions.

3.3 Change Through Direct Actions

3.3.1 Evasive Entrepreneurship

Evasive entrepreneurship has noticeably spurred the most extensive studies among all entrepreneurial responses to institutional embeddedness (Coyne and Leeson 2004; Elert and Henrekson 2014, 2016, 2017; Elert et al. 2016; Kalantaridis et al. 2008; Smallbone and Welter 2012; Yakovlev 2006). Evasive entrepreneurs bypass the existing institutions by exploring loopholes and inconsistencies in existing laws (Coyne and Leeson 2004; Elert and Henrekson 2016). When institutions are inefficient, entrepreneurs use innovations to take advantage of business opportunities resorting to evasive activities, and in the process, extract rent (Elert and Henrekson 2017; Leeson and Boettke 2009). While many cases of entrepreneurs demonstrating evasive behavior have been documented, Elert and Henrekson (2017) point out they are all *disruptive innovators* who upset the existing institutional framework. Thus, an evasive activity counts as evasive entrepreneurship only if it brings *disruptive innovation*.

The size of the informal economy in a country has often been connected to the level of evasive entrepreneurship (Boettke and Coyne 2003). Developing countries have been reported to have large informal sectors (Schneider 2003, 2005; Schneider and Enste 2000, 2002). The size of the informal economy is strongly related to the level of labor market regulations, corruption, and overall quality of institutions in the country (Antunes and Cavalcanti 2007; Ulyssea 2010). In Elert and Henrekson (2017), the "institutional contradictions and voids" that exist in a country encourage evasive entrepreneurship. Prior research on institutional voids has established that aside from the "institutional vacuum" experienced by Eastern European countries in transition (Ledeneva 2001; Stark 1998; Stark and Bruszt 1998; Yakovlev 2006), institutional voids obstruct markets development, functioning, and participation (Bourdieu 2004; Khanna and Palepu 2000; Mair and Marti 2009; Woodruff 1999).

Mair and Marti (2009) argue that institutional voids that interfere with market participation create opportunities for "motivated" entrepreneurs. The authors examine the activities of BRAC, an NGO in Bangladesh. BRAC's main goal is to alleviate poverty. Through a specially designed program, titled Challenging the Frontiers of Poverty Reduction, BRAC aimed to reach poor women living in rural areas with extreme poverty and no access to microfinance. The goal is to help the poor get involved in the market. BRAC's help is channeled through four components: "special investment, employment and enterprise development training, social development and essential health care." The special investment program intents to create a stock of physical capital that the poor can use in livestock rearing, vegetable cultivation, and other farm and nonfarm activities. The enterprise development training aims at building basic financial literacy and assets that will qualify the poor for microfinance programs. The last two components improve the community structure and connections and provide health care services. Through a process of entrepreneurial bricolage BRAC combined internal resources such as knowledge, previous experience, established networks, and external resources such as current procedures for microfinancing and religious beliefs. Mair and Marti find that Bangladesh is uniquely suited for studying institutional entrepreneurship and bricolage in a resource constrained environment. While abundant in informal institutions, the country lacks market-oriented institutions. The study finds that bricolage is inherently political in nature and may have some unintended consequences. The latter is reflected in the decision to abandon most adopted microfinance practices when rolling out the new program. This was done because women living in poor rural areas face certain institutional constraints. Another example of negative outcomes is the decline of older attitudes and values and the formation of new ones. With the poor working in rural Bangladesh, this is the effort to "break relations of dependence between the elites and the poor."

Over the past decade, educational entrepreneurs in South Sudan built schools with little to no resources or government involvement (Longfield 2015). Local community members, via grass-root initiatives, helped improve the access to schooling for those living in extreme poverty. Longfield documented many cases of former and current teachers, a police officer, and other ordinary people who started schools in huts and mud-walled rooms in Juba, the capital of South Sudan. Adding one class at a time and increasing the class sizes gradually, they answered local needs. In developing countries strapped for resources, this informal approach of promoting educational development is bound to be much more effective than a full-scale national system.

Evasive entrepreneurship is very much in-line with Baumol (1990)'s productive and unproductive entrepreneurship classification. When an entrepreneurial activity exists only because of evasive entrepreneurial behavior, it may be productive (Elert and Henrekson 2014). On the other hand, theft, bribes, extortion, tax evasion, smuggling, etc., are unproductive forms of entrepreneurial behavior. Along these lines, Elert and Henrekson (2014) document evasive entrepreneurial activities with the corresponding economic institutions, entrepreneur types, and an assigned productive vs unproductive designation. The institutions they consider are: "tax code, employment-protection legislation, competition policy, capital market regulation, trade policy, enforcement of contracts, and law and order/property rights." For example, tax avoidance and tax evasion are listed under tax code, the former as a productive and the latter as an unproductive activity, with tax consultants in the role of entrepreneurs. The authors conclude that the short-run effects of evasive entrepreneurship on economic growth are related to the activity it aids. "If it enables the reallocation of resources to the pursuit of profitable business activities, it may well be socially productive. But, if it enables lobbying, rent-seeking, or risk-obscuring, it may cause a negative shift in the PPF."

The above discussion on productive versus unproductive evasive entrepreneurship is linked to the dialogue on entrepreneurship, institutions, and economic growth introduced in Sect. 2.3. Recent studies related the idea that entrepreneurship and institutions form an "ecosystem" that may explain cross-country differences in economic growth (Acs et al. 2018). Elert and Henrekson (2014) point out that studies such as Gennaioli et al. (2013), who report that institutions cannot explain within-countries cross-regional differences, suggest that evasive entrepreneurship may be a substitute, albeit imperfect, for inefficient institutions.

The crucial question is: How do evasive entrepreneurs affect institutional change in the long run? With their discussion on the different evasive entrepreneurial activities, Elert and Henrekson (2014, 2017) argue that the effect of evasive entrepreneurship on institutions is indirect because it modifies the "de facto effect of institutions." Elert and Henrekson give examples where evasive entrepreneurs cause institutions to lose their importance and role in society over time, motivate new laws and regulations, offer help and direction when institutional improvements may be ambiguous, and ultimately alter existing institutions. Long-term effects are very much determined by the path and extent of the change.

Drawing on Lu (1994) and Li et al. (2006), Elert and Henrekson (2014) relate several historical accounts of the effect of evasive entrepreneurship on institutions in China. In the late 1970s, destitute farmers from the eastern province Anhui divided the village land among the families living in the area and let each family work their piece of land by themselves. Such an act ran against state policy and evaded the official central government collectivization mandate. Even with the support of the local authorities, the farmers still faced prison. The reform proved very successful when bountiful crops were collected during the following year. What's more important is that it brought about China's agricultural reform. In another instance, the Chinese government introduced a policy in the early 1980s allowing private companies with a few employees to exist. The policy, meant to be very restrictive, was largely defied. In response, the government made institutional changes allowing the new companies. Both examples of evasive entrepreneurship behavior resulted in reforms that loosened institutional regulations. On the opposite side of the spectrum, the Communist Revolution in 1949 brought about changes in the way business operated with significant state and local restrictions. Administrators and bureaucrats exploited the newfound opportunities for extracting rent. The widespread corruption and misuse of state resources for personal gains that ensued was addressed by instituting collectivization and nationalization, thus "tightening" the existing institutions.

A more recent example of evasive entrepreneurship is the Chinese Shan-Zhai mobile phone sector (Lee and Hung 2014). Shan-Zhai phones started in the late 1990s as low-cost imitations distributed informally, via stolen good markets. While considered illegal, they were popular among the most economically disadvantaged. Shan-Zhai entrepreneurs aggressively sought to contend the state-licensed national companies. They actively challenged the restriction of competition in the phone sector. A decade later, the sector gained a significant advantage as a model of innovation. In 2007, the Chinese government removed the license control of mobile phones and officially acknowledged Shan-Zhai.

3.3.2 Passive Adaptation

As mentioned in the previous chapter, "free entrepreneurship," "distancing from the state," or "exit" was one of the two main strategies for growing a business in the 1990s Russia (Yakovlev 2006). Yakovlev reports that such a strategy was chosen by younger and/or smaller companies operating predominantly in the service and trade industries. These companies did not have the political and business capital necessary to establish connections with the elite and influence the institutional framework in any meaningful way. They were doing well when the local and regional authorities could make provisions and support local business growth. Such occurrences were observed in large cities or areas rich in natural resources.

A somewhat different approach is described in Kalantaridis et al. (2008), who undertook a fieldwork study of the global integration of the clothing industry in Transcarpathia, a region in Western Ukraine, during the postsocialist period. The authors emphasize that the clothing industry adapted to the realities of the new political environment by developing a network of connections and effective relationships through "asymmetrical power and mutual dependence." Thus, instead of challenging the existing power arrangement, agents focused on engaging and developing competencies by lower-level participants. Kalantaridis et al. argue that in the long run, such a strategy helps to deal with the increased levels of political and economic uncertainty.

Smallbone et al. (2010) present another example of a passive adaptation in Ukraine where the service industry experienced a significant growth and expansion at the very beginning of the transition period. Newly established firms increasingly turned to small business consulting companies for a wide range of services. But instead of hiring several specialized companies, most firms found it advantageous to work with one consulting company that could deliver all the services needed. The business consulting sector was populated by very successful and well-established companies. The success of the consulting service industry demonstrates how entrepreneurs find institutional voids and devise solutions that could bring potential institutional changes (Smallbone and Welter 2012).

In an empirical study on institutions and entrepreneurship in Middle Eastern and North African countries, Samadi (2018) shows that passive adaptation and institutions-abiding entrepreneurship may bring institutional change. After looking at the individual effects of opportunity and necessity entrepreneurship on institutional change in a bidirectional setup, the author concludes that the former influences institutional change in the short run. As Elert and Henrekson (2020) argue, Samadi's finding confirms Holcombe's (1998) statement that when productive entrepreneurs exploit and seize opportunities, they create new prospects for other entrepreneurs to explore. This domino effect resonates not only with the level of economic development but also the quality and advancement of formal and informal institutions (Coyne et al. 2010).

3.3.3 Active Adaptation and Resistance to Change

Kalantaridis and Fletcher (2012) report on two interesting cases of active entrepreneurial adaptation, documented in the literature, which occurred in North Korea and Russia. In the 1990s, North Korea experienced one of the worst famines known to humankind, with close to one million people reportedly dying of hunger (Haggard and Noland 2007, 2010, 2011). Haggard and Noland, the two leading scholars on the 1990s famine, surveyed North Korean refugees who escaped the country. The authors found that failed distribution channels and socialist entitlements, coupled with unsuccessful agricultural policies, played a significant role. The population was forced to find creative ways to survive. In their attempts to find food, people resorted to different market activities that pushed the economy to "marketize" despite the effort of the state to counteract any market-oriented behavior. Postsocialist Russia experienced the establishment of "agro-holdings" and large-scale, vertically integrated farming operations with significant economies of scale (Grouiez 2018; Rylko and Jolly 2005; Voigt and Wolz 2014). The agro-holdings were independently registered, owned, and managed externally, with tight connections to public institutions. Wegren (2004) argues that they resulted from the agrarian reform which brought private property legalization, distribution of farmland among people working on large farms, and privatization of state-owned enterprises. Resistance to change among the population, on the one hand, and the formerly state-owned enterprises, on the other, led to the formation of the operators. As Haggard and Noland state, the operators could ease certain human and capital limits and institutional deficiencies.

Kalantaridis and Fletcher (2012) cite two examples of resistance to institutional change. The first example refers to the land reforms aimed at redistributing land ownership in Latin America in the 1960s and 1970s (De Janvry and Sadoulet 1989). Reforms were unsuccessful because large landowners, in their attempt to resist the changes, entered into agreements with the state to modernize their farms and, in return, avoid land confiscation. The second example has to do with peasant resistance (Scott 1985). Scott relates two cases of peasant resistance in a Malaysian rice-farming village in the late 1970s: A group of women boycotted landowners who had hired farm equipment to replace manual workers and stem unidentified thefts of harvested crops. Additional forms of "everyday resistance" are noncompliance, neglect, boycott, fake ignorance, intentional damage, and aggressive and violent behavior. Scott's concepts are further applied by Colburn (1989) in a study of peasant resistance of seven other countries.

3.4 Other Mechanisms to Influence Institutional Change

3.4.1 Path-Dependency

Welter and Smallbone (2011) and Smallbone and Welter (2009) identified "path-dependent behavior" as another mechanism for influencing institutional change. Path-dependency reflects evolutionary patterns of behavior adopted in the past that, in the context of Welter and Smallbone's studies, refer to socialist legacy and traditions.

Studies of the transition of path-dependent economies in Central Europe, post-Soviet, and Asian countries found that path-dependency only prolongs the period of transition while keeping the old cultural norms alive and well (Chavance 2008; Chavance and Magnin 2002). The phenomenon is reflected in the trajectories of the countries and their experience with formal and informal institutional change. This is caused by the "inertial character" of informal institutions that results from their being rooted in cultural heritage (North 1990). North argues further that changes in informal institutions will lag behind changes in formal institutions because of that very cultural component. It has been recognized that path-dependency may have positive effects (Chavance 2008).

Stark and Bruszt (1998) present case studies from East Germany, Hungary, and the Czech Republic and show how each country took a different path during the transition period from Socialism toward a market-oriented economy that shaped their institutional frameworks. The authors argue that no single transition path applies to all Central European countries, but that several pathways, deep-rooted in the historical, cultural, and social background of each individual country, exist. They refer to the period of transition as a process of transformation that comprises "rearrangements, reconfigurations and re-combinations." For example, Stark and Bruszt show that different tactics are used across the three countries to "recombine" property and political rights.

Ledeneva (2001) provides an extensive overview of the unwritten rules in Russia: what they are, how they work, and how and why they have survived. The author states that "the problem is not the existence of informal practices or institutions per se, but their indispensability for bridging the gaps in the formal framework" (Ledeneva 2001, p. 40). Ledeneva argues that when some of these rules, as well the informal institutions they relate to, are unnecessary, they will cease to exist. Similar accounts are provided by Welter and Smallbone (2008) for women entrepreneurs in Uzbekistan and by Welter and Smallbone (2003) for Ukraine, Moldova, Belarus, and the Russian Federation.

A different account of path-dependency is offered in Geertz (1963). Geertz, a cultural anthropologist, studied the economic development of two Indonesian towns during the 1950s. In Modjokuto, a town on the island of Java, entrepreneurs struggled to move away from a bazaar-type economy to a "firm-oriented" modern system with small stores and factories. Geertz found that what entrepreneurs lack is not capital, opportunities, resources, or drive. "They lack the capacity to form efficient economic institutions; they are entrepreneurs without enterprises." In the bazaar economy, governed by ancient conventions of trade, interactions were reduced to separate person-to-person dealings. Three mechanisms kept the system in place. A "sliding price system" where prices were mere estimates was complemented by constant haggling. An intricate arrangement of credit exchanges guaranteed that credit balances were maintained at minimal levels. Spreading efforts across many transactions provided a good form of risk management. While the system could occupy a considerable amount of people, it provided no incentives for established businessmen. The absence of any form of market institutions prevented such entrepreneurs from exploring new forms of production, new resources, sources of profits, etc. The economic reform was inhibited by two factors: the bazaar traditions and the rising postwar urbanization. The emerging middle class of store and factory owners was in a stark contrast with the traditional bazaar traders. New political alliances were formed. Geertz notes that all changes were "the results of fundamental alterations in cultural beliefs, attitudes, and values."

In Tabanan, a city on the island of Bali, Geertz observed a rural economy settled by farmers and controlled by communal traditions. People on the island did almost all of their daily activities in groups. The social structure was dominated by different types of economic groups, each one devoted to a specific task, with no overlapping. Commoners and aristocracy were integral parts of society. Local entrepreneurs, most of whom were exiled nobles, tried to change the agrarian economy by introducing a firm-type structure. One of the first modern economic formations, founded and managed by nobles, was "The People's Trade Association of Tabanan." The association raised money by selling shares to local residents and other aristocrats. Its goals were to oversee the local import and export, launch more incorporated companies, and build a store, a warehouse, and an office building. A smaller, but similar in structure and economic activities, company appeared soon afterward. While the local entrepreneurs spearheading the two cities' economic transformation were successful in the beginning, they soon found that readjusting old customs would not work as planned. Geertz states that complete rebuilding of informal institutions, such as attitudes, beliefs, and values, is necessary.

3.4.2 Institutional Acculturation

Institutional acculturation is used in a study of diaspora entrepreneurship in Nepal (Riddle and Brinkerhoff 2011). The authors define institutional acculturation as the exposure of diaspora entrepreneurs to the institutional framework in their adopted countries and argue that such entrepreneurs bring that experience back to their native countries and help change and improve the institutions there. Riddle and Brinkerhoff present the case of Thamel.com, a web portal for sending goods, services, money transfers, etc., to Nepal. The portal was founded by Bal Joshi who studied in the USA and returned to Nepal afterward. Bal Joshi found that the services of Thamel.com were mostly used by migrant entrepreneurs to help their families and friends back home. According to Riddle and Brinkerhoff, the new company, influenced Nepal's regulation concerning the active role of the government in creating a functional and supportive business environment, helped form new consumer expectations regarding the goods and services businesses offer and their customer-support orientation, and rules about family duty and inter-caste social interaction.

Saxenian (2002) presents examples of institutional acculturation in Taiwan, India, and China. All three cases are related to the formation and growth of "trans-national communities" and "global production networks." In Taiwan, Saxenian examined the role of Miin Wu who emigrated to the USA in the early 1970s. After receiving a doctoral degree in electrical engineering from Stanford University, Wu held senior positions at several semiconductor companies based in Silicon Valley. In the late 1980s, Wu returned to Taiwan where he established his own company, Macronix Co. In 1996, Macronix Co became the first Taiwanese company listed on NASDAQ. Close to 3000 Taiwanese engineers returned home in the 1980s after studying and working in the USA. By the late 1990s, the Hsinchu Science Park, where Macronix Co was located, became the hub of 284 companies, 40% of them founded by US-trained engineers. The government responded by investing heavily in building supporting infrastructure and a well-functioning venture capital industry. The transfer of knowledge, capital, and contacts that occurred within a short space of time spurred innovation and cemented Taiwan's role as a leader in producing personal computers and semiconductors.

Institutional acculturation in India developed at a slightly different pace. In the 1990s, Indian professionals working and living in the USA founded two associations – the Indus Entrepreneur (TiE) and the Silicon Valley Indian Professionals Association (SIPA). As Silicon Valley companies began setting up branches in India, the Indus Entrepreneur formed chapters in several large cities such as Bangalore, Bombay, Delhi, Hyderabad, and Calcutta. IT entrepreneurs in India established partnerships with US-based counterparts. Despite the success, few US-educated engineers returned to India. Saxenian (2002) argues that US-based IT entrepreneurs exerted a significant influence over government policy in India. In 1999, the Indian Securities and Exchange Board formed a committee headed by US-based entrepreneur K.B. Chandrasekhar. The committee was tasked with proposing institutional reforms in the venture capital industry. Other US-based Indian entrepreneurs took part in the discussion on deregulating the telecommunications industry.

The Chinese institutional acculturation case is comparable to the Taiwanese experience. Significant number of US-educated Chinese professionals began returning home in the early to mid-1990s. Citing the China Research Center and the US International Education Association, Saxenian (2002) reports that 30,000 US-educated Chinese professionals returned home between 1978 and 1998. A more recent evidence presented by the Beijing Science & Technology Committee shows that 140,000 Chinese students returned to China between 1996 and 2000, and that 3000 of them started new companies (Saxenian 2002). Responding to the significant wave of returnees, the government reacted by promoting exchange and encouraging return entrepreneurship. Chinese-based policymakers, universities, and IT companies increased their level of interaction with US-based Chinese companies. The

Ministry of Education created a program to enable Chinese nationals working and living abroad to take part in technology-related conferences and projects. Government officials, both at the local and central levels, began actively recruiting Chinese technology professionals living abroad. Local governments established venture parks offering infrastructure, financial support, and other benefits. Saxenian (2002) points out that the Chinese government policies were similar to the policies used by the Taiwanese government in the 1970s and 1980s.

4 Entrepreneurship and Institutional Change in Transition Countries in Recent Years

Transition countries are countries undergoing a transformation from a centralized to a market economy (Feige 1994). Since the theoretical foundation of entrepreneurship is based on market economies in developed countries, a dedicated field investigating entrepreneurship in a transition environment has developed over the past 20 years (Arnis and Chepurenko 2017; Gao 2008; Kshetri 2009; McMillan and Woodruff 2002; Parsyak and Zhuravlyova 2001; Peng 2000; Smallbone and Welter 2001, 2009, 2012; Welter and Smallbone 2014; Smallbone et al. 2010; Wedel 2003; Welter and Smallbone 2003, 2008, 2011; Yang 2002). Welter and Smallbone (2014) point out that while entrepreneurship in transition economies has unique characteristics rooted in their heritage, key observations and outcomes are crucial for the theory. They argue that the field is moving "towards the mainstream."

Each country has a distinct path of transition that reflects the interaction between entrepreneurial actions and the institutional, social, and political environment (Arnis and Chepurenko 2017; Welter and Smallbone 2014). This interaction that develops and changes over time has been the focus of most recent studies in entrepreneurship in transition economies. Studies generally fit in two categories: cross-country comparative analysis (Buterin et al. 2017; Delener et al. 2017; Ghura et al. 2019; Krasniqi and Desai 2017; Lechman 2017; Szerb and Trumbull 2016; Van der Zwan et al. 2011) and country-specific assessment (Bzhalava et al. 2017; Chavdarova 2017; Chepurenko et al. 2017; Isakova 2017; Krumina and Paalzow 2017; Lauzikas and Miliute 2017; Lukes 2017; Mets 2017; Marozau and Guerrero 2016; Pilkova and Holienka 2017; Pobol and Slonimska 2017; Rebernik and Hojnik 2017; Ruminski 2017; Williams et al. 2017; Williams and Vorley 2017; Xheneti 2016). The emphasis in both is predominantly one directional: from institutional environment to entrepreneurial development, with the rare mention of a possible bidirectional relationship.

Two recent cross-country studies (Szerb et al. 2017; Szerb and Trumbull 2016; Van der Zwan et al. 2011) compared the level of entrepreneurship development between transition and nontransition in European countries. Szerb and Trumbull used a sample of 83 countries, with 15 post-Soviet and Central and Easter European (CEE) countries in transition among them, and data from the Global Entrepreneurship

Development Index. They found that while there were variations between the two groups, they were alike in their attitudes toward entrepreneurship. Looking at this result from entrepreneurial perception viewpoint, Aidis (2017) argues that institutional changes will stem from the growing levels of entrepreneurial involvement. In Szerb and Trumbull's study, Russia was the only country where both parameters fell behind those in all other countries in the sample. Van der Zwan et al. (2011) used data from the Flash Eurobarometer Survey on Entrepreneurship and a sample of 11 transition and 25 nontransition countries in Europe and Asia to compare entrepreneurial involvement. The authors found that while transition countries are doing better than nontransition countries in terms of entrepreneurship levels, administrative rules and regulations are perceived as an impediment more in countries in transition than in nontransition countries.

In a regional-level analysis, Lazlo et al. (2017) investigate the entrepreneurial performance of CEE countries between 2007 and 2011 and find that it lags behind the rest of Europe. While CEE countries are doing well on "entrepreneurial aspirations," they falter on "entrepreneurial attitudes." The authors recommend that country specific, grounded in a local context, policies should be adopted. Krasniqi and Desai (2017) take a slightly different direction by examining how institutions affect export-oriented entrepreneurial firms in 26 transition countries from 1998 to 2009. They find that formal institutions have no effect, but stronger informal institutions advance export performance. In a similar fashion, Lechman (2017) investigates technology-driven export and firm internationalization in a sample of seven CEE countries between 1995 and 2015. Lechman argues that while technology-driven exports boost trade flows, structural and institutional changes in transition economies with strong global alignment may be less effective. For a few more recent examples on the effect of institutions on entrepreneurship in transition economies, see Buterin et al. (2017), Delener et al. (2017), and Ghura et al. (2019).

Numerous studies explore entrepreneurship and institutional development in a country-specific context. Probably the most important knowledge addition to the field is the recently documented evidence that transition countries take divergent paths. Some countries, such as Poland (Ruminski 2017), Lithuania (Lauzikas and Miliute 2017), and Slovakia (Pilkova and Holienka 2017), show rapid progress of entrepreneurship and supporting legal environment. Other countries, such as Albania (Xheneti 2016), Kosovo (Williams and Vorley 2017), Montenegro (Williams et al. 2017), and Russia (Chepurenko et al. 2017), are either in early stages or experience unresolved, and in some cases uncertain, socio-economic, and political conditions.

Poland is considered one of the most successful CEE transition countries (Ruminski 2017). Entrepreneurship played a substantial role in the country's fast economic development over the past 25 years. Ruminski cautions, however, that while entrepreneurship surpasses the average European Union (EU) levels in some aspects, it leaves a lot to be desired in others. For example, the economy is plagued with restrictive labor market regulations, a convoluted legal system, and inefficient public administration institutions. Uncertainty in the political environment and viability of recent economic reforms slowed down the wave of foreign direct investments. On the positive side, government initiatives such as economic zones, centers for innovations, incubators, and technology parks have helped alleviate some of the issues mentioned above. Likewise, the early EU-membership of the three Baltic countries, Estonia, Latvia, and Lithuania, has spurred productive entrepreneurship and launched all three countries on the path of successful economic development (Aidis 2017). In Estonia, political entrepreneurship on the part of the government was responsible for the high rates of technology entrepreneurship in the country (Mets 2017). Krumina and Paalzow (2017) argue that in Latvia necessity-driven entrepreneurship helped the economy during downturns.

Lauzikas and Miliute (2017) take a somewhat different perspective on entrepreneurship in Lithuania by concentrating on the role of education. They find that educational programs need to be updated with new topics such as risk management and strategic planning, and that innovation and creativity should be promoted and stimulated in schools. The authors stress that such investigations, while lacking, are essential during periods of adaptation of the national education system. Likewise, Bzhalava et al. (2017) report that any level of business-oriented education is significantly and positively correlated with opportunity entrepreneurship in Georgia. For a similar analysis on the effect of education see Marozau and Guerrero (2016) for the case of Belarusian higher education institutions and Lukes (2017) for entrepreneurship education and research in academia in the Czech Republic.

Rebernik and Hojnik (2017) and Pilkova and Holienka (2017) examine the entrepreneurial ecosystem in Slovenia and Slovakia, respectively. The authors found evidence of nontransparent institutions, administrative burden, inadequate entrepreneurship education, and government support. In Ukraine, entrepreneurship often fails to realize the potential of cooperation between small and large enterprises (Isakova 2017). Main reasons for the lack of cooperation are insufficient business infrastructure and legal environment, as well as lack of business expertise. Chepurenko et al. (2017) offer a regional perspective on opportunity-driven entrepreneurship in Russia. They found statistically significant regional differences in the level of opportunity-driven early entrepreneurship. The authors suggest that local governments should develop policies to address entrepreneurial motivation in less dynamic regions. Finally, an interesting example of how entrepreneurs affect informal institutions is network entrepreneurs in Bulgaria (Chavdarova 2017). The author examines how strategic networks are formed from dual agreements with employees, nepotism, and ties with informal workers. “Network entrepreneurs build markets from networks.” Their methods have become recognized informal institutions used for labor market adjustments.

5 Conclusion

The account of the interaction between entrepreneurship and institutions provided here signifies that a “bidirectional” relationship exists between the two. Yet, it is surprising that the topic has not been studied more completely in the theoretical literature. No systematic theory exists to address the causality issue toward whether and how entrepreneurs affect institutions. A lot of empirical evidence has accumulated over the years. This is especially true for the period after 1990 when many countries in Eastern and Central Europe adopted the path of transition from central planning toward a market economy. Most of the documented examples of entrepreneurs' impact are from postsocialist countries, countries in transition, and emerging market economies. The extant empirical studies are country-specific, with a lot of anecdotal reporting. The effect of entrepreneurship on institutions is related through the lens of political process, innovation, and direct action. Institutional change through a political process is a legislative change in formal and informal institutions. The forms of political process examined here are "collective action" and "organization membership," "corporate political entrepreneurship" and lobbying, and "state capture" and "double entrepreneurship." Change through innovation develops when new technologies and breakthroughs create market uncertainties that require a new institutional framework. Entrepreneurs' direct actions are categorized into evasive entrepreneurship, passive adaptation, active adaptation, and resistance to change. Two other mechanisms to influence institutional change are discussed, path-dependency and institutional acculturation. Path-dependency reflects evolutionary patterns of behavior, such as traditions, customs, and values. Institutional acculturation is generally understood in the context of diaspora entrepreneurs, who bring the experience from the adopted countries to their native countries. While some channels through which entrepreneurs affect institutions are well documented, such as evasion for example, others, such as innovation are less well understood. There are lessons that can be learned on how influencing institutions and the institutional environment in emerging economies may stimulate economic growth.

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Governmental Supportive Policies for Green Entrepreneurial Activity in Saudi Arabia: An Institutional Analysis

Wafa Alwakid, Sebastian Aparicio, and David Urbano

Abstract In this exploratory study, we analyzed the influence of governmental supportive policies on green entrepreneurial activity in Saudi Arabia, using institutional economics as a theoretical framework. Based on data from reports of the General Authority for Meteorology and Environmental Protection and the General Authority for Statistics, both fixed and random effects models were applied in 21 cities within Saudi Arabia (2014–2018). The main findings show that environmental, innovation, and entrepreneurship governmental supportive policies exert a significantly positive influence on green entrepreneurship. Future implications for policymaking and managerial decisions related to targeted awareness raising and environmental care can be derived from this study.

Keywords Green entrepreneurship · Governmental supportive policies · Institutional approach · Saudi Arabia

W. Alwakid
Universitat Autònoma de Barcelona, Bellaterra, Spain

Jouf University, Al Jouf, Saudi Arabia
e-mail: wafanaif.alwakid@e-campus.uab.cat

S. Aparicio (✉)
Durham University, Durham, UK

Fudanción ECSIM, Medellín, Colombia
e-mail: sebastian.aparicio@durham.ac.uk

D. Urbano
Universitat Autònoma de Barcelona, Bellaterra, Spain
e-mail: david.urbano@uab.cat

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1 Introduction

The current literature considers entrepreneurship as a key mechanism for long-term development (Bjørnskov and Foss 2016; Bosma et al. 2018; Urbano et al. 2019a). However, a consensus is lacking on whether different approaches to entrepreneurial activities have economic as well as ecological benefits (Pacheco et al. 2010). Sustainable or green entrepreneurship emerged as a possible solution to humanitarian, economic, and environmental issues while exploring, evaluating, and exploiting new opportunities (Dean and McMullen 2007; Meek et al. 2010). This activity involves a complex set of principles and practices, oriented toward the development of entrepreneurial patterns that lead to healthy ecological conditions for current and future generations (WCED 1987). As such, sustainability is universally adopted as a label for a development paradigm, paying close adherence to opportunities for future generations, particularly in terms of environmental care alongside social and economic development (Pacheco et al. 2010; WCED 1987). From this viewpoint, a focus on entrepreneurship can be used to further evaluate common processes through a green approach.

Building on the extant literature on green entrepreneurial activity, sustainable entrepreneurship practices need to be implemented not only toward economic aims but also social and environmental objectives. For example, researchers focused their attention on studying what drives sustainable entrepreneurship (Shepherd and Patzelt 2011; Cohen and Winn 2007; Crals and Vereeck 2004; Kuckertz and Wagner 2010; O'Neil et al. 2009; Rodgers 2010; Schaltegger and Wagner 2011). In particular, the influence of governmental policies on entrepreneurship was explored (Juma et al. 2017; Mohamad et al. 2013), as governments play an integral role in facilitating or hindering entrepreneurial development (Juma et al. 2017).

Dean and McMullen (2007) explained that an ecological initiative is derived from entrepreneurs who explicitly or implicitly seek solutions to market failures. They observed that certain entrepreneurial activities create novel goods and services that may solve an economic problem but leave various social and environmental issues standing. Meek et al. (2010) and Pacheco et al. (2010) suggested that governmental and social interventions, through policies and social norms, should encourage entrepreneurial activities with both commercial and sustainable purposes. Their evidence suggested a continued need to explore the importance of governmental initiatives to regulate and stimulate green entrepreneurship, guaranteeing gains beyond economic terms. This is a current goal in Saudi Arabia. However, since entrepreneurship in Saudi Arabia is risk averse, combined with being an emerging market, similarities in the challenges and opportunities faced by other developing countries such as Mexico, Indonesia, Nigeria, or South Africa are anticipated (Nader and Faghih 2015). These challenges and opportunities may involve the state's capacity to create a significant number of entrepreneurs, enhancing development by solving unemployment, and technological and ecological issues.

Thus, in this chapter, we explore the influence of governmental supportive policies (i.e., environmental, innovation, and entrepreneurship) on green entrepreneurial activity in Saudi Arabia. We draw on institutional economics (North 1990, 2005) to understand how these policies may affect the formation and existence of this type of entrepreneurship. Specifically, we utilized panel data from 21 Saudi Arabian cities during 2014–2018. The information was obtained from the annual reports of the General Authority for Meteorology and Environmental Protection as well as the reports of the General Authority for Statistics in Saudi Arabia. By analyzing these data, through the fixed and random effects models, we provide empirical evidence concerning the positive influence of governmental supportive policies on green entrepreneurship.

This chapter provides several contributions to the literature in the field of green entrepreneurship and government policy. Initially, we studied the influence of governmental supportive policies on green entrepreneurial activity by integrating further insights into the conversation involving institutions and sustainable entrepreneurship (Meek et al. 2010; Pacheco et al. 2010, Urbano et al. 2019b). Second, as a contribution to practitioners, we consider the Saudi Arabia context, where further evidence is required. In this situation, managers of green and non-green companies may benefit from the analysis of these results, which present discussions beyond public reports. Environmental strategies in Saudi Arabia may be derived from the existence and influence of particular policies focused on encouraging entrepreneurship that cares for the environment. Finally, the analysis related to the concept of green entrepreneurial activity implies that national and local governments should continue designing, implementing, and evaluating policies that lead the path to sustainable development through green entrepreneurship (Díez-Martín et al. 2016; Kshetri 2010).

Following on from this introduction, Sect. 2 outlines the context of Saudi Arabia. Section 3 presents the theoretical framework related to institutional economics and its link with green entrepreneurship. Section 4 introduces the methodology used in the empirical analysis. Section 5 provides and discusses the main results of the study. Finally, Sect. 6 concludes with implications, limitations, and future research.

2 The Case of Saudi Arabia

Currently, Saudi Arabia is witnessing a comprehensive social renaissance and is moving confidently toward its bright future, toward building a more diversified and sustainable economy with higher knowledge-based investors (Alessa and Alajmi 2017). As the economy expands, there is a call for the need to pay close attention to entrepreneurship. Given the global orientation toward the knowledge economy as a basis for supporting the country's competitive position, through dependence on youth creativity, the government of Saudi Arabia has supported entrepreneurship to create an advanced and sustainable Saudi society (Alessa and Alajmi 2017). According to Zaydane and Amro (2011), Saudi Arabia has been keen to encourage its young population to accelerate free business by offering several awards such as the Prince Salman Award for Entrepreneurship, the Fastest 100 Growing Companies

Award at the General Authority for Investment, and the Most Competitive Youth Award. The encouragement and initiatives were invested to motivate young entrepreneurs within creative and innovative companies. To implement this concept, several organizations were established, including the Prince Salman Institute for Entrepreneurship at King Saud University, the National Entrepreneurship Institute, and the establishment of the Entrepreneurship Association in Saudi Arabia (Alessa and Alajmi 2017).

Despite these efforts, entrepreneurship in Saudi Arabia faces many constraints, including the absence of an independent regulatory framework responsible for the development of enterprises, considered one of the most significant challenges facing entrepreneurship. Saudi Arabia's accession to the World Trade Organization failed with several projects that were unable to compete with foreign products and initiatives (Alessa and Alajmi 2017).

According to the Global Entrepreneurship Monitor 2019 report, almost 76.3% of the adult population in Saudi Arabia believes that the country offers more opportunities to start a business than ever (Ashri 2019). These opportunities may be related to environmental, innovation, and entrepreneurship policies. Part of this success can be attributed to the use of green entrepreneurship, which has allowed businesses to appreciate the environmental, economic, and social factors affecting the running of their businesses. Therefore, these businesses attempt to apply the government innovation policy to seek innovative solutions to products and services. Similarly, Saudi Arabia has scaled up its business operation models to assist greening the Saudi Arabian economy.

The Saudi Vision 2030 states that the Saudi Arabian economy should offer opportunities that can stimulate the economy while generating revenues for other sectors (Thompson 2017). It is for this reason that it embraces environmental, innovation, and entrepreneurship policies that can assist companies to promote green entrepreneurial activity in the country. Nonetheless, government policies have been implemented requiring businesses or companies to comply with the green standards within a period or risk the possibility of closure. The regulations are wide, but the reality is that businesses must use clean and green energy and minimize their carbon emissions to ensure the sustainability of the business (Thompson 2017). The aim of the environmental policy is that businesses operate in an environment that is safe and healthy, which is important for the sustainability of any business and guarantees a competitive advantage over others.

Certainly, these types of policies may impose barriers for entrepreneurial activity, at least initially. Nevertheless, entrepreneurship requires a continuous movement out of the comfort zone, which may encourage people to discover new ideas that can be used to make the business flourish over time. Through it, new business ideas are created while the firm experiences exponential growth. Alongside these environmental initiatives, Saudi Arabia now has innovation policies that are intended to help entrepreneurs while stimulating growth for a competitive edge (Nalband et al. 2016). To support innovation and entrepreneurship policies, the country uses Saudi Arabia Vision 2030 as a mechanism through which it promotes the growth of small- and medium-sized enterprises (SMEs), as they play a critical role in the economy. Another policy mechanism that has recently been used is the Saudi Fast Growth 100, which was applied nationally and promotes innovation and entrepreneurship (Alamoudi and Bagaaifar 2017). Therefore, the entities that grow more in the country in terms of revenues are offered the needed support.

The government also has a platform referred to as the Meras program that offers government and private sector services to would-be entrepreneurs. The General Authority for SMEs has implemented strategies that remove obstacles, facilitating company funding. Therefore, the positive changes inspired by Saudi Vision 2030 help different sectors to initiate programs aimed at attaining accelerated growth (Thompson 2017). As part of encouraging entrepreneurship in the SME sector, the Saudi Arabian government established venture capital companies that have stimulated the private sector to ensure that they have access to funds and reduce the gap in equity (Pillai 2012). Additionally, the Saudi Arabian entrepreneurship ecosystem appreciates that the systems may be changing. For instance, it now allows equity crowdfunding platforms that essentially increase people's access to financing. Further, the Saudi General Investment Authority (SAGIA) is now accepted as playing a critical role in ensuring that entrepreneurship is more inclusive for all, which is consistent with recent results by Aparicio et al. (2020). This study supports the idea that certain institutions (i.e., culture and policies) help entrepreneurial activity contribute to inclusive growth.

It seems, therefore, that initiatives supporting entrepreneurial activity are highly required. In this regard, entrepreneurship policies in Saudi Arabia also include the government efforts aimed at strengthening e-commerce, e-payments, and e-customs projects (Suboh 2015). This proactive approach has played a critical role in simplifying and digitizing the procedures used for customs, which have, in turn, improved the supply chain; businesses find it easier to procure the goods. An important part of this includes policies for the creation of Information and Communication Technology (ICT) business incubators that came under the Badir program (Suboh 2015). The growth of these incubators and accelerators has encouraged innovation and growth of businesses within the green entrepreneurship strategy adopted by the country.

Saudi Arabia has recently introduced entrepreneurship policies that are coordinated through the Ministry of Education to develop programs for SMEs as well as start-ups. Under such programs, Saudi Arabia, through some of its organizations such as King Abdullah University of Science and Technology (KAUST), has intensified scientific research and innovation with a view of making its workforce and businesses competitive within and outside the country. It has also established quasi-government institutions that have helped with defining and implementing the programs aimed at transforming businesses (Khan 2013). These bespoke entrepreneurship policies and training now play a critical role in enhancing the entrepreneurs' skills. This has created a culture that is applied by these entities even when they join the workplace. However, the most compelling position is that the programs embrace universally accepted best practices that may help in ensuring that the businesses are sustainable.

3 Theoretical Framework

3.1 Institutional Economics and Green Entrepreneurship

To comprehend possible mechanisms behind the relationship between governmental supportive policies and green entrepreneurship in Saudi Arabia, we used institutional economics (North 1990, 2005). In this sense, North (1990) explained how institutions are vital in understanding the developmental differences across regions and countries, rooted in the formal and informal rules that exist in every society. According to this theory, formal institutions consist of contracts, regulations, and procedures, whereas informal factors are related to culture, values, or social norms within a particular society. Both formal and informal institutions, as well as their interdependencies, create a context that can be decisive in determining and directing organizational behavior, setting the business agenda and practices of corporate social responsibility and green-openness (Peng et al. 2009). This institutional context shapes the conditions and constraints for business, and it is hindered by higher levels of corruption as well as by weaker property rights (Urbano et al. 2019a). From these perspectives, in terms of institutions, we draw on this approach since it enables an understanding of the differences across regions and countries, which explain the formation and growth of green entrepreneurial activity (Alwakid et al. 2020; Meek et al. 2010), as well as other types of entrepreneurship (Urbano et al. 2019b).

Institutional economics is an increasingly used theoretical lens for entrepreneurship research (Bruton et al. 2010; Thornton et al. 2011; Urbano et al. 2019b; Welter 2011). Elaborating on this viewpoint, scholars explored institutions as antecedents of entrepreneurial activity and their relationship with economic growth (Aparicio et al. 2016; Bjørnskov and Foss 2016; Bosma et al. 2018; Urbano and Aparicio 2016). Generally, extant literature suggests that entrepreneurship acts within a concrete institutional landscape and its behavior is shaped by this context (Aidis et al. 2008; Urbano et al. 2019c). Even though informal institutions act on a deeper level and are more pervasive than formal bodies, the latter may heavily influence and shape the former (Williamson 2000).

Although it is suggested that informal institutions may be more conducive to entrepreneurial activity than formal ones (Aparicio et al. 2020, 2021), policy and regulatory changes may constitute a first step to encourage a particular activity. In this regard, an initial exploratory approach may suggest that formal institutions are expected to be contingent on green entrepreneurship. Since the government undertakes the responsibility of boosting entrepreneurial development, several scholars considered that providing resources is also part of the government's function (Obaji and Olugu 2014). Government policies include regulations conducive to an environment that is capable of promoting green entrepreneurship. From this perspective, the issue becomes more complex when competing institutions are formed around sustainability issues. In this regard, government policies may refer to setting up conditions for boosting entrepreneurship that is environmentally friendly, but may simultaneously include provisions for funding policies (Dai and Si 2018). Therefore, the need for development, which is boosted by entrepreneurship, must be balanced with the need to preserve the opportunity for future generations to produce a high quality of life and environment. This is what the Saudi Arabian government is trying to achieve.

3.2 Hypotheses Development

In general, there are several types of government policies with a variety of primary goals that converge to increasing the standard of living. For example, governments need to find legitimate means to generate and endorse user-friendly policies devoted to entrepreneurial activity (Papia 2006). Legitimacy is key, since such policies need to be implemented, irrespective of the changes of parties in power, and it should transcend political divergences to boost entrepreneurship (Papia 2006). A policy provides the basic structure for any governmental program; it guides the rationale of the government and defines direction. A policy can be ambitious yet achievable on paper, but it may lack proper implementation (Obaji and Olugu 2014). This realization, in turn, has generated a significant degree of interest in how government policies may be instrumental in fostering entrepreneurial activity, and whether their effects are consistent across countries (Minniti 2008). As a plan for sustainable development, the government needs to ensure that all entrepreneurs observe government policies (Obaji and Olugu 2014). However, governments are unable to predict the type of entrepreneurial activity that will emerge, how to make it emerge, or how entrepreneurship will observe these policies (Minniti 2008). Governments can create a reliable set of policies that are implemented to facilitate the environmental and sustainable development of entrepreneurship (Obaji and Olugu 2014). For example, during the previous two decades, many governments paid increasing attention to entrepreneurship and implemented policies aimed at fostering innovative ideas within their countries (Minniti 2008), since those policies ensure institutional transparency and protect the environment (Minniti 2008). According to Nehrt (1998), adopting environmentally progressive policies may enable firms to develop strategic competencies and reap first-mover advantages, with the assumption that all firms will eventually face these new regulations (Barrett 1991). However, the historical problems with implementing these policies are due to several factors of governance and the willpower to accomplish them. The most important factor to consider is the implementation of an environmental policy, since it positively influences green entrepreneurship. Based on these ideas, we suggest the following hypothesis:

Hypothesis 1: Environmental policy has a positive influence on green entrepreneurship in Saudi Arabia.

Complementary to environmental policies, the government also needs to enhance entrepreneurial spirit combined with an innovation policy (Zahedi and Otterpohl 2015). Innovation policy is a relatively new consideration on the policy-makers' agenda (Edler and Fagerberg 2017). Only from the mid-1990s onward, the term has become popular (Edler and Fagerberg 2017). There appears to be requirement to adopt a package of policies to accelerate and encourage innovation, whereas a more targeted choice among policies is necessary to enhance exploration of opportunity (Mohnen and Röller 2005). Various paradigms in economics have framed innovation as a major driver in societal progress and environmental wealth (Del Rio et al. 2010). Eco-innovation (i.e., innovation related to environmental protection) was the focus of the Del Rio et al.'s (2010) study. Two fields refer explicitly to this topic: innovation economics and environmental economics. Both deal with sustainable development within a three-pillar approach that combines economic, environmental, and social sustainability (Hines and Martin 2004). The focus on sustainability goes beyond traditional definitions and considers innovation in a nontraditional framework (Hines and Martin 2004; Smith et al. 2010). Generally, the stress on innovation policy is intended to boost creativity and reflexivity, thereby expanding economic, environmental, and social sustainability, leading to the relationship described in our second hypothesis:

Hypothesis 2: Innovation policy has a positive influence on green entrepreneurship in different regions in Saudi Arabia.

Governments are often seen to either construct barriers limiting unchecked growth or providing incentives to encourage growth (Dean and McMullen 2007; Cohen and Winn 2007; Shepard and Patzelt 2011). From this viewpoint, entrepreneurship policies should be a key governmental concern that affects entrepreneurship outcomes by providing new incentives and ensuring issues are mitigated (Baumgartner and Jones 1993), such as environmental and green issues. They are a set of incentives and government procedures that enable entrepreneurs to facilitate the process of opening a business and establishing projects (Obaji and Olugu 2014). Thus, governmental policies can more effectively influence the allocation of entrepreneurship. Additionally, the accessibility of financial services is one major entrepreneurship policy that supports the majority of newly formed firms, as it is an essential element in entrepreneurship. According to Shuo (2014), governments adopt direct subsidies, tax incentives, and government procurement to inject extensive resources into the entrepreneurial process. Natural resources are subsidized directly by governmental budgetary and tax measures (Shuo 2014). In this regard, governments significantly influence firms' adoption of environmental entrepreneurship supportive policies (Raines and Prakash 2005). A consequence of this approach is the government's capacity to enforce and promote environmentally sound production methods (Shuo 2014). Obaji and Olugu (2014) provided evidence from various studies that illustrated the salience of government entrepreneurship policies in developing sustainable entrepreneurial activity. Thus, we propose the following hypothesis:

Hypothesis 3: Entrepreneurship policy has a positive influence on green entrepreneurial activity in Saudi Arabia.

4 Methodology

4.1 Data and Variables

To test previous hypotheses, we used data from the annual reports of the Authority for Meteorology and Environmental Protection in Saudi Arabia and the reports of the General Authority for Statistics Saudi Arabia from 21 cities from 2014 to 2018. Our final sample consisted of balanced panel data with 105 observations from the following cities: Riyadh, Dammam, Makah, Madinah, Alqassim, Assir, Tabuk, Hael, Jizan, Najran, Albaha, Aljouf, northern borders, Abha, Alquriyat, Taif, Yanbu, Al Hofuf, Jeddah, Jubail, and Alkhobar. The mentioned cities were chosen because they are among the most developed in terms of entrepreneurship, and they were used as the experimental platforms at the onset of the implementation of these policies (General Organization for Statistics 2019). These 21 cities reflect the consensus regarding green issues and present a standardized demography because they are considered different cities from different regions, which reflect the phenomena under discussion. Thereby, dependent, independent, and control variables are explored across these cities and over the mentioned years.

4.1.1 Dependent Variable

Since we focused on green entrepreneurship, we measured the dependent variable by examining environmental commitment, which is one of the most important issues in Saudi Arabia. Data were derived from several different sources as previously explained. According to the Organisation for Economic Co-operation and Development (OECD) (2011), green entrepreneurship can be measured as environmental commitment. Sustainability has tended to predominantly focus on issues concerning environmental, or what may be termed “green” issues: recycling, energy, and resource conservation (Kraus et al. 2020). In Saudi Arabia, no database exists for sustainable entrepreneurship, so we used a proxy to measure green entrepreneurial activity. In this regard, the First Voluntary National Review 2018 determines whether the Saudi Arabian firms have been adhering to the standards required to do business under green entrepreneurship (Kingdom of Saudi Arabia 2018). This evaluation is based on the parameters set by the United Nations, which call for the development and growth of businesses that meet sustainable goals. To measure this variable, we found a list of firms that consider environmental issues, as well as the total number of firms in each city. This variable, thus, illustrates the percentage of firms that consider the environment as a high priority in comparison to the total number of firms. For this variable, information was derived from annual reports (General Authority for Meteorology and Environmental Protection).

4.1.2 Independent Variables

For independent variables, we considered environmental, innovation, and entrepreneurship policies. Specifically, we focused on policies that are traditionally labeled under sustainability and environmental commitment, as it was considered by several authors (cf. Shuo 2014; Mohnen and Röller 2005; Obaji and Olugu 2014). In this sense, first, environmental policy consists of creating a market and nonmarket policies for firms to reduce pollution through public disclosure of aspects of its environmental performance (Arora and Casson 1996; Konar and Cohen 1997). The values for environmental policy are on a 5-point scale (1 = minor nuisance, 5 = safety-related functioning). This was obtained from the set standards evaluating whether the firms were meeting the First Voluntary National Review 2018. A value of 1 implies that the policy is a minor nuisance. A value of 2 indicates the policy is operable, and 3 indicates the acceptable performance of the policy. A 4 means the policy is functioning, whereas 5 denotes the safety-related application of the policy is functioning.

Second, innovation policy is a relatively new concern on the policy-makers' agenda, as it was not referenced until recently (Minniti 2008). Mohnen and Röller (2005) noted that innovation policy adopts a package of policies to encourage firms to further explore the market. The values for this particular policy are again on a 5-point scale (1 = ineffective, 5 = safety-related functioning). A value of 1 indicates the policy is ineffective, 2 means that the policy is operable, 3 indicates gradual improvement of the policy, 4 means the policy is functioning, and 5 indicates the safety-related applications of the policy are functioning. Third, the entrepreneurship policy encompasses a set of incentives and government procedures that help entrepreneurs to facilitate the process of establishing their ventures (Obaji and Olugu 2014). Shuo (2014) highlighted that governments apply different mechanisms to directly affect entrepreneurs through subsidies, tax incentives, and government procurement to enhance the capacity to support entrepreneurial activity. The values for this policy are again on a 5-point scale (1 = very low, 5 = very high): 1 = very low or none, 2 = low or minor, 3 = moderate or significant, 4 = high, and 5 = very high. These values indicate the same as outlined earlier. This was examined in the First Voluntary National Review 2018.

4.1.3 Control Variables

We included other variables in the model to control for additional factors that may partly explain green entrepreneurship. These control variables were considered by different authors (cf. Zahedi and Otterpohl 2015; Uslu et al. 2015). These control variables are also cited by the Saudi government regarding sustainability issues (Mewa 2019; Moe 2019).

The annual growth rate represents the value of a country's resources, which becomes increasingly sensitive to competitive forces in world markets. Environmental issues are sensitive to world markets as they shape the potential for economic growth by conditioning survival. In Saudi Arabia, the unsustainable use of resources is one important issue and is mainly triggered by the lack of natural resource availability (Mewa 2019). This challenges the sustainability of green entrepreneurship at a deep level and requires plentiful resources that are dependent on an annual growth rate (Mewa 2019). The data source was the annual reports of the General Authority for Statistics in Saudi Arabia. Possible values for the annual growth rate are related to the average recorded over the 5 years for the agricultural sector in each city. We controlled for the population of the area, since green entrepreneurship aims to minimize threats that may occur from a decrease in environmental resources, such as an increase in population growth (Uslu et al. 2015). Several main approaches suggested for sustainability include a reduction in population growth (Zahedi and Otterpohl 2015). Saudi Arabia is one of the world's most populous countries, growing from four million in 1960 to in excess of 33 million in 2018 (General Organization for Statistics 2019). According to Zahedi and Otterpohl (2015), population growth needs to be reduced to increase sustainability. The data were derived from the annual reports of the General Authority for Statistics in Saudi Arabia. The value of this control variable is the population size, increasing for each area during the five-year study. The size of the city, included as a control variable, may affect the amount of available environmental resources, so government supportive policies are required to efficiently manage environmental resources among different-sized cities (Mewa 2019). The size of a city may also affect the rate of environmental resource depletion. A large city leads to a greater amount of required environmental resources (Mewa 2019).

We needed to consider controlling over education as well. Governments aim to improve access to quality education, which may be required for sustainable developmental goals at all levels and in all social contexts, to transform society by reorienting education and help individuals develop the knowledge, skills, values, and behavior needed for sustainable development (Moe 2019). This variable was measured as a percentage of people with the highest possible education levels in a city, which is a postgraduate degree. According to Abdul Rahman (2016), the increase in the number of postgraduate students is of utmost importance for the entrepreneurial attitude and activity. Hence, government and higher education organizations play an important role in developing graduates' entrepreneurial attitudes and effective entrepreneurial strategies (Al-Barawi et al. 2017).

Summing up, Table 1 shows further details about our dependent, independent, and control variables, which were standardized and transformed into natural logarithm. The reason is that the former avoids problems coming from variables with different scales, while the latter enables a direct interpretation in terms of a percentage change of the dependent variable when the independent one changes in 1% (for a more precise explanation see Urbano and Aparicio [2016]).

Table 1 Descriptions of variables

Variable	Definition	Data source
Dependent variable		
Green entrepreneurship	Percentage of firms considering the environment in the city out of the total number of firms in the city. The variable is standardized	Annual reports (general Authority for Meteorology and Environmental Protection)
Independent variables		
Environmental policy	Policies for firms to reduce pollution by requiring public disclosure of some aspects of firms' environmental performance; values are on a 5-point scale (1 = minor nuisance, 5 = safety-related functioning). The variable is standardized	Annual reports (Authority for Meteorology and Environmental Protection)
Innovation policy	Innovation policy is the interface between technological development policy, research, and industrial policy, which aims to create a framework for bringing new ideas to the market (OECD Reviews of Innovation Policy; OECD, 2020). The values for this particular policy are on a 5-point scale (1 = ineffective, 5 = safety-related functioning). The variable is standardized	Annual reports (Authority for Meteorology and Environmental Protection)
Entrepreneurship policy	A set of incentives and government procedures that facilitate the entrepreneurial process of establishment of projects. The values for this policy are on a 5-point scale (1 = very low, 5 = very high). The variable is standardized	Annual reports (Authority for Meteorology and Environmental Protection)
Control variables		
Population	The number of inhabitants per region the variable is standardized	General Authority for Statistics in Saudi Arabia
Size of the city	Area of the city (km^2). The variable is standardized	General Authority for Statistics in Saudi Arabia
Annual growth rate	The annual growth rate for the agricultural sector in each city. The variable is standardized	General Authority for Statistics in Saudi Arabia
Education	The percentage of people with tertiary education in each city. The variable is standardized.	General Authority for Statistics in Saudi Arabia

Authors' own table based on General Authority for Meteorology and Environmental Protection: https://mewa.gov.sa/en/InformationCenter/Pages/default.aspx.; and General Authority for Statistics in Saudi Arabia: https://www.stats.gov.sa/ar#

4.2 Model and Techniques

The model that we considered is a simple log-log equation that takes into consideration both variations in the independent variables of interest and some controls, as shown below:

$$\ln GE_{it} = \alpha + \beta_1 \ln EvP_{it} + \beta_2 \ln IP_{it} + \beta_3 \ln EP_{it} + \sum_k \delta_k \ln CV_{it} + \varepsilon_{it}$$

where GE_{it} represents green entrepreneurship in city *i* at time *t*, EvP_{it} is environmental policy across cities and time, IP_{it} denotes innovation policy, EP_{it} is entrepreneurship policy,δ_i is the parameter estimated for each *k* control variable CV_{it}, and $\varepsilon_{it}\varepsilon_{it}$ is the error term that captures the variables that may affect green entrepreneurship but are unknown in this study.

The fixed effects (FE) estimation technique was used to test whether environmental, innovation, and entrepreneurship policies affect green entrepreneurial activity. These techniques allowed us to observe the time effects in a cross-regional approach (Baltagi 2008; Cumming et al. 2014). Univariate and bivariate statistics were considered initially to illustrate the existing relationships between variables (Table 2). Subsequently, multivariate models were employed (Table 3). The main analysis was completed with the FE model, considering green entrepreneurship as the dependent variable. The independent variables were environmental, innovation, and entrepreneurship supportive policies, being the main predictors for the three suggested hypotheses. In Model 1, only control variables were included. Afterwards, the three models were set, each having only one predictor that represents each hypothesis. The first one regressed green entrepreneurship on environmental policy

Table 2 Descriptive statistics and correlation matrix

	Variable	Mean	SD	Min	Max	1	2
1	Green entrepreneurship	44.866	12.462	20.220	77.650	1	
2	Environmental policies	3.352	1.373	1	5	0.467*	1
3	Innovation policy	3.248	1.426	1	5	0.438*	0.105
4	Entrepreneurship policy	3.057	1.336	1	5	0.597*	0.265*
5	Population	1,945,362	2,392,560	54,622	8,597,713	0.11	0.099
6	Size of the city	123,036	118,669	12,000	540,000	0.001	−0.05
7	Annual growth rate	3.814	0.458	2.950	5.240	0.260*	0.074
8	Education	61.800	4.783	53.380	73.980	0.179*	0.164*
		3	**4**	**5**	**6**	**7**	**8**
3	Innovation policy	1					
4	Entrepreneurship policy	0.13	1				
5	Population	−0.03	−0.064	1			
6	Size of the city	−0.121	−0.141	0.412*	1		
7	Annual growth rate	0.205*	0.250*	−0.098	0.007	1	
8	Education	0.252*	0.290*	0.13	−0.179*	0.155	1

*$p < 0.1$. Authors' own table

Table 3 Estimated results for green entrepreneurship

	1	2	3	4	5	6	7	8
Environmental policies		0.044*			0.053**			0.050**
		(0.022)			(0.022)			(0.019)
Innovation policy			0.065***			0.061**		0.077***
			(0.020)			(0.022)		(0.024)
Entrepreneurship policy				0.066**			0.059*	0.068**
				(0.030)			(0.031)	(0.029)
Population	0.024				0.029	0.029	0.027	0.036
	(0.025)				(0.023)	(0.028)	(0.022)	(0.023)
Size of the city	0.000				0.000	0.000	0.000	0.000
	(0.001)				(0.001)	(0.001)	(0.001)	(0.001)
Annual growth rate	0.127				0.180	0.031	0.054	−0.027
	(0.184)				(0.170)	(0.191)	(0.201)	(0.205)
Education	0.236 (0.180)				0.235 (0.171)	0.183 (0.192)	0.164 (0.175)	0.086 (0.188)
Observations	105	105	105	105	105	105	105	105
R^2 overall	0.076	0.218	0.192	0.356	0.212	0.185	0.297	0.494

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. Authors' own table

(Model 2), the second one considered the influence of innovation policy (Model 3), whereas the third one regressed green entrepreneurial activity on entrepreneurship policy (Model 4). In the second set of models, the control variables were added to the three models with one variable, each regressing the dependent variable on both the independent variable of interest and the control variables (Models 5, 6, and 7). Following this, Model 8 included all predictors through the fixed effects technique. Models 2, 3, and 4 are useful since they illustrate the associations of the three independent variables with the dependent variable within models that do not suffer from having too many predictors compared to other cases. Therefore, Models 1–4 provide a connection between the three aspects that underpin green entrepreneurial activity, which include innovation, environmental, and entrepreneurship supportive policies. We believe that an institutional change can be observed through these three policies due to the time dimension that was incorporated into our panel data models. Thus, we were able to observe how the 5-point Likert scale varies across time.

5 Results and Discussion

The descriptive statistics for the nonstandardized variables under the study are reported in Table 2. Green entrepreneurship varied from 20.220 to 77.650%. Despite the large number of firms, we identified only an average of 44.863% firms with environmental purposes across cities in Saudi Arabia. Environmental policy ranged from 1 to 5 with an average of 3.352 (standard deviation (SD) = 1.373). Innovation policy ranged from 1 to 5 (mean (M) = 3.248, SD = 1.426). Entrepreneurship policy varied from 1 to 5 (M = 3.057, SD = 1.336). Table 2 shows that the three supportive policies are statistically correlated to green entrepreneurship, so the correlations met our initial expectations. The correlation between the variables was examined to explore the strength of the relationship between the variables (Table 2). Pearson's correlation was used to assess the relationship between green entrepreneurship and environmental, innovation, and entrepreneurship policies. Based on this test, we found that several variables had significant positive relationships. Also, we found a small correlation between environmental policy and entrepreneurship policy ($r = 0.265$), and we found a small correlation between innovation policy and entrepreneurship policy ($r = 0.130$). However, we also found a moderate correlation between green entrepreneurship and environmental policies ($r = 0.467$).

The results of correlations can be used to observe the multicollinearity problem among variables. As illustrated in Table 2, all correlation coefficients across the variables were less than 0.9. Hair et al. (2010) suggested that values above 0.90 reveal a multicollinearity problem. Therefore, this showed that the collected data had no multicollinearity problems.

Table 3 presents the results of all the FE models. The random effects (RE) models were practically identical, and the Hausman test results revealed that it was more appropriate to use the FE model since the p-value was less than 0.05. This means that we could reject the null hypothesis, which was H_0 = RE. We noted similarities with the FE estimation across the models. Therefore, interpretations are provided only for the FE models.

Concerning the testing of the hypotheses, we observed a significant positive influence of environmental policy on green entrepreneurship in different regions in Saudi Arabia, as stated in Hypothesis 1. We found a positive influence on government policies, such as environmental policy, on green entrepreneurship. According to Obaji and Olugu (2014), governments can create a reliable set of policies that can be implemented to provide green entrepreneurship. Environmental policy has a positive influence on a bivariate relation, which becomes positive when controlling only for other variables (the annual growth rate). This variable remains positive when using only the three variables of interest as predictors, and it is again positive in the model with all predictors.

A further variable that was also employed to comprehend green entrepreneurship was innovation policy. Hypothesis 2 proposed that innovation policy has a significant positive influence on green entrepreneurship in Saudi Arabia. We found that innovation policy was positively related to green entrepreneurship. A 1-percentage increase in the standard deviation of environmental policy led to an average of 0.049-percentage increase on the standard deviation of the dependent variable. For the second hypothesis, the same positive influence was noticeable, but overall, the influence of innovation policy was not contrary to expectations, since it was positive. According to Mohnen and Röller (2005), the influence of innovation policy on green entrepreneurship was positive.

Hypothesis 3 was also fully supported. We found a significant positive influence of entrepreneurship policy on green entrepreneurial activity in Saudi Arabia. Hence, the third hypothesis was also accepted with entrepreneurship policy being positively related with the dependent variable green entrepreneurship. Government policies affect entrepreneurship outcomes by providing new policies, and they move issues from less effective policies to more effective approaches (Baumgartner and Jones 1993), such as environmental and green issues. Thus, government entrepreneurship policies can influence the allocation of entrepreneurship resources (Baumol 1990; Bowen and De Clercq 2008). Obaji and Olugu (2014) illustrated a positive influence of entrepreneurship policy on green entrepreneurship as well.

According to Urbano et al. (2019b), the institutional approach provides a broad insight into understanding how institutions are related to entrepreneurial activity, as well as which institutions are most important in explaining the entrepreneurship rates that enhance economic growth. From this viewpoint, the main results in this chapter support the assertion that the formal institution (i.e., government policy) positively influences green entrepreneurship. Particularly for our laboratory, there have been various policies to support entrepreneurial endeavors within Saudi Arabia involving innovation and the environment. It is vital that the world, particularly Saudi Arabia, embraces sustainability to reflect on the recent increased interest and concerns about the environment. Increased availability of local resources, easier logistic planning, simplification of administrative procedures, and clearly expressed support for green entrepreneurship are policies that will advance forward the regional economy. The increased interest in green issues and sustainability since 2014 reflects the views of the public and general world leader on such issues. Global issues regarding deforestation, exploitation of local cheaper resources, clearer modes of communication, and, where possible, the ease of red tape all contribute to a clearer and more accessible supply chain. These factors will not only aid green entrepreneurship but also raise its profile globally.

6 Conclusions

This exploratory study illustrated the positive influence of governmental supportive policies (i.e., environmental, innovation, and entrepreneurship policies) on green entrepreneurial activity in Saudi Arabia. Institutional economics was used to theoretically frame our literature review and analysis. This was complemented with an empirical approach based on balanced panel data for the 2014–2018 period. Our results revealed that the three analyzed factors are important for green entrepreneurship across cities in Saudi Arabia.

These findings have several implications for different audiences. First, national and local governments are encouraged to adopt influential and suitable policies to develop entrepreneurial activities that solve environmental problems. Thus far, governmental supportive policies have strongly influenced environmental commitment and solving environmental issues in Saudi Arabia. This accomplishment may encourage government staff and managers from private companies to create new policies and strategies that improve policy instruments and public–private collaborations that attract entrepreneurs. Second, governments need to help create an environment where entrepreneurs engage with environmental commitments. For example, governments can increase the emotional engagement of green entrepreneurs by building strong bonds with managers or colleagues from other companies, as well as with other new ventures.

Green entrepreneurship can be cognitively engaged by understanding the clear mission and purpose of new business and by receiving information and appropriate feedback regarding social needs. If green entrepreneurs have strong bonds with governments, they feel valued by local and national entities, so their opinions and actions are highly considered in sustainable developmental processes. This allows entrepreneurs to internally develop an emotional engagement that aids a new venture to succeed concerning its goals. Additionally, government support for green entrepreneurship is beneficial for a more sustainable environment. This may be the first step toward a more environmentally conscious society and for the conservation of resources for future generations. The government of Saudi Arabia, in particular, should continue to promote such policies. They may be interested in publicizing the results to increase legitimacy and support from managers and the entire population. Practitioners in nongovernmental organizations and businesses could claim the need for similar regulations and measures, including fiscal benefits and founding green actions.

Despite these findings and implications, this research has also some limitations. Initially, as we explored the relationship between governmental supportive policies and green entrepreneurship, which is represented by environmental commitment in Saudi Arabia, considering other government policies that may affect green entrepreneurship would be beneficial. These policies may be related to the taxation system or financial structure, along with other aspects. Second, we used secondary data over 5 years (2014–2018), so subsequent studies should focus on a longer time frame to enable long-term analyses. Third, future research may be interested in extending the analysis to cross-country comparisons (for example, by examining other regions in the Arab Gulf). Fourth, we do not have a database for sustainable entrepreneurship in Saudi Arabia, so future research could experiment with various proxies for green entrepreneurship. Limited data sources are a challenge faced by researchers, particularly when attempting to conduct cross-country comparisons. Due to the limited number of indicators and the differences in measurements across countries (Schillo et al. 2016), further efforts are necessary to gather homogenous data relating to antecedents and consequences of green entrepreneurship. As for the existing measurements, future research should improve the quality and scope of the indicators for both dependent and independent variables. This may increase reliability and enable the analysis of causal relationships in cross-sectional data (Urbano et al. 2019b).

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The Role of Modern Technologies on Entrepreneurship Dynamics Across Efficiency and Innovation-Driven Countries

Mindaugas Laužikas and Aistė Miliūtė

Abstract The present research paper is focused on global trends of modern technologies (such as blockchain, mechatronics, IT, artificial intelligence, and augmented or virtual reality) that affect entrepreneurial activities in the short and long run. Research on technology's effects on business development is gaining momentum.

To examine the role of modern technologies on entrepreneurship dynamics in high-income countries, the authors conducted semi-structured qualitative interviews with 16 entrepreneurs from 4 countries (4 entrepreneurs per country, of which 8 came from countries that entered the EU in 2004 [Lithuania and Malta] and 8 from innovation-driven Canada and South Korea. We backed the conceptual matrix of modern technologies' effects on business with the GEM data for South Korea and Canada and paired GEM countries to Lithuania and Malta (Poland and Latvia for Lithuania and Cyprus for Malta).

The purpose of the research is to examine the role of modern technologies on entrepreneurship dynamics in high-income countries (in the efficiency and innovation-driven categories). *The research question* is how to leverage the economic and social value-added of entrepreneurship activities via modern technologies, create synergy among stakeholders, and reach business sustainability. *Our methodology* combines primary and secondary data analysis: The literature review and secondary GEM 2018/2019 data were supported by primary, qualitative, and semi-structured interview results with technology-driven entrepreneurship experts from four high-income countries (Lithuania, Malta, Canada, and South Korea), which backed the conceptual model created after the scientific literature review and GEM 2018/2019 data analysis.

Keywords Entrepreneurship · Modern technologies · Social value · Business sustainability · Efficiency-driven countries · Innovation-driven countries

M. Laužikas (✉) · A. Miliūtė
Vilnius University Business School, Vilnius, Lithuania

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1 Introduction

The literature on the efficiency of modern technologies in business is currently gaining momentum, along with new market drivers, such as collaboration via digital hubs (while linking related and supporting industries), social innovation, corporate social responsibility, shared value economy, stronger environmental focus, the emergence of businesses (which are centered on organic and natural production), healthcare/well-being, and demographic challenges as well as the interdisciplinary, multifaceted concepts of entrepreneurial activities. Consumers' sophistication and the above-mentioned trends encourage entrepreneurs to focus on the quality of products via collaboration and knowledge-sharing among stakeholders. For instance, according to Hal Wolf (2019), HIMSS president and CEO, it is critical to bring innovators together to an open source platform that enables knowledge and resource-sharing and new concept development. Aziz et al. (2017) underscore the role of legal harmonization of innovative organic/natural products because legal framework conditions are developed and harmonized at a slower pace than technological and research functions.

Considering demographic changes, in order to create brand awareness and market share, entrepreneurs should focus on gathering community and engaging millennials via modern technologies. The spread of modern technologies' culture reflects millennials' characteristics. For instance, observation of over 70 millennials led Kurian et al. (2017) to a description of the millennial consumer, covering a set of traits such as technology-intuition, focus on a holistic approach, orientation to the newest technological solutions, insufficient consistency and sustainability in terms of career, the increasing role of culture and the willingness to optimize work-life balance, engagement in innovation processes, and adaptability to volatile market conditions, as well as social innovation. Moreover, 84% of millennials indicated as important the opportunity to allocate resources to environmental, social, and governance challenges (Morgan Stanley Survey 2018) as well as security and digitalization.

The analysis of the role of modern technologies on entrepreneurship calls for social value-added aspects, such as job creation, social inclusion, higher quality of living (Santana 2017), and technology-based entrepreneurship, which could help contribute to sustainable regional policies and social innovations. Social entrepreneurship is also seen as important by the International Finance Corporation (2019); the encouragement of young social entrepreneurs would be impossible without technologies uniting investors, legal policy experts, and social innovation enhancers. The availability of resources can be increased by projects employing specialists of different ages, which helps different generations achieve synergy among themselves.

Education is another key entrepreneurship condition for generating economic and social value-added. The European Commission expert Duell (2018) addresses the role of education on business development, which can manifest in forms such as training, counseling, mentoring, coaching, financial support, and many others.

Therefore, knowledge and competence enhancement are critical for potential young entrepreneurs. Synergy among different generations can only be reached via digital hubs where each generation enables cost-cutting, higher quality, and greater social value. Therefore, closing generation gaps can lead to business sustainability, effectiveness, and efficiency. Moreover, younger generations can help to select and use modern technologies, while more experienced experts can help younger entrepreneurs to apply business intelligence tools, to make effective solutions, and to execute and achieve higher productivity/profitability.

The review of research regarding technology's effects on entrepreneurial success (Saura et al. 2017; Etzioni and Etzioni 2016; Diakopoulos 2016, etc.) illustrates that some key entrepreneurship concepts were first defined in the past 3–5 years. Thus, many technologies, trends, and approaches to technological efficiency must still be investigated further (including artificial intelligence, digital hubs, robots, and augmented reality), while key strategic collaboration projects can prompt innovation, cut costs, and create greater value for future generations. Based on the Accenture Technology Vision (2019), distributed ledger technologies, artificial intelligence, extended reality, and quantum computing are those technologies which should be implemented in cutting-edge enterprises in order to attain sustainable growth.

Human resources link consumers with advanced technologies and help manage big data sets. Aunjum et al. (2017) highlight the importance of human resource and talent development, inspiring employees, creating community spirit (Husain 2013), improving communication (Shanga et al. 2017) and team-building capabilities (Luthra and Dahiya 2015), along with developing team creativity, innovation, and talent (McEwan et al. 2017). The trend of digitalization will affect 67% of HR experts in a few years' run because of the growing demand of business intelligence instruments and analytical tools.

2 Conceptual Framework Development

Liaisons between modern technologies and entrepreneurship activities are tackled in scientific literature from different angles and in rather diverse contexts. Some authors, such as Bahena-Álvarez et al. (2019), emphasize the role of social entrepreneurship in the context of innovation (while tackling more the social value-added aspect of technologies); Berger (2016) analyzes the digital transformation in a specific industry (healthcare); Bom et al. (2019) address the topic of business sustainability (while focusing on cosmetics). Maduro et al. (2018) and Richter (2016) scrutinize the role of social impact investment, which may be an important prerequisite for entrepreneurship sustainability (if managers' and investors' interests are met), while Wendt (2017) goes one step further and monitors impacts on social stock exchanges. Thus, technologies can play an important intermediation and/or knowledge-sharing role among various stakeholders as well as bring more visibility and reduce information asymmetry.

The collaboration aspect is also related to social value creation: Sørensen and Torfing (2013) examine social value creation via collaboration, leadership, and public governance, while Wahid et al. (2019) cover social entrepreneurship aspiration aspects among educational organizations (Malaysian university students), which affect both technological competences and attitudes. Wascher et al. (2018) cover an important function of R&D transfer, while specifically focusing on social innovation labs as a starting point for social innovation. Hahn et al. (2016) emphasize more expansive R&D and marketing in parallel to investment efficacy and efficiency as well as more interactive knowledge-/resource-sharing communication among stakeholders. Ferguson et al. (2016) emphasize the role of high-tech and low-tech combination, which becomes more feasible thanks to digital networks and strategic collaboration.

Many scholars are focusing on analysis of technology's impacts via characteristics of various generations. For instance, Accenture's research, presented by Thompson and Blomquist (2017), identified the main characteristics of millennial investors, while Doorley (2019) examined the value-added of investment in youth, which is in line with Mashini and Cousin's (2017) insights on the role of young leaders and cooperative entrepreneurs. Some scientists, such as Santana (2017), investigate the dynamics of entrepreneurship in a region (for instance, the Mediterranean region), which reveals the importance of cultural and social norms within technology-entrepreneurship symbiosis. Some authors, such as Steigertahl and Mauer (2018), address a set of diverse aspects of this symbiosis via analysis of start-up dynamics.

In light of the postdigital revolution (Accenture 2019), companies face the issue of preparing their employees for more intensive usage of modern technologies or the changing role of human resources (KPMG 2019), along with embracing the phenomenon of digital marketing (Saura et al. 2017) and/or attention to holistic framework models of entrepreneurship conditions (GEM 2019). Moreover, special attention should be paid to education (Mykhailyshyn and Kondur 2018) given its strong liaison with cultural and social norms and the educational power of realigning attitudes and of perceptions of youth because education's effects are more pertinent when creative leaders connect various stakeholders (Uusi-Kakkuri 2017) via modern technologies. Innovation potential could be unleashed via collaboration between educational organizations (universities and schools) and businesses. According to Lyons (2015), before investment in new technologies or upgrading the existing ones, it is important to develop a creativity system and innovation culture first as well as contribute to the acknowledgment of technology's effects at each hierarchy level.

While emphasizing culture first, then focusing on technology and strategy, it may be easier to reach equilibrium among stakeholders' expectations (between individual and organizational goals). The creative leaders' role in encouraging the use of modern technologies, realigning attitude, and linking stakeholders can be described as transformational. For example, Uusi-Kakkuri (2017) focuses on transformational leadership as the intermediary enhancing the creativity and innovation culture.

Yonazi et al. (2012) add modern technologies' value-added in gathering community and realigning cultural and social norms; engaging society is also highlighted by Gálvez-Rodríguez et al. (2017). To use the untapped potential of modern technologies, it is crucial to understand the context of a country (particularly the social capital dimensions or cultural social norms), or more specifically fear of failure, social trust, and ethical and moral norms (Singh et al. 2017). Paynton et al. (2016) note that technologies facilitate more interactive and transactional communication; thus, it requires more improvisation and tolerance of mistakes and failures. Digital media technologies and various collaboration initiatives are emphasized by Jain and Yadav (2017) with a focus on social value-added or solving social challenges of various communities (Zaimova et al. 2012). Companies are encouraged to monitor their progress in creating economic and social value (Ferguson et al. 2016).

While supporting the conceptual framework of the scientific literature review, we have structured the research data accordingly (see Fig. 1). In terms of modern technologies' enhancement and development, the research relied on certain indicators. Improvement-driven opportunity/necessity motif, fear of failure, and perceived opportunities/perceived capabilities are related to national characteristics, which work as technological enhancement conditions, while intrapreneurship, innovation (how many entrepreneurs consider their business innovative and niche), a shared value economy, and GIGS are used as indicators of the perception, attitude toward technological improvement, and innovation development performance.

The pillars of the conceptual model were built relying on ten previous studies conducted by Lauzikas, Miliute, and other colleagues (for instance, Lauzikas and Mokseckiene 2013a, b; Lauzikas et al. 2015, 2017) as well as another ten scientific

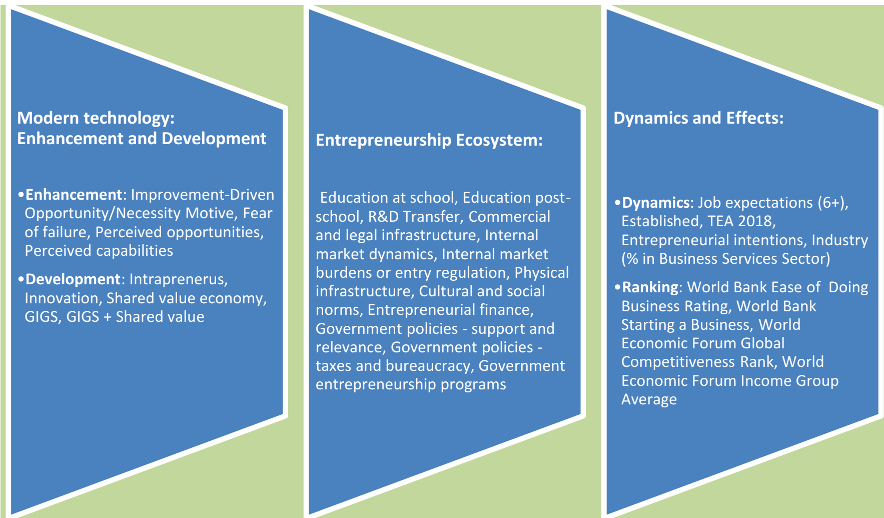

Fig. 1 The conceptual framework of technological impacts on entrepreneurship. (Source: Authors' own figure, based on GEM report 2018/2019)

literature sources related to key drivers and supporting infrastructure for entrepreneurship. While focusing on practical technological entrepreneurship practices, Badzinska (2019) linked academic and intellectual entrepreneurship with the entrepreneurship of commercial organizations implementing new technologies and innovative business solutions. Palma-Chorres and Montiel-Campos (2016) proved the existing relationship between creativity and innovation among 103 new technology-based firms. Sołtysik et al. (2019) linked technology with entrepreneurship via innovation for sustainable entrepreneurship and relied on empirical evidence from the bioeconomy sector in Poland. According to Sołtysik et al. (2019), innovation commercialization's success depended on many external and internal factors that may lead to more sustainable production and consumption models. Thomas et al. (2019) pointed out that a well-established ecosystem with a corresponding strategy and policy is necessary to develop entrepreneurship in a digital economy in a sustainable way.

The success of entrepreneurship activity may depend on digital technology diffusion, which can be enhanced by policy makers, R&D transfer mechanisms, or organizations that can provide advice and information regarding various development challenges. During the United Nations Conference on Trade and Development, the Enterprise and Development Commission (2018) emphasized the role of technology and innovation for the sustainability of entrepreneurship. Firms' ability to combine science, technology, and innovation can help to improve productivity if an adequate ecosystem of support conditions and organizations is established, technology-driven communication among stakeholders is smooth, and governmental programs and policies support technology usage among entrepreneurs. Such implications are in line with the findings of Karlsson et al. (2019) regarding the success of entrepreneurial ventures, considering a set of factors, such as location, networking, knowledge spillovers, and institutions that could be efficiently connected via modern technologies. To continue, Mazzarol (2014) relates entrepreneurial success to fostering the growth of the entrepreneurship ecosystem, which should be among the key priorities of local governments.

First, entrepreneurship education, knowledge sharing, and a lifelong learning system should be sufficient for technological skill enhancement across various organizations supporting entrepreneurship (in particular education, Lauzikas and Miliute 2017). Meanwhile, Militaru et al. (2015) connect the dimensions of technology and entrepreneurship sustainability via scientific and technical knowledge, which is necessarily a career choice and communication with other stakeholders in big technology-driven networks. Second, technology should be effectively and efficiently used by various organizations, related to GEM 2018/2019 entrepreneurship framework conditions (programs, policies, finance, etc.), which are involved in entrepreneurship enhancement. In-line with Gabor's insights (2019), we also rely on entrepreneurial framework conditions (described by Global Entrepreneurship Monitor 2018) as vital for the entrepreneurship ecosystem because they affect entrepreneurial opportunities, capabilities, choices, and the entrepreneurship dynamics of an economy.

The usage of modern technology is becoming more organic and natural for stakeholders; thus, to engage citizens and entrepreneurs and to gather community, organizations that directly or indirectly support entrepreneurship must use modern technologies (including social media, digital hubs, blockchain, and apps) in order to achieve the strategic collaboration synergy effect and greater economic and social value-added (Lauzikas and Miliute 2019a). Nambisan (2019) adds that digital technologies can form a hub that facilitates connections between diverse ideas and leads to faster and more innovative solutions for various challenges as well as potential synergy among stakeholders.

The conceptual model of this chapter is also related to a recent study regarding the transformational function and style of communication: Technology-driven communication is becoming more intuitive, transactional, and transformational; governmental programs and policies makers should understand that entrepreneurial ventures' success is measured by its growth, innovation, and sustainability (Lauzikas et al. 2012, 2013, 2014; Lauzikas and Miliute 2019b).

To test the conceptual model, the secondary data from various studies was collected and analyzed, which led to the collection of primary data with the aid of semi-structured interview questions (derived from the scientific literature review), which backed the conceptual model of this chapter.

3 Methodology

To examine the role of modern technologies on entrepreneurship dynamics in efficiency and innovation-driven countries, we conducted semi-structured qualitative interviews with 16 entrepreneurs from 4 countries (4 entrepreneurs per county, of which 8 came from efficiency-driven Lithuania and Malta and 8 from innovation-driven Canada and South Korea). The authors backed the conceptual matrix of modern technologies' effects on business with the GEM 2018/2019 data for South Korea and Canada and paired GEM countries for Lithuania and Malta, such as Poland or Latvia (Peers of Lithuania) and Cyprus (which incorporates similar development trends as Malta).

Moreover, we intend to rely on the positive experience of similar countries/peers (Cyprus for Malta and Latvia and Poland for Lithuania) which entered the EU in 2004 and experienced similar development trends due to common regulations and structural fund mechanisms. Canada and the Republic of Korea were chosen as examples of economic leaders in terms of innovation and the successful usage of modern technologies. Therefore, our chapter is relevant and adds value to both policy makers and entrepreneurs who offer or apply modern technologies for greater economic and social value-added.

Qualitative experts' insights were of significant value to our investigation, while primary qualitative semi-structured interview results were useful for both entrepreneurs and experts of governmental programs and policies. Research results also contributed to the development of technological organizations that can link their stakeholders via new technologies and strengthen their performance via innovative strategies.

All 16 experts represented higher-income countries, based on the GEM 2018/2019 Global Report; they had a similar perception and knowledge regarding modern technologies (thanks to their entrepreneurship and technology usage experience in the compared countries) and provided important arguments regarding technological impacts, including economic and social value-added. The comparative analysis of the selected countries via comparison of GEM 2018/2019 data, World Bank 2019, Global Competitiveness Rank for 2018 (World Economic Forum 2019 by Schwab), and semi-structured expert interviews led to pertinent recommendations for both the countries that entered the EU in 2014 (Lithuania, Malta, Latvia, and Poland) and global innovation leaders of different continents (for instance, Canada and the Republic of Korea).

4 Assessment

4.1 Technology Effects Among Countries

The development axis of this chapter is centered on three factor groups: technology as an exogenous factor, dynamics and effects as endogenous factors, and all the GEM entrepreneurship framework factors can be related to the infrastructure of organizations contributing to entrepreneurship dynamics. While describing the impacts, we intend to track the world's rankings or indicators for entrepreneurship dynamics. The input dimension (which is rather diverse among the analyzed countries) shows the technological advancement level. For instance, shared value economy and GIGS are particularly prominent in South Korea with 6.2% and 14.3% of adults involved respectively, while innovation (niche and innovative products) is higher ranked in Malta's peer Cyprus (7/48) and Canada (5th out of 58), South Korea is ranked 17th, and Lithuania's peer Poland stands at the 45th position. As may be expected, the innovation-driven entrepreneurs from Poland and Cyprus were more capable in identifying opportunities, which translate to the fourth and fifth opportunity/necessity positions respectively. In order to catch up, Polish adults, similar to other representatives from CEEC, must be faster and braver in identifying and commercializing innovative ideas; thus, the negative effect of fear of failure should be mitigated by self-esteem and motivation programs. In terms of intrapreneurship, Canada, with experts' valuations averaging 8.6 (GEM, 2018/2019), has the opportunity to unleash intrapreneurs' potential and help them shift to diverse career choices (including independent entrepreneurs).

In order to better understand and explain the potential technology impacts on entrepreneurship dynamics in efficiency- and innovation-driven countries, we intend to check the GEM 2018/2019 data on the role of intermediary factors from entrepreneurship framework conditions, which in our conceptual model is related to the role of various organizations. Later in this chapter, we will examine how modern technologies help these organizations contribute to the entrepreneurship dynamics of a country. The context of the strongest dimension within the entrepreneurship framework conditions' model should be further examined because of its role on business development and the efficiency of technology usage in corresponding organizations. Meanwhile, the weakest areas can be improved via modern technologies. For instance, the Baltic State Latvia (which is culturally and economically rather like Lithuania), along with Canada, should investigate the usage of modern technologies at schools. Cyprus has a stronger advantage in terms of education at the postschool level. The positive experience of the leading countries in terms of promoting an entrepreneurial culture among educational organizations (including the technological aspect of education) should be taken into consideration at the school and postschool level in South Korea (13th and 37th, respectively) and Poland (36th and 43rd, respectively).

Along with entrepreneurship-related educational practices, the selected high-income countries should pay attention to cultural and social norms in Canada (ranked 13th), where entrepreneurship dynamics are enhanced by cultural and social norms. Thus, one of the objectives of our independent qualitative semi-structured expert interviews was focused on technological efficiency in organizations dealing with cultural and social norms. South Korea and Poland should check and apply positive experiences of commercial and legal infrastructure improvement from higher-ranked Cyprus (14th) and leading Canada (6.07; 3rd out of 54) or Latvia (6.03, GEM average – 4.90). The government of Poland should focus more on orienting policies (taxes and bureaucracy) toward entrepreneurship, as according to this condition, this county occupies only the 44th position; while Cyprus should offer more entrepreneurship programs (40/54) as that might diminish other framework conditions. Apart from centering entrepreneurship enhancement around physical infrastructure, Baltic countries such as Poland (7.22, 9/54) and Latvia (7.02; GEM average – 6.32) should strengthen one of the most important dimensions of the entrepreneurship framework conditions – R&D transfer. Based on GEM data, Poland is ranked 32nd, while Latvia's value of 3.98 only slightly exceeds the GEM average (3.95).

It is interesting to note that, based on the GEM NECI index, the analyzed EU countries that entered the European Union in 2004 (Poland, Latvia, and Cyprus) are positioned at rather similar ranks (24th, 22nd, and 27th), which may be related to EU regulations and cohesion mechanisms; however, the examples of the Republic of Korea and Canada, in particular how to stimulate knowledge transfer from educational organizations to business via intermediary entities, may be of significant interest (as these countries are ranked 14th and 12th respectively). A similar situation is based on the Global Competitiveness Rank for 2018, provided in the Global Competitiveness Report by Schwab during the World Economic Forum 2019 (South Korea – 15/140, Canada – 12/140; Lithuania – 39th, Poland – 37/140; and Cyprus – 44/140) or World Bank Starting a Business (South Korea – 95.83/100, rank: 11/190; Canada – 98.23/100, rank: 3/190; Lithuania – 93.18, rank: 31/48; Poland – 76.95/100, rank: 33/190; and Cyprus – 91.24/100, rank: 52/190).

The 2004 EU entrants experience rather similar trends due to the similar development stage and entrepreneurship framework conditions; however, collaboration, education, and technological advancement may lead to the success of Estonia, which is among the most innovative and cutting-edge countries in the world, while Lithuania is capable of achieving a relatively high ranking (14th), based on the World Bank Ease of Doing Business Rating (International Bank for Reconstruction and Development/ the World Bank 2019). A high GEM ranking in terms of entrepreneurship intentions should be focused on by every nation in order to understand motives and characteristics of potential entrepreneurs as well as help them in business development processes. Among the selected countries, South Korea is ranked 13th, based on entrepreneurial intentions, which leads this country to occupy the second position (according to internal market dynamics) and calls for investigation about how the Republic of Korea encourages sustainability and a positive dynamic in entrepreneurial activities.

While using the potential of the strongest link of framework conditions and strengthening the weakest categories of factors through relying on the positive experiences of the leading countries, we make an assumption that the only way to enhance entrepreneurial conditions is via efficient use of technologies and education (Table 1).

4.2 Investment in Modern Technologies

Among the most frequently mentioned technologies, the dominant is IT (including blockchain, mobile applications, digital hubs, and embedded solutions). The experts also include augmented reality, virtual reality, artificial intelligence (as a part of IT), nanotechnologies, biotechnologies, mechatronics (which is also related to artificial intelligence), and lasers in modern technology. They all admit that within 3 years, the human resource development functions should transform from uniquely taking care of recruiting, remuneration, creativity enhancement, motivation, and career development to an intermediating between technologies and clients/customers.

Four experts from the Republic of Korea, three experts from Canada, and two experts from Lithuania and Malta emphasize the role of a shared value economy and strategic collaboration, which is critical for entrepreneurs to grow sustainably as well as to achieve synergy among stakeholders. Notwithstanding clear differences in development between efficiency and innovation-driven economies, all the experts identified the same development drivers in the four examined countries, such as CSR, social entrepreneurship or social value-added, environmental protection, shared value economy, collaboration, and high-tech solutions. South Korean and Lithuanian experts focused more on a shared value economy, lasers, biotechnologies, and IT (software applications), while Maltese and Canadian experts emphasized technologies, such as blockchain, i-gaming, and collaboration technologies. This cleavage was mainly found in inherited specialization of each country.

Table 1 Effects of modern technologies on entrepreneurship dynamics (comparison of GEM and other indices)

Modern technology	Republic of Korea	Canada	Poland	Cyprus
Perceived opportunities	45.7 (23rd out of 49)	63.0 (9th out of 49)	68.5 (6th out of 49)	45.9 (22/ 49)
Perceived capabilities	49.7 (24th out of 49)	55.9 (12th out of 49)	46.6 (29T/49)	45.9 (33/ 49)
Intrapreneurs	3.6 (23/49)	8.6 (1T/49)	1.9 (34T/49)	5.4 (14/49)
Fear failure	32.8 (28th out of 49)	42.3 (12th out of 49)	31.1 (33rd out of 49)	48.5 (6st out of 49)
Opportunity/Necessity	3.2 (14T/ 48)	3.3 (13th out of 48)	6.6 (4th out of 48)	5.7 (5th out of 48))
Innovation	29.9 (17th out of 48)	41.3 (5th out of 48)	12.2 (45th out of 48)	38.6 (7/ 48)
Shared value economy	c.a. 6.2%	n.a.	c.a. 0.2%	c.a. 1.8%
GIGS	c.a. 14.3%	n.a.	c.a. 0.6%	c.a. 1.4%
GIGS + Shared value	c.a. 1%	n.a.	c.a. 0.1%	c.a. 0.5%

Dynamics and Effects	Republic of Korea	Canada	LT	Poland	Cyprus
Entrepreneurial intentions	31.0 (13/48)	14.5 (33/48)		9.5 (38/48)	15.3 (28T/48)
TEA 2018	14.7 (14/48)	18.71 (10/48)		5.2 (45/ 48)	3.9 (48/ 48)
Established	c.a. 12.5%	c.a. 7.5%		c.a. 12.6%	c.a. 5.1
Job expectations (6+)	12.8 (34/ 48)	20.7 (21/48)		11.5 (37/ 48)	22.4 (19/48)
Industry (% in Services)	6.9 (35/ 48)	14.7 (24/48)		20.1 (17/48)	25.4 (11/ 48)
World Bank Ease of Doing Business Rating (2019)	84.14/100; Rank: 5/190	79.26/100; Rank: 22/190	Rank 14	76.95/100; Rank: 33/190	71.71/100; R.: 57/190
World Bank Starting a Business (sub-index)	95.83/100; Rank: 11/190	98.23/100; Rank: 3/190	93.18 (31/48)	76.95/100; Rank: 33/190	91.24/100; R.: 52/190
Global Competitiveness Rank (2018)	15/140	12/140	39th	37/140	44/140

Entrepreneurship Ecosystem	Korea	Canada	Poland	Latvia (average GEM)	Cyprus
Education at school	3.4 (17/54)	4.13 (8/54)	2.73 (36/54)	4,13 (3,14)	3.25 (20/54)
Education post-school	4.36 (37/54)	4.78 (29/54)	4.03 (43/54	4,76 (4,79)	5.30 (13/54
R&D Transfer	4.01 (29/54)	4.8 (9/54)	3.77 (32/54)	3,98 (3,95)	4.17 (24/54)
Commercial and legal infrastructure	4.26 (45/54)	6.07 (3/54)	4.98 (27/54)	6,03 (4,90)	5.34 (14/54)
Internal market dynamics	7.2 (2/54)	4.24 (48/54)	6.71 (4/54	4,30 (5,27)	4.82 (33/54)
Internal market burdens or entry regulation	3.77 (38/54)	4.51 (20/54)	4.29 (26/54)	4,55 (4,20)	4.53 (19/54
Physical infrastructure	6.69 (21/54)	6.71 (20/54)	7.22 (9/54)	7,02 (6,32)	6.45 (29/54)
Cultural and social norms	5.12 (21/54)	5.58 (13/54)	4.84 (28/54	4,74 (4,84)	4.33 (40/54)
Entrepreneurial finance	4.66 (25/54)	5.27 (7/54)	5.24 (9/54)	4,78 (4,29)	3.77 (39/54)
Government policies: support and relevance	6.14 (5/54)	4.94 (14/54)	4.88 (15/54)	4,18 (4,37)	4.66 (19/54)
Government policies: taxes and bureaucracy	4.45 (17/54)	4.31 (20/54)	3.15 (44/54)	3,64 (3,88)	5.14 (8/54)
Government entrepreneurship programs	5.15 (17/54)	4.85 (21/54)	4.37 (29/54)	4,46 (4,49)	3.70 (40/54)
NECI	5.49 (14th)	5.54 (12th)	5.21 (24th)	5,21 (22nd)	5,09 (27th)

Source: Authors' own table, based on GEM 2018–2019 data, World bank 2019, Global Competitiveness Rank 2018

Taking into consideration that innovation-driven economies have relatively more developed research and development transfer mechanisms, it is not surprising that experts from the Republic of Korea and Canada did not emphasize the significance of R&D and focused more on horizontal communication efficiency among educational, R&D transfer, and entrepreneurial organizations. The experts from Lithuania and Malta mainly indicated the efficiency of R&D transfer organizations because the process of knowledge transfer and synergy creation among stakeholders is less established.

The experts' opinions regarding the main challenges entrepreneurs face while establishing and developing their entrepreneurial ventures differ from one country to another: Lithuanian experts emphasized the negative impact of fear of failure and insufficient social trust, which are a part of social capital; the Maltese experts underlined the limited supply of human capital from educational organizations and nepotism; while South Korean and Canadian experts paid more attention to competition, innovation climate, creativity, and alternative revenue sources.

Four experts representing South Korea, the leading country of the shared value and gig economy, argued that without modern technologies, it is impossible to improve quality, expand to emerging markets, or generate greater social value-added; Canadian experts emphasized the role of synergy among stakeholders via strategic collaboration and digital hubs. These aspects were discussed less by Maltese and Lithuanian experts (one expert from Malta and two experts from Lithuania), which show that these countries are on their way to establishing effective and efficient innovation processes. As could be expected, experts from smaller countries emphasized the role of expansion because of small niche markets, while development of bigger innovation-driven countries was centered on innovation performance and new alternative revenue sources.

The Korean and Canadian experts (three Koreans and three Canadians) drew more attention to innovation processes and leadership along with stronger marketing efforts of switching from niche to mainstream markets via digital hubs and collaboration. These experts also emphasized the importance of upgrading new technologies in parallel to process/product and service innovation: It is advantageous to upgrade technology at least once per 2 years, while innovation processes should be continuous with a well-established innovation and creativity-monitoring process tracking the commercialization process at least four times a year. The experts from Lithuania and Malta focused more on the establishment of innovation processes, climate, and creativity along with clear structure and philosophy/values. Most experts from leading innovation-driven economies (four respondents from South Korea and three respondents from Canada) easily described the process of how creative ideas are generated, selected, and implemented with an efficient creative ideas commercialization and monitoring system established where a special department is dedicated to innovation. The experts from Lithuania and Malta underscored the role of human resources supply, knowledge sharing, and the establishment of creativity systems: Seven out of eight experts from these EU counties focused on process innovations, which require a holistic understanding of strategic challenges and main market trends within the same industry.

While answering the question about what percentage of revenue a successful company should invest in key strategic departments to be edgy and innovative, the innovation-driven experts from innovation economies emphasize the role of marketing input (10–35% expenditure of revenue is oriented to marketing in the Republic of Korea and Canada, while R&D expenditure reads more than 20% of revenue among experts from innovation-driven countries). The inputs for HR from revenue in innovation-driven Canada and South Korea account for 10–35%, which shows the willingness of Canadian and South Korean entrepreneurs to engage and empower their employees. As could be expected, the experts from Malta and Lithuania stated that entrepreneurs should invest from 5% to 20% in R&D (from revenue), rather converging results regarding expenditure in marketing (10–35% in Lithuania and Malta), and rather mixed results in terms of HR expenses (Malta from 10% to 35%; Lithuania from 5% to 35%), which shows that Lithuanian entrepreneurs should pay more attention to innovative HR techniques, creativity enhancement, and talent development (Table 2).

Such results call for identification of the most important factors to commercialize innovative ideas, where seven out of eight innovation-driven experts from Canada and South Korea emphasize the role of key strategic partners and digital hubs, while EU members of Lithuania and Malta correspond more to quality of expertise and market demand. The research results led to the agreement that a successful company should continually invest a competitive input in R&D, marketing, and HR in order to be edgy and innovative, and it is relevant to both innovation and efficiency-driven companies.

4.3 Contribution of Modern Technologies to the Entrepreneurship Dynamic

In order to back the conceptual model deriving from the scientific literature review and GEM 2018/2019 data analysis, we intend to evaluate the role of modern technologies on entrepreneurship enhancement in organizations which directly or

Table 2 Innovation efforts in terms of types of expenditures (in numbers of experts)

Country	Expenditure	Innovation-driven economies					Efficiency-driven economies				
		0-5%	5-10%	10-20%	20-35%	> 35%	0-5%	5-10%	10-20%	20-35%	> 35%
South Korea	R&D				3	1					
	Marketing			2	2						
	HR			1	2	1					
Canada	R&D				3	1					
	Marketing			2	2						
	HR			2	2						
Lithuania	R&D							2	2		
	Marketing								2	2	
	HR							1	2	1	
Malta	R&D							2	2		
	Marketing								2	2	
	HR								2	2	

Source: Authors' own table, based on semi-structured interview results indirectly belong to the entrepreneurship ecosystem in the four analyzed countries (on a scale of 0–9 in each organizational category/factor group; where 9 is "particularly important" and 0 is "no impact").

The research results illustrated that modern technologies have a greater positive impact on R&D transfer organizations in innovation-driven Asia and North American countries (reaching an average value of 8.5 out of 9 in the Republic of Korea and reading 7 in Canada), compared to Lithuania and Malta with 5 and 4.5 respectively. Based on Korean and Canadian experts' insights, we found technologies also played a key strategic role on cultural and social norms in their economies (7.5 in South Korea and 7 in Canada, compared to 6.5 in Malta and Lithuania); this is mainly related to the positive contributions of digital hubs, while larger networks of stakeholders are engaged via video advertising, participative and social marketing, and digital education as well as the shared value economy (in particular in the Republic of Korea). The transformational communication function of modern technologies helps cultural and social organizations realign citizens' attitudes and perceptions regarding entrepreneurship as career and social value creation opportunities for future generations. Canada was slightly in the lead in terms of modern technologies' usage among organizations related to governmental programs and policies. The distribution of experts' valuations in terms of how technologies affect finance, commercial infrastructure, and physical infrastructure is not diverse from country to country (from 7 to 8.5), while in the areas of technological impacts on governmental programs and policies Canada is slightly in the lead compared to other economies. The research results gave the following insights for Lithuanian entrepreneurs: Technologies emerged as a key driver in the area of education (the average value of experts' answers was 7.5 for technological impacts on education), which indicates the untapped potential for Lithuanian entrepreneurs to use the available technologies oriented to information and knowledge-sharing as well as business intelligence opportunities, in particular, while strengthening collaboration between education/science, business, and citizens. Such a positive result regarding education-related technologies may be related to the orientation of the Lithuanian education system to entrepreneurship at the school level, with the average experts' evaluation of 2.37 compared to Europe's level of 2.12, and the average mark of 3.07 for postschool education compared to the average value of 2.82 in Europe (2014 GEM data). Although the GEM Lithuanian data for the period 2015–2018 is not available, the role of early-stage education on entrepreneurship in neighboring Latvia in 2017 was ranked 7th out of 54 participating countries (Fig. 2).

4.4 Modern Technologies and Intrapreneurship Dynamics

Another important dimension of entrepreneurship our qualitative expert research intended to examine is intrapreneurship. Most experts expressed the importance of mitigating risk via the combination of employment and entrepreneurial career choices. A significant fear of failure, accompanied by risk avoidance, was

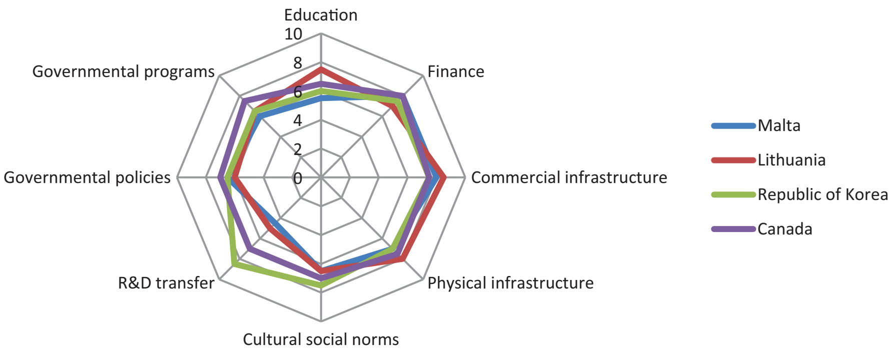

Fig. 2 The role of modern technologies on efficiency of entrepreneurship enhancement organizations. (Source: Authors' own figure, based on semi-structured interview results)

mentioned by four Lithuanian experts as the main reason why Lithuania has a significant number of intrapreneurs (based on 2014 GEM data, Lithuania had one of the highest percentages of adults involved in entrepreneurial employees activities among efficiency-driven economies – approximately 5% of the adult population). Most Lithuanian experts agree that it is important at least a few times a year to be involved in a vast spectrum of innovative projects. A similar situation was witnesses by the four South Korean experts, who were frequently involved in entrepreneurial projects, thanks to digital hub usage and shared value economy principles, where knowledge- and resource-sharing is a natural constitutive part of innovation processes – Korean experts emphasized both more enhanced competences of using those technologies and a positive attitude toward digital collaboration. Lithuanian experts admitted that many employees (particularly senior ones) are not willing to tolerate mistakes and communicate in a more linear communication style, which is partly related to limited social trust. Thus, intrapreneurship for many employees is related to the opportunity to combine security with creativity.

Six English-speaking Canadian and Maltese experts (three from Canada and three from Malta) identify intrapreneurship as a win-win situation where it is possible to reach an equilibrium between organizational and individual employees' expectations; however, the creativity enhancement system should be developed and innovation performance encouraged financially, psychologically, and socially. Only two experts from Canada and Malta refrained from emphasizing the role of technologies in creating reputation, social image, and motivation among employees.

It is interesting to note that experts' country profiles did not influence intrapreneurship and how technologies facilitate entrepreneurial projects: The organizational values, philosophy, ethical and moral norms, and cultural and social norms of a country play a more important role in technology usage within intrapreneurial processes. Moreover, experts from Canada and South Korea pointed out that entrepreneurial experience from previous employment is cumulative; thus, it leads to smoother business development processes as well as greater percentages of young entrepreneurial ventures becoming established businesses (passing the 3.5-year mark). In the case of Lithuania, the cumulative intrapreneurship experience is more related to employees' security and confidence, which is particularly important in the context of huge uncertainty avoidance and significant fear of failure. In the context of a small island economy (a very specific niche market), three Maltese experts mentioned technologies (in particular, mobile applications) as the most efficient tool to reach clients from distant geographical regions as well as facilitate the information absorption process during big data management.

All experts agreed that whether an intrapreneur had shifted to a status of independent entrepreneurs or not, modern technologies contributed to more effective and efficient strategic collaboration among various stakeholders as well as helped create synergy among stakeholders. The latter was particularly deemed important by innovation-driven Korean and Canadian experts (seven out of eight experts).

4.5 Importance of Modern Technologies Within Strategic Goals

It should be taken into account that strategic collaboration is channeled via new digital and technological channels, which put pressure on entrepreneurs to pay more attention to a set of market trends, such as social impact, shared value economy, social entrepreneurship, environmental protection, healthcare, social innovation, corporate social responsibility, digitalization, and robots. The shared value economy via digital hubs was mentioned by South Korean and Canadian experts (four and three experts respectively): It accelerated sales of goods and services or led to profound knowledge while working for a shared-value business. Qualitative research results are in-line with GEM data for 2018/2019, where 6.2% of Korean adults sold their goods or services via digital share value platforms and an even bigger percentage (14.3%) worked for shared-value networks. As could be expected, these figures are much lower in the analyzed EU countries: for instance, 0.2% and 1.8% respectively in Poland and 0.6% and 1.4% respectively in Cyprus. The cases of Poland and Cyprus are used as peers for Lithuania and Malta, which did not participate in GEM data collection over recent years. All the experts from innovation-driven countries added the importance to upgrade the shared-value digital platform at least once every 2 years, as technology should be as advanced and powerful as it can be to enable smooth communication. The Lithuanian and Maltese experts were proud of international-level expertise among IT specialists; however, six out of eight experts in these efficiency-driven countries emphasized the insufficient supply of IT graduates for international investors in the case of Lithuania and the importance of attracting IT specialists from abroad for Maltese companies (in particular, the i-gaming industry).

While the consensus among the experts is that specificity of cultural and social norms affects the way entrepreneurs use modern technologies in their business, the next group of research results describes the key impacts of modern technologies on sustainability and success of entrepreneurship or how experts from different economies perceive these technological effects and business sustainability through technological improvements. The Maltese experts, more than experts from other countries, emphasized the economic value-added of implementation of modern technologies within business development: The Maltese experts placed an average value on technological impacts in the context of execution of strategies in order to break even at 6.5 out of 9. They indicated that it then helps to switch from the niche to the mainstream market and survive for at least 3.5 years (the average values of 6 and 7.5, respectively). Although the Maltese economy positively contributed to the economic impacts of entrepreneurship sustainability thanks to a unique fiscal policy and attention to specific technological industries, technologies are not effectively and efficiently used in knowledge development and sharing, affordability of products, harmony with nature, healthy living and environmental protection, communication during times of change, creativity and innovation systems, and meeting stakeholders' expectations (Fig. 3).

All these social contributions of modern technologies to business development success are insufficiently achieved in Malta compared to Lithuania, Canada, and the Republic of Korea. The Maltese experts particularly emphasized the untapped potential of modern technologies in protecting the natural environment and enhancing the creativity and innovation system (6 and 5.5 respectively). The Canadian and South Korean experts, more than the Maltese and Lithuanian experts, drew attention to an engaged society (8 and 8.5 respectively), the creativity and innovation system (7 and 7.5 respectively), stakeholder's expectations (8.5 and 7 respectively), social value-added (8 and 7.5), and knowledge development and sharing (7.5 and 7) as well as to communication during times of change (7 and 7.5 respectively). The effects of modern technologies on healthy living and environmental protection as well as stakeholder's expectations achieved the highest average value in Canada. It is interesting to note that the Lithuanian experts, more than respondents from other countries, focused on affordable and accessible products for socially vulnerable groups.

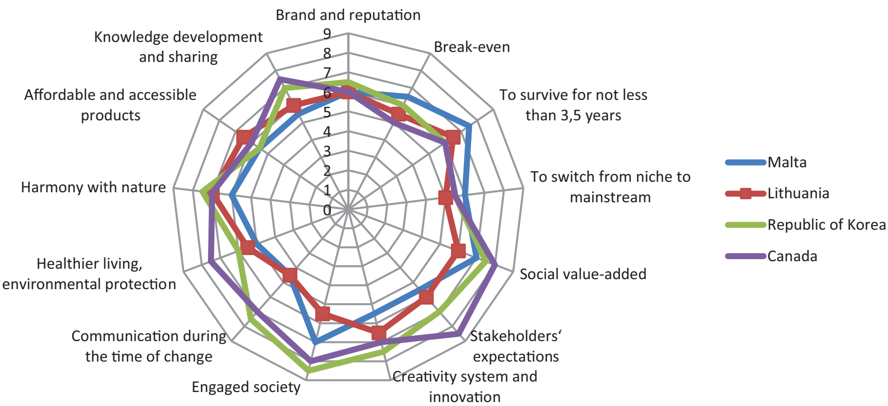

Fig. 3 Importance of modern technologies within strategic goals (9 refers to particularly important, 0 – no impact). (Source: Authors' own figure, based on semi-structured research results)

4.6 Inputs and Outputs of Modern Technologies

Experts' answers led to the conclusion that business sustainability can be measured based on both social and economic criteria. Sustainability is related to the equilibrium of social and economic value-added as a concrete tangible benefit for future generations. In terms of sustainability, innovation-driven experts stressed the shared value economy, synergy among stakeholders, and harmony with nature more, while the EU experts emphasized the value created for socially vulnerable groups more. All experts agreed that technologies help people communicate, share, and analyze data and simply find more intelligent solutions.

In order to summarize the research results, we backed the conceptual model, derived from the literature review and GEM data analysis, with pertinent qualitative research implications. The matrix of technology inputs and outputs focused on microcriteria. Experts came to believe that, despite the efficacy and efficiency of entrepreneurship enhancement, entrepreneurs should focus on effective distribution of available input/cash among key departments/areas which are critical for sustainable growth. Therefore, while using the available support and assets of the entrepreneurship ecosystem (including help from organizations from areas such as education, finance, commercial infrastructure, physical infrastructure, cultural social norms, R&D transfer, governmental policies, governmental programs, and other organizations), it is not likely to be sustainable and consistent in terms of strategic targets without a certain level of input in R&D and innovation, marketing, and/or human resources. These efforts might help entrepreneurs break even, create brand awareness/image, enter the niche market, compete in terms of profit margins, diversify their product portfolio, be the leading player in each segment or a business area, expand internationally, and create social value to employees, clients/customers, and other strategic partners. Experts agree that sustainability is possible only via a combination of positive and negative externalities, in parallel to the balance of the economic and social effects of technologies. Acknowledgment of the sustainability effects of technologies varies from country to country; however, experts from each economy agree that the easiest way to measure entrepreneurship sustainability is to track how many entrepreneurial ventures are able to surpass the 3.5-year development mark (Fig. 4).

5 Conclusions and Recommendations

This chapter examines the role of modern technologies on entrepreneurship dynamics in high-income countries (in the efficiency and innovation-driven categories). This study presents new evidence from qualitative semi-structured interview results with technology-driven entrepreneurship experts from four high-income countries, and helps us understand how to leverage the economic and social value-added of entrepreneurship activities via modern technologies, create synergy effect among stakeholders, and reach business sustainability.

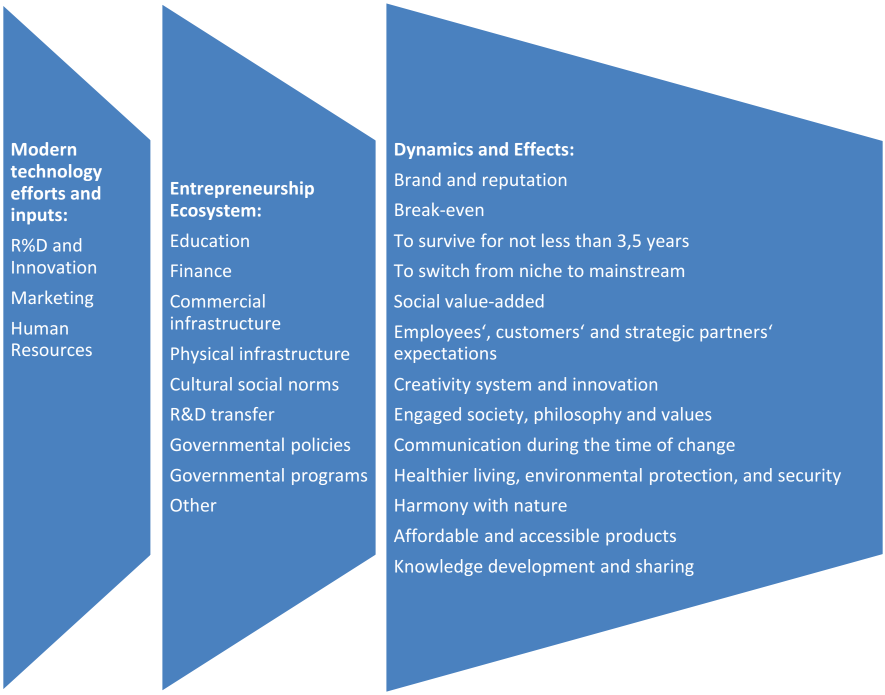

Fig. 4 Inputs and outputs of modern technologies for sustainable growth. (Source: Authors' own figure, based on semi-structured research results)

Modern technologies penetrate other industries at a volatile and rapid pace: The function of human resources will shift to an intermediary role between customers and next-generation technology solutions. Digital platforms (thanks to shared value economy principles) should enable entrepreneurs, managers, investors, employees, and customers through a reshaped perception/attitude and high ethical and moral standards. Such technological transformation is impossible without lifelong learning. Thus, the change should start from the level of management and creative leadership. The decision-making process should come from a bottom-up and/or horizontal management approach, where society, community, customers/clients, and employees can contribute to effective strategy formation and execution where technology, production, and value creation are part of synergetic collaboration and knowledge/resources sharing.

To leverage the potential of modern technologies in entrepreneurial projects, it is critical to know and speak investors' language, which helps to raise funds, commercialize innovations, and create a stronger corporate image, while modern technologies improve returns on investment in marketing/sales, R&D, and HR. Moreover, business intelligence techniques play an important role in business sustainability. The countries that lag behind in terms of educational impacts on entrepreneurship success should consider the creation of entrepreneurship-related study programs or the introduction of technological aspects in existing education programs (such as big-data management, artificial intelligence, mechatronics, or IT).

Countries that, based on the GEM framework conditions model or other global indicators, are higher ranked in terms of the role of education on entrepreneurship should focus on creativity and innovation enhancement systems. Tracking technology's effects on the success of study programs via business intelligence departments, in particular how modern technologies (such as blockchain, artificial intelligence, robotics, and IT) affect education popularity, social image, and learning efficiency, may be more sustainable and effective rather than programs with a pure focus on wages. A part of remuneration for professors and creative leaders could be allocated for extra effort and success in terms of providing entrepreneurship-oriented, interactive, digital, and transformational lectures, which could help enhance the entrepreneurial spirit and realign attitudes of potential young entrepreneurs or current intrapreneurs.

Countries with strong education systems should also focus on knowledge transfer from educational organizations to business. An innovation system with significantly diverse entrepreneurship centers, knowledge and technology transfer organizations, business accelerators, and many other R&D transfer entities, can boost entrepreneurial intentions, help identify good opportunities in the market, encourage innovation commercialization processes, facilitate business growth, contribute to sustainability (larger percentage of established businesses), strengthen brand and reputation, and engage consumers and employees via digital networks.

While targeting socially vulnerable groups, social entrepreneurs should not diminish the role of B2B marketing, because many aspects of social value creation require efficient communication with investors (high-standard professional language skills, application of modern technologies, understanding investors' expectation and knowledge resource sharing concepts, crowdfunding, or collaboration within international projects) as well as a combination of innovation, R&D, marketing, and HR strategies. Given the increasing role of big data management and business intelligence, technologies emerge as a useful tool for gathering community, mitigating the unpleasant effects of uncertainty avoidance and fear of failure, improving social trust (particularly when the technology suits the organizational and community culture), and helping create greater social value-added. In the context of strategic collaboration, authors of the present chapter recommend continuously tracking the market trends, having a clear consensus regarding strategic expectations among stakeholders, clearly explaining organizational philosophy, clearly identifying the responsibilities of each partner, and enhancing social trust and lifelong learning.

Finally, concerning methodological limitations, future research should continue to provide information on the impact of the role of modern technologies on entrepreneurship dynamics. To this end, multidimensional indicators about the economic and social value-added of entrepreneurship activities via modern technologies could be created with information on countries to determine the synergy among stakeholders and business sustainability in specific countries.

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Institutional Change: A Renewed Perspective on Grocery Stores Operation in Mauritius

Eric V. Bindah and Bryan Radegonde

Abstract The retail industry is characterized as being dynamic and especially recently the "rules of the game" for retailers seem to have changed. These changes in retailing as well as changes in its environment have become an increasing area of interest in research. Retail institutions may modify their strategies, formats, and retail activities to remain competitive and be able to serve and satisfy its customer segment. Worldwide, the technology, more precisely the Internet, is propagating at an increasing pace. All stakeholders of the society have somewhere used these developments to their advantage. For businesses, they are using these opportunities to build their strengths by innovating and creating an edge over competition. In the grocery retail sector around the globe many major players have used technology and the Internet to develop a new sale pitch. In fact, apart from their in-store activities they started to sell grocery on web portals to increase their revenue and face competition. In many countries this new business model has been successful as several advantages like time saving, convenience, and better information have been welcomed by customers. Online grocery shopping has been launched about 2 years ago in Mauritius, and till now, it seems that this concept is very unpopular in the country and many Mauritians are unaware about it. There are several factors like trust, risks, shoppers' behavior, advantages related, and attitude among others that contribute either to online grocery shopping success or failure. Consequently, it is of upmost important to explore these factors in the Mauritian context to know about the readiness and adoption dimensions. Big societies in Mauritius have invested massively in the development of online grocery shopping services, and after 2 years, it is high time to find adequate strategies for a real kickoff and upturn of these services. Failing to do so, both companies and customers will be deprived of new opportunities. For companies, the return on investment will stay low, which will in turn affect profitability leading to possible closure. Concerning customers, they will miss the opportunity of simplifying their shopping and other related advantages. The objec-

E. V. Bindah (✉)
Faculty of Law and Management, University of Mauritius, Reduit, Mauritius

B. Radegonde
Open University of Mauritius, Reduit, Mauritius

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tive of this study is to shed light about the readiness and adoption of online grocery section, and also go through a deep investigation of customer's view and opinion about the different factors mentioned earlier. The final recommendation will be directed toward online grocery shopping providers so that they get a better insight about the actual situation and what are the next moves to take for the buoy up of e-grocery in Mauritius.

Keywords Online grocery stores · Readiness · Adoption · Attitudes · Mauritius

1 Introduction

The Internet contributes to make the world a global village and has contributed reducing the distance between people. The growth of the Internet has amplified online shopping activities around the globe (Hill and Beatty 2011). Online shopping is among the latest trends in the commercial sphere giving increased outcome every year and the Internet has been used as a portal and an increasing amount of online trade every year has been noted (Kim and Forsythe 2010). About 50% of the internet users have purcahsed a product using online services, and online shopping was ranked third with regards to internet activity (Wu 2003; Li and Zhang 2002). Virtual market places are catering for all categories of products to meet shopper's need.

According to Lim et al. (2009), e-grocery can be defined as the set of Internet shopping activities which deal with only grocery products categories. It all started with the use of technologies to have an edge over competition because across the world the grocery retail is very competitive. Actually, existing grocery actors have all faced repeated attacks from new competitors, and they are always preparing themselves for the next wave of competitive threats. Online grocery retail is a new business model, and it is assumed that it will be financially viable in more markets than most stakeholders think, and sooner than they forecast. The best grocery retailers will innovate, survive, and thrive like they have done in the past. To meet the online risk, established retailers will need to improve their business's capabilities and those that prosper can gain at the expense of less well-prepared rivals.

Though online shopping has long been a question mark for bricks-and-mortar retailers (retailers limited to only physical setting) in other segments, so far it has had less significant impact on grocery retailers. But things are going forward, and online grocery is an option not to be put aside.

Mauritius has been declared since the early 2000s as a cyber-island, although e-commerce has taken some time to grow. However, nowadays there is faster growth in online services and today e-shopping forms part of Mauritians' way of life. E-commerce and related services have not yet bombed in Mauritius, nevertheless the tendency is gaining importance and is increasing in popularity among Mauritians, especially in the wake of the Covid-19 pandemic. Companies in the ICT sector have been introducing online portals for quite some time now. If the e-commerce appears to be progressing rapidly, there are two main reasons behind it: First, a greater number of Mauritians possess credit cards, compared to a decade ago, second, Internet access is widely expanding nowadays. There are also other factors that explain the upturn like increasing awareness for online shopping, particularly among the younger generation, greater responsiveness through the media and coverage, greater hi-tech diffusion, and the opportunity of saving time by having online transaction instead of loitering around the shops.

Nevertheless, knowledge in the e-grocery customer experience sphere concerning online grocery shopping remains ambiguous and uncertain which gives ground for research (Rose et al. 2011). Previous research has given rise to the development of a holistic model (Clark 2011), even though there are still difficulties in understanding e-grocery readiness and acceptance in real-life situation. The use of e-grocery services is completely different from other forms of online shopping. Therefore, it is of utmost important to explore the readiness and acceptance of e-grocery in Mauritius, as major grocery retailers are adventuring in this concept which requires massive financial investment.

This research attempts to gauge the degree of readiness toward grocery ecommerce among Mauritians, their attitudes and behavior toward this new grocery-buying medium in Mauritius, and their expectations from retailers. Moreover, the study identifies and investigates on the important factors that are likely to increase the adoption of online grocery shopping among consumers in Mauritius. The end result sought is to determine whether it is the right time for retailers to invest in grocery ecommerce and whether Mauritians are yet ready to adopt this medium of grocery shopping.

Past research stated that there is a linkage between perceived usefulness of websites and acceptance of information technology leading to acceptance of technology (Dishaw and Strong 1999). The general perception is that perceived usefulness affects intention to transact (Davis 1989). Gefen and Straub (2000) widely reject this relationship, saying that generally perceived ease of use should impact on intentions through perceived usefulness. Thus, exploring perceived usefulness and ease of use of e-grocery website in Mauritius is primordial.

The appealing factors and benefits of e-grocery are the backbone that contributes to the acceptance or rejection of e-grocery (Lederer et al. 2000). Therefore, as the research is focusing on acceptance and readiness, the appealing factors and benefits of e-grocery should be investigated in the Mauritius context to provide further clarity in this field.

With regard to the effects of perceived risk to buy e-grocery online, Huseynov and Yıldırım (2016) stated that risk can be a threat for the online purchase intention. Moreover, Bhatnagar and Ghose (2004) stated that the linkage between perceived risk and e-grocery shopping intention is clearly shown in empirical research. In broad-spectrum, perceived risk is negatively related to e-grocery intention. Therefore, it is important to study the risk dimension in Mauritius with regard to e-grocery to see whether there is the same relationship as portrayed in previous empirical studies.

The trust dimension will also be explored because it is an important factor of e-grocery. Moon and Kim (2001) asserted that trust has played a fundamental role in shaping consumer habits and high importance was given to it in ambiguous environments, such as in the e-grocery context. Lack of trust is a dominant factor why customers were not adopting e-grocery (Keen 2010). Therefore, it can be determined that the prominence of trust has been raised in e-grocery as many uncertainties associated with online grocery shopping (Fung and Lee 1999). As such, the prevalence of trust should be investigated in Mauritius when it comes to e-grocery.

Finally, the attitude dimension of customers toward e-grocery is also investigated in this study. Academics stated that e-grocery providers generate a favorable attitude toward e-grocery shopping as it decreases perceive risk and promotes e-grocery intention (Van Der Heijden et al. 2001). Consequently in this study, the attitude dimension will be tested in Mauritius with regard to e-grocery.

Overall, the attitude/behavior of customers toward online grocery shopping, intention to transact, perceived usefulness of website, appealing attributes and benefits of e-grocery will be explored. Alongside, the trust and risk dimensions will be given enough attention toward the completeness of this research to know the degree of readiness and acceptance of this concept among Mauritians. However, it does not address other factors like spending pattern of online grocery shopping compared to traditional buying or the effects of online grocery shopping on impulse buying.

2 Literature Background

Institutional Change in Retailing

The retailing industry is continuously subject to change and, consequently, has been an area of interest in academic research. Many models and theories have been developed to explain and predict change in the retail industry. The work of Brown (1987a) about retailing change has earned a lot of attention in literature and is widely accepted (Anitsal and Anitsal 2011). Brown identified three main streams of thought explaining retailing evolution: environmental theory, cyclical theory, and conflict theory.

The environmental theory, also referred to as ecological theory, suggests that the retail environment is crucial for explaining retail change. The variables that form the retail environment differ per study, but the following aspects are often appearing: economy, technology, consumers (can include consumer taste as well as demographical, social, and cultural aspects), political and legal systems, and competition. Examples of how these variables were measured are for technology: availability of Internet and computers, percentage of smartphones owners, and car ownership. For the variable "consumers," it can include factors such as GDP, and employment and demographic conditions like age, population density, and consumer expenditure.

According to environmental theory, adaptive behavior to a changing retail environment is necessary for survival (Etgar 2002). The environment is found to be constantly changing, and a retail institution should always be in harmony with its environment. Therefore, retail institutions should be dynamic, just like their environment, otherwise decline or replacement is at risk (Markin and Duncan 1981). The effect of the environment on change in retail institutions is an extension of Darwin's "survival of the fittest" theory, now applied on retail institutions instead of "natural species." The local variation of retail institutions can therefore also be explained by the variation of environments geographically. Not everywhere are the same retail characteristics necessary for survival. In some countries new technologies or new locations of retail stores may be a success, while in a country with a different environment, the same use of technologies or move to new locations can be a misfit.

Cyclical Theory

Cyclical models assume that retailers pass through before-known stages and follow a certain cycle. Well-known theories within the cyclical theory are the wheel of retailing, the retail accordion, and the concept of the Big Middle (Anitsal and Anitsal 2011; McArthur et al. 2015).

The conflict theory is also called the dialectic theory and is about the effect of new-appearing business formats on the established ones (McArthur et al. 2015). The dialectic theory is derived from Marx's Theory of Evolution and applies on retail institutions. The thesis-antithesis-synthesis theory has been the core of conflict theories. The established retail formats serve as thesis. New formats (with opposite characteristics from the thesis) form the antithesis. In time, the "conflict," created by the new format, will result in a new format: the synthesis. The synthesis will on its turn become an established retail format and will form the thesis in a new cycle. The rise of the synthesis can be the result of different scenarios. It can be the result of the adaptation by the established format, taking over certain elements of the antithesis. In this way, a new type of retail institution develops: the synthesis, which in turn becomes a new thesis. Another explanation is that a new retail format is a result of combining the thesis and antithesis, "choosing the best of both worlds" (Lowry 1997). Another possibility is that both competitors remain their retail system, which gives room for another new format to arise as synthesis between the two. As Markin and Duncan (1981) wrote, the innovation to which the established formats are forced can come forward in assimilation or differentiation. Brown (1987a, b) addressed that the first reaction of the established retailer would be to compete the new and innovative antithesis and stay put on its own format (a defensive strategy).

The conflict theory can be linked to the environmental theory with regard to the fact that the retail marketplace adapts when the competition, which is part of the environment, changes. Markin and Duncan (1981) also integrate the environment a bit further in their conflict theory. They write that the rise of new competition is a result of a conflict in economic and social perspective. This environmental conflict gives space for new innovations in retailing that consequently conflict with the existing retail market.

The arrival of the Internet has also formed a big change for the retail industry. Physical stores were now not necessarily the most convenient and efficient way of accomplishing a sales transaction, neither for a customer, nor for a retailer. In this time electronic commerce (e-commerce) began to play part in the retail industry. This also went hand in hand with globalization. An online store could be visited by anyone with a computer or mobile device and Internet connection. Therefore, shopping was not bound by a border of any means anymore.

Online commerce as a technological innovation deserves a separate paragraph in this chapter due to the big influence it has had, and still has on the retail environment. Online commerce can be split up to e-commerce (online shopping using a laptop or computer) and m-commerce (online shopping using a smartphone or tablet) (Wagner et al. 2013). E-commerce grew around 1995, and before then, computers and the Internet were used primarily by engineers and scientists, who had the skills and patience to understand and use this new technology. Online retailing offers more benefits for retailers, such as tracking and analyzing shopper behavior more easily. Thereby retailers are able to personalize product assortment and give product recommendations, with the potential of increasing profits.

2.1 Online Grocery Shopping in Mauritius

The buying process of groceries online is different to other methods of online shopping due to product perishability and variability (Huang and Oppewal 2006). Mauritian grocery retail sector is mostly conquered by traditional shops and traditional grocery distribution system "open market or stalls" which sell fruits, vegetables, meat, and fish together with small food stores which sell dry foods. Conventionally, groceries are purchased in a setup where the consumer can review the product before purchasing (Klein 1998).

On the other hand, the country is enjoying rapid economic growth, fierce competition, population growth, technological advancement, and changing consumption trends. All this is giving another structure to grocery retailing sector. Since Mauritius has introduced the concept of 24/7, which is in line with the Government's aim to turn Mauritius into a cyber-island, Information and Communication Technology (ICT) indisputably became one of the most important pillars of Mauritius, and it appears that online grocery shopping may hold some potential (Boateng et al. 2009).

2.2 Intention to Transact

Normally, every stage in an online transaction consumer interacts with websites and uses the Internet as a portal. As intentions to transact require technology use, it is necessary to take into consideration the variables which create the Technology Acceptance Model (TAM) in forecasting intentions to use Internet technology for online purchases. TAM has been widely used in the information systems literature because it emphasizes on system use, has dependable tools with excellent measurement characteristics, is parsimonious, and is empirically sound. The concept has been applied to a wide array of information technologies, including e-commerce and e-grocery specifically. For example, Gefen and Straub (2000) examined the outcome of perceived ease of use on e-commerce acceptance, and Moon and Kim (2001) explored the effect of perceived usefulness and ease of use on consumer usage habits of the Internet. Consequently, even if TAM was initially scheduled to estimate technology use in the workplace; the TAM variables can also be applied to forecast consumer habits in e-commerce.

It is assumed that perceived usefulness has a positive effect on intentions to transact with online grocery retailers, taking into consideration that these variables contribute to consumer acceptance of e-grocery in Mauritius.

2.3 Perceived Benefits and Appealing Factors of Online Grocery

Research concerning product quality on the acceptance of e-grocery depicted that for some buyers "looking at and smelling and touching food is a very basic part of their lives" (Dornbusch 1997). Ernst and Young (1999) acknowledged that the rare interaction between the product and the customers is a serious factor for not accepting e-grocery. Correspondingly, buying grocery online may result to consumer misunderstanding of the product quality (Boyer and Hult 2005). The rationale behind this is that when using e-grocery services, it's the retailer who chooses the product rather than the consumer.

With regard to the current development of Internet as a purchasing channel, convenience is at "the forefront of people's minds when they think about this new way of procuring their daily groceries" (Rasmus and Nielsen 2005). Nonetheless, with the advent of e-grocery, the geographical barriers of the physical store have become irrelevant (Underhill 2009). Convenience is related to different costs associated to buying (Aylott and Mitchell 1998). Compared to physical channel, e-grocery has two main benefits: It allows customers to buy anywhere, and reduces cost and saves time.

The perceived benefit from e-grocery (convenience and economic orientation) is to some extent counterbalanced by the potential risk that Internet shopping involves. Perceived risk often acts as a potential obstacle to online purchase intention (Huseynov and Yıldırım 2016). Perceived risk is the unpredictable outcome of consumer-buying behavior. Risks can be related with credit card exploitation, deceitful sites, and loss of privacy when sharing confidential credit card information over the Internet (Garbarino and Strahilevitz 2004). The possible financial loss over credit card disabuse is more significant than the monetary value of the buying. Retailer's reliability is also important to the customers. The risk linked with the e-grocery provider not to deliver goods and service to the expected quality can discourage customers to opt for online shopping because they cannot verify the quality of the product before purchasing.

Ba and Pavlou (2002) stated that trust is an essential characteristic of greatest economic and social relations in which improbability is existent. Almost all relations require a component of trust, more precisely those in risky environment of e-grocery. Trust has every time been a predominant factor in consumer-provider associations because it satisfies the provision of successful transactions (Schurr and Ozanne 1985). Moon and Kim (2001) stated that trust has always been portrayed as an important element in shaping consumer habits and was given high importance in uncertain environments, such as in the e-grocery context. Lack of trust is one of the main reasons for customers not adopting e-commerce (Keen 2010). Thus, it can be concluded that the significance of trust has been raised in e-commerce because of many uncertainties associated with online shopping (Fung and Lee 1999).

2.4 Readiness

The recognized factors that affect customer e-grocery purchase readiness in the existing literature review include cultural (Park and Jun 2003), demographics (Liebermann and Stashevsky 2009), motivation (Zhou et al. 2007), perceive risk and trust (Bhatnagar and Ghose 2004), and attitude (Cho 2004).

Normally, the e-grocery intention is influenced by the customers' cultural orientation (Thatcher and Zhu 2006). Academics used diverse groupings to classify different culture with Geert Hofstede's the most popular one. The framework can be used to depict and clarify the differences in customers' readiness to shop for grocery online across culture. Agreeing to Hofstede (2011), uncertainty avoidance is the degree to which single members of a society feel vulnerable by the unpredictable situation and the extent to which they refrain to such circumstances. Customers who are risk-opposed have a high mark of perceived risks for the unknown. Thus, customers are more satisfied with a new medium of shopping that yields better result.

Social influence is vital in customers' readiness to adopt e-grocery shopping. Friends and family members act as a key influencer nowadays (Venkatesh et al. 2003). Correspondingly, Bhattacherjee (2000) has emphasized that an individual's network and family members can be a rich pool of information because customers tend to consult with their surrounding before opting for something different. A favorable comment about e-grocery shopping can motivate the adoption of e-grocery. Potential buyers trust their own source because they consider it as trustworthy. In fact, social influence can also affect the e-grocery readiness and act as a key determinant behind the adoption of e-grocery shopping.

2.5 Attitude

Attitudes are a cultured inclination to evaluate objects in a specific manner, and it is regularly said that attitudes create adaptation to the environment (Ajzen 2001). Fishbein and Ajzen (1975) refer to an attitude as a person's standing on a bipolar evaluative or affective dimension with detail to an object, action, or event. They claimed that an attitude portrays a person's feeling be it positive or negative toward some stimulus objects.

"An attitude is described as a learned tendency to evaluate an object, which would indicate that a positive attitude is a learned tendency that evaluates an object as being favourable." Most consumers refer to the features and characteristics of a product to develop a certain liking for it or even build a strong loyalty for that particular product (Fishbein and Ajzen 1975). Consequently, consumers will always divert their attentions to the product with a high probability of making a purchase. On the other hand, the reactions of customers will be inverted if they do not like the product (Peabody 1967a, b). However, even though consumers may have positive attitudes and behaviors toward a product, it is does not mean that it is the link behind their positive intentions related to the product as the relationship between attitudes and behaviors and intentions cannot be weighed.

Many studies have examined consumer attitudes toward online shopping. For instance Al-Debei et al. (2015) had introduced an integrated model which includes trust, perceived benefits, perceived web quality, and electronic word of mouth (eWOM) along with their relationships in order to examine their effects on consumer attitudes toward online shopping. It was found that consumer attitudes toward online shopping were determined by trust and perceived benefits. Trust is a product of perceived web quality and eWOM, and the latter is a function of perceived web quality. Hence, trust and perceived benefits were predictors of consumer attitudes toward online shopping.

In another study on consumer attitudes toward e-grocery shopping by Shukla and Kaur (2017), it was found that among family, income and age were significant factors, while understanding behavior dimension related to education level or working members in the family could also help online marketers to develop positive tendency to online grocery. Product delivery factors and user friendly website were also the most important variables for the respondents. Consumers were also more concerned about the quality of products among the various fear factors related to online grocery shopping. Social influence factors had the least importance. The speed of the Internet and unfamiliarity of OGS websites were the technical barriers perceived by consumers.

Lennartsson et al. (2015) investigated if positive attitudes influence the intentions to purchase groceries online. To test the relationship between attitudes and intentions, the theory of planned behavior was used as the underlying theoretical model. Lennartsson et al. (2015) explained that one of the largest obstacles for the online grocery market was the lack of consumer adoption. Previous research had emphasized the importance of understanding consumer attitudes and its influence on the consumers' intention to adopt e-commerce behavior. Existing theories recognize a gap within positive attitudes and their influence on the intentions to adopt e-commerce. The empirical findings of their study presented overall positive attitudes, as well as a strong correlation between positive attitudes and intentions within online grocery shopping. Baheti and Kaushal (2015) conducted a study to examine the impact of varied attributes on the consumers' attitude toward online grocery shopping. The research showed that consumers' attitude toward online grocery shopping was influenced by four factors namely perceived cost, perceived convenience, perceived risk, and perceived enjoyment.

On the basis of the literature, this study developed the following hypotheses:

Hypothesis 1

H1: There is a significant association between perceived usefulness of the Web interface and consumer intention to transact.

H0: There is no significant association between perceived usefulness of the Web interface and consumer intention to transact.

Hypothesis 2

H1: There is a significant association between perceived risk and consumer intentions to transact.

H0: There is no significant association between perceived risk and consumer intentions to transact.

Hypothesis 3

H1: There is a significant association between trust and consumer intentions to transact.

H0: There is no significant association between trust and consumer intentions to transact.

Hypothesis 4

H1: There is a significant association between trust and perceived usefulness of website.

H0: There is no significant association between trust and perceived usefulness of website.

3 Methodology

According to a research is a conventional, diligent, and detailed study that is done to find the response to a topic in a systematic manner to increase knowledge. Consequently, this is viewed as a research as the aim is to upturn awareness about the acceptance and readiness of online grocery shopping in Mauritius. This research uses a quantitative approach.

Due to the nature of this research project, Mauritians aged between 20 and 50 have been considered in the population since e-grocery providers target this age range in any geographical area of Mauritius.

Data was collected through primary sources only. The primary data was collected from a survey in form of questionnaire which has been specifically designed to fit the purpose of this study. The survey was administered online. Convenience sampling was used, that is getting participants wherever they can be found and typically wherever is convenient. In convenience sampling, no inclusion criteria is identified prior to the selection of subjects (Malhotra and Birks 2007). All subjects within the age group 20–50 years were invited to participate. The survey has been conducted with a nonprobability convenience sampling technique to get insights on the acceptance and readiness of Mauritians for e-grocery shopping

The main constructs of the questionnaire were established considering existing measures on similar scales. The items for perceived usefulness and perceived ease of use were drawn from existing researches on the technology acceptance model Davis (1989), van der Heijden (2001), and Venkatesh and Davis (2000). Measures for trust, perceived risk, and reputation were adapted from Hoffman et al. (1999) and Lohse and Spiller (1999). The scale of e-grocery shopping frequency was taken with standard items that measured online shopping frequency. Finally, items for attitude and behavior were adapted from Davis (1989) and Limayem et al. (2000). All items were assessed on a Likert-scale to rate the importance of factors that shape Mauritians behaviors toward e-grocery.

The data collected were coded and input on the software SPSS. It was imperative to cross-check the coding and data entry before analysis, to avoid errors which might have been missed out. Statistical outcome has been generated using SPSS 20, and the presentation of the findings was made through Microsoft Excel for infographics. All hypotheses of the study have been tested using Chi-Square test and the "Likelihood Ratio Chi-Square Tests," and figures have then been used to show relationship between variables.

Considering the formulas about sample size and bearing in mind a confidence level of 95%, and a confidence interval of 5%, a sample size of 384 for a population of 548,107 (age 20–50) was first considered (Malhotra and Birks 2007). However, as had been expected in the case of online questionnaires, the link to the online questionnaire had to be sent to 455 Mauritians to reach a meagre 177 responses. This amounts to an online response rate of 38.9%.

4 Results

Table 1 shows the results of a cross-tabulation between the age group and gender of respondents. The age range 26–30 years has yielded the most number of respondents, and 60.5% of the overall respondents were female and the rest male. Moreover, 9.4% of respondents were from low income (less than Rs. 10,000), 52.2% from middle income (Rs. 10,000 to less than Rs. 25,000), and 38.4% from high-income earning households (Rs. 25,000 and above). Adding to this 59.8% of respondents were single, while 40.2% of them were married. In terms of education level 14.1% respondents had a school certificate, 18.9% had a higher school certificate, 30.5%

Table 1 Demographic profile of respondents

Income	%	Age	Number of male	Number of female	Status	%	Education	%
Less than Rs. 5,000	2.6	18–25 years	8.0	37	Married	40.2	SC	14.1
Rs. 5,000 to less than Rs.10, 000	6.8	26–30 years	35.0	47	Single	59.8	HSC	18.9
Rs. 10,000 to less than Rs. 15,000	23.2	31–35 years	15.0	13			Under graduate	30.5
Rs. 15,000 to less than Rs. 25,000	29.0	35–50 years	11.0	10			Post graduate	18.6
Rs. 25,000 or above	38.4						Doctorate	0.6
							Others	17.3
Occupation								
	Unem ployed student housewife	Manual or factory worker	Self-employed	Clerical or white collar	Executive, managerial, and professional	Other		
%	13	7.9	4	17.5	42.9	14.7		

Authors' own table

had undergraduate degrees, and 18.6% had postgraduate degrees. The remaining 17.3% indicates GCE, MPhil among others (marked as "Other"). Finally, 42.9% respondents work at "Executive, Managerial, Professional" level, 17.5% are either clerical or white collar, and the other segments have little percentage.

Usage Trends and Website Characteristics

The respondents were asked about the actual frequency of use of e-grocery platform. Based on these responses, it has been found that 71% had never bought groceries online as illustrated in Fig. 1.

Future Usage Frequencies

Respondents were asked about the future frequency of use of e-grocery platform. Based on these responses, it has been found that 61% want to buy groceries online as illustrated in Fig. 2.

Despite respondent's actual usage being very low, we can see that for future usage, "somewhat likely," yield 48%, and "extremely likely" 16%. This shows that future intention to use e-grocery platform among Mauritians is considerable, and most probably the e-grocery retail will start growing in Mauritius.

Appealing Characteristic of E-grocery Websites for Mauritians

Survey respondents have also been asked to rate the importance of several factors that are related to e-grocery websites. Figure 3 illustrates that "Check quickly for products" was the factor which scored the higher "Very Important & Important" rating that is around 75%. It is primordial for e-grocery providers to regularly update their websites to avoid bugs or slow-performing activities specially when browsing and choosing for products.

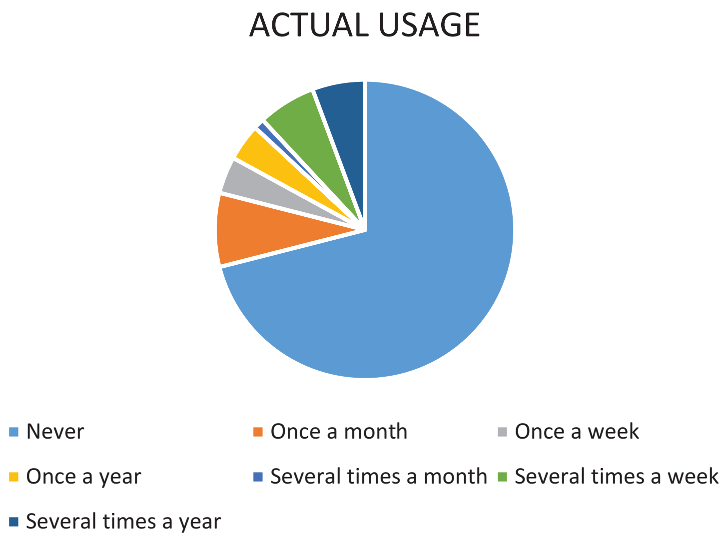
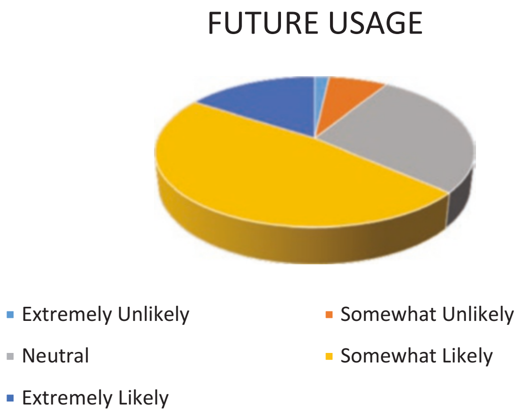


Fig. 1 Actual usage. (Authors' own figure)

Fig. 2 Future usage frequencies. (Authors' own figure)



It can also be deduced that "promotional notification" got a higher amount of "Very Important" compared to other factors. Here also providers should find ways like notification by mail or direct apps notification to constantly notify customers about promotional campaign. However, providers should be cautious in the notification timing and message because too many notifications can irritate customers.

All the other factors have followed the same trend but not with the same intensity as the two previously mentioned. Therefore, we can conclude that e-grocery providers should really focus on these factors in the Mauritius context if they want to create acceptance and readiness among the Mauritian population.

It is good to note that "clear and understandable" got the higher degree of "unimportant & of little importance" compared to other factors. That does not mean that

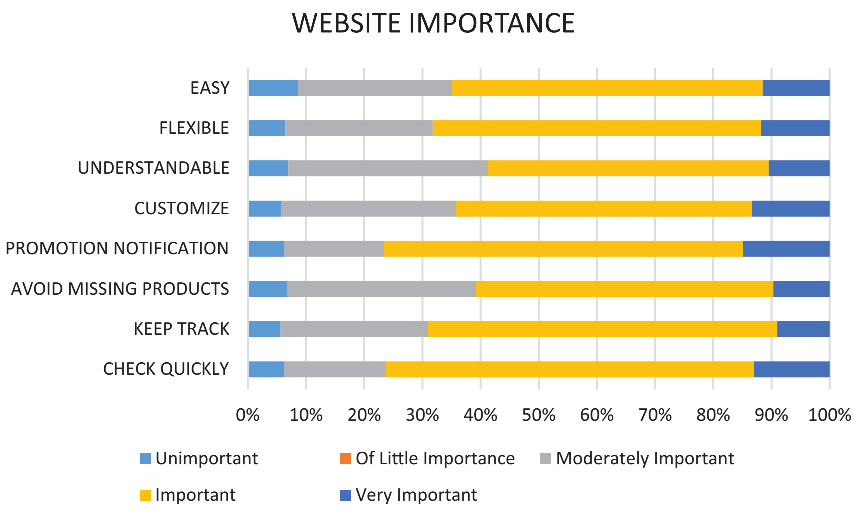


Fig. 3 Websites factors importance. (Authors' own figure)

e-grocery providers should pay little attention to it. In fact, if considerable attention is given to this factor, it can act as the backbone of creating edge over competition.

Opinions Toward E-grocery and Benefits Associated

Respondents have also been asked to rate the importance of different attributes that are related to e-grocery concept.

From Fig. 4, it can be seen that nearly all the attributes have followed the same trend but there are some slight differences which have been noted and should be given attention. "Price," "Wider range of Products," and "Information availability" were the three factors which scored the higher "Very Important & Important" rating, which are 71%, 75%, and 72%, respectively. These three factors are also important in the traditional in-store shopping. Therefore, providers should use these three factors and give another dimension to them, for example, an innovative touch using technology, and capitalize on it to attract customers to shop for groceries online.

Moreover, we can conclude that compared to other attributes, respondents give less importance to "reputable providers." This can act as an opportunity for providers who are not well established because having a low popularity will not prevent them from deploying and enhancing their e-grocery activities.

It can also be deduced that "services" got a higher amount of "Very Important "compared to other attributes. Consequently, providers should not neglect the services aspect even if the customers spend more time on e-grocery when they are completing their transaction. For example, asking customers their feedback via e-mail, creating loyalty programs for only online buyers, outstanding servicing during contact with the customers at delivery moment and personalized services.

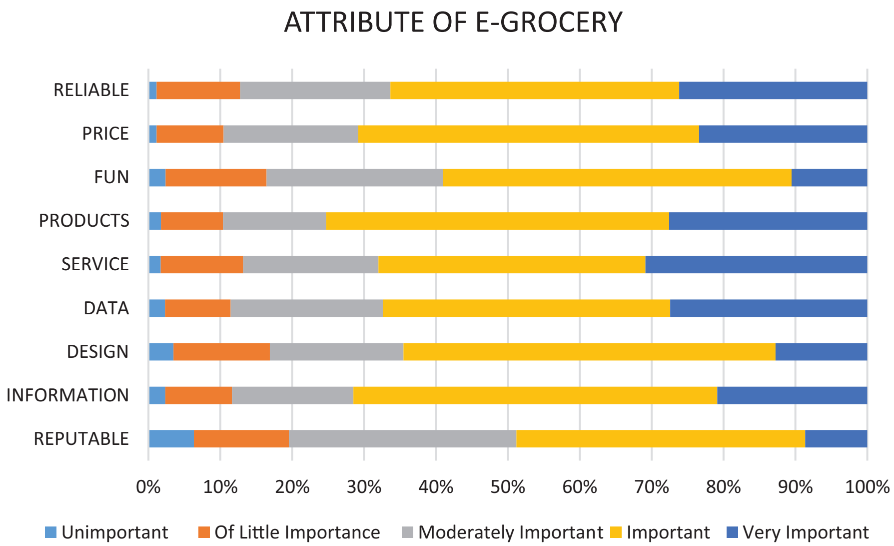


Fig. 4 Attributes of e-grocery. (Authors' own figure)

It is good to note that "clear and understandable" got the higher degree of "unimportant & of little importance" compared to other factors. That does not mean that e-grocery providers should pay little attention to it. In fact, if considerable attention is given to this factor, it can act as the backbone of creating edge over competition.

As mentioned earlier, nearly all factors have been followed, but some slight differences have been noted. Therefore, we can conclude that e-grocery providers should concentrate their efforts and resources on all the attributes listed if they want to attract customers and make of this new business model in Mauritius a success.

Benefits of E-grocery

Respondents were asked to rate the importance of different advantages that are related to e-grocery concept.

Figure 5 shows that many advantages have been more or less rated in the same way. However, in-depth analysis has shown little difference but is important to shed light on.

"Easier" and "faster" were the two factors which scored the higher "Very Important & Important" rating, which is 81% and 78% respectively. Thus e-grocery providers should not miss any opportunity to make the transaction process as much easier as they can and faster. This can be done by regularly using technology advancement to upgrade their value chain.

Another advantage which had a good rating is "reliability." From a general point of view, for e-grocery to be reliable, there are many risk and trust factors (which will be discussed in the coming section) that play an important role; however, there are also other factors that can make it reliable. For instance, access to the service 24/7 enhances reliability alongside with no breakdown with the websites, among others.

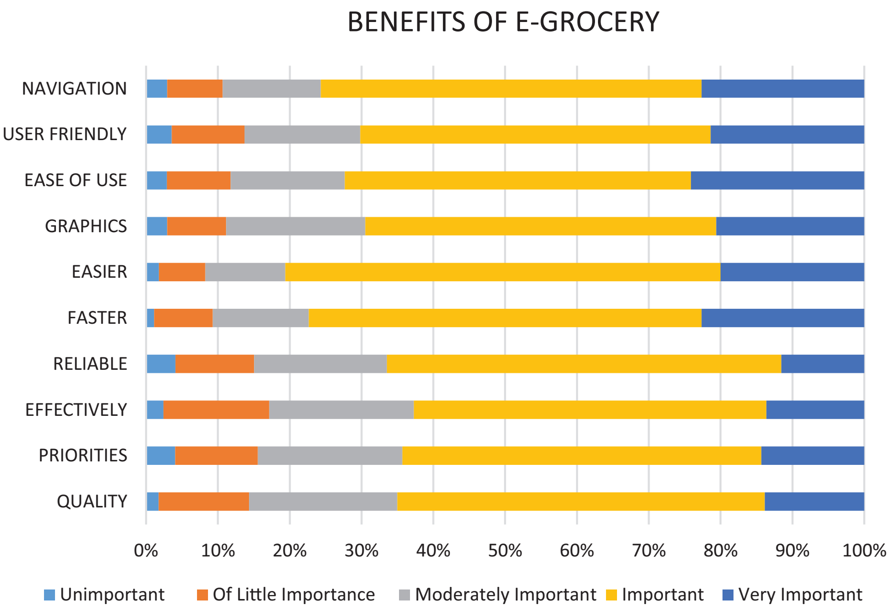


Fig. 5 Benefits of e-grocery. (Authors' own figure)

Risk and Trust Opinion
Respondents were asked to rate the importance they give to risk associated with e-grocery.

As Fig. 6 illustrates, there are six risks that have been explored. The first point to note is that the summation of "important & very important" for financial risk has been less compared to the remaining risk. Nevertheless, this does not mean that e-grocery providers should not concentrate on decreasing financial risk threat of customers because if ever this happens or for some customers the threat of financial risk is high, the number of customers shopping for groceries online will decrease.

Moreover, the five remaining risks yield the same tendency, that is, most of the respondents are very concerned with risk issue, which may affect their intention transact. Thus, it is important for e-grocery providers to take into consideration all these risks, by eliminating them completely or decrease considerably. Adding to this, regularly marketing message should be disseminating to ensure customers that the whole transaction process is risk-free. This can also be consolidated by taking immediate and effective actions when customers are faced with situations which might increase their risk perception toward e-grocery. For example, if a customer received a product which is not similar to what he/she ordered, immediate actions should be taken to go to the client's place and exchange the product.

Trust-Building Factors in E-grocery
To answer this research question, respondents were asked to rate the importance of the factors that might help building trust between them and e-grocery providers.

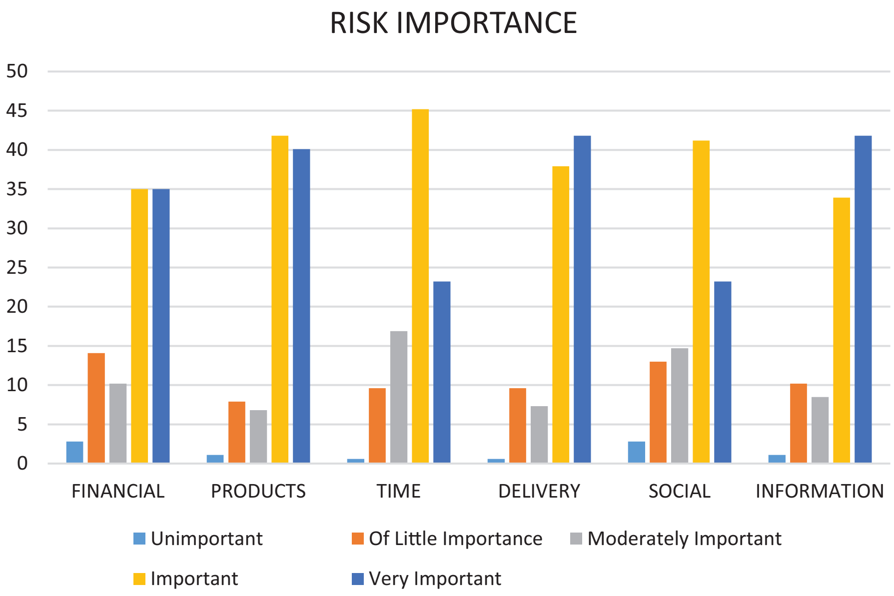


Fig. 6 Risk importance. (Authors' own figure)

Considering Fig. 7, overall, all factors have a high rating when summing up their "Important & Very Important" together. That is all the factors under investigation should be given high importance by e-grocery providers. However, the "customer interest in mind" yields the highest "Very Important" rating, which is 39%. This conclusion can help e-grocery providers to build a powerful strategy to attract customers. That is, during the transaction process or when using the service overall, direct or indirect message can be used to show customers that they are valued and at any time their interest is a priority.

Furthermore, the summation of "Important & Very Important" for "data security" yields the highest rating compared to the other factors. E-grocery providers should use data security as a backbone of their strategy to build trust with customers. This can be done by using the latest software and application which ensure that personal and financial data of customers are always protected, especially against hackers. It can also be done by displaying reassuring message when personal and financial data are entered by customers, more precisely for the first time.

Attitude and Behavior of Mauritians Toward E-grocery

Respondents were asked to rate the importance they give to factors that shape their attitude toward e-grocery.

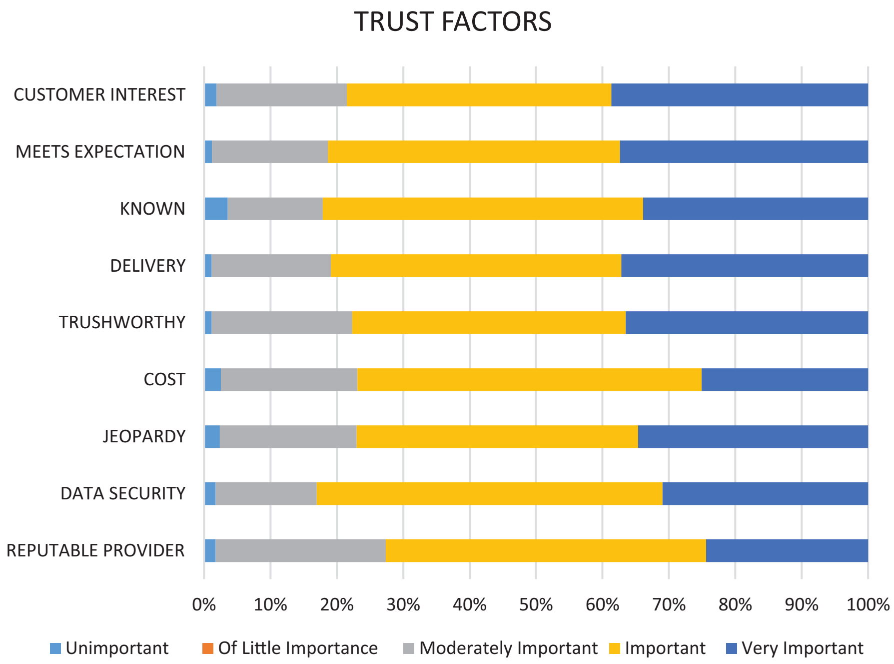


Fig. 7 Trust factors. (Authors' own figure)

For this question, Fig. 8 shows that there are several differences noted in the factors which shape Mauritians' attitude. First, "product quality" yielded the highest rating when summing up "Important & Very Important." It acts as an opportunity for providers who want to create an edge over competition and improve their e-grocery activities. However, e-grocery providers should focus on fresh products more precisely to distinguish themselves in terms of products' quality. Fresh products grouped vegetables, fruits, bakery and pastry products, fresh meat and fish, and deli products. Regarding purely dry products (for example, Kraft cheese in Mauritius), it is difficult to distinguish as all providers have the same products.

After all, "product quality" is "customer service" which also yielded a high rating when summing up "Important & Very Important," that is 73%. In this highly competitive retail sphere, often, customer service is the aspect that distinguishes competitors, and it seems that it can also be applied for e-grocery retail.

Furthermore, we can see that the hedonic option has yielded the lowest rating when summing up "Important & Very Important." This means that among the listed factors fun and enjoyment is the least important for Mauritians. Therefore, providers should capitalize more on the utilitarian aspect, that is, problem solving and need-satisfaction side. This can be done by portraying that e-grocery is a medium of shopping which can minimize the many problems customers are facing nowadays.

Perception Toward E-grocery

Respondents were asked about their perception toward e-grocery.

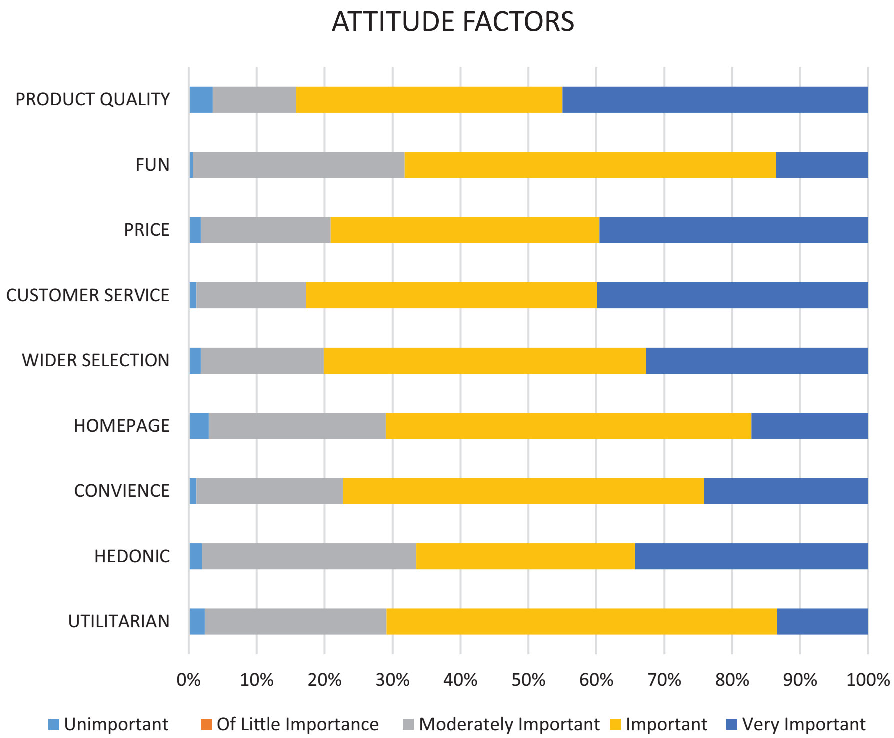


Fig. 8 Attitude factors. (Authors' own figure)

Figure 9 shows the results about the perception of Mauritians toward e-grocery. It depicts that 49% respondents are favorable, 47% are neutral, and only 3% are unfavorable. The main challenge here for e-grocery providers is to get the most from this 47% who are undecided, that is finding strategic actions that can change their mindset to favorable. If they are able to attract this undecided segment, the e-grocery services will enjoy growth and the population in general will be ready to use this new buying concept in Mauritius.

Correlations Among Study Constructs

Table 2 shows the correlation analysis of all the variables. Compared to the Chi-square test where all variables showed a positive relationship with likely usage (adoption), the Pearson Correlation rejected relationship between adoption and website usefulness (p 0.59> 5%) and benefits of e-grocery (p 0.59> 5%). However, the relationship of other variables namely attributes (p 0.009 < 5%), risk (p 0.034 < 5%), and trust (p 0.024 < 5%) with adoption was maintained. Therefore, we can conclude that risk, attributes, and trust are highly important if providers want the population to adopt online grocery shopping.

Moreover, when inter-relating other variables together, some conclusion can be made. To start, websites and attributes are highly interrelated where p .000 < 5%,

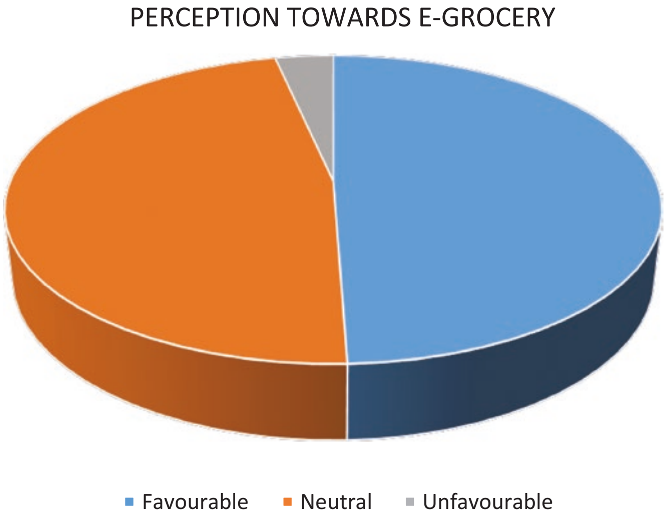


Fig. 9 Perception toward e-grocery. (Authors' own figure)

websites and benefits p .000 < 5%, websites and risk p .001 < 5%, and websites and trust p .000 < 5%. These figures show that for the website to create a positive impact on customers, the ingredients of benefits, risk minimization, and trust should be present. As such providers should display the benefits of e-grocery on their website, reassure buyers that the website is risk-free, and enhance the element of trust on the website itself.

Furthermore, attributes also are highly related to other variables, for instance, attributes and benefits p .000 < 5%, attributes and risk p .000 < 5%, and attributes and trust p .000 < 5%. Therefore, we can conclude that for e-grocery to have a positive image from a holistic perspective, it should be risk-free and portray high confidence in terms of trust.

Additionally, the benefits variable is highly related with risk p .000 < 5%, benefits and trust p .000 < 5%. Consequently, online grocery provider can use benefits of e-grocery to promote trust and decrease the level of risk concern of potential customers. Finally, risk and trust yield p .000 < 5%, on this side, it has already been discussed that providers should minimize risk to enhance trust.

Hypotheses Testing

Hypothesis 1

H1: **There is a significant association between** *perceived usefulness of the Web interface* **and** *consumer intention to transact.*

H0: There is no significant association between ***perceived usefulness of the Web interface*** and ***consumer intention to transact***.

Table 2 Correlations among study constructs

		Likely usage	Website	Attributes	Benefits	Risk	Trust
Likely usage	Pearson Correlation	1	.151	.207[a]	.156	.169[b]	.178[b]
	Sig. (2-tailed)		.059	.009	.059	.034	.024
	N	170	158	160	147	157	160
Website	Pearson Correlation	.151	1	.277[a]	.286[a]	.252[a]	.335[a]
	Sig. (2-tailed)	.059		.000	.000	.001	.000
	N	158	165	159	146	157	160
Attributes	Pearson Correlation	.207[a]	.277[a]	1	.675[a]	.531[a]	.442[a]
	Sig. (2-tailed)	.009	.000		.000	.000	.000
	N	160	159	166	148	156	160
Benefits	Pearson Correlation	.156	.286[a]	.675[a]	1	.545[a]	.386[a]
	Sig. (2-tailed)	.059	.000	.000		.000	.000
	N	147	146	148	153	147	148
Risk	Pearson Correlation	.169[b]	.252[a]	.531[a]	.545[a]	1	.463[a]
	Sig. (2-tailed)	.034	.001	.000	.000		.000
	N	157	157	156	147	163	160
Trust	Pearson Correlation	.178[b]	.335[a]	.442[a]	.386[a]	.463[a]	1
	Sig. (2-tailed)	.024	.000	.000	.000	.000	
	N	160	160	160	148	160	166

[a]Correlation is significant at the 0.01 level (2-tailed)
[b]Correlation is significant at the 0.05 level (2-tailed)
Authors' own table

Test Statistics: Chi-Square = 30.116, p = 0.001

Conclusion: Since p = 0.001 < 5%, H0 has been rejected, and it is concluded that at 5% level of significance, there is a significant association between ***consumer intention to transact*** and ***perceived usefulness of the Web interface***.

Hypothesis 2

H1: There is a significant association between perceived risk and consumer intentions to transact.

H0: There is no significant association between perceived risk and consumer intentions to transact.

Test Statistics: Chi-Square = 30.830, p = 0.008

Conclusion: Since p = 0.008 < 5%, H0 has been rejected, and it is concluded that at 5% level of significance, there is a significant association between ***consumer intentions to transact*** and ***perceived risk***.

Hypothesis 3

H1: There is a significant association between ***trust*** and ***consumer intentions to transact***.

H0: There is no significant association between ***trust*** and ***consumer intentions to transact***.

Test Statistics: Chi-Square = 35.118, p = 0.038

Conclusion: Since p = 0.038 < 5%, H0 has been rejected, and it is concluded that at 5% level of significance, there is a significant association between ***consumer intentions to transact*** and ***trust***.

Hypothesis 4

H1: There is a significant association between ***trust*** and ***perceived usefulness of website***.

H0: There is no significant association between ***trust*** and ***perceived usefulness of website***.

Test Statistics: Chi-Square = 24.143, p = 0.007

Conclusion: Since p = 0.007 < 5%, H0 has been rejected, and it is concluded that at 5% level of significance, there is a significant association between ***trust*** and ***perceived usefulness of website***.

5 Conclusion and Recommendation

Data collected about the forecasted future usage of e-grocery services shows a promising future for this new business model in Mauritius. Providers who have already taken the risk of adventuring themselves into e-grocery should start intensive marketing campaign because despite they are already providing the services we can observe from the actual usage trend that many potential customers are not even aware of e-grocery in Mauritius. Therefore, these campaigns should focus on creating awareness about the benefits and added value of e-grocery compared to traditional in-store shopping.

The website plays a significant role in the adoption of e-grocery. In fact, in the analysis, we concluded that respondents give significance importance to the usefulness of websites. Compared to the physical setting for online grocery shopping, the website acts as the sale pitch and providers should devote the same attention to their website that they give to the in-store physical setting. The website should be designed in such a way that the majority of Mauritians can use it easily, else some segments of the market will prefer the traditional shopping medium. Moreover, websites should provide personalized setting that assists customers in meeting their specific need and keep records of their purchasing habits to guide customers each time they are undertaking the transaction process. Furthermore, as the website is the main contact between the customer and the provider, outstanding customer service should be provided on the website itself.

Apart from the benefits of online grocery shopping, providers can devise other strategies to foster intention to buy grocery online: First, creating loyalty programs, for example, accumulation of points for each transaction and when accumulating a certain number of points this can be redeemed into vouchers. It can be temporary until customers get used to e-grocery and adopt it as their preferred medium of buying grocery. Second, special discount can be given on each transaction (for example 5% discount on the total amount of the transaction), but still it should be temporary because in the long term this will affect profitability of providers. Third, experiential marketing campaign such as providing live demo on tablets by hostesses to make potential customers feel the experience of using online grocery shopping that might trigger them to adopt it, even register potential customers so that they go ahead with this step which seems ambiguous for many people.

The risk and trust factors are highly related to each other when considering data from the analysis. In fact, there is an inverse relationship between these two important variables of online grocery shopping. The higher the risk level and bad experience endured, the lower will be the trust customers give to e-grocery. Providers should capitalize on lowering or eliminating all risks associated with their services, in an attempt to increase the usage of online grocery shopping in Mauritius. However, it is important that all online grocery providers follow the same objectives, because even if the majority are adhering to the vision of lowering risks and a minority are lagging behind, the whole sector will project a negative image.

Therefore, at the early stage of online grocery shopping Mauritius is right now, it will be beneficial to set up a committee comprising of all providers and work on an ethical framework to be followed by everyone. Availability of product and out of stock situation are vital in building trust between providers and customers. Furthermore, to enhance trust, whenever a provider does not have stock of a specific product, this product should be removed temporarily on the website to avoid customers ordering it. If the same is not done and customers order a product which is out of stock, it will create dissatisfaction at the delivery moment.

Big societies in Mauritius should drive the need of online grocery shopping among the Mauritian population. These big societies have the financial resources and expertise required to move a population toward new concepts that customers did not have any need for in the past. Therefore, they should use their dominant power in Mauritius to move the population toward adhering to online grocery shopping.

Evidently, during this research, quite a few limitations have been noted. First, the number of respondents having online shopping experience was quite limited because as at date there are only few e-grocery providers in Mauritius. Second, a sample of respondents was used rather than investigating the whole population because of time and financial limitations. Though a sample is representative, at present, it can be biased and not representing the whole Mauritian population specially when expressing attitude, opinion, and behavior.

According to Shim et al. (2001), the constant improvement of Internet features, customer's traits and demographics, products characteristics, and situational factors might alter behavioral intention.

Finally, an additional constraint of this study is the faithfulness of the 177 respondents when participating in the questionnaire that might affect the data correctness. According to Zikmund (2003), this type of bias, also known as social desirability error, can be perceived as a method of response bias emanating by the wish of the respondent, either aware or unaware, to put themselves in the shoe of a different social role.

Pertaining to the study, e-grocery providers are able to distinguish among the most important characteristics that might create readiness and acceptance. Nevertheless, the study does not explore factors and dimensions which can increase profitability when running this type of business model in Mauritius. The study generally focusses on consumer behavior or the demand-side of online grocery medium. Future study about online grocery shopping in Mauritius may explore cost efficiency strategies from a holistic perspective or even how to raise awareness of e-grocery. Moreover, coming research can study factors such as repeated business and customers' loyalty. In fact, when online grocery shopping will start bombing in Mauritius, there will be a new entrance, competition will be higher, and providers will have to find innovative strategies to maintain their market share or even increase it. Forthcoming research could be done to investigate and underline consumer's perception of e-grocery transaction based on different genders, ethnic groups, age groups, level of income, and education.

Finally, it is important to investigate the effects of online grocery shopping on impulse buying. Normally, there are several merchandising and commercial tactics used in-store to foster impulse buying. Therefore, future research can investigate this side of online grocery shopping taking into consideration if revenue and profitability is affected.

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Institutional Change of Disaster Risk Reduction Management Offices in Selected Areas of Post-Haiyan Philippines

Blesilda P. Badoc-Gonzales, Jackson Tan, and Ma. Belinda S. Mandigma

Abstract The effects of Typhoon Haiyan caused an institutional change in the disaster risk reduction (DRR) response of the urban and rural Disaster Risk Reduction Management (DRRM) offices. The change resulted in the clearer implementation of the Philippine DRRM Act of 2010 (DRRM ACT). The implementation of the Act expanded the scope of services from mere national disaster relief response to DRR management. This chapter presents an examination of the DRRM plans and interviews with DRRM officers of the two most heavily affected areas of the typhoon. These are Tacloban City (the regional capital of Eastern Visayas, representing the urban scenario) and Guiuan, Eastern Samar (where Typhoon Haiyan made its first landfall, an illustration of the rural scenario). A majority of enterprises in these localities were (and still are) micro, small and medium enterprises (MSMEs), with both locations classified as tourism development areas by the National Economic and Development Authority (NEDA) of the Philippines. The chapter used qualitative content analysis of documents and thematic analysis of interview transcripts. Findings showed that there were different institutional changes implemented by both urban and rural DRRM offices before and after Haiyan. Most of the changes revolved around the focus and structure of DRRM institutions. DRRM offices were tied to postdisaster relief only, and their organizations were limited in scope before Haiyan. After the typhoon, these offices had their scopes increased to provide proactive measures and more inclusive DRRM. However, there were limited disaster resilience interventions specific to postdisaster tourism MSMEs. Thus, this chapter analyzes the institutional changes through the lens of the four dimensions of resilience namely, social, environmental, governance, and economic. Consequently, the chapter recommended an outline of a resilience program and a framework for postdisaster tourism MSMEs.

B. P. Badoc-Gonzales (✉)
Graduate School, University of Santo Tomas, Manila, Philippines

J. Tan · M. B. S. Mandigma
University of Santo Tomas, Manila, Philippines
e-mail: jjtan@ust.edu.ph; msmandigma@ust.edu.ph

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1 Introduction

According to climate scientist, Kevin Trenberth (2018), with climate change, there is greater possibility that one big storm can accumulate and replace the impact of several smaller, weaker storms. Record-breaking storms, such as Typhoon Haiyan (Yolanda) which struck Philippines in November 2013, are becoming more common. Due to global warming and climate change, observations show that the number of typhoons hitting the Philippines has been increasing. An average of 20 typhoons strike the country annually (Salazar 2015).

According to Salazar (2015), Philippines' Region 8, otherwise known as Eastern Visayas, seemed vulnerable even before Typhoon Yolanda struck the area. The region had a poverty rate around 40%. Eastern Samar has a poverty rate at 63%. It is the province of the town of Guiuan, where the typhoon made its first landfall. In light of the socio-economic composition of the region, it becomes imperative for the government to find ways that counter the economic disparities which are further exacerbated by the catastrophe. Thus, National Economic and Development Authority (NEDA) and Office of the Presidential Assistant formulated the Yolanda Comprehensive Rehabilitation and Recovery Plan for Rehabilitation and Recovery (CRRP) (Salazar 2015). The livelihood cluster of the CRRP document cites the reinvigoration of micro, small and medium enterprises (MSMEs) to develop the areas affected by the typhoon. This is in consonance with NEDA's aim to rehabilitate income streams and enhance employment opportunities in postdisaster areas. Part of the MSME's service value chain is to reconstruct support for and to boost tourism to be more competitive. In fact, one of the four priority industries that were up for mobilization in Region 8 (Eastern Visayas) is tourism and its supporting industries. This is also one of the priority development areas of the Regional Development Council in Region 8 as stipulated in the Eastern Visayas' Regional Development Plan for 2017–2022 (NEDA 2017). The Plan aims for tourism development together with poverty alleviation, promotion of investments, and infrastructure resiliency.

Tacloban City, in Leyte, is the regional capital of Region 8 and considered as one of the tourism development areas by NEDA (2017). The city is the main gateway by air to the various tourism destinations in both the provinces of Leyte and Samar, according to the Department of Tourism. It also experienced the most damage to housing during Yolanda compared to all affected cities and municipalities. Being a highly urbanized city, it incurred a total damage worth Php 7 billion. Guiuan, Eastern Samar, declared as a small island tourism zone by NEDA (2017), had the greatest number of casualties in the province of Eastern Samar (NEDA 2014).

Nonetheless, the Philippines has a remarkable framework to address the ill effects of climate change prior to Typhoon Haiyan in its Philippine Development

Plan for 2011–2016. According to Alcantara (2014), the Philippine Disaster Risk Reduction and Management Act of 2010 institutionalized the National Disaster Risk and Management Framework to create the National DRRM Council. However, there appeared to be limitations in the disaster response of the National DRRM Council during the onslaught of typhoon Haiyan which left 6000 dead, 27,000 injured, and 3.9 million people displaced (CNN 2013 as cited by Alcantara 2014). The limited coordination by National DRRM Council with other agencies in both the public and private sectors seems to be the culprit for the damages incurred. It appears also that there was latent inadequacy of important materials to respond fully to such a catastrophe. The scattered island topography of the country, with major populations situated along coastal areas of both Tacloban City and Guiuan, exacerbated to its vulnerability. Hence, Alcantara (2014) suggests a need to strengthen coordination of disaster risk management with the private sector, the latter having the capacity to provide needed resources in disaster response. A comprehensive mapping seems necessary to approach this lack of government and private sector coordination from all angles in terms of probable threats and unlikely scenarios. More so, Salazar (2015) posits that the National DRRM Council was limited in its capacity and autonomy to implement fully its mandate. There is inadequate capacity building on disaster response and management of the frontline responders in times of disaster (Salazar 2015). Since the frontline responders on the local scene are the City DRRM and Municipal DRRM offices, these offices seem inadequate in terms of capacity building.

With the seven strategic priorities of the National DRRM Council, it seems that businesses have the ability to address four, to mitigate the adverse effects of climate change. The four main concerns that businesses are capable of addressing are (1) ecosystem and environmental sustainability; (2) "climate-smart" industries and services; (3) sustainable energy; and (4) knowledge and capacity development. In fact, the 2030 Agenda for Sustainable Development stipulated that businesses implement their creative and innovative solutions to address the challenges posed by sustainable development (United Nations 2015 as cited by Hughes and Scheyvens 2016). To attain lasting development, business sectors, civil society, and the government, through their partnerships, should push for the synergy of economy, ecology, and social equity (Lashley 2016).

However, the disaster resilience engagement of small and medium enterprises in the Southeast Asian countries seems relatively low particularly in Indonesia, Thailand, and the Philippines (Mavrodieva et al. 2019). There seems to be less knowledge on risk management techniques in these countries. There is also lack of coordination pervading among the responsible administrative bodies expected to form small business resilience. Mendoza et al. (2018) claim that there is an inadequate translation of the national policy into the local and sectoral plans. The mainstreaming of national policies is valuable for the government to formulate direct strategic plans. The plans should ideally consider the vulnerabilities that are specific to the business continuity of the small and medium enterprises.

The aforementioned idea is reinforced by the Stakeholder Theory where the core environment is encircled by a group of stakeholders (Bonnafous-Boucher and

Rendtorff 2016). Discourse on Stakeholder Theory by Nicolaides (2015) states that the creation of value for everyone is in conjunction with decision-making processes, crafted accurately to achieve tourism-related enterprise success. Hence, the post-Haiyan tourism MSMEs, along with an enabling disaster risk reduction management from the government, must be strengthened to increase value for all stakeholders in, and to, the region. The notion of the Resilience Theory from a social science standpoint aims for enterprise success fueled by value creation with decision-making processes as basis.

In Resilience Theory, the delineation of the system boundaries permits the development of solutions on applied policies (Lew 2018). The adaptive cycle model in Resilience Theory (Wu and Wall,2018), points out the response of the social-ecological systems in the face of changing conditions through circular phases. The phases include self-organization, rigid path dependency, collapse, and a chaotic period of reorganization. DRRM offices in both post-Haiyan urban and rural areas need this kind of transformation practice, as it is essential to bridge the seeming disconnect of disaster resilience to tourism MSMEs. More so, it will initiate sustainable postdisaster economic development in communities.

It is in this context that this chapter recognizes the valuable role held by the post-disaster DRRM offices in promoting tourism resilience as these offices undergo various institutional changes. These DRRM offices are major catalysts to equip Tourism MSMEs in these provinces with disaster preparedness mechanisms. To improve the DRRM offices further, this chapter followed the direction offered by the comprehensive development framework espoused by the Organization for Economic Cooperation and Development covering economic (industry innovation and diversification), social (inclusive and cohesive societies), environmental (sustainable urban development, reliable infrastructures, and natural resources), and institutional/governance (open, participatory, and collaborative leadership) resilience (Figueiredo et al. 2018). With the comprehensive stance of economic, social, environmental, and governance resilience, the chapter highlights the strengths and points needed for improvement in these offices. The OECD comprehensive development framework serves as the springboard for the formulation of a recommended resilience program outline and resilience framework for postdisaster tourism MSMEs. The focus on tourism resilience could achieve a holistic approach to rehabilitate a postdisaster community. The program outline and proposed framework can contribute to the body of knowledge on strengthening the sustainability of post-disaster tourism. Postdisaster sustainability will redound, hopefully to an expedited recovery of the postdisaster economic slump in the region and vice versa in the long run.

This chapter employs qualitative lenses in documentary analyses, particularly, qualitative content analysis. The analysis utilized deductive and inductive category approaches in examining the DRRM plans of both postdisaster rural and urban areas. Moreover, thematic analysis measured the qualitative interview transcripts from the DRRM government offices. The method allowed the proponents to note the emergent themes in light of economic, social, environmental, and governance resilience.

The chapter starts with related literature on sustainability and climate change mitigation and adaptation, followed by studies on tourism resilience. The next section presents the status of DRRM offices in both locations (Tacloban City and Guiuan), followed by DRRM offices after Typhoon Haiyan. The chapter also presents the statuses of DRRM office subcategorized into social resilience, governance resilience, environmental resilience, and economic resilience. Last, the chapter provides a resilience program outline and framework for postdisaster tourism MSMEs. The framework shows the valuable impact of governance resilience through these DRRM offices as they interplay with social, economic, and environmental resilience. This chapter contributes to the scarce knowledge on postdisaster tourism resilience, and postdisaster MSMEs. It intends to bridge the apparent disconnect between government and private sectors regarding tourism business resilience.

2 Sustainability and Climate Change Mitigation and Adaptation

According to Kelman (2017), pollution prevention roughly denotes climate change mitigation and disaster risk reduction spells climate change adaptation. Both concepts are under the scope of sustainable development (Kelman 2017). However, climate change policies addressed mitigation with less focus on climate change adaptation according to UNWTO (2014) as cited by Moyle et al. (2018). The tourism industry waits on the leadership and initiatives of the government to address climate change. The 15 local tourism planning policy documents of Australia centered on issue identification prove that climate change focus relies upon political election cycles (Moyle et al. 2018). Political leaders, according to Collymore (2011), will have a broad-based inducement to render tactical support to form a culture on disaster risk reduction if there is strengthened engagement of both the private sector and civil society. This kind of engagement should be in a structured format. It is in this context that national disaster offices should capacitate themselves to provide support for coordination and strategic directions. Hence, they can effectively become agents for national advocacy efforts. The importance of this kind of coordination underscores the fact that most of the existing risks are in key production sectors and enterprise zones. Accordingly, Collymore (2011) urges the necessity to look at the relationship of risk management vis-à-vis organizational management and corporate social responsibility.

In Queensland, the government implemented a climate smart business cluster program. However, Meath et al. (2015) observed that the program focused on the barriers experienced by SMEs (small and medium enterprises) in terms of the implementation of energy savings and sustainability measures. They suggested a shift of the program focus, from barriers to the promotion of its benefits, to motivate SMEs to adapt these measures. As a result, they proposed a framework that will continually identify and implement both energy savings and sustainability measures.

It is not only in corporate social responsibility that the conduct of businesses integrates environmental sustainability. Yang et al. (2017) formulated a sustainability value analysis tool borne out of the business model innovation for sustainability. This model captures four key concepts: the thinking that goes with the production process; inclusion of multiple stakeholders; uncaptured value; and the value involving economic, social, and environmental aspects (Yang et al. 2017). The tool provides an opportunity for businesses to discover value in all aspects of the business process. The process may cover from product lifecycle to multiple stakeholders, while taking into consideration a sustainably focused approach in pursuing business model innovation. In South-West England, even the owners and managers of tourism accommodation businesses initiated technologies on renewable energy (Coles et al. 2015).

At an international seminar on climate change adaptation and mitigation in the tourism sector, Mahadew and Appadoo (2018) noted that there was a policy for mitigation suggested for tourism-related businesses. Thus, they proposed a legislative framework on climate change and tourism industry for Mauritius in East Africa. The legal framework would push business operators to conform to standards on climate change mitigation. Raising awareness through education for those directly, and indirectly, involved in the tourism industry can supplement the legal framework.

Moreover, sustainability is one of the broad themes considered as highly influential in Asia Pacific tourism trends (Tolkach et al. 2016). However, there seems to be limitations on the understanding of sustainability. The dearth of sustainability in tourism planning can be regarded as a threat to the strategic development of the industry in the Asia Pacific region. The lack of sustainability concepts in tourism planning affects the preservation of regional, natural, and cultural attractions. Key players in tourism according to Bjork (as cited in Roxas et al. 2018) are government authorities, tourism businesses, local stakeholders (such as communities), and tourists (Bjork 2000 as cited in Roxas et al. 2018). However, if the surging growth of tourism is unregulated, such could threaten sustainability. Without sustainability, the region loses the potential to ward off the ill effects of climate change.

With a systems thinking model, Roxas et al. (2018) emphasized that there are three significant drivers for the formulation of substantial policy interventions: (1) profitable businesses, (2) jobs in the locality, and (3) tourist satisfaction. Policy interventions should encompass both the supply (profitable businesses and local jobs) and demand (tourist satisfaction) sides of the tourism industry. Policies should involve profitable businesses and community leadership at the supply side. The involvement would inculcate a sense of ownership for sustainable endeavors in these sectors. Moreover, there should be an implementation of strategic policies on capacity management at the demand side. The implementation could include avoiding overcrowding in tourism destinations and providing incentives for sustainable practices. Hughes and Scheyvens (2016), on the other hand, propose a development first framework that covered an all-inclusive, long-lasting, and society-centered approach for tourism businesses. This is an augmentation to their corporate social responsibility (CSR) compared to the usual limited norms of CSR implementation. There are also implementations of sustainable endeavors according to Lashley

(2016) in some hospitality organizations as The Green Hotel Association, the Sustainable Restaurant Association, and Accor Hotels. The aforementioned organizations by implementing sustainable endeavors adhere to their ethical standards thereby mitigating environmental negative impacts from operations.

In the Philippines, the Executive Order 111 of 1999 installed ecotourism development guidelines, which paved the way for the formulation of National Ecotourism Strategy. The Department of Tourism and Department of Environment and Natural Resources collaborate to implement, monitor, and evaluate this strategy (Rivera and Gutierrez 2018). Nevertheless, inadequate technologies in the country are impediments for the business sector to implement sustainable endeavors. More so, the tourism industry characterized by private businesses dominating the local communities relies upon local government intervention to promote ecotourism. Ideally, the provision of public infrastructures and services to encourage sustainable ecotourism participation can complement government interventions. In relation to this, Rivera and Gutierrez (2018) proposed a tourism value chain for the country, which integrates the quadruple bottom-line approach consisting of financial growth, stewardship toward the environment, community participation, and organizational development at all stages of travel to aim for sustainable tourism. Hahn et al. (2015), on the other hand, acknowledged that corporate sustainability entails going beyond addressing the environmental, economic, and social factors. According to them, there is a need to recognize different tensions in pursuing the triple bottom line. Thus, they suggested a framework that augmented the dimensions covering tensions that occur among the systemic, organizational, and individual levels of the firm. It also includes the change from nonsustainable practices toward pursuing sustainable endeavors in the context of temporal and spatial elements. Having identified the tensions, firms can embark on proposed strategies as acceptance and resolution strategies.

Moreover, for indigenous communities, the combination of the four factors unique to them namely community, spirituality, sustainability, and entrepreneurship created a subset of factors (Walters and Takamura 2015). When community and sustainability overlap, it creates an environmental factor. The combination of community and spirituality creates cultural factors. Spirituality and entrepreneurship produce social factors. Last, economic factors are borne out of the merging of entrepreneurship and sustainability. At the heart of it all, is indigenous innovation. Furthermore, the combination of community and sustainability gives birth to environmental factors, thus encompassing four approaches to sustainability namely vulnerability, adaptive capacity, transformability, and resilience.

However, traditional risk management according to May and Plummer (2011) as espoused by current bureaucracies and authorities seems to have scarce attention toward stakeholder involvement. Thus, they proposed a kind of management that bridges technical and social aspects. The adaptive collaborative risk management guarantees collaboration, codevelopment of information, and shared learning among stakeholders. Disaster risk reduction and resilience building therefore sit at the apogee of importance, to support adaptation to climate change hazards, and prevent interruptions in societies as they endeavor toward further development

(Birkmann and von Teichman 2010). The foregoing studies, therefore, recognize the importance of government policies and multiple stakeholder involvement. The involvement promotes climate change mitigation and adaptation as factors toward sustainability. The direction of these factors should be toward business practices, particularly in tourism areas, as tourism MSMEs push for social, environmental, and economic resilience and sustainability. Sections 5 and 6 of this chapter highlight the valuable role played by the postdisaster DRRM offices, while they undergo institutional changes in promoting MSME resilience.

3 Tourism Resilience

According to the Intergovernmental Panel on Climate Change (2007) as cited by Jamalia and Powell (2018), resilience is the ability of a social or ecological system to maintain a basic structure and manner of functions while it absorbs changes (IPCC 2007 as cited in Jamalia and Powell 2018). Redman (as cited in Holladay and Powell 2016) distinguishes resilience from sustainability. Resilience has its focus on the qualities of the system, while sustainability delves into the present and future circumstances of the same system. In the context of tourism resilience, Jamalia and Powell (2018) indicate four dimensions namely, social, environmental, governance, and economic. They used these dimensions to gauge ecotourism resilience in the Dana Biosphere Reserve of Jordan. Their study found that the socio-ecological system of Dana Biosphere Reserve was moderately resilient to the adverse effects of climate change. The community perceived that the environmental conditions were relatively more resilient compared to social, economic, and governance resilience.

Social resilience is the capacity for a group of individuals to exhibit a collective action to cope with external disturbances. Social interactions, strengthened networks, and a relatively high level of trust and civic engagement promote social resilience (Jamaliah and Powell 2018; Pyke et al. 2018; Powell et al. 2018). The endeavors allow locals to be self-reliant and have the ability for self-organization (Holladay and Powell 2016). Ideally, the high level of social resilience would trickle down to the perceptions of tourists visiting a postdisaster area such as that of Taiwan in the study of Shou-Tsung et al. (2019). The nice recreational experiences of tourists did have a bearing on their perceived values of the reconstructed destination and their willingness to revisit the area. In a postdisaster nature-based tourism destination in Australia, building community resilience requires stakeholder engagement (Pyke et al. 2018). Recognition of the “bottom up” approach to planning involves locals as well supplements stakeholder engagement. Moreover, a high level of social and environmental resilience exists in Vietnam despite the low level of economic resilience perceived by the tourism destination households (Powell et al. 2018). The authors also added that there seems to be a disparity of perception between urban and rural tourism residents in the area. Urban residents reported a high degree of perceived economic and environmental resilience compared to that of rural residents, while social resilience did not vary at all between them.

Economic resilience on the other hand in the tourism industry means controlled financial outflow, the presence of various tourism products and attractions, and different options of livelihood sources (Jamaliah and Powell 2018; Powell et al. 2018). More so, it entails accessibility to financial resources through government support and organizational grants, and the proactive development of facilities that promote green tourism. Through the lens of smart specialization strategies implemented by the European regions, Bellini et al. (2017) proposed a framework that looked into the role of tourism with regard to economic resilience. The authors posited that tourism contributed toward engineering and ecological resilience while playing a transformative role in renewing a regional economic structure.

More so, if a particular destination can tolerate a level of disturbance without showing a substantial change to the process and structure, this area exhibits environmental resilience (Jamaliah and Powell 2018; Powell et al. 2018). In addressing the interplay between ecological and social urban systems, building environmental resilience considers green infrastructure as an important factor. It promotes the common driving forces of connectivity, participation, adaptation, and cooperation (Schiappacasse and Müller 2015). The authors contend though, that holistic planning does not consider this as the sole approach. In fact, it remains a challenge for planners to integrate green infrastructure with other sectors for policy making such as social consolidation and other important factors namely transport, energy, water, and agriculture.

For protected areas (PA) on the other hand, resilience attributes to the direct influence of the ecological, economic, and social processes at microlevel (Cumming et al. 2015). However, in a broader spectrum, social and economic processes dominantly shape and alter the resilience of PAs. In India, there seem to be research gaps noted in wildlife, particularly on monitoring and conservation, the interaction of wildlife with humans, and the socio-economic factors in implementing wildlife projects (Puri et al. 2019). Attention on wildlife is significant as ecotourism is one of the potentials of India given the natural, cultural, and wildlife resources of the country. There should be a recognition of ecotourism's potential to promote socio-economic development of communities, which could be a catalyst to solve the country's problems on poverty. Conversely, in Sweden, Koninx (2018) maintains that there seems to be tension with how local communities perceive the ecotourism plans of rewilding, which is a large-scale and comprehensive ecosystem restoration of Swedish Lapland. The conflict rises from the hut wardens and hikers who have developed an attachment to nature at the personal and emotional level. Thus, they may react to ecotourism plans that intend to promote the experience of exclusive and expensive ecotourism and so with unrestricted "free access." It would be prudent therefore, for planners to look into how the local community perceives human-nature relations for the success of ecotourism plans.

Governance resilience on the other hand entails collaboration of many organizations and stakeholders, propelled by effective leadership as they respond to challenges with the support of apt policies and implementation of relevant legal actions (Jamaliah and Powell 2018; Powell et al. 2018). According to Eckerberg et al. (2015), legal collaborations were evident in the management of environment and natural resources and so with sustaining mountain development in the Swedish mountain regions. In these areas, the top-down and bottom-up collaborations complement each other in the implementation of public policies. The authors added that tourism rural development exhibits bottom-up collaborations. It was evident in collaborations that it requires actions and state support in the form of funding and in local partners pushing for reciprocal goals. Governance on policy networks and pertinent power over nature and functions were exhibited by top-down collaboration. More so, a combination of both top-down and bottom-up collaborations was evident in policy and organizational collaborations.

To promote wildlife habitat resilience, Choi et al. (2017) built an eco-restoration program that involved the governance of multiple actors which benefited the wildlife habitat and local community, promoted ecology education, and established collaboration of different stakeholders. The key was subdividing the ecotourism system of Eulsukdo Island in South Korea into business, economy, environment, and society fields by employing systems thinking and transformation planning process. In the Philippines, a conflict arises between the urban protected area management and land use. There seems to be limited coordination between land use planning and protected area management (De Leon and Kim 2017). This is so because the urban regional development goals of residential homeowners' association, commercial developers/firms, and the local government unit control the management of an urban protected area. The protection of urban protected area as a natural resource is set aside to accommodate the demands of stakeholders promoting urban development.

Thus, it is significant that tourism areas, particularly in postdisaster communities, consider tourism resilience factors. The majority of the businesses present in these societies should better practice these, and these are the MSMEs. The MSMEs, if equipped with the dimensions of tourism resilience, can contribute toward a sustainable postdisaster tourism economy. The involvement of DRRM offices in coordination with other government offices can best achieve this. Sections 5 and 6 of this chapter emphasize what the DRRM offices currently have and what more they can offer for tourism MSMEs to be resilient and sustainable.

4 MSMEs and Postdisaster Tourism

According to the Asian Development Bank, the backbone of Asian economies is the SMEs (Natividad 2016). SMEs consist of 98% of all enterprises and contribute to 66% of national labor force in 2007–2012. In fact, according to the Philippine Statistics Authority, MSMEs account for 99.57% or 911,768 business establishments that were reported in 2015 (Department of Trade and Industry 2016a). Moreover, MSMEs account for 25% of export revenue, and 60% of all exports belong to the MSME category through linkages and subcontracting arrangements with large firms. These contributions are significant factors in the growth of GDP during the 3rd quarter of 2016, pegged at 7.1% growth rate, contributing to 6.6% of total GDP growth, and recognized as one of the highest in Asia (Castillo 2017).

With the remarkable contributions of MSMEs in the Philippine economy, the Department of Trade and Industry (DTI) continues to make plans to develop this sector. As part of their means to improve productivity and efficiency, DTI resorts to industry clustering for MSMEs to improve industry focus, private sector active involvement, and convergence of commodities. Example clusters include coffee production, processed fruits, nuts, and tourism support industries among others. From all of these clusters, Eastern Visayas contributes close to 30,000 MSMEs (Department of Trade and Industry 2016b). The National Statistical Coordination Board adds that the Regional Development Plan for 2011–2016 sees Eastern Visayas as an eco-tourism haven and a leader in agri-business and Information Communications Technology. There are three major islands in Eastern Visayas or Region VIII, and these are Leyte, Samar, and Biliran. The region has seven cities that include Tacloban as the regional capital and highly urbanized city. The region covers 136 municipalities as well, according to National Statistical Coordination Board (NSCB n.d.).

Moreover, the tourism industry augments to the substantial economic contributions of MSMEs. According to the World Travel and Tourism Council, as cited by Nicolas (2017), the travel and tourism industry contributed Php 2.85 trillion to the GDP of the Philippines in 2016. This contribution amounted to 19.7% of the total GDP of the country. The trend in foreign tourist arrivals increased to 6.6 million in 2017 which is 11% higher than 2016's 5.87 million (Business World 2018). Data by UNWTO World Tourism Barometer purports (as further quoted by Department of Tourism) that the increase of arrivals in the Philippines surpassed the 6% tourism growth of Asia and the Pacific and the 8% growth in Southeast Asia (Chan 2018). In Eastern Visayas, Department of Tourism records show that despite the damages and ruins caused by Typhoon Yolanda (Haiyan) in the provinces of Leyte, Southern Leyte, Samar, Eastern Samar, Northern Samar, and Biliran, the areas were still visited by more than a million tourists (Gabieta 2016). Most of the visitors were local tourists and 42,000 foreign nationals, which contributed Php 9 billion to the economy of Eastern Visayas.

According to National Economic and Development Authority (2017), tourism is vital for MSME development. It provides support in terms of increase in tourist arrivals, which leads to higher demand and increases in sales of goods and services offered by MSMEs. Before the onslaught of Typhoon Yolanda, particularly in 2011, there was a decline in the number of MSMEs, which attributed to an unfavorable business environment, limited access to capital and credit, substandard product packaging, disorganized small entrepreneurs, limitations in distribution channels and the pertinent market of products and services, and low entrepreneurial spirit (NEDA 2011). However, the domestic sales of MSMEs totaled Php 293.2 million in 2011 according to National Economic and Development Authority (2017). In 2012, MSMEs generated 131,359 jobs for the region. Moreover, 2011 data showed an underdeveloped tourism industry characterized by insufficient investments from the private sector (NEDA 2011). Less promotion of the tourism industry aggravated its underdevelopment. The industry was limited in the marketing of tourism sites, along with relatively low capabilities of tourism areas and products, which were in dire need of adequate maintenance. Thus, despite the remarkable aims of the regional development plan for the years 2011–2016, there was a negative 6.2% in GDP in 2012 which was a plunge from 1.8% growth in 2011 (Leyte Samar Daily Express 2013). This marked Eastern Visayas as the only region among the 17 areas in the Philippines to show an economic decline in 2012.

According to the Department of Trade and Industry as cited in Meniano (2017), Super Typhoon Haiyan (locally known as Yolanda) damaged 5322 registered small and medium enterprises in Eastern Visayas on November 8, 2013. National Economic and Development Authority (2017) reported that there were 13,312 MSMEs affected in the region by the typhoon. The bulk of these MSMEs were microenterprises and only 8% from small and medium enterprises. The challenges, therefore, for MSMEs after the typhoon, included provision of technical assistance for both start-up and existing enterprises. The sector also needs assistance on product development through enhanced packaging and labeling, together with access to finance. Given the tragedy that befell the area, there was also the need to strengthen industry resiliency by complying with standards in operation and availing of risk insurance. Another challenge for these MSMEs is to adopt environment-friendly processes in production and the efficient use of utilities. Moreover, the tourism industry also needs investments in underdeveloped tourism destinations and products (National Economic and Development Authority 2017). A strengthened partnership across tourism subsectors will counter weak tourism governance and enhance human resource capabilities.

Nevertheless, one of the missing elements of the CRRP in terms of livelihood is the failure to include principles on disaster risk reduction (Salazar 2015). There are insufficient predisaster measures in smaller firms due to a lack of knowledge on these matters. More so, there is a scarcity of funding to cover the extra costs entailed by these measures (Mendoza et al. 2018).

The extant literature shows how tourism resilience through MSMEs, in the context of social, governance, economic, and environmental resilience, could contribute toward climate change mitigation and adaptation. However, there is a need for adequate government policies and multistakeholder involvement to achieve this type of comprehensive resilience. The role of equipping these tourism MSMEs with tourism resilience capacity rests on the shoulders of the DRRM offices in postdisaster areas. Therefore, the disaster risk reduction management offices are a catalyst for tourism MSMEs to effectively contribute toward climate change mitigation and adaptation, which are major factors in achieving sustainability. This section, together with Sects. 5 and 6, was the basis for recommending a resilience program outline and a framework for postdisaster tourism MSMEs discussed in Sect. 7.

5 DRRM Offices Before Typhoon Haiyan

In the Philippines, there is a local disaster management council and management officer in every town. However, in a discussion paper series on Typhoon Haiyan response and its coordination between Philippine government, civil society and international actors, Dy and Stephens (2016) noted that the councils on disaster were mostly inactive. More so, due to resource constraints, these disaster officers had dual appointments. Some positions in disaster offices remained unfilled while political appointees in temporary status occupied other disaster offices. Skills on damage and needs assessment were found lacking in local governments. The lower levels of the government seemed unfamiliar with the cluster system; thus, they had not incorporated it into their operations despite the fact that the national level adopted this. In Region 8, where Tacloban City in Leyte and Guiuan Eastern Samar are located, the National DRRM Council noticed that despite having risk maps and the identification of no-build zones, public and commercial buildings were still located in coastal areas (National DRRM Council 2014). The DRRM officers had also a different understanding of the term "storm surge," and even the Barangays were not aware as to how to utilize the 5% of their internal revenue allocation intended for disaster response. Table 1 describes the status of Post-Haiyan DRRM offices before typhoon Haiyan.

In an interview with the city DRRM officer in Tacloban City, Mr. Bernadas explained that before Typhoon Haiyan, the City DRRM Office was part of the city

Table 1 Status of post-Haiyan DRRM offices before Typhoon Haiyan

Dimensions of resilience	Urban area	Rural area
Social resilience	Lacking coordination between committees	Lacking coordination among the local government unit
	Committees having multiple roles	DRRM officer had multitasking roles
Governance resilience	No autonomy of CDRRM office	Office was connected to the mayor
	Focus on rescue unit alone	The office had a DRRM plan and DRRM handbook
		Trained barangay officials on disaster preparedness, supported by the DILG
		The town had one of the Philippine atmospheric, geophysical, and astronomical services administration's (PAGASA) field stations
		Unorganized relief operations
Environmental resilience	Responders came from coastal areas	
Economic resilience	Office had limited capacity	Small businesses were not part of trainings on basic life support

Source: Authors Own Table (2020)

mayor's office. The drawback according to him is that the changing of political guards after every election challenged the continuity of the office. With regard to DRRM operations, the committees were not necessarily interoperating, with other committees seemingly lacking coordination. The people and departments engaged in DRRM were also members of many different committees. The limitations in focus of these members resulted to problems in decision-making. More so, despite having private organizations helping the local government on emergency response, the focus was solely on the Tacloban rescue unit. Many responders came from coastal areas who were also vulnerable to the onslaught of disasters and this compounded the limited capacity of the office.

Guiuan, Eastern Samar, on the other hand, is the location of one of the Philippine Atmospheric, Geophysical and Astronomical Services Administration 20 field stations. It also boasts of sophisticated equipment with one of five surveillance weather radars; and one of the three Doppler radars in the Philippines, developed by Japan Radio Company (National DRRM Council 2014). The local officials had a DRRM plan, which incorporated emergency provisions and contingencies. The office even had a DRRM handbook with identified local hazards and salient features of the DRRM law. Nonetheless, it failed to mention storm surge, which was identified as a hazard in the Barangay DRRM Plan of one of its barangays known as Victory Island. The said omission indicates the lack of coordination among the local government unit. The inadequate coordination resonates with the findings of Dy and Stephens (2016), where the DRRM officer does multitasking roles as secretary to the Mayor and a member to two different organizations in the local office. In an interview with the officer in charge of the Municipal DRRM Office of the town, Mr. Sabulao expressed that the office focused on disaster preparedness of the barangay officials before the typhoon with trainings supported by Department of Interior and Local Government (DILG). However, the office connected to the Mayor's office then had barely three personnel. There were also limitations in the implementation of Republic Act No. 10121 known as the Philippine Disaster Risk Reduction and Management Act of 2010 as evidenced by the unorganized relief operations. More so, small businesses were not recipient to trainings on basic life support as well.

On November 7, 2013, Guiuan Eastern Samar and Tacloban City conducted a preemptive evacuation. There was an orderly evacuation, and the centers were equipped with food and water (National DRRM Council 2014). According to Department of Science and Technology, Typhoon Haiyan made its first landfall in Guiuan Eastern Samar at 4:40 a.m. as shown in Fig. 1. The typhoon resulted in the complete destruction of 11,571 houses, with 70% of Guiuananons living in coastal barangays. There was a Php 375 million-worth of loss in the fisheries sector of the town (Municipal DRRM Committee – Guiuan 2017). Tacloban City took most of the brunt of the brutal Haiyan winds and the fatal storm surge that resulted in about 2678 fatalities (National DRRM Council 2014). The roof collapsed, and there was inundation of the lower portions of the Astrodome evacuation center, as it was located near the coasts. Rains damaged the rice stockpiles, and seawater swept away other relief goods prepared by the City DRRM Office. Looting of business establishments occurred in both Guiuan Eastern Samar and Tacloban City.

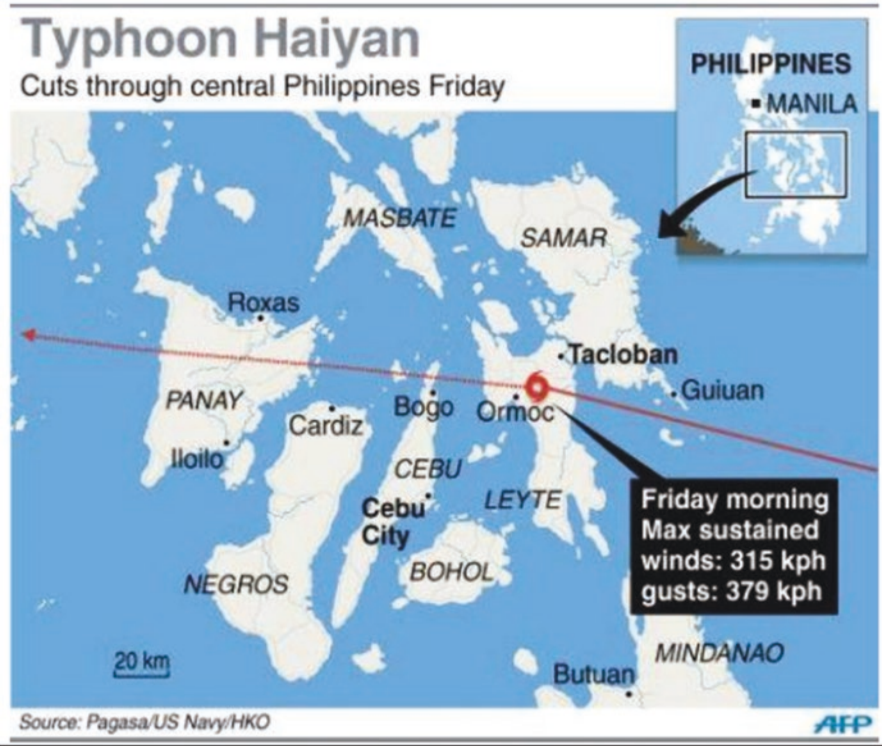

Fig. 1 Path of Typhoon Haiyan on November 8, 2013. (Source: Pagasa/US Navy/HKO as cited by Davidson (2016))

6 DRRM Offices After Typhoon Haiyan

Major changes occurred after Typhoon Haiyan for the DRRM offices of both Tacloban City and Guiuan Eastern Samar. Notable modifications were in the autonomy of the DRRM offices for both locations, which separated from the Mayor's office with a permanent City DRRM Office for Tacloban and Municipal DRRM Office for Guiuan. More so, both locations implemented RA 10121 with emphasis on the cluster approach system. Though at varying degrees, both areas intensified capacity buildup and trainings and even extended these to business establishments.

In Tacloban City, to address the needs of the impacted community, the City DRRM office did a rapid assessment and needs analysis. Further, the 11 clusters of the national level were augmented to include another 3 to reach 14 clusters for the city. Table 2 shows the cluster of the City DRRM Office with the fire incident cluster added only in 2018 to manage secondary hazards. With regard to the looting incident, the office made sure that uniformed personnel would focus on peace and order alone. These personnel will not be involved with the search and rescue operation. The sole focus of uniformed personnel will be to ensure the security of the city

Table 2 Cluster roles and functions

No.	Cluster name	Cluster lead	Major roles and functions
1.	Search rescue and retrieval	City DRRM office	Organizes the overall search and rescue committee and pertinent activities
2.	Health and nutrition	City health office	Organizes the overall health and nutrition committee and inclusive activities
3.	Engineering operations	City engineering office	Organizes engineering and reconstruction service committee and clearing activities
4.	Peace and order	Tacloban City police office	Organizes overall peace and order committee and activities
5.	Relief operations	CSWDO	Organizes relief service committee and pertinent activities
6.	Shelter and infrastructure	CHCDO/CEO	Organizes shelter and infrastructure committee, reconstructions, and coordination
7.	Camp coordination and camp management (CCCM)	CSWDO	Organizes a camp management committee and activities
8.	Management of the dead and missing	City DILG	Ensures coordination at several levels: Local, regional, and national to manage activities for the dead and missing
9.	Logistics and support system	City DRRM office	Organizes a logistics and support system including warehousing, inventories, and trucking of deployed items
10.	Public information and media management	City information office	Organize public information and media management system
11.	Price monitoring and control	Business permit and licensing office	Organizes a price monitoring and control committee and activities
12.	Livelihood and food security	City veterinary office	Organizes a livelihood and food security committee in coordination with different agencies
13.	Economics and fund management	City budget office	Ensure the proper utilization of the LDRRMF
14.	Fire incident	Bureau of fire protection	Organizes committee for the management of secondary hazards

Source: City Disaster Risk Reduction and Management Plan for 2016–2022 of The City of Tacloban (City Disaster Risk Reduction Management Committee-Tacloban City 2016)

including commercial facilities. The office believes that by securing these commercial facilities, it ensures food security as well. These establishments will be their source for the relief operation needs including basic food, water, and medical sources.

The Municipal DRRM Office in Guiuan Eastern Samar, on the other hand, took a different approach to solve the looting incident by implementing an antilooting ordinance. The implementation supplemented the strengthened security for businesses during disasters by employing uniformed personnel. The implementation of RA 10121, on the other hand, led to a more organized relief delivery operation in

Guiuan. Their cluster operations include plan and rescue, public information and education, evacuation and security, communication and warning, engineering shelter, emergency/disaster preparedness plan, health and sanitation, and transportation and emergency. More so, the municipal offices, together with each barangay, are encouraged to establish a memorandum of agreement with businesses to buy their goods and medicines in the event of disasters.

(a) **Social Resilience**

With regard to social resilience in Table 3, Mr. Bernadas of the City DRRM Office of Tacloban City observed increased involvement of people after Haiyan. Part of their enhanced strategies is reaching out to the communities through intensified training of the barangay DRRM committees. It includes proper orientation for these barangays to access and maximize their allotted disaster fund. They also ensure that businesses get proper representation in the cluster approach system together with other sectors in the pursuit of inclusive DRRM.

For Guiuan Eastern Samar, the approach focused on organizing small businesses such as the Guiuan Integrated Micro-enterprises Association. The MDRRM office provides these organizations emergency funds for recovery and rehabilitation of the latter. The assistance intends to provide immediate alternative sources of income for fishing and farming communities. More so, business associations were encouraged to have their own contingency plans and the incorporation of the basic first aid and basic life-support trainings (particularly for hotels and resorts). The office has learned also to reach out to all sectors in the community, and coordinate with DTI for pertinent price monitoring and control right after the disaster. The latter activity was to avoid exorbitant pricing of commodities that usually happens after a catastrophe.

(b) **Governance Resilience**

Increasing the transparency of the City DRRM Office Fund utilization manifested governance resilience in post-Haiyan Tacloban City, as depicted in Table 4.

Table 3 Status of post-Haiyan DRRM offices after Typhoon Haiyan

Dimensions of resilience	Urban area	Rural area
Social resilience	Intensified trainings of barangay DRRM committee	Organized small businesses
	Orientation on access and maximization of funds for disasters	Provision of emergency funds
	Implements inclusive DRRM	Encourages contingency plans for business associations
		Conduct of basic life-support training for hotels and resorts
		Price monitoring in coordination with DTI

Source: Authors Own Table (2020)

Table 4 Status of post-Haiyan DRRM offices after Typhoon Haiyan

Dimensions of resilience	Urban area	Rural area
Governance resilience	Transparency of fund utilization and recruitment of volunteers	Formulation of associations
	City DRRM offices have top-of-the-line disaster risk reduction equipment	Advanced security of establishments
	Collaboration between local government units	Visibility of rescue operators in public places

Source: Authors Own Table (2020)

Documents describing the allocation of funds are posted in public places. There was also a publication of the continuous recruitment of volunteers, as the office believed that growth (in terms of capacity level) is significant to avoid being caught unprepared. However, the office also believed that the local chief executive support of any Local Government Unit (LGU) is another important factor. Limited support leads to roadblocks in disaster management implementation. There is also a need to collaborate with other LGUs by sharing best practices and seeking their assistance should the need arise. In fact, the City DRRM office of Tacloban lent their top-of-the-line equipment to other units for training purposes during the regional DRRM summit dubbed as Rescue Jamboree. The summit also encouraged collaboration with other units with regard to disaster management.

The Municipal DRRM office of the rural area, on the other hand, shows governance resilience by their efforts to strengthen small businesses through the creation of associations. These associations serve as representatives for businesses in the formulation of disaster management policies. One of the projects of the Municipal DRRM Office was the installation of CCTVs for the advanced security of establishments. They also ensured the public with the visibility of rescue operators in public places. More so, they made sure that the implementation of disaster management was devoid of biases through equal treatment to avoid suspicions of political patronage. The office was also flexible and open to changes in plan implementation. Through this, the attitude of the people reflects governance resilience as they manage limited emergency funds provided to them just to start businesses.

(c) **Environmental Resilience**

Promoting environmental endeavors among coastal communities has been a prevailing challenge for the City DRRM Office in Tacloban City. According to the office, as shown in Table 5, there was limited appreciation of the mangrove forests among coastal barangay residents. Another challenge for them was lobbying against the planned tide embankment project of the Department of Public Works and Highways. The City DRRM Office does not believe in walling the entire coastline as the only solution to storm surge. The basis was the Dutch consortium study that reported the importance of allowing the beach forest to return as mitigation to hydro meteorological hazards. Fortunately, the national government relented to the lobbying of the office to choose which parts of the city are to be subjected to tide embankment and which parts would resort to mangrove reforestation. Thus, it became their

Table 5 Status of post-Haiyan DRRM offices after Typhoon Haiyan

Dimensions of resilience	Urban area	Rural area
Environmental resilience	Implement mangrove reforestation against storm surge	Implement mangrove reforestation and coastal cleanup
		Conduct advocacies on waste management

Source: Authors Own Table (2020)

Table 6 Status of post-Haiyan DRRM offices after Typhoon Haiyan

Dimensions of resilience	Urban area	Rural area
Economic resilience	Relocated fishing communities to less vulnerable sites	Provision of street signage
	Increased security for malls	Provision of security and safety during tourism activities
	Implemented livelihood trainings for microbusinesses	Funds allocation for livelihood recovery and rehabilitation
	Implemented cluster livelihood programs in relocation sites incorporated with DRRM	Installation of sea walls for businesses in coastal areas

Source: Authors Own Table (2020)

strategy to create a mangrove eco-park in Barangay 83, Paraiso, in Tacloban City. The office also intended to collaborate with the regional office of the DENR for mangrove area protection and clearing residences from these areas. They have associated with Wetlands International and even piloted 4 barangays as potential for mangrove ecotourism areas. Their challenge now is for the 33 identified coastal barangays of the city for them to promote mangrove reforestation through pertinent policies and programs. They also intend to inculcate among coastal residents the integral appreciation for the environmental value of mangroves. The efforts aim to emphasize the significance of mangrove reforestation not only as an ecotourism aesthetic but also as protection against storm surge and tsunami.

The Municipal DRRM Office in Guiuan Eastern Samar employed simpler strategies to promote environmental resilience such as mangrove reforestation and coastal cleanup. Integrated in one of their livelihood programs is providing cash for work in mangrove plantation projects. The office also promoted advocacies on waste management, segregation, and proper waste disposal for coastal resorts.

(d) **Economic Resilience**

The City DRRM Office of Tacloban implemented different strategies to boost economic resilience among affected communities, as shown in Table 6. For fishing communities, especially those previously located in the San Jose Airport area, residents were relocated to where they could still sustain their fishing livelihood. These were less vulnerable sites but indirectly connected to the sea albeit at a safer distance from the communities. The office claimed that other residents began fish cage businesses, and the city government thus promoted their harvests by providing a market for their fish produce. The Tacloban City DRRM Office recounted that the city government encountered limitations in providing initial capital for small businesses due to inadequate support from the national government. Thus, the city government opted to award returning MSMEs with 1-year tax holiday with no permits and pertinent regulated fees so they could grow their businesses within the year. For the malls that decided to close operations due to massive looting, they came back with the condition that increased security is provided to them and controlled shoppers during the first month after the typhoon. Further, the office implemented livelihood trainings for some microbusinesses after which there were provision of kits upon graduation. There were cluster livelihood programs for relocation sites as well, incorporated with DRRM.

In a small island tourism zone such as Guiuan, the Municipal DRRM Office's assistance comes in the form of street signage and the provision of security and safety during tourism activities. There is also implementation of the 30% fund intended for recovery and rehabilitation for fishing and farming communities in coordination with other government agencies such as the Department of Agriculture and Department of Trade and Industry. The office also provided facilities, as sea walls, to protect businesses located in coastal areas.

7 Resilience Program Outline for Postdisaster Tourism MSMEs

Table 7 highlights the pertinent strengths of City DRRM Office in Tacloban City and Municipal DRRM Office in Guiuan, Eastern Samar, vis-à-vis points needing improvement. In terms of social resilience, the urban area succeeded in having business sector representation with regard to disaster management. However, activities may also be promoted that would strengthen networking between barangay DRRM committee and tourism MSMEs within their barangays. Empowered barangay DRRM committees may involve tourism MSMEs in DRRM trainings, formulation of disaster risk policies, and other activities such as environmental promotion endeavors. The aforementioned activities will enhance social interaction, strengthened network, social trust, and civic engagement. Given that Guiuan, Eastern Samar, is a potential tourism destination area, municipal DRRM activities should have an enhanced inclusion of tourism MSMEs. The activities could be implemented as a municipal endeavor or at the barangay level (for big communities) to empower barangay DRRM committees and enhance consolidation of these sectors.

Governance resilience efforts for City DRRM Office are just limited within its role as DRRM implementer. The implementation does not yet extend to empowering tourism MSMEs that would boost their capacities to manage disaster risks. The extension of implementation will be able to provide a venue of strengthened collaboration, joint problem solving, and effective leadership among tourism MSMEs. The office, on the other hand, expressed transparency by providing unbiased

Table 7 Status of post-Haiyan areas in terms on dimensions of resilience

Dimensions of resilience	Strengths		Points needing improvement	
	Urban area	Rural area	Urban area	Rural area
Social resilience	Intensified training of barangay DRRM committee	Small businesses organization	City DRRM Office may implement activities that would promote strengthened network between communities and business sectors	Municipal DRRM Office may provide activities that will enhance cohesion among small businesses and vulnerable sector in promoting DRRM
	Barangay orientation to access and maximize disaster fund	Emergency fund for recovery and rehabilitation of vulnerable sectors		
	Business sector representation	Contingency trainings for business associations		
		Collaboration with Department of Trade and Industry for price monitoring		
Governance resilience	Transparency of fund utilization and disaster volunteer recruitment	Formulation of business associations	Enhancement of joint problem solving and power sharing among small businesses	Venues for joint problem solving, transparency, and power sharing
	Collaboration with local chief executive and other LGUs	Added security to establishments		
		Unbiased disaster management implementation		
		Flexibility to plan changes based on implementation		
Environmental resilience	Implementation of mangrove eco-parks	Mangrove reforestation and coastal cleanup	Enhance environmental education and outreach to push communities to provide policies for biodiversity conservation	Implement a comprehensive environmental education and outreach among communities and businesses
	Value formation on mangrove appreciation	Advocacies on waste management, segregation, and proper waste disposal	Involve small businesses in biodiversity conservation efforts	

(continued)

Table 7 (continued)

Dimensions of resilience	Strengths		Points needing improvement	
	Urban area	Rural area	Urban area	Rural area
	Renewable energies in the transportation sector			
Economic resilience	Sustained fishing communities	Street signage, facilities, and security for tourism activities	Enhance livelihood opportunity options to promote diversity of products	Extend livelihood programs to other small businesses packaged with DRRM schemes
	Alternative source of fishing livelihood	Coordination with government agencies for the implementation of recovery and rehabilitation livelihood	Provide access to financial resources that would promote disaster risk management among small businesses	
	Tax holiday incentives for small businesses			
	Added security for big businesses			
	Livelihood trainings for microbusinesses			
	Disaster resilience reduction management trainings for microbusinesses			

Source: Authors Own Table (2020)

implementation of its programs. However, the activities are vague for all businesses and do not specify inclusion of tourism MSMEs especially resorts located in coastal areas, which need to have a strong collaboration with their respective barangay disaster risk committees.

With regard to environmental resilience, both communities rely on mangrove reforestation as an initiative to promote biodiversity conservation. The City DRRM Office shows advancement in this aspect as the promotion of the mangrove ecotourism park can give birth to various activities. The dual impact of mangrove reforestation both as hazard mitigation and as proliferation of marine species is an efficient means to achieve environmental resilience. However, the sustainability of this endeavor can be undermined if not supplemented with environmental education and outreach programs to coastal communities and tourism resorts alike. The promotion of renewable energies not only in the transportation sector, but also in tourism establishments, is an equally important contributor to environmental resilience. The strategy does not only conserve energy but it also offers the least cost for establishments in the long run.

Livelihood programs promoting economic resilience are commendable for both locations. However, there is a need to promote livelihood programs that pave the way for diversity of products and to include tourism MSMEs. These livelihood programs should also be packaged with disaster risk reduction management schemes to guide small businesses in times of disaster. The economic sustainability of their businesses is a big factor toward the economic sustainability of the community as a whole.

Table 8 shows the recommended resilience program outline for postdisaster tourism MSMEs in general. Proposals culled from the initial best practices of DRRM offices in both Tacloban City and Guiuan, Eastern Samar, were in the context of social, governance, and environmental and economic resilience. Manifestations of social resilience are in the strengthened interaction, networking, social trust, and civic engagement of tourism MSMEs with the government sector. Orientation trainings starting from all barangay DRRM committees particularly on the access and pertinent disaster fund maximization can reinforce social resilience. Their utilization of funds should include contingency trainings for tourism MSMEs within their barangays to enhance business continuity planning and business DRRM. Conducting a series of disaster simulation workshops that emphasize the active roles of tourism MSMEs will further enhance social resilience in the community.

With the inclusion of tourism MSMEs in disaster fund utilization, there can be an organization of a tourism MSME DRRM association from the respective tourism sector. Each sector would be able to produce a disaster management trainer, customized to the disaster needs for each sector such as hotels, resorts, restaurants, and the like. The trained tourism MSME responder could conduct peer trainings for other tourism MSMEs within their sector thus spreading governance resilience to the whole tourism MSME industry.

Fostering environmental resilience through environmental education and outreach could inculcate inherent sustainable environmental business practices for tourism MSMEs. They can be encouraged to practice sustainable environmental business practices that may imbibe creativity within MSME tourism groups by providing incentives. There can be an integration of renewable energy utilization in business practices. A showcase of these best practices would encourage others to follow suit. More so, the promotion of mangrove ecotourism parks in both the urban and rural locale is also an efficient way to promote biodiversity and mitigate the adverse effects of climate change. Social entrepreneurship components of tourism MSMEs may be through the conduct of mangrove reforestations. The formulation of the mangrove ecotourism planning and marketing should be in coordination with tourism MSMEs, Department of Environment and Natural Resources, Department of Trade and Industry, and Department of Tourism to have a holistic and sustainable framework for the proposed coastal tourism destination.

Table 8 Recommended resilience program outline for postdisaster tourism MSMEs

Dimensions of resilience	Proposed programs	Proposed sample activities
Social resilience	Social resilient tourism MSMEs	
	Strengthening collaboration between barangay DRRM committee, tourism MSME organizations, and DTI	Orientation trainings for barangay DRRM committee on fund maximization that includes involvement of tourism MSMEs within the barangay
		Contingency trainings for tourism MSME associations in coordination with DTI for enhanced business continuity planning that incorporates disaster risk management
		Disaster simulation workshop with emphasis on the active roles of tourism MSMEs and barangay DRRM committee in the face of disaster
Governance resilience	Governance resilient tourism MSMEs	
	Inclusion of tourism MSMEs as recipients in the utilization of disaster funds	Instructors' training/workshop for tourism MSME disaster management volunteer associations in coordination with DRRM Offices, Department of Trade and Industry and local government unit
	Formulation of tourism MSME disaster management volunteer associations for hotels, resorts, restaurants, transportation, travel and tours, and sectors	Trained tourism MSME disaster volunteers can conduct peer trainings for tourism MSMEs in respective sectors
Environmental resilience	Environmentally resilient tourism MSMEs	
	Environmental education and outreach for tourism MSME disaster management associations on environmentally sustainable business practices	Seminar/workshop on environmentally sustainable business practices for tourism MSME disaster management associations
	Promotion of environmentally sustainable business practices done by tourism MSMEs	Provide incentives/awards for tourism MSMEs embarking on environmentally sustainable business practices

(continued)

Table 8 (continued)

Dimensions of resilience	Proposed programs	Proposed sample activities
	Promotion of mangrove ecotourism parks in coastal areas in coordination with Department of Environment and Natural Resources, Department of Trade and Industry, and Department of Tourism and Organized Tourism MSME Disaster Management Associations	Conduct mangrove reforestations as CSR components of tourism MSMEs
	Promotion of renewable energy in transportation, hotels, resorts, and other tourism establishments	Mangrove ecotourism park planning and marketing workshop with tourism MSMEs, Department of Environment and Natural Resources, Department of Trade and Industry, and Department of Tourism
		Advocacy trainings on incorporating renewable energy in tourism business practices
Economic resilience	Economic resilient tourism MSMEs	
	Livelihood trainings promoting diverse tourism MSME products/attractions with Department of Tourism, Department of Agriculture, and Department of Environment and Natural Resources	Diverse business ideas training/ workshops for tourism MSMEs highlighting best practices of successful tourism MSMEs
	Linking tourism MSMEs to financial resources in coordination with Department of Science and Technology, Department of Trade and Industry, and private financial institutions for disaster resilience funds	Financial literacy workshop for tourism MSMEs incorporating allocation for disaster resilience funds

Source: Authors Own Table (2020)

Livelihood trainings that promote diverse tourism MSME products and attractions can invigorate economic resilience. These livelihood trainings should encourage creativity of tourism products that are not only attractive but environmentally friendly as well. Recycled souvenir items can be one of these livelihood trainings such as eco bags from recycled flour sacks and many others that can add value to tourism MSME products. Training to diversify business ideas could spark creativity among tourism MSMEs, which potentially supplements the best practices of successful tourism MSMEs. Another important factor for tourism MSMEs is their ability to access funding for these ideas. To address access to funds, there is a need to link tourism MSME beneficiaries to other agencies such as Department of Science and Technology, Department of Trade and Industry, and other angel private financial institutions.

The adverse impacts of climate change took their toll upon developing economies such as the Philippines where micro, small and medium enterprises categorized a majority of businesses. The ravages brought about by Haiyan were both a curse and an opportunity to tourism MSMEs in Region 8. It is in this context that rehabilitating postdisaster tourism MSMEs needs a holistic approach. It should cover the dimensions of resilience for them to survive the ever-changing landscape of tourism destinations in the advent of climate change. A strong network and collaboration are key for government institutions in partnership with the private sector to promote sustainable and resilient rehabilitation of tourism MSMEs. Moreover, economic strategies should integrate environmental business practices with the integration of renewable energy use and disaster contingency aspects. The efforts will empower tourism MSME and pave the way for sustainable growth. Strategies should not only address temporary solutions for compliance purposes but should target the heart and soul of sustainable development. The efficient management and amalgamation of economic and environmental strategies could fortify social resilience among various tourism stakeholders. A fortified social resilience anchored on economic and environmental schemes may be the best test of governance resilience. A socially resilient postdisaster tourism destination can continually address the challenges of climate change unabated by any catastrophe that may arise as they draw strength from cohesive partnerships.

The right strategies anchored in the OECD comprehensive development framework of economic, social, environmental, and governance resilience could further promote economic growth. Economic progress, in turn, can give birth to more sustainable and disaster-resilient endeavors, thus the importance of a policy environment and business ecosystem for the continued transformation of tourism MSMEs. The harnessing of available resources with the support of government entities, industry, and the community can push against barriers to postdisaster sustainability. An empowered tourism MSME can be a catalyst toward the development of the overall postdisaster community.

In Fig. 2, good governance with the help of the people and other stakeholders could shape economic progress and environmental endeavors. An economic activity that is integrated with environmental efforts may promote diverse products and attractions for tourism MSMEs in post-Haiyan areas. This is in conformity to the position of O'Brien and van Dorresteijn (2018) where government should prioritize an enabling environment that incorporates MSMEs in the pursuit of investment in the public sector and climate strategies.

Furthermore, literature on business resilience posit strategies on the application of survival, adaptation, and innovation (Dahles 2018). Dahles (2018) adds that businesses are mostly successful in sustaining operations even during crisis when they implement diversification within and throughout the tourism industry. The diverse tourism MSME products and attractions form part of the supply side of the postdisaster tourism community. Controlled tourism and tourist satisfaction on the demand side complement the supply side. The demand side implementation of strategic policies on capacity management includes not allowing overcrowding to take place, sustainable practices incentives, and satisfaction of tourists (Roxas et al. 2018).

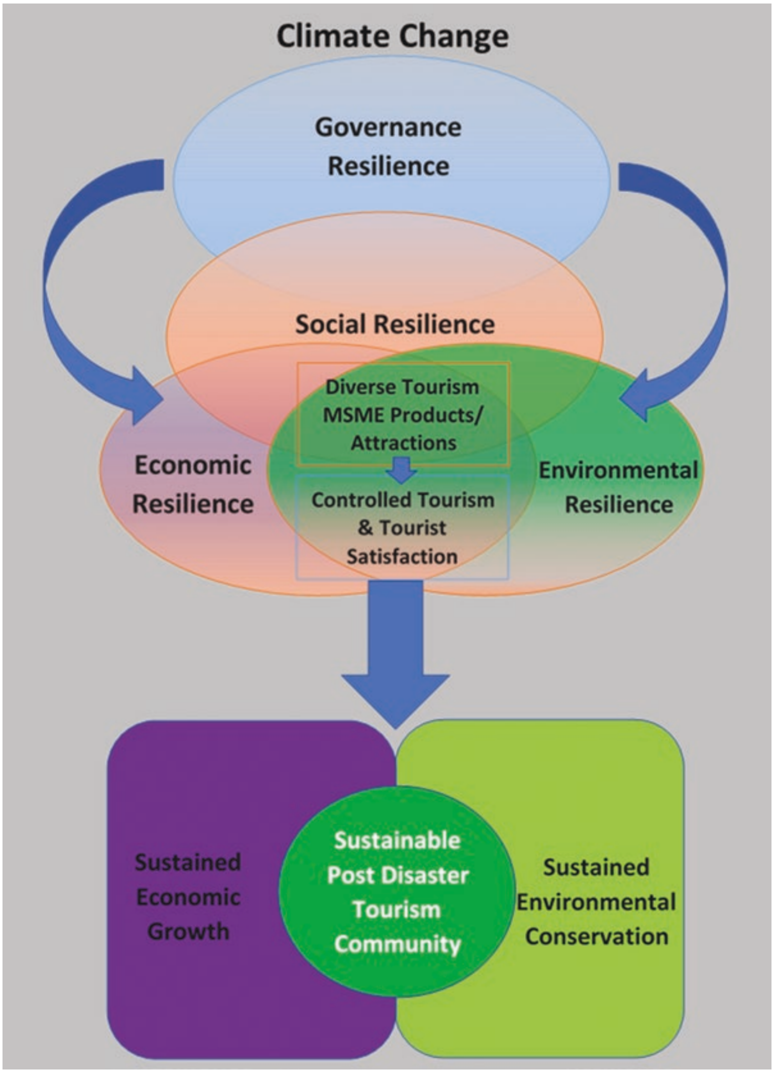

Fig. 2 Resilience framework for postdisaster tourism MSMEs. (Source: Authors Own Figure (2020))

These efforts are important catalysts toward a sustainable postdisaster tourism community anchored on sustained economic growth and sustained environmental conservation.

Nonetheless, though resilience is not equivalent to sustainability (Lew et al. 2017), most authors look at tourism resilience in relation to sustainable development (Lew and Cheer 2018; Cochrane 2010; Luthe and Wyss 2014; Becken 2013). In fact, Saarinen and Gill (2019) argue that a fundamental part of sustainable tourism thinking is resilience. Better governance implementation and management (Saarinen and Gill 2019) in the form of governance resilience uniting social, economic, and environmental resilience to the fore is a key factor in sustainable tourism development. As shown in Fig. 2, the enabling function of DRRM offices to reinforce resilience among tourism MSMEs in the supply side and controlled tourism in the demand side will contribute toward a sustainable postdisaster tourism community. The sustainability of the postdisaster tourism community will be held in place over time by sustained economic growth in tandem with efforts on sustained environmental conservation. The local government units can see the significance of their role through governance resilience practices in providing an enabling environment for tourism MSMEs and the rest of the postdisaster tourism destinations in general. The tourism MSMEs on the other hand can integrate strategies to enforce resilience in their business plans and business continuity plans. Their sense of security and safety against future disasters will empower them to diversify tourism products/attractions in their business plans for them to provide added satisfaction for tourists. The diversification of tourism products and attractions, ideally, should integrate environmental conservation techniques, for example, the use of resources and waste management practices in their packaging. All the aforementioned efforts will uphold a sustainable postdisaster tourism community.

8 Conclusions and Implications

Typhoon Haiyan was both a curse and a revelation to DRRM institutions as well as tourism MSMEs in Eastern Visayas. It brought huge devastation to an area, which has been economically struggling and beset with the challenges of climate change. However, the onslaught of the typhoon opened up to discoveries and unraveling of the best potentials of the region. At a macroperspective, despite low-economic levels, the area is blessed with geographical, historical, and cultural tourism potentials. More so, it has the tourism MSMEs to translate these potentials into economic growth and sustainability.

On the part of the government, the typhoon showed some realizations on limitations of the practices in both the urban and rural areas particularly for DRRM offices. This paved the way to initiate institutional changes that embraced not only a limited focus on disaster resilience but on a larger scale, encompassing social, environmental, economic, and governance perspective. DRRM offices play a large role in promoting a sustainable tourism economy in these postdisaster areas. DRRM offices can do this by extending their services to tourism MSMEs in coordination with Department of Trade and Industry, Department of Tourism, and Department of Environment and Natural Resources in protected areas. A resilient tourism MSME, supported by strengthened and compliant DRRM offices, will allow the former to address the barriers of providing diverse tourism products and attractions anchored in environmental perspectives. This could translate to economic growth and consequently more sources to promote climate mitigation and adaptation of business practices toward sustainability.

The contents of this chapter could provide insights for policies that are specific to postdisaster tourism MSMEs. However, postdisaster areas with tourism potentials could also benefit from future studies on disaster resilience that are peculiar to other tourism sectors such as accommodation, food and beverage, travel and tours, and transportation.

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