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EDITORIAL

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Guest Editors

MANAGING CHANGES INTO INTERNATIONAL MARKETS. FLEXIBLE STRUCTURES AND KNOWLEDGE SHARING FOR FIRM COMPETITIVENESS

Patrizia Silvestrelli
University of Macerata (Italy)

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Abstract

This paper focuses on the analysis of organizational flexibility as one of the most important prerequisites to implement business strategies, particularly at international level. Turbulent and endless changes into international environments, high competition, innovation technology development, and consumer shifting towards new needs and behaviors lead companies in finding appropriate strategies to remain competitive. This implies to look continuously for better solutions to structure organizations, manage people, and improve knowledge. Flexible structures allow not only to faster adapt to ever-changing business needs, but also to facilitate information exchange and – when required – modify working procedures and people behaviors. However, any process of organizational change is onerous and finds obstacles to be implemented. Change requires top managers and subordinates involvement, in terms of their comprehension and acceptance of business choices; in this way, they can concretely support innovation. The role of infra-firm communication is here crucial since it represents the vehicle through which change can occur and people can acquire, create and diffuse knowledge. This is the base for developing new strategies and making the firm grows. However, the effort for modifying organizational assets is an endless process. Market forces as well as economic, political and social variations obligate companies to change and readjust their internal resources in order to remain competitive or even to survive.

Keywords: International environment; Organizational flexibility; Change management; Infra-organization communication; Knowledge improvement.

1. Introduction

This article focuses on the analysis of organizational structures supporting international strategies by giving companies the ability to respond faster and effectively to environmental challenges.

Unpredictable and ceaseless changes into international environments, higher competition infra and inter-sectors, innovation technology development, and consumer shifting towards new

needs and behaviors force companies in finding appropriate strategies to maintaining their competitiveness. This implies to look constantly for better solutions to define appropriate structures, in order to manage people, exploit efficiently and effectively tangible and intangible resources and improve business knowledge (Hagel, 2010; Hill, 2011).

In this context, traditional configurations (like divisional and matrix structures) seem no longer suitable to respond adequately to today challenges. Therefore, companies search for flexible structures, which are more similar to networks than to hierarchical configurations (Halal, 1994). These forms are more appropriate to manage uncertainty, instability and variability of the environment in which firms operate (Lawrence & Lorsch, 1967). Moreover, organizational flexibility is required not only to adapt faster to ever-changing business needs, but also to facilitate information exchange and – when required – modify working procedures and people behaviors. Therefore, organizational flexibility and communication are interdependent: on one hand, flexibility sustains communication process because interactions can occur without the limitations arising from hierarchy and bureaucracy; on the other hand, communication represents an important prerequisite to increase organizational flexibility and make business changes successful.

Several scholars agree that flexible structures can help organizations in a significant way to gain and maintain their competitive advantage especially at international level, since they improve interactions among people within headquarter and subsidiaries (Halal, 1994; Ashkenas *et al.*, 1995). Moreover, flexibility does not support only infra-firm relationships but also inter-firm relationships. Particularly, we referred to those ones arising from agreements and alliances that a firm develops with other organizations, belonging to both the same supply chain and to other industries and sectors (Hamel, 1991; Grant, 1996).

However, the basic dilemma of organizational design remains unchanged. Companies are constantly oriented to finding the appropriate way to group people, processes, and units in relations to their strategic goals and specific competitive environments. It is not easy to planning and implementing change though and, even if firms “need” to do it, they have to deal with several resistances to change (Ulrich & Lake, 1990).

In this regard, one important factor influencing change success is the involvement of all employees (both top managers and subordinates), in terms of their comprehension and compliance about *the need to change*. It is clear that infra-firm communication plays a strategic role. It becomes the tool through which people can acquire and diffuse knowledge, and, in this way, be able to activate and support change (Nonaka & Takeuchi, 1995). It is known that knowledge is the fundamental base for improving organizational culture, developing new strategies and making the firm grows (Cohen & Levinthal, 1990; Senge, 1990; Paniccia & Valeri, 2010).

This paper comes from the idea to provide the reader with an in-deep analysis of the issues introduced above in order to explain some important implications related to strategy-structure relationships. These ones affect the way and degree in which companies carry out change, without disregarding the fact that any modification entails costs from an economic, organizational and administrative point of view. This work does not demand to be exhaustive, since there are other important factors to analyze in-depth. Moreover, it would be meaningful to verify empirically how organizational flexibility and knowledge sharing can truly support business strategies. Thus, this paper is a preliminary analysis, aimed at debating some important management issues, trying to give an explanation on their interdependences and show the difficulties faced by companies in dealing with the today international business environment.

2. The challenge to face international business environment

In today competitive environment, going international represents a necessary condition for most companies to grow and, sometimes, even to survive. Foreign environments provide firms of tangible and intangible resources useful to catch business opportunities and develop new strategic paths; at the same time, internationalization can be the vehicle through which a firm acquires new knowledge, for example, by cooperating with other companies worldwide. However, it is not easy to operate at global level, especially if we consider the remarkable changes that have characterized international environments in the last decades, which force firms to implement strategic adjustments in order to adapt quickly to new competitive conditions (Hill, 2011; Brondoni, 2014), as illustrated below.

Firstly, international trade has significantly improved due to the less restrictions developed by local governments, thus allowing firms to move products and services more efficiently across borders and providing customers with an easier access to a variety of goods and services at competitive prices. Secondly, countries continuously develop new infrastructures, norms, and economic and financial policies to create favorable conditions for foreign investments, which represent one of the most important prerequisite for economic and social development in today world. Thirdly, the rapid progress in communication and innovation technology, which have enabled not only people to interact faster and easier, but also firms to produce, place and promote their products and services worldwide more efficiently in terms of time and space. This is consistent with another factor related to delocalization and outsourcing implemented by firms. These strategies have dramatically modified structure and form of operations within industries, since resources are searched at global level in order to achieve cost reductions and new market opportunities; this has increased the degree of competition worldwide not only in final markets but also in upstream activities of supply chains. Finally, the remarkable changes in consumer behavior, where customers are more aware about their needs and continuously search for new products and services to satisfy them, thus pushing firms to introduce innovations aimed at catch as many customers as possible and, as a result, increase their market share.

All the factors listed above are consistent with the definition of globalization given Govindarajan (2000, p. 275) according to which globalization is a “growing economic interdependence among countries as reflected in increasing cross-border flows of three types of commodities: goods and services, capital, and knowhow”. Globalization is mainly a closer integration of the countries and peoples all around the world, which involves both the reduction of costs of transportation and communication and the breaking down of artificial barriers to the flows of goods, services, capital, knowledge, and people across borders.

We cannot disregard that globalization multiplies both opportunities and threats for companies. In fact, firms have to face, on one hand, the homogenization of consumer behaviors and needs as well as the convergence of technology and products, and, on the other hand, the increasing markets’ differentiation, which requires specific marketing strategies to respond effectively to local customers, which may be different from an economic, social and cultural point of view (Gupta, 2011). This is consistent to the *glocal* approach that takes in consideration both the need to globalize activities as well as products/services and the need to differentiate them to adapt to local environments (Bartlett & Ghoshal, 1988). Therefore, it is quite difficult to approach international markets in an undifferentiated way. Rather, a global approach to markets can eventually be appropriate in case of *different cross-country segments*, which present homogeneous characteristics among them in terms of customer needs and, thus, marketing strategies (Ghemawat, 2003).

Thus, companies have to manage the trade-off between worldwide and nation/region-wide perspective, in relation to both their strategic needs and changes in competitive environment.

This implies that successful interactions with international markets depend also on the degree of “sensitivity” and interest expressed by a firm while approaching to different countries.

What stated above concerns mainly big companies, which have already reached a high degree of internationalization and are familiar to foreign countries. The situation can be significantly different for small enterprises, which most of the times do not own those resources required to approach to international markets. However, we cannot disregard that several small firms have developed successful strategies to sell their products worldwide, thanks not only to the ability of entrepreneurs and managers, but also to the type of products they sell (Cafferata, 2009). This is the case, for example, of Italian small firms operating in the agri-food sector and fashion industry. Most of these enterprises are able to commercialize their goods worldwide through a wide network of buyers and retailers that make those products available to customers in different countries. In this regard, the fact that they are *Made in Italy* products often facilitate promotion and distribution since customers know and appreciate their quality, design and image (Bertoli & Resciniti, 2012).

Really, the level of internationalization can affect the way a firm approach to international markets. In this regard, literature states that there are three main orientations in international management: 1) domestic market orientation; 2) multi-domestic market orientation, and 3) global market orientation. These orientations follow an increasing path in terms of growth and degree of involvement in international activities – from casual exporting to global marketing – and they are related to the EPRG Framework (Ethnocentric, Polycentric, Regiocentric and Geocentric orientation), which varies according to degree of internationalization and willing to achieve international strategies (Perlmutter, 1969). Moreover, regardless of the type of entry strategy adopted by a company and its degree of internationalization, it is relevant to take in consideration the fact that operating at international level requires a high ability to manage relationships worldwide. This regards not only relationships between the firm and its foreign stakeholders (like local governments, competitors, trade unions, and customers) but also relationships with other companies through partnerships and various forms of cooperation (Brondoni, 2014; Grant & Baden-Fuller, 2004). At the same time, we cannot ignore the relations generating among managers within the company, which can come as well from different countries and cultures (Schuler & Jackson, 2014).

Generally, interactions at international level are useful to increase the firm organizational learning, especially in the case of alliances and networks able to generate growth and innovation. This can be achieved when each enterprise – participating to one or more international partnerships – can improve its skills by benefiting from the synergies generated by *the whole pool of knowledge* (Kraatz, 1998). In fact, internationalization strategy can take place through different forms of cooperation with other enterprises worldwide, therefore acquiring resources and skills, which a firm can hardly develop autonomously (Hamel, 1991). Thus, international alliances become the way through which a firm can grow, without enlarging its structure or investing directly in foreign countries.

In these terms, it is misleading to see the company as a single economic entity, which carries on its strategies with a more or less global orientation; rather, a company has to be analyzed as *a part of international clusters* and its internationalization can sometimes take place just because it belongs to those boundaryless networks (Nadler & Tushman, 1999). Thus, we can assume that *the ability and degree of internationalization depend also on the type and intensity of relationships that a company is able to implement and manage at international level*.

When we talk about international relationships, it is not possible to ignore that globalization lead companies to deal also with *ethical issues*. In the present complex environment where changes are unpredictable and quickly, it is necessary to establish not only more control in

business activities and procedures but also more attention to behaviors and ethical conducts in terms of social responsibility and sustainability (Caselli, 2003; Brondoni, 2010). For this reason, there is an increasing interest by scholars as well as by policy makers in business ethics: companies should follow responsible behaviors not only toward the external environments (i.e. all stakeholders) but also to their internal *milieu* (i.e. people working in the organization), in order to respond to current and ever-changing business needs (Zucchella, 2007; Schuler & Jackson 2014). In fact, the economic paths occurred in the last decades influenced social behaviors and people attitude to needs and life-styles, generating economic and social anomalies that undermined ethical principles and develop a more heightened individualism.

For this reason, the global community (governments, international organization, policy makers, scholars and individuals) focus the attention to defining guidelines inspiring business conducts towards responsible actions suitable to generate sustainable development. This is consistent to the definition of *sustainability* that was formalized by the World Commission on Environment and Development (*Brundtland Commission*) in 1987. The report defines sustainable development as «development which meets the needs of current generations without compromising the ability of future generations to meet their own needs». At this point, the role of companies is crucial, since their actions influence not only the economic and competitive dynamics, but also the social and natural contexts where they operate. Therefore, achieving sustainability implies to be able to combining economic growth with social development and environmental resources safeguard. In this regard, we mention the three pillars of sustainable development that should inspire entrepreneurial and managerial actions; at the same time, they can be also guidelines for every human behavior and the entire global society.

- Economic effectiveness: it is related to an organization “well-acting”, which implies to pursue company mission, obtain adequate economic returns, and generate wealth for local communities. In other words, to remain effective and efficient in the long term.
- Social effectiveness: it concerns the ability of maintaining fair relationships not only with employees but also with all other stakeholders, primarily the local actors sited where the company is rooted, respecting their culture, needs and expectations.
- Environmental effectiveness: it is associated to the respect of natural heritage, which implies to employ resources rationally and avoid damages in order to maintain the environmental natural equilibrium.

By following the three pillars listed above, any firm should create a specific “corporate code of ethics” during its growth, so defining guidelines for any business activity in relation to the type of goals to achieve. However, interaction with different contexts and relationships with other organizations lead companies to face continuously new ethical issues, so that it is sometimes difficult to reconcile their own “ethical standards” with those of other organizations and, even more, located in other countries. In fact, we cannot neglect that business ethics is influenced by cultural variables, like values, religion, customs, etc., which can vary significantly among countries (Zucchella, 2007). The major difficulty regards the fact that it is not possible to define a “global business ethics” acknowledged and shared worldwide, since ethical principles not only vary from one society to another, but also within the same context from both time and space point of view. For this reason, today the global community is strongly committed to defining new standards for implementing sustainability through profound sharing of ethical principles and common codes of conducts.

In conclusion, there is no doubt that competing at international level demands a huge effort to firms, because of the environmental complexity due to unpredictable and significant changes in economic and social assets. Certainly, flexibility in organizing business resources and

developing a “culture of change” can help companies in facing competitive challenges worldwide.

3. Flexible structures for improving knowledge

In each historical era, market forces demand new organizational forms as managers seek new ways of arranging assets and resources to produce the goods and services that customers want and expect (Meyer, Tsui & Hinings, 1993). According to literature, hierarchical functional structures dominated the Industrial Age because they were suitable to its relatively stable and predictable external business environment, but the explosion of environmental turbulence has dramatically altered the situation. Divisional structures, on the contrary, has been designed for disturbed and unpredictable markets, and seemed to be better suited to support diversification and improve internal coordination needs than to rapid advance into new markets and fast adjustments in relation to the environmental changes. Finally, the matrix structure has been the response to highly unpredictable markets, and allowed to focus on both stable and emerging markets segments and clients.

Companies find that those traditional, institutionalized organizational designs no longer enable them to remain competitive since they are too slow in responding to the heterogeneous, fast-changing business environment, defined as “hyper turbulent environment” (Mohrman, Galbraith & Lawler, 1998). In fact, today environment is challenging due to its “degree of volatility”, which depends at least on three important factors:

- a) *uncertainty* provoked by unpredictable changes in customers’ behavior, new technologies in production systems, retailers’ competitiveness, and financial capitals shifts worldwide;
- b) *heterogeneity* related not only to products and services, but also to distribution channels, ways to compete and resources to exploit;
- c) *volatility* concerning prices, innovation technology, regulatory restrictions, and shortage of raw materials.

Another significant feature characterizing today environment is the *velocity* through which changes take place. This pushes companies to modify their strategies and quickly adapt to new competitive conditions, and, at the same time, find the organizational architectures suitable to support strategic choices. Therefore, traditional hierarchical structures have evolved to forms more fluid, which are appropriate to follow strategic imperatives (Nohria & Ghoshal, 1991). This requires the ability to design organizational configurations that are flexible enough to allow the firm to managing effectively uncertainty in a broader context of discontinuous change. Nadler & Tushman (1999, p. 49) emphasize this concept and state that while “Historically, the purpose of organizational structures was to institutionalize stability; in the organization of the future, the goal of design will be to institutionalize change.”

It is clear that strategy and structure are strictly interconnected. Particularly, strategy drives organizational design that means that the need to reorganize is triggered by a strategic shift driven by new technologies or market changes (Chandler, 1977). At the same time, we cannot disregard that organizational design affects strategy since structure defines hierarchy and gives those formal rules to organize, coordinate, and manage people and the other resources within the company.

Since flexible configurations are able to respond to business needs more effectively than traditional structures, most companies organize their activities through departments, divisions and functions, which behave as if they are autonomous “enterprises” (Halal, 1994; Ashkenas *et al.*, 1995). Of course, this kind of organization needs to be supported by new entrepreneurial forms of management, where empowerment, initiative and control make infra-firm

relationships more fluid and faster. In these terms, firm's configuration is no longer a hierarchical structure operating through vertical top-down communication. Rather, it is a network of units interconnected and interacting through systems of "lateral communication". An example of organizational design with these characteristics is the cellular form (Miles *et al.*, 1997), where each cell has to reorganize processes and strategies in order to make its expected contribution to the overall company.

The flexibility related to governance abilities as well as to technical and managerial skills contribute to strip away that part of bureaucracy that might limit flexibility. In these terms, "the organization is no longer a pyramid of power but a web of changing business relationships held together by clusters of internal enterprises" (Halal, 1994, p. 75). In other words, organizations become a process rather than a structure; they tend to behave as "organic systems", operating more through circular interactions and interconnections (both at infra and inter-firm level) among parts than through linear chains of cause-effect.

These organizational changes are consistent to flexibility and specialization in operation systems, related the current post-Fordism era, which characterizes the modern production systems: together with standardization and mass-production typical of Fordism systems, flexibility is required today to deal with products and customers differentiation.

These organizational features can improve the company's learning process by facilitating information diffusion and innovation. In fact, developing learning process is related to the organization's ability to look at continuous improvements to guarantee flexibility and efficiency of the entire organizational system. Companies able to give up traditional approaches are more capable to deal with the impact of environmental changes and adapt to new conditions. In this regard, we agree with the statement according to which "A culture with a positive orientation to knowledge is one that highly values learning on and off job and one in which experience, expertise, and rapid innovation supersede hierarchy" (Davenport, Long & Beers, 1998, p. 52).

Therefore, the attitude of firms to innovate is strictly related to their ability to unlearn. In this way, companies can create and improve new organizational behaviors, suitable to cope with the evolution of environmental contexts where they operate. Inter-organizational relationships can improve this ability, since firms experiment new ways to cooperate not only with upstream and downstream partners but also with enterprises operating in different sectors (Hamel, 1991; Kraatz, 1998).

In particular, relationships among firms backward and forward along the supply chain (from raw materials, to parts and components production, to manufacture and assembly, to distribution and final sale) can generate networks through different forms of outsourcing and "insourcing". In this way, relationships within the supply chain can become so tight that it becomes sometimes difficult to determine where one organization ends and the other begins. In this regard, Meyer, Tsui & Hinings (1993, p. 1178) highlight that "the parts of a social entity take their meaning from the whole and cannot be understood in isolation. Order emerges from the interaction of those parts as a whole."

What stated above becomes more relevant if inter-firm relationships develop worldwide, involving companies – coming from different countries and sometimes operating in different sectors – that share resources and competences. In this way, the interaction creates a concrete opportunity to acquire new knowledge and improve *transnational learning*, arising from the mix of different resources and competences combined within the network (Hamel, 1991; Ghemawat, 2003). Generally, this situation occurs in multinational companies, where the ever-expanding transnational linkages consist of different companies, subsidiaries, suppliers, and individuals and they result in relational networks (Brondoni, 2014). However, also small and medium firms find advantageous to participate in international networks. In fact, becoming part of a network can represent an important source of competitiveness for small enterprises, which

can exploit knowledge and experience from the partners belonging to the same international network.

4. The challenge of implementing organizational change

Although companies shift today towards structures more flexible, any advantage of such change can be gained only by tolerating an increase in disorder. In fact, organizational changes may determine modifications not only in the structure (departments, offices, hierarchical levels, etc.) but also in managers and employees' behavior, in relation to their roles, positions and degree of freedom in decision-making process (Morrison & Milliken, 2000).

Even if change demands that managers and employees unlearn old habits and assumptions, which reinforce hierarchy and inhibit empowerment, it is challenging to realize radical changes. Generally, companies adjust their organization through process of gradual modifications over the traditional structure, aimed at managing more effectively the trade-off between control and freedom. In fact, organizational freedom may carry out creative energy, but this energy can turn destructive if not guided into useful paths. Conversely, hierarchies may avoid this disorder, but they inhibit creative freedom. Flexible structures are aimed at overcoming this dilemma: they do not represent *laissez-faire* systems, but "guided" systems, where people involvement, empowerment and roles are regulated in base of formal rules, which in any case are not compromised by a rigid authoritarian hierarchy (Halal, 1994).

In any case, managing change for implementing new organizational assets encounters several obstacles inside the firm.

Firstly, there are *structural inertia* referred to the heaviness of "administrative machine" that may slow down the entire process (Kotter, 1996). Secondly, as stated by Simon (1991), the *bounded rationality* of people can compromise change because it is almost impossible to evaluate completely advantages and disadvantages of strategic choices and, particularly, all their related consequences in the business system. Finally, *personal resistances* that regard the propensity of people to conserve roles, positions and power (Morrison & Milliken, 2000); such tendency prevents companies from organizational change since any modification is often negatively affected by past procedures, obsolete attitudes and limited perceptions. In this regard, *business corporate culture* plays an ambivalent role: on one hand, it can be an important source of innovation and development; on the other hand, it can provoke conservatory behaviors, since it is source of company identity and social cohesion.

For all those reasons, successful companies use to recruit people (particularly top managers) which welcome and are able to manage change. They are supposed to own the ability to create an inspiring vision, which all members of the organization can comprehend and trust, as well as leadership skills in managing and institutionalizing change (Kotter, 1996; Begley & Boyd, 2003). These personal features are more crucial when the company operates in economic sectors characterized by unexpected changes due, for example, to innovation technology. In this case, difficulties in predicting variations, high degree of instability and turbulent environment require high flexibility to respond to environmental changes and – when possible – even to forestall market modifications in order to reduce the lead-time of competitive responses. From this point of view, the prudent executive will have to combine different degrees of hierarchical control and organizational freedom to find that solution, which best suits the firm strategic needs.

It is clear that any organizational change is a challenging process and requires a specific managerial mindset, which regards ability to envision, motivate people in improving their entrepreneurial and self-organizing attitude, and communicate the need to carry on changes in order to make organization more performing (Begley & Boyd, 2003). In other words, leaders learn when it is best to encourage autonomy and differentiation, and how to create value through

the selective use of linking structures and integrative processes. This means that organizations seek “congruence” at the enterprise level and manage differences at the same time, in perceiving internal architectural divergence as a powerful source of evolutionary strength.

Together with the factors listed above, there are circumstances outside the firm, related to environmental conditions, which can influence organizational change in a significant way. We can mention the following ones:

- need to develop products and services suitable to satisfy global customers, who are more aware and careful than in the past about preferences selection, quality evaluation and business image;
- political and social contexts, which influence mode and degree of firm involvement with governments, local administrations and associations as well as with competitors, distributors and customers;
- international trade modifications in terms of norms, laws and barriers, which can vary significantly from one country to another, making promotion and selling of products more difficult to be achieved;
- difficulties in managing changes within the own sector, where competition increases continuously due also to the “contaminations” of other firms belonging to different industries; this happens for example between consumer electronics and telecommunication industry, between pharmaceutical and chemical sector);
- need to develop international partnerships and alliances that certainly give companies the opportunity to grow but that requires specific competences and flexibility to manage the system of relationships worldwide.

All what stated above shows that firms need to change continuously, pushed both by internal and external factors. This process is never-ending because it depends on the interdependence between firm and its environment: any modification, taking place within the environment, affects strategic choices of firms as well as any innovation introduced even by a single firm can modify heavily the degree of competitiveness of other companies, modifying the way market forces interact among them. This means that firm and its environment *co-evolve* through a process of mutual exchange, where changes take place not only in terms of *time (evolution)* but also in terms of *space (co-evolution)*. This implies that what changes is not only the degree but also the content of competition as well as the way firms organize their resources to face the ever-changing and turbulent environment.

4.1. Organizational changes and human resources involvement

Today’s companies need to face continuously changes in strategy-structure adjustment since organizational assets are required not only to better arrange business resources but also to optimize them in order to achieve competitive advantage. In fact, the value of a resource is related not only to its procurement cost but also to *the way it is used*. A resource has not value in itself: its value emerges when it combines with other resources and participates to the effectiveness of the whole operation system.

One of the most important resources for a company is certainly human resources, seen as source for competitiveness; as highlighted by Schuler & Jackson (2014, p. 49) “having projected human resources issues more forcefully into their overall strategic outlook, companies turn made investments in people as prime source of competitive advantage”. Their role is particularly relevant in innovative processes where creativity, competences and flexibility are required to deal with change. Due to uncertainty and ambiguity of organizational change, it is important to involving people, which require to be engaged in continuous learning in order to keep up with organizational changes and ensure their continued contribution to the

organization (Schulz, 2001). However, it is not easy to improve people involvement, at least for three reasons.

The first one regards the kind of *commitment* between firm and its employees. The relationship should comprehend loyalty and profound values sharing: on one hand, firm enhances the value of specific human capital that contributes to competitive advantage creation and, on the other hand, employees have the possibility to preserve and increase their competences (Kofman & Senge, 1993). If employees do not feel enhanced, involved and committed, they may resist to change, provoking delays and inefficiencies.

The second reason is that human resources management is affected by *firm size* and *business culture*. For example, in cases of small firms, entrepreneurial factors influence personnel policies (including recruitment, selection, training, and compensation) and decisions are sometimes taken in base of personal bias and attitude of the entrepreneur and are affected by “family power” dynamics. This is sometimes counter-productive since personnel choices do not follow those formalized procedures, allowing to better match individual competences with job objective and description.

The third aspect that can limit employees’ involvement in organizational changes is the *organizational structure*. If the firm is a rigid hierarchical system, it is possible that information process slows down and people cannot interact and communicate properly (Laursen & Mahnke, 2001), therefore influencing negatively speed and effectiveness of organizational changes.

From this point of view, we can say that *organizational change is related to people mental patterns*. Regardless to the type of change, organizational modifications involve the way people think, acquire knowledge, accept and act for implementing change (Kofman & Senge, 1993). In this regard, an interesting example is reengineering and restructuring strategies adopted by several companies in the past decades in order to reduce costs and increase efficiency (Henkoff, 1994). In some cases, firms have ignored the complexity of these organizational changes and attacked their hierarchical dysfunctions unsuccessfully through simplistic or unidimensional means, believing that downsizing their hierarchies would automatically change their organizational dynamics. This view is misleading since hierarchy is necessary to allocate resources and set directions. In other words, we cannot take for granted that by “removing layers” vertical boundaries are loosened and that information, competence, decision-making, and rewards are anyway spread through lower levels of the organization.

In this regard, it is useful to mention the classification illustrated by some scholars, according to which there are firms that downsize mainly for cost-containment and profitability (cost-control), and those ones that did so to improve productivity, deal with competitors more effectively, or implement a new business strategy. Firms that cut back for the sake of cost control experience more post-downsizing problems than those that downsize for purpose of increased productivity (Henkoff, 1994). Moreover, downsizing can imply work force reduction without necessarily improving organizational operations, because some competences and skills are lost in the process. The consequence of downsizing differ in relation to the company’s ability to innovate their approach to human resource management. Firms that are typically slowest to make this kind of innovation are far more likely to incur higher-than-expected severance costs, to increase their use of costly overtime and consultants, and to lose more of the “wrong kind of people” than are those companies considered leaders in human resources innovation. These slow-to-innovate firms find themselves in a downward spiral, continuing to lay off people without the critical mass of skills and motivation to right the business (Kofman & Senge, 1993).

For what stated above, it is clear that employees’ involvement represents a crucial factor influencing change outcome and the firm’s ability to recombine competencies, knowhow and skills (Kogut & Zander, 1992; Pfeffer, 1994). A weak attention to human resources during the

change process can provoke organizational dysfunctions, since people represent one of the most crucial barrier to perform organizational adjustments. Regardless to firm size, workforce composition or industry, the key differentiator in change performing is most of the times the relative emphasis that a firm gives to human resources enhancement.

5. Infra-organizational communication for supporting business change

In order to face competitive environment, we argued that companies might achieve organizational flexibility not only through implementing structures more adaptable but also by training people within firm in dealing with change. Therefore, if people's mindset can represent a relevant factor for making change successful, how is it possible to develop that attitude needed to accepting and dealing with organizational changes?

Scholars and enlightened managers consider *internal communication* as one of the most important prerequisites to pursue organizational changes and improve business performance (Argyris & Schon, 1978; Phillips & Brown, 1993; Begley & Boyd, 2003). In order to be effective, communication should be a "circle-shape process" rather than a traditional downward spiral of information. This means that communication needs to take place through both *horizontal* ways (among managers as well as among employees) and *vertical/hierarchical* ways (between supervisors and subordinates). This virtuous cycle can facilitate information dissemination and support human resource policies according to firm goals and knowledge development.

In these terms, communication is aimed at cementing the bond between firm and employees, providing tools, modalities and contents, which are the base not only to do a good job but also to strengthen organizational culture (Schulz, 2001). For example, communication is determinant in training stage for people recently hired; in this case, socialization is achieved by maintaining open lines of communication, carrying out decision making in a consultative way, and by encouraging both formal and informal opportunities to make employees socialize.

In order to make communication effective, there are two important factors to consider, "social prerequisites" and "informative prerequisites".

Social prerequisites are the base of relationships among people within organizations and are usually generated and guided by the following aspects.

- *Mechanisms of control guaranteed by hierarchical positions.* Organizations need to be regulated by a central authority, which defines spaces and limits of people autonomy and guarantees that all tasks are carried out properly.
- *Habits and rules.* They represent a system of internal norms and implicit regulations, which manage job relationships, included those ones not officially formalized. They include also ethical behavioral codes, which people recognize and accept in their learning process within the firm.
- *Trust developed by repetitive relationships among individuals.* Reciprocal trust derives from different forms of interactions, regulated by a set of rules (both formal and informal), duties and feelings, which the members of a company repeat and acknowledge.

The other factor contributing to make communication more effective is *informative prerequisites*. They are related to the importance of giving people the appropriate information needed to do a job. People without information cannot be empowered to act with responsibility. Sharing information is determinant since respond to a natural desire in people to want to do a good job and participate in performance improvement (Phillips & Brown, 1993). Having people acquaintance with information regards not only job-related issues but also corporate culture

rules (both formal and informal), which regulate behaviors, roles and tasks (Schuler & Jackson, 2014). In case of new employees, for example, they learn transcendent company values and organizational folklore, including the importance of product quality and stories about the dedication and commitment of employees long since retired. This results in increased commitment to the company, willingness to work long hours, and decreased absenteeism and turnover.

Both social and informative prerequisites are more important for internationalized companies, where physical distance among subsidiaries can compromise information and knowledge dissemination and slow down the entire decision making process. Moreover, we cannot disregard that cultural differences can influence the way people learn and the extent to which they are familiar to routines and ethical behaviors (Grant, 1996). For this reason, information has to be codified in order to make it “visible” and usable to everyone. In this way, learning process can be improved generating new knowledge, which becomes the base for organizational routines development (Phillips & Brown, 1993).

The firm’s knowledge as well as all activities aimed at improving knowledge represent the foundation of a company’s distinctive competencies. However, to make these competencies truly useful, knowledge has to convert in “actions”. This means that knowledge should be incorporated into specific tangible assets (instruments, plants, etc.), managerial assets (routine, procedures, etc.) related to individuals’ skills, and cultural aspects that reside in the organization’s norms and values (Senge, 1990).

Moreover, we cannot disregard that knowledge codification becomes more crucial in case of *tacit knowledge*, which – differently from explicit knowledge (“know about”) – comprehends people know how that cannot always identified and codified. However, “tacitness” is the factor on which innovation takes place. Successful companies own the ability not only to have access to information and knowledge, but also to use those resources efficiently and effectively, by improving competencies suitable to generate innovation (Cohen & Levinthal, 1990; Kogut & Zander, 1992; Nonaka & Takeuchi, 1995). This is an ability, a tacit knowledge that cannot be expressed formally but it resides within people and organizational culture. For this reason, tacit knowledge may represent a distinctive competence because it is less imitable and, therefore, needs to be protected because it belongs to the business culture with its history, behaviors, policies and procedures. In other words, business culture is a social product, which company’s members constitute and maintain through their ongoing communicative interaction. In these terms, *culture is a product of communication* (Kofman & Senge, 1993).

Effective communication processes ensure that consistent, credible, and continuous information is shared so that employees can share a mindset about the business’s goals and means. In these terms, communication may help overcome resistance to change in which one common barrier is often a lack of information about the positive outcomes of change (Ulrich & Lake, 1990). At the same time, communication is the base to knowledge improvement because it allows to recombine new information with the existing knowledge so generating innovation (Wang *et al.*, 1998). However, developing communication is not easy to achieve due to several factors which obstacle informative flows.

First of all, many companies are still fearful of sharing information with employees, especially, when some “best practices” are specific and too complicated to be transmitted from one person to another. In particular, more knowledge resides in individual capabilities, more people tend to be in competition among each other and not inclined to share their own distinctive competencies and skills (Kofman & Senge, 1993).

A second factor concerns the fact that communication is often inappropriate and ineffective because few individuals control information and the degree of codification and standardization is limited (Schulz, 2001). Generally, power centralization and lack of empowerment do not

allow people to acquiring the needed knowledge to do their job effectively and participate to business operations.

Another factor regards the business organizational dynamics. Many companies remain hierarchically structured and retain bureaucratic procedures, which can obstacles information and knowledge improvement. For example, organizations often focus inappropriately on managing the life cycle of the hardware and software systems that produce the information instead of on the information itself. This implies that they fail to capture the additional knowledge necessary to achieve meaningful information quality (Argyris & Schon, 1978; Laursen & Mahnke, 2001).

We cannot disregard that technology and digital communication play an important role. In the past two decades, innovations have changed dramatically the way people communicate, facilitating their interactions in terms of time reduction as well as quantity and quality of information exchanged. We can say that with current information technology capabilities, there is no reason why anyone throughout an organization cannot have ready access to any information required to do a better job. Even though firm size and level of internationalization influence the degree of using internet and other technologies (Gregori, Marinelli & Temperini, 2015), the advantages arising by new information systems are noteworthy, since people can communicate instantaneously – despite time and space – and through a common global language. In other words, today’s organizations are “virtual space” or “cyber-ba” [9], where advanced in information technology provides people with new and more efficient ways to communicate and with timely access to more information. This regards all business activities, not only bureaucratic procedures but also manufacturing systems, which become more flexible and faster. This is consistent with the innovation related to *Industry 4.0*, which organize firms as *cyber-physical systems* throughout large networks (Brettel *et al.*, 2014).

6. Final thoughts

Environmental complexity pushes firms to find new ways to compete, by acquiring and exploiting not only tangible resources but also intangible assets, which, more than in the past, represent the source for competitiveness.

This never-ending search leads companies to abandon their traditional hierarchical structures in order to create more flexible and adaptive configurations that help them to deal with environmental challenges. However, any process of organizational change requires the involvement of all members of the company, in terms of their comprehension and acceptance of business choices. This is one of the most important prerequisites to make change successful, resulting in knowledge improving and innovation.

Flexible structures not only allow firms to adapt faster to ever-changing business needs but also to facilitate information spreading. On one side, flexibility sustains communication process because interactions can occur without limits due to rigid hierarchies and bureaucracy; on the other side, communication represents an important prerequisite to implement flexibility, needed to realize changes. If in hierarchical structures information risks to be dispersed because of rigid top-down communication flows, in more fluid configurations information is available on a “just in time” base. This means that the specific information required to do a job goes directly to those people entitled to act in order to achieve business goals. From this point of view, flexibility regards not only the versatility of organizational structure and the modalities through which communication takes place, but also the managerial abilities suitable to interpret environmental changes and, consequently, modify quickly and efficiently strategic business paths. In this way, knowledge improvement comes from information combined with

experience, context, interpretation, and reflection; in these terms, knowledge is a high-value form of information that is ready to apply to decisions and actions.

In any case, a perfect solution that can guarantee stability in the long time does not exist, at least for two reasons. The first one concerns the fact that companies cannot seek stability because change is the today imperative to deal with both the task and general environment, and, sometimes, even to survive. The second reason regards costs and obstacles in modifying the previous *status quo* and implementing a new asset. Several and different factors limit change, like scarce resources, lack of strategic vision, managers' attachment to hierarchical power and people skepticism towards innovations.

Companies represent complex systems struggling to design structures, manage human capital and exploit tangible and intangible resources in order to create the products and services that markets expect and want. The international dimension makes these goals more difficult to achieve, because of cultural diversity, geographical distance and costs to support international strategies. At the same time, we cannot disregard that responsible behaviors and ethical issues are not an options but an integral part of the entire business strategy. This means that a company should maintain corporate integrity and pursue profit goals without compromising the social *milieu* (both inside and outside the firm) and the natural environments where it operates.

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THE LIMITED CONSUMER RATIONALITY AND THE ROLE OF ENVIRONMENTAL CUES

Mădălina Bălău

Danubius University of Galați, Romania

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Abstract

The ideal of rational consumer rests on the assumption that individuals already hold perfect information and consumer behavior results from the preferences based on this information. Today, consumers enjoy access to more information than ever before, but, on the other hand, they frequently reach decisions with limited deliberation. With its flow of information, does the age of the Internet encourage the ideal of consumer rationality? Our aim is to explore the role of social influences and environmental cues on consumer online behavior and to derive implications for improving our understanding of online behaviors. Research findings on influence tactics highlight an increasing importance of social cues in assessing online information, while experiments in social psychology reveal the role of unconscious processes in automatically activating attitudes and behaviors. We discuss implications for developing our understanding of online consumer behavior and advancements necessary for consumer research.

Keywords: Consumer rationality; Online behavior; Social proof; Influence tactics; Consumer decision-making; Limited deliberation.

1. Introduction

Decision making and consumer behavior are thought, traditionally, to result from individual information processing that leads to certain attitudes influencing subsequent behavior (Ajzen & Fishbein, 1980). Consumers will choose a certain product or service after comparing the costs and benefits of each alternative. This more elaborated information processing takes place for expensive products, with important long-term consequences for the individual (Chaiken, 1980; Petty, Cacioppo, & Schumann, 1983). However, more frequently consumers do not engage in thorough information processing before making decisions, such as when they make daily and repeated decisions, when they decide on impulse or when they act without obvious consequences.

Many online behavioral decisions result from a limited analysis of costs and benefits, since they are only a click away and their consequences seem to be inexistent or inexpensive for the consumer. This is the case for behaviors such as game and applications downloading, subscribing to various online channels or reacting to online content. Nonetheless, these behaviors have an increasingly important impact, at aggregate level, determining company

investments and having macroeconomic consequences. At individual level, online behaviors also impact the consumers' life by changing their habits and their spending choices in terms of money and time, yet these consequences remain mostly invisible to consumers. Thus, online behavior is a special kind of consumer behavior characterized by fast decision-making with few immediate individual consequences, but with an important aggregate impact.

Although the ideal of consumer rationality has long been criticized (Scott, 2000, Simon, 1957) or given various interpretations and developments (Lancaster, 1966; Samuelson, 1938), the current context of online consumer behavior challenges this view even more. The rational consumer is considered to access and process all information needed, to make a decision without social influences (or at best they are internalized as stable set of beliefs on social norms) and to hold stable preferences, which are not influenced by context (Jackson, 2005). However, today consumers have access to more information than ever before in history, they are demanding for e-commerce platforms that embed social interactions and they still exhibit impulse buying behaviors.

The online consumer behavior brings forefront some aspects that were ignored in the past: the social influence and the context's impact. Also the Internet facilitates access to information, thus possibly driving consumers closer to that ideal of perfect information. So, what the main developments with respect to the ideal of consumer rationality that are facilitated by consumers' use of the Internet in their decisions? This paper aims to explore the role of social influences and environmental cues on consumer online behavior and to derive implications for moving forward the understanding of consumer behavior in online settings.

Multiple tactics are aimed at influencing consumer behavior to make decisions faster and thus with reduced information processing. Many of these tactics use various social cues that determine impulsive behaviors, but consumers may become aware of them and develop defensive strategies, if they wish to do so (Cialdini, 2001). Other times consumers seem to make decisions unconsciously, without a deliberate information processing. Dijksterhuis, Smith, van Baaren and Wigboldus. (2005) illustrate how consumers simply bypass the deliberation process and, instead, are influenced by environmental cues. These may consist of elements related to the structure of choice, such as the website features, or may be driven by social cues with direct influence on behavior.

This article is divided into three parts. First, we present an overview of the mechanisms that explain consumer decision-making with limited deliberation. We identified two types of influence mechanisms: those of which consumers may become aware of and those that function only at an unconscious level. Secondly, we summarize research findings on how the influence mechanisms impact consumers' online behavior and how social validation influences their assessment of information credibility. Finally, we derive implications for the ideal of consumer rationality in online decision-making context and we propose future research directions for improving consumer behavior models.

2. Mechanisms of Individual Decision-Making with Limited Deliberation

Consumer choice with limited deliberation is explained through various mechanisms and mediating concepts, such as habits, the automatic attitude-behavior link, impulse decisions, a multitude of social influence tactics and a direct perception-behavior link (Cialdini, 2001; Dijksterhuis, Smith, van Baaren, & Wigboldus, 2005; Dittmar, 2008; Fazio & Olson, 2014; Ouellette & Wood, 1998;).

Frequently-made decisions are usually explained by the concept of habit, which is a repeated behavior that was the result of a previous information processing stage. The habit produces satisfying consequences to the consumer and therefore the behavior that is simply replicated in the future and acquires certain automaticity. Ouellette and Wood (1998) defined

habits as behavioral tendencies towards repeating a certain action when the context is stable, thus being highly dependent external cues. From a learning process perspective, habits are described as a mental mechanism that enables us to free up cognitive capacity for the more difficult tasks, while the habitual ones are performed automatically (Maslow, 1954).

Although, the proponents of consumer behavior models based on the expectancy-value theory consider habit as already included in the attitudes towards a behavior (Ajzen & Fishbein, 1980; Ajzen I., 1985; Fishbein & Ajzen, 1975), habitual behaviors often bypass the deliberation process. Due to its automatic action initiation mechanism, habit is worth considering in addition to intention and attitudes towards a behavior, both for future behavior prediction and for behavioral change.

In their meta-analysis, Ouellette and Wood (1998) tested whether past behavior and intention predicted differently subsequent behavior depending on the situation's characteristics in terms of opportunity and stability. Their findings confirm that habit predicts the behavior better in stable and favorable contexts, while for shifting contexts, intention performs better as predictor of future behavior. Thus, since habits and intentions determine subsequent behavior differently depending on the choice context, the environmental cues can trigger habit activation in consumers.

Another mechanism explaining the decision-making with limited deliberation is the automatic attitude-behavior link, which is explored by Fazio (1990) in the MODE model. Contrary to the popular idea that attitudes determine behavior through the mediation of intention, Fazio (1990) proposes that attitudes and behavior are directly linked. This automatic attitude-behavior mechanism is used in spontaneous decision-making, a frequently encountered type of decision-making. Fazio and Olson (2014) note that the deliberative decision-making process, which involves the analysis of costs and benefits is rooted in the ideal of the rational consumer, is far less used by individuals, only when they have the opportunity and motivation to do so.

Fazio and Olson (2014) posit that the external stimulus automatically activate consumer attitudes, which then trigger a subsequent behavior directly. Thus, consumers do not hold a fixed set of attitudes towards behaviors as if they would hold a box of tools and as the Theory of Planned Behavior suggests (Ajzen, 1985). Rather, individuals hold an immense variety of attitudes that become salient only when triggered by cues in the environment.

An alternative justification for consumer decision-making with limited information processing is that sometimes consumers make impulse decisions and attitudes are completely bypassed, thus their cognitive processing. An impulse decision of particular interest in consumer behavior is the impulse buying decision, which has three main characteristics: it takes little deliberation and planning, it involves high emotional feelings from consumers and it makes individuals completely neglect the constraints and consequences of that decision (Dittmar & Drury, 2000). Thus, the impulse buying decision is a situation where consumer passion overtakes deliberation. Dittmar (2008) suggests that impulse buying decisions occur mostly for goods that are symbolically linked to that individual's self-concept.

Cialdini (2001) also explored the mechanisms that drive individuals to impulse decisions and to accept offers. Instead of looking at a symbolic link with goods, Cialdini highlights a series of social influence tactics that lead to impulsive reactions. He identifies six fundamental psychological principles behind them: the principles of scarcity, reciprocity, liking, consistency, authority and social proof. These principles are often recognized as the basic elements of marketing tools aimed at influencing consumer behavior. Their main characteristics are highlighted below:

1. *Scarcity*: Individuals value more the offers in short supply and react faster to those which highlight an advantage they may lose.

2. *Reciprocity*: Individuals are inclined to pay back for the favors received, due to a feeling of indebtedness towards the person who offered the “gift” first.
3. *Liking*: Individuals allow others they like to influence or persuade them. This functions mainly through similarity to others or through being praised by others.
4. *Consistency*: Individuals will try to stick to their previously reported opinions or behaviors.
5. *Authority*: Individuals give in to persuasive messages from experts. Expert opinions make valuable and efficient short-cuts for good enough decisions.
6. *Social proof*: Individuals follow the behavior of others, especially in ambiguous contexts.

These principles of influence have been frequently used in various contexts of social interaction. Initially, the sales context was the place where these principles were discovered, yet they are meant to function in other social interaction settings as well. Cialdini (2001 b) recommended managers to use them in order to persuade colleagues and subordinates to change behavior and he highlighted their potential to increase the results of fund-raising initiatives through a combination of these principles (Cialdini, 2003).

Finally, the research on the direct link between perception and behavior illustrates situations when behavior is triggered unconsciously for the consumer. Dijksterhuis Smith, van Baaren & Wigboldus (2005) review the findings on this perception-behavior link and conclude that environmental cues play a major role in influencing subsequent behavior through their mere perception. These cues impact directly the behavior, at an unconscious level, by inducing certain behaviors or goals on the subjects. In many instances, social perception is involved in triggering the automatic behavior, as it activates a representation in the individuals mind with direct effect on the social behavior (Dijksterhuis & Bargh, 2001).

Imitation represents a direct consequence of the perception-behavior link. Dijksterhuis and Bargh (2001) investigated the role played by imitation on the decision to enact a behavior and they identified two ways in which imitation intervenes: the low and high road to imitation. The low road relates to a simple imitation of the observable behavior, such as when people mimic gestures, facial expressions and speech characteristics. The high road implies a more complex imitation effect, when people try to imitate traits, goal and stereotypes of important others.

Automatic mimicry is recognized as an innate human ability, which plays a role in the learning from others' behavior. The automatic mimicry is enabled by mirror neurons, as the findings on their functioning reveal (Decety & Grezes, 1999). Iacoboni (2005) found that whenever individuals practice or observe an action the same areas in the brain get activated. Thus, if the same brain's regions are involved in coding own goals and intentions as well as those of others, then imitation provides also a means of understanding others' actions. Yet, even though imitation enables individuals to understand others, it also provides an automatic behavioral response that the person is not aware of.

Johnston (2002) tested the influence of mimicry on behavior in an experimental study and found a statistically significant effect on behavior. In the experiment, subjects were asked to eat ice cream in the presence of another person, who was instructed to eat a small or a large sample according to the assigned experimental group. The subjects in the experimental condition mimicked the behavior of their peer.

Chartrand and Bargh (1999) tested experimentally whether mimicry impacts the sympathy felt by a peer and found that subjects who were imitated in the experiment liked more their peer than those who were not imitated by their partner. Van Baaren, Holland, Kawakami and van Knippenberg (2004) found that mimicry also encourages pro-social behavior; in their studies, participants were more helpful and generous if they had been mimicked and they directed these

behaviors not only towards the mimicker but also to others, outside the strict context of mimicking.

Several studies on the effects of priming on subsequent behavior indicated a significant priming effect through the activation of goals, traits of personality and stereotypes in the mind of the participants. Carver, Ganellen, Froming, and Chambers (1983) primed subjects with the concept of hostility by exposing participants to an aggressive model and they were influenced by displaying a more aggressive behavior subsequently or by interpreting others' behaviors as more aggressive. Bargh, Chen, and Burrows (1996) tested experimentally the effect of priming participants with the concept of rudeness and with certain stereotypes, an elderly stereotype and an African American stereotype, and in all cases they observed an automatic behavior inducing effect. Dijksterhuis and van Knippenberg (1996) studied as well the effects of stereotype activation on the cognitive performance in tests or on the speed of their reactions. In the experiments, they asked different groups of participants to read descriptions of older people, teachers and hooligans and the priming procedure facilitated or inhibited their performance in the tests applied.

The direct link of perception with automatic behavior activation illustrates that the influences on decision-making are subtle and bear an unconscious dimension. Individuals are more sensitive to social influences than posit popular consumer behavior models, such as the Theory of Planned Behavior of Ajzen (1985). Additionally, social perception has the biggest impact on subsequent behavior, as individuals react more frequently towards others' behaviors and less frequently to environmental cues outside the human context. Thus, individuals are even more sensitive to the social influences than would suggest Cialdini (2001). The social influence tactics he identified are a part of the determinants of behavior that could be observed once the consumer becomes aware. However, the direct link between perception and behavior inform us that this relationship resembles more a reflex reaction, without any cognitive processing.

3. Influences on Consumer Behavior in Online Social Contexts

In June 2018 there were over 4 billion Internet users, most of them being located in Asia, 49%, followed by Europe, with 16,8% users, and Africa with 11% users of the total number of Internet users worldwide (Internet Usage Statistics, 2018). However, the highest penetration rate can be found in North America, where 95% of the population uses the Internet, followed by Europe with a 85,2% penetration rate.

The increasing use of the Internet and the intensified online interactions made it an interesting platform for various attempts to influence others. Fogg (2003, p.1) recognized the importance of technology in attempts to change consumer attitudes and behaviors and termed this class of technologies 'Persuasive Technology'. Besides being a topic of interest, the online social interaction is also characterized by some particular features that enable the users more control over the timing and location of the interaction, the degree of anonymity, the physical appearance and the physical distance (Guadagno, Muscanell, Rice, & Roberts, 2013). These characteristics have an impact over the functioning and the effectiveness of the persuasion strategies.

Guadagno and Cialdini (2005) reviewed the influence of the authority and consistency principles of persuasion in online contexts and found the principles have different degrees of influence compared to the face-to-face interaction. The authority principle in online context has encountered a higher compliance to the influence agent, but the influence was diminished compared to an interactive context. The consistency principle, however, seemed to be as effective in computer-mediated contexts as in other communication means. In following article, Guadagno, Muscanell, Rice, & Roberts. (2013) examined how effective are the principles of liking and social proof in online influence. The higher the social validation, defined as the

number of individuals agreeing to a online request, the more influence it exerted on individuals to agree to the request. However, the likability of the blogger, although it was noticed, didn't influence participants to comply to the request.

Orji, Mandryk, & Vassileva (2015) tested the impact of Cialdini's persuasion principles in online context and explored the difference in compliance by gender and age. In general, the most effective persuasive strategies were consistency and reciprocity. However, females were persuaded easier with the principles of reciprocity, consistency and social proof than men, suggesting that peer pressure impacts more this group. With respect to age, younger adults responded more to scarcity, while adults were persuaded more by the consistency principle.

The social interaction in the online environment is an essential feature that has contributed to important changes in the e-commerce activity. This type of online commerce, which is termed 'social commerce', incorporates tools and interfaces that facilitate social interaction and help leveraging sales (Huang & Benyoucef, 2013). According to Dennison, Bourdage-Braun, & Chetuparambil (2009), implementing social commerce means including the word-of-mouth into the e-commerce activity, but the concept also refers to the use of social media applications in the interaction with consumers. All these developments impact the marketplace and the ways businesses interact with their public, transforming it into a user-driven one (Wigand, Benjamin, & Birkland, 2008).

As we discussed above, impulse behavior is one of the examples when consumers make decisions with limited or without cognitive deliberation. Impulse online buying behavior is an important phenomenon to study since it is a type of behavior frequently observed in retail sales (Hausman, 2000) as well as in online contexts (Li, Kuo, & Russell, 1999). Wells, Parboteeah, & Valacich. (2011) conducted two experiments in order to test the impact of online environment cues and consumer impulsiveness on impulse buying behaviors. They tested the website quality as a determining environmental cue and they found it has a significant role in influencing online impulse buying. The website quality was operationalized as a perceptual value with three dimensions: the security, the navigability and the visual appearance perceptions of the website. They conclude that relevant environmental cue (i.e. a high website quality) stimulates consumer impulsiveness and induces impulse buying behaviors, while less relevant cues (i.e. lower quality websites) negatively influence impulse buying.

Amblee & Bui (2011) investigated the effect that online word-of-mouth has on sales and on the brand and product reputation. They studied the consumers' information exchange, recommendations, shared thoughts and conversations about books and author quality on Amazon.com. Their findings revealed that the amount of shared online information about a products doesn't only help users make evaluations and decisions, but it also directly influences the products's sales performance. The more the product reviews are available, the more product sales are generated, and the rating score is less associated with sales as long as the number of reviews is smaller. In other words, the more an item is reviewed the better sales it enjoys, no matter the review score.

Consumers interaction with the online content and their usage of online information in decision-making also raise the question of consumers' capability to evaluate credibility of online information. Individuals have always evaluated the credibility of information through social means and not in isolation (Metzger, Flanagin, & Medders, 2010). Traditionally, the credibility of information is assessed by referring to some recognized institution or expert that provides the reliable information. This was a good enough solution when people lived in a world where the information was scarce. However, as Callister (2000) argues, the current context of abundant online information makes this convention for evaluating information credibility insufficient for the fast pace in which consumers need to make choices. The online environment

allows individuals to access large amounts of information from a wide variety of sources, so they also have a new need: to assess credibility while saving cognitive effort and time.

Since individuals need to cope with a problem of information overload and uncertainty in the online environments (Sundar, 2008; Taraborelli, 2008), they resort to several heuristic strategies. Metzger, Flanagin, & Medders (2010) explored how individuals use such strategies to assess information credibility online, so that they can reach a decision fast enough and without a high cognitive effort. One dominant characteristic identified is the social arbitration, which means that individuals use online social networking, online assessments and online reputation systems to judge the information and source credibility.

In their study, Metzger, Flanagin, & Medders (2010) identified five heuristics used by individuals in online contexts: reputation, endorsement, consistency, expectancy violation and persuasive intent (p. 425). These heuristics fall in two major categories, namely heuristics based on social confirmation and heuristics rooted in expectations from the context:

- The reputation heuristic – information is credible when it is published on well-known websites.
- The endorsement heuristic – information is credible if others consider it as well (by sharing, liking, etc.) without further evaluation of website content or information source.
- The consistency heuristic – information is credible when individuals can cross-validate it through several information sources; this heuristic requires more cognitive effort from participant.
- The expectancy violation heuristic – information is credible if the website meets readers' expectations in terms of appearance, layout, features, functionality and comprehensiveness; online sources which fail to meet the reader's criteria in terms of layout in considered less credible.
- The persuasive intent heuristic – information that is perceived as advertising, commercial or persuasive is generally considered not credible.

The main observation of Metzger, Flanagin, & Medders (2010) study is that individuals resort to distant information sources that they consider relevant through social evaluation mechanisms. This means that relevance and credibility is assessed through social information pooling and privileged personal opinion confirmation, passionate recommendations and resources shared by familiar others. Thus, the notion of 'social proof' proposed by Cialdini (2001) supports the reputation, endorsement and consistency heuristics, and therefore make individuals efficiently evaluate credibility (i.e. they reach a decision on the information at hand faster and with less cognitive effort) but are subject to manipulation influences. Credibility assessment through social proof can be erroneous since it is based on crowd behavior and it equates popularity with credibility. In addition, individuals may reject information as not credible if it disconfirms their personal opinion or expectations, leading thus to a narrowing of information available to the individual though his/her own choice to ignore competing opinions.

The online visibility of individuals is subject to similar credibility evaluations and the social network of the individual influences the importance of his/her online presence. Stoica, Riederer & Chaintreau (2018) observe that the online visibility of individuals, which depends on their social network, grows mainly with the help of the referral systems embedded in social media platforms. Thus, they tested whether the social recommendation algorithms affect the representation opportunities of different demographic groups, and especially if there are significant gender gaps enhanced or diminished by these algorithms.

Indeed, Stoica Riederer & Chaintreau (2018) documented a reinforcement of the representation gender gap through the referral function in Instagram's recommendation

algorithm. They describe the effect observed as ‘an algorithmic glass ceiling’ for women that can be explained by the phenomenon of ‘differentiated homophily’ (Stoica, Riederer, & Chaintreau, 2018, p. 2). This phenomenon implies that individuals favor interactions with similar others, so in this case men support more other men, while women don’t favor other women. The algorithm does not create this type of behavior, so it might be considered legitimate as it only reflects a pre-existing behavior in the human society. However, combining this finding with those related to the limits of online information processing, the effects on limiting representation may increase with the information volume and create unwanted social effects. Stoica, Riederer & Chaintreau (2018) suggest that a good structural understanding of the causes should be encouraged in order to improve referral algorithms and reduce bias towards an over-representation of male postings.

The recognized importance of social influence on consumer behavior in online contexts raises also a concern over the attempts to manipulate individuals’ decisions and behavior through online information and stimulus. An increasingly visible concern comes from the activity of social robots, or bots, which are software robots that mimic human behavior online.

Bots are defined as a computer algorithms that produce content and interact with users on social media, in order to influence their behavior (Ferrara, Varol, Davis, Menczer, & Flammini, 2016). These bots are fulfilling mainly benign tasks and are useful in the achievement of different automatic functions. Yet, the activity of social bots may become problematic when they are used to share rumours or wrong information. They enable manipulation attempts by giving individuals the false impression that some piece of information is popular and endorsed by many people, thus increasing its credibility through social proof.

Social bots can and are used to alter the impression of popularity and support for certain political campaigns and candidates (Ratkiewicz, Conover, Meiss, Goncalves, Flammini, & Menczer, 2011), they may increase panic feelings during emergencies and they can even alter stock market fluctuations (Hwang, Pearce, & Nanis, 2012). Although Ferrara, Varol, Davis, Menczer, & Flammini (2016) describe the functioning of several detection systems that could be used to identify social bots, the biggest problem for individuals is that they lack the necessary abilities to use them on their own. As the proponents argue, each of the described detection system has its imperfections and their best use is possible when they are combined.

Thus, the biggest problem related to the influence of social bots comes from the inability of humans to recognize bots in social media. To counter this problem, individuals should become knowledgeable of online influences directed at them as well as of their own vulnerabilities. Additionally, it might not be enough for consumers do learn how to detect social bots but it is necessary to profoundly understand the online and social transformation taking place with increased usage of the Internet. The development of social bots implies that there are many actors interested in influencing consumer (or individual) actions. However, our level of knowledge on factors of social influence on online consumer behavior is at its infancy, and today consumers more often feel fooled and puzzled than knowledgeable of the market and self-aware of their own needs, wants and rationality.

4. Moving Forward the Understanding of Online Consumer Behavior

The consumers’ online social interaction enhances some characteristics of consumer behavior that were mostly invisible and thus ignored in the past. The influence of social and environmental cues is now quite well documented in research results and there are convincing arguments to be integrated in models of consumer behavior. As well, the cognitive limitations of consumers in relation to the high volume of online information should be translated in attempts to better understand consumer decision-making skills and the ways in which they can be developed. Since the premises of the rational consumer ideal are contradicted, consumer

researchers should start developing a new view on consumer rationality, adapted to the current reality. Consumer rationality is not an inborn ability that everyone possesses, but it is dependent on an interaction of factors coming from the social environment and the individual self. Also consumers' abilities in decision-making are prone to multiple errors and vulnerabilities.

Consumer behavior in the online environment is still an emerging field of research which needs further exploration. The behaviors resulting from the online social interaction are dependent on the particular features offered by this environment: consumers have more control over engaging or not in the interaction and over when and how they will communicate. These characteristics of online social interaction apparently encourage an internal focus, which may enable consumers to hold back their impulsiveness. However, many studies on impulse online behaviors confirm that consumers continue to be impulsive online, yet this type of behavior is dependent on the features offered by the computer-mediated communication tool.

Social influence has been proved to play a major role in determining online consumer behaviors, yet there are important differences compared to the traditional face-to-face interactions that are worth noting. The effectiveness of each of the influence principles proposed by Cialdini (2001) differs in the online interaction: the consistency and the social proof principles have greater effectiveness, while the authority and liking principles face a reduced impact in influencing online behaviors. This might imply that online consumers are more concerned with maintaining a coherent self-concept and non-contradicting themselves, on one hand, and adjusting their self-concept to the relevant social context, on the other hand. Future research should explore the construction and significance of consumers' online identity as well as the importance of self-concept in accepting or rejecting the influence of tactics aimed to persuade them.

Social validation is also highly used by consumers in assessing online information credibility. The increasing volume of information available online leads to costs of cognitive processing (in terms of effort and time) and in order to cope with them individuals resort to heuristics for a faster decision-making. Most of these heuristics are based on social validation and confirmation of personal expectations, both of which are prone to errors. Online information shared or endorsed by many is considered more credible and thus, individuals equate credibility with the popularity of an opinion. Also, the online information that corresponds to own expectations, whether in terms of content or appearance, is considered credible and hence narrowing the information variety available to the individual. Online content creators can use the knowledge on these heuristics to make their message more credible, however, consumers should strive as well to become aware of their limitations and vulnerabilities in making wrong credibility judgements. Future research should explore in depth the ways in which these heuristics are used depending on the experience of the online user. Are some heuristics favored more by experienced Internet users, while less experienced Internet users favor other heuristics? Do the frequency and type of social media used influence individuals propensity to use only certain heuristics? These questions would be interesting to explore in order to understand better consumer vulnerabilities in information processing.

While the impact of social proof on consumer behavior may be observed, there are also more subtle influences illustrated by the research on the direct link between perception and behavior. According to their findings, consumers are very sensitive to environmental cues and they unconsciously adopt attitudes and behaviors induced by others. Two implications are derived from this: automatic processes are not solely the result of repeated actions (habits) and the characteristics of the choice context influences behavioral decisions.

Conscious and unconscious processes both play an important role in determining behavior and most often they support one another (Bargh, Schwader, Hailey, Dyer, & Boothby, 2012). Usually, unconscious processes determine social behavior and conscious processes alter

uncconscious impulses. Future research should try to include the study of unconscious processes in consumer behavior modeling and to find a way to account for the interplay between the conscious and unconscious thought processes. This development could be a real game changer in consumer behavior research, since the current methodologies based on self-reported answers to questionnaires will no longer be appropriate. Although, further debate and analysis is needed in order to implement new research methodologies, new ideas could come from various other fields like experimental psychology and machine-learning.

5. Conclusions

Despite an increased access to information, today's consumer is not necessarily moving towards an increased consumer rationality in decision-making, since the increasing volume of online information comes with costs of cognitive processing and credibility evaluation. Moreover, the social influence on individual choice is becoming increasingly visible, an aspect that was rather ignored in the ideal of rational consumer. The online environment highlights particular aspects of consumer behavior that were rather hidden and seemingly unimportant in the world unconnected by the Internet: the impact of social influence and the cost of information processing.

Today, in order to make good enough choices in a timely manner, consumers resort different shortcuts. Social proof is commonly used in decision-making and it mediates the credibility and authority given to the online source of information, directly influencing consumer trust and the subsequent behavior. This means that the information shared by many becomes true, trustworthy and acquires authority.

Moreover, there are also social and environmental cues that trigger behavior automatically, without any cognitive processing. These cues may be used in order to increase consumer impulsiveness and lead to immediate behavior performance. Their impact is usually located at an unconscious level and for this reason they cannot be accounted for in consumer behavior model that concentrate on conscious cognitive processes. Consumer behavior research procedures could be changed and new tools developed in order to understand all these changes observed in the online social interaction so that consumer knowledge advances with the technology available.

This paper aimed to review of the main influence mechanisms responsible for consumer decision-making with limited deliberation and to highlight their functioning in online contexts. The paper contributes to the literature on the changes in consumer behavior driven by online contexts and it highlights their implications for the ideal of consumer rationality. Another contribution is the discussion of social and environmental factors that increase consumer vulnerability and are worth considering for advancing consumer awareness and wellbeing. However, a major limitation for the paper is that it offers only an overall review of the multiple influences that diminish consumer deliberation in online settings. In order to improve our understanding and knowledge on the consumer online behavior three future research directions are proposed for further study: the impact of consumer experience with Internet on evaluating information credibility, the role played by consumer's self-concept on the effectiveness of social influence tactics and the importance of online cues in triggering automatic behaviors.

Another challenge for future research is also to find methodological solutions to reduce the use of the traditional way of testing consumer behavior patterns: through self-reported responses to questionnaires. In fact, there is a significant discrepancy between what consumers say they do and their actual behavior. This is a serious concern for testing models in online contexts since these questionnaires involve a lot of verbalization, while online interaction is based primarily on clicks, pictograms and multimedia content, none of which are spoken or

written by the user. In order to advance consumer research in this area new tools need to be developed with inspiration from psychology and machine-learning research.

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DEVELOPMENT POLICIES FOR LAGGING BEHIND AREAS: AN INTERPRETATIVE NOTE IN THE NAME OF CIVIL ENTREPRENEURIAL DEVELOPMENT

Gaetano Fausto Esposito

*Consorzio Universitario di Economia Industriale e Manageriale
and Assocamerestero, Italy*

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Abstract

This paper is a part of the critical literature of the neoclassical approach to regional development policies and on the role of trust and social norms in defining growth processes. It also adds the role of entrepreneurial capacity in stimulating development processes, by creating a virtuous circle, according to a civil approach to economic dynamics. Starting from the limits of the standard economic paradigm in contributing to the reduction of regional development gaps, the article will deal with regional development issues, focusing on the role of trust and the developing entrepreneurship, with an approach that starts from the concept of civil economy, based on the institutional sustainability of innovative forms of development policy. Finally, a scheme for civil entrepreneurship development, based on trust, will be presented.

Keywords: Regional development policies; Trust; Entrepreneurial capacity; Civil economy, Institutional sustainability

1. Regional gaps and different approaches to development policies

In recent decades there has been a strong emphasis on regional development policies. Empirical evidence tends to confirm that these policies have led to a certain convergence, at least in terms of per-capita income in the main countries, but this has not been accompanied by convergence (in some cases an increase in divergence occurred) among the individual regions within

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individual States (European Commission 2017; Ridao-Cano Bodewing 2018; Austin, Glaeser, Summers 2018).

Generally speaking, regional policies should reconcile the principle of competition with social solidarity (equity), in order to have a more balanced development, capable of reducing inequalities. Consequently, these policies should lead to a convergence of development indicators in the medium-long term, including disposable income per-capita.

Recent studies (Alcidi et al. 2018; Iammarino, Rodriguez-Pose, Storper 2018; Rosés, Wolf 2018) agree in underlining that until the early 1980s of the last century (at least in Europe) there was convergence in the growth rates of GDP per-capita (consistent with the hypothesis of so-called β -convergence¹), but since then the distances between regions have increased.

It has also been spotted the *existence of a U-shape curve in the development of convergence at the regional level*, with a reduction in the gaps until the eighties and their regaining since then. This trend reminds closely income distribution, which has also marked an increase in inequalities since the same date².

Two aspects – among many – deserve specific consideration:

- the distinction between convergence processes at the national and regional level;
- the eighties as a watershed in which the processes of convergence are attenuated and even reversed: these were the years in which there was a revival of neo-liberal policies, inspired by a principle of competition, on the presumption that the initial increase in inequalities would have spill over effects and activated forms of mobility of capital and investments from the most developed areas to those lagging behind in development.

The correspondence between the increase in development disparities and personal income disparities (Piketty, Saez 2003) at the regional level leads to the conclusion that there may have been a relationship between these phenomena; the increase in inequalities in interpersonal incomes at the territorial level has led to what some authors (Rodriguez-Pose 2018) call the "revenge of places that don't matter", whose population has supported political forms of populism (with self-defensive purpose), as a reaction to the increasing inequality.

On the basis of these considerations, new approaches to regional development are emerging, which *recognise the inability of traditional policies to achieve lasting processes of rebalancing*, and which instead aim to implement strategies of "distributed development" (Iammarino, Rodriguez-Pose, Storper 2017; Iammarino, Rodriguez-Pose Storper 2018), based also on the consideration of qualitative aspects such as satisfaction and personal creativity.

These strategies can be referred to as an economic paradigm very different from the neo-liberal one and bring into question the efficiency of a convergence process, based on a rebalancing between different areas, essentially centred on the efficiency of physical capital (Stiglitz 2016a). Indeed, especially at the regional level, where the interaction between economic trends and social phenomena is greater, emphasis should be put on quality elements and the role of trust capital, that is, the complex of relationships between the various economic and social actors that create a favourable basis for growth and for making people free to create entrepreneurial initiatives.

This article is a part of the critical literature of the neoclassical approach to regional development policies (Iammarino, Rodriguez-Pose, Storper 2017; Iammarino, Rodriguez-Pose

¹ According to this hypothesis - linked to the neoclassical model of the growth theory - the less developed regions should register a higher growth rate of the GDP per-capita than the more developed ones because the capital ratio per employee is low in these areas, consequently the return on investments is high and therefore they would attract more investments, in this way activating a higher growth.

² However, several authors opposed to this result, claiming not only defects in the analysis, but also the incompleteness of the data used to reach these conclusions: Refer to the essays Wood, Hughes (2015).

Storper 2018; Hausmann Rodrik 2006) and on the role of trust and social norms in defining growth processes (Tabellini 2010; Bisin, Topa, Verdier 2004; Bjørnskov 2012; Zak, Knak 2001). In addition, it also adds the role of entrepreneurial capacity in stimulating development processes, by creating a virtuous circle, according to a civil approach to economic dynamics.

Therefore, starting from the limits of the standard economic paradigm in contributing to the reduction of regional development gaps, some brief considerations will be formulated on a different way of dealing with regional development issues. The role of trust (which can act on the side of improving fairness) and the developing entrepreneurship (which is more closely related to efficiency aspects) will be emphasized, with an approach that starts from the concept of civil economy, based on the institutional sustainability of innovative forms of development policy.

After having quickly recalled the antecedents of the civil economy, in the third and fourth chapters a scheme for civil entrepreneurship development, based on trust, will be presented and discussed. Trust and trust processes will be explained in the fifth chapter, where different forms of trust capital (including civil and moral capital) are examined and the circuit for sustainable regional development policies is described, also from an institutional point of view. The conclusions summarize the results of the paper.

2. Some theoretical evidences... rediscovering the past

In recent years, the analysis of the link between culture, trust and development has become increasingly important, also in the literature on regional development (Tabellini 2010; Bjørnskov 2012), given the possibility of leveraging new ways of growth not only in quantitative terms, but also in qualitative terms.

The origins of this approach can be traced back to the mid-1700s in Italy, with the formation of a School of Thought on Civil Economy (Bruni, Sugden 2000), particularly in Naples and Salerno, where the foundations were laid for a way of understanding the economy in its "political and human" aspects. This approach, which gave answers that today seem to be of extraordinary actuality, came from authors such as Antonio Genovesi, Gaetano Filangieri, Francesco Pagano, Giacinto Dragonetti and many of their students, *all united by a concept of development that started from the dialectical link between economy and civil society*: public happiness is linked to freedom and the latter is a basic condition for development. *Therefore, freedom and public happiness are inseparable issues*, to the point that – according to Albert Hirschman (1982) – the first French economists (like Turgot) defined economy as the "science of public happiness".

Freedom involves the concept of development, not only in terms of quantitative income expansion (central in the definition of the Anglo-Saxon growth approach³), but more over in a wider socio-economic growth.

More recently, the Nobel Prize for Economics Amartya Sen (2000) has highlighted that development is in people's ability to effectively express their capabilities, and public happiness is a strongly relational concept (connection with others), overcoming an exclusively utilitarian view of the economy, based on egoism and self-interest. In the utilitarian conception, the concept of public happiness is replaced by utility, as the capacity of goods to satisfy needs. The relationship between person and person (inherent in the concept of happiness and freedom) is

³ Adam Smith's "Wealth of Nations" stated that the goal of political economy is displayed essentially as such as explaining the causes of income increase, or rather to provide an abundant income for the people and the State, thus leading to enrichment for both the people and the sovereign.

replaced by the relationship between person and things. People (or better individuals) make their choices and do so in their own specific and restricted interest.

3. Let's change paradigm: towards the civil entrepreneurial development approach

The utilitarian view brought a form of hyper-liberal capitalism where speculative actions that feed the tendency towards crises is central. Crises are firstly in terms of economic values, and also (and in some cases mainly) of ethical and moral values.

On the basis of this neo-liberal paradigm many of the development policies have been built, inspired by the principle of efficiency, attributing a miraculous role to the market as a general system of territorial rebalancing. As we have seen, such policies have led to blocking the processes of convergence.

As a consequence, a growing interest of economists in the subject of "inclusion" emerged. In order to achieve an inclusive economy based on a generative approach (in which the overall value is measured not only with private profit, but also with the social value of choices: Magatti, Gherardi 2014) it is necessary to overcome a development model exclusively focused on the balancing role of the market, as assumed by the neo-liberal scheme, and focus on an approach of civil entrepreneurial development (Esposito, 2013), paying attention to the value of reciprocity and community.

In other words, *it is necessary to rediscover the figure of the entrepreneur as a social actor*, who is a stimulus for efficiency processes, and at the same time contributes to the creation of larger trust networks based on reciprocity.

This kind of approach re-evaluates *the role of work as a creative action*, emphasizing the concept of "human" craftsmanship (Sennet 2008). Focusing on the entrepreneur's role, this approach pays attention to the individual ability, the spirit of initiative, the people's talent, and it is also attentive to contrast inequality, seen as one of the aspects that according to several economists, from Joseph Stiglitz to Thomas Piketty, prevents the achievement of better economic performance.

Civil entrepreneurship (Bruni 2009) has been the basis of many experiences in Italian industrial districts, where work was accompanied by a real "joy of living" (Becattini 2004).

Such an approach *tends to encourage the emergence of civil enterprises*, but for what happens it is necessary to favour not only a concept of *freedom from* (where there must be no external constraints) and also of *freedom of* (to be precise, to make coherent and efficiency-oriented choices), but also of *freedom with* (meaning to collaborate with others on the basis of trust) and of *freedom to* (achieve civil goals).

In order to make all these type of freedom effective, there is a need of institutions that work on the side of collaboration between the State, the market and the civil society, to reconstruct a network of trustworthy connections compromised by the neo-liberalist myth as well as by clientele welfare.

In this context, the value of entrepreneurship is enhanced, in a circuit that involves creating (market and social value), taking care of (the virtuous processes that have been generated), and donating. The latter aspect is more relevant today than in the past, because of the ability to share with others – even in the absence of specific compensation – because of the need to be recognized and the wish to participate in a greater process of value creation.

The three aspects above are the basis of a wikieconomy that has its roots in trust for (and among) people (Becchetti 2014) and leads to reassessing an approach to common goods.

An economy of participation cannot be built only from top to bottom, and by skipping many connections that characterize the network of social relationships. Neither can it be

developed forgetting that the task of public intervention is to resolve social conflicts in a logic of development, ensuring that increased equality and improved economic performance are complementary (Stiglitz 2016a).

4. An outline of the different forms of development: the role of entrepreneurship and trust

Considering all that has been said up till now, trust and freedom remind of civil entrepreneurship that helps economic and social development. In this context a form of team rationality is established (Sudgen 2009) in which the achievement of common goals favours the growth of trust for the overall social development.

Civil growth means human growth: a concept that is not new, not even for the traditional economy, to the point that the father of the neoclassical economy Alfred Marshall considered the enterprise first as a place of character formation of those who worked there, and then as the place of production of goods and services.

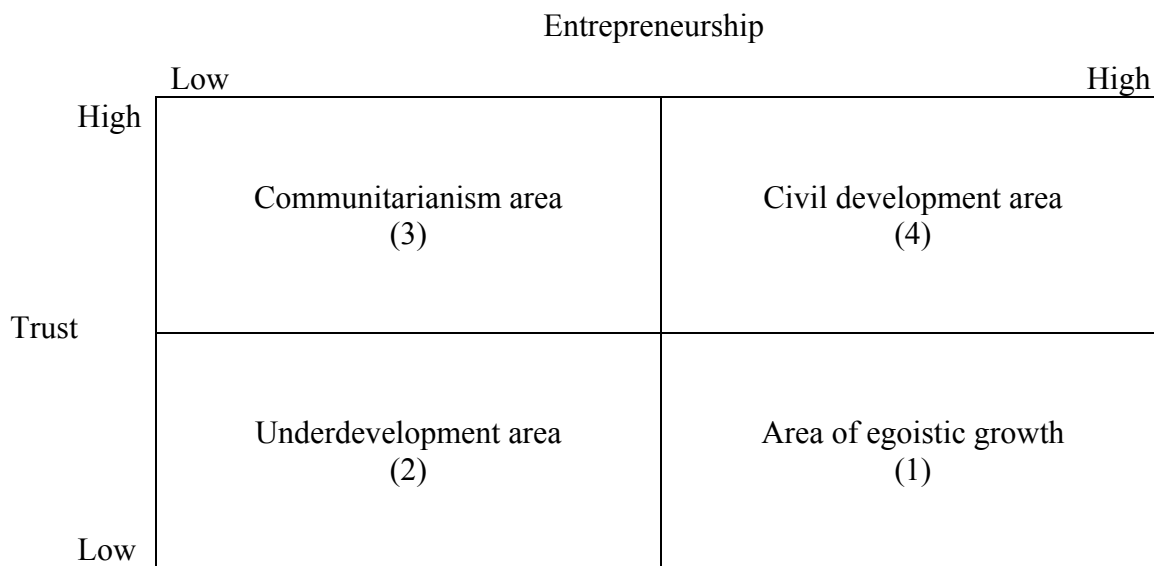
A civil entrepreneurial development approach is therefore based on the two variables of the growth of trust capital and of what we can define as entrepreneurial capital (Audretsch, Keilbach 2004).

Therefore we can have different situations of development (or even its absence), depending on how the two variables of entrepreneurship and trust get combined, which can lead to be the guide to a different approach to regional policies.

The following matrix is represented in the Figure 1. In the first quadrant (high entrepreneurship/low trust) there is a capacity for self-interested entrepreneurial initiative, without any possibility for the reasons of others: all this converts into a form of selfish development, which involves income growth in the short term, but in the course of time leads to major failures, such as "turbo" American capitalism, cause of the crisis that began in 2008. It is about *selfish growth* (not a development in the full sense of the term), without much attention to the reasons of others, that falls back on itself and eventually creates distrust and closure towards others, an attitude that Richard Sennett (2013) described as the feeding of the "non-cooperative self", to identify the loss of collaboration desire.

On the other hand, even a generally trustworthy context, in which there is essentially no entrepreneurial capacity, is not able to ensure lasting development. This is the situation in quadrant (3) where high generic trust is not accompanied by entrepreneurial initiative. There are forms of management of common goods that do not receive the push towards an innovative process of which the entrepreneur is the author. A growth based exclusively on a cooperative ethics is destined to die out (Mokyr 2016): we secure ourselves to a spiral of subsistence that does not increase the amount of common value, and sooner or later it turns into a real underdevelopment, where impoverishment of common goods ends up resulting in the absence of a relationship of trust and the affirmation of selfish behaviour, with hyper-exploitation (until exhausted) of common goods (quadrant (2)).

Figure 1 – The development map



Civil development, on the other hand, affirms itself when there is entrepreneurial initiative accompanied by strong trust processes (quadrant (4)), in which society, sociality and economy are closely linked and feed each other, and where – in brief – there are conditions for a real affirmation of a civil capitalism, oriented towards cooperation with others.

Different quadrants do not identify stable situations, because there is a continuous development. In the most recent years, in many ways, we have experienced a transition from the fourth to the first quadrant, with the weakening of trust processes, due to the affirmation of consumption models and life oriented to a strong individualism and the proposition of personal success models. This path is degenerating in the underdevelopment area (which is not necessarily identified with a low level of product per-capita, but also with forms of social impoverishment), because the consumption of trust capital, sooner or later, also impoverishes the entrepreneurial tissue and, in any case, the economic democracy that represents the warp of that tissue.

A virtuous circuit, on the other hand, should involve the passage from the area of underdevelopment to that of civil development. This can happen according to a course that first enhances the sharing of common goods (and therefore the trust matrix), or individual entrepreneurial initiative, or at least both, but aiming at an increase in both trust capital and entrepreneurial initiatives.

5. Towards a development policy marked by civil entrepreneurship

5.1 The need of a new policy

Trust and civil entrepreneurship are closely connected foundations to set policies for less developed areas that can be linked to a “balanced” approach (Iammarino, Rodriguez-Pose, Storper 2018) which may combine efficiency and equity. New (and different) development policies must start from these aspects and from the awareness that financial incentives, while in the short term can increase employment and production, in the medium term have negative effects on productivity. More generally, these policies have resulted in the replacement of investments that would have been made in any case, or in displacement with respect to neighbouring areas without incentives (and therefore in a game of

zero-sum development, when not negative) often stimulating phenomena of intermediation and a particularistic political demand (and supply).

Therefore, the link between development, civil society and cultural and environmental characteristics (Greenwald, Stiglitz 2013; Stiglitz, Lin, Monga 2013) is essential for regional policies, according to a logic that implies enhancing the historical-local aspects, but placing them in a scenario that is inevitably European and global. Moreover, even a support policy directed only towards individual companies is doomed to failure if it does not assess the intervention for its effective ability to produce an impact on the growth of the overall local economy. The ability to activate energies (from the bottom) for a shared development project must take into account all the complex implications at the economic and social level.

Therefore, it is not sufficient to focus on the growth of purely quantitative parameters related to the existing gaps, and it is necessary to work on the system of relations that generate those parameters.

Companies that are most connected to each other and to the outside world have a better performance, and they are also able to activate innovative processes and active strategies. Sharing activities and values helps development processes, making them stronger and more lasting even at the single company level.

This is why a policy of civil entrepreneurial development must first be a subject to a sustainability assessment. Such sustainability should be measured on the institutional side, meant as the ability to create a “self-supplying circuit in which the institutional framework allows the deployment of individual freedoms/ skills to capture/activate the opportunities offered by the market” (Esposito, Musso 2016).

In order to have effective and lasting regional growth, it is necessary to enhance the entrepreneurial capacity in close relation with the capacity to create a trust capital (synthesis of social, moral and civic norms, and above all of the local cultures of which those norms are the expression, because of the influence they have on the social learning process).

In other terms, *it is necessary to consolidate and develop the link between trust networks and entrepreneurial action*, in order to create a civil entrepreneurship, as in the fourth quadrant of the development map (Figure 1) that is influenced by the foundation of trust capital. *This can also encourage stronger relationships and a constructive competition in the market.*

5.2 The circle of trust and regional development according to the civil entrepreneurship approach

What does trust consist of? It has been mentioned so many times till now, but it has not been defined accurately yet. To be used in an operational way, trust must be properly defined and kept within its conceptual boundaries.

An appropriate definition of trust is: "Shared expectation of cooperation and ability of a community or an organization to give itself a code of conduct based on shared values [...]. In essence, trust can be considered as a social process" (Brusco, Solinas 1997, pp. 22-24). This process implies some basic aspects: the expectation of cooperation of others (responsibility), the existence of shared values, from which the rules of behaviour arise, the strong social characterization, therefore the need for an extended interaction between groups or between communities and/or organizations.

In addition, there are some further elements of trust to be taken into account from the economic point of view (Dasgupta 2011, p. 121): the positive expectation of a subject towards the fulfilment of the promise by another subject and the possibility that this relation could be the basis of horizontal networks of cooperation.

Interpersonal trust and trust in others feed non-opportunistic behaviours, they are the fundamental glue of interaction systems which reduce transaction costs and allow to give a time projection to future choices characterized by uncertainty. Moreover, and above all, trust is a

stock that is nourished over time (but can also be impoverished), that is why it can be assimilated to capital (which grows, but can also deteriorate and in any case needs to be maintained): a trust capital.

Edward Banfield, in 1958, underlined different dimensions of trust: relationality – or rather its absence with reference to those individuals outside a small family group – and cooperation/reciprocity. Therefore there are two aspects: the first one allows a better level of information and identifies *social capital* in the strict sense, the second aspect identifies the *civic capital*.

Civic capital has often been neglected in the analysis of fiduciary links, and yet it is of great importance, because it concerns the set of values and expectations that encourage cooperation/reciprocity and, more specifically, the values and beliefs shared by a community and/or a group, which help its members to overcome problems of free riding in carrying out activities useful to the members of the same group. It contains shared values and beliefs that stimulate a cooperative attitude, pushing towards a mutual benefit⁴, a sort of incentive to collaboration, as an exchange whose participants benefit from being together (Sennett 2013).

In other words, this type of trust implies certain behaviour that is meant to be reciprocated, because otherwise it will no longer occur to the original lender.

Civic capital has a framework of *social norms*, as the result of a certain culture established over time in communities and groups, which are also transmitted by the effect of family education, norms that imply forms of sanction for those who do not respect them, at least in the form of the absence of reciprocal behaviour.

A further dimension of trust capital is the *moral dimension*. In this case the relationship is rooted in the ground of moral norms, that is, the values that guide human behaviour without resulting in sanctions if fair behaviours are not reciprocated. Therefore, there are *internal rules* that encourage people to conform to virtuous behaviour, in a sort of commitment with the aim of achieving a common goal. *In this case, the cultural aspects are absolutely predominant.*

Moral capital, through an act of gratuity, creates a bond with other people without expecting to be reciprocated. It implies forms of altruism, a willingness to make a personal sacrifice to procure benefits for others, responding to a more general principle of justice and equity, which has its roots in personal beliefs, forged by the family, and also by the more general culture, although it may not involve an increase in well-being (and welfare) of people (Sen, 2000).

This digression introduces a useful scheme to evaluate the development policies implemented in a logic of institutional order, which is linked to the development map presented in chapter 4.

In order to produce virtuous effects, *a (virtuous) circuit must be established between (civil) development policies, entrepreneurship and market*, but there must also be a mutual dependence between the stock of fiduciary/trust capital and the institutional system, *according to a process of institutional sustainability that has feedback effects*. In the stock of fiduciary capital it is necessary to take into account all three dimensions of social, civic and moral capital (Figure 2).

⁴ If we look closely, the aspect of reciprocity and mutual benefit is at the basis of the same market transactions, and according to some authors, it represents the real *telos* and provides its justification also from an ethical point of view, representing a sort of moral attitude and in this context the predisposition to trust and give reliability acquire the importance of moral virtue. Ref. Bruni, Sugden (2013), p. 156.

Figure 2 – The circuit of regional development policies according to the civil entrepreneurship approach

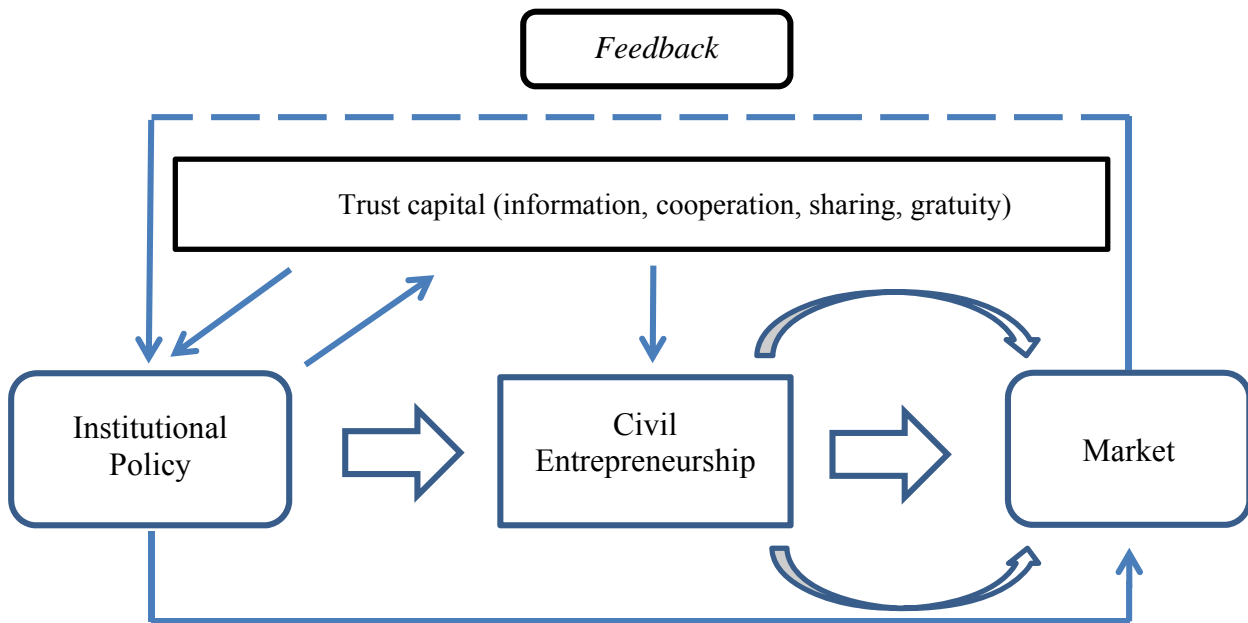


Figure 2 shows a process-based model, in which development policies interact – in turns – with the institutional system of an economy, aiming at discovering business opportunities through the expansion of the degree of freedom and the entrepreneurial capacity of companies. In addition, there are complex effects of influence between institutional policies and trust capital, which also pass through the cultural background that characterizes different regional realities.

In brief, the final goal of policies generated according to this approach is to influence the market by impacting on companies' competitiveness, since the market plays a central role in encouraging structural change in economies, through the enhancement of endogenous endowments to different production contexts (Lin 2012). Therefore, the market becomes an element of comparison, which also helps to assess the efficiency of the policies themselves, because it ensures the permanence of the policies' effects over time, and also their self-sustainment, according to the logic of institutional sustainability.

To guarantee the functioning of this circle it is not enough to remove the obstacles to the free functioning of the market (technical approach: freedom "from" and freedom "of"), because on the contrary (as demonstrated in several cases: Rodrik, 2009; Rodrik, 2004; Rodrik, 2006) this could even have counter-productive effects on the productive diversification capacity of an economy.

After all, the market itself assumes an important role not so much (and in any case not only) as a competitive arena for comparing costs and prices, but also as a social institution: a place of sharing and reciprocity (civil approach), where business projects meet themselves (and perhaps even confronting each other). A perspective purely based on competition, seen as the elimination of constraints and barriers, without considering the overall links, could risk to jeopardise the long-term performance of a production system, because it undermines not only the reasons for economic-productive convenience, but above all, social convenience, therefore obstructing positive developments for the future.

In brief, regional policies for civil development should establish as a priority objective the growth of freedoms/capacities of enterprises⁵. Therefore, their primary objective should be firstly qualitative, and then also quantitative, in terms of change in the production mix and stimulus to a greater regional competitiveness. In this process, the relationship between the institutions and the market is very strong, and we can believe that both are the result of a mutual evolution circle strongly dependent on the situation of local contexts (Altobelli, Esposito 2014).

For this reason, regional development policies must have a strongly contextualized approach and cannot respond to the uncritical repetition of standard principles detached from the specific characteristics of local processes, just because some policies have worked well in other contexts.

6. Concluding remarks

In this work it has been highlighted that the interruption of the regional convergence processes is questioning the policies followed up till now and motivates the hypothesis of new routes.

Some elements for a different approach to regional development policies have been outlined. *Starting from concept of civil economy, regional policies should aim to enhance the role of trust capital and the stimulus to an entrepreneurship oriented to civil values.* This kind of approach tends to favour the development of freedom (in extensive sense) and entrepreneurship, and also highlights the role of the market as a place where different business projects meet, responding to a logic of *common rationality*.

This approach has a generative character, because it activates not only economic processes, but also social ones, aiming to reconcile the principle of efficiency that is the basis of businesses (and under many aspects also of markets) with the fair distribution of wealth.

The circular process of regional development policies that has been presented in this work starts from the enhancement of the fiduciary/trust capital and the system of informal rules (social and moral) widespread in the society. At the same time, it leverages the important role of the market, to define a policy design that has the character of institutional sustainability, being able to activate a process meant to continue and to self-sustain in the future.

A process of this kind must be strongly contextualized to the individual territories, it involves a careful analysis of the socio-economic characteristics of the context (Esposito, Musso 2016) and requires continuous action by the institutions to grow trust capital, which is one of the elements that contribute to fuelling a form of entrepreneurship that can be defined as "civil".

This is how the role of public institutions is relaunched for interventions aimed at fostering regional convergence processes, not only in terms of product, but also of overall well-being and disposable income. Therefore, regional policies to promote competitiveness are also linked to the consideration of aspects of income re-distribution that relate to social equity.

To the extent that policies of this type reduce also inequalities in disposable income, they also contribute to greater stability in growth (Cingano 2014), as well as to the strengthening of

⁵ In this way, *a generative approach to development* is affirmed, understood as an increase in value linked to the freedom of people in an intergenerational sustainability logic. Also from this point of view, the question of the policies institutional sustainability emerges. Such a perspective also implies a rethinking of the role of institutions in the name of greater polyarchy and subsidiarity (Magatti, Gherardi 2014, p. 145). The latter should be understood not only in terms of horizontal subsidiarity, but as a true *circular subsidiarity*, such as objectives sharing and "doing together" actions.

trust capital, because they sustain the possibility for people to make improvements in their "future".

Development - especially regional development - therefore represents a complex process where different economic and social components cannot be kept separate, and also involves a reflection over the forms of capitalism, as Nobel Prize winner Joseph Stiglitz (2016b, p. 136) claims: "Reducing inequalities (of all kinds) is essentially a political issue and we are not forced to choose between capitalism and equity. We have to choose both".

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EFFECT OF PARTICIPATIVE LEADERSHIP STYLE ON EMPLOYEE'S PRODUCTIVITY

Kowo Solomon Akpoviroro
Kwara State University, Malete Nigeria

Kadiri Ismaila Bolarinwa
University of Ilorin Nigeria)

Sabitu Olalekan Owotutu
Ogun State Institute of Technology Igbesa, Nigeria

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Abstract

This study was conducted based on the effect of participative leadership style on employee's productivity using Midland Galvanizing Product Limited (MIDGAL) Abeokuta, Ogun State Nigeria. The objectives of the study are to examine the significant relationship between Participative leadership Style and Employees Motivation and also to investigate the effect of Participative leadership Style on Employees Productivity. The study made use of two hypotheses. Survey research design was employed for the study. The sample for the study comprised 114 staff of MIDGAL. The instrument titled "Participative Leadership Inventory (PLI)" was used for the study. Regression analysis was used to measure the effect of the independent variable to the dependent variable of hypothesis one, while in hypothesis two Correlation analysis was used to measure the significance of the relationship between the dependent and independent variables. Cronbach's Alpha method was employed for measuring questionnaire reliability. SPSS was also adopted for the research in testing the research hypothesis. The result of the findings shows that there is positive and significant relationship between participating leadership style and employee's productivity. Also, the result shows that participatory leadership style can be used as a motivational tool for workers. Based on the results of the study, the study recommended that every organization should adopt participatory leadership style as it boost employee morale and enhance organizational productivity.

Keywords: Participative leadership, motivation, leadership style. Organizational Performance.

1. Introduction

With respect to the organization's perspective to follow their evolution, it is necessary to examine organizational leader's behaviours precisely in all organizational levels to achieve their goals (Mohammed, 2014). Leaders should perceive their reciprocal independency and

influence their employees so that they motivate to participate in reaction and responsibility and hence knew their performance expectations (Puni & Okoe, 2014). Posit that in the organizational environments employee's behaviour and efficiency influenced by workplaces and this shows leaders behavior's during their interaction. Joashi & Row (2011) emphasized that Leaders should acquire better cognition from their behaviours that influence their members' self-confidence as they form effects of work places through employee's feedback and their employment. The effect of participative leadership style on employee's productivity is a planned effort knowledge and skills of the behavioral sciences (Amstrong,2009). The main thrust in organizational development is on the organizations problem-solving abilities. The employees must integrate their goals with the organizational goals. Employee involvement at every level of hierarchy in matters concerning the overall wellbeing of the employees can be achieved through participative leadership (Duncan, 2014).

Participative leadership also known as Democratic Leadership Style is a method of leadership that involves all team members in terms of identifying important goals as well as developing strategies and procedures to achieve the goals.

According to House and Mitchell (1974), the participative leader possesses consultative behaviors, such as imploring subordinates for ideas prior to making an ultimate decision, although, they retain final decision authority. The participative leader shares duties with subordinates by encompassing them in the preparation, decision-making, and implementation phases (Wiesenthal et al, 2015). Workers participation in decision making process which affects staffs and their job is one of the psychological motivational activities which could be used to raise employee's morale and productivity (Brown, 2011).

2. Literature Review

2.1. The Concept of Participative Leadership Style

Participative leadership is defined as the process of making joint decisions or at least sharing influence in decision making by the superior and his or her subordinates (Puni & Okoe, 2014). It has become increasingly important in African organizations than ever before (Ijeoma, 2010). Modern business organisations reflects a growing recognition among academics and managers that a high productivity/high wage economy require new labour management relationships, including ways to share gains and organized work that more fully develop and utilize the skills, knowledge, and motivation of the workforce (Fincham,2005) .

Fincham identified this type of style as one that involves the leader including one or more employees in the decision making process (determining what to do and how to do it). however, the leadership maintains the final decision making authority. Using this style is not a sign of strength that your employees will respect (Sinek, 2014). Participative management addresses the relationship between the organisations and the role of employees and stakeholders in all levels of organisational decision making (Dhamika, Ahmad & Sam, 2013). In addition to philosophical issues of governance and the appropriate relationship between workers and their employers, participative management can help managers dealing with the fundamental challenges facing today's dynamic and competitive environment (House et al,2004). Maintaining levels of effectiveness, productivity, innovativeness and worker motivation in an increasingly dynamic, competitive environment should be the concern of all organization (Monzani & L.2015). Participation is one of the important ingredients in gaining employees commitment on an overall basis (Griffin et al,2007). The commitment can lead to less need for the use of formal authority, power, discipline, threats and pressure as a means of obtaining job performance. (Ijeoma, 2010). Greater goal concern by reducing conflicts, improve

cooperation's and enhance condition without the need for elaborate control or systems for checking and correcting difficult behaviour. (Finchan and Rhodes 2005).

Human outcomes of poor leadership include employee stress, disenchantment, lack of creativity, cynicism high employee turnover, and low productivity. Poor leadership destroys the human spirit essential to ensure work effectiveness (Robbins, 2014). Organisations today are moving towards more democratic structures which allow employees to influence the decision made because of concern for quality and the requirement of a high degree of commitment by employees to their work (Rost, 2013). The average Nigeria employee in recent times appears satisfied with an open door policy of management with adequate avenues for effective communication consultation and delegation of powers which covers some degree of participation (Bergen & Bressler, 2014). The aim of involving people in decision making process of the organization is to create in such a person a sense of recognition and belonging which could raise the person morale, as they will see themselves as very important in the organization (Hartong & Koopman, 2011). This will invariably lead such person(s) to a higher output in terms of productivity (Goodnight, 2011).

The feeling of empowerment or psychological empowerment has been understood as a form of intrinsic motivation to perform the job and is shown in four cognitive dimensions, meaning, impact, competence and self-determination (Huang, 2010). Robbins (2003) considered the distinction between the sharing of decision with individual subordinates and with the group as a whole. He emphasized that the criteria for choosing the proper style include among others, the importance of acceptance of a decision by subordinates time and cost minimization. Managers should therefore be able to analyze the relevant factors and decide on the degree of decision that would be appropriate (Dvir et al, 2002). Adams (2017), Javad (2013) and Ejimabo (2015) found the level of trust is high leaders; subordinates may expand more effort to accomplish work tasks.

2.1.1. Types and Strategy of Participation

There are basically dual forms of participation namely direct and indirect participation. Direct participation in decision –making is the participative processes whereby employees are involved in decision relating to their immediate task or environment (Werner, 2007). This form of participation is mainly found in productivity bargaining which is an arrangement between a worker and his employer to the effect that an increase in his productivity will make him earn an additional wage.

Productivity bargaining arises mainly in circumstances where working practices need changes (Chiek, 2001). Dull (2010) notes that Indirect form of participation is the participation process whereby employees are involved in decision making through their selected representatives or delegates. Looking at the strategy applied by managers to involve employees in decision making in organization, participative principles is normally employed to achieve the desired result. Managers have many opportunities for involving subordinates in organizational planning and decision making. Mission refers to defining a meaningful long-term direction for the organization (Brown, 2011). Leaders have an important role in managing shared values and mission (Yuki, 2002).

Joashi & Roh (2011) identified four participative methods which are:

- i. *Delegation*: means the transfer of authority from the superiors to the subordinates
- ii. *Committee Action*: Committees are a vital mean of continually gaining inputs from a large number of organizational members. Most companies have certain standing committees to deal with continuing or receiving problems facing the organization. These could be related to corporate policy goals and operations. Depending upon the organizational structure special committees may be established to deal with budgets,

employment policies, grievances, disciplinary problems and a variety of other organisational problems and activities.

- iii. *Question Asking*: Managers who respect the knowledge, opinions and judgment of their subordinates may achieve a relatively high level of participation by simply asking questions. Here, the participative leader asks for information and insights that will improve the quality of their responsibility of their subordinates in terms of intelligence and problem solving.
- iv. *Shared Goals*: Participative leaders are prone to become involved in management by objectives and similar goals – oriented programmes. Ideally, an MBO programme is highly participative.

2.1.2. Do's and Don'ts Participative Leaders

Schein (2010) pointed out some Do's and Don'ts of participative leaders. These are:

Participative Leaders Do

- i) Communicate the big picture-Company priority performance results, work units connection to the large organization.
- ii) Involve employees in developing realistic goals sensible performance measures and appropriate rewards.
- iii) Delegate appropriately and develop employee talent.
- iv) Support employees with clear direction and necessary resources.
- v) Facilitate team work by focusing on process as well as task.

Participative Leaders Don't

- i) Withhold information and act as if the group, is an isolated unit
- ii) Tell employees what to do and hope for good performance.
- iii) Manage in a detailed, hands – on fashion
- iv) Set people up for failure by not providing support
- v) Create competition and focus only on task

Participative Leaders Are described as such because their job is to see that employee participate in decisions that affects their work, in short they tap the full potential of their work force. Participative leaders orchestrate high performance by providing director information resources and group facilitation.

2.1.3. Why the interest in participative management now?

Unlike the days when a good supervisor was expected to rule an iron fist, today's leaders are asked to be visionaries, coaches and facilitators (Careless, 2004). But what do those words mean in terms of the –job behavior faced with new expectation it is not surprising that so many supervisors feel as though they are in alien territory. Understanding the changes that have made participative leadership necessary will make the territory more familiar. Changes in competition have necessitated changes in business goals which have created a need for new business rules and roles. The playing field has changed.

Some reasons behind the shift can be seen below:

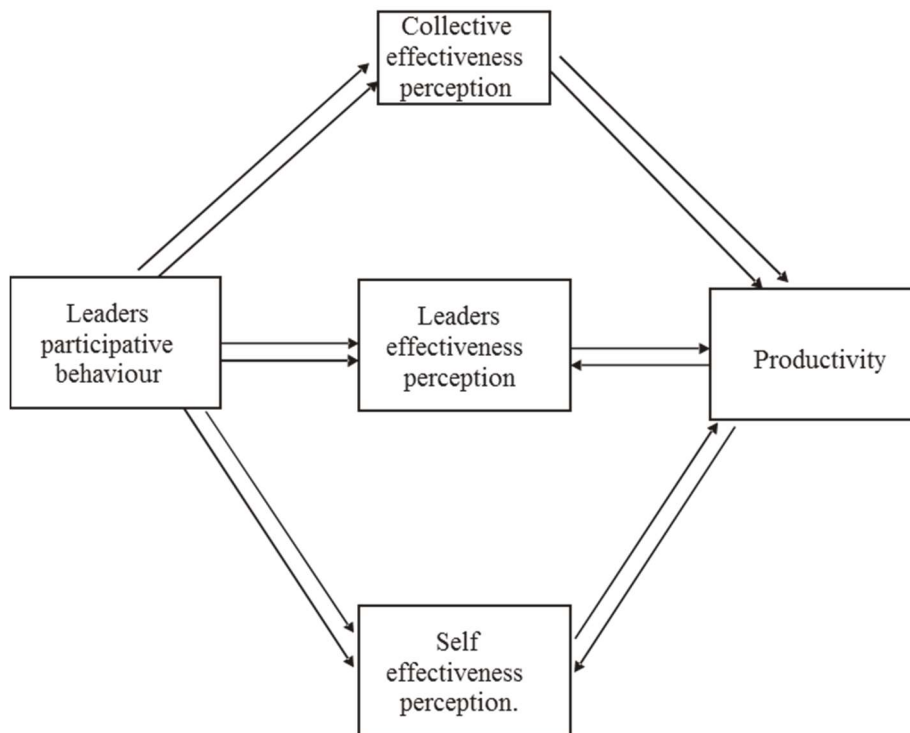
- i) *Competitive pressure*: A key factor in the interest in participative management was the realization, which really struck home during the 1980's that better management practices – superior quality management systems, better employee relations, integrated design and production teams could provide critical competitive advantages to public and private sector organization (Siehl, 2009). During this same period, heightened

issues about the societal accountability of organization also occupied management positions (Martin & S.L, 2013).

- ii) Underlying the entire discussion of participative management and employee’s involvement is the dominance of the bureaucratic, hierarchical organization model and management approach commonly referred to as Taylorism (based on Frederick Winslow Taylor’s (1911) classic, the principles of scientific management) or Fordism (based on the principle developed by Henry ford). However, the pre-eminence of the bureaucratic, hierarchical organization model and traditional management practices is facing increased challenge (Levenwis & Green, 2002). In recent time, participative management strategies and employee and stakeholder involvement were approached as modification of or supplements to the traditional bureaucratic, hierarchical model, undertaken to achieve particular goals or address particular problems. Recently, however participative management has been discussed as a comprehensive governance system that could and is replacing the traditional bureaucratic hierarchical system for the new, organic networked organizational forms emerging in the 1990s.

The traditional logic of organizing is to give simple work to employees at the bottom of the pyramid who then report through a supervisor up a hierarchical chain of command to senior executives who provide direction, coordinial and control. This does not work well for organizations managing knowledge intensive tasks. As the number and visibility of high knowledge based organization increases, the need for a new logic of management has gained currency among both academics and managers (McCleskey, 2014). Dull (2010) summarizes some of the principles of this new logic as shown in Figure 1.

Figure 1 – Conceptual Model of Participative Leadership Style



Source: Dull (2010) principles of new logic of Management.

2.2. Theoretical framework of Participative Leadership

2.2.1. Social Learning Theory

Rowe (2001) worked on the foundations of reinforcement theory and suggested that behaviour does stem from its consequences but also includes constant learning and adapting to one's environment and that most learning probably occurs vicariously through observation of others. The theory thus explains behavior as a function of the person and his or her social environment and the interaction between both. Another key element of Social learning theory is self-regulation which involves controlling one's own behavior or the transfer of behavior from external sources to internal ones. This self-regulation occurs through three steps of self-observation (looking at one's own behavior and keeping tabs on it), judgment (comparing one's behavior with a standard) and self-response (rewarding or punishing oneself through the comparison with the standard). It is through this self-regulatory mechanism that an individual gets a sense of self-esteem. It is derived from the theory that an individual's self-belief about his or her ability to do a task strongly influences his or her ability to perform (Etikan & Alkassim, 2016) and the relationship between performance and efficacy has been established empirically.

2.2.2. Need Based Theories

The phenomenon of recognition provides for Individual political, social and psychological benefits. After food, it is by far the most significant of human needs and as Heike (2009) points out, "without recognition humans in general would not lead a life above merely animal existence." (Bergen & Bressler, 2014). Role of recognition in driving human action can be gauged by its placement in the various theories of motivation; need for recognition has been a part of both the traditional and contemporary theories of motivation. Maslow (1943) in his seminal work 'A theory of human motivation' gave importance to Recognition as a concept can be observed in relation to individual's social needs and needs at the higher end of the hierarchy. (Schein, 2010). Acknowledgement as a member of a group satisfies an individual's social need, likewise recognition for achievement helps build self-esteem. Huang (2010) worked on Maslow's need theory and condensed it to three main needs for power, affiliation and achievement. Alderfer's ERG theory (1972) also points out the role of recognition in context of an individual's need for relatedness.

2.2.3. Process Theories

Process theories give relevance to the 'value' associated with those rewards. Vroom's expectancy theory (1964) provides the most significant and holistic presentation of work motivation. Sarros, Brain & Santora (2008) assert that after thirty years of inception, there is a decline in the research on expectancy theory, which indicates that the basic concerns regarding the theory have been examined and that the theory has matured) It is said that expectancy theory has been used "as a general framework for assessing, interpreting or evaluating employee behavior" (Ambrose and Kulik 1999, p.236)

2.2.4. Trust-Based Mechanisms Theory

This illustrate how Participative Leadership Influences Job Performance There is growing evidence to suggest that participative leadership influences the job performance of subordinates through engendering higher levels of trust in supervisor, especially for employees in non-managerial positions (Huang et al. 2010). Affective trust refers to that which results from the emotional ties developed between two parties within a relationship as they engage in a process

of reciprocal social exchange (Amstrong, 2009). By providing opportunities and support to take responsibility and participate in decision-making, participative leaders should elicit affective trust in their subordinates through the development of a close emotional bond between the two parties (Huang et al. 2010).

2.3 Gap in Literature

A lot of controversies have been raised in respect of participative management style in recent times. Participation which has been defined as allowing workers in decision making on those things that affect them and their work had led to it controversies. Commenting on its controversies. Joshi & Roh (2011) asserted that participation is a device for extending the organization control for worker. The autonomy to confer with an individual in matters reduces his opportunity to deviate from the main organizational purpose. Participation can then be a contributing factor in increasing efficiency.

Robins (2014) also has this to say in respect of participation. “Decision is only as good as its implementation and those who participate in making it are usually highly committed to make it fruitful. Some managers often view participation as an exclusive cool. It should be understood that participative leadership is not only the tool to attain organizational objectives. Managers have a need to verify the variety of tools in achieving objectives and goals. Adams (2017) opined that it is easy to manipulate participative management more to the best advantage of the manager rather than for the benefit of the employee and organization. As highlighted in the above, it should be noted that not everyone subscribes to this positive view of participatory democracy or to the benefits of direct participation in the work place. Unions for example, argue that participative processes are actually detrimental to the welfare of workers and circumvent the protections provided by collective representation (Wiesenthal et al,2015). Regardless of the various controversies, the literature review confirms participation and productivity relationship. Therefore, this study seeks to add to already existing literature of Participative Leadership Style by examining the conceptual and theoretically concept of Participative Leadership Style and its effect on Employees motivation and Employees Productivity.

3. Research Methodology

Primary and secondary data was employed for the study. The population of the study was the staff of Midland Galvanizing Product Limited (MIDGAL) Abeokuta, Ogun State Nigeria. The research instrument was a questionnaire titled “Participative Leadership Inventory (PLI)”. The questionnaires were structures in form of strongly agree (SA), Agree (A) Undecided, (U), Disagree (D) Strongly Disagree (SD). The study employed Yard's formula. This formula is concerned with applying a normal approximation with a confidence level of 95% and a limit of tolerance level (error level) of 5%.

To this extent the sample size is determined by $[n = \frac{N}{1+Ne^2}]$

Where: n = the sample size
 N = population
 e = the limit of tolerance

$$\begin{aligned} \text{Therefore, } n &= \frac{160}{1+160(0.05)^2} \\ &= \frac{160}{1+160(0.0025)} \\ &= \frac{160}{1+0.4} \end{aligned}$$

$$= \frac{160}{1.4}$$

$$= 114 \text{ respondents}$$

A sample of one hundred and fourteen (114) employees out of the one hundred and sixty (160) employee population of MIDGAL PLC OGUN STATE Nigeria as calculated above. Cronbach’s Alpha method was also used for measuring questionnaire reliability. SPSS was also adopted for the research in testing the research hypothesis.

Table – 1 Reliability Statistics

Cronbach's Alpha	N of Items
.745	20

Source: Field Survey (2017)

Table 2 – Distribution of respondents and response rate

Respondents Occupation	Questionnaire administered (sampled)	Percentage of total response (%)
Supervisory	45	50-0
Managerial	42	46.7
Executive	3	3.3
Total	90	100.0
Gender/Category	Questionnaire administered (sampled)	Percentage of total response (%)
Male	57	63.3
Female	33	36.7
No of Returned	90	78.95
No of Not Returned	24	21.05
Total no of Questionnaires	114	100

Source: Field Survey 2017

4. Data analysis, hypothesis testing and discussion of findings

Regression analysis was used to measure the effect of the independent variable to the dependent variable of hypothesis 1, while in hypothesis 2 Correlation analysis was used to measure the significance of the relationship between the dependent and independent variables.

4.1. Testing of Hypothesis i

H₀: Participatory leadership style has no positive and significant effect on Employee’s productivity

H₁: Participatory Leadership Style has positive and significant effect on Employee Productivity.

Table 3 – The Descriptive statistics of Employees Productivity, Participative Leadership Style & Motivational Performance

Responses	Total (N)	Mean
PARTICIPATIVE LEADERSHIP & EMPLOYEE'S PRODUCTIVITY		
Poor leadership includes employee stress, disenchantment, lack of creativity, cynicism high employee turnover, and low productivity.	90	4.56
A high productivity /high wage economy require new labour management	90	3.83
Productivity bargaining arises mainly in circumstances where working practices need changes	90	3.95
When workers are involved in decision making it increases their productivity significantly	90	3.88
Leadership approaches affect workers level of productivity.	90	3.76
PARTICIPATIVE LEADERSHIP STYLE & EMPLOYEES MOTIVATION		
When workers are involves in decision making it increases their productivity significantly	90	3.88
Participation can be a contributing factor in increasing efficiency	90	3.79
Indirect form of participation is the participation process whereby employees are involved in decision making through their selected representatives or delegates.	90	3.49
The ability to participate in decision making serves as a morale boost for the young employee.	90	3.59
The level of participation in decision making increase productivity through increase in motivation.	90	3.77
When subordinates take part in motivation work, they may discover that the performance of their work is more productive.	90	3.62

Source: Field Survey 2017

Table 4 – Model summary

Mode 1	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.721(a)	.519	.485	.64386

Source: Field Survey 2017

Table 5 – ANOVA (b)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	37.192	6	6.199	14.952	.000(a)
	Residual	34.408	83	.415		
	Total	71.600	89			

Source: Field Survey 2017

- a) Predictors: (Constant): Participatory leadership style
- b) Dependent Variable: Employee Productivity.

Interpretation of results

The results from the tables above revealed that the extent to which the variance in employees productivity can be explained by participative leadership style is 51.9% i.e (R square = 0.519) at 0.0001 significance level.

Decision

The significance level below 0.01 implies a statistical confidence of above 99%. This implies that participative leadership style has a positive and significant effect on employee’s productivity. Thus, the decision would be to reject the null hypothesis (H₀), and accept the alternative hypothesis (H₁).

4.2. Testing of Hypothesis ii

H₀: A significant relationship does not exist between Participative Leadership Style and Employees Motivation.

H₁: A significant relationship exists between Participative Leadership Style and Employees Motivation.

Table 6 – Correlations

		When workers are involved in decision making it increases their productivity significantly	When subordinates take part in motivation work, they may discover that the performance of their work is more productive.
When workers are involved in decision making it increases their productivity significantly	Pearson Correlation	1	.435(**)
	Sig. (2-tailed)		.000
	N	90	90
When subordinates take part in motivation work, they may discover that the performance of their work is more productive.	Pearson Correlation	.435(**)	1
	Sig. (2-tailed)	.000	
	N	90	90

Source: Field Survey 2017

Coefficient of Determination (C.O.D)

The coefficient of determination is obtained using formula $C.O.D = r^2 \times 100\%$

Where r = Pearson Correlation

Thus;

$$C.O.D = (0.435)^2 \times 100\%$$

$$C.O.D = 0.18705 \times 100\%$$

$$C.O.D = 18.705\%$$

The Pearson correlation of r = 0.435 therefore implies 18.705% shared variance between participative leadership style and employees’ motivation.

Interpretation of results

The relationship between the variables (between participative leadership style and employees’ motivation) was investigated using Pearson correlation coefficient. The results from table 6

above shows that there is a significant positive correlation of (0.435) between both variables at 0.0001 level of significance. Thus, as obtained from the table $\{r = 0.435, p < 0.01, n = 90\}$.

Decision

Haven found out that a significant relationship exists between participative leadership style and employees motivation. We therefore reject the null hypothesis (H_0), and accept the alternative hypothesis (H_1).

5. Discussion of findings

Results from the field survey analysis showed that participative leadership style has a positive and significant effect on employee's productivity. Participative leadership style has been proved to be a very effective tool towards boosting employees' level of productivity. This analytical finding is consistent with that of Mohammed (2014) pointed out that involving employee's in decision making in organization increases their productivity significantly. Secondly, it was discovered that a significant relationship exists between participative leadership style and employees motivation. Analytical results show that an organization that practices participative leadership style will enhance workers motivation. Moreover when subordinates take part in motivation work, the performance of their work is more productive.

Findings of this research are consistent with those of Brown (2011) that found that Workers participation in decision making process relating to those things, which affect them and their job is one of the psychological motivational activities, which could be used to enhance employee's motivation, morale and productivity

6. Conclusions

Organizations are increasingly embracing the concept of participatory leadership style in the work place. This research buttress this by showing that most workers in the company studied have actually embraced and practiced the concept towards achieving good working relationships and set goals. The two hypotheses were drawn from the objectives of the study and research questions were tested. The study concluded that participatory leadership style is more in use in the company than other leadership styles. A higher percentage of the population pointed out that participatory leadership is still a matter of individual managers' leadership style and not corporate policy. They however indicated that this should be a matter of company policy and not mere individual's style of leadership. Seventy percent of the workers sampled disagreed with the notion that participatory style results to a lot of problems in the work place; rather, about the same percentage affirmed that participatory is a more effective approach when compared to autocratic and free reign management styles.

The research has showed that there is a positive relationship between participatory leadership style and employee productivity while hypothesis two validates the axiom that participative leadership style could be used as a motivational tool to boost workers' morale. Furthermore, this study revealed that management behavior and leadership styles adopted by organizations play very important role in influencing workers contribution in the drive towards' growth and survival. It was also evident in the course of this study that participation in decision-making by workers relates positively with employees productivity. The morale of workers can also be boosted by the application of participative management styles. A work environment where employees get involved in decision-making in issues that affect their work and performance do help to create a conducive and peaceful industrial setting.

6.1. Recommendations and Practical Implications

Participatory leadership style has been proved to be a very effective tool towards boosting employees' level of productivity. Management and organizations should adopt Participative Leadership Style as a matter of corporate policy. Participative Leadership Style should be adopted as a very effective tool for motivating workers and to boost their morale and output. This is because it gives the sense of belonging, acceptance, self-worth, and approval etc., to the employees as identified by Maslow being some of the conceptual human needs.

Management and organizations should take advantage of the peaceful and harmonious industrial environment usually created by this adoption of participatory leadership style so that creative and useful ideas from the workers can be played up and embraced for the advancement and progress of the whole entity.

6.2. Limitation of the Study

The sample size of this study was determined based on the population of the staff of Midland Galvanizing Product Limited (MIDGAL) Abeokuta; Ogun State Nigeria. Further studies should focus on larger and broad population.

The Sample Size for this research was determined using Yord's formula. Using an alternative method for the sample size determination may offer a different sample size.

The study could not have exhausted the definition of Participative Leadership, Motivation, productivity and other relevant concepts in the available stock of Participative Leadership Style.

Moreover, the questionnaire used in the present study measured participative leadership as perceived by subordinates. Thus there was no section where managers could also describe their levels of participative leadership behaviors.

6.3. Suggestions for Future Research

The quantitative aspect of this research adopted a survey method of data collection; other studies could consider carrying out a study involving a longitudinal data collection process to provide a reliable confirmation of the relationships identified in this research.

For this research, the quantitative research design was used. This design is such that numerical data was generated from a number of questionnaires administered to several respondents. Further studies could employ in-depth interviews as qualitative data collection process to enrich the data collection process which will describe their level of participative leadership behaviours.

Future research should also investigate whether participative leadership behavior can influence males and females employees' performance in organization.

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GLOBAL START-UPS AND BORN GLOBAL SPIN-OFFS: A MULTIPLE CASE STUDY

Giorgia Masili

Carlo Bo University of Urbino (Italy)

Ilaria Curina

Carlo Bo University of Urbino (Italy)

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Abstract

The paper aims to identify and analyze the major critical success factors at the base of the rapid internationalization of three different types of Born Global (BG) firms, namely start-up, academic spin-off and company spin-off. Based on a case study analysis, the findings show that the entrepreneurs' dynamic capabilities, their passion and propensity to take risks, previous international experiences, language skills, the presence of an experienced staff, the ability to nurture relationships and networks based on mutual trust and on the transfer of know-how represent the major key factors for internationalization. This study intends to strengthen the literature focused on the BG phenomenon. However, the empirical analysis was conducted on an exiguous number of enterprises, operating in the high-tech sectors and founded few years ago. In order to obtain more generalizable results, future research should also focus on companies active in the low-tech sectors and founded in less recent years.

Keywords: Born global; Global Start-up; Born Global Academic spin-off; Born Global Entrepreneurial Spin-off; non-linear internationalization process; multiple case study.

1. Introduction

Literature defines “internationalization” as a long and incremental process, through which enterprises gradually increase their involvement in the international markets (Johanson and Vahlne, 1977). However, this definition refers to the path followed by large companies and multinationals (Karra et al., 2008), on which scholars have mainly focused in the past their attention, by neglecting, in this way, the behaviors adopted by small and medium-size enterprises (SMEs). For this reason, in the last years, several researchers (Chen et al., 2009; Crick, 2009; Nordman, 2009) tried to fill this gap by analyzing new approaches, that SMEs can specifically adopt, in order to enter foreign markets (Cavusgil, 1994). One of these approaches concerns the Born Global (BG) phenomenon, which describes the early internationalization of those companies starting their expansion within few years from their inception (Rennie, 1993). According to this approach, these firms follow a different process with respect to the traditional

ones (Crick, 2009; Knight, 2015) and they are usually characterized by a low number of employees and limited resources, especially on the economic side. Furthermore, an emerging topic in the BG literature is currently focused on Born Global Spin-offs and Global start-ups, which are defined as SMEs “which choose to be extensively present in international markets right from –or very soon after– their birth” (Rialp et al., 2005, p. 135). For different authors (Rialp et al., 2005; Knight, 2015; Cavusgil and Knight, 2015; Knight and Liesch, 2016; McCormick and Somaya, 2017; Moen and Rialp-Criado, 2018), these firms are becoming ever more widespread and their growing relevance is “critically challenging traditional internationalization theory” (Rialp et al., 2005, p. 134). Moreover, their increasing significance, as a leading research topic, is confirmed by the inclusion of the BGs in some of the most comprehensive reviews focused on the SMEs internationalization literature (Zou and Stan, 1998; Coviello and McAuley, 1999; Fillis, 2001; Rialp et al., 2005). However currently, comprehensive explanations of this phenomenon are still required (Knight and Liesch, 2016). This means that both further theoretical efforts and new empirical analysis, concerning this phenomenon, have to be provided.

Starting from these assumptions, the objective of the paper is two-fold: [1] to strengthen the contributions focused on the BG phenomenon, by providing in this way a response to the call for more research into this topic; [2] to identify and analyze the main critical success factors explaining the rapid internationalization of this type of firms. In order to reach these objectives, a qualitative methodology has been adopted, based on the case-study analysis of three Italian companies (a start-up, an academic spin-off and a company spin-off), which have experienced a rapid process of internationalization.

Structurally, the paper is organized into the following sections: (ii) a literature review mainly focused on start-ups, spin-offs and the BG phenomenon; (iii) methodology; (iv) case studies’ description; (v) discussion of the results; (vi) conclusions.

2. Literature review

2.1. Start-ups

Usually, the term “start-up” is adopted to define any typologies of new and young enterprise or to identify a project with different evolutionary phases, born spontaneously in the high technology sector. Furthermore, it identifies companies born with the intent to develop products and create demand in new markets, through the organization of online activities and the adoption of online digital channels (Makowiec, 2016). Generally, most of these companies are small and suffer for the lack of resources and procedures, the dynamism of markets and technologies, and for the presence of different factors that can influence their development (Sutton, 2000). Moreover, they are also defined in terms of innovation, speed of growth, flexibility of the organizational structure, speed in the decision-making process and focus on the development of a single product (Paternoster et al., 2014).

Especially in terms of innovation, several studies (Ganitsky, 1989; Jolly et al., 1992; Rasmussen and Madsen, 2002; Ries, 2011; Taji and Tsuyuki, 2012; Paternoster et al., 2014; Makowiec, 2016; Melegati et al., 2016) identify different categories of innovation start-ups. A first typology is represented by the ‘*High-tech Startups*’ (Taji and Tsuyuki, 2012). These companies are defined as enterprises with a global vision and orientation, for which the global market represents the place where create innovation in order to achieve competitive advantages. They are also called ‘*Innate Exporters*’ (Ganitsky, 1989), since the highly technological character of their products encourages them to develop the internationalization process from their inception (Rasmussen and Madsen, 2002), through the creation of networks with specialized partners (Jolly et al., 1992).

Other studies (Paternoster et al., 2014; Melegati et al., 2016) focus their attention on the ‘*Software Startups*’, defined as “newly created companies with no operating history and fast in producing cutting-edge technologies” (Paternoster et al., 2014, p. 1200). Overall, the creativity, the flexibility, the reactivity to the external context, the product orientation, the reduced *time-to market*, the tendency to set short-and-medium terms goals, the absence of methodology and bureaucracy, the focus toward innovative segments of market, with a quick growth, and the scarcity of physical and economic resources represent the main features characterizing this type of firms (Paternoster et al., 2014).

Finally, Ries (2011) analyzes in his contribution the “*Lean Startups*”, defined as firms that follow “a hypothesis-driven approach to the evaluation of an entrepreneurial opportunity and the development of a new product for a specific market niche” (2011, p. 5). These enterprises try to speed up the cycle of their production and improve the quality of their products through innovations, the elimination of the wastefulness, experimentations, and customer’s product development (Ries, 2011). These peculiarities were also adopted in the analysis of other types of start-ups, specifically in the case of BG companies.

2.2. Spin-offs

The literature, focused on the spin-off topic, turns out to be very heterogeneous, since this particular type of business presents different models of creation, as well as, multiple degrees of independence, support of the head organization and technology transfer. Researches, conducted on spin-off companies, are usually based on case studies mainly developed in the United States (Tübke, 2004), with very few of them focusing on the European context.

From a conceptual perspective, spin-offs were defined as new businesses created by one or more individuals through the exploitation of the knowledge and experiences acquired during their previous occupation (Cooper, 1985). Moreover, Ahlström Söderling (1999) underlines how these individuals decide to leave their previous job with the intent to start a new business, in which the previous organization doesn’t have a dominant influence. Overall, in order to create a spin-off, three conditions become essential: [1] an organization from which to separate; [2] an entrepreneurial impulse from one or more people, who have easy access to methods, knowledge and relationships; [3] the presence of one or more customers who express the need to benefit from the products and/or services offered by the spin-off (Ahlström Söderling, 1999).

Additionally, a spin-off can originate as much from another company as from a public or private institution (Ahlström Söderling, 1999). In particular, Tübke (2004) distinguishes between *Corporate Spin-offs* and *Institutional Spin-offs*. The former is defined as “the division of an existing company into one parent company and one or more independent spin-off(s), which implies that the new product is in some way separated from the parent organization and a new economic activity is created around it” (Tübke, 2004, p. 3). These companies are extremely innovative, since they combine existing technologies and processes with a lean organization favoring the development of more innovative and customized products, at lower costs than their competitors (Tübke, 2004).

For what concerns the *Institutional spin-offs*, research mainly focuses its attention on three specific categories: [1] University spin-offs; [2] Research-based spin-offs; [3] Technology-based start-ups (Tübke, 2004; Mustar et al., 2006).

Primarily, the term “University Spin-off” identifies high-technology start-ups, created by university graduates or staff members, who bring university knowledge to market (Pirnay and Surlemont, 2003). In particular, the main characteristics of these companies are: relative lack of resources and experiences in fields other than the one of origin, such as management and marketing; fundamental importance of entrepreneurial skills and the ability to create

international network and a rapid process of internationalization, necessary to avoid the obsolescence of their high-tech products (Pirnay and Surlemont, 2003).

A similar definition is also adopted for the Research-based Spin-offs (RBSO), which can be conceptualized as new companies created through the transfer of technologies and knowledge of public research institutions (Smilor, 1990).

Finally, the Technology-based Start-ups are defined as a category of spin-off firms characterized by a direct ongoing intellectual property link with the parent university or other research agencies (Hanich, 2004). In particular, a significant share of capital on behalf of the main institution, the previous experiences of the entrepreneur, his ability to find the necessary resources and to create synergy and credibility through networks and strategic alliances represent the key prerequisites necessary for their development (Hanich, 2004).

2.3. Linear and non-linear internationalization processes

Several studies, in the field of International Business (IB), start from the assumption that the firms' internationalization process follows an incremental and linear trend (Andersen, 1993). In particular, the main models, based on this presupposition, are the Uppsala (Johanson and Vahlne, 1977) and the Innovation-related models (Bilkey and Tesar, 1977) – also known as stage models (Uner et al., 2013). The former describes a dynamic model which identifies four different sequences of incremental decisions, through which developing a gradual internationalization - irregular exportation, exportation via independent representatives, establishment of an overseas sales subsidiary, overseas production (Johanson and Wiedersheim-Paul, 1975), while the latter considers the internationalization as an innovative process, which is developed through learning sequences (Andersen, 1993). Even if both models analyze the exportation as the main entry mode in the international markets, they enumerate and describe the constituent stages differently.

However, in recent years, a new line of research, contracting these theories, has spread. In particular, by focusing on the SMEs literature, scholars identify new approaches that firms can adopt in order to enter foreign markets (Cavusgil, 1994). These approaches follow a non-linear internationalization process, which can be developed in three different ways: the “de-internationalization”, the “re-internationalization” and the “Born-again Global internationalization”.

Overall, the non-linear internationalization process - which represents “a process characterized by substantial increases and decreases in internationalization activity” (Vissak, 2010, p. 560) – can manifest in different times and markets and it can be induced by external or internal factors and subjects. According to Vissak (2010), the BG approach can be considered as a non-linear internationalization process, describing the path of those companies that internationalize their activities from their inception or in the first few years of their life.

2.4. Born Global phenomenon

The BG firms were described for the first time by Rennie (1993) as companies developing an early expansion in international markets within two years from their inception, by reaching the 75% of total sales with export.

Later, Knight and Cavusgil (1996, p. 1) define BGs as “small, technology-oriented companies that operate in international markets from the earliest days of their establishment”. In addition, other scholars define BG internationalization as a process developed between two or eight years from the firm's inception (Chetty and Campbell-Hunt, 2004), which allows reaching a percentage of export equal to the 50% of the total sales (Gabrielsson and Gabrielsson, 2003). Overall, from the literature emerges how a unique and unanimously shared definition of the BG phenomenon, does not still exist.

On the empirical side, several studies identified the key elements characterizing the BG companies, such as their global vision (Oviatt and McDougall, 1995), the proactive behavior in the research of new markets and the ability to develop dynamic networks and capabilities (Weerawardena et al., 2007) in order to achieve a competitive international advantage (Coviello, 2006).

In addition to these elements, Efrat, Shoham (2012) and Wictor (2006) underline, in their works, how the BG products are addressed to markets' niches and they are the result of dynamic capabilities and highly innovative competences in Research and Development (R&D), as well as in technology.

Furthermore, several scholars (Oviatt and McDougall, 1994; Rasmussen and Madsen, 2002; Gleason et al., 2006; Nordman and Melen, 2008; Nordman, 2009) identify specific categories of firms which engage in rapid internationalization processes, by addressing their products to global markets since their establishment. These categories (start-ups, academician and entrepreneurial spin-offs) present some common characteristics with BG companies, as well as relevant differences.

The first typology concerns the Global start-ups which represent a radical manifestation of BG companies (Gleason et al., 2006). Indeed, they are firms whose competitive advantages derive from their ability to coordinate several organizational activities, in multiple countries, since their establishment (Oviatt and McDougall, 1994). As well as the traditional BGs, they adopt a proactive behavior in the research of resources and markets at a global level, also exploiting international networks (Rasmussen and Madsen, 2002). Conversely, the coordination of different activities - such as R&D, import, subsidiaries etc., - represents the main difference they have with respect to BGs.

Instead, the Born Global Entrepreneurial Spin-Offs are firms established by businessmen, who leave their previous work with the aim of creating a new business, based on innovative products realized through the exploitation of specialized knowledge acquired at the international and technological field (Nordman, 2009).

Finally, the Born Global Academician Spin-Offs are companies founded by scholars, who decide to commercialize the products developed during their researches, by adopting the available technological resources (Nordman, 2009). In particular, these firms are characterized by reactive behaviours, the lack of international knowledge, the absence of specific strategies (objectives and target markets) and a decelerated internationalization process (Nordman and Melen, 2008).

3. Methodology

To develop our analysis, a multiple case study (Yin, 2009) has been adopted, since it allows investigating a phenomenon inside its natural environment, as well as its evolution over time. In particular, the choice of this method is related to the opportunity to identify similarities and differences between cases, by obtaining reliable demonstrations (Baxter and Jack, 2008; Lewis, 2015).

The sample is composed by three companies located in different provinces of the Abruzzo region in Italy (Chieti, Pescara and Teramo). A unique region has been selected in order to avoid the influence of territorial factors, related to different levels of development, and in order to identify potential facilitators characterizing the investigated area. However, even if the sample is not sufficient to realize statistic generalizations, it allows developing theoretical ones for similar case studies.

For what concerns the firms' selection, the archive of the Chamber of Commerce of the Abruzzo region has been adopted. In particular, the study involves small independent firms

founded less than 20 years ago and operating in the high-tech or medium-high-tech sectors. Starting from a sample of fifty companies, three final firms have been selected on the basis of different parameters, such as the date of foundation, the size, the sector of origin, the condition of independence, the condition of start-up, entrepreneurial or academic spin-off, the speed of the internationalization process - 3 years from their inception, with an amount of sales equal at least at the 25% of the total turnover (Knight and Cavusgil, 1996) - and/or the coordination of multiple activities in different countries (Oviatt and McDougall, 1995).

In a second phase, semi-structure interviews have been addressed to the entrepreneurs or to the figures dealing with the international activities. The interview includes the request for information concerning the story and the structure of the company, the characteristics of the entrepreneurs, their backgrounds and their ability to create network and alliances, the production activity, the internationalization process (with specific reference to markets), the mode of entry and the year of reference. Every interview has been recorded and transcribed.

Finally, in order to respect the triangulation principle, further data were collected by analyzing the website of these enterprises, as well as the reports provided by them.

4. Case studies

In this section the case studies will be presented. Table 1 resumes the main characteristics of the three investigated companies.

Table 1 - Companies' general characteristics

	Firm A	Firm B	Firm C
Typology	Innovative Start-up	Academician Spin-off	Entrepreneurial Spin-off
Year of Establishment	2014	2014	2015
Number of Employees	8	4	6
Turnover 2016	550.000 €	530.000 €	160.000 €
Products and Services	Software and Methodologies	Software, Hardware and R&D Solutions	Components of advanced material
Sector	IT (high-tech)	Biomedical (high-tech)	Metal-mechanic (medium-high-tech)
Company's headquarters	Vasto (CH)	Pescara (PE)	Mosciano S. Angelo (TE)
Other Offices	Turin (IT) Sao Paulo (BR) Nis (SRB)	-	-
Level of Technology and R&D	High	High	Medium-high
Organizational structure	Flat and Flexible	Flat and Flexible	Flat and Flexible
Decision-making Process (Speed)	Fast	Fast	Fast

4.1. Firm A

Firm A is born in 2014, as a result of the experiences collected, in the previous twenty years, by two of the four founders. The company is situated in Vasto, in the Chieti's province of the Abruzzo region and it is classified as innovative start-up in the IT sector. It develops and commercializes software supporting the management of people and processes. The headquarter of the company is in Vasto, while the commercial office is in Turin - in the Piemonte region, Italy. It also owns two subsidiaries, one in Brazil at Sao Paulo and the other one in Serbia at Nis. Born as a project, initially intended for an important Italian multinational active in the automotive sector, it soon expanded its customer portfolio by installing its software in the major venues of the bigger multinationals all over the world.

At the time of the interview, the company realizes seven products, in the form of modules addressed to big enterprises, as well as to single users.

For what concerns the internationalization process, it was started since the firm's establishment in 2014, when the founders decided to export the software in Serbia. Furthermore, it was motivated by the ambitious character of their founders, who wanted to acquire new market shares and reduce the risk associated with operating in a single market. In 2015, the firm started its business in the Brazilian market and simultaneously in Poland, reaching a percentage of foreign sales equal to the 25% of the total turnover, already from the first year. In particular, in Brazil through a partnership stipulated with an Italian multinational located in this market, the company started to develop the 50% of its activities.

In 2016, the firm started a "partnership program" to enable qualified organizations to sell its services to other companies in an exclusive way.

Finally, it also developed a collaboration with the University of Serbia in order to identify qualified professional employees to be inserted in the Serbian subsidiary.

Overall, the main foreign markets, served by the company, are Serbia, Poland, Brazil, France, India and China (from September 2017). These markets are constantly monitored with reference to political and legal barriers and the country-risk. These monitoring activities are important especially for markets as Serbia and Brazil, where the firm owns its subsidiaries. In particular, they are adopted in Serbia for the product development, while in Brazil especially for the commercial activities. In both cases they are managed by two local directing managers.

Moreover, the company addresses its products to market niches and it resorts to Italian representatives, through whom it develops contacts with foreign clients, especially multinationals. At the time when a collaboration with a partner starts, an employee is sent to the headquarters of the foreign company with the aim of installing the software.

In addition, the firm's flat organization generates a strong cohesion, by favoring the share of goals and values between shareholders, simplifying and speeding up the decision-making process, which is usually guided by the founders.

Overall, the internationalization process of this firm can be considered linear, since it has a stable position in every markets. Additionally, the fear to enter in foreign markets and the psychic distance do not obstacle the development of the internationalization process, thanks to the language and intercultural skills and knowledge owned by the internal staff.

Table 2 - Firm A: Internationalization characteristics

Typology of Firm according to BG theory	Global Start-up
First year of internationalization	2014
First market	Serbia
Markets	Serbia, Poland, Brazil, France, India, China
Linear internationalization	Yes
% of sales in the first 3 years from inception	25%
Strategy	Niche strategy
Mode of entry	Direct exportation, organizational unites abroad
Main global channels for the expansion	Multinationals

4.2. Firm B

The second company was founded in 2014 by a Professor of the University of Neuroscience of Chieti-Pescara, with 15 years of experience in the infrared technology research. He is the chairman of the board of directors and he founded the company after obtaining a degree in physics and a PhD in biomedical technologies. He also worked as researcher in the United States of America for 5 years, but he did not develop other entrepreneurial experiences.

The firm is located in Pescara and it is active in the biomedical sector. The founder of the firm is also supported by two partners: an ex-accountant and an Italian Holding sub-entered in April 2017. Born as a university spin-off, today it has become an academic spin-off. In particular, by following the will of its founder to commercialize a finished product and to ensure a concrete transfer of know-how, as well as better future prospects for his employees, the company is addressed to both the domestic and the global market. Furthermore, it aims to offer unique innovations in the infrared technology sector, by proposing software, hardware and other complete solutions, along with support and training services.

From the international perspective, the internationalization process of company B started in January 2015, when the firm stipulated its first contract with a client in the United States of America (USA). After this stipulation, in April of the same year, one of its employees settled permanently in USA in order to take care of the firm's research laboratory. Through a partnership with an important American multinational, the firm's R&D activities were particularly developed. The company has also established, during the years, different collaborations with universities, national and international research institutions, consortia and American suppliers. Finally, the University of Pescara - which was one of the previous owners of the company - still holds the rights related to a patent and a software that has licensed to the company for commercial exploitation.

In particular, the internationalization process of firm B started as a consequence of the immaturity of the domestic market in relation to the firm's innovative products. Moreover, the company aimed to transfer know-how and knowledge in international markets. Through this international expansion, the firm was able to reach an amount of foreign sales equal to the 55% of the total turnover. The most important market is the North America, even if during the years the firm also entered in other ones such as France, Australia, Germany and recently Hong Kong. Overall, the internationalization process can be considered as non-linear because the firm has a stable position only in the USA, even if the psychic distance is not perceived as an obstacle. All the other markets are not systematically monitored, due to the lack of human resources to devote. Furthermore, the company prefers to invest in R&D rather than in marketing activities. Nevertheless, the abroad visibility of the firm is high. Similarly to company A, also in company

B the flat organization facilitates the speed of the decision-making process, which is guided by the founder.

Table 3 - Firm B: Internationalization characteristics

Typology of Firm according to BG theory	Born global Academician Spin-off
First year of internationalization	2015
Linear internationalization	No
First market	USA
Markets	USA, France, Germany, Australia, Hong Kong
% of sales in the first 3 years from inception	55%
Strategy	Niche strategy
Mode of entry	Direct and Indirect Exportation (Consortia); Partnership with an American Multinational
Main global channels for the expansion	Big Companies

4.3. Firm C

The third company is represented by an entrepreneurial spin-off born in 2015 in Mosciano S. Angelo, in the Teramo province. The firm’s property is divided between the main founder – with ten-year experience in the field of classical composites and in the design of mechanical components - and the Abruzzo region. The founder is also the general director. After obtaining the diploma as accountant, he followed some marketing courses and collected several experiences before the establishment of his own company.

In particular, from 1997 to 2003, he worked as export manager for a company active in the food industry. Later, from 2003 he was hired as commercial director in a company specialized in the production of components for the chemical-mechanical sector, which sold its products in the European market. He decided to leave this last job in 2015, with the aim of founding his spin-off for the production of advanced components. However, he collected also several work experiences in different countries such as Canada, Tunisia and North America.

The firm operates in the mechanical sector, and it is part of an incubator of companies settled in the Abruzzo region and supported by a society specialized in the creation of new enterprises. The main objective, which has led to the firm’ establishment, is to answer to specific needs expressed by the customers of the previous company, in which the founder worked in the past. At the beginning, the company operated as a supplier of multinationals, dealing with the movements of fluids. Then, it has expanded its services portfolio by entering in other sectors, such as the molding of standard and non-standard plastics and the food industry. Currently, it provides services in two different sectors: fluid handling and public transport (creation of advanced components and the offer of consultancy and designing services).

From the international point of view, in 2015 the company started to be a supplier of a Danish multinational, specialized in the production and commercialization of pumps, with which the firm has stipulated a partnership aimed at developing marketing activities for a certain period. This relationship turns out to be still strong and essential for the firm’s growth.

In 2017, instead, the firm developed a direct contact with some clients of Austria, Switzerland, Spain, Germany and Netherlands, by employing its own managerial team. The served foreign markets are thus the same in which the Danish multinational company offers its products. By serving these markets, the company reaches a percentage of sales equal to 45% of

its total turnover. Currently the company is able to systematically monitor only the Italian market, although it is developing an effective strategy to directly enter into foreign markets.

The choice of direct exportations, mainly focused on market niches, mostly arises from the desire to gain greater experience and market share and from the excessive saturation felt in the domestic market.

Overall, the flat organizational structure of the firm makes decision making fast enough, and usually decisions are made by the entrepreneur. Finally, although the process of internationalization is still under development, as this is only the second financial year for the company, it turns out to be linear and the cultural distance does not represent an obstacle for the firm's growth.

Table 4 - Firm C: Internationalization characteristics

Typology of Firm according to BG theory	Born Global Entrepreneurial Spin-off
First year of internationalization	2015
First markets	Austria, Germany, Switzerland, Spain, the Netherlands, England
Markets	EMEA, North America, Asia (markets served by the multinational companies)
Linear internationalization	Yes
% of sales in the first 3 years from inception	45%
Strategy	Niche strategy
Mode of entry	Indirect Exportation (Trading company)
Main global channels for the expansion	Multinationals

5. Results and discussion

According to the previous considerations and results, it is possible to assume that the three analyzed firms are respectively a Global Start-up, a Born Global Academic Spin-off and a Born Global Entrepreneurial Spin-off.

In particular, firm A presents specific traits owned by different typologies of innovative start-ups: of the High-tech Start-ups, it takes the global market perspective and the highly innovative character of the proposed solutions (Taji and Tsuyuki, 2012); with the Software Start-ups, it shares the development of cutting-edge technologies, the flexibility and a specialized team, while at the same time it stands out for its proactive attitude and for the pursuit of a long-term oriented strategy directed to rapidly growing market segments (Paternoster et al., 2014). Moreover, the firm operates by following the lean approach (Ries, 2011), aimed at eliminating waste and losses through continuous innovation and measurement.

According to the definition of Pirnay and Surlemont (2003), firm B is a university spin-off, since it was founded by a professor and it includes other university staff members. In particular, the dynamic skills of the founder favor the internationalization process, through the sale of high-technology and innovative products in different foreign markets.

Finally, firm C is an independent entrepreneurial spin-off offering innovative and customer-oriented products. It exploits the advantages related to the flexibility of the lean organization (Tübke, 2004), by addressing its offers to several market segments, different from those served by the parent company.

5.1. The process of internationalization and the pursued strategies

All the investigated companies are young and internationalized within the first year of their activity. They offer their products in the global market and, for this reason, they cannot be

considered Born International, meaning companies that develop a quick internationalization inside their own continent (Sharma and Majkgård, 1999).

Moreover, in the case of firm B and C, it is more correct to talk about “born global” phenomenon. Indeed, BG companies are identified as small technology-oriented enterprises (Knight and Cavusgil, 1996), that develop their international process within three years from their inception, by reaching a percentage of foreign sales equal to the 25% (at least) of their total turnover. They are also recognized as companies developing a competitive advantage through the sale of their outputs in the foreign markets (Andersson and Wictor, 2003).

Instead, firm A can be considered as an International new venture (INV), since it develops its competitive advantage by adopting several resources, identified in the foreign countries, and by selling its products in different markets (Oviatt and McDougall, 1994).

However, within three years – two for the firm C – these companies achieved different percentages of foreign sales: 25% for firm A, 55% for firm B and 45% for firm C. Furthermore, their internationalization processes are based on different reasons: firm A and C decided to internationalize their activities in order to acquire new market shares and to find new opportunities. On the contrary, firm B decided to start its internationalization process after external solicitations and in order to transfer know-how and skills. In addition, at the beginning of their internationalization process, firm A and B entered in only one market, that are Serbia and USA. Later, firm B started selling their products also in additional markets, by sending its employees on-site. Instead, firm A first entered in Serbia and then in Brazil through the establishment of two subsidiaries. In these two countries the company coordinates the development of its products and the commercial activities through the adoption of two local directing manager. This is the reason why the firm can be considered a Global Start-up (Oviatt and McDougall, 1994).

On the other side, firm C started its internationalization process by collaborating with a Danish multinational and by selling its products in the main foreign markets of this company. In 2017, through the support of internal managers, the firm started to develop direct contacts with potential foreign customers.

Overall, although they differ for their importance, the foreign markets, served by these companies, are: Europe, East and South Asia, North and South America.

For what concerns the pursued strategies, some differences are visible: despite the enterprises turn to global niches, as Wictor (2006) theorized, firm A and C adopt a proactive behavior (Chen et al., 2009), by developing a systematic monitoring strategy in their markets. On the contrary, firm B mainly acts by responding to external solicitations, thus demonstrating a more reactive attitude, characterized by the absence of any strategy or regular monitoring activity in the served markets. Finally, while firm A and C are permanently present in the countries in which they entered, company B seems to suffer from the processes of de-internationalization, since it claims to be permanently present only in the North American market.

5.2. Influencing Factors of Internationalization

In the following subparagraphs, all the factors influencing the internationalization processes are summarized. In order to develop possible comparisons, among the three companies, more detailed information is included in Table 5, where the importance, expressed by the companies for all the elements considered in the analysis, is also displayed.

Table 5 - Success Factors Influencing the Internationalization process

Variables	Firm A		Firm B		Firm C	
	Start-up phase	Post-launch	Start-up phase	Post-launch	Start-up phase	Post-launch
Entrepreneurs/Interviewee characteristics	*****	*****	****	****	*****	****
Entrepreneurs/interviewee capabilities	*****	*****	*****	*****	****	*****
Proactive behaviour in the research of opportunities in international markets	*****	*****	*****	*****	****	*****
Global Vision	*****	*****	*****	*****	****	****
(Previous) Training and work experiences in international field	****	****	*****	*****	*****	****
Personal and Business Networks	*****	*****	****	****	****	*****
Technical knowledge	*****	*****	*****	*****	*****	*****
Resources held by the company	***	****	****	*****	**	****
Products' quality	**	*****	****	****	****	*****
Adopted Strategy	*****	*****	****	****	****	****
Domestic market characteristics	*****	**	**	**	****	****
Target markets characteristics	*****	**	**	**	****	****
Industry	*****	*****	****	****	****	****
New managers		*****			**	****
Cooperation between entrepreneur and managerial team	*****	*****			**	*****
Dynamic capabilities	*****	*****	****	****	****	****
Innovation	*****	*****	*****	*****	*****	*****
Research & Development	*****	*****	*****	*****	*****	*****
Technology	*****	*****	*****	*****	*****	*****
Marketing	**	*****	**	**	****	****
Production	**	*****	****	****	****	****

***** = very influential

**** = quite influential

*** = influential

** = not very influential

* = not at all influential

Empty cell = Not relevant

5.3. Entrepreneurs' characteristics and background

From the analysis, emerges how the internationalization processes of the investigated firms are guided by entrepreneurs with quite different professional and training paths, who own, in turn, many common peculiarities, such as perseverance, willingness to run risks and adaptability. Other important characteristics, concerning the entrepreneurs' figures, are represented by the passion for their job, their language skills and their innate global vision, even if for the firm B, this vision turns out to be short-term. Furthermore, all the entrepreneurs play a leading role in the process of defining objectives and implementing decisions.

With reference to the role played by the previous experiences, while the entrepreneurs of firms A and C possess previous experiences both at a corporate and at an international level, the founder of firm B owns consolidated international experiences, which have facilitated the process of internationalization. Overall, the experiences acquired in the international markets and the passion for their jobs, combined with the language skills, allowed these companies to grow rapidly.

Finally, for what concerns the main critical success factors, the passion for their jobs, the long-term international orientation, the adoption of the learning-by-doing philosophy, the removal of wastefulness and losses through the adoption of innovation, the focus on the quality, the assistance to clients and suppliers, the establishment of relationships, based on reciprocal trust, and the willingness to constantly improve themselves represent the main drivers, considered by the entrepreneurs of Firm A and C, as crucial for the development of their companies.

A strong international orientation in the short-term, the ethic and social responsibility, combined with the innovation and the continuous research constitute, in turn, the main key factors highlighted by the entrepreneur of Firm B.

Table 6 – Founders’ characteristics

Firm A	Firm B	Firm C
Previous experiences in international markets and in other companies	Previous experiences in international markets and in scientific research	Previous experiences in international markets and in other companies
Passion, Global Vision, Proactivity, Learning-by-doing	Passion, Global Vision, Reactivity	Passion, Global Vision, Proactivity, Perseverance
Focus on quality	Focus on quality	Focus on quality, innovation and relationships
Constant research of Innovation and relationships; Foreign language knowledge	Constant improvement in research	Foreign language knowledge
	Constant research of Innovation and relationships	
	Foreign language knowledge.	

5.4. Human and financial resources

The presence of a well-prepared staff, with strong language skills and a high level of specialization, represents one of the most crucial factors facilitating the companies’ international expansion. Although Andersson and Evangelista (2006) suggest the importance to assume employees prepared for the internationalization process, these figures are present only in Firm A and C. Furthermore, from the analysis emerges a difficulty in finding resources, especially on the human side. In particular, the entrepreneurs of firm B and C underline the complexity to find human resources with specialized knowledge (ex. marketing skills, management abilities).

From a financial perspective, the resources seem to be enough to support the international activities and, in all three cases, they are both internal (social capital) and external (especially bank loans) to the company, even if in the case of company C, the finding of external financial resources turns out to be more complex.

Table 7 - Human and Financial Resources' characteristics

	Firm A	Firm B	Firm C
Human Resources	Expert and ambitious team with knowledge of foreign languages	Dynamic team with interdisciplinary knowledge and foreign languages	Expert team with technical knowledge and foreign languages
Financial Resources	Sufficient; guaranteed by share capital and bank loans.	Sufficient; guaranteed by share capital and microcredit for enterprises.	Sufficient; guaranteed by share capital and other funds.

5.5. Relation, networks and alliances

Even if, among the three investigated companies, only firm C is part of an incubator of enterprises, all of them highlight the need to develop long-lasting networks and partnerships, based on mutual trust, in order to have access to resources, skills and opportunities (Coviello, 2006). Moreover, for the entrepreneurs, the professional relationships, developed during their previous careers, become crucial for the firms' international growth. In addition to the business relations, the entrepreneur of Firm B also underlines the relevance of the inter-personal relations, developed and consolidated during the years, in favoring the customers' loyalty, the transfer of knowledge/know-how and in exploiting the time advantage in terms of technology and innovations. Furthermore, all the three companies stipulate collaborations with global customers - multinationals in the case of firm A and C, large companies in the case of firm B - which allow them to enter the main foreign markets and to obtain further contacts with potential customers. Finally, all the companies develop collaborations with Italian and foreign universities.

Overall, all these relations are characterized by [1] closed collaborations aimed at transferring know-how and knowledge; [2] the acquisition of international patents and certifications in order to defend the knowledge resources from competitors; [3] the improvement of the degree of production quality.

Table 8 - Relation, networks and alliances' characteristics

Firm A	Firm B	Firm C
Solid relationships especially with multinationals; strong importance of previous professional relationships; Collaboration with a foreign university.	Solid relationships both personal and professionals; Partnership with an American multination for the activities of R&D and distribution; Collaborations with Italian and foreigner universities and research institutes; Participation in consortia.	Solid professional relationships; Partnership with a Danish multinational; Collaboration with (domestic) universities.

5.6. Characteristics and technological level of production

The investigated companies belong to different sectors, all requiring high levels of technological and knowledge resources, which are fundamental in order to favor the expansion in the international markets, facilitate the activities' management and development and to guarantee more flexible productive processes. The technological and R&D levels are

particularly high in firm A and B and less in firm C. Furthermore, for all the companies the necessity to develop a constant innovation becomes a key priority.

According to Rasmussen and Madsen’s theory (2002), the products of firm A and firm B appear standardized, while those of firm C combine standardization and adaptation. In particular, for what concerns firm C, the company manages every phase of the entire value chain, by collaborating with its clients and other partners. It is for this reason that the production process, even if supported by the ICT adoption, becomes particularly long. In order to develop in the future a more flexible structure, the founder considers [1] the possibility to relocate the production process in outsourcing in India or in the East of Europe (with the exception of the management of the most relevant phases, such as consulting, prototype design and distribution); [2] to invest in new machineries and technologies in order to support the entire production process.

Table 9 - Characteristics and technological level of production

Firm A	Firm B	Firm C
Flexible productive process; high level of research and technologic development: technologies as facilitators of [1] the expansion in international markets; [2] the development and management of the different activities.	Flexible production process; highly technological and innovative solutions; investments in R&D.	Management of the every phase of the entire value chain; collaboration with the clients and other partners; long production process; relevance of the ICT tools in the production process; necessity to invest in new machines and technologies.

5.7. Perceived barriers

Focusing on the analysis of the perceived barriers, the political-legal tariffs, the psychic distance with specific markets and the import duties represent the main constraints, identified by all the investigated firms, when entering in foreign markets. On the contrary, in the domestic market, the non-tariff barriers represent the major obstacles in the firms’ international development.

Finally, all the companies highlight, in their internationalization process, the excessive bureaucracy and the lack of support provided by national institutions, both at bureaucratic and financial levels.

Table 10 - Perceived barriers

	Firm A	Firm B	Firm C
Domestic markets	Huge bureaucracy; scarce support provided by national institutions.	Scarce support by national institutions.	Excessive bureaucracy
Foreign markets	Tariff barriers and import duties.	Tariff barriers and psychic distance perceived in specific countries.	Tariff barriers

6. Conclusions

The comparative analysis, between the results emerging from the case studies, demonstrates how the three investigated companies present not only similarities, but also some relevant differences in the development of their internationalization processes.

Firm A, which was identified as a Global start-up, sells its products in the foreign markets, where it coordinates different activities - such as commercial or product development - taking advantages by its skills and resources.

Instead, firm B is a Born Global Academician Spin-off founded in order to commercialize a finished product and the relative know-how at a global level. Conversely to the Born Global Academic Spin-off theories (Nordman and Melen, 2008), the company owns a high level of technological and international knowledge, which allows the development of a rapid internationalization process, despite the firm's reactive behavior and the absence of a specific strategy.

Thirdly, firm C is a Born Global Entrepreneurial Spin-off, developed through the proactive behavior, the high-technology knowledge and the long experience, in the international environment, acquired by the founder.

Although the literature (Rasmussen and Madsen, 2002) defines the Global Start-up as a typology of INV and the Born Global Spin-offs as two sub-typologies of BG firms, the investigated enterprises present several common aspects. For instance, all of them started their international process within three years from their inception, by achieving a percentage of foreign sales, equal or higher than 25% of the total turnover. Furthermore, even if different reasons guided their internationalization process, all of them are oriented to global niches, to which they offer standardized products (Firm A and B) and sometimes products adapted to the customer needs (Firm C).

In addition, in all the analyzed cases the ability to start a rapid internationalization was favored by the dynamic capabilities of the entrepreneurs, their passion and propensity to take risks, their previous international experiences and language skills. Also the presence of an experienced staff, the ability to nurture relationships, strong collaborations and networks, based on mutual trust and on the transfer of know-how, play an important role in the internationalization process of all the analyzed firms. For this reason, the psychic distance and the perceived barriers have not discouraged and slowed down the firms' internationalization impulse.

Overall, the analyzed organizations are small-size enterprises searching for external providers, who can help them in supporting the high costs of investments in innovation, technology and R&D, by compensating at the same time their lack of economic resources. These enterprises did not enter simultaneously in all the served markets and in some cases the internationalization was not a linear process. This confirms Vissak's results (2010), according to which the process of de-internationalization of firms is a path also adopted by BG companies.

The results also demonstrate how these companies, during the first years of their internationalization, preferred to combine direct exportations with entry modes requiring less use of resources, and to exploit collaborations with consortiums, multinational firms and other large companies acting as global customers or distributors of their products (Gabrielsson et al., 2008).

Finally, in relation to a possible stimulation function carried out by the specific geographical location of the companies, there do not seem to be any substantial external factors that have speeded up or otherwise facilitated the process of internationalization.

This study aims to strengthen the literature focused on start-ups and spin-offs born with a global orientation. However, the empirical analysis was conducted on an exiguous number of enterprises operating in the high-tech and medium-high-tech sectors and founded few years

ago. In order to obtain more generalizable results, future research should focus on companies active in the low-tech sectors and founded in older years. In addition, it might be relevant to conduct more in-depth analysis concerning the BGs' de-internationalization, the reasons encouraging this process and the different forms that it can assume.

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CONTENT MARKETING TOOLS AND METRICS IN CONSULTING FIRMS: PRELIMINARY RESULTS

Linda Gabbianelli

Carlo Bo University of Urbino, Italy

Emanuela Conti

Carlo Bo University of Urbino, Italy

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Abstract

The aim of this work is to identify the goals, tools, strategies, and metrics of Content Marketing (CM) used by European consulting firms to create value for the customer. The study adopts a quantitative methodology, in particular an online survey. A sample of 55 respondents was analyzed using descriptive statistics. CM is an activity used by 71% of the sample and is considered useful by 85% of respondents. The goals pursued with CM are mainly brand awareness and customer acquisition. The main platforms used for CM are LinkedIn, Facebook, and Twitter. The tools most often adopted to achieve CM goals are website articles, social media content, and newsletters. The most used metrics are publishing and sharing. The small sample reduces the possibility to generalize the results. The results give some managerial implications such as: invest more in CM; use CM for maintaining contacts and increasing sales and use platforms like Instagram and YouTube; CM strategy planning. The study suggests a new CM definition which includes specific targets, the growing importance of digital tools and planned and systemic approach. This work is original as it is the first application of CM to consulting firms and contributes to the definition of CM.

Keywords: Content marketing (CM); Value creation; CM instruments; Performance measurements; Consulting firms.

1. Introduction

The concept of content marketing (CM) is built around a new approach to marketing communication activities based on the creation of quality content that pursues various goals such as customer engagement and brand awareness. “Content” may refer to a wide range of elements such as stories, news, information, product ideas, messages, and videos (Handley and Chapman, 2010). In recent years, CM has become very popular, especially in the business community, while in the academic sphere it has so far received little attention on the conceptual and empirical level. Practitioners’ interest in this concept is evidenced by the

diffusion within companies of a specialized professional figure (e.g. Chief Content Officer) that deals with the creation and management of business content (text, video, audio, animation) sent via different channels (Vollero, Palace, 2015).

This paper examines the CM concept, seeks to identify goals, tools, and metrics to measure its impact on the performance of consulting firms. In particular, this work provides a twofold contribution: 1) it analyzes the literature on the concept of CM and the main metrics used to measure it; 2) it examines the degree to which CM strategies and metrics are used by consulting firms.

The study is structured as follows: the first section presents a literature review of the main contributions to CM and the main metrics used for its measurement; section 2 illustrates the methodology adopted for the empirical survey; section 3 illustrates the preliminary results of the study on the use of CM and on the measurement, metrics used by European consulting firms. Section 4 discusses the results of the research. The last section contains the main results, the theoretical and managerial implications, the limitations of the research, and suggestions for future studies.

2. Theoretical background

The fact that there is a scarcity of literature on "content marketing" is due to the fact that "content" has rarely been the first object of marketing studies, especially in digital contexts (Koiso-Kanttila, 2004, Chen and Xie, 2008 Rowley, 2008). In general, the concept of CM overlaps with concepts such as social media marketing, brand journalism, custom publishing, storytelling, and online content business models (Feng, Ots, 2015). In addition, content marketing is a mix of communication, marketing, journalism, and consumer behavior; therefore, it is a multidisciplinary concept and one that is difficult to integrate in the current academic community.

The main CM definitions provided in the literature are reported in Table 1.

Rancati and Gordini (2015) highlighted three key elements of CM: content, customer engagement, and goals to achieve. The coexistence of these elements indicates the importance of CM as a source of competitive advantage. In particular, the authors explain that content can be short or long, but it should be interesting, pro- active, and should express the company's values; content may be made known online, in print, or by voice. The second element indicates that content must be tailored to the customers to attract and engage them (*engagement*), as they are the ultimate co- creators of value. The adequacy of communication codes with respect to customers enables them not only to develop new content, but also to diffuse it, and therefore a suitable content is used to transfer power to the customer (*empowerment*). The third element, the objectives to pursue, suggests that the goal of CM is not only to sell, but to achieve a variety of goals such as growth of contacts (lead generation), loyalty, brand awareness. "Content marketing has no immediate selling purposes among its objective: before selling it is important to inform, educate and entertain, without even mentioning the product" (Gordini, Alberts, 2014, p.21).

Therefore, CM is a complex tool aimed at creating value through quality content, distinguishing itself from social media. The latter is often, in practice, mistakenly considered synonymous, but in reality, it represents more a means of spreading and optimizing content on different web platforms.

Table 1 – The main definitions of CM (in chronological order)

Author	Book/ Journal	Definition
Chaffey, Mayer, Johnston, Ellis-Chadwick (2000)	Internet marketing, Pearson Education, Edinburgh.	Content is the design, text and graphical information that forms a web page. Good content is the key to attracting customers to a web site and retaining their interest or achieving repeat visits.
Keyes (2006)	Knowledge management, business intelligence and content management, Auerbach Publications, Broken South Parken.	CM is usually focused on intranet-based or internet-based corporate content, including data and knowledge bases.
Pulizzi, Barret (2009)	Get content. Get customers, McGraw Hill, New York.	CM is a marketing technique of creating and distributing relevant and valuable content to attract, acquire, and engage a clearly defined and understood target audience – with the objective of driving profitable customer action. CM is owning, as opposed to renting media. It's marketing process is to attract and retain customers by consistently creating and curating content in order to change or enhance a consumer behavior.
Halvorson (2010)	Content strategy for the web, New Riders, Berkeley.	Content strategy is the practice of planning for the creation, delivery, and governance of useful, usable content.
Handley, Chapman (2010)	Content Rules, John Wiley & Sons, New York.	CM is anything an individual or an organization creates and/or shares to tell their story. What it isn't: A warmed-over press release served as a blog post. It is conversational, human and doesn't try to constantly sell to you. It also isn't a tactic that you can just turn on and off and hope that will be successful. It has to be a mindset that is embraced and encouraged. You've got to start thinking like a publisher and use that to plan and execute your entire marketing plan which content of any variety should be a part.
Gunelius (2011)	Content Marketing for Dummies, Wiley, New York	CM is the process of indirectly and directly promoting a business or brand through value-added text, video, or audio content both online and offline. It can come in long-form (such as blogs, articles, e-books, and so on), short-form (such as Twitter updates, Facebook updates, images, and so on), or conversational-form (for example, sharing great content via Twitter or participating in an active discussion via blog comments or through an online forum).
Lieb (2011)	Content Marketing: think like a publisher. How to use content to market online and in social media, Que Publishing, Indianapolis	CM, in other words, is nothing new. Companies having been creating and distributing content for many years, both to attract new business and to retain existing customers. However, here's the point of differentiation from more traditional forms of marketing and advertising: using content to sell isn't selling. It isn't advertising. It isn't push marketing, in which messages are sprayed out at groups of consumers. Rather, it's a pull strategy—it's the marketing of attraction. It's being there when consumers need you and seek you out with relevant, educational, helpful, compelling, engaging, and sometimes entertaining information.
Nelli (2012)	Branded content marketing: a new approach to value creation. Vita e pensiero.	The concept of branded content marketing expresses the operational translation of a new value-creating approach to marketing strategy based on the creation and multichannel distribution of content relevant to specific 'target audience' segments in order to attract attention, stimulate interest, develop long lasting relationships, and stimulate actions consistent with the company's business goals.

Slater (2014)	Content marketing: recycling and reuse. How your best online content can engage and attract new customers, i30 Media Corporation, New York	CM is a dynamic way to get customers. It is the process of sharing expertise and knowledge online to attract potential customers and establish a relationship them. Content marketers have to be focused on creating, publishing, and sharing suitable content. However, many content marketers often overlook a readily available source of content – articles, case studies, blog posts, videos, images, and other assets that were created years before yet still have the potential to draw new customers.
Ramos (2014)	Content Marketing: insider’s secret to online sales and lead generation. One Night Expert Publishing, New York	CM is a marketing technique that uses high-quality, relevant content to educate, engage, and acquire your target customer. CM is not just creating content for the sake of producing content; your objective is always sales. The true potential of content marketing lies in its ability to provide a conversion path for your leads to follow on their own schedule and at their convenience.
Holliman, Rowley (2014)	BtoB digital content marketing: marketing perception of best practice. Journal of research in Interactive Marketing 8(4).	Digital CM is the activity associated with creating, communicating, distributing, and exchanging digital content that has value for customers, clients, partners, and the firm and its brands.
Van Lieshout (2014)	Content marketing for professionals. Create Space Independent Publishing Platform, London.	CM is any marketing that involves the creation and sharing of media and publishing content in order to acquire and retain customers. This information can be presented in a variety of formats including news, video, white-papers, e-books, infographics, case studies, how-to guides, question and answer articles, photos, etc. Cm has been defined in multiple ways. The meaning of the term depends a lot on the purpose and context. One of the most used definition states that CM is the technique of creating and distributing relevant and valuable content to attract, acquire and engage a clearly defined target audience in order to drive profitable customer action. CM creates interest in a product through educational, entertaining or informative material. Successful CM relies on providing “consistent, high-quality content that solves people’s problems”.
Vollero, Palazzo (2015)	Conceptualizing Content Marketing: a Delphi approach. Mercati e Competitività, 1.	CM is the ability of organization to become “influential”, to develop engagement and trusted relationships with customers and to integrate different efforts in creation and distribution of content in marketing communications in one comprehensive approach.
Jarvinen, Taiminen (2016)	Harnessing marketing automation for B2B content marketing. Industrial marketing management.	CM is a new paradigm that leads potential buyer to interact with their company.

Source: our extrapolation from Rancati, Gordini, 2015

The last three CM definitions in Table 1 clarify other aspects of CM. First, content is addressed to specific "target partners" (Nelli, 2012), and content should be designed digitally (Holliman, Rowley, 2014) so that it can be distributed and used through all of the existing channels and devices to foster a constant flow of conversations between the enterprise and its stakeholders (Nelli, 2012). One needs to become "influential" (Vollero, Palace, 2015) especially on the Internet where there is an overabundance of information. Developing long lasting relationships with customers is a significant step, as CM communication needs to be permanent, systematic, well- planned, and should adopt a sort of "editorial line" in the production of content. Moreover, as regards the approach to be adopted in CM, Vollero and Palazzo (2015) believe it is important that all CM actions be part of a “comprehensive approach” that is planned and systematic, and not made up of sporadic actions. With

reference to the impact on business performance, it is implicit in the purpose of creating trust, and therefore stable relationships, that one ensures a stable revenue share (Vollero and Palazzo, 2015).

The above-mentioned elements reinforce what has emerged in the literature, that value creation for stakeholders requires effective metrics for measuring it. In summary, the elements that characterize CM are:

- content,
- customer engagement,
- the objectives,
- the target to which communication is directed,
- the growing importance of digital communication,
- a planned and systematic approach

The impact on performance is, however, an element that is more explicitly and frequently expressed in the CM definitions provided by practitioners and the business community. In fact, as outlined by the business community's definitions or consultants and experts (Table 2), content marketing compared to other forms of online communication has two purposes: 1) to give customers what they are looking for, promoting the interactions which help to become customers, and 2) to gain profits from such relationships.

Starting from the assumption that CM is a value-creating activity, this has an impact on company performance by requiring the development and adoption of suitable measurement systems (Giacchetti, 2013).

Table 2 – The definitions of Content Marketing by the business community

Source	Definition of CM
Content Marketing Institute http://contentmarketinginstitute.com/what-is-content-marketing/	Content marketing is a strategic marketing approach focused on creating and distributing valuable, relevant, and consistent content to attract and retain a clearly-defined audience — and, ultimately, to drive profitable customer action.
Inbound.org http://inbound.org	Content marketing's purpose is to attract and retain customers by consistently creating and curating relevant and valuable content with the intention of changing or enhancing consumer behavior. It is an ongoing process that is best integrated into your overall marketing strategy, and it focuses on owning media, not renting it.
Copyblogger.com http://www.copyblogger.com/content-marketing/	Content marketing means creating and sharing valuable free content to attract and convert prospects into customers, and customers into repeat buyers. The type of content you share is closely related to what you sell; in other words, you're educating people so that they know, like, and trust you enough to do business with you.

Source: our extrapolation

However, metric literature has often been criticized for its limited diagnostic capacity, due to its short-term focus, the excessive number of different and incompatible measures, and the lack of attention to value creation for shareholders (Doyle, 2000, Bonoma and Clark, 1988).

The metrics used to measure CM in marketing literature are summarized in Table 3.

Table 3 – The metrics for measuring the performance of Content Marketing

Types of metrics	Examples of metrics
Consumption metrics	Page views, video views, document views, downloads, visitors, visitors returns, time on page, page views/visitors
Sharing metrics	Likes, shares, tweets, +1, retweets, and pins, mail forwards, inbound links
Lead generation metrics	Form completions, email subscriptions, newsletter subscriptions, blog subscriptions, blog comments and social, cookies, RSS feed, conversion rate
Sales metrics	Online sales, offline sales, customer retention, cost saving, content marketing ROI

Source: our extrapolation from Gordini, Rancati (2015, p. 8-10)

Gordini and Rancati (2015) have identified four types of metrics that measure different performance and are aimed at quantifying CM's contribution to value generation: 1) the consumption metrics measure web-generated traffic; 2) the sharing metrics measure consumer content sharing and hence their level of engagement; 3) the lead generation metrics collect a list of potential customers and related data to create useful databases to transform prospects into actual customers and 4) the sales metrics quantify the impact of investment in content on enterprise performance. When linked together (Linn, 2012), these metrics not only measure CM's contribution to value creation, but also identify key value-creating activities and any deviations from what is planned and take precautionary action to achieve goals.

In order to present a systematic literature review of empirical studies on CM, the peer-reviewed journals on academic databases such as Scopus and Ebsco were analyzed, regardless of their impact factor. In particular, papers that contained the keyword 'content marketing' in the abstract were analyzed. Subsequently, those that contained the keyword 'consulting' * were selected. A total of three papers, one from the Ebsco database and two from Scopus, were reviewed. However, none of the three articles contains objectives that are pertinent to this study.

There is, therefore, a research gap for the services and the B to B sectors, although small contributions have been identified; these focus mainly on manufacturing companies and on B to C companies (Gordini, Rancati, 2015; Rancati, Gordini, Capatina, 2016).

In the field of service companies, there have never been any studies conducted on consultancy companies, i.e., companies that provide services to clients in various areas of consultancy (economic, financial, legal, computer, medical, marketing and communication ...) using the know-how or the problem-solving skills of their own consultants (Newton, 2012; Kurb, 2003; Head, 2006; Van den Bosch, 2005). These service companies are particularly interesting to study because they have to sell an intangible and high intensity knowledge "product" with respect to other service companies (Alvesson, 2008) to their customers requiring expertise in the CM. Some of them are specialized in providing communication and marketing services and therefore CM becomes strategic to create value for customers.

With the advent of the new economy and the spread of the Internet and IT, as well as digital communication in general, consultancy companies are called upon to use CM in order to get consumers' attention and gain their loyalty, providing them with useful content value and influencing their buying choices. It is interesting, therefore, to understand how this type of enterprise uses CM, which tools it uses, and how it measures results.

Another gap identified in the empirical literature concerns the qualitative study of CM. In this regard, Peter et al. (2017) point to the example of Dedagroup, one of the largest Information Technology companies with more than 3,000 customers and 1,600 employees. In order to pursue the goals of improving its reputation and image (focusing on 'Italian-ness', competence, concreteness, innovation) the company has abandoned "the tone of the self-referential tale of the B to B market ("leading company in the national scenario ...") to adopt closer and friendlier tones typical of the B to C market ("Dedagroup at Work", "The Cloud with its feet on the ground", "Simple, Deda" (Peter, et al., 2017, p. 205). This style of communication underpins a fundamentally cultural approach that is based, rather than on "what we sell to anyone", on the analysis and the identification of buyers, instead, to redesign the offer portfolio in terms of needs / solutions.

3. Objectives and methodology

This work aims to identify the goals European consulting firms pursue with CM and the CM tools, strategies, and metrics they use to create value for the customer. To this end, a questionnaire was sent online to the marketing managers of 1,036 micro, small, medium, and large size consultancies selected from the FEACO (European Federation of Management Consultancies Associations) website.

The on-line survey (google module links) allows consulting companies to respond anonymously, in a user-friendly environment which, without requiring excessive amounts of time, allows more respondents to answer compared to other traditional channels such as telephone calls or mailings (Molteni, Troilo, 2007). The consulting companies responded to the questionnaire during the period from December 2016 to January 2017.

The survey consisted of eighteen multiple-choice questions divided into two sections: the first consisting of five questions classifying consulting companies by nationality, size (number of employees), turnover, and the respondent's role. The second section, consisting of thirteen questions, addressed the following points:

- the use of CM and an evaluation of its real utility;
- the goals that drive consulting companies to use CM;
- the way in which these goals are met and the tools used to reach them;
- investments made in CM;
- using metrics for performance measurement.

In order to increase the number of respondents, a follow-up activity was implemented. The final response rate was 5.04%, or 55 consultancy firms.

4. Findings

The findings were analyzed firstly at the aggregate level, and secondly by dimensional class and geographical area.

Table 4 shows the composition of the consulting companies in the sample: the largest proportions are German (24%), followed by Finnish and Greek (both 15%) and Italian (13%). These are micro (60%) and small (31%) consulting firms with a turnover of less than 10 million euros (91%).

Table 5 shows the level of use and the degree of effectiveness attributed to content marketing by the sample companies. At the aggregate level, businesses demonstrate discrete use (71%) of content marketing. The companies that use it most are micro (51%) and small (36%) ones. These companies find CM useful to achieve their goals and create value in 47% and 37% respectively, whereas CM is found to be quite useful in 92% of micro and small consulting firms. It should be noted that small businesses have only expressed positive

comments about the effectiveness of content marketing. However, medium and large service companies have shown a greater mistrust in the utility of CM tools (5% and 11%).

Table 4 – Sample characteristics by nationality (%)

	Finland	France	Germany	Greece	Ireland	Italy	Portugal	United Kingdom	Romania	Switzerland	Total
Aggregate level	15%	6%	24%	15%	7%	13%	2%	2%	9%	9%	100%
SIZE											
Micro	75%		62%	63%	75%	71%			60%	60%	60%
Small	13%	67%	31%	13%	25%	29%	100%	100%	40%	40%	31%
Medium	13%		8%	13%							5%
Large		33%		13%							4%
TURNOVER 2015											
Less than 10 million €	88%	67%	100%	75%	100%	100%	100%		100%	100%	91%
11-50 million €	13%			13%							4%
More than 200 million €		33%		13%				100%			5%

With regard to nationality, German (21%) and Greek (18%) service firms are the ones who use it most. As for Italian companies, although little used (8%), CM is considered a *useful* tool. More distrust was expressed by French, Portuguese, and Swiss companies (5%). The unit is measured by asking respondents if they consider CM tools effective for achieving business goals and increasing performance.

Table 5 – Level of use and rate of the perceived utility of content marketing, by size and geographic area.

Size	Usage	Useless	Scarce utility	Useful	Quite useful	Very useful
Aggregate level	71%	5%	10%	49%	31%	5%
SIZE						
Micro	51%	50%	100%	47%	42%	50%
Small	36%			37%	50%	50%
Medium	8%	50%		5%	8%	
Large	5%			11%		
GEOGRAPHIC AREA						
Finland	13%			11%	25%	
France	5%			5%	8%	
Germany	21%	50%		26%	8%	50%
Greece	18%		25%	11%	33%	
Ireland	10%	50%	25%	11%		
Italy	8%			16%		
Portugal	3%			5%		
United Kingdom	3%				8%	
Romania	10%		25%	11%	8%	
Switzerland	10%		25%	5%	8%	50%

Graph 1 shows the main objectives pursued by consulting firms that use CM. At the aggregate level, the main goals content marketers identified are brand awareness (85%), customer acquisition (51%), and customer retention (46%). Additional goals are website traffic (41%), contact generation (39%), acquisition of a thinking leader position (31%), sales (23%), and maintaining contacts (21%). As shown in Table 6, sales are a priority for micro (56%) and for small and large (22%) firms. Instead, medium-sized service companies focus on maintaining contacts (13%) while small (50%) pursue also the generation of website traffic (50%).

At the national level, firms that pursue brand awareness are mainly German and Greek (18%), followed by Finnish, Swiss, and Irish (12%). Acquisition and retention of customers is mainly pursued by German firms (25% and 33% respectively).

Among the goals that are not pursued through CM, we point out the following: sales growth by Finnish, German, Portuguese and Swiss companies; retention of customers by Italian and Portuguese firms; the generation of contacts from Greek, Portuguese, and Swiss companies; maintaining contacts by Finnish, Greek, Irish, and Portuguese companies; and finally, monitoring web traffic by Finnish, Greek, and Portuguese firms.

It is interesting to note that Portuguese consulting firms only use CM to increase brand awareness (3%) and maintain contacts (5%).

Graph 1 - Content marketing goals

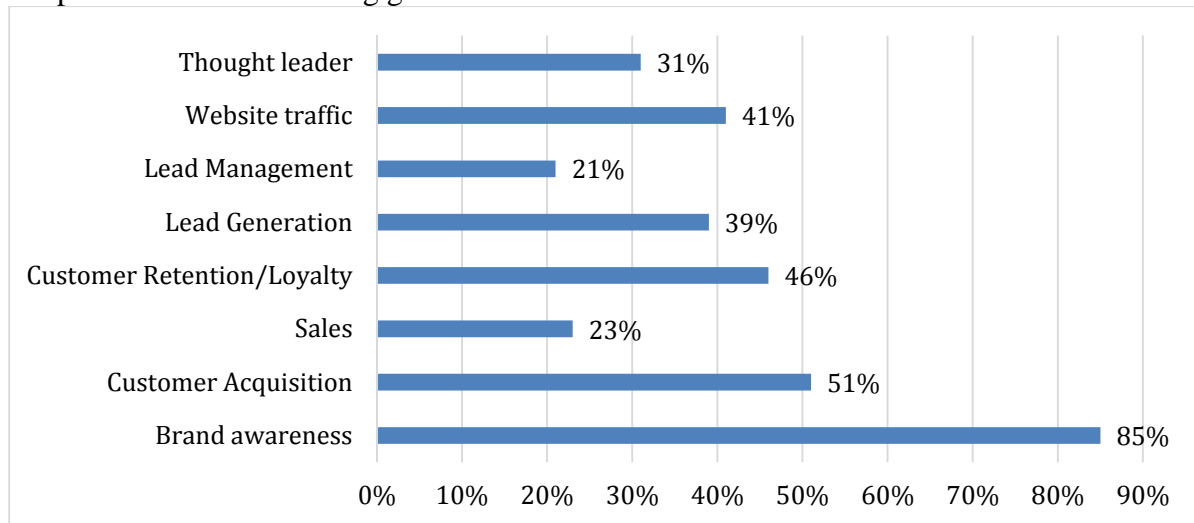


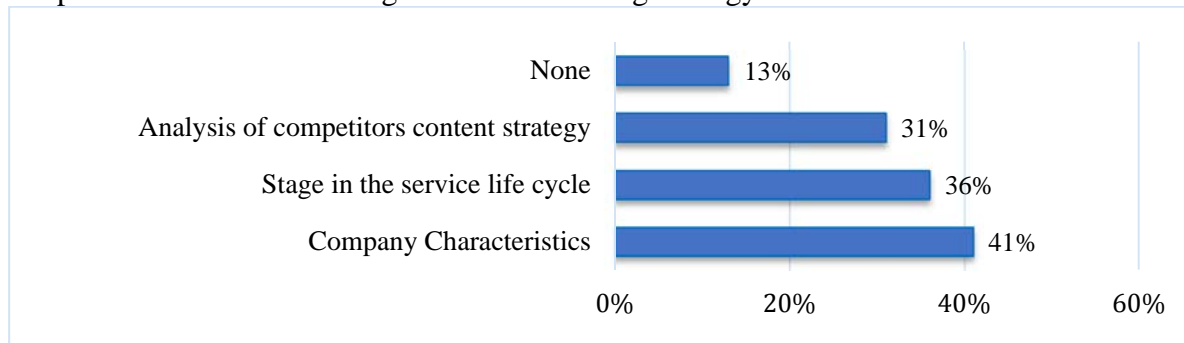
Table 6 – Content Marketing goals divided by size and geographical area

	Brand awareness	Customer acquisition	Sales	Customer Retention/ Loyalty	Lead Generation	Lead Management	Website Traffic	Thought Leader
SIZE								
Micro	42%	40%	56%	39%	40%	25%	38%	33%
Small	42%	45%	22%	44%	47%	50%	50%	42%
Medium	9%	10%		6%	7%	13%	6%	8%
Large	6%	5%	22%	11%	7%	13%	6%	17%
GEOGRAPHIC AREA								
Finland	12%	10%		6%	27%			17%
France	6%	10%	22%	6%	13%	13%	6%	8%
Germany	18%	25%		33%	20%	38%	31%	33%
Greece	18%	10%	33%	17%				8%

Ireland	12%	10%	11%	17%	7%		25%	17%
Italy	9%	10%	11%		13%	13%	6%	
Portugal	3%	5%						
UK	3%	5%	11%	6%	7%	13%	6%	8%
Romania	6%	5%	11%	11%	13%	13%	6%	
Switzerland	12%	10%		6%		13%	19%	8%

Although 71% of consulting firms use CM tools, 13% implement it without any ex ante strategic planning (Graph 2).

Graph 2 - Criteria for defining Content Marketing strategy



In particular, 60% of micro and 40% of small consulting firms do not plan their CM strategy (Table 7). The remaining 87% carry out a detailed planning of CM strategies based on the company characteristics (41%), business sector trends (39%), service life cycle (36%) and finally, on the analysis of CM strategies adopted by competitors (31%).

The large consulting firm bases its CM strategy mainly on the business sector trends (13%), while the medium-sized one looks at the company's characteristics (13%). The small consulting firm bases its content marketing strategy on the service life cycle stage (36%) while the micro ones consider a combination of the company's features, service life cycle stages, and analysis of competitors' content strategy (50%).

Looking at the results by geographic distribution, we found that the companies that rely on the business sector trends are German (33%) and Irish (20%), while the company characteristics are the focus of the Greek ones (25%). German companies are also the ones that most plan CM strategies based on their competitors' content strategies (25%) and on the life cycle of the service, as do Swiss firms (21%, for both). Portuguese companies only adopt the business sector trend criterion (7%), while this is not taken into account by either Romanian or Swiss consulting firms.

Table 7 – Criteria for defining content marketing strategy divided by size and geographic area

	Business sector trends	Company characteristics	Stage in the service life cycle	Analysis of competitors' content strategy	None
Aggregate level	39%	41%	36%	31%	13%
SIZE					
Micro	47%	50%	50%	50%	60%
Small	33%	31%	36%	33%	40%
Medium	7%	13%	7%	8%	
Large	13%	6%	7%	8%	
GEOGRAPHIC AREA					
Finland	7%	13%	14%		
France	13%	6%		17%	
Germany	33%	6%	21%	25%	40%
Greece	7%	25%	14%	17%	20%

Ireland	20%	6%		8%	20%
Italy	7%	13%	7%	8%	20%
Portugal	7%				
United Kingdom	7%	6%	7%	8%	
Romania		13%	14%	8%	
Switzerland		13%	21%	8%	

The content marketing tactics most used by consulting firms (Graph 3) to achieve their goals are articles on their website (77%) followed by social media content (69%) and e-newsletters (62%). The least used tactics are infographics (13%), mobile content (8%) and e-books and mobile apps (5%). Podcasts are not used by any of the responding consulting companies.

The greater use of such content tactics is confirmed by micro and small consulting firms (Table 8).

Graph 3 – Content marketing tactics

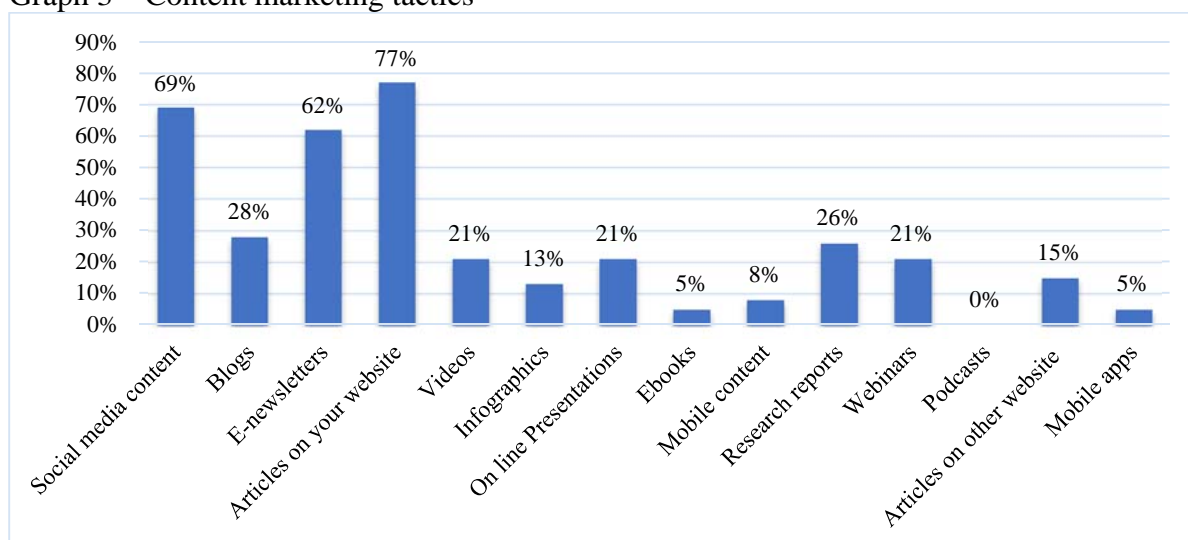


Table 8 shows that even when classified by geographic area, the most used CM tools are articles on their website, social media content, e-newsletters and blogs, especially for German, Finnish, Greek, and Irish service firms.

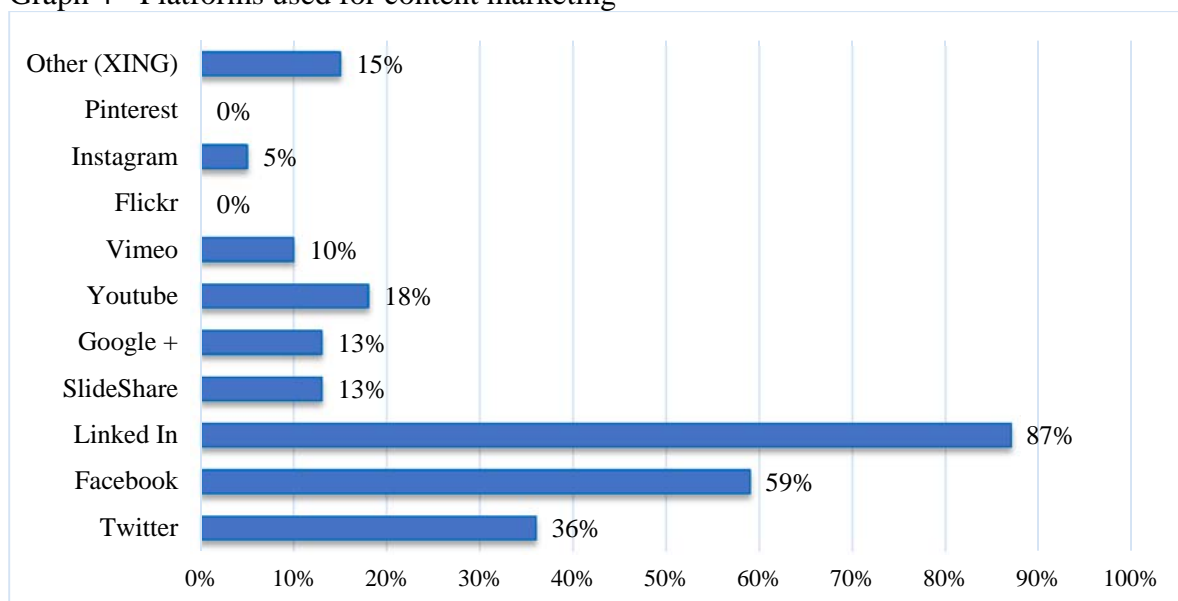
Table 8 – CM tactics divided by size and geographic area

	Social media	Blogs	E-newsletter	Articles on their	Videos	Infographics	On line presentati	Ebooks	Mobile content	Research reports	Webinars	Articles on other	Mobile apps
SIZE													
Micro	48%	36%	33%	47%	25%	40%	38%	100%	33%	30%	25%	33%	50%
Small	41%	45%	54%	37%	50%	20%	38%		33%	40%	63%	50%	
Medium	4%	9%	8%	10%	13%	20%	13%			10%	13%		
Large	7%	9%	4%	7%	13%	20%	13%		33%	20%		17%	50%
GEOGRAPHIC AREA													
Finland	15%	27%	13%	13%	25%			50%			25%		
France	7%	9%	8%	7%	25%	20%	13%		33%	20%	13%	17%	
Germany	15%	18%	25%	23%	25%	60%	38%		33%	30%	38%	50%	
Greece	15%	9%	13%	17%	13%					10%		17%	50%
Ireland	11%	18%	4%	13%	13%	20%	13%		33%	10%			50%

Italy	11%	9%	8%	3%				50%		10%	13%		
Portugal	4%			3%				13%					
United Kingdom	4%	9%	4%	3%				13%		10%			
Romania	7%		13%	7%				13%		10%			
Switzerland	11%		13%	10%							13%	17%	

Upon analyzing the degree to which consulting firms use platforms (Graph 4) that constitute social media content (the second-most used tool after articles on the website), the findings were that most consultancies make wide use of LinkedIn (87%), Facebook (59%), Twitter (36%) and YouTube (18%). These are the most well-known and easy-to-use platforms as they require neither large investments nor high skills and competencies to be sought through the creation of a dedicated resource.

Graph 4 - Platforms used for content marketing



The aggregated results are confirmed also in terms of size and geographic area (Table 9), as the CM is, for smaller firms, a mere communication tool that does not require careful strategic planning or a substantial investment in technology, skills and competences. In fact, more than half of the micro-consultancy firms use such platforms. Interestingly, 15% of consulting companies use XING, a business social network, or a platform dedicated to professional relationships. Flickr and Pinterest are not used at all by consulting companies for content marketing. Geographically, the most popular social consulting firms are German, Finnish, Greek, and Irish.

Table 10 shows the investment in CM activities compared to the total communication cost.

At the aggregate level, 5% of consulting firms do not allocate any resources to content marketing activities; for 80% of respondents the share allocated to this activity is between 1% and 20% of the budget; 13% allocate between 20% and 40% of the budget and only 3% earmark more than half the budget for this purpose.

Table 10 shows a greater willingness to invest in CM by micro and small consulting firms (52% and 35% respectively), compared to larger ones. These are mainly German (23%), Finnish (16%) and Greek (13%) companies.

Table 9 – Platforms used for CM divided by aggregate level, size and geographic area

	Twitter	Facebook	Linked In	SlideShare	Google +	YouTube	Vimeo	Flickr	Instagram	Pinterest	Other (XING)
Aggregate level	36%	59%	87%	13%	13%	18%	10%		5%		15%
SIZE											
Micro	50%	52%	47%	80%	40%	29%	25%		50%		17%
Small	29%	35%	38%		60%	29%	25%				67%
Medium	7%	9%	9%			14%	50%		50%		17%
Large	14%	4%	6%	20%		29%					
GEOGRAPHIC AREA											
Finland	29%	17%	12%	20%		14%	25%		50%		
France	14%	4%	6%	20%		14%					
Germany	14%	13%	24%	20%	60%	29%	25%				50%
Greece	7%	26%	12%			14%	25%		50%		
Ireland	21%	13%	12%				25%				
Italy	7%	4%	9%	40%	20%	14%					
Portugal		4%	3%								
United Kingdom	7%		3%		20%						
Romania		9%	9%			14%					
Switzerland		9%	12%								50%

Table 10 – Percent of budget spent on content marketing activities

	0	1-20%	21%-40%	41%-60%	61%-80%	81%-100%
Aggregate level	5%	80%	13%	3%		
SIZE						
Micro	100%	52%	40%			
Small		35%	60%			
Medium		10%				
Large		3%		100%		
GEOGRAPHIC AREA						
Finland		16%				
France		6%				
Germany		23%	20%			
Greece	50%	13%	20%	100%		
Ireland		6%	40%			
Italy		6%	20%			
Portugal		3%				
United Kingdom		3%				
Romania	50%	10%				
Switzerland		13%				

Finally, the use of content marketing metrics by consulting firms was analyzed both at the aggregate level and by size and geographical area (Table 11 and Table 12).

Findings show a broad use of sharing (37%) and consumption metrics (35%), or measurement of phishing activities that enhance the interactive and multimedia aspects of CM, easily calculated in terms of time and cost. A slightly lower or average use was evident for sales metrics (30%), i.e., metrics that give a clear economic quantification of CM strategies for value creation, whereas the use of lead generation metrics was found to be quite low (25%). The most used consumption metrics are: page views (69%), visitors (54%) and

page views / visitors (46%). Likes, shares, and tweets are the most used type of sharing (64%) metrics. E-mail subscriptions and consumer feedback are the predominant lead generation metrics (64% and 44% respectively) while the primary sales metrics are off-line (56%) and customer retention (49%).

The size and geographic-level analysis confirms this data: sharing and consumption metrics are mainly used by micro and small consulting firms. As the size of the consultancy increases, the "reasoned and selective" use of lead generation and sales metrics is the norm, rather than a general use of all possible metrics (Table 12). These findings demonstrate a widespread use of consumption and sharing metrics rather than lead generation or sales ones, resulting in some considerations that could lead consultants to rethink the role of CM.

The different uses of metrics demonstrate CM's vision: the great importance assigned to consumption and sharing metrics highlights the fact that, within consulting firms- especially micro and small one - CM is still considered a communication activity for the "publishing and sharing of interactive and multimedia content" without recognizing the prominent role that CM plays in creating value. The greater use of consumption and sharing metrics may be due to the greater ease and cost- effectiveness of implementing those indicators that do not require distinctive capabilities and competences as well as to the composition of the sample, 85% of which is formed by SMEs or firms that, in general, do not have the necessary resources to adopt sophisticated measurement tools. However, in increasingly dynamic markets with no space-time constraints, CM strategies are key elements in value creation. Nevertheless, the geographic analysis shows a greater use of lead- generation and sales metrics regardless of size.

Table 11 - CM metrics by size

	Aggregate level	Micro	Small	Medium	Large
CONSUMPTION METRICS	35%				
Page views	69%	37%	44%	11%	7%
Visitors	54%	43%	43%	10%	5%
Video views	8%	33%		33%	33%
Time on page	26%	30%	40%	20%	10%
Document views	26%	20%	40%	30%	10%
Downloads	33%	38%	38%	8%	15%
Page views/visitors	46%	67%	22%	6%	6%
Visitors returns	26%	40%	50%		10%
Time on page/visitors	28%	36%	46%		18%
SHARING METRICS	37%				
Likes, shares, tweets, +1, retweets, pins	64%	56%	28%	8%	8%
Mail forward	41%	38%	50%	6%	6%
Inbound links	5%	100%			
LEAD GENERATION METRICS	25%				
Form Completions	21%	38%	63%		
RSS feeds	8%	67%		33%	
Blog comments	18%	57%	29%		14%
Email subscription	64%	48%	44%	8%	
Qualitative feedback from customers	44%	53%	35%	6%	6%
Blog subscription	8%		67%		33%
Conversion rate	15%	33%	67%		
SALES METRICS	30%				
Offline sales	56%	36%	59%		5%
Online sales	21%	50%	25%	25%	
Customer retention	49%	47%	42%	11%	

Cost savings	13%	80%	20%		
Content marketing ROI	13%	60%	40%		

Table 12 - CM metrics by geographic area

	Aggregate level	Finland	France	Germany	Greece	Ireland	Italy	Portugal	United Kingdom	Romania	Switzerland
CONSUMPTION METRICS	35%										
Page views	69%	15%	7%	19%	15%	7%	11%	4%	4%	7%	11%
Visitors	54%	14%	10%	14%	19%	10%	10%	5%	5%	10%	5%
Video views	8%	67%	33%								
Time on page	26%	30%	10%	20%	20%	10%					10%
Document views	26%	20%	20%	20%	10%	10%	10%				10%
Downloads	33%	23%	15%	8%	8%	8%	23%		8%		8%
Page views/visitors	46%	17%	6%	17%	11%	17%	6%		6%	17%	6%
Visitors returns	26%	10%	10%	30%	10%	10%	10%		10%	10%	
Time on page/visitors	28%	9	9	46	9	9			9		9
SHARING METRICS	37%										
Likes, shares, tweets, +1, retweets, pins	64%	16%	4%	20%	12%	16%	12%		4%	8%	8%
Mail forward	41%	6%	6%	25%	31%		6%	6%		13%	6%
Inbound links	5%	50%									50%
LEAD GENERATION METRICS	25%										
Form Completions	21%		13%	25%	13%	13%	13%		13%		13%
RSS feeds	8%				67%	33%					
Blog comments	18%	14%			29%	14%	29%			14%	
Email subscription	64%	16%	4%	24%	24%	8%	8%		4%	8%	4%
Qualitative feedback from customers	44%	12%	6%	29%	6%	6%	12%	6%		12%	12%
Blog subscription	8%			33%	33%	33%					
Conversion rate	15%			33%			33%			17%	17%
SALES METRICS	30%										
Offline sales	56%	9%	5%	18%	14%	14%	14%	5%	5%	9%	9%
Online sales	21%	13%		13%	13%	25%	25%				13%
Customer retention	49%	5%	5%	32%	32%		5%	5%	5%	5%	5%
Cost savings	13%					20%	20%			60%	
Content marketing ROI	13%	20%		60%			20%				

5. Discussion of findings

The study shows that the sample of the responding companies highly use the CM and the related strategies and metrics, providing useful answers to the research question.

First of all, the prevalence of responding consultancies uses CM (71%). This result is in line with what emerged in previous researches carried out on manufacturing and service companies (Rancati, Gordini, 2015; Rancati, Gordini, Capatina, 2016), although the latter recur to them slightly more (78% and 88%). However, we believe that this result is positive, especially because the 60% of the companies in the sample have less than 10 employees and 31% less than 50; or almost all of the sample is made up of SMEs (with a physiological endowment of resources limited), and that 91% of respondents have a turnover of less than 10 million euros per year.

The literature highlights that firms can pursue many goals with the CM: brand awareness, customer acquisition, and increased sales (Table 1). However, the companies examined privilege brand awareness and objectives related to the customer management (respectively acquire and retain customers), registering a slight difference compared to previous studies (Rancati, Gordini, 2015) which in third place put the increase of sales. In our sample, big consulting firms mainly pursue goals linked to sales (22%) and to opinion leaders (17%).

Examining the approach used to define the CM strategy, the study highlighted that 87% of firms adopt a strategic planning of the CM based on the characteristics of the company, the product/service life cycle and the competitor's strategy. This result is even more positive than in previous studies (61%) (Rancati, Gordini, 2015).

In addition, the survey confirms the growing importance of the digital as highlighted in the literature (Keys, 2006; Gunelius, 2011; Slater, 2014; among others), as the most used tools to achieve the firm objectives are articles on their web site (77%) followed by social media content tools (69%) and e-newsletters (62%).

With regard to customer engagement, it can be said that consulting companies involve their customers as the most used metrics are sharing metrics such as likes, shares and tweets (64%) and high values are recorded for e-mail subscriptions (64%) and feedback from consumers (44%).

Regarding content, since the most used platforms are LinkedIn, Facebook and Twitter, it is clear that consultancy companies give importance to quality content, and to professional contents above all (LinkedIn) that are also conveyed on the Facebook page. They are social that require engagement and an active participation of the targets, called to respond. The messages are also rich because on all three platforms it is assumed that in addition to written phrases there are images, small speeches. It is therefore assumed that companies use both short text (especially for Twitter) but also medium length text. Furthermore, the contents are disseminated, shared by the targets. This result confirms the importance of consistent, high quality content to educate, engage and acquire new clients, as underlined in the literature (Pulizzi, Barret, 2009; Ramos, 2014, Liebhout, 2014). Furthermore, the result confirms that CM is a pull strategy, it's the marketing of attraction as consumer needs to look for compelling, helpful and engaging information (Lieb, 2011).

With regard to the targets, it is inferred that consultancies are aimed at both potential and actual customers and at potential collaborators. In fact, on LinkedIn, the company can address to potential or actual customers but also to potential collaborators to engage with. This result confirms that CM may be addressed both clients and partners (Slater, 2014; Hollyman, Rowley, 2014).

6. Conclusions

The study conducted is original as it provides an empirical contribution and a conceptual advancement on the subject of content marketing.

Unlike previous empirical studies on the subject, this work is a novelty as:

- the CM theme has never been applied to consulting firms;
- it makes use of cross-country comparative analysis at the European level of consulting firms involving more countries than previous studies (Rancati, Gordini, 2015).

The results of the research conducted on European consulting firms (nearly all micro and small businesses) allow to provide useful answers to the research question: to identify the goals pursued through CM, CM tools, strategies, and metrics used to create value for the customer. In particular, the main results are the following:

- CM is an activity used by 71% of the sample, which is considered useful by 85% of consulting firms, especially German, Finnish, and Greek ones, and annual investments amount to 20% of the budget;
- the main goals pursued are brand awareness and customer acquisition;
- the most used platforms are LinkedIn, Facebook and Twitter, and the most used tools are articles on the website and social media and newsletters;
- micro and small consulting firms do not plan on CM strategy, and companies generally use metrics to measure aspects of content publishing and sharing, rather than measuring the economic impact of CM.

The study highlights theoretical and managerial implications. Regarding the theoretical implications, the work suggests an advancement of the concept of CM. In particular, new elements have been identified to be integrated into the definition of CM such as: 1) specific targets to address communication; 2) the growing importance of digital communication; 3) the approach to planned and systemic CM.

Based on these additional elements, we propose a more complete definition of content marketing:

CM is a planned approach and with a clear editorial line aimed at the creation, dissemination, sharing, and measurement of quality content to be addressed to specific targets, involving them actively in the co-creation and dissemination of content, especially online. CM's goal is value creation for customers and business: for customers it means helping to inform, orient their preferences, attract, satisfy, and gain loyalty, whereas for businesses it means building relationships and trust as well as increasing economic-financial returns.

The managerial implications deductible from the study make it possible to identify the main difficulties encountered by companies in implementing CM activities, outlining possible development strategies and contributing to the debate on the need for a global approach to CM understood as a strategy to increase performance and to create value.

In particular, we can draw some managerial implications for consulting firms:

- considering the strategic importance of CM to create value for customers and the results of the study, the consulting firms could invest more economic resources on CM, although most of the sample consists of predominantly small and micro enterprises that generally have limited financial resources and marketing skills;
- consulting firms could use the CM for broader goals such as maintaining contacts and increasing sales and a larger number of platforms like Instagram and YouTube that are useful to distribute high quality content and to interact with customers;
- as CM is a pull strategy, consulting firms need to create continuously high-quality and attractive content in order to engage and even entertain customers who need to look for such content;
- a careful planning of CM strategy, especially by small and micro-businesses, and a vision that goes beyond simple content publishing and sharing strategies are needed;
- it is important to distinguish the kinds of target to address CM, for example customers and partners, and to approach them with proper information, strategies, tools and metrics of CM;
- it is suggested that these types of consultancies increase the use of lead generation and sales metrics in order to properly assess the impact of CM on value creation.

The main limitation of the study is the statistical non-representativeness of the sample used, which prevents the generalization of the results. However, the results of the study provide useful information to answer the research questions. Future research could therefore consider samples that include consulting firms of other nationalities and continents. An extended sample could allow to generalize the results from a statistical point of view. Also, it would be interesting to focus on those CM elements that have been integrated into the proposed definition.

It would also be necessary to deepen empirical research through qualitative studies conducted through in-depth interviews and case studies in order to better understand the evolution of the content marketing. In particular, some research questions for future research may be the following: what kind of content is delivered by B to B service companies? do they adopt a self-referential cultural approach ("what we sell to whom") or a friendly approach? how do CM tools and metrics change if companies use different communication styles (referential or friendly)?

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PROMOTION TOOLS APPLIED BY POLISH INVS ON FOREIGN MARKETS

Lidia Danik

Warsaw School of Economics, Poland

Katarzyna Kowalska

Warsaw School of Economics, Poland

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Abstract

Marketing capabilities are argued to be one of the critical capabilities of International New Ventures (INVs) facilitating their early internationalization. Although companies from post-transformation Central and Eastern Europe Countries are active and successful participants of the global market, their marketing capabilities were not subject to the complex studies yet. This paper addresses this research gap and aims to identify the types and importance of the promotion tools applied by INVs from this region. It presents the results of the multi-mode method (CATI combined with CAWI) study of 297 Polish small and medium INVs. It shows, that they rather do not apply a very diversified set of promotional tools. The most common tools applied by them on the foreign markets are trade fairs and exhibitions, internet advertising, PR, personal sales and Internet tools other than Internet advertising, with the most importance given to PR. The most differentiated set of promotion tools is applied by companies operating both on the B2B and B2C market.

Keywords: INVs; Promotion tools; Marketing capabilities; Central and Eastern Europe Countries; B2B; B2C.

1. Introduction

Small and medium-sized enterprises (SMEs) are commonly considered crucial engines for growth, job and wealth creation. During the recent decades, several phenomena, such as globalization processes, technological development and increasing heterogeneity caused important market changes which affected SMEs behavior and ability to compete in the international arena (Bocconcelli et al, 2018). Those changes are also applied to SMEs that internationalize rapidly soon after their foundation known as International New Ventures, the development and activities of those highly performing SMEs that participate actively in cross-border trade represent nowadays an optimistic and contemporary trend for international business (Cavusgil & Knight, 2015).

Although the phenomenon of INVs internationalization has attracted academic and practitioner interest, the scholars around the world have focused mainly on INVs from

developed countries. Little is known about newly born international firms operating in post-transformation economies, such as Central and Eastern Europe (CEE) countries that after 1989 have abandoned an economic system based on state ownership and a centralized control of production, starting the construction of free-market economy. After joining the European Union many of them, including Poland, have been on track toward the level of Europe's most advanced economies and now are experiencing the emergence of new ventures, including global startups. They are also important for emerging countries in terms of innovation generation, creation of new products and the development of own business models that contribute to wealth and jobs creation (Baranowska-Prokop & Sikora, 2017; Nardali, 2017).

Despite its dynamic economic and technological development, this part of Europe has been neglected as a source of marketing science development and is grossly underrepresented in the literature. The scarcity of studies refers also to marketing capabilities (Martin et al., 2017) and especially, the promotion and sales tools used by INVs to support sales and speed up their international expansion.

The present article aims to fulfill this research gap and to identify the types and importance of promotional and sales tools used by INVs from CEE post-transformation countries, taking as example INVs from Poland. The choice of the article and selecting Polish INVs was also motivated by previous studies of Polish INVs that revealed their lack of promotional effectiveness including shortcomings in using non-standard forms of promotion (Danik & Kowalik, 2015).

1. Literature review

1.1. Marketing challenges faced by INVs

The emergence of companies that internationalized just after creation is closely linked to the internationalization of SMEs and over the last decades has attracted both academic and practitioner interest. This type of firms is known as INVs (McDougall, Shane, & Oviatt, 1994), global start-ups (Oviatt & McDougall, 1995), born globals (Knight & Cavusgil, 1996; Madsen & Servais, 1997) and instant internationals (Preece et al, 1999). According to Knight (2015), INVs are companies that undertake international business at or near their founding. They are characterized by a high export share in total turnover (over 25%) reached within the first years of internationalization, wide geographical scope of expansion, and so-called global vision and international experience of their managers. The INVs are also known by their international business commitment, superior international business networks, offering high-value goods and flexibility to adapt to evolving environmental conditions (Rialp et al., 2005).

Although INVs are positively associated with high innovative skills, including an ability to access effective R&D and distributions channels (Madsen and Servais, 1997), they face continuous uncertainty and huge internal and external challenges connected with survival and success in foreign markets. Luostarinen and Gabrielsson (2002) defined four types of challenges: financial, sales and marketing, research and development (R&D) and managerial that INVs need to overcome. According to Rennie (1993), those challenges are due to the lack of resources, management transition issues, financial access, market information and lack of innovation in their business. Their markets often are characterized by high growth and turbulence (Nardali, 2017) and they must compete with well-established and trusted firms with an international reputation and established brand names which are depositors of trust and market acceptance (Mort et al, 2012). In terms of newness, INVs are unknown entities to potential customers which often translate into a lack of trust in their abilities and offering.

Although marketing is considered to be of utmost importance for the success of the SMEs and a major driver of performance among INVs firms, INVs are experiencing marketing challenges that cannot be dealt with the general marketing perspective (Mort et al, 2012).

Nardali (2017) stated that new ventures have distinct characteristics that distinguish them from larger, more established organizations, highlighting that newness and small size they encounter in their marketing efforts must be considered. Also, the turbulent environment triggers marketing challenges related to limited information available for marketing planning and marketing decisions, very low predictability of market and unstable relationships with crucial partners (Gruber, 2004). Lack of innovative marketing techniques is also one of the internal obstacles encountered by the INVs on the way to their success (Luostarinen & Gabrielsson, 2006). According to Luostarinen and Gabrielsson (2006), INVs underestimate marketing resources needed to enter into global markets. The other possible factors are connected to the late hiring of the sales and marketing people. This is why the INVs are challenged to establish internal structures and processes by defining new roles and tasks which, due to resource scarcities and lack of experience in marketing, is a demanding task.

It is also worth noting that marketing planning in Central and Eastern Europe countries is relatively not developed (Hooley et al, 1996). Kobylanski and Szulc (2011) stated that SMEs in CEE are usually implementing marketing actions only on a small scale. They are influenced by the owner/manager's marketing skills, knowledge and attitude, but due to organizational limitations, those activities tend to be very simple, intuitive and not coordinated. SMEs approach to marketing is entrepreneurial and reactive. Many decisions are made in an intuitive way, rather than based on the information. As stated by Kowalik (2015) Polish-based INVs have more individualized and flexible approach to clients which is emphasized as an important competitive tool. Because of the small size of the organization and limitations regarding finances and personnel, young companies seek a high degree of effectiveness and efficiency in the marketing efforts, developing low-cost creative solutions (e.g. guerilla marketing) to produce a strong impact on the marketplace (Gruber, 2004).

1.2. Marketing Capabilities of INVs

To overcome those marketing challenges, it is important to develop marketing capabilities (MCs) and tools. MCs play a major role in INVs development and are suggested to be key drivers of the accelerated internationalization of highly performing global SMEs (Weerawardena et al., 2007). According to Day (1994), they can be considered as the skills and competences the firm possesses that help it to understand changes taking place in its markets, together with those that enable it to operate more effectively in the marketplace. MCs were defined by Day (1994) as the integration processes designed to apply the firm's collective knowledge, skills and resources to the market-related needs of the business, enabling the business to add value to its goods and services, adapt to market conditions, take advantage of market opportunities and to meet competitive threats. According to Ripolles & Blesa (2012), those competences are related to market information gathering, sharing and dissemination, launching successful new products and customer and supplier relationships development. The INVs with marketing capabilities are able to develop expertise that allows them to confront new information and challenges in a more timely and opportune manner. By developing them, the firms will be able to identify and carry out the changes their business opportunities require in order to meet better the demands of their foreign customers.

MCs are firm-specific and can represent knowledge diffusion within a country or region (Cortez & Johnston, 2018). Weerawardena et al. (2007) argued that the most critical capabilities in INVs internationalization and international performance include a market-focused learning capability, internally focused learning capability, networking capability, and marketing capability. Such capabilities in combination with superior qualifications of company founders (such as having an international entrepreneurial orientation, a general learning orientation, and prior international experience) allow INVs to develop high-value-added products and services

that facilitate early internationalization. Vorhies and Morgan (2005) identified eight specific market capabilities with impact on firms': pricing, product development, channel management, marketing communication, selling, market information management, marketing planning and marketing implementation. According to Francioni, Pagani and Castellani (2016), the role of marketing-related factors is addressed mainly by the availability of marketing capabilities and adoption of ICT (Information and Communication Technology)/web technologies for access and interaction in foreign markets. Falahat et al (2018) highlighted that emerging market INVs with an entrepreneurial orientation and networking capability are more likely to develop a robust marketing strategy. These capabilities are strongly associated with superior performance in foreign markets. Zhou et al (2012) stated that INVs need to deploy marketing capabilities to support choices about how the venture will compete to reach target customers and achieve desired goals.

1.3. Promotional tools used by INVs

Marketing strategies are implemented through segmentation, targeting and positioning. Marketing as tactics/methods focuses on the use of marketing mix known as 4 P's: product, place, price, promotion and it is related to the implementation of marketing strategy (Reijonen, 2010). The selection of international marketing strategies and its implementation using, among others, promotional and sales tools is one of the most difficult tasks for the INVs. According to Martin et al (2017), promotion capability can be considered as the skills and accumulated knowledge which exporters use to effectively deliver marketing messages.

Sending offers and personal sales are one of the most important tools applied by the INVs. As INVs are small in business scale dealing with a small number of international firms and partners, so they prefer to use personal contacts to manage their relationships with important customers instead of impersonal marketing through mass promotions. They rely more on personal networks than well-organized sources of customer information (Kim et al, 2011) and in many companies, INVs business is built on the positive nature of the staff and customer interactions and relationships (Gilmore, 2011). Moreover, the ability of the owner/manager to have meaningful dialogues and interactions with customers is often the unique selling point of the business (Stokes, 2000).

Such interactions with customers rely on word-of-mouth communication (WOM) which are considered the most influential ways of promotion and consist of informal, person-to-person communication (Stokes, 2000). Despite its weakness related to non-controllability and self-limiting to the boundaries of the networks, it suits well companies with limited resources (Reijonen, 2010), such as INVs. It can also be considered as a source of innovative ideas (Stokes, 2000). According to Reijonen (2010), the survival of a firm is often dependent on sales, so that, marketing activities in small firms are commonly related to selling processes. Taking into account that start-ups and SMEs generally have small budgets to spend on promotion, they need to promote their business by word of mouth and other below the line activity.

Companies also rely on referrals, recommendations, certificates and awards won in contests which boost their visibility, credibility and legitimacy. The INVs firms demonstrate a number of techniques to enhance it, including prizes, international accreditations, participation at international conferences and seminars or media recognition used to authenticate their products (Mort et al, 2012). It is worth highlighting that having a network of overseas customers increases credibility not only at the international level but also at the domestic level (Francioni et al, 2016).

Participation in trade fairs and exhibitions is perceived as one of the main tools helping not only to close the first contact with potential clients, winning sales leads, promoting the company but also managing the relationships and gaining a good reputation (Falay et al, 2007).

Sponsoring is related to financial or in-kind support of an activity and is used primarily to reach specified business goals. It has primarily been used in connection with sports stars, sporting events and teams, but it is becoming more widespread in relation to cultural and other events (Hansen & Scotwin, 1994). As a promotional tool, sponsoring can include sponsorship of press rooms, an international lounge, a speaker or VIP room, an awards reception, educational programs and others. It helps to enhance the INVs image, shape consumer attitudes and raise brand award. It can be also used to drive sales and showcase product attributes.

Taking into account that INVs internationalize their products and services in different countries, with different cultures and different languages, the "culture-of-origin" plays a crucial role to understand publics' behaviour, affects the way in which communication is conceptualized and constructed in global public relations (Rittenhofer & Valentini, 2015). Cross-border public relations (PR) can be viewed as an implicit part of their everyday approach to building and sustaining business relationships.

International trade is also boosted by the internet, virtual proximity to markets and cost reductions related to business transactions. The possibility to connect the world anywhere and at any time gives entrepreneurs from emerging markets a great opportunity to participate in the global markets (Martin et al, 2017). Technological and scientific developments in the ICT sector in the last years have penetrated the business arena, changing the ways firms organize, manage their resources and implement communication activities and promotional tools (Bocconcelli et al, 2016). INVs seek innovative combination and recombination of resources in the use of online marketing and strategic publicity (Mort et al, 2012). The inclusion of ICT and web technologies by INVs can be considered as factors facilitating the expansion in foreign markets. ICT tools, such as company websites, online videos, documents and social network tools serve as a very important communication and sales tool and can be a very useful way for SMEs to expand their marketing activities because of its cost-effectiveness and possibility to reach a wider or specific target market. Its adoption and proper use is still constrained by the characteristics of the owner/manager, the organizational culture and available financial resources (Bocconcelli et al, 2016).

According to Gilmore et al. (2007), e-marketing activities allow entrepreneurs to advertise their products and services more widely at less expense. The INVs can use e-mail as a marketing tool to raise awareness of promotional activities which help them to decrease the costs of printing materials, such as catalogues and glossy brochures. Digital marketing may be helpful also to collect information about potential foreign markets and enhance their credibility and visibility by creating a professional image with an efficient website. Sinkovics et al. (2013) analyzed the drivers and performance of two approaches to supporting export marketing using the internet: the internet as an alternative or a substitute to a physical market presence and the internet as a sales channel. His research showed the positive relationship between online channel support and export performance, but no relationship between the adoption of the internet as an alternative to a physical presence and export performance. Social networks also play a mediating role in the relationships between inward and outward internationalization, helping to speed up the process and make it more profitably (Nardali, 2017). Companies also claim to have high-quality distribution partners responsible for the sales in foreign countries who were carefully chosen, well-trained and managed under a great attention.

Networking is used by INVs as a promotional tool to develop a range of alliances and collaborative partnerships. It is also helpful to connect to lead markets, contact foreign customers, suppliers and distribution channel representatives (Nardali, 2017) and can also be viewed as a way to overcome the scarcity of resources (Bocconcelli et al, 2016). According to Martin et al (2017) sales service capabilities enable firms to use pricing skills to respond quickly to customer changes, so it is important to attract and retain personnel that could provide INVs

pre-and-after sales technical support, availability, expertise and quality. INVs should strongly invest in marketing capabilities centered on promotion, along with service based on sales and distribution.

1.4. Differences between B2B and B2C promotion

Selling products and services to consumers is driven by desires, needs and emotions, while businesses are often motivated by more logical and rational considerations, such as price, business relationships or time-saving.

SMEs and INVs operating on both B2B and B2C markets use different types of promotion and sales tools. As the B2B buyers require often much more information and individual approach than B2C customers, the promotional tools involving personal communication, such as personal sales or trade fairs, are used more frequently on B2B than on the B2C market, whereas advertising is perceived to be more important in the B2C companies. Also, in online communication more attention is paid to relationship building with B2B customers, therefore, instruments such as online events and product demonstrations are popular, whereas B2C marketers prefer online display advertising and sales promotion (Jensen, 2006).

Regarding marketing strategy and according to Cortez & Johnston (2018), B2B segments are more important to INVs than B2C segments, since these can be reached with more limited marketing budgets than traditionally globalizing companies have.

2. Research questions

Taking into consideration past research, we can suspect that Polish INVs may tend to use rather a low cost (due to limited resources) and not very advanced (due to limited marketing competencies) promotion tools. Moreover, we expect some differences in the application of promotional tools depending on the type of markets (B2B vs B2C) the companies operate on. However, our literature studies do not provide us basis to formulate hypothesis regarding the type of promotional tools applied by Polish INVs in their international marketing activities. As this subject was not studied before, our study has an exploratory nature. The aim of this study is to answer the following research questions:

- R1: Which promotional tools are applied by Polish INVs on the foreign markets?
- R2: What is the perceived importance of the promotional tools applied by Polish INVs on the foreign markets?
- R3: What are the differences in the application of the promotional tools on the foreign markets depending on the type of the customers?

3. Sample description and data collection method

The data was collected between 31 January and 23 February 2018 using the multi-mode method that consists in combining the CATI (Computer Assisted Telephone Interviews) and (CAWI Computer Assisted Web Interviews) which allows taking advantages of both of them. The CATI method guarantees a high level of interview standardization and minimalizes the interviewer effect on data gathered. It enables to reach the respondents on high managerial positions and provides them with a feeling of bigger anonymity than in the face-to-face interviews. This method allows to enhance the data quality and to reduce the interviewing time. The questionnaires coding and entering data into the computer are eliminated in this case (Malhotra 2010, p. 213). Moreover, the costs of this method of data collection are relatively low. The advantages of CAWI are: allowing the respondent to see the questionnaire, making

the questions easier understood, low costs, quick access to partial data, lower risk that the respondent will make a mistake, anonymity of the respondents (Wójcicki, 2012). Combining CATI and CAWI method allowed us to avoid the most important deficiencies of each of them, i. e. potential problems with understanding the question (some respondents need to see the question on the screen, which is not offered in case of "pure" CATI, some other require additional explanation from the interviewer, which is not possible in case of "pure" CAWI), overuse of "Don't know" option, which is typical for CAWI or not using it, even if it would be justified in a given case, what can happen in case of CATI (Porritt & Marx, 2011) and not answering the e-mail request for participating in the study or discontinue to fill in the questionnaire, what is more common in case of CAWI.

The GUS (Polish Central Statistical Office) database combined with the Bisnode database updated at the end of 2017 and containing information about companies operating in Poland served as a sampling frame. The firms were drawn out of the population of 8750 existing and active Polish firms with 10-249 employees and belonging to the Industrial Processing (Manufacturing) sector of the Polish Classification of Activity. A randomized algorithm in the software for telephone surveying was used to draw the respondents, by an external market-research agency, which also conducted the interviews. The interviews began with screening questions eliminating companies not fulfilling the criteria described below. Among the companies meeting our preconditions, the response rate was 78.4%.

The firms in our sample were selected using the following criteria: manufacturing companies incepted after 1997, not being a result of a fusion or takeover, never being a subsidiary of a foreign company, having at least 25% export share in total sales. The respondents were persons responsible for the cooperation with foreign partners, mainly sales/export/marketing directors or firm owners. Sometimes also sales/export/marketing managers. These respondents were chosen, as they were expected to be most knowledgeable about the studied topics. Such a use of single key decision-makers and other individuals possessing the most comprehensive knowledge about the internationalization process is such as CEOs, managing directors or senior managers is widely adopted in the studies on INVs and international entrepreneurship (e.g. Rialp et al., 2005, Mort and Weerewardena, 2006).

The final sample comprised 297 companies. Half of them were established between 1997 and 2000 and only a few of them were incepted after 2009 (3%). Most of them (93%) had exclusively Polish capital. 146 firms were small companies with 10-49 employees and 151 employed 50 and more people. Only 9 companies reached the average sale over 10 Million Euro (Table 1).

Table 1 – Size of the companies under study (number of companies)

		Average sales (Million Euro)			Total
		0-2	2-10	10-50	
Number of employees	10 - 49	72	74	0	146
	50 - 249	1	141	9	151
Total		73	215	9	297

Source: Own elaboration.

150 of the companies under study sold their main products on the B2B market only. 81 were active both on the B2B and B2C market whereas only 66 companies were operating on the B2C market exclusively. Most of the companies started exporting within 1-3 years from inception, however about ¼ of them went abroad in the first year and 26% after 3 years from

being established. About half of the sample (131 companies) internationalized intensively reaching 25% export share in total sales within the first 3 years from inception (Table 2).

Table 2 – Type of market and internationalisation speed (number of companies)

Type of market		Time to reach 25% export share in total sales		Total	
		Up to 3 years	Over 3 years		
B2B	Time to start exporting (years from inception)	Up to 1 year	36	14	50
		1-3 years	35	29	64
		Over 3 years	0	36	36
	Total		71	79	150
Both B2B and B2C	Time to start exporting (years from inception)	Up to 1 year	11	4	15
		1-3 years	24	21	45
		Over 3 years	0	21	21
	Total		35	46	81
B2C	Time to start exporting (years from inception)	Up to 1 year	8	2	10
		1-3 years	17	18	35
		Over 3 years	0	21	21
	Total		25	41	66
Total	Time to start exporting (years from inception)	Up to 1 year	55	20	75
		1-3 years	76	68	144
		Over 3 years	0	78	78
	Total		131	166	297

Source: Own elaboration.

4. Results and discussion

The companies under study were asked to reveal the five most important promotional tools applied in the international markets and to indicate their importance starting with 5 = most important.

All the respondents indicated at least one such tool with public relations being most frequently perceived to be the most important one (21.5% of indications), closely followed by trade fairs and exhibitions (20.2% of indications). Nobody perceived sponsoring to be the most important promotional tool on the foreign markets (Table 3).

Three of the companies under study did not mention any more promotional tools. The first of them promoted their products only at the trade fairs and exhibitions, the second one applied Internet tools other than Internet advertising (i.e. social networks) and the third one was using promotional tools other than listed in the questionnaire.

The promotional tools most frequently mentioned to be the second in importance by the remaining companies were again fair trade and exhibitions (20.2% of indications) followed by Internet advertising (18.2% of indications) and public relations (13.5% of indications).

Table 3 – Ranks of the promotional tools

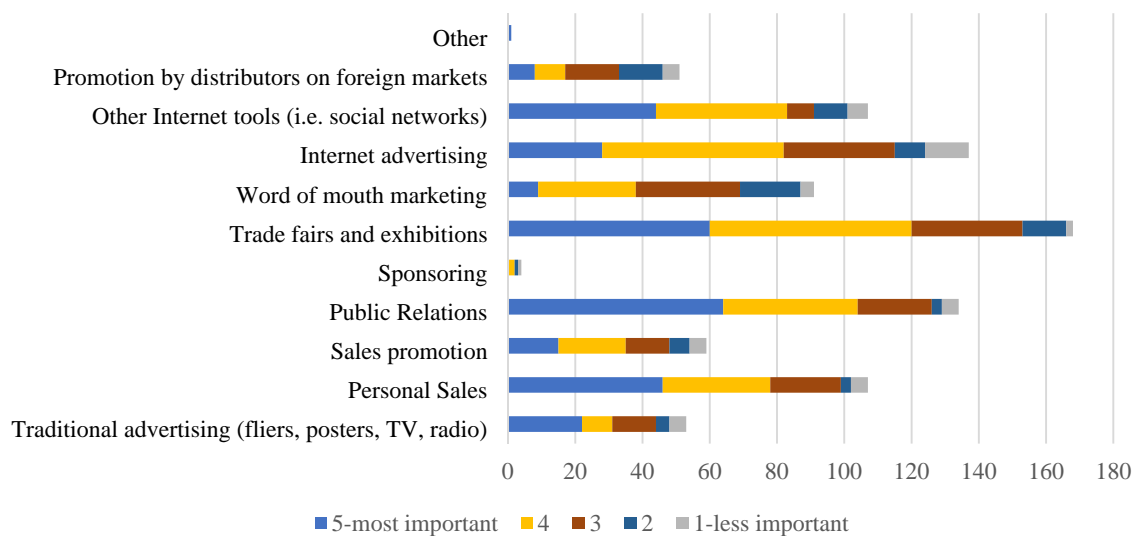
Promotional tools	Rank									
	1st		2nd		3rd		4th		5th	
	No	%	No	%	No	%	No	%	No	%
Traditional advertising (flyers, posters, TV, radio)	22	7.4	9	3	13	4.4	4	1.3	5	1.7
Personal Sales	46	15.5	32	10.8	21	7.1	3	1	5	1.7
Sales promotion	15	5.1	20	6.7	13	4.4	6	2	5	1.7
Public Relations	64	21.5	40	13.5	22	7.4	3	1	5	1.7
Sponsoring	0	0	2	0.7	0	0	1	0.3	1	0.3
Trade fairs and exhibitions	60	20.2	60	20.2	33	11.1	13	4.4	2	0.7
Word of mouth marketing	9	3	29	9.8	31	10.4	18	6.1	4	1.3
Internet advertising	28	9.4	54	18.2	33	11.1	9	3	13	4.4
Other Internet tools (i.e. social networks)	44	14.8	39	13.1	8	2.7	10	3.4	6	2.0
Promotion by distributors on foreign markets	8	2.7	9	3	16	5.4	13	4.4	5	1.7
Other	1	0.3								
Total	297	100	294	99	190	64	80	26.9	51	17.2

Source: Own elaboration.

190 respondents perceived at least 3 marketing tools to be the most important, 80 indicated 4 important marketing tools and only 51 respondents admitted that 5 marketing tools are important for them on the international market.

Figure 1 shows the results of the analysis of the promotional tools ranking and Table 4 - descriptive statistics of all the promotional tools mentioned by the respondents (the scale in the descriptive statistics reflects the place in the ranking).

Figure 1 – Number of companies applying given promotional tools on the foreign markets and the importance of these tools



5=most important, 1=least important among top five applied promotional tools
Source: Own elaboration.

Table 4 – Most important promotional tools on foreign markets – descriptive statistics for the whole sample

Promotional tools	n	Min	Max	M	SD
Traditional advertising (fliers, posters, TV, radio)	54	1	5	3.72	1.32
Personal Sales	106	1	5	4.05	1.08
Sales promotion	57	1	5	3.58	1.24
Public Relations	134	1	5	4.16	1.02
Sponsoring	4	1	4	2.75	1.50
Trade fairs and exhibitions	169	1	5	3.96	0.99
Word of mouth marketing	91	1	5	3.23	1.02
Internet advertising	137	1	5	3.55	1.17
Other Internet tools (i.e. social networks)	107	1	5	3.98	1.17
Promotion by distributors on foreign markets	51	1	5	3.04	1.22
Other	1	5	5	5	-

Source: Own elaboration.

Among all the promotional tools, the trade fairs and exhibitions seem to be the most popular ones (see Table 4). One of the reasons for attaching such a great significance to this promotional tool could be the characteristics of the sample. Half of the companies under study is operating only on the business to business market, on which trade fairs and exhibitions are one of the most important promotional tools, as they allow to meet the potential clients in person and present the product advantages. However, a more thorough analysis shows that this explanation is not correct. Companies operating only on the B2C market and both on the B2B and B2C market tend to take advantage of trade fairs and exhibitions even more frequently than companies operating only on the B2B market (taking into consideration their share in the whole sample) – see Table 5 and Figure 2.

One can explain the popularity of trade fairs and exhibitions by their multi-functionality. They serve not only as the promotional tool but also allow to gather the market knowledge and to meet existing customers, existing and potential intermediaries and other network partners. It can be therefore one of the most efficient marketing tools applied abroad. As the sample consists of Small and Medium Enterprises (SMEs) it can also not be excluded, that the companies under study do not possess resources allowing them to apply the costlier promotional tools.

The second popular marketing tools is Internet advertising. This tool is not as frequently perceived to be the most important promotional tool as trade fairs and exhibitions, PR, personal sales and other Internet tools, however altogether the companies under study tend to use it very often as a tool complementary to the more important ones.

The third frequent but perceived as the most important one by the companies applying it is Public Relations. Such a high place of this tool is rather surprising as using it requires quite a deep knowledge of the foreign local media. Efficient use of PR can be therefore a sign of high marketing competences of the companies under study. On the other hand, similar to the promotional tools discussed above PR activities can be conducted without the high costs involved, therefore it can be applied by SMEs.

Both the Internet tools other than advertising and the personal sales are also ranked very high by the companies applying them. Social network promotion is again a very cost-efficient marketing tool. It is popular both on the B2B and B2C market. The personal sales, in turn, are almost inevitable in case of more complex products, especially those manufactured or custom-

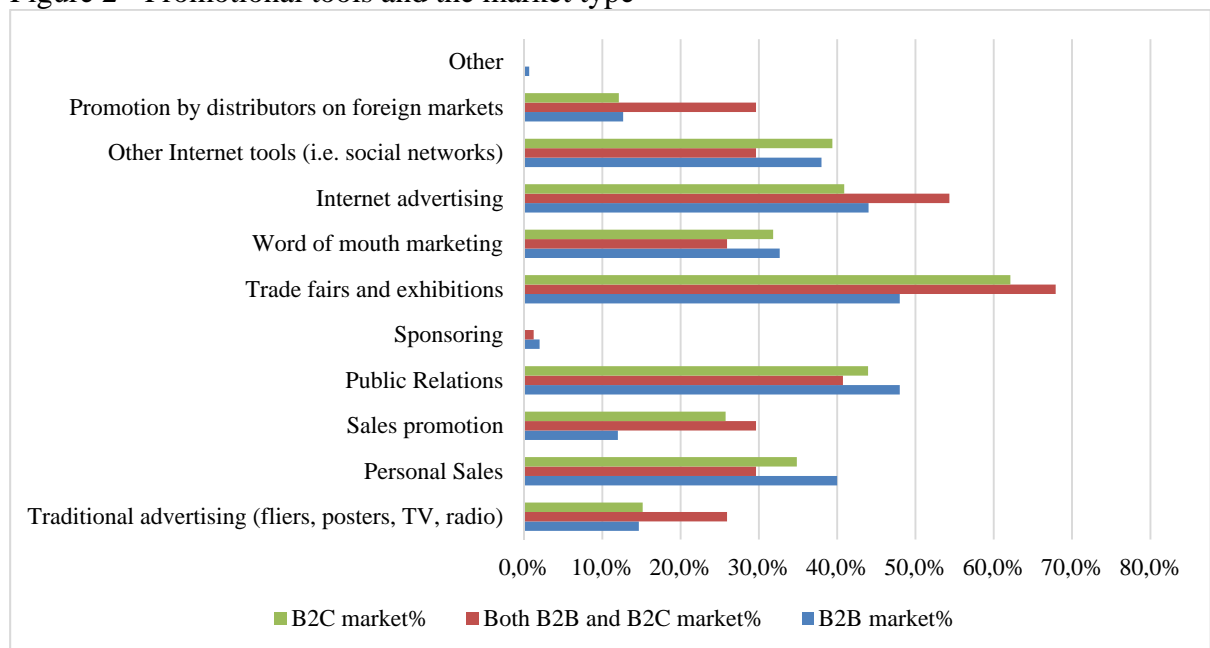
made in a non-series process in response to a specific order, therefore it is more common on the B2B market (Table 5).

Table 5 - Promotional tools and the market type – cross table

Promotional tools	The main product is sold on the						Total (number)
	B2B market N =150		Both B2B and B2C market N=81		B2C market – N=66		
	Number	% N	Number	% N	Number	% N	
Traditional advertising (fliers, posters, TV, radio)	22	14.7%	21	25.9%	10	15.2%	53
Personal Sales	60	40.0%	24	29.6%	23	34.8%	107
Sales promotion	18	12.0%	24	29.6%	17	25.8%	59
Public Relations	72	48.0%	33	40.7%	29	43.9%	134
Sponsoring	3	2.0%	1	1.2%	0	0.0%	4
Trade fairs and exhibitions	72	48.0%	55	67.9%	41	62.1%	168
Word of mouth marketing	49	32.7%	21	25.9%	21	31.8%	91
Internet advertising	66	44.0%	44	54.3%	27	40.9%	137
Other Internet tools (i.e. social networks)	57	38.0%	24	29.6%	26	39.4%	107
Promotion by distributors on foreign markets	19	12.7%	24	29.6%	8	12.1%	51
Other	1	0.7%	0	0.0%	0	0.0%	1

Source: Own elaboration.

Figure 2 - Promotional tools and the market type



Source: Own elaboration.

In order to test which of the companies under analysis apply a more diversified mix of promotional tools, we've introduced an index representing a number of tools used by a given company and then conducted a univariate analysis of variance. A one-way between subjects ANOVA was conducted to compare the effect of market type on the differentiation of the promotion tools applied. There was a significant effect of market type on the number of tools applied by the companies under study at the $p < .05$ level for the three market types [$F(2,294)=4.017$, $p=0.019$]. Post hoc comparisons using the Bonferroni procedure indicated that the mean score for the B2B market ($M=2.9$, $SD=1.1$) differed significantly for both B2B and B2C market ($M=3.3$, $SD=1.1$). However, the number of the promotion tools applied by the companies operating exclusively on the B2C market ($M=3.1$, $SD=1.1$) did not significantly differ from the number of promotion tools applied by companies operating exclusively on the B2B market or on both B2B and B2C market – see Table 4.

Table 6 - One way ANOVA results

Type of market	Levene Statistic		N	M	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Min	Max
	F	Sig.					Lower bound	Upper bound		
B2B	.611	.544	150	2.93	1.06	0.09	2.76	3.10	1.00	5.00
Both B2B and B2C			81	3.35	1.05	0.12	3.11	3.58	2.00	5.00
B2C			66	3.06	1.14	0.14	2.78	3.34	1.00	5.00
Total			297	3.07	1.08	0.06	2.95	3.19	1.00	5.00

Source: Own elaboration.

The companies operating both on the B2B and B2C market seem to apply the most diversified promotion mix closely followed by the companies selling their products on the B2C market exclusively whereas the B2B promotion tools are least diversified. These differences can be explained by the market conditions. The companies selling their products to the different types of clients have to use both tools typical for the B2B and B2C market, and the companies operating on the B2B market only may limit their promotional activities to the small range of tools allowing them direct communication with their clients. However, although the observed differences are statistically significant, they are not very big. For all of the groups, the average number of tools is about 3.

The t-Student test did not reveal any significant differences between the companies internationalising intensively directly after their inception and other companies regarding the application of promotion tools.

5. Conclusions and implications

The marketing tools applied mostly by Polish INVs on the foreign markets are trade fairs and exhibitions, internet advertising, PR, personal sales and Internet tools other than Internet advertising. Sponsoring is hardly applied by INVs on their foreign markets. Promotion by distributors, sales promotion and traditional advertising are also not very common. Although trade fairs are the most popular tools, Public Relations is perceived as the most important one. Companies operating both on B2B and B2C markets apply the most differentiated set of promotion tools on their foreign markets. They use trade fairs and exhibitions, Internet

advertising, promotion by distributors and traditional advertising more frequently than companies selling their main products exclusively on B2B or B2C markets. PR and personal sales are more popular in case of B2B companies than companies operating on B2C or both B2C and B2B markets, whereas companies selling their products to B2C customers only apply Internet tools other than Internet advertising (i.e. social networks) more frequently than other companies.

With this study we contribute to the call for more research focused on INVs from Central and Eastern Europe which until now have been underrepresented in the literature.

As discussed above Polish INVs tend not to use very diversified promotional tools what may be an indicator of their limited promotional competencies. These limits seem not to concern the tools requiring good relationship building competencies such as fair trades and exhibitions and PR and the Internet promotion tools. Therefore, we would suggest Polish policymakers invest in training programs for Polish exporting SMEs allowing them to enhance the missing competences, what could boost their international growth.

6. Limitations and future research

The study is the first one investigating the application of promotion tools by Polish INVs. Although the results are limited to companies originating in Poland, we cannot exclude that they refer also to firms from other CEE countries or generally, to INVs, therefore we propose to repeat it on the samples from other countries. It would also be advisable to compare the results with the sample of SMEs not achieving the 25% of export in their total sale or the companies, which do not export at all.

Conducting the statistical analysis, we have encountered some limitations resulting from the scale applied to investigate the ranking of the importance of promotion tools. Although this scale corresponded with the study objectives and allowed us to answer the research questions, we would suggest applying a Likert type scale describing the importance of each promotional tool in the future studies. It would allow more sophisticated statistical tests.

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INTERNATIONAL NEW VENTURES LEARNING PROCESSES AND THEIR ROLE IN INTERNATIONAL MARKETING

Izabela Kowalik

Warsaw School of Economics, Poland

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Abstract

Learning processes of the small and medium sized enterprises (SME) are of special importance for their internationalization, as they may lead to gaining the Learning Advantage of Newness. The current literature suggests that the dynamic capabilities concept may help in understanding how the learning processes lead to the development of marketing capabilities necessary for foreign expansion of SMEs.

This study aims at identifying the learning processes of International New Ventures (INVs) and analysing their role in international marketing. The results of individual interviews with four Polish INV's founders and managers are presented. The studied companies are similar to the foreign ones with respect to the information gathering sources and processes. When looking for market opportunities they often rely on informal sources of intelligence and „congenital” knowledge of the founders. These sources substitute for firm-level international experience at early stages of international development. At the later stages of expansion they are supplemented with more external knowledge and sometimes also “grafting”, or purchasing expert knowledge.

Keywords: Enterprise learning processes; International New Ventures; International marketing.

1. Introduction

Fast learning of small and medium-sized enterprises (SME) is of special importance for their internationalization, as it leads to outrunning the competitors, despite the limited financial and physical resources. The developed learning capabilities of SMEs lead to identifying, analysis and evaluation of market opportunities connected with the current customer needs. However, the relationships between learning and early internationalization are still not well researched (Bruneel et al., 2010; Miocevic and Morgan, 2018). It is suggested that the dynamic capabilities concept could enable a better understanding of how the organizational learning processes lead to developing resources necessary for SME marketing activity in the foreign markets (Bocconcelli et al. 2018; Lonial and Carter, 2014). Moreover, according to the learning advantage of newness (LAN) concept the born-global companies, also called International New

Ventures (INVs, Oviatt and Mc Dougall, 1994), thanks to the “in-born” knowledge-gathering capabilities can identify market opportunities faster, which leads to their successful expansion (Sapienza et al., 2006; Zahra et al., 2000).

This study aims at identifying the learning processes of INVs and specifying their role in international marketing. The following research questions will be analysed:

- What marketing information sources are used by INVs?
- How do the various learning processes contribute to the INVs’ marketing activity abroad?
- How do the knowledge-gathering processes change during the internationalization progress?

In the initial section of the study the theoretical background behind the concept of organizational learning as a dynamic capability leading to internationalization has been presented. Secondly, the results of earlier research concerning the influence of learning on early internationalization of SMEs have been summarized. Finally, the results of a qualitative study conducted on four Polish INVs from the industrial processing industry, concerning their learning capabilities have been described, followed by conclusions and the study’s implications.

2. Organizational learning: sources and processes

The dynamic capabilities encompass the structures and processes enabling the companies to reconfigure their resource base, in order to face the requirements of the changing environment and to gain a sustainable competitive advantage (Teece, 2014). Sok et al. (2013) define the learning capability as a „bundle” of interrelated processes functioning in an enterprise to diagnose learning needs, and the firm’s unsuccessful activities, to communicate the lessons learnt from previous experiences, and to gather new and relevant knowledge to undertake the firm’s business activities. This capability leads to gaining an advantage over competitors by the faster recognition of market opportunities and faster new product development and implementation.

Sapienza et al. have stated that analyzing internationalization through the dynamic capabilities lens is appropriate and complementary with the so-called resource-based theories (2006). In specific, the learning capabilities and knowledge resources should influence international expansion, because when entering foreign markets, companies have to acquire, disseminate and assimilate new knowledge, to be able to compete and develop even if they do not have earlier practical experience (Autio et al., 2000). Weerawardena et al. specify three types of firms’ learning capabilities, important for SME internationalization:

- *market – focused learning capability*, i.e. „the capacity to build, integrate, and reconfigure technical and non-technical knowledge acquired from the firm’s customers and competitors”, this knowledge is later transformed into actionable knowledge which may be applied in international markets,
- *network learning capability*, i.e. „the capacity to build, integrate, and reconfigure technical and non-technical knowledge generated through external links and institutions”, the knowledge may lead to exploring the appearing opportunities and to entering new, valuable contacts (e.g. *know-who*).
- *internally focused learning capability*, i.e. „the capacity to build, integrate, and reconfigure technical and social (non-technical) knowledge generated through internal sources” including experimental learning, R&D, technical and social learning (Weerawardena et al., 2015; Zahra et al., 2000).

When analysing the learning capabilities of INVs, one should take into consideration the information sources, processes of its acquisition and subjects most important for internationalization. In this respect Pellegrino and McNaughton (2015), and Fernhaber et al. (2009) mention three main external sources of international knowledge: alliance partners, venture capital and proximal companies, plus one internal source - the earlier foreign experience of top management of the company. On the other hand, Casillas et al. classify internal sources as those connected with experiential knowledge, acquired during business activity abroad, and external sources – those collected from industry organizations, external consultants and top management's "congenital" knowledge acquired earlier (Casillas et al., 2009). Fletcher and Harris (2012) have included direct experience of the firm and its managers among internal knowledge sources, on the other hand, according to them, the external sources include partners, suppliers, clients, consultants, industry and governmental organizations plus the newly hired managers.

Another classification of the routine organizational behaviors, connected with knowledge management, includes two processes related to foreign expansion (Levinthal and March, 1993):

- *market exploration*, including searching for knowledge about new, or already entered markets,
- *market exploitation*, including application and development of already acquired knowledge about the current markets.

However, this classification has been recently extended, to include four types of learning processes of internationalizing companies (Pellegrino and McNaughton, 2015). The new typology proposed by the mentioned authors includes *congenital learning*, based on earlier experience of the founders and employees of the company (see also: Bruneel et al., 2010); *vicarious learning*, through partners in the process of internationalization; *grafting*, e.g. by hiring the local specialists in the target market, or acquiring the local companies, and *experiential learning* of the organization (see also: Johanson and Vahlne, 2009). This classification seems to be most exhaustive and comprehensive, as it takes into account both the founders of INVs as well as the other workers and partners, as the learning process members.

The above classification is reflecting the earlier works of Yeoh, who has analysed so-called social learning and market learning processes of the INVs (2004). According to this author, social learning is a process of acquiring new knowledge and/or capabilities connected with new market entry, identification of foreign clients, managing risks connected with conducting activity in the specific foreign markets. Market learning concerns gathering new knowledge connected with adjusting the offering to various foreign target markets, managing numerous foreign partners (distributors and licensees), monitoring client needs, and market trends. It seems worthwhile to investigate which of the mentioned processes are applied in internationalizing SMEs.

3. Learning and rapid internationalization

It is assumed that at the early lifecycle stages on the international market the SMEs have intrinsic learning capabilities, exceeding those of older rivals, and leading to a *learning advantage of newness* (Sapienza et al., 2006; Zahra et al., 2000). The hypothesis about LAN existence is based on an assumption, that the rapidly internationalizing companies have fewer deeply embedded procedures and face a lower cognitive complexity and structural rigidity, than their larger partners. Thanks to this, they recognize market opportunities earlier and react faster to them, which leads to the successful expansion, growth and other advantages.

Rapid internationalization can stimulate the assimilation of knowledge to the company knowledge base, which in turn leads to better export results (Autio et al., 2000; Sapienza et al., 2006). The LAN existence is particularly connected with three types of organizational advantage: structural – connected with the smaller number of routine processes and internal constraints, and with the recognition of market opportunities. Secondly there is the so-called cognitive advantage, which means that young firms come across fewer “competency traps” than the older ones, and they are not isolated from certain knowledge types. Lastly, the positional advantage of the smaller firms is due to a lower number of ties with local partners and the smaller resistance to engage in relationships with foreign markets.

Baum and Sui have analysed statistical data concerning the export activity of 116 INVs from Canada (2013) and identified differences in learning “tracks” among INVs and traditionally internationalized companies. They have shown that shortly after starting export, the INVs learn much faster, which is reflected in the numbers of innovations introduced to the market. However, after certain time this advantage diminishes and „traditional” exporters introduce innovations more systematically. The authors connect this with the higher resource constraints of INVs compared to “traditional” exporters. As Fletcher and Harris (2012) have proved, based on case studies of 10 internationalized firms, vicarious learning from network partners, is necessary to get product/technology knowledge and knowledge about conducting business abroad. On the other hand, learning by purchasing knowledge (*grafting*) is more often the source of knowledge on products, than about the market and internationalization process.

Pellegrino and McNaughton (2015), based on a study of 4 born global firms from New Zealand, have shown that early internationalization is mainly stimulated by congenital experience of the company owners, which is supported by vicarious learning and active search for market opportunities. Various types of learning have different importance at the different internationalization stages. Congenital learning, supported by network information and marketing research significantly influences the SMEs’ competitive advantage, their initial offering, market scope, and speed of entry at pre-internationalization stage. However, learning by experience, and vicarious learning, monitoring the environment and noticing the changes, become more important at the early internationalization stage, when companies start to concentrate on gathering the knowledge concerning foreign markets and internationalization processes. Finally, at later stages of internationalization, learning by experience and other, more expensive learning types (e.g. *grafting*) get more important. Zhou et al. (2010) have studied 435 young INVs from China and found that the development of firm’s learning capabilities leads to advantages connected with the early internationalization, in the form of quick foreign sales growth, especially in relatively larger and more cost-efficient companies. Therefore, the learning processes should be constantly developed and the already acquired knowledge should be integrated into the company’s knowledge base and disseminated among workers, to bring concrete results. Similarly, Blomstermo et al. (2004) in a study of 206 Swedish companies have shown that those who internationalized earlier, collected much more knowledge about the foreign markets than those who internationalized later.

Knowledge gathering was also analyzed as an antecedent of market capabilities of INVs by the study of Weerawardena et al. (2015) on a large sample of INVs from the USA and Australia. According to that study the American INVs, who use the market-based learning processes, have better marketing capabilities than the “traditional” exporters, and thus they can introduce products to foreign markets more quickly. In those companies also learning from network partners and internal learning lead to increased innovativeness and successful internationalization. On the other hand, the Australian INVs used similar processes, but learning from contact network did not matter to them to such extent as to the US-based INVs. The above

review leads to establishing the study goal, which centers on identifying the role of various learning processes in the internationalization of INVs.

4. Methodology

In the presented study a qualitative approach was chosen due to the research problem nature and in order to include a broader perspective of marketing activity of the rapidly internationalized companies. The purposive sample selection technique was used to choose four Polish companies complying with the rapid internationalization criteria, specified by Knight et al. (2004), i.e. SMEs internationalized within 3 years from founding, with Polish capital only, who reached the export level of at least 25% of the total sales in the period of 5 years from inception.

In each of the studied companies semi-structured interviews with the company owner/board member and a sales/marketing department worker were conducted, in order to be able to obtain information on managing the company in the foreign markets, with an emphasis on marketing topics. The interviewed persons were up to 45 years-of-age, and with at least a few years of experience in export activity. The interviews lasted from c.a. 1-1.5 hours in case of the managers, to c.a. 30-45 min. in case of the sales/marketing department employees, as in that group they did not include the more strategic topics.

The card-game method was applied during the interviews, to enable interviewed persons to express more freely their opinions on the researched topics, and to make up a hierarchy of the concepts within international marketing activity of the companies (Muethel and Hoegl, 2007).

The interviews and card game proceeded along the following steps:

- each of the concepts shown on cards was described by the interviewed persons,
- the hierarchy of concepts from the perspective of the company marketing activity was assembled, and the relationships between the concepts were indicated with arrows,
- the interviewed persons commented on differences in roles of separate concepts in their activities in the local and foreign markets
- apart from the game several open and semi-open questions were asked concerning among others: internationalization beginnings, entry sequence, introduced products, learning sources and modes, performance.

The data obtained, after transcription, was analysed according to the principles of content analysis, i.e. (Malhotra and Birks, 2006; Srnka and Koeszegi, 2007) categories of content were established based on the literature, used earlier to prepare the interview scenario (deductive approach). Later the set of categories was supplemented with concepts spontaneously appearing during interviews, concerning e.g. influence of organizational culture on internationalization (inductive approach). Moreover, the obtained categories were split into smaller units of content, called subcategories. As a result, the hierarchy of 17 supercategories (e.g. company beginnings), reflecting the questions from scenario, 44 main categories (e.g. external reasons for establishment) and lower subcategories (e.g. high importance of customer responsiveness) was formed. The prepared set of categories was applied to code the transcripts.

As a result of two rounds of coding and an intercoder consistency analysis (Srnka and Koeszegi, 2007) a set of 1140 quotations was obtained. Next, to assess the importance of separate categories for the interviewed persons, the frequency of their occurrence was calculated with use of specialized software, and divided by the total numbers of quotations in each interview. Such an approach is based on the assumption that the repetitions of words reflect the focus of attention and the topics with central role for the speakers (Thiétart, 2008).

MAXQDA for Windows was used for the intercoder consistency assessment, frequency analysis and analysis of different categories co-occurrence.

Table 1 - Studied companies' characteristics

	(A)	(B)	(C)	(D)
Industry (specialisation)	Manufacturing (building materials; Styrofoam)	Manufacturing (packaging lines for cosmetics)	Manufacturing (sorting and packaging lines for food products; fruit)	Manufacturing (plastic packaging-bags and packaging foils)
Year of establishment	1991	2000	2010	2007
Internationalization beginning	3 years after establishment	2-3 years after establishment	1-2 years after establishment	2-3 years after establishment
Level of exports compared to total turnover	over 90%	over 25%	50-70%	over 30%
Time of reaching 25% of export sales in total sales volume	Within 3 years from inception	Within 5 years from inception	Within 5 years from inception	Within 3 years from inception
INV type	Export Start-Up	Export Start-Up	Export Start-Up	Multinational trader
Rate of exports growth (last 5 years)	15%	n.a. (positive)	90%	60%
Company size	medium-sized	medium-sized	medium-sized	small

Source: Own study.

5. Results

Among the cards describing the entrepreneurial marketing concept there were those reflecting the learning processes and information gathering (table 2). Tables no. 2-6 present the results regarding the frequency of occurrence of quotations, the categories' meaning for the studied INVs, and the relationships between separate content categories.

Quotations regarding learning were included in 4 main categories and there were 44 main content categories in the interviews. As the frequency analysis has shown, the learning-related quotations made up c.a. 14% of all quotations in the interviews (Tab.2). This can be considered a high number, compared to the relatively low average share of main categories regarding learning (9%) and it means that learning and information gathering are important processes from the perspective of marketing activity of INVs (Thietart, 2008). Firm B, the producer of innovative packaging lines for cosmetics, engaged strongly in internal R&D, had the strongest focus on learning, which is evident from Table 2.

Among the learning sources mentioned by the interview participants those connected with cooperating partners' network and with the clients prevailed. The interpretation of „Research and development” concept by the studied INVs shows, that it is mostly based on companies' own experience and internal experiments (Tab. 3). Only in company A – the oldest one – constant cooperation with a research institute is quoted. In all INVs R&D is perceived as a key factor of foreign expansion. This concept corresponds with *internal learning* defined by Weerawardena et al. (2015), and *knowledge exploitation* (Levinthal and March, 1993) concepts.

In some companies (e.g. „C”) *experiential learning* (Johanson and Vahlne, 2009) is explained as „*the market itself verifying the new product concepts*”.

The „knowledge infrastructure” concept (Tab.4) interpretation was ambiguous to the respondents, and was not always connected with primary role in international marketing and expansion. There were even mentions of some tools being introduced (CRM, encyclopedia of marketing, project management programme), but too late (firm A). There were also mentions of experimenting with not well-known tools (firm B). These findings show that so-called *grafting* or knowledge acquisition is still not popular among the studied INVs, apart from one oldest company (A). However the internal, informal knowledge exchange is important in serving the foreign clients.

The concept of „Market information gathering” (Tab.5) was interpreted as activities of monitoring the competition and legal/technological environment. Also in this process the informal knowledge sources prevail, but they are used spontaneously, without the predefined procedures, mainly through the intermediaries and partner networks. The interpretation of this concept corresponds with *network learning* (Weerawardena et al., 2015), and *vicarious learning* (Pellegrino and McNaughton, 2015). When talking about market information the respondents also pointed to the “gut feeling” and intuition’s role in searching for foreign markets. The *congenital learning* of founders (Bruneel et al., 2010; Pellegrino and McNaughton, 2015), and not the formal external sources seem to be the basis of undertaking the foreign market activity.

Table 2 - Frequency of quotations in categories related to learning - individual interview results

Category of content Respondents	E1. R&D	F 2. Knowledge Infrastructure	G 2. Market information gathering	L 1. Learning sources						Total no. of quotations related to learning	Percent of all quotations in an interview
				L 1.1 Learning from network partners	L 1.2 Learning from clients	L 1.3 Learning from competitors	L 1.4 Learning from internal R&D	L 1.5 Learning from formalized sources	L 1.6 Other sources of learning		
Firm A - respondent 1	8	11	6	7	2	0	1	4	2	41	16.7%
Firm A - respondent 2	0	2	4	1	0	0	0	2	0	9	7.2%
Firm B - respondent 1	7	2	6	1	1	1	0	1	3	22	11.4%
Firm B - respondent 2	2	2	3	7	6	1	3	1	5	30	24.0%
Firm C - respondent 1	2	4	2	0	2	0	2	2	3	17	8.1%
Firm C - respondent 2	3	2	2	2	1	0	0	2	1	13	13.1%
Firm D - respondent 1	2	2	2	2	2	1	2	1	3	17	15.2%
Firm D - respondent 2	1	2	2	0	0	0	2	0	0	7	21.9%
Total	25	27	27	20	14	3	10	13	17	156	13.7%

Source: Own study.

Table 3 - Main category „Research and development”: interpretation and role in international marketing (cross case comparison of quotations)

Firm	A	B	C	D
Category meaning	<i>Research and development – that’s the basic activity, or one of basic activities of the company. Without R&D we will be out of the market in 3-5 years. (...)In our case R&D is on one hand – to develop new products but also to adapt products to the new markets’ characteristics or other climate zones, other continents, metric systems.</i>	<i>In each case the company should have an R&D (system) or something which is in the company DNA. There must be each product’s “guru”. Somebody who knows what he wants to develop.</i>	<i>R&D – a kind of basic thing. So – first thorough knowledge what market we are entering, to whom we are offering. So even if we go to another country, we must know exactly to whom we are going. It is not that we are going to check if we are lucky or not. No, no. Thorough knowledge and preparation – from the basic elements. (...) In our case, of course we have serious research, we have people to conduct it, but the market later verifies on its own our ideas. Sometimes the political factors also verify the market, but generally yes (The R&D is needed).</i>	<i>I have to say yes – (R&D is necessary) to introduce innovations, because the clients, the market, are becoming more and more demanding. Also the clients want to be introduced to the product – so this is followed by the R&D.</i>
Role of the concept in international marketing	<i>Basic role (of R&D) – so to say – technologically, via expenditures on R&D, on building the network, on innovations introduction, we have become the European leader. Without the R&D this internationalization would not have taken place, would not have been a continuous, persistent, developing process.</i>	<i>This (role) is due not always to the client needs or to understanding the R&D role, but to the internal conviction that this is the right direction. That e.g. software should rather be an accompanying service and not a product ...</i>	<i>Of course R&D is indispensable. It’s not that we are trying for it to be so – this is just true. From R&D stem the quality systems in our company, internal and external quality systems. They stem from R&D, and they are later installed in the robots, so they can function in the way that they do. They need to have this software, so the machinery is also equipped with this software, so – to say – in our company, the machinery without R&D would be just mechanical – and now it is – complete.</i>	<i>We are at the stage of applying for technological credit. And R&D is crucial in that request. Without it we would not have applied. This is connected with the fact that we are introducing a new innovative product, which has not been manufactured on mass scale in our country.</i>

Source: Own study.

Table 4 - Main category „Knowledge infrastructure”: interpretation and role in international marketing (cross case comparison of quotations)

Firm	A	B	C	D
Category meaning	<p><i>Knowledge infrastructure: databases, CRM systems. We were not aware – well it’s interesting – last year we bought the CRM system, but we should have done it 5 years before. We were not aware of that...</i></p> <p><i>Q: Of its importance? Of its importance (...). This is a marketing and sales system, it produces in a simple way information in Excell tables, which are very easy to be used by the production department.</i></p>	<p><i>So to say – we have such a system for project management. So when there is a project - we know that the client needs a given machinery- then we have a system in which we can exchange internal company information. (...) It will be merged with CRM, so it will introduce organized infrastructure to conduct marketing activity, just how it should be.</i></p>	<p><i>So – e.g. connecting the service persons (with clients), who can fix something over the internet, this is very important for them. So sometimes when there are large installations, the clients go online, and many problems can be diagnosed from a distance.</i></p>	<p>(The concept was not clear)</p>
Role of the concept in international marketing	<p><i>... So we have created a marketing knowledge database, working in the way that in one folder we have something called a “marketing book” and in it we have all notes connected with very broadly understood marketing.</i></p> <p><i>This is all about collecting data – about advertisements (...) When the new employee comes, we do not have to teach him the ABC, but he opens and reads the notes, put down in a very clear way, by somebody else.</i></p>	<p><i>So if one has a product, one can start its promotion, targeting, networking, contacting the clients, communicating and convincing them to one’s innovations and entering the market. If you have the knowledge infrastructure and integrated business processes, the process can go on – and without it – the process would stop. And then the fall in sales can follow</i></p> <p><i>Q: So one cannot function without the other?</i></p> <p><i>That’s right, this is the process and the infrastructure – so the kind of basics. So they have to be in place from the beginning.</i></p>	<p><i>Knowledge infrastructure is very important in our company. This is also shown by the division of tasks – everyone has their area and they do not interfere with others. We have a separate man for every purpose.</i></p>	<p><i>Q: So do you have any kind of a system like CRM or other databases?</i></p> <p><i>No we don’t have such systems. We want to introduce ISO quality management, which will allow better quality control and improve the flow of information.</i></p> <p><i>Q: So you have a kind of internal library with data?</i></p> <p><i>Yes, about the clients who cooperated with us, and who still cooperate.</i></p>

Source: Own study.

Table 5 - Main category „Market information gathering”: interpretation and role in international marketing (cross case comparison of quotations)

Firm	A	B	C	D
Category meaning	<p><i>A very important thing to be checked during expansion is what the competitors are doing in a given market and how they do it. And if it works... Q: So some kind of market monitoring right? Yes it's the best to copy something, because if someone already has developed something then it's not worth discovering America again. At least at the beginning, when it's clear that a SME has not enough resources to conduct a complex market analysis, to invest in winning the appropriate partners, but it rather has to be smart then to spend a lot ...</i></p> <p><i>(...), „Market information gathering”, yes – that's what we do in a file called “Marketing book”, with a division among markets. Q: And this market information refers mainly to promotion? O: No it refers to competitors- their offering, the pricing level, the size of sales network, the certificates they have.</i></p>	<p><i>So we have to gather information -to cut the long story short – we have a vision of our products. At that moment we have to gather information concerning the target groups, to define the innovation to be introduced.</i></p>	<p><i>So the formal data is constantly monitored, reviewed, as it is the need of the day. It's not that we want to find something special about this information – we simply want to know what is the reality there (in that market) Besides – it's obvious, all industry news, and also trips, trips, going from client to client, by our dealer of course.</i></p>	<p><i>So of course we conduct analyses. We base it on our client's suggestions – those whom we sent samples already...</i></p>
Role of the concept in international marketing	<p><i>Q: So rather there isn't such regular scanning, search for information? No absolutely, no. It works rather on the basis of a network of contacts. The friend comes and says “You see I heard that it's possible, there's a market for X at the moment. There are high margins so we can try...”</i></p>	<p><i>So we do not carry out a formal, sort of research, because we would also have to know what to ask about... Frankly, we would not know what to ask about. So this is rather intuitive action. So it looks like this- we are looking for market segments, we analyse where there is a gap in the market, where there are no solutions, or the segment is growing. We build the product for this segment, we target this market and we have to be capable to introduce it globally – or rather regionally.</i></p>	<p><i>Q: So such formalized marketing research is rather rare? Yes, yes, we do not have such a thing. Like reports – you say – no, we do not have it. Q: So it's rather collected via the dealers you have, via the partners? Yes, or via the sales people who travel.</i></p>	<p><i>Q: And when it comes to some market research, surveys of secondary data – is it important in your activity? It is also important, because we need to know the client needs.</i></p>

Source: Own study.

By use of MAXQDA for Windows the co-occurrence of separate content categories was later analysed. The results are presented in Table 6.

Table 6 - Frequency of co-occurrence of the content categories representing learning with other interview topics

Main categories and subcategories of content	F3.1 Product innovations	H1.2 Responding to client needs	H4.2 Promotion and sales	N1.5 Relationships with intermediaries	H 2.2 Communication with clients	S 6.1 Foreign markets
E1.2 Research and development - experiences	12	10	0	0	0	0
E.1.1.1 Research and development – high importance	2	2	4	0	0	0
F2.1 Knowledge infrastructure – meaning	6	0	2	2	2	0
F2.2 Knowledge infrastructure - experiences	8	2	0	4	11	2
F2.3 Knowledge infrastructure – key success factors	3	0	0	2	3	2
G2.1 Gathering of market information - meaning	0	2	0	0	0	7
G2.3 Gathering of market information - key success factors	0	2	9	9	2	0
L1.1 Knowledge sources -from network partners	7	11	10	12	4	3
L1.2 Knowledge sources - from clients	7	8	4	6	0	2
L1.3 Knowledge sources - from competitors	0	0	0	2	0	0
L1.4 Knowledge sources - internal R&D	4	2	2	2	2	2
L1.5 Knowledge sources – formalized sources	0	0	0	4	0	2
L1.6 Knowledge sources - other	3	4	6	0	0	4
L3 Learning- role	2	0	0	0	0	0
Total no. of quotations	54	43	37	43	22	24

Note: Co-occurrence means that category from a column appears together with a category from the row in one statement of a respondent. Source: Own study.

The analysis of Table 6 shows that the most learning-related quotations co-occur with “product innovations” category. This indicates a relationship between these spheres in the studied INVs, especially among “product innovations” and internal “R&D” or „knowledge infrastructure”. Many times product innovations were mentioned together with knowledge “from network partners” and “from clients”, which is justified by the need to respond to clients’ needs. Response to client needs co-exists with learning from network and with the R&D.

The concept of „gathering of market information” co-occurs with quotations concerning “promotion and sales”, and with “relationships with intermediaries”. This suggests a key role of networks in gathering market knowledge, but also the role of sales and promotion analysis. Market information gathering is also mentioned in connection with foreign markets, and good relations with intermediaries enable this type of intelligence generation. Moreover, the card “knowledge infrastructure” co-occurs with “communication with clients” suggesting that this is an infrastructure used mainly for communication activities.

6. Discussion and conclusions

The information necessary for foreign expansion of the studied INVs is gathered through communication with partners, market and financial data analysis and reporting on product introductions. For INVs this type of knowledge is easily accessible, cheap, and often connected with the congenital knowledge of the founders or their experience. According to Weerawardena et al. (2015), learning from partners also has a significant influence on INVs' innovativeness, which is similar to the presented results. Tiwari and Korneliusson (2018), who studied the micro enterprises from an emerging market of Nepal, found that their main sources of experiential knowledge also relied on social networks, prior experience of the founders, and additionally on international fairs. In our study the fairs as an information source were also mentioned, but rather by older, richer companies, which may testify to their secondary role as a knowledge source.

Regarding the decisions on the foreign market choice, Pellegrino and McNaughton (2015) recommend to SMEs implementing structured processes of learning through distributors/dealers or going for study trips, to diminish the risks connected with internationalization. Instead of this, in the Polish INVs spontaneous knowledge-gathering from intermediaries and customers, the so-called interorganizational learning dominates, which is considered in the literature as an important knowledge-gathering process, but is dependent on the former establishment of strong ties with partners (Bruneel et al., 2010).

When comparing the studied firms at earlier development stages (C, D), with the more experienced ones (A, B), one can conclude that at the initial phases of company engagement abroad, the experience of owners/founders and their informal contacts dominate as information sources. One can notice that the Polish INVs mainly use internal learning when developing new products, similar as reported by Weerawardena et al. (2015), but also the knowledge exploitation strategy, i.e. they adjust and develop the current skills and concentrate on technologies, processes and products on the markets already served (Levinthal and March, 1993). These findings are in line with the results of studies of Bruneel et al. (2010), on a Belgian sample, which showed that these information sources "make internationalization moving" as an initial substitute of the knowledge coming from practical experience.

At the next stage of development – the fast export growth (Gabrielsson and Gabrielsson, 2013) – the learning from own experience and from intermediaries (*vicarious learning*) gains more importance. In our sample only in one, much more mature company (A) the *grafting* (purchasing knowledge) in the form of consulting services before CRM implementation and before the foreign market choice, was applied. It is consistent with the findings of Pellegrino and McNaughton (2015), concerning the later phases of growth of INVs from New Zealand.

To answer the question how the various learning processes contribute to the INVs' marketing activity abroad, it must be concluded, that internal learning, in the form of R&D, is needed for internationalization as an ongoing process, to develop innovations. The other important process which is market-focused learning, or the capacity to build, integrate, and reconfigure technical and non-technical knowledge acquired from the firm's customers and competitors (Weerawardena et al., 2015), is based on a network of INVs' intermediaries and salespersons. It takes the shape of informal gathering of knowledge, while almost no formalized market research is conducted. This is probably due to resource constraints, but also to the low level of trust in the formalized knowledge sources.

During the interviews all the studied INVs confirmed high export sales dynamics, and were confident in their good performance on the foreign markets (see: Tab.1). However the LAN-creating mechanisms, such as for example structural advantage due to a lack of rigid organizational structures (Sapienza et al., 2006) weren't the subject of interviews. Therefore it is difficult to say if the studied INVs obtained the LAN advantages. Nevertheless, the positional

advantage connected with lack of pre-established ties with the home country partners, which is a prerequisite of LAN, existed. Apart from that, the studied INVs applied the vicarious learning mechanisms, which may lead to LAN. Bruneel et al. (2010) have demonstrated that network learning and congenital learning of the founders have significant influence on expansion, when there is little experiential knowledge available. In the content analysis of interviews with the INVs it was also shown that learning processes co-occurred with product innovations, which may be the evidence of a cause-effect relationship.

6. Implications and future research

The implications stemming from the presented research are threefold. First, the successful gathering of market information by INVs is connected with good relations within networks and with their promotional efforts. It suggests that this information source deserves more attention during internationalization. Perhaps more learning processes and using in a structured way the knowledge obtained from the dealers would be needed for the Polish INVs to fully benefit from fast expansion. Second, it was demonstrated that the Polish INVs, similar as in the foreign ones, developed diverse learning capabilities, exceeding those connected only with experiential learning, described in so-called stage internationalization theories. Third, it was shown that at the early internationalization stages the Polish INVs put emphasis on informal sources of internationalization knowledge and on the congenital knowledge of founders, which constitutes a resource necessary for successful expansion. However at the later stage of fast sales growth the internal, experiential learning processes were coupled with network learning and knowledge exploitation. That shows the changing character of learning processes at different internationalization stages, and supports results of the former studies abroad. Thus, the presented study also proves that the INVs coming from the transformation country behave similarly and possess similar capabilities when it comes to learning and knowledge gathering processes, as their counterparts from more mature markets. This suggests that they are currently able to successfully compete internationally.

As for the future research directions, the learning mechanisms may play the role of mediators between the entrepreneurial capabilities (proactiveness, innovativeness, risk-taking) and export results, which is evidenced by results of studies on Chinese enterprises (Zhou et al., 2010). The analysis of similar relationships could become subject to further studies of International New Ventures, also coming from post-transformation markets.

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ELECTRONIC TRADE IN THE WORLD TRADE ORGANIZATION - DIFFICULTIES IN NEGOTIATING AN AGREEMENT?

Wanda Dugiel

Warsaw School of Economics, Poland

Ewa Latoszek

Warsaw School of Economics, Poland

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Abstract

The aim of the study is to present the premises that make it difficult to reach a multilateral agreement on electronic commerce in the World Trade Organization. Electronic commerce at the end of the second decade of the 21st century is an inseparable element of international trade, as a result of the digital revolution leading to lower costs when companies enter the global market. They often take into account the digital revolution of the state when creating new business models, especially in China, which has obtained the world's leading position in the field of digital services export. Increasing competition in the field of digital services, in the absence of regulations on electronic commerce in the WTO, will increase the interest of developed countries, including Australia, the United States, the European Union, Japan, African countries to solve the subject of e-commerce in regional integration agreements. The problems with reaching an agreement on electronic commerce in the WTO result not only from the specificity of trade in electronic form but from the general strategy of trade liberalization in other sectors.

Keywords: International trade; Electronic trade; E-commerce; World Trade Organization; Digital economy.

1. Introduction

Electronic trade at the end of the second decade of the 21st century is an inherent element of international trade and is becoming increasingly important for businesses operating in the face of the growing importance of the digital economy. It is estimated that after 2020 there will be a rapid increase in e-commerce transactions that enterprises will use. Electronic commerce is conducive to economic development, thanks to the increase in employment, which is why there is a great interest in this type of exchange for developing countries. New digital technologies, including the development of the Internet of Things, allowing the connection of devices using

a computer network, as well as the dissemination of Big Data, allow the development of industry infrastructure, health care, agriculture (UNCTAD, 2018). Thanks to these technologies, new business models are created, as well as the method of trade exchange in goods and the flow of services.

The aim of the study is to present the premises that make it difficult to reach a multilateral agreement on electronic commerce in the World Trade Organization. The analysis starts in point 2, in which the role of e-commerce in international trade is presented. The following section 3 refers to regulating e-commerce in the WTO. Finally conclusions, regarding the study goal are drawn.

2. The importance of e-commerce in international trade

All inventions and new technologies have always changed the way of exchange in international trade over the years, in the 20th century mainly thanks to containers, inventions in transport, and in the XXI due to the digital revolution, especially the development of the Internet. The digital economy, mainly via the Internet, allows the customer to contact the seller in the short term, often using electronic platforms.

The concept of digital economy, which Don Tapscott distributed in his book entitled "The Digital Economy: Promise and Peril in the Age of Networked Intelligence" covers the issues of dissemination of knowledge as a basic element of the national economy, by digital means (Tapscott, 1995). In the digital economy knowledge will be transferred using digital devices as well (Rupali). The development of the digital economy radically changes the activities of companies on the market. Companies will be forced to change the business model in the modern global economy (Harvard Business Review, 2017). New inventions in digital technologies change production processes in the industry sector, services (mainly financial and telecommunications). Electronic commerce leads to lower information costs due to the lack of the need to be present on the local market (Freund, Hufbauer, and Jung, 2016).

The operation of the digital economy favors the defragmentation of production between countries, and the separation of the traditional value chain into the whole world, which then translates into the operation of the global value chain (Ravenhill, 2017). Enterprises, unlike the traditional business model, do not deal with the whole of the tasks in the value chain, but they only play a specific role and perform selected tasks. In business models that allow the introduction of new technologies, companies use new forms of searching for distribution channels and customer acquisition as well as increasing productivity (Gassmann, Frankenberger, and Csik, 2013). Innovations, technologies and Internet development force the creation of various new forms of business models, so that enterprises can increase profits from global operations and gain a competitive advantage over other companies. Along with the trade of products having a material nature, there was also the exchange of computer software and the use of online platforms.

With electronic commerce it is much easier to conduct foreign trade transactions, due to the creation of a new supply chain that differs from traditional international trade (International Trade Centre, 2017). Companies do not have to be located in a given geographic market, because information about a product or services is found on the Internet. Advertising costs may be reduced. The great importance of the digital revolution, very fast technological changes and e-commerce transactions lead to lower information costs, market entry for companies, and new opportunities for profit and acquisition of outlets. they are conducive to the development of international trade.

In the terminology of the World Trade Organization (WTO), the concept of electronic commerce, popularly referred to as e-commerce, concerns the digital exchange of goods and services, mainly using the Internet or computer networks (World Trade Organization, 2015a).

Thus, the concept of electronic trade and e-commerce can be used interchangeably. Electronic commerce includes the exchange of goods that subscribe to both material nature and digital goods in a way that enables "access to products" for consumers (business to consumer) and for entrepreneurs.

The concept of e-commerce covers both technological equipment, infrastructure, and information transmission processes. E-commerce applies to the entire industry sector, individual industries, producers and users, information exchange and business operations on the global market via the Internet (Mann, Eckert, and Cleeland Knight, 2000). There is a rapid development of the computer industry, which will have an impact on changes in the structure of the industry.

As part of e-commerce, the most common transactions are in the form of business to business (B2B), business to consumers (B2C), and have a small share in e-commerce, replacing customers to customers and business to government (UNIDO, 2018).

In the first research on the interdependence of using e-commerce and the productivity of companies, it was noted that companies that conducted online business decreased the transaction costs of their operations. The results of scientific research, which included companies from the European Union conducting business activity via e-commerce, showed that online exporters are more efficient, thanks to mainly improved stock policy (Duch-Brown and Martens 2018).

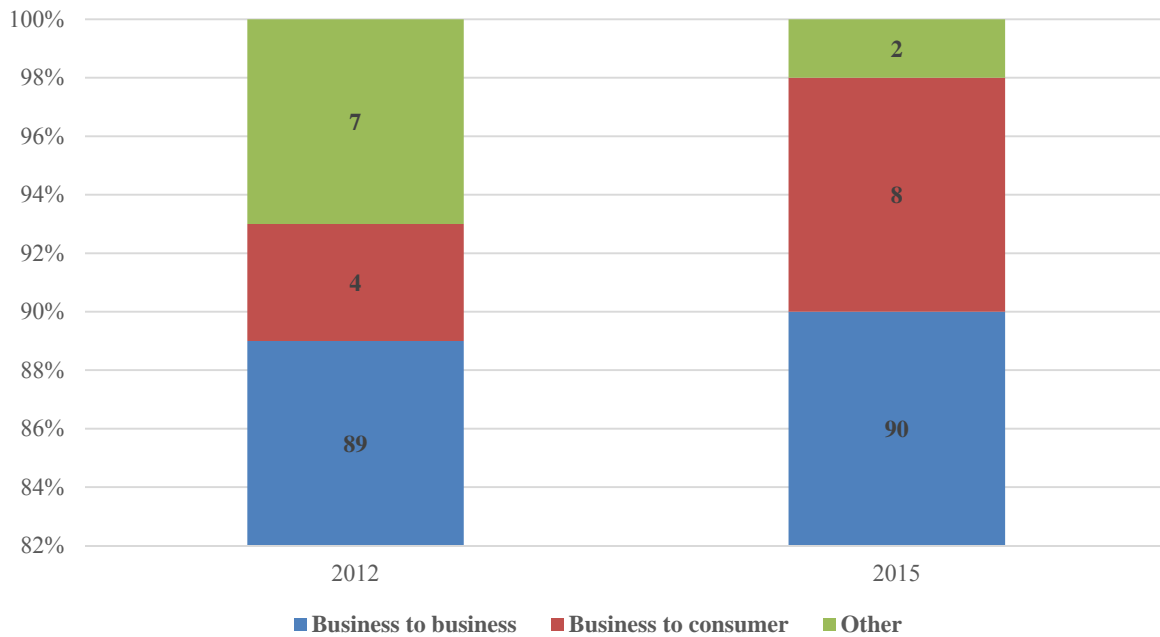
Such a fast growth in e-commerce is possible thanks to the development of the Internet, various forms of electronic payments. In the last twenty years, access to the Internet has increased on a global scale from 4% to 40% of the total population in the world (OECD, 2017). Electronic commerce accounted for almost 17% of total retail sales in China, while in the United States almost 9%. Investments in the development of financial technologies in China allow Internet users to use e-commerce. The largest e-commerce companies in China have created various forms of electronic payments (Chorzempa, 2018). For companies, the largest companies in the electronic commerce in the world Alibaba Group in China created services in the form of advertising.

Trade exchange involves various difficulties for companies related to the creation of a virtual store or online platform, and the preparation of this platform from the technical side, i.e. coding and editing images.

The most important part of e-commerce are the electronic transactions occurring between enterprises, which in 2015 reached the level of almost 90%, while transactions between enterprises and consumers account for only about 10% of the total e-commerce (Figure 1), (UNIDO, 2018). Electronic commerce in the form of transactions occurring between enterprises is many times higher than in the form of electronic transactions between enterprises and consumers.

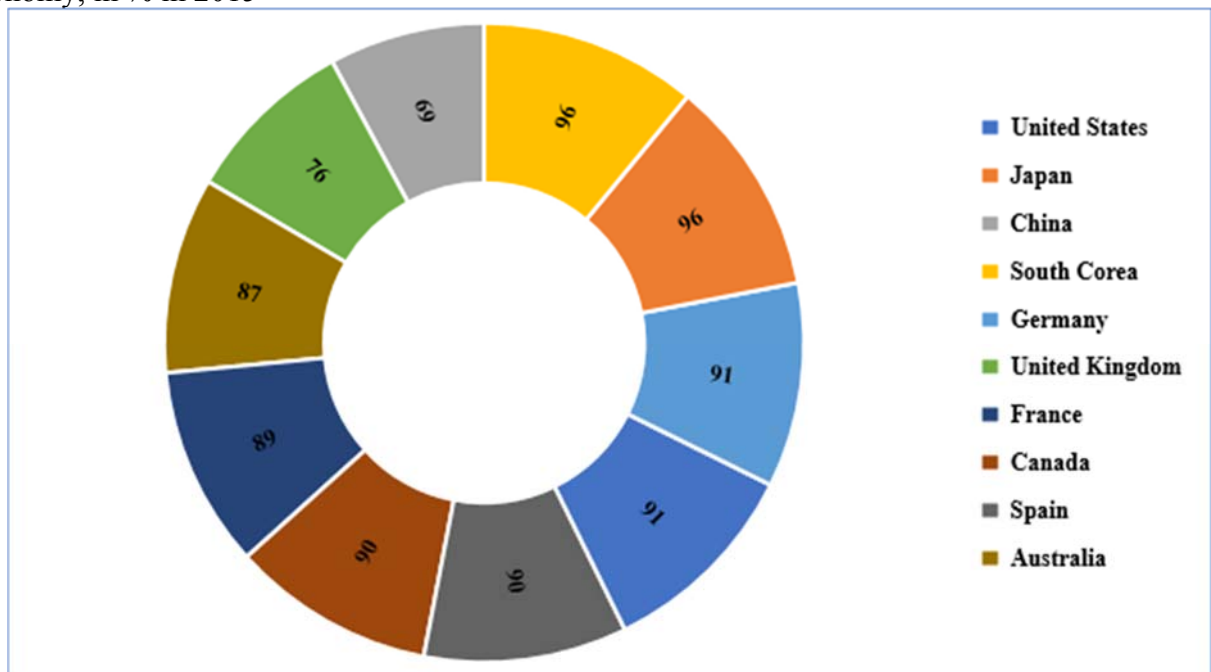
According to UNIDO and International Trade Center, e-commerce accounts for around 12% of all international trade (UNIDO, 2017). The United States plays the leading role in e-commerce transactions, which reached USD 6.4 trillion in 2015, and China's transactions with enterprises worth almost USD 620 billion in 2015 ranked highest in the case of transactions between enterprises and consumers. The United States is one of the largest countries with the share of e-commerce transactions in the economy, in which the value of transactions amounted to over 7 trillion dollars in 2015. In e-commerce transactions, the forms of business to business exchange prevail. In Japan and in South Korea the share of business to business in total e-commerce amounted to 96% in 2015, 91% in the United States, 91% in Germany, 90% in Spain, 90% in Canada, 89% in France, and 87% in Australia, 76% in the UK, 69% in China (Figure 2).

Figure 1 – Share of individual exchange forms in e-commerce in 2015, in %



Source: Data for 2012 come from UNCTAD, 2015, p. 12. Data for 2015 come from UNIDO, 2018, p. 6.

Figure 2 – Countries in the world with the largest business-to-business (B2B) share in the economy, in % in 2015

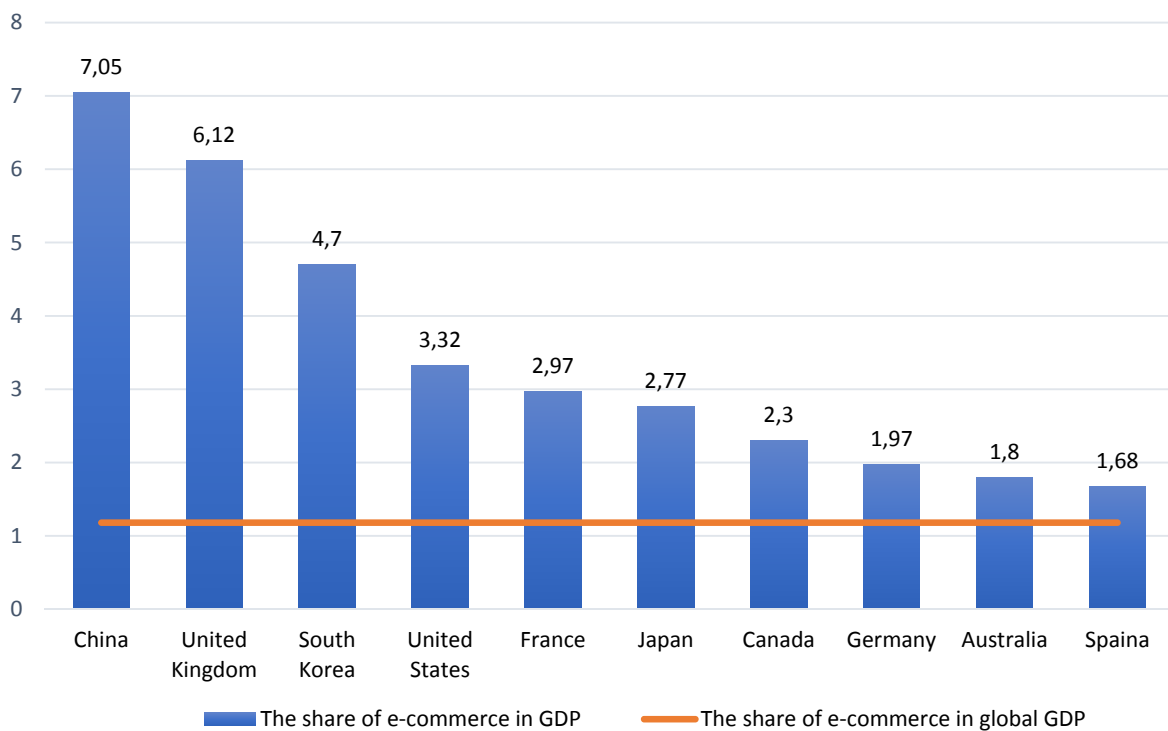


Source: UNCTAD, 2017, p. 28.

The importance of emerging economies in e-commerce is growing. China occupies the largest number of people using the Internet (Pencea, Balgar, 2016). In China there is a rapid growth in retail sales over the Internet, innovations allow the use of more and more new forms of business. China is also one of the most important exporters of digital goods as well as services. In 2013, China's share in online sales in the world was 35%.

Such a large share in e-commerce in the world strengthens state policy in China in promoting e-commerce throughout the country, with particular emphasis on rural areas (Couture, Faber, Gu, and Liu, 2018). The share of e-commerce in China in GDP is the highest among countries in the world and amounted to 7.05% in 2015, followed by the following countries: Great Britain (6.12% of GDP); South Korea (4.7%); United States (3.32% of GDP); France (2.97%); Japan (2.77%); Canada (2.3%); Germany (1.97% of GDP); Australia (1.8% of GDP); Spain (1.68% of GDP) (Figure 3).

Figure 3 – The share of e-commerce in GDP in countries with the greatest importance of e-commerce

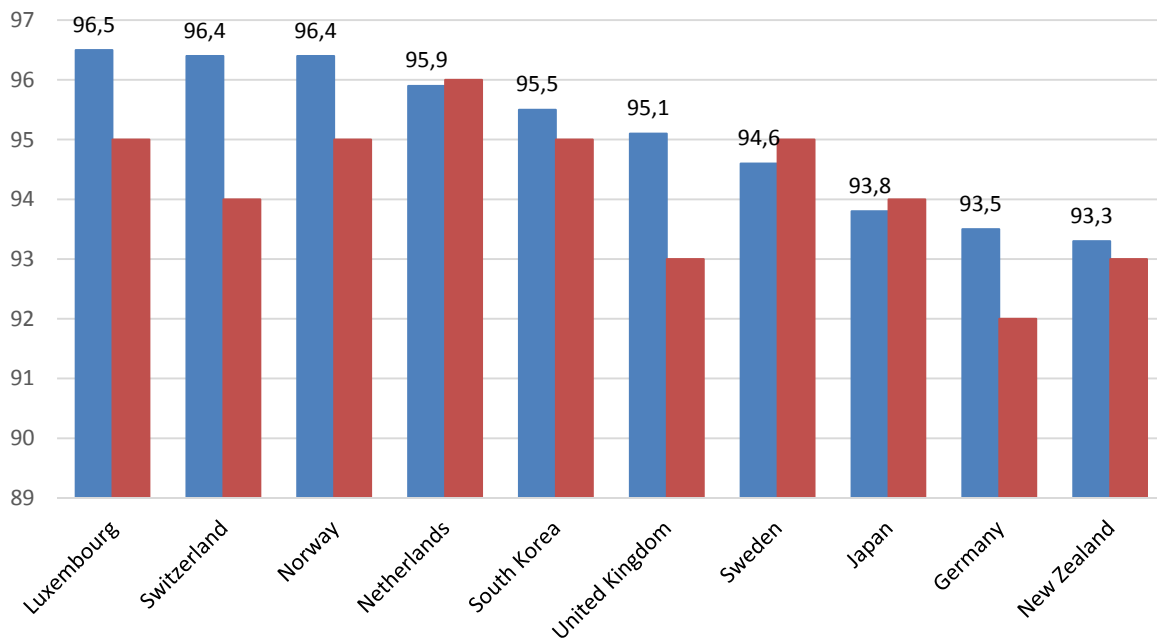


Source: UNIDO, 2017, p. 14.

To measure the intensification of business to consumer transactions on the Internet, UNCTAD has developed an e-commerce index. The UNCTAD index contains the degree of security of conducting electronic transactions, which must be secured due to payments and personal data necessary to deliver goods or services, access to the Internet because the transaction is carried out online and digital products are also delivered electronically (UNCTAD, 2017).

The countries with the fastest development of business to consumer are Luxembourg, South Korea, and Japan. In these countries, the majority of consumers made purchases via the Internet. Electronic commerce in the form of business to consumer is possible due to the access of consumers to the Internet (Figure 4).

Figure 4 – The ten most important economies in the world according to the Electronic Trade Index UNCTAD business to consumer 2017



Source: UNCTAD 2017a, p.10.

With the increase in the importance of e-commerce, countries are adapting their economic policy to the new conditions of conducting international trade. The European Union has adopted a policy of creating a digital single market (European Commission, 2015).

One of the most important issues in the regulation of e-commerce is the issue of collecting personal data through digital networks. A proposition to create the so-called digital sovereignty of persons and Digital Freedom Pass for the security of providing internet services (Snower, 2018). Along with the flow of digital services, the importance of the provisions on the protection of personal data has increased, in particular, the document of the Council of the European Union of 2018. General Data Protection Regulation (GDPR) (Mattoo and Meltzer, 2018). E-commerce leads to increased trade, and the flow of services, some countries around the world. The United States, the European Union and Canada are increasing the possibilities of access to Internet services while maintaining data security (Aaronson, 2012).

3. Electronic trade in the WTO

The exchange via electronic transmissions concerns goods and services; therefore, it is regulated in both the GATT 1994 and the GATS. The dilemmas associated with regulating the issue of e-commerce in the WTO forum concerned the question of qualifying digital goods in terms of goods or services. Panagariya proposed the definition of electronic transmission as a flow of services because there is no exchange of goods at the border (Panagariya, 2000). The issue of e-commerce was not included in the negotiation topics of the Doha Development Round, whose negotiations began in 2001 (Wunsch-Vincent, McIntosh eds., 2004).

In 1998, the definition of e-commerce covering both production as well as distribution and marketing activities on the market, i.e. sales and delivery of goods, as well as services by electronic means, was adopted in the work on regulations regarding e-commerce in the WTO (World Trade Organization, 1998). WTO activities for foreign trade regulation concerned the infrastructure necessary for the development of e-commerce. WTO activities in the field of international services were to cover the scope of the flow of services, i.e. the mode of delivery

of services from one country to the other, or through commercial presence (Article I of the GATS), most-favored-nation clauses (Article II of the GATS), transparency (art. II GATS), increasing the share of developing countries in international service flows (Article IV of the GATS), national regulations and standards (Article VII GATS) and competition (Article VIII, Article IX of the GATS).

In terms of trade in goods, issues of market access, rules of origin and standards were discussed. In the case of intellectual property protection in e-commerce, protection and enforcement of copyright, trademarks, new technologies and access to technology. The WTO was to draw up a program on the impact of e-commerce on the economic development of developing countries.

The moratorium on the non-application of duties in e-commerce was agreed in the form of a decision of the Geneva Ministerial Conference of 1998 and was subject to renewal at the next WTO Ministerial Conferences every two years. In December 2017, the WTO members adopted a declaration on e-commerce. At the eleventh Ministerial Conference of the WTO in Buenos Aires, there were problems with the renewal of the moratorium on the non-application of customs duties in the case of electronic transmissions.

In the case of decisions on the work on e-commerce, a draft decision was prepared to extend the decision (World Trade Organization, 2017a) on the non-imposition of customs duties for electronic transmissions to the next ministerial conference in 2019. The attempts to renew the mandate are contained in document WT/L/274.

WTO member states concentrated in the African Group, which is formed by a group of countries at the World Trade Organization multilateral trade negotiations, recognized that the renewal of the moratorium should be subject to discussion, and states should have the right to establish national regulations and data protection and security of electronic transactions (World Trade Organization, 2017b). Proposals for e-commerce were submitted by countries such as Japan, Russia, the European Union, Costa Rica, Singapore, China, Bangladesh, India, and the African Group.

In the next WTO documents, the decision was made not to introduce duties on "electronic transmissions" until 2017 (World Trade Organization, 2015b). Progress in regulating e-commerce has not been achieved at the Ministerial Conference in Buenos Aires in December 2017. India, in retaliation for the lack of concessions from the United States in agricultural trade, has not signed a moratorium on the collection of customs duties for electronic transmission (Shawn, 2017). Due to the lack of arrangements for the adoption of an agreement in the field of e-commerce, some countries such as Australia, the United States, and the European Union have decided to draw up regulations in this area according to national regulations or in several-party agreements. Work on e-commerce is important for high-tech companies like Apple or Google.

The growing importance of e-commerce has led to the inclusion of this topic in the work of the World Trade Organization. These works began in 1998 at the Second Ministerial Conference in Geneva (World Trade Organization, 1998). During the Second Ministerial Conference, the states accepted the commitment to develop the WTO program on the development of electronic commerce in the world, in particular taking into account the economic interests of developing countries and not to introduce tariffs for electronic transmissions.

The WTO consultation process with countries on regulating e-commerce at the multilateral level has begun. The proposals of Russia, Japan, the European Union, Singapore, China, Bangladesh, and India have influenced. The issues of e-commerce were included in Agenda 2030, as an objective 9 for innovation, due to the great importance of e-commerce in the economic development of countries.

The skeptical approach to regulating the issue of e-commerce in the WTO results from worries of developing countries about the deterioration of their competitive position in international trade due to the poor infrastructure in these countries.

UNCTAD data shows that companies in most of the developing countries do not use the opportunity to sell on the Internet. The developed countries and emerging economies, China and Russia play the most important role in e-commerce. Internet trading platforms can play a large role in accessing international global trade. Amazon, Alibaba and eBay platforms offer companies from developing countries the opportunity to register as part of a given platform and provide services (UNCTAD, 2015).

Developing countries in the WTO forum, thanks to the need to renew the moratorium on e-commerce, want to gain greater market access to developed countries for other products. The issue of supporting the moratorium on e-commerce by developing countries depends on equipping these countries with technological factors, as well as resources in the form of knowledge capital to service a variety of technical devices.

The rapid development of e-commerce requires increased digital security related to the appeals procedure securing consumer interests as well as the quality of goods. Digital technologies lead today to changes in business models. The functioning of the digital economy requires multilateral regulation in the WTO.

Trade in the form of e-commerce still requires regulation on a global scale at the World Trade Organization (WTO). The development of the digital market, however, is very diverse between developed and developing countries. The fast growth of digital connections is observed in Africa, South America.

With the skeptical attitude of developing countries to regulating e-commerce in the WTO and retaliatory actions in multilateral trade negotiations resulting from the lack of concessions in the liberalization of agricultural trade for developing countries, the importance of bilateral agreements is growing. Interest in regional agreements also results from the development of the digital revolution (OECD, 2017). In many regional agreements, provisions have been made on e-commerce and digital services. In the first regional trade agreements, starting from 2001, they contained provisions on electronic commerce (e-commerce). Issues of e-commerce are provided for in contracts such as TPP, which have not yet entered into force.

The provisions on e-commerce were included in the European Union's trade agreements with Singapore (Chapter 8) and Vietnam (Chapter 8). The Free Trade Agreement with Singapore was signed on 19 October 2018, with particular emphasis on data protection. These provisions apply to digital trade. In the case of the Framework Agreement on Partnership and Cooperation between the EU and Vietnam, signed on June 27, 2012, the provisions of the agreement concerned the issues of electronic signature, rules for storing information, consumer protection in e-commerce. The conclusion of the provisions on e-commerce was a priority for developed countries. In 2008, the European Union signed the Cariforum agreement, which included provisions on e-commerce. The decision on e-commerce was not included in agreements signed by Least Developed Countries.

4. Summary and Conclusions

Electronic commerce in the WTO forum was regulated in the form of a decision of the Ministerial Conference in Geneva in 1998, called a moratorium in which there was a commitment not to set tariffs on electronic transmissions. This moratorium has been subject to renewal every two years at successive ministerial conferences since 1998. For the first time, such important difficulties in extending the moratorium at the ministerial conference in Buenos Aires resulted from the difference of views of WTO member countries on the further liberalization of international trade, in particular, agricultural trade. Developing countries, in

particular India, are using the possibility of blocking work on regulating e-commerce in the WTO in order to strengthen their role in negotiating other issues in multilateral trade negotiations. The increase in the importance of e-commerce cannot mean the exchange of goods and services with poor regulation of the security of personal data being transferred. Furthermore the development of e-commerce cannot mean an offering in the sale of products exclusively by electronic means, as the consumers are also accustomed to traditional methods of sales and payments when exchanging goods and services.

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MAIN DIRECTIONS OF DEVELOPMENT IN THE DEFENCE INDUSTRY SECTOR IN THE ASPECT OF GLOBALIZATION

Łukasz Maculewicz

Warsaw School of Economics, Poland

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Abstract

The defence industry is one of the demanding elements of the economy. The European defence market brings together many entities operating in various economic forms. Each of these entities operates under conditions of strong competition requiring large capital expenditures. The main directions observed is the integration of member states in the field of security and defence and the concentration of defence industry, which main objective is to strengthen the European industrial and technological base, international approach to program implementation research and production, and above all, avoiding the multiplication of identical research programs and technological competence as well as seeking opportunities to reduce production costs. Due to the high costs of developing new military technologies, the vanishing of the defense sector's territorial division and the merging of US, European and others of the world cannot is highly probable. At the beginning, probably in individual projects, as technology develops, consolidation can be permanent.

Keywords: Defense industry; Collaboration; Globalization; Defense and security; International projects.

1. Introduction

The defence industry is one of the most capital-intensive and labour-intensive sector of the economy. In 2014, the turnover on the defence market among enterprises operating in the European Union amounted to EUR 97.3 billion. In addition, production, maintenance and overhauls of military equipment as well as research and development in the field of defence and security generate 0,5 million direct and 1.2 million indirect jobs (European Parliament, 2018). Since 2010, the expenditure of EU member states in the area of defence and security they do not reach a level lower than USD 270 billion; moreover, since 2014, the expenditures have been systematically growing, reaching a level of approximately USD 285 billion in 2017 (Beraud-Sudreu, 2018).

The European defence market brings together many entities operating in various forms of economic activity, beginning with small sole trader's enterprises and ending with large corporations with the majority share of the state treasury. Each of these entities operates under conditions of strong competition and specialized production, requiring large capital

expenditures (research and development, intellectual potential, know-how). Realisation of public contracts in the fields of defence and security area have a specific character where holders of budgetary funds equally focus on tactical and technical characteristics and the quality of purchased military equipment as well as security of supply and availability of maintenance potential, binding parties to the contract, often for many years. Highly specialized production, mainly in the high-tech area, makes the European defence market an oligopoly, on the one hand, where only a small part of enterprises are able to cope with the economic and intellectual challenges of modern military equipment (small enterprises play the role of subcontractors) and, on the other hand, monopsony recipients drastically limit the market.

The main tendencies observed since the end of the 20th century is the integration of member states in the field of security and defence and the concentration of defence sector enterprises, both on the EU market and national markets. The main objectives are (1) to strengthen the European industrial and technological base of the defence sector, (2) to establish an international approach to program implementation research and production, (3) to avoid the multiplication of identical research programs and technological competence as well as (4) to seek opportunities to reduce production costs, including through outsourcing and offshoring.

The purpose of this article is to analyse the main tendencies – integration and off-shoring – of changes of actors from defence and governmental side in the European defence sector resulting from globalization as well as to define factors that affect the defence economy sector which can be observed from the end of 20th century.

Due to the nature of the work, the following research methods will be used in this paper: content analysis and data analysis, as well as a historical-comparative method. These methods will be used for in-depth analysis of available data. The comparative and descriptive method will fulfil the main role. Hence, an analysis of phenomena taking place in the European defence sector of the economy will be carried out.

This article will firstly examine the phenomenon globalization, subsequently, the two main tendencies of change will be analysed, following by highlighting the factors that affect this sector and lastly conclusions will be presented..

2. Globalisation

Under the concept of globalization of the economy different elements are comprised such as the processes of organizing and conducting production, exchange and flows of capital on a global scale and treating entities by the whole of the world as the one common market. The factors determining the economic development of the processes of economic globalization are:

- the development of technical means of communication,
- liberalization of foreign trade,
- reduction of barriers, aiming to improve flow of goods and capital (Winiarski, 2006).

According to G. Kołodko (2003), globalization is understood as a historical process of liberalization and in the wake of this accelerating integration, previously largely in the isolation of functioning commodity markets, capital and, to a lesser extent, labour force in one commodity market. Thus, as a result of the process of globalization, elements of the global economic organism are emerged, which is connected by numerous bonds.

From G. Shangquan (2000) perspective, economic globalization refers to the increasing interdependence of world economies as a result of the growing scale of cross-border trade of commodities and services, flow of international capital and wide and rapid spread of technologies.

Analysing above definitions of the phenomenon, it can be concluded that the main element conditioning the process of globalization is the integration of entities thanks to the liberal organizational bases and appropriate technological conditions.

Globalization is a multifaceted process of the wide spectrum of human activity, where the most visible sphere will be the economic space, but the international flows of ideas, people, cultures, social models, religions have a significant impact on every area of human activity.

Analysing statistical data, it can be concluded that global trade and capital flows at the turn of the 20th and 21st centuries were growing at a faster pace than the global product. In the intervening years 1980-2006, there was almost a six-fold increase in global exports of goods, while the value of global GDP increased four times. The value of foreign direct investments in 1980 was 4.7% of the worldly GDP, while in 2005 it increased to 20.7%. Sales of multinational enterprises reach a value that is twice as high as global trade (Polish Ministry of Economic Affairs, 2007).

As noted by G. Kołodko (2003), globalization processes should be looked at objectively. Therefore, globalization should not only be comprehended as new markets, sales, growth and transfer of technologies, but also as the marginalization of less developed entities and the collapse of existing enterprises, which as a result of historical and political factors, do not have adequate technological facilities to compete with economic giants on the open market.

However, from the other hand, integration and cooperation creates additional opportunities for all entities participating in the market, including those that are at a relatively lower level of economic, organizational, and technological development. However, it should be borne in mind that the opening of markets also brings additional risks, the amount of which is determined by the adopted strategy of economic development.

The increase of exchange between economies, the increase in the liberalization and integration of trade markets, deregulation of capital flows, and above all the unification of laws that determine a given business activity significantly affect the course of action and conditions of enterprises operational activity. Globalization of the economy leads to wide activity, which is manifested by the dispersion of production in order to seek ways to reduce operating costs.

In conditions of highly specialized production, the main determinant of production is knowledge; therefore, companies can flexibly choose the location of the production lines, without being dependent on primary products and energy. In addition, the technological progress in the area of communication made it possible to divide the production process, including its fragmentation and placement in various places around the world, as well as the involvement of a wide range of subcontractors.

As mentioned before, globalization is a phenomenon that carries with it a certain risk, however, with regard to the economic sphere of advantages, it is much more than disbenefits and should be considered as a positive economic process. Such a position can be justified by the following advantages:

- it creates conditions for cooperation of entities in the creation of economic and legal programs,
- it will enable the development of multinational enterprises,
- it gives the possibility of unlimited transfer of technology and the flow of labour,
- it drives the development of transport and communication.

3. The impact of globalization on the defence sector

As other sectors in the EU, the defence sector was heavily influenced by globalization. The characteristics of this phenomenon affecting this specific sector are the strive for joint actions and off-shoring.

3.1. Striving for joint action

The EU aims at joint actions in order to strengthen the industrial and technological base and to find synergy in the aspect of implementing technologically advanced defence programs. One of the best example of an international approach to the implementation of joint design and construction of military equipment was the program for the construction of the European multi-role aircraft Eurofighter Typhoon. The program was implemented as a part of the cooperation between Germany, Italy, Spain and the United Kingdom by the Eurofighter GmbH holding from three European companies: Alenia Aeronautica, BAE Systems and EADS. The program was the largest and one of the first joint armament programs carried out on the European continent, which was a success and resulted in the establishment of permanent cooperation of EU countries in the field of military equipment production. Through the implementation of cooperation, the following benefits have been achieved in a wide range of fields in the area of economics and technology.

1. About 105,000 highly qualified employees in the armaments sector were involved in the Typhoon program (Germany - 20,000, Italy - 20,000, Spain - 25,000, WB - 40,000).
2. The sub-suppliers sector covered around 50,000 jobs.
3. The aircraft has been designed in such a way as to meet the design assumptions and battle space requirements for 40-45 years. This period of aircraft life cycle generates permanent employment over the years for some employees participating in the project.
4. The high level of technological advancement of the program required high qualifications involved in the project engineers and additionally stimulated the development of many technologies, including management, software, and pilot training system.
5. Earnings of people employed in the implementation of the project were higher by 60% than average earnings in the EU.
6. Many of the applied solutions have been directly implemented into other branches of production (automotive, electronic, construction of Airbus A380 aircraft). The technology of carbon composites developed during the project, flexible connection of composite materials or integrated avionics has been applied (spill-over effect) in civil flight control systems, jet engine technology and the automotive market, among others in Formula 1 cars - Ferrari and McLaren. These technologies have been estimated at EUR 7.2 billion (Hartley, 2006).

The implementation of the joint project was key to building self-sufficiency and autarkic abilities in the area of high-tech equipment. Additionally, through the use of modern models of project management and supervision of the institution representing NATO governments (NETMA - NATO Eurofighter and Tornado Management Agency), the program achieved high efficiency (costs increased by 14% compared to planned ones, while delivery time was delayed by 54 months if compared to a project implemented only by one country - USA, F/A 22 where costs increased by 127%, while the delay was 117 months) (Hartley, 2006).

The above program, particularly the achieved benefits, was crucial for the future perspective of the defence sector, both in relation to the manufacturing branch as well as the Member States administrations.

Great Britain, France, Germany and Italy in 1996 signed an agreement on the establishment of the Organisation for Joint Armament Cooperation OCCAR (*Organisation Conjointe de Cooperation en Matiere d'Armament*). Subsequently Belgium and Spain joined the agreement. Currently, the range of countries involved in joint programs consists of 13 Member States. Abovementioned countries form part of a permanent agreement, while the Netherlands, Turkey, Poland, Sweden, Finland, Lithuania and Luxembourg cooperate in various armaments

programs without having the status of a member of the agreement. Since the beginning of the OCCAR activity, the portfolio of operational programs of armaments has increased to 13 complicated projects, the implementation of which will absorb EUR 60 billion (OCCAR, 2018). In 2018, the organization will allocate over EUR 3 billion to finance technical modernization of the member states armed forces. The result of OCCAR's work is the implementation of the following projects:

- tactical and strategic airlifter Airbus A400M,
- Eurocopter Tiger combat helicopter,
- FREMM multi-mission frigates,
- surface to air antimissiles FSAF - PAAMS,
- counter battery radar – advanced weapon locating system COBRA,
- multirole armoured vehicles BOXER
- The European secure software defined radio ESSOR,
- multinational space-based imaging system MUSIS,
- LSS logistics support ship,
- European medium altitude long endurance remotely piloted aircraft system MALE RPAS,
- MMCM maritime mine counter measures,
- multinational multi role tanker transport aircraft fleet MMF,
- multirole offshore patrol vessel PPA.

Each of the above projects brings together from several to dozen member states in a joint effort, enabling them to participate in organizational and technical as well as production terms by invoking elements of national economies in order to mobilize defence enterprises, acquire innovative technological capabilities and seek new cooperation opportunities. It is worth noting that in the case of the French-Italian FREMM frigates project, the Italian government is facing the lack of sufficient financial resources, but due to the overwhelming benefits of the implementation of the program, i.e. substantial economic and employment benefit not only for navy shipyards, but also for subcontractors, the government decided to take out a loan from the Ministry of Industry instead of financing the purchase of the said frigates from the national defence budget (Defence Industry Daily Staff, 2008). Besides, it is indicated that it is more profitable to finance the mentioned armament project even in the perspective of increasing the budget deficit.

On 12 July 2004, the European Defence Agency (EDA)¹ officially launched its activity, which on the basis of successes of OCCAR was the embodiment of the ideas of Robert Schumann, Jean Monnet and Konrad Adenauer on the level of defence cooperation, but it was also the response of EU Member States to the challenges of globalization on the armaments market. The main assumption of EDA is to implement the vision of the European armaments market and the wide cooperation of Member States on the basis of the production of new weaponry systems. However, due to the limited tools and various threats to the sovereignty of individual member states, EDA activities at this stage consist in simplification of the search for the armaments which are suitable for each states requirement (Turczyński, 2014).

In implementing the Common Security and Defence Policy, 23 EU Member States signed a notification on permanent structured cooperation - PESCO on November 13, 2017 (European

¹ In July 2014, the European Council approved the plan for the establishment of the EDA, however the actual activity began at the beginning of the next year, by the end of 2004, the 2005 budget was adopted, and the structure and rules of the Agency's operation were built.

Council, 2017). Countries participating in PESCO approved in December 2017 a declaration on the first 17 projects that will be implemented under this instrument. The projects are run by leading countries, from a few to a dozen participating countries, and several countries with observer status. They are an attempt to strengthen cooperation in specific areas with each different composition of participants. The projects are divided into two categories - some aim to increase the possibilities of participating in EU missions and operations (eg. European Medical Headquarters). The second is to support the development of military capabilities (such as the armoured infantry fighting vehicle). Participation of individual countries and the content of projects shows that PESCO's focus on a wide range of possible areas of cooperation is to enable EU countries to cooperate in developing organizational capabilities for military cooperation and building joint industrial capabilities in the field of arms production by involving specific industrial sectors of participating countries projects.

This is another step towards striving for the unification of investment plans in order to increase the level of security and defence, which should result in the growth and unification of EU industrial defence capabilities.

At the industrial level, the concentration processes were parallel to the institutional association of the Member States. The main example of the consolidation of European armaments companies is the second largest aviation company in the world, the Airbus Group, which was created as a result of the re-branding of the EADS (European Aeronautic Defence and Space System consisting of the German DASA, Spanish CASA and the French Aerospatiale Matra).

To sum up, on the European level several attempts have been made in order to develop joint actions in the defence economy sector.

3.2. Case study – mini globalisation

Efforts in the EU are made to face the difficulties and obstacles of globalization in the defence sector. The Polish government has successfully implemented a project that consisted in the consolidation of dispersed industrial entities, which could serve as a case study for the EU in order to implement a similar project on a European or perhaps international level.

This project is a specific example of the phenomenon of striving to integrate the industrial sphere to be more competitive and to meet the challenges of the common market. Polish Armaments Group (a national Polish champion in armaments production) was created on November 26, 2013 by the Minister of the Treasury as the entity. The main purpose was to meet the state security and defence needs in the field of research, development, production, servicing, maintenance, modification, modernization and repairs of military equipment and its promotion and marketing.² The chief assumptions to establish a consolidated leader in the defence sector was to effectively use the potential of domestic industry, to enable the correlation of investment and research and development activities, as well as to eliminate mutual competition between domestic defence companies that compete for participation in the modernization of the Armed Forces of the Republic of Poland (Walczak, 2018). The entity is the result of consolidation with the majority share of the Treasury for which ownership supervision is carried out by the Minister of National Defence, which gathers more than 60 companies in the armaments sector, employing 17,500 employees, achieving a total of 4.5 billion zlotys of annual turnover (Polish Armaments Group, 2018). An unambiguous assessment of the consolidation effects of the Polish armaments industry is beyond the scope

² § 4 of the Articles of Association of Polska Grupa Zbrojeniowa S.A. - Uniform text of the Articles of Association of the Company, prepared on the basis of notarial deeds of 28 August 2014 (Rep. A 14556/2014) and of 8 May 2015 (Rep. A 7193/2015), as worded in the National Court Register on June 10 2015.

of this study and it is not possible at this stage, although attempts are made to investigate this issue, whose results indicate an ambiguous evaluation of the process.³ However, bearing in mind that the above mentioned consolidation of defence sector entities consisted of focusing independent enterprises with separate management bodies which belongs into one capital group, the effects of the evaluation of the carried out consolidation may indicate the validity of such solutions in the future.

What is interesting, we can find great similarity in the goals and paths to achieve them, between the integration of entities within the framework of globalization and the consolidation of entities within the national market. The situation of consolidated companies within the domestic market may be in some sphere a reflection and testing ground for giants in the global world.

3.3. Offshoring or the way for a create new product: export of production capacities

Besides the attempt for joint actions, another element characterizing the armaments sector in the globalization era is offshoring. It is an occurrence involving the transfer of operational processes on an international scale by transferring own competences to subsidiaries or third parties and building cooperation networks at the scientific and production level. One of the main reasons for using offshoring models in the company's activities is to reduce costs and to search for capital and labour resources necessary for the further development of the company.

From the perspective of the enterprise realizing the production of armaments, the natural feature of its operational activity is the striving to reduce production costs or optimize the production process. On the other hand, each country should spend budgetary resources in a rational and most effective way. Therefore, governments will strive to achieve the greatest benefits resulting from the purchase of armaments. It turns out that in the sphere of technical modernization of the armed forces, both from the perspective of suppliers and contracting entities, it is possible to achieve a certain level of synergy and mutual benefits in the form of lowering costs and optimizing the production process, as well as engaging domestic industry, increasing its development possibilities and protecting jobs.

Good example of above-mentioned situation may be the shipbuilding industry. Modern warships are one of the most expensive and technologically advanced weapon systems. Therefore, the contracting authorities will seek the possibility of the largest return of funds spent, including by establishing their own technological capabilities based on technology transfer and including their domestic companies to the supply chain of the main supplier and even the production and sale of weapons based on the license granted, as well as the involvement of indigenous industry in long-term process of warships maintaining.

In the case of the French naval concern Naval Group, it can be concluded that offshoring combined with the transfer of technology has become not just a way to improve the financial condition of the company but one of the basic products offered on the armaments market. Naval Group is a key entity that performs tasks in the field of defence and security for the French Armed Forces, in particular in the area of shipbuilding. The company manufactures surface vessels, submarines, including submarines with atomic propulsion, carrying ballistic missiles with atomic warheads constituting the core of the atomic force of deterrence in accordance with the defence doctrine of France. Nevertheless, most of the ship's production is directed to export, in a specific production model. Naval Group through technology transfer and support in the

³ Research project "Consolidation of the Polish defense industry in the conditions of a competitive European armaments market" carried out at the Faculty of Management and Administration of the Jan Kochanowski University in Kielce (commissioned research work No. 614571).

area of qualified personnel and management programs enables armaments importers to build production capacity in the field of armaments based on license agreements in line of French know-how. This solution allows establishing the production, maintenance and repair potential, in consequence the importer can build an appropriate level of security of supply and the availability of operational weapons - required in accordance with its defence doctrine - and raising the level of investment on the importer's market through the implementation of capital and labour-intensive projects based on infrastructure and human capital of the indigenous industry.

Naval Group has subsidiaries all over the world, among others Canada, Brazil, Chile, Egypt, Saudi Arabia, Ireland, India and Australia, which are involved in the production processes for the domestic armaments market and production aimed at export as well. The French manufacturer is currently implementing:

1. Building process of 4 submarines for Brazilian naval forces based on their own project. The production potential is established in Brazil based on technology transfer from France.
In addition, under the Brazilian-French agreement, in line of the competences transferred from the Naval Group, Brazil develops its own capabilities in the nuclear sector.
2. Delivery of 4 warships to Egypt with the transfer of technology enabling the implementation of French service solutions throughout the life cycle.
3. Establishment of technical and organizational capabilities to support operation and training of Malaysian submarines and the transfer of shipbuilding technology.
4. Establish technical capabilities to secure the operation of 9 warships in Saudi Arabia.
5. The program of building of 6 submarines for India on the basis of own project, in line of the production potential established in India based on technology transfer from France.

Naval Group's operating model indicates an additional product that appears on the armaments market, namely along with military equipment as the main element of the contract, production capacities, knowledge and the ability to manage complex armaments programs are offered. It is worth noting that this production model is used by the largest players on the armament market as a standard offer due to the fact that member states are primarily interested in access to modern technologies and treat armament purchases as an impulse for the economic development of the domestic market. Hence, off-shoring of production is a common tendency due to globalization.

4. Conditions of the common European armaments market

Due to the specificity of the European market, several unique conditions exist in the common European market. The 23 member states of the European Union are at the same time members of the *North Atlantic Treaty Organization*, which obliges each member to (The North Atlantic Treaty, 1949) "separately and jointly, by means of continuous and effective self-help and mutual aid, will maintain and develop their individual and collective capacity to resist armed attack" (article 3). The effect of the aforementioned obligations is the aspiration of most EU member states to acquire the synergy of international military cooperation and development of individual defence potential in line with the legal regulations of the Washington Treaty, while building these capabilities (in the field of defence and security procurement) based on the legal regulations of the European Union upon the defence market applying the principle of free competition.

In most of the Member States, individual abilities in the field of defence and security are based on the defence system of the state, which one of the elements is the industrial defence sector which brings together state and private entities. Bearing in mind the above circumstances and the specific, i.e. still more national than the consolidated character of the European defence market, Member States are interested in maintaining full sovereignty of their defence capabilities and security, pointing to all elements of the state's defence system, strongly emphasizing the autonomy of supplies and services for the Armed Forces.

State security requirements, preservation of its sovereignty and integrity in the possible situation of crisis and war, oblige the contracting side to guarantee security of supply and the possibility of using military equipment on the highest level during the process of armaments acquisition. Guarantee which is realized on the basis of civil law agreements in line of the content of EU law may turn out to be insufficient and in conditions of a changing geopolitical situation may result in the state's dependence in the area of supply and exploitation of armaments (constituting the quality of military capabilities of the state) from third parties in such important sphere is the sovereignty of the state. Therefore, Member States use the available methods to autonomize from third parties (economic interventionism, i.e. through the follow the Article 346 of the Treaty on the Functioning of the European Union) to protect the defence potential established in the territory of a particular member state. Such behaviour additionally limits competition on the defence market.

However, it is impossible to achieve the autarky in this regard. The requirements of the modern combat space require the most modern technical solutions in the field of weaponry. An example of limited possibilities of building an autonomous economy in the field of defence and security are states from eastern part of Europe, especially states from behind the Iron Curtain such as Poland. Despite attempts to consolidate and reform the Polish defence sector, the economic and political transformations that have begun in 1989 affect the armaments industry, resulting in the loss of the possibility of producing modern, competitive military equipment and opportunities in the field of new technologies development (Zamelek, 2013). A necessary condition for development and competitiveness of Polish entities is innovation based on technology transfer from foreign companies. Under such conditions, preserve the autonomy of supplies and services in the field of armaments is extremely difficult, limited by the need to administer the EU defence procurement law for military equipment purchasing.

Considering the external factors and limited European defence market, it turns out that the necessity of cooperation on the market with other entities also applies to the largest actors in the European Economic Area. In order to search for new markets around the world, the European defence industry must be competitive in relation to other global entities, primarily from the USA (SIPRI - Stockholm International Peace Research Institute, independent international institute dedicated to research into conflict, armaments, arms control and disarmament, publishes a list of 100 largest armaments exporters every year. In 2016 in the top ten there were only 3 companies from outside the USA: Airbus Group in 7th position, followed by Italian Leonardo and French Thales in 9th and 10th places respectively) (SIPRI, 2017).

In 2017 (fiscal year, from 01/10/2017 to 30/09/2018), the United States allocated USD 523.2 billion for armaments expenses (Amadeo, 2018). In 2016 in USA, nearly USD 72 billion (Vetterkind, 2018) was spent on research and development related to military technologies, while EU countries spent about EUR 6.1 billion (Eurostat, 2018) on the development of identical technologies. Significant financial resources for development and investment, as well as armaments procurement spent by the armaments sector and the governments of non-European countries make the European defence market adapt its operational strategy to the conditions of globalization in order to be able to compete effectively in the old continent and in third markets.

For that purpose, the enterprises of the European defence sector, taking into account the main aim of purchasers, i.e. securing defence and security needs, will strive to achieve higher economic dynamics, by taking advantage of economies of scale which are the results of international trade, effective allocation of capital and increasing qualifications of human capital and know-how companies involved in international projects (Kołodko, 2013).

Hence, the EU conditions such as protectionism of indigenous economies, the necessity of individual and common development of military capabilities and development of technological base with forerank know-how are pivotal in taking under consideration in the defence sector activity and development.

5. Conclusions

The challenges of the global market, mainly the wide range of competition and technical advancement of modern military equipment and capital-intensive research and development work, result in a tendency to connect both the production side and the governments in the armaments sector. Based on the previous examples, it can be assumed that the process of consolidation of enterprises will develop and the Member States will search for new areas of cooperation. Due to the high costs of developing new military technologies, the vanishing of the defence sector's territorial division and the merging of US, European and other parts of the world is highly probable. At the beginning, most likely in individual projects, as technology develops and new areas of science development appear, consolidation can be permanent. More research in this field is needed, especially to analyse the short-term and long-term consequences of consolidation and above-mentioned off-shoring model.

However, the importance of the defence sector in the economy has to be highlighted, not only in economic terms but also in the sphere of security. Considering the protectionism of Member States in relation to domestic armaments companies, a balance between a liberal open market for global armaments corporation and the protection of domestic production potential needs to be found, including, above all, jobs, will be very difficult in long-term perspective and will depend primarily on political factors and integration at the governmental administration level.

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List of Authors

Akpoviro, Kowo Solomon is affiliated to the Department of Business and Entrepreneurship, Kwara State University, Malete, Nigeria.

Bălău, Mădălina has a Ph.D. in Marketing and she is a passionate researcher in consumer behavior, sustainable consumption, symbolic consumption, individual choice modeling, business and marketing strategies. Her background includes employment in education and automotive industry as a business developer. Currently she is Senior Lecturer at Danubius University of Galați, Romania, Faculty of Economic Sciences, and she teaches subjects like Marketing, Consumer Behavior, Marketing Research and International Marketing. She is also member of the Scientific Committee of the Research Centre on Socio-Economic Dynamics in Sustainable Development (DiSEDD).

Conti, Emanuela holds a Master of Philosophy in Economics and Business Administration from the University of Manchester (UK) and a PhD in Economics and Business Management from the Polytechnic University of Marche (Italy). She is Research Fellow at the Department of Economics, Society and Politics at the Carlo Bo University of Urbino, Italy, where she teaches Marketing and Business Management. Her main research interests concern: relational and experiential marketing; cultural heritage management; the economics and management of cultural and creative industries.

Curina, Ilaria is PhD in Economics and Management at the Department of Economics, Society, Politics of the Carlo Bo University of Urbino, Italy. Her research interests focus on the exhibition sector, the adoption and management of social media and information and communication technologies.

Danik, Lidia, PhD, is an Assistant Professor at the Faculty of World Economics, Warsaw School of Economics, Poland, where she teaches International Business Transactions, Cultural Determinants of International Business and Marketing. Her main research interests include intercultural relationships on the business-to-business market, early internationalization of SMEs, international business transactions and international marketing. She was twice granted DAAD Scholarship. She publishes in Polish and international scholarly journals and is a member of European International Business Academy.

Dugiel, Wanda, PhD, is an Associate Professor at the Faculty of World Economics, Warsaw School of Economics, Poland. She deals with the issues of broadly understood international economic relations, international economics, in particular integration processes on the European continent. She is author of the book, "The World Trade System - New Challenges and Reforms", nominated in 2014 for the Kronenberg Foundation Award for a special contribution to the development of science in the sphere of economics and finance.

Esposito, Gaetano Fausto is the author of numerous essays on the themes of financial economics and development, industrial economics, economic-territorial statistics and internationalization processes. He has been Director of the Studies and Research Area of the Istituto Guglielmo Tagliacarne, Italy, member of the Public Investment Evaluation Unit, professor of Applied Economics at different Italian Universities. He is currently General Secretary of Assocamerestero, Italy.

Gabbianelli, Linda holds a PhD in Economics and business management from the Carlo Bo University of Urbino, Italy. She is Research Fellow at the Department of Economics, Society and Politics of the same University, where she teaches International Business Communication. Her main research interests concern: management consulting, international strategies and international business marketing and communication.

Kadiri, Bola is affiliated to the Department of Business Administration, University of Ilorin, Nigeria.

Kowalik, Izabela, PhD, dr habil. is an Associate Professor at the Faculty of World Economics, Warsaw School of Economics, Poland, where she teaches International Marketing, International Entrepreneurship, Marketing Information Basics. Her main research interests include international marketing, early internationalization of SMEs, and marketing in the public sector. She has twice held the position of Chief Investigator in nationally sponsored research grants and is member of international research teams. She publishes in Polish and international scholarly journals and is a member of European International Business Academy.

Kowalska, Katarzyna, M.Sc., is a Teaching Assistant at the Institute of International Management and Marketing, Warsaw School of Economics, Poland, where she teaches Marketing, International Entrepreneurship, International Marketing. Member and co-founder of international cooperation alliances and clusters, she worked as an expert and coordinator of international cooperation in several EU projects implemented in Poland, Europe, and Latin America. Her research themes include network internationalization, intercluster collaboration, and cross-sectoral partnerships.

Latoszek, Ewa, is a Full Professor and Director in the Jean Monnet Chair of European Union, the Socio-Economic Collegium of Warsaw School of Economics, Poland. She is also Professor at the Warsaw Polytechnic, Collegium of Economic and Social Sciences. Fields of her teaching and scientific interest are: European integration, the EU policies, Poland in the European Union. She is member of different national and international bodies including the Committee of Economic Sciences of Polish Academy of Science.

Maculewicz, Łukasz M.A. is a PhD student at the Warsaw School of Economics. His research focuses on the analysis of conditions of armaments industry and the possibilities of its development in the aspect of balanced development of the entire economy in the international field. The author is an officer of the Polish Navy. Currently, he is employed by the Polish Ministry of National Defense, where he deals with issues related to the armaments policy of the state.

Masili, Giorgia is a PhD student in Economics and Business Management at the Department of Economics, Society and Politics of the Carlo Bo University of Urbino, Italy. She earned the Bachelor's degree in Economics and Business Administration at the University of Cagliari, Italy, and the Master's degree in Marketing and Business Communication at the School of

Economics of the Carlo Bo University of Urbino. Her research interests focus on the internationalization of small and medium-size enterprises, marketing and international marketing.

Owotutu, Sabitu Olalekan is affiliated to the Department of Business Administration, Ogun State Institute of Technology, Igbesa, Nigeria.

Silvestrelli, Patrizia is Professor of Economics and Business Management at the Department of Economics and Law of the University of Macerata, Italy, where she teaches International Marketing. Her research interests include the high-tech consumer industry, leadership in organizational change, tourism management and internationalization strategies of companies.

Content

ARTICLES

<i>Izabela Kowalik, Lidia Danik</i> Editorial	1-2
<i>Patrizia Silvestrelli</i> Managing Changes into International Markets. Flexible Structures and Knowledge Sharing for Firm Competitiveness	3-18
<i>Mădălina Bălău</i> The Limited Consumer Rationality and the Role of Environmental Cues	19-31
<i>Gaetano Fausto Esposito</i> Development Policies for Lagging Behind Areas: An Interpretative Note in the Name of Civil Entrepreneurial Development	33-45
<i>Kowo Solomon Akpoviroro, Bola Kadiri, Sabitu Olalekan Owotutu</i> Effect of Participative Leadership Style on Employee's Productivity	47-60
<i>Giorgia Masili, Iaria Curina</i> Global Start-Ups and Born Global Spin-Offs: A Multiple Case Study	61-80
<i>Linda Gabbianelli, Emanuela Conti</i> Content Marketing Tools and Metrics in Consulting Firms: Preliminary Results	81-99

SPECIAL SECTION ON INTERNATIONAL MARKETING OF SMES IN THE INFORMATION AGE

<i>Lidia Danik, Katarzyna Kowalska</i> Promotion Tools Applied by Polish INVs on Foreign Markets	101-115
<i>Izabela Kowalik</i> International New Ventures Learning Processes and Their Role in International Marketing	117-132
<i>Wanda Dugiel, Ewa Latoszek</i> Electronic Trade in the World Trade Organization - Difficulties in Negotiating an Agreement	133-143
<i>Lukasz Maculewicz</i> Main Directions of Development in the Defence Industry Sector in the Aspect of Globalization	145-155
List of Authors	157-159