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# ABSRC 2016 MILAN

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## THE INFLUENCE OF A STUDENT'S COURSE OF STUDY ON THE CHOICE OF ENTREPRENEURSHIP TRAINING

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### Abstract

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Since 2006, a policy of the Nigerian government made it mandatory for all Higher Educational Institutions (HEIs) to incorporate Entrepreneurship education into their curricula. This study is an attempt to assess the attitude of students of the federal polytechnic Ilaro Ogun State, Nigeria to the entrepreneurship programme. The pedagogy of entrepreneurship education adopted at the institution includes skill acquisition training. A survey was conducted by means of questionnaires among the students and the data collected was subjected to a chi-square test. The result shows that a relationship exists between the course of study of the student and the choice of vocational training.

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### Key Words

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policy, attitude, skill acquisition,

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## INTRODUCTION

Despite the global recognition of entrepreneurship education as a veritable tool for tackling unemployment, policy makers in Nigeria are yet to give entrepreneurship the deserved attention. Unemployment remains the major cause of poverty particularly among the youths between the 18 to 29 age cohort. The labour market cannot absorb thousands of graduates churned out year-in-year- out by the existing tertiary institutions. To tackle the problem of youth unemployment, the Federal Government in 2006 directed that Entrepreneurship Education (EEd) be incorporated in all the programmes \offered in Higher Educational Institutions (HEIs) in Nigeria.

Entrepreneurship education is the teaching of knowledge and skill that enables the student to plan, start and run their own business. The federal Polytechnic, Ilaro one of the tertiary institutions in Nigeria has embraced a unique strategy of curriculum delivery of Entrepreneurship Education (EEd) which constitutes the main focus of this research. The EEd course is divided into two components namely. Theory component and (ii) vocational skill acquisition component.

There are nine (9) trades available for students vocational training and to ensure effective training, the facilitators were chosen from artisans who are self-employed and live by the trade.

## LITERATURE REVIEW

The social dislocation created by the fall in crude-oil prices, plummeting from 120 (USD) to 30 (USD) per barrel has been greatly felt on the Nigerian economy. Funding of programmes to tackle youth unemployment, the opening up of new industries to create new employment opportunities have suffered a lot of setbacks. The consequent effect has been the soaring rate of youth unemployment especially now that 1.8 million youths enter the job market every year (Falusi, 2014) Also, it has been found that a number of skill acquired from the universities appear dysfunctional irrelevant and unmarketable (Okafor, 2011). The National University Commission in Nigeria observed that the massive unemployment of University graduates in the country is traceable to the disequilibrium between labour market requirement and lack of employable skills by graduates (Diejomaohand Orimolade, 1991).

Infrastructural deficit like irregular supply of electricity, bad road networks, poor communication system and soon have further compounded the unemployment problems hiking up the cost of doing business in Nigeria (Asajuer al, 2014). However, there has been intervention programmes of the federal and state government aimed at solving the problem of youth unemployment. O-YES-Osun State Youth Employment scheme was designed for graduate of tertiary institutions where-in they are employed in batches for a period of two years to serve as traffic officer, sanitary inspectors and teachers in public schools. The mandate is that whatever savings the participant can make within the period should be ploughed into setting up a business and become self-employed. In 2011 the Federal Government started the YouWinprogramme, that is youth Enterprise With Innovation in Nigeria. The idea is to give monetary awards to graduate youths with viable entrepreneurship ideas to set up their own business and in turn employ other youths (Akande, 2014). An effective delivery of entrepreneurship education is one that promotes experiential teaching strategy (Gibbs 1987) that is, learning by doing. This teaching strategy is what the Federal Polytechnic Ilaro has adopted for entrepreneurship training.

## METHODOLOGY

A survey was conducted by means of questionnaires distributed among the ND II and HND II students, the ones in the graduating classes. To ensure objectivity in the filling of the questionnaires, the administration was done during the convocation ceremony. Three hundred and sixteen copies, about 90% of the distributed questionnaires were duly filled and returned.



## RESULTS

Table 1: Choice of vocation by respondents

VOCATION	NO OF RESPONDENTS	% OF RESPONDENTS
Bottled water production	22	7
Barbing and Hair dressing	65	20.6
Beads making and wireworks	29	9.2
Block moulding	21	6.6
Venue decoration	56	17.7
Cell-phone repairs	14	4.4
Shoe-making	40	12.6
Fashion designing	25	7.9
Soap making	34	10.8
Incomplete	10	3.2
Total	316	100

Table 2: Gender versus age range

Age	15-17	18-20	21-23	24-26	27-29	30 above	Total
Male	2	28	51	47	19	3	150
Female	0	21	62	50	20	3	156
Total	2	49	113	97	39	6	306

Table 3: Choice of vocation versus course of study

School	Bottled water	Barbing and hairdressing	Venue decoration	Shoe making	Fashion designing	Soap making	Phone repairs	Block molding	Beads making	Total
Applied science	7	10	24	3	4	13	5	0	11	71
Engineering	8	11	05	25	2	5	4	12	9	81
Environmental studies	7	22	12	7	8	5	4	8	05	78
Management studies	0	22	20	7	11	14	1	01	04	80
Total	22	65	61	42	25	37	14	21	29	316

## DISCUSSION OF RESULTS

Table 1 shows that of all the nine available vocations, the least patronized is Bottled-water production. A reason to deduce for this is the cost of setting up the business which is the highest. Most vocations available for the training programme are so selected to be of minimum start-up capital, less or about ₦50, 000 (170 USD). This is justifiable because bank loans are difficult, if not impossible, to access for young graduates in Nigeria.

In table 2 shows wort of the respondent lie in their early or mid-twenties. The potential havoc this can wreck on a nation when young ones in this age brackets are unemployed is unimaginable. Much more efforts have to be geared towards entrepreneurship traning of young ones.

In table 3, one can observe how students from various schools (or faculties) made their choice of vocation.

Students in the schools of environmental studies and engineering populate the block moulding trade this is not unexpected these schools are more involved in building construction works. However, the barbing and

Hairdressing trade enjoys the greatest patronage from the students in management studies. It is found necessary to test statistically the influence of a students' course of study on the choice of vocation.

## TESTING OF HYPOTHESIS

$H_0$ - Choice of vocation is not dependent on the student's course of study

$H_1$ - Choice of vocation is dependent on the student course of study

On subjecting the data in table 3 to chi-square test at 40 degrees of freedom and at 5% upper-critical value the table value is 98.211 while the calculated value is 108.66. Since the calculated value is larger than the table value the null hypothesis is reject, hence based on the available data, vocation is dependent on the student's course of study.

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## THE IMPORTANCE OF PROMOTING GREEN GROWTH IN THE ECONOMY

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### Abstract

The Slovak Republic, as a Member State of the European Union, is committed to meet the strategic objective, which is to “significantly increase the competitiveness and performance of the regions of the Slovak economy and employment, while respecting sustainable development”. Today's status of environmental pollution is a global problem, especially in the field of air protection, minimization of adverse effects of climate changes, the promotion of renewable energy sources, water conservation and the rational use and protection of land. Sustainable development represents the evolution of human society while preserving the environment for future generations. The article<sup>1</sup> is focused on the strategic priorities with the aim of achieving economic growth in conjunction with the ecology and the quantification of indirect effects. The article describes the multi-criteria decisional analysis, which takes into account the indirect

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<sup>1</sup> The article is part of the solution of the scientific project no 1/0964/15 “Experimental investigation of the influence of motivation of economic agents on the payment of taxes” and of the scientific project no 1/0776/16 “ The taxation of the financial sector and harmonising tendencies in the Europe Union”.

effects in the form of environmental aspects. At the end of the article the benefits of research are articulated.

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### Key Words

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Sustainable Development, Economic Growth, Ecology, Environmental Aspects, Multi-Criteria Decisional Analysis, Paulownia,

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## INTRODUCTION

Sustainable development represents the development of human society preserving the environment. It is a development which, except of economic and social aspects, takes into account the environmental aspect. Currently, there are the following ecological problems: air pollution, damage of human health and the emergence of new civilization diseases, global warming, reduced formation of oxygen because of emissions, exhaust gases in the atmosphere, enlarging the ozone layer, land pollution and its degradation, excessive pumping of mineral resources in order to achieve the economic growth, increase in the volume of waste issues and problems with their removal (recycling) and water pollution and degradation.

## 1. ECONOMIC DEVELOPMENT IN CONNECTION WITH THE ENVIRONMENT

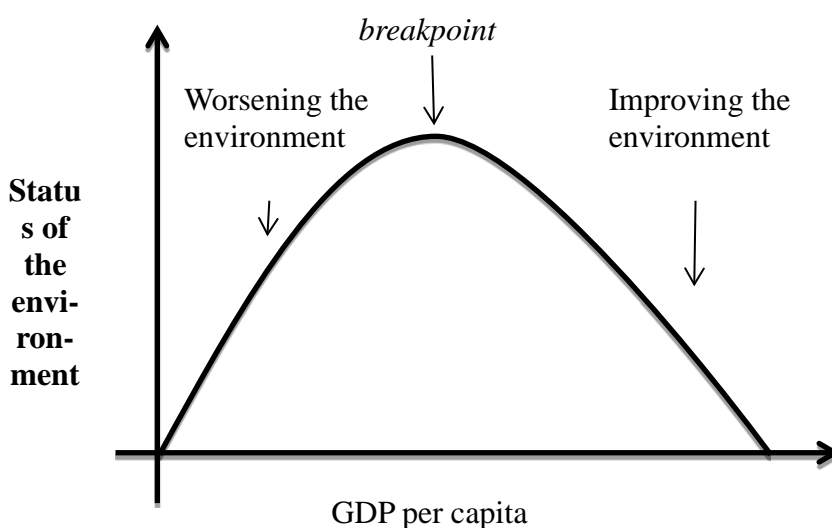
Activities of entities should contribute to the environment's pollution in the least possible way. The causes of environmental damage can be divided into two groups (Romančíková, E. 2004):

- *Causes conditioned by the development* - population growth, connected with the need to increase food production, increase in industrial production for the material support of the population, increased demands for energy, waste production, concentration and migration of population, economic growth as a tool for material ensuring of the increased number of people with negative implications, technical - economic impacts, conditioned by changes in production technologies and consumer habits (increase in air emissions),

- *Socio - economic reasons*: they can be derived from the functions that the environment performs in the economic system, as well as from the creation of external effects (externalities) arising from its excessive use.

In the field of environmental protection, much attention is paid to the relationship between the economic growth and the environmental pollution [Kuznets, S., 1955]. In the economic literature, that relationship is known as the Environmental Kuznets Curve [Kubicová, J., 2013, p. 88-89].

Figure 1: Kuznets Curve



Source: Kuznets, S. 1955.

Figure 1 depicts the situation when the economic growth in the early stages of economic development contributes to the environmental pollution, however, if the economic development reaches a certain level (expressed by the GDP), the economic growth, conversely, contributes to the improvement of the environment. The quality of environment significantly influences the status of basic socio-economic characteristics of the society, not excluding the Slovak Republic. The most important air pollutant are the following: greenhouse gases, (i.e. carbon dioxide,

methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulfur hexafluoride), which reduce the quality of the Earth's ozone layer.

*The starting point for the allocation of expenditure financed by EU financial assistance is the project itself.* The project assessment is based on the assessment of economic, environmental and social parameters. Economic evaluation is carried out through the cost benefit analysis. Except of all social aspects (social inclusion, improving working conditions), environmental aspects must also be taken into account, which are the focus on the environment (emissions) or improving the quality of life of the population. The quantification of indirect effects, especially socio-economic and environmental effects, seems to be problematic. In this context, the assessment of direct and indirect effects that are the results of the project activities, results being needed.

## 2. ADVANTAGES OF MULTI-CRITERIA ANALYSIS

The multi-criteria analysis offers the solution of socio-economic and environmental effects. One of the most important advantages of multi-criteria analysis is that it serves more complete picture of the environmental effects resulting from the implementation of project activities. The outcome of the environmental assessment is an overview of the real impacts on the environment and the quality of life of the population, while based on expert assessment the project is or not recommended for implementation [Slavíková]. In this context, particular attention is paid to factors such as:

- changes in the natural environment (emissions of prejudicial substances, habitats, animals),
- impact on the built-up area, land and impacts on water resources,
- effects on population and health risks (the emergence of civilization diseases),
- impact on the protected area (i.e. rare habitats, trees protected by law).

From the description of the MCA it is clear that the predictive value largely depends on the correct determination of weights of analyzed criteria. The quantification of weights of particular assessment criteria is one of the basic tasks in solving multi-criteria problems. It requires a good knowledge of examined issues, as well as the importance and the influence of criteria that are used to assess the achieved result. One option, that meets the mentioned requirements, is the application of method known as Analytic

Hierarchy Process (further AHP), whose author is Th. L. Saaty. AHP method is used in various decision-making situations and in different areas, such as government, commerce, industry, health, education, transport, economy, energy and environmentalist. It is based on pair comparison of the degree of importance of each criterion and the extent to which the evaluated variants of solutions meet these criteria. [Saaty, Th. L., Kearns, K. P. 1985]. It allows mathematically derive the weight of each criterion instead of subjective choice of criteria weights. It is applied particularly in the selection of options for one searched solution. AHP ensures the determination of weights using the matrix transfer of verbal expression for each pair comparison of the relevant criteria. The result is given by the weight in the relative scale of alternatives and criteria.

The result of the assessment carried out by pair comparisons using the AHP method is a matrix of preferences, which allows determine the weight of each evaluation criteria and subsequently assess the effectiveness of project activities [Saaty, Th. L., Kearns, K. P. 1985]. The structure of the mentioned matrix of preferences for the five assessed criteria and their calculation are specified in the Figure 3.

Figure 3: Preferences and Calculation of Weight of Assessed Criterion

	K <sub>1</sub>	K <sub>2</sub>	K <sub>3</sub>	K <sub>4</sub>	K <sub>5</sub>	M <sub>i</sub>	WK <sub>i</sub>
K <sub>1</sub>	1	P <sub>12</sub>	P <sub>13</sub>	P <sub>14</sub>	P <sub>15</sub>	$(1 \cdot P_{12} \cdot P_{13} \cdot P_{14} \cdot P_{15})^{1/5}$	$M_1 / \Sigma M_i$
K <sub>2</sub>	P <sub>21</sub> =1/P <sub>12</sub>	1	P <sub>23</sub>	P <sub>24</sub>	P <sub>25</sub>	$(1/P_{21} \cdot 1 \cdot P_{23} \cdot P_{24} \cdot P_{25})^{1/5}$	$M_2 / \Sigma M_i$
K <sub>3</sub>	P <sub>31</sub> =1/P <sub>13</sub>	P <sub>32</sub> =1/P <sub>23</sub>	1	P <sub>34</sub>	P <sub>35</sub>	$(1/P_{31} \cdot 1/P_{32} \cdot 1 \cdot P_{34} \cdot P_{35})^{1/5}$	$M_3 / \Sigma M_i$
K <sub>4</sub>	P <sub>41</sub> =1/P <sub>14</sub>	P <sub>42</sub> =1/P <sub>24</sub>	P <sub>43</sub> =1/P <sub>34</sub>	1	P <sub>45</sub>	$(1/P_{41} \cdot 1/P_{42} \cdot 1/P_{43} \cdot 1 \cdot P_{45})^{1/5}$	$M_4 / \Sigma M_i$
K <sub>5</sub>	P <sub>51</sub> =1/P <sub>15</sub>	P <sub>52</sub> =1/P <sub>25</sub>	P <sub>53</sub> =1/P <sub>35</sub>	P <sub>54</sub> =1/P <sub>45</sub>	1	$(1/P_{51} \cdot 1/P_{52} \cdot 1/P_{53} \cdot 1/P_{54} \cdot 1)^{1/5}$	$M_5 / \Sigma M_i$
						$\Sigma M_i$	

Source: own elaboration

The weight of a particular criterion is located in the last column of the matrix, which is labelled with the name WK<sub>i</sub>. For the criteria in the matrix symbol K is used, P represents the value of expressed preferences and M<sub>i</sub> denotes the fifth root of the product of preferences of pair comparison of



criteria in the line with the criteria in the column of matrix of preferences. The value of the exponent of the product of preferences is calculated as the reciprocal value of the number of criteria. In the case of financial decision-making on the allocation of budget funds, the results of cost-benefit analysis (e.g. indicator of economic net present value or economic internal rate of return) can be also considered to be a partial indicator applied in the selection of the optimal solution and be incorporated into the process of pair comparison with other selection criteria. This procedure shows that in the decision-making process about the allocation of public resources, the financial efficiency is analyzed in conjunction with the environmental aspects. The assessing of the environmental effects within the development of renewable energy sources in Slovakia is in the background. An accurate example, which in many cases does not reflect the environmental aspect, is the inappropriate location of biomass plants. These plants have a dominant position in Sweden, where the location of the plant must exceed the limit of 20 km from the snare of citizens (also in terms of expert assessment of health risks to the population). Many mayors, deputies and citizens should firstly assess the environmental aspect before the financial and economic effect. In the case that the plant is located in the village because of wrong decision of citizens and deputies, it is a heavy burden for citizens and their quality of life in the village (the socio-economic aspect is not taken into account).

*The main objective of Europe 2020* is to support the sustainable growth and the efficient use of natural resources (the so-called green growth). The green economy is a tool for achieving the sustainable development. Three main objectives have been included in the investment strategy of the Operational Program Environmental quality:

- supporting the shift towards a low-carbon economy in all sectors,
- supporting the climate change adaptation, risk prevention and management, support of economic activities beneficial to society,
- and the protection of the environment and promoting the efficiency when using natural resources.

From the perspective of environmental protection and efficient use of natural resources, the Nordic countries Norway, Finland and Sweden are an example. Greenery, in the form of green roofs, hedges and green areas - the so called green architecture has a dominant position in the Nordic countries.

Richness of Norway is not just in its oil resources but mostly the nation's view of values manifested in the idea of generating the Norwegian Oil Fund. Thanks to this Fund Norway has been achieving surplus budget for many years and so Norwegian generations are secured against adverse situations, risks and fiscal fluctuations in the country. Norway is ranked among countries with higher number of electro-mobiles which share on total number of vehicles has been gradually increased up to 12%. Electro-mobiles benefits are tax allowances and reduced air pollution. Their owners do not pay for parking in the cities and they can drive in lines reserved for public transportation.

In order not to lose their competitive advantages entrepreneurs must aim at the internal reconstruction of the business - reengineering. Environmental issues are also part of such internal reconstruction of the business. From the retail chains there was LIDL who got this policy right and I highly appraise that. *In present time its competitive advantage has been even improved. There is an environmental LIDL Logistics Centre built in Sereď that meets all requirements set by the BREEAM International Environmental Certification.* Compared to other retail chains LIDL is gaining its competitive advantage thanks to modern and environment-friendly technologies (LED lights, natural base of its cooling mixture, heat generated by cooling room used for heating, system of soaking tanks to store the rain waters, charging stations for electro-mobiles, garden adjustments at 2.5 hectares).

### 3. CONCLUSION

The quality of the environment significantly affects the status of basic socio-economic characteristics of the society, not excluding the Slovak Republic. Currently, it is necessary to harmonize the action of the economy while maintaining the environment and ecology, because the increasing destruction of the environment on the Earth, caused largely by the economy, is seriously threatening the existence of human civilization [KLINEC, 1998]. The tool for achieving sustainable development is the green economy. The main objectives of the green economy are the following:

- revival of the economy and increased well-being,
- elimination of poverty,
- reduction of carbon emissions and the protection of ecosystems.

Nowadays, dominant position must be showed by the green architecture (greenery, in the form of green roofs, hedges and green areas, lakes). Green roofs have a number of advantages, such as to cool and clean air, they help stabilize houses and serve as a suitable insulation of a house. Water should have ecological function, i.e. in the current overheated atmosphere, it should cool the atmosphere. It is necessary, especially in cities to build lakelets and fountains, because of cooling the air at the time of heats. Another solution is to plant green ivy walls along roads, especially in cities, in order to eliminate noise in cities. At the same time, ivy also has an exceptional ability to suck tars formed by the combustion and exhaust gases from cars. Concurrently, the noisy environment deteriorates the quality of life in towns and villages. Currently, many research studies confirm that tars formed by the combustion and exhaust fumes from cars, are strong carcinogens for the human body. In the centre of Slovak towns and villages it will be necessary to build low emission zones (in the city centre, municipalities, only cars with the lowest exhaust emissions will be used). In terms of bio-waste disposal, especially in cities, it is of great importance to build urban compost in housing estates, which will operate on the principle of compost in gardens or rural composting in the modern household.

From the climate perspective the high eco-trees are having significant role and it is necessary to plant them as much as possible in present time. Inert ecological trees are so called Paulownia emperor's trees. There are trees with high growth potential up to 30m (with annual augmentation of three metres). They provide much oxygen and absorb detrimental CO<sub>2</sub> from atmosphere. These are valuable trees having high rate of usage by animals breeding, by furniture production, by oxygen generating and CO<sub>2</sub> absorption.

*Standard of living and quality of life of citizens will depend on the protection, enhancement of the environment and the efficient use of natural resources. The support of adaptation to climate changes must be based on changes in human thinking in relation to the environment.*

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## THE INFLUENCE OF PERCIEVED SERVICE QUALITY ON INTENTION TO USE PRIVATE HOSPITAL SERVICES

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### Abstract

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Five dimensions of perceived service quality: tangibles, reliability, responsiveness, assurance, and empathy Zeithaml, Parasuraman, & Berry (1990) can be beneficial in creating identity to hospitals and helping service users differentiate a hospital service quality from others. An attempt to create such identity is made in order to build intention to use hospital services among patients or service users. Therefore, this research aims to study the influence of five dimensions of perceived service quality Zeithaml, Parasuraman, & Berry (1990) on intention to use private hospital services. By conducting a survey with 385 research participants in Thailand, this research has found that both reliability and assurance dimensions which affect intention to use services. These results can serve as guidelines in designing marketing strategies so as to gain a competitive edge in health-care industry.

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## Key Words

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Perceived Service Quality, Intention to Use Services, Hospital Industry,

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## Topic Groups

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Marketing and consumer behavior

### BACKGROUND AND RATIONALE

The trend of healthcare industry has been growing and increasingly competitive (Dagger, Sweeney & Johnson, 2007). Hospitals have to compete with one another in developing their services in order to survive in the market (Arasli, Ekiz & Katircioglu, 2008). In this regard, service quality has become one of the marketing tools which can distinguish a hospital's products and services from those provided by competitors.

Perceived service quality is widely accepted as the importance factor in business conduct to win others competitors. (Jabnoun & Al Rasasi, 2006; Jun et al., 1998) In addition, it is the key tools for generate the customers' satisfaction and lead to customers' loyalty. (Spreng et al., 1996) It has been used as the strategy when company need to increase their competitiveness. (Chen & Hu 2010) The excellence service quality formation induced from assurance, awareness and benefit recognition of service users or customers.

Perceived service quality development is thus essential for hospitals in such a fierce rivalry. The patients whom satisfied hospital service will affect the hospital income. (Raju & Lonail, 2002). Moreover, perceived service quality also reflected the effectiveness of business. (Zeithaml, 1998)

The present research thus attempts to explore the influence of perceived service quality in 5 dimensions (SERVQUAL) on intention to use private hospital services, based on the research framework displayed in Figure 1. Results of this research are expected to offer guidelines in marketing strategies for healthcare industry.

## THEORETICAL FRAMEWORK

### Perceived service quality

Perceived service quality is the service quality measured from customers' feeling and experience. Jiang & Wang (2006), Perceived service quality depends on the comparing between customer expectations versus actual perceptions. The ways to evaluate the perceived service quality is to measure the gap between customers' expectation and how much they perceived. If they perceived more than expectations, they will satisfy and perceived the quality of services, Parasuraman et al. (1985).

In additions, it was the diagnostic of customers' feeling towards products or services based on their reasons, personality, believes and attitudes, Parasuraman, Zeithaml & Berry (1986).

Zeithaml, Parasuraman, & Berry (1990) has developed five dimensions of perceived service quality called SERVQUAL as follows:

1. Tangibles such as physical evidence of business, instruments, devices and employees' uniform.
2. Reliability such as the ability to service in correct ways.
3. Responsiveness such as ready for service and pleasure to service.
4. Assurance such as employees' knowledge of service, honesty, ability to gain customers' assurance.
5. Empathy such as customers' privacy information protection and attention on delivering services.

SERVQUAL has been accepted to its validity and reliability in measuring service quality in healthcare sector or hospital (Markovic, Loncaric, & Loncaric, 2014).

Joonas & Wang (2012) measured hospital perceived service quality in Taiwan, used SERVQUAL as the tools. The study found that tangibles, responsiveness, assurance and reliability dimensions are related to patients. The responsiveness and assurance dimensions show the highest influenced to patients and total services quality is directly influenced to service. Moreover, the study show patient with long waiting time is negatively influenced patients' satisfaction but increasing doctor visiting time is positively impacted to customers' satisfaction.

Kalepu (2014) use SERVQUAL to evaluate hospital service quality in India. The study concluded that this model is valid and reliable. The study says demographic and socioeconomic factors are influenced to satisfaction to



service quality. In additions, Age, gender, income, social class, education and socioeconomic factors play an importance role on service quality's satisfaction.

### **Intention to buy**

Intention to buy is a rational process that engages customers' minds which reveal the plan to purchase or use services through the perceived usefulness of products in response to their needs and wants. This process reflects customer confidence in a brand and results in purchase behavior in the future (Chang, 2008; Xu, 2009; Kim & Pysarchik, 2000; Keller, 2001).

Kamolpiyapat (2015) found the service marketing mix factor has not influenced to service user decision process on private hospital in Bangkok, Thailand. However, the perceived service quality and health insurance factors have positively done.

Gaur et al. (2011) Found the relationship between doctor and patient is positively promoted two ways communications. Moreover, this relationship also increased the patients' satisfaction and assurance on doctor treatment competency which can finally promote patients' loyalty.

Shafei, Walburg & Taher (2015) Found hospitals' commitment, doctors' service, nurses' service, laboratory's service, admission process, discharge process, room and cleanness and meals' service are influenced to hospital service quality.

Based on the literature review, this research hypothesizes that perceived service quality of hospital is likely to have an influence on intention to use hospital services.

**H1:Tangibles dimension of perceived service quality influences intention to use services.**

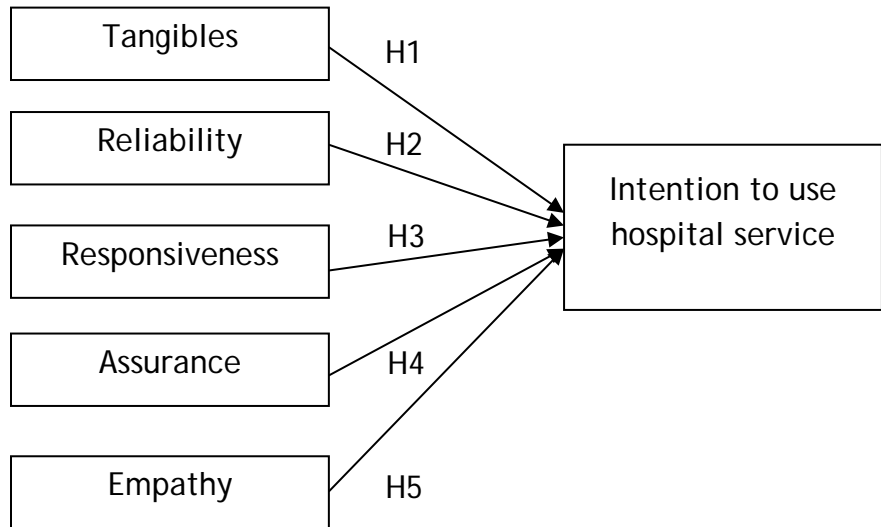
**H2:Reliability dimension of perceived service quality influences intention to use services.**

**H3:Responsiveness dimension of perceived service quality influences intention to use services.**

**H4:Assurance dimension of perceived service quality influences intention to use services.**

**H5:Empathy dimension of perceived service quality influences intention to use services.**

Figure1: Conceptual Framework



## METHODOLOGY

This research examined the influence of the five dimensions of perceived service quality: tangibles, reliability, responsiveness, assurance, and empathy on intention to use hospital services by using multiple regression analysis.

### Research sample

The research sample included 385; most of them were business owners/trading (37.4%) and women (62.6%) at the average age of 34.5 years and with a monthly income less than 20,000 baht (43.6%).

### Measurement tool

This research chose one well-known hospital in the city where this research was conducted as the focal hospital. The measurement tool was a questionnaire with three parts: the first part asked eleven questions about the respondents' personal information and their behavior with this hospital, the second part asked 22 questions about perceived service quality Zeithaml, Parasuraman, & Berry (1990) and the third part asked three questions about intention to use services (Tih & Lee, 2013). The

questions in the second and third parts employed a five-point Likert scale (5=it is most likely to be so/the strongly agree, and 1=not at all/strongly disagree).

## RESULTS

Table 1 : Descriptive Statistics and Reliabilities

	Mean	SD	$\alpha$
Tangibles	4.20	.66	.87
Reliability	4.25	.65	.89
Responsiveness	4.30	.67	.89
Assurance	4.33	.61	.86
Empathy	4.32	.63	.89
Intention to use service	4.17	.80	.92

Table 2: Multiple Regression Results

Independent Variable	Intention to use service	
	B	t-test
Tangibles	.08	1.34
Reliability	.20	2.97*
Responsiveness	.12	1.59
Assurance	.31	4.30*
Empathy	.08	.89

\*  $p < .01$

Analysis results in Table2 revealed that only two dimensions of perceived service quality, reliability ( $B = .20$ ,  $t = 2.97$ ,  $P < .01$ ) and assurance ( $B = .31$ ,  $t = 4.30$ ,  $P < .001$ ), had a positive effect with statistical significance on intention to use hospital services, while

tangibles ( $\beta = .08$ ,  $t = 1.34$ ,  $P > .05$ ), responsiveness ( $\beta = .12$ ,  $t = 1.59$ ,  $P > .05$ ), and empathy ( $\beta = .08$ ,  $t = .89$ ,  $P > .05$ ) did not.

## CONCLUSION, DISCUSSION, IMPLICATIONS, RECOMMENDATIONS

### Conclusion

This study has discovered that there are only two dimensions of perceived service quality, reliability and assurance, which positively affect intention to use hospital services.

### Discussion and implications

These results have a number of marketing implications. For example, If hospitals want to augment customers' intention to use hospital service, they should primarily build their service quality on the basis of reliability and assurance dimensions. Accordingly, hospital services will be better recognized in terms of reliability and assurance, which will boost intention to use services as well. These can be done through the reinforcement of perception of hospital quality of service. Furthermore, If hospitals want to focus on a better recognition of such dimensions of perceived service quality on reliability, can do by keep on the service quality level and standard. For example, hospitals can build the reliability dimension by communicating their service through the doctor, nurse and officer to maintain knowledge, expertise, and politeness also explain more on patients' illness and their medical problem. Moreover, promoting in reliability dimension, the hospital must to understand the customers' conditions and their needs. In the same way, If hospitals want to focus on a better recognition of such dimensions of perceived service quality on assurance, the hospital should always ready for service with expertise employees to assured customers. If troubles occurred, the hospital is able to fix efficiently and transfer service with an excellence process.

The service quality plays an importance role on intention to use hospital service. Lien et al. (2014) found that the hospital with good service quality and employees are kind is positively influence to intention to use hospital service and patient's trust. Moreover, Trusted patients tend to recommend other person to use service with hospital. According to Arab et al. (2012) patients' experience is highly influenced to reuse and recommend hospital

services. These are the reason for hospital keep on their service quality level in order to remain and increase their customers. The study of Lee , Khong & Ghista (2006) also supported, The service quality deficiency can effect more than 70 percent of customer to reject to use the hospital service in the future. Not surprisingly, 75 percent of them tend to transfer negative words of mouth communications to family members and friends at least 9 persons.

### **Recommendations for future research**

Perceived service quality development can be built by increasing more relation among patients and hospital both frequency and the time of conversation. In present, Words of mouth communication (WOMs) is the popular and effective marketing tools consist of 5 factors; inform about product and service, seeking for customer who prefer sharing information, providing communication tools for messages exchange, study for the ways, time and place for sharing and listen to the opinion of the shared persons and tellers (Lake, 2010).

Crooks et al. (2010) supported that services' user whom satisfied for hospital service, usually expand positive information or WOMs to others which motivated to use service with stated hospital. WOMs also promote buyers' decision process. Naik, Anand & Bashir (20013) shows the perceived service quality in healthcare related to WOMs.

As the present study aims to investigate the influence of perceived service quality and intention to use services, future research may examine the relationship between perceived service quality of hospitals and the acknowledgement of WOMs, this will create attractiveness to use services provided by these hospitals and enhance customers' decision process to use services; thereby offering new guidelines in creating marketing campaign for hospitals.

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## ARE EUROPEAN METROPOLITAN REGIONS STILL RELEVANT AND WHAT ARE THE DRIVING FORCES OF URBAN ECONOMIC GROWTH? A COMPARISON BETWEEN WESTERN AND CENTRAL AND SOUTH-EASTERN REGIONS IN THE EU

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### Abstract

The focus of this study is to contribute to metropolitan economic growth literature by implementing an analysis for 271 areas located in the EU between 2000 and 2013. For this endeavour the study uses the Quasi-maximum likelihood estimator with fixed effects. To check the robustness of the results, the time period is divided in two (post and ante economic crisis) and by splitting the sample of metropolitan regions in two components - Western more developed regions and the Central and South-Eastern (the formal communist states, except for Cyprus) areas. The results indicate that the industrial, construction and wholesale and retail trade sectors are positively linked with metropolitan growth. The agricultural, fishery and forestry sector is negatively influencing growth.

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The manufacturing and ITC sectors and migration are not statistically significant. Furthermore population density and size is more important than population growth and European enlargement did not have a substantial positive impact on metropolitan growth for the Central and South-Eastern regions.

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### Key Words

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metropolitan growth, QML, European Union, Economic sectors

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### Topic Groups

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Economic growth, Macroeconomics, Research methods

## 1.INTRODUCTION

From the beginning of human recorded history cities were centres of culture, economic wealth, artistic innovation and magnets for the most talented people of the area. From the Phoenician city states (Tyr, Sidon and Byblos), the Greek poleis, Rome, the city was considered the cradle of civilization and sometimes its destruction meant the end of that culture (Carthage was razed to the ground in 146 BC after the roman defeat).

The notion that cities are a source of economic growth is gaining more and more focus in the recent period. Cities and urban areas are considered to be the fundamental sites for the concentration of economic activity. This is in part because of the new research done by many scholars in the field of new economic geography (agglomeration economies) or the ones involved in the “new growth theory” (Glaeser et al., 1992; Combes, 2000; Melo et al., 2009).

Cities are human centres that allow for the exchange of goods, ideas and people and in turn the society reaps the benefits from trade and specialization (Glaser et al., 1992; Combes, 2000; Christiaensen and Todo, 2013). Cities facilitate all this factors to come together to allow for more production and labour specialization. Towns and cities rose to become market places in which goods and services are transferred faster and more efficiently.

When focusing on Europe it's important to state that more than 75% of its citizens are living in urban areas. From this number we can affirm that Europe has the highest density of urban areas in the world. Urbanization is a fast growing trend in the EU even if population growth is small compared with many other regions (Asia, Africa or Latin America). Half of European cities are small with between 50 000 and 100 000 inhabitants and only two can be considered global cities - London and Paris. Smaller cities have more than 40 % of the EU population (OECD, 2012).

The focus of this study is to contribute to metropolitan economic growth literature by implementing an analysis for 271 areas located in the EU. For this endeavour the study uses the Quasi-maximum likelihood estimator with fixed effects to quantify and statistically demonstrate the link between the independent variables and GDP measured in per capita and in PPS per inhabitant. The investigation will use several independent variables to check which of them has an influence on metropolitan growth. These are the percentage of agriculture, industry, construction, retail, transportation and accommodation services, manufacturing and information and communication in total metropolitan gross value added, the number of employees, the population size, growth and density and finally net migration.

To investigate the robustness of the results, the empirical model is also estimated by dividing the time period in two parts (post and ante economic crisis) and by splitting the sample of metropolitan regions in two components - the Western more developed regions and the Central and South-Eastern (the former communist states, except for Cyprus) metropolitan areas.

The key questions that this study will want to answer are:

1. What are the most important economic sectors for metropolitan growth?
2. Does population size, population density or population growth have an effect on metropolitan regions?
3. Is migration a positive influence on development?
4. Are metropolitan regions diverging and did the European enlargement substantially influence growth in these areas?

## 2. LITERATURE REVIEW

At the end of the 19th century Alfred Marshall (1890) argued that urban agglomeration has many benefits for regional and state development. These benefits can be summed up as follows: providing easier goods and services to firms and also to consumers, knowledge spillovers and labour market pooling. The early 1990s saw a revitalization of the urban economics and economic geography literature (Porter, 1990; Krugman, 1991) and continued in the new millennium especially by North American researchers (Henderson, 2010; Glaeser, 2011). These seminal works mostly concentrated on North American cities. Because of the important shifts that are now taking place regarding the importance of cities in driving economic growth this study will try to offer future insight and answer some important questions.

It is well known that urban centres are the engines of regional economic growth. States with more dispersed urban centres with medium size population have reduced poverty compared with countries that have a big concentration of population and large cities (Christiaensen and Todo, 2013).

Rapid urbanization has occurred extensively after the second half of the 20th century. This process is unprecedented in human history and has manifested more in countries with low per capita income (Cohen, 2004). We can attribute the fast pace of urbanization to changes in the economic system and mostly to globalization. In the case of India, Sridhar (2010) pointed out that at the beginning of the 19th century only Calcutta had a population of more than 1 million inhabitants. This process was intensified after the half of the 20th century in India. In 1991 there were 23 cities with a population of over 1 million inhabitants and by 2001 the number rose to 35 cities (38% of the total urban Indian population).

Urban economists have shown that larger cities have high population density because of the increasing competition for capital gains (returns) and labour. Large cities also have higher productivity and per capita income compared with the smaller ones, but this statement is highly dependent on the political and economic system in the country (Polèse, 2005). According to Combes (2000) large cities grow more if the infrastructure endowment is better (better schools, roads, hospitals). Au and Henderson (2006) found that because of migratory restriction a big

number of Chinese cities are not growing as fast as they should, in turn affecting urban economic growth and income.

The size of a city can be also detrimental to its growth. There are negative outcomes of becoming too large as a city. These are being defined by the literature as “agglomeration diseconomies” (Henderson and Becker, 2000). These diseconomies can range from increased crime rates, air pollution (some examples can be found for Chinese mega cities), higher costs of living, social inequality or traffic congestion due to too many cars and an infrastructure that is lagging behind.

According to the agglomeration economies theory there are productivity gains for companies and citizens by the fact that they are clustered in an urban community. For example companies which are located in an urban zone benefit from the economy of scale (a bigger market size), lower transaction, information and infrastructure costs, a bigger sampling pool for recruitment and more skilled workers or more suppliers to choose from. The human capital accumulation of skilled workers determined the fast growing of Indian cities by making them more attractive for companies (Sridhar, 2010).

As stated above agglomeration economies are mostly beneficiary for companies, but urbanization and especially the formation of large cities brings more competition. It is still argued if higher competition is going to lead to future economic growth for urban areas (Glaser et al., 1992; Usai and Paci, 2003; Combes, 2000).

There are many research contributions that focused on the urban economic growth in China and what determines city growth. Between 1991 and 1998 urban economic growth was influence by foreign direct investment, infrastructure endowment and investment in human capital. Population growth and domestic investment had a negative impact on GDP per capita (Lin and Song, 2002). Population growth was found to influence real urban GDP growth in 220 Chinese cities, but to negatively influence GDP/capita (Anderson and Ge, 2004). Compared to the government sector, the private sector contributed the most to city growth in China. Au and Henderson (2006) stated that in China agglomeration economies (diversified industries and population), the accumulation of capital and foreign direct investment were significant sources of growth.

Urban centres are very important for rural inhabitants in many ways. First of all they provide a market for their products and in turn cities provide for rural inhabitants specialised goods and services. Secondly commuting from rural area to urban areas for employment reasons is a common fact in the modern era. Many people in the developing countries of Eastern Europe, Latin Africa, Africa and Asia increase their rural income by working in the medium and large urban centres (Reardon et al., 2001). Cities can be considered also hubs for fostering cultural, economic and social communication between citizens of the same country or from different corners of the world. This is because usually the infrastructure is more developed in urban areas than in rural areas, offering more connectivity between people.

In accordance with the endogenous growth theory it is important to state that urban centres are essential for knowledge formation and diffusion. They promote the flow of new ideas and facilitate innovation (McCann, 2007). The knowledge diffusion of cities is beneficial for creating spatial externalities and spillovers that can contribute more to regional and state development. Knowledge spillovers are increased if companies in the same industry are geographically proximate.

According to McCann and Acs (2011) productivity increases with the size of the city in US, Korea and Japan, but in general productivity is more related to growth if the city is better connected with other cities/regions. Cities are also socially diverse, with inhabitants from different backgrounds, with different religions, norms or habits. This is more common in large urban areas like London, Paris, New York or Beijing. Audretsch et al. (2010) have found that urban social diversity has an important effect on regional economic growth.

Berdegue et al. (2015) confirmed that the presence of a city in a rural-urban region has a positive outcome on economic growth in Colombia and Chile and that it reduces poverty. They found that cities favour territorial development by the diffusion of ideas, the flows of information and knowledge and providing access to specialized services. In the case of Brazil, the rise in rural population supply, the development of inter-regional infrastructure and higher levels of education for the work force has a big impact on the growth of a city (Da Mata et al., 2005). The increase in criminality rates has a negative impact on the growth rate of a Brazilian urban area.

Climate also plays an important factor in urban population growth and can affect the economic growth of a city. Urban areas that are less favourable for human inhabitants tend to grow slower than the ones with climate endowed (Haurin, 1980).

There are also scholars that, contrary to the literature, consider that cities do not influence growth and that the evidence so far is not conclusive. Polèse (2005) considers that cities do not cause income to rise in the long run, but the rise in income is a result of an adjustment process of national economic growth.

### 3. METHODOLOGY AND DATA

The aim of this paper is to evaluate the factors determining urban economic growth at metropolitan level between 2000 and 2013 in the European Union for 271 metropolitan regions. The Directorate General for Regional Policy of the European Commission defines metropolitan regions as NUTS3 regions or a combination of NUTS3 regions which represent all agglomerations of at least 250.000 inhabitants. These agglomerations were described using the Urban Audit's Functional Urban Area (FUA). Each metropolitan agglomeration is represented by at least one NUTS3 region.

The study is based on a growth equation with the dependent variable being the metropolitan GDP per capita or metropolitan GDP at purchasing power standard per inhabitant. All the monetary values are expressed at current market prices and denominated in euros.

The variables will be transformed using the neglog transformation. Some of the variables in the study are negative (net migration, population growth) and the utilization of normal logarithm will result in data loss. The neglog transformation behaves like  $\ln(z)$  when  $z$  is positive and like  $-\ln(-z)$  when  $z$  is negative (Whittaker et al., 2005). So the investigation will use a logarithm called "L" =  $\text{sign}(z) \cdot \ln(|z| + 1)$ , where  $z$  is the value of the variable.

The economic growth equation has the following form:

$$\begin{aligned} LY_{it} = & \beta_0 + \beta_1 Ly_{i,t-1} + \beta_2 LGVAagr_{it} + \beta_3 LGVAind_{it} + \beta_4 LGVAmauf_{it} + \\ & \beta_5 LGVAconst_{it} + \beta_6 LGVAserv_{it} + \beta_7 LGVAitc_{it} + \beta_8 LEMPL_{it} + \\ & \beta_9 LDENSITY_{it} + \beta_{10} LEAP_{it} + \beta_{11} LPOP_{it} + \beta_{12} LPOPgr_{it} + \beta_{13} LMIGRATION_{it} + \\ & \beta_{14} D_{it} + \eta_i + \varepsilon_{it} \end{aligned} \quad (1)$$

where:

LY: the neglog of metropolitan GDP per capita or GDP at PPS standard per inhabitant;  $Ly_{i,t-1}$ : represents the neglog of one lag metropolitan GDP per capita or one lag metropolitan GDP in PPS standard per inhabitant. It is usually introduced in the growth equation to measure the convergence or divergence hypothesis; LGVAagr: represents the neglog of the share of metropolitan gross value added of agriculture, forestry and fishing in total metropolitan gross value added; LGVAind: represents the neglog of the share of metropolitan gross value added of industry in total metropolitan gross value added; LGVAmanuf: represents the neglog of the share of metropolitan gross value added of manufacturing in total metropolitan gross value added; LGVAconst: represents the neglog of the share of metropolitan gross value added of construction in total metropolitan gross value added; LGVAserv: represents the neglog of the share of metropolitan gross value added of wholesale and retail trade, transport, accommodation and food service activities in total metropolitan gross value added; LGVAitc: represents the neglog of the share of metropolitan gross value added of information and communication in total metropolitan gross value added; LEMPL: the neglog of the total number of employees at metropolitan level. This indicator will measure the impact of employed persons on metropolitan economic growth; LDENSITY: the neglog of metropolitan population density (persons per km<sup>2</sup>). It is a proxy for regional agglomeration; LEAP: the neglog of economically active population (inhabitants); LPOP: the neglog of metropolitan population (inhabitants). It measures the impact of population size on metropolitan economic output; LPOPgr: the neglog of metropolitan population (inhabitants) growth; LMIGRATION: the neglog of metropolitan net migration (%); D: represents the dummy variable for European enlargement. This dummy variable will assess if EU enlargement had an impact on the economic growth of metropolitan areas. Because the study analyses all the 28 EU metropolitan areas between 2000 and 2013, some of them were not part of the EU before 2004, 2007 or 2013. The variable will take the value 1 if the metropolitan area was part of the EU and 0 if the metropolitan area was not;  $\eta$ : is the unobserved regional-specific effect;  $\varepsilon$ : is the disturbance term;  $i$  is the individual regional dimension and  $t$  is the time period dimension.

Data are taken from the Eurostat database, more specifically from the metropolitan regions database. All monetary data are expressed at current market prices and denominated in common currency (ECU).

#### 4. RESULTS

For analyzing the influence of the independent variables presented in the methodology, the study will use the Quasi-maximum likelihood with fixed effects. The study uses a linear dynamic panel data model. The QML estimator was developed by Kripfganz (2016). The ML (maximum likelihood) approach was pioneered by Bhargava and Sargan (1983), further developed by Hsiao, Pesaran and Tahmiscioglu (2002) and is suited also for panel data with missing values. Missingness can be solved by implementing a ML estimation or a multiple imputation technique.

The Quasi-maximum likelihood method does not use any instruments compared with the GMM or system GMM methods. Also the weak instruments that may be used in the GMM and SysGMM are avoided in the QML estimation. The estimators in a QML technique are extended to accommodate for unbalanced panel data, like in the present investigation related to metropolitan economic growth.

Before applying the regression model it is important to make some preliminary investigations. Some of the variables may be nonstationary. The regressions that involve independent nonstationary variables can generate "spurious" results (Ghosh, 2012). For testing the stationary hypothesis the investigation applies the Fisher-type unit-root test which is suited for this panel data. The test confirms the presence of a unit root for several variables. It is also conducted for the first differenced variables. By doing so, the nonstationary variables become stationary in first difference. The model will be rewritten with all the variables in first difference except for the dummy one. The regional specific effects are removed when the first difference is implemented. The results of the Fisher test are available by request from the authors.

The study will compute the Hausman test to determine if the quasi-maximum likelihood will be a fixed effects or a random effects method. The results (Table 1) confirm that the study should use a QML method with fixed effects.



Table 1: Hausman test for the QML method

GDP/Capita	GDP PPS/inhab
chi(14) = 52.92 Prob>chi2 = 0.0000	chi(15) = 425.68 Prob>chi2 = 0.0000

*Source: Stata v14*

To eliminate the common sources of cross-sectional dependencies the investigation will include also time dummies. To see if time fixed effects are needed the Parm test will be computed. The results of the Parm test from Table 2 confirm the null hypothesis of the importance of time fixed effects.

Table 2: Parm test

GDP/Capita	GDP PPS/inhab
chi(12) = 67.46 Prob>chi2 = 0.0000	chi(12) = 75.66 Prob>chi2 = 0.0000

*Source: Stata v14*

Next the study will present the results of the QML-FE estimation. Compared with the GMM methods, the QML does not use instruments which can bypass many problems identified by Roodman (2009) like for example instrumental selection. The QML estimators can also raise efficiency. The results are presented in Table 3.

Table 3: The results of the QML-FE method

	(1)	(2)
L.GDP/capita	0.815*** (40.36)	
L.GDP PPS/inhab		0.808*** (35.41)
Share of Agriculture, forestry and fishing	-0.0415** (-2.36)	-0.00686 (-0.55)
Share of Industry	0.0980* (1.71)	0.0945*** (2.66)
Share of Manufacturing	0.00580 (0.13)	-0.0263 (-0.91)
Share of Construction	0.0972*** (5.44)	0.0561*** (4.34)
Share of Wholesale and retail trade, transport, accommodation and food service activities	0.112*** (4.30)	0.0450** (2.35)
Share of Information and communication	0.00272 (0.25)	0.0133 (1.62)
Employees	0.224*** (5.64)	0.175*** (6.38)
Population density	0.0829*** (2.64)	-0.00913 (-0.31)
Economically active population	-0.00955* (-1.68)	-0.00484 (-0.62)
Population size	-0.111 (-1.09)	-0.246** (-2.46)
Population growth	0.00817** (2.01)	-0.000638 (-0.22)
Net migration	-0.00454 (-1.27)	0.00210 (0.82)
Enlargement	0.0357** (2.52)	0.0379*** (4.93)
Constant	-0.629 (-0.47)	2.696* (1.94)
Observations	1374	1374

Notes: Standard errors in parentheses, \*  $p < 0:10$ , \*\*  $p < 0:05$ , \*\*\*  $p < 0:01$ .  
All regressions include time dummies

Source: Stata v14

The coefficients of the lagged dependent variables are positive, implying that there is divergence between metropolitan regions in the EU. The share of agriculture, forestry and fishing has a small negative impact on growth at a confidence interval of 95%. It seems that raising the share of this sector in the EU would not be so beneficial for metropolitan development. The industrial and construction sectors are two domains that add value to the EU economy, but the coefficients are small. By increasing the share of industry for example with 1% the metropolitan GDP will rise with approximately 0.1%. The manufacturing sector was not statistically significant.

The sector of wholesale and retail trade, transport, accommodation and food service activities has statistically significant coefficients. The results of column (1) suggest that this sector has a bigger impact on metropolitan growth than the other sectors of the economy. Even if the EU has put a lot of emphasis on the importance of investing in the field of information technology it appears that this sector has not a big impact especially on metropolitan regions. Our results imply that this sector is not statistically significant in determining growth.

As expected, the number of employees is positively influencing metropolitan growth. If the number of employed persons rises by 1%, metropolitan GDP rises by almost 0.18-0.22%. Economically active population size had statistically insignificant coefficients, with only one being in the confidence interval. Population density, the proxy for agglomeration, has a positive coefficient of 0.08, but still the effect is not so considerable. Population size has a negative coefficient. A fast increase in population can be associated with a rise in public expenditure (child care and other contributions) that can put a strain on the economy. Population growth has a very small effect on metropolitan economic growth and the significance level is only at 5%.

Net migration is not statistically insignificant. European enlargement appears to have contributed to metropolitan development, but the coefficients are small. This can be a concern for EU authorities in light of rising euroscepticism and the 2016 British referendum for the Brexit.

## 5. ROBUSTNESS CHECK

In the final part of the investigation, to gain some robustness, the time period is split in two parts and also the list of metropolitan areas is divided so as to measure the difference between the Western part of the continent and the Central and South-Eastern part of Europe.

The first robustness check will analyse the econometric model by dividing the period in two samples, one being the period from 2000 to 2007 and the other the period after the economic crisis, from 2008 to 2013. By doing so, the study will determine if the period before the crisis was totally different compared with the period after the crisis.

In Table 4 columns (1) and (2) highlight the results for the QML-FE method with GDP/capita as dependent variable, whereas columns (3) and (4) present the results for the method with GDP PPS/inhab as dependent variable.

Table 4: The results of the QML-FE method with the time period divided in ante and post economic crisis

	(1) 2000-2007	(2) 2008-2013	(3) 2000-2007	(4) 2008-2013
L.GDP/capita	1.203*** (40.74)	0.252*** (6.87)		
L.GDP PPS/inhab			0.888*** (13.88)	0.460*** (7.10)
Share of Agriculture, forestry and fishing	0.0106 (0.61)	-0.0597** (-2.38)	-0.00196 (-0.11)	-0.0277 (-1.35)
Share of Industry	-0.0839* (-1.75)	0.133** (2.47)	-0.0135 (-0.20)	0.144*** (2.81)
Share of Manufacturing	0.0817** (2.00)	0.0354 (0.97)	0.0152 (0.27)	-0.00736 (-0.25)
Share of Construction	-0.00205 (-0.11)	0.0913*** (3.14)	0.0466** (1.99)	0.000888 (0.03)
Share of Wholesale and retail trade, transport, accommodation	0.0402* (1.75)	0.0154 (0.41)	-0.0119 (-0.20)	0.00515 (0.12)

and food service activities				
	(1.71)	(0.39)	(-0.35)	(0.13)
Share of Information and communication	0.0250**	-0.0161	0.0303*	-0.0115
	(1.98)	(-0.75)	(1.72)	(-0.48)
Employees	0.133***	0.251***	0.249***	0.247***
	(3.32)	(3.90)	(4.40)	(4.62)
Population density	0.0794***	1.461**	0.0527**	-0.659
	(2.93)	(2.48)	(1.96)	(-1.40)
Economically active population	-0.0390**	0.0137	-0.0512**	0.0226**
	(-2.26)	(1.57)	(-2.18)	(2.15)
Population size	0.267*	-1.367**	-0.299	-0.122
	(1.66)	(-2.00)	(-1.43)	(-0.25)
Population growth	0.00387	0.00501	0.000915	-0.00106
	(0.93)	(0.63)	(0.26)	(-0.17)
Net migration	-0.00232	-0.00888	0.00247	-0.00109
	(-0.65)	(-1.35)	(0.84)	(-0.23)
Enlargement	0.0245***	.	0.0313***	.
	(3.21)	.	(4.86)	.
Constant	-7.413***	13.95**	2.319	7.102
	(-3.01)	(2.26)	(0.72)	(1.56)
Observations	811	637	811	637

Notes: Standard errors in parentheses, \*  $p < 0:10$ , \*\*  $p < 0:05$ , \*\*\*  $p < 0:01$ . All regressions include time dummies

*Source: Stata v14*

The results of Table 4 suggest that there is still divergence between the 271 metropolitan areas used in this study, but the interesting point is that the coefficients for the 2000-2007 sample period were much bigger than the ones for 2008-2013. This implies that the economic crisis has smoothened the gap between the metropolitan regions analysis in this study.

Regarding the impact of different economic sectors on metropolitan growth, from Table 4 we can see that agriculture, forestry and fishing had a significant coefficient only in the after crisis period, with a negative value. The coefficients for the industrial sector were negative before the crisis, but after the 2008 it seems that this sector has a positive correlation with metropolitan economic growth. Concerning the role of manufacturing in boosting metropolitan development, the results show that only one

coefficient was statistically significant and quite small. This suggests that this sector is not detrimental in influencing regional development.

As to the importance of construction, the results of Table 4 imply that this sector is among the driving factors that play a role in metropolitan development, but its impact is not so substantial because of the small coefficients. According to the results in the above mentioned table, the sector of wholesale, retail trade, transport, accommodation and food service activities and the one for information and communication were influencing metropolitan economic growth only in the ante crisis period.

The number of employees is an influential determinant for metropolitan economic growth. Economically active population size had negative coefficients before the economic crisis, but after the crisis the values are positive. This implies that the work force is more important in stimulating growth in periods of turmoil. Population density (proxy for agglomeration) has a considerable effect on metropolitan GDP/capita after the 2008 and slightly smaller coefficients before the economic crisis. Population size seems to put pressure on metropolitan development if we consider the big impact it had after 2008. Population growth and net migration were not statistically significant. Also the dummy variable that measures the influence of EU enlargement has statistically significant coefficients, but quite small. The ones for the subsample period 2008-2013 are blank because the data for Croatian regions is missing. The GDP for the year 2013 for Croatian metropolitan regions was not available on Eurostat, which was the year when Croatia entered the EU.

The second robustness check conducted in this study involves the division of the sample data into Western metropolitan areas and Central and South-Eastern metropolitan area. What does Western and Central and South-Eastern mean in this case? Western metropolitan regions are the areas of the sample data from the following countries: Belgium, Denmark, Germany, Ireland, Greece, Spain, France, Italy, Luxembourg, Malta, Netherlands, Austria, Portugal, Finland, Sweden and United Kingdom. Central and South-Eastern metropolitan areas are the regions from the following countries: Bulgaria, Czech Republic, Estonia, Croatia, Cyprus, Latvia, Lithuania, Hungary, Poland, Romania, Slovenia and Slovakia.

In the below table, columns (1) and (2) highlight the results for the QML-FE method for the Western metropolitan areas, whereas columns (3) and (4) present the results for the Central and South-Eastern ones.

Table 5: The results of the QML-FE method for Western European and Central and South-Eastern Europe

	(1) Western	(2) Western	(3) Central and South-Eastern	(4) Central and South-Eastern
L.GDP/capita	0.776*** (24.08)		0.652*** (9.83)	
L.GDP PPS/inhab		0.758*** (17.39)		0.642*** (10.67)
Share of Agriculture, forestry and fishing	-0.0521*** (-2.78)	0.00248 (0.20)	-0.0226 (-0.55)	0.0114 (0.42)
Share of Industry	0.102** (2.09)	0.108*** (3.15)	0.137 (1.01)	0.0595 (0.58)
Share of Manufacturing	-0.0378 (-0.90)	-0.0705** (-2.41)	0.0229 (0.20)	0.0300 (0.32)
Share of Construction	0.0670*** (3.80)	0.0241 (1.42)	0.152*** (3.55)	0.122*** (3.67)
Share of Wholesale and retail trade, transport, accommodation and food service activities	0.0271 (0.90)	-0.00418 (-0.15)	0.0174 (0.39)	-0.00665 (-0.18)
Share of Information and communication	-0.00109 (-0.09)	0.00110 (0.13)	0.00685 (0.16)	0.0294 (1.14)
Employees	0.159*** (3.52)	0.197*** (5.11)	0.140 (0.55)	0.304*** (3.07)
Population density	0.0215 (1.18)	-0.0181 (-1.26)	-1.452 (-1.33)	-1.409** (-2.15)
Economically active population	0.00664 (1.22)	0.0106 (1.37)	-0.214* (-1.67)	-0.120 (-1.17)
Population size	-0.0932 (-0.80)	-0.132 (-1.14)	0.882 (0.78)	0.603 (1.07)
Population growth	-0.00557 (-1.14)	-0.00563 (-1.59)	-0.00296 (-0.25)	0.0000699 (0.01)
Net migration	0.00125 (0.34)	0.00230 (0.85)	0.00309 (0.28)	0.00368 (0.43)
Enlargement	0	0	-0.0641*** (-3.53)	0.0176 (1.36)
Constant	1.010 (0.64)	1.589 (0.99)	-1.320 (-0.16)	-0.527 (-0.10)
Observations	1069	1069	305	305

Notes: Standard errors in parentheses, \*  $p < 0:10$ , \*\*  $p < 0:05$ , \*\*\*  $p < 0:01$ . All regressions include time dummies

*Source: Stata v14*

The results of Table 5 show that there is divergence between metropolitan regions in Western and also in the Central and South-Eastern Europe. The coefficients were statistically significant for both the samples. Regarding the impact that certain economic sectors have on metropolitan growth, the study demonstrates that for Western regions agriculture, industry, manufacturing and construction are the most important determinants. Wholesale and retail trade, transport, accommodation and food service activities and information and communication sectors were not statistically significant. Agriculture and manufacturing had a negative impact on metropolitan growth, whereas the industrial and construction sectors had a positive one. The only economic sector that influences metropolitan development in Central and South-Eastern Europe is construction. The other branches of the economy were not statistically significant.

The number of employees has a determinant impact on metropolitan growth. Moreover the coefficients for the Central and South-Eastern regions were much higher. Population density and the number of economically active population appear to be statistically significant only for the Central and South-Eastern metropolitan regions. The coefficients for these variables were negative. Net migration, population size and growth were not statistically significant. The results for the dummy variable shows that enlargement did not have a positive impact on metropolitan growth.

## 5. DISSCUSION AND CONCLUSIONS

The principal goal of this paper is to contribute to metropolitan economic growth literature by implementing an analysis for 271 areas located in the European Union. For checking the robustness of the results, the empirical model is also estimated by dividing the time period in two parts (post and ante economic crisis) and by splitting the sample of metropolitan regions in two components - the Western more developed regions and the Central and South-Eastern (the formal communist states, except for Cyprus) metropolitan areas.



The results of this paper clearly show that metropolitan regions are not converging to the steady state of growth. There are considerable differences in development among metropolitan areas and there is a visible gap between Western regions and Central and South-Eastern regions. According to Eurostat database the only metropolitan region from Central and South-Eastern Europe that is in the top ten regarding GDP in PPS per inhabitant in the year 2012 is Bratislava. In this regard underperforming urban areas are located in Romania, Bulgaria, Hungary, Poland and Croatia. The Plovdiv metropolitan area of Bulgaria has a GDP/capita 18 times smaller than that of Luxembourg. This paints a negative picture regarding the measures taken by the EU to limit the gaps between regions and it seems that the process of integration is difficult.

The main findings of this study regarding the influences of economic sectors on metropolitan growth are that agriculture, forestry and fishing can have a negative impact on economic growth. A considerable portion of EU funds is employed for stimulating investment in agricultural production and the big countries are also subsidizing this sector so as to be more competitive. The results of this chapter suggest that these allocations appear to not be efficient for metropolitan growth. Industry, construction and wholesale and retail trade, transport, accommodation and food service activities are positively related to metropolitan growth. The manufacturing and information and communication sectors were, in general, statistically insignificant. These findings have considerable policy implications for policymakers in the sense that EU funds must stimulate mostly the economic branches with the most value added for the economy.

The number of employees positively influences EU metropolitan economic growth. If the number of employed persons rises by 1%, metropolitan GDP rises by almost 0.18-0.22%. European enlargement appears to have contributed to metropolitan development, but the coefficients are not too considerable. The results also show that population density has a small influence on metropolitan development. Population density is used as a proxy for agglomeration. According to Puga (2002) high agglomeration in capital cities and large urban areas can have an influence on growth increasing labour specialization and productivity. van Oort, de Geus and Dogaru (2015) showed that agglomeration plays an important role for 15 EU countries at regional level, specifically for 205 EU NUTS2 regions. Population size measured by the number of inhabitants has a negative effect on metropolitan growth and the coefficients for population growth were positive, but the overall impact is very small which implies that

density and size is more important than the growth of the population. Net migration was not statistically significant in determining growth.

The robustness check also offered considerable outcomes. First of all it showed that the agriculture, forestry and fishing sector had a significant negative coefficient only in the after crisis period (2008-2013). The coefficients for the industrial sector were negative before the crisis, but after 2008 this sector has a positive correlation with metropolitan economic growth. Concerning the role of manufacturing in boosting metropolitan development, the results show that only one coefficient was statistically significant and quite small. This suggests that this sector is not detrimental in influencing regional development. Furthermore the construction sector is among the driving factors that play a role in metropolitan development, but its impact is not so substantial because of the small coefficients. The sector of wholesale, retail trade, transport, accommodation and food service activities and the one for information and communication were influencing metropolitan economic growth only in the ante crisis period.

Secondly the robustness check showed that for Western European regions agriculture, industry, manufacturing and construction are the most important determinants. Wholesale and retail trade, transport, accommodation and food service activities and information and communication sectors were not statistically significant. Agriculture and manufacturing had a negative impact on metropolitan growth, whereas the industrial and construction sectors had a positive one. The only economic sector that influences metropolitan development in Central and South-Eastern Europe is construction. Population density and the number of economically active population appear to be statistically significant only for the Central and South-Eastern metropolitan regions. European enlargement did not have a substantial positive impact on metropolitan growth for the Central and South-Eastern regions.

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## ADVANTAGES AND DISADVANTAGES OF DEPLOYING FREQUENT FLYER PROGRAMS AS IMPACT FACTORS AFFECTING AIRLINE CUSTOMER BEHAVIOR AND RETENTION

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### Abstract

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As findings for the Asian air travel market show, across all market segments frequent flyer programs can have a positive effect on airline loyalty (Chang & Hung, 2013, p. 29). At the same time, while these customer loyalty programs are in wide use in the airline industry, whether these programs can bestow durable competitive advantage remains debatable (Martín et al., 2011, p. 364). Similarly, studies on customer loyalty programs indicate that, despite their popularity, these programs do not have an unequivocal effect on customer behavior, which is likely to limit their effectiveness (Dorotic et al., 2012, p. 217). Therefore, the impact of frequent flyer programs on behavioral and affective customer loyalty, such as in the form of customer retention, and company performance demands further research, due to lacking scholarly consensus on either the positive or the negative influence of these programs on competitive advantage in the airline industry.

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## Key Words

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Airline Industry, Frequent Flyer Programs, Customer Loyalty, Customer Retention, Consumer Behavior

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## Topic Groups

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Industry, area or region specific studies, International business, Marketing and consumer behavior

## INTRODUCTION

While customer loyalty and airline choice have been amply researched, customer loyalty in the airline industry continues to be insufficiently understood. Whereas acceptable service standards are likely to represent minimum preconditions for airline loyalty, air flight price levels, in-flight services frequency and frequent flyer programs have been found to be the factors that have a significant impact on customer retention (Suzuki, 2007, p. 1). Despite the widely held theoretical assumption that customer loyalty programs significantly affect consumer behavior, the empirical evidence demonstrating the effectiveness of loyalty programs is relatively scarce, contradictory and inconsistent (Bolton et al., 2004, p. 271).

Despite the wide variety of loyalty programs and schemes, they can be generally defined as the programs that reward loyal customer behavior through continuously offered incentives that encourage repeat purchases. These loyalty programs can take the form of frequent flyer, frequent shopper or point card programs that foster attitudinal and behavioral loyalty, increase customer retention rates and augment the client income share that is spent on products and services (Stone et al., 2004, p. 305). Furthermore, given that, to join these loyalty programs, customers are required to provide detailed personal information, these programs provide opportunities for long-term, targeted marketing efforts that affect purchasing behavior through making discounts and benefits conditional on bonus point accumulation (Palmatier et al., 2009, p. 1).

In the airline industry, customer loyalty programs are deployed, primarily due to unequal profitability potential of different customer segments, high

competition levels among airlines offering similar services, and the utilization of similar programs by competing carriers (Demoulin & Zidda, 2009, p. 391). The attractiveness of loyalty programs can be expected to be driven by utilitarian, hedonistic and symbolic benefits that they confer, such as economic savings, personalized treatment and social status (Meyer-Waarden, 2007, p. 223). The continued predominance of regular carriers in the consumer market indicates that low cost airlines likely face marketing, adoption and loyalty challenges related to the varied levels of consumer retention that these airlines achieve (Chang & Sun, 2012, p. 15).

Customer loyalty and frequency reward programs have long been recognized as important drivers of customer retention and purchase likelihood, due to their contribution to relationship marketing. Frequent flyer programs offer loyal customers tangible and intangible rewards, such as free flights, after they accumulate a sufficient number of service use points, such as travel miles (Meyer-Waarden, 2008, pp. 87-88). At the same time, in many cases loyalty programs can represent significant liabilities for companies offering related customer rewards, due to their management and benefit costs. It could be advisable to terminate ineffective customer loyalty programs, as some corporations have done to reduce their operations costs (Meyer-Waarden, 2007, p. 223).

Therefore, the influence of frequent flyer programs on customer retention in the airline industry demands a meta-analytical examination that this paper presents from a managerial point of view.

## LITERATURE REVIEW

### Frequent Flyer Programs

After being first introduced in the early 1980s frequent flyer programs have since been adopted by all major carriers in the airline industry, while enjoying over 90% membership rates among business travelers and with overall membership ranks upwards of 120 million around the world (Hanlon, 2007, p. 86). Within the framework of frequent flyer programs, their members accumulate bonus points related to distances they travel, fare prices they pay and the number of flight bookings they make (Gudmundsson et al., 2002, p. 409).



At the same time, within their frequent flyer programs airlines usually provide higher rewards to business-class customers per mileage traveled, so that business-class flight tickets are likely to earn significantly more bonus points than economy-class ones. Border-crossing alliances between airlines and online reservation systems make it increasingly possible to transfer award points between different frequent flyer programs and to take advantage within their framework of local retail, hotel accommodation and vehicle rental discounts (Gössling & Nilsson, 2010, p. 243).

The associated status points that are used for upgrading one's membership level can usually be earned through travel mileage on selected routes, such as intercontinental flights, and hotel stays at a restricted list of hospitality establishments. Since these customer status upgrades are more accessible to business-class, rather than economy-class, passengers, airline companies reward through these programs high-spending clients, while increasing the frequency of their air travel, especially given that in many cases status points have set expiration dates. This can prompt flight purchases primarily motivated by the consumer desire to maintain membership status or to take advantage of the conditional benefits it affords (Thurlow & Jaworski, 2006, p. 99).

In other words, frequent flyer programs are highly likely to have a significant effect on airline choice among business travelers, due to their mobility-stimulating influence on travel, consumption and route preferences. Thus, traditional airlines with highly developed networks of air travel hubs offering lounge services and connection flights can be expected to derive higher utility from frequent flyer programs, in terms of ticket booking volume and frequency, than low cost carriers that may not necessarily be able to offer comparable membership benefits, due to their limited-service business models. Additionally, the impact of customer loyalty programs is likely to be less pronounced among economy-class travelers, since this passenger group can be expected to either pay more attention to airfare prices or accord less importance to social status connotations than business travelers (Gössling & Nilsson, 2010, p. 250).

The importance of frequent flyer programs for the airline industry primarily derives from its unstable profitability, due to the cyclical nature of the demand for its products and services that can vary on a seasonal, weekly and daily basis. In the airline industry, numerous carriers make efforts to use frequent flyer programs for strengthening their market

position. These frequent flyer programs are deployed not only due to their expected effect on customer choices, but also due to the opportunities they provide to retain particular customer groups, such as business class travelers (Taneja, 2003, p. 1).

On the one hand, targeted conditions on the use of frequent flyer benefits can be imposed, which can increase the economic benefit that airlines are likely to derive from loyalty programs, as many customers can be expected not to redeem their frequent flyer miles (Martín et al., 2011, p. 364). On the other hand, due to the association between frequent flyer programs and social status, the behavioral effect of higher customer loyalty levels they are aimed to have, as marketing programs, is likely to be restricted to business travelers, since they are less price-sensitive than other airline passenger groups and have relatively inelastic demand for airline services (Klophaus, 2005, p. 348).

### **The Advantages of Frequent Flyer Programs**

Frequent flyer programs may be expected to affect airline choice, given that these programs enable airlines to establish long-term relations with their customers. In this respect frequent flyer programs are likely to be similar to customer loyalty programs in other market sectors that are deployed by companies as part of customer relations management strategies that are expected to lead to higher levels of brand loyalty, customer retention and purchase intentions (Bolton et al., 2004, p. 271). In other words, loyalty card programs are widely implemented by different company types as means for improving customer satisfaction, affecting consumer choice and developing customer relationships. As firms seek to have more enduring relationships with their clients, customer loyalty programs are, thus, perceived as an effective impact factors able not only to stimulate purchase intentions, but also to encourage repeated service usage or product buying behavior (Oliver, 2010, pp. 442-443).

Moreover, customer loyalty programs introduce economic and psychological switching costs that severing the relationship with the company will entail, since the aim of these programs is to encourage repeat purchase behavior via making customer rewards conditional on buying-related point accumulation. Since customer loyalty program points, such as frequent flyer miles, cannot be transferred to another company, these programs make switching to another service provider or product seller psychologically, economically and socially costly (Kivetz & Simonson,

2003, p. 454). Thus, these loyalty programs contribute to the creation of behavioral loyalty toward companies, since their customers relate loyalty program rewards and discounts to feelings of achievement, special customer status, and identification with the organization. Therefore, loyalty programs are likely to be particularly beneficial for product or service providers, such as airlines, in competitive industries with interchangeable suppliers (Bhattacharya & Sen, 2003, p. 76).

Customers joining loyalty programs based on their initiative have been found to exhibit higher levels of purchase intentions, consumer expenditure and relationship duration (Datta et al., 2015, p. 217). Furthermore, empirical findings suggest that an automatic enrollment of customers into cost-free loyalty programs may contribute to higher levels of behavioral intentions, since program benefits can reinforce customer relationship with the company by providing relational, psychological rewards. In other words, reducing the threshold for loyalty program enrollment does not necessarily lead to lower effectiveness levels of customer loyalty programs (Dholakia, 2006, p. 109). Customer loyalty programs represent, therefore, marketing systems that companies deploy in an effort to increase their customers' behavioral loyalty by developing long-term, personalized, and customer-oriented relations with existing and prospective clients (Meyer-Waarden, 2007, p. 223).

At the same time, in many cases firms target these programs at customer groups that are most likely to respond to purchase incentives, engage in repeated consumption activities, and value individualized services or products (Meyer-Waarden, 2007, p. 224). In other words, customer loyalty programs serve as extensions of direct marketing and company-client communication, while making possible a differentiated treatment of particular customer groups on the basis of customer behavior information that is accumulated with the help of loyalty cards. However, this augmented ability to discriminate between customers and make individualized marketing offers is likely to depend for its effect on the extent to which companies can customize their products and services and provide premium services (Yi & Jeon, 2003, p. 229).

Furthermore, for frequent flyers the economic switching costs of loyalty programs are not likely to play a significant role, since their ticket purchase volumes allow them to meet reward criteria with relatively little effort. Likewise, for infrequent flyers customer loyalty programs can be expected to be relatively unimportant as factors influencing airline choice,

since they rarely accumulate sufficient frequent flyer points to qualify for program rewards. This makes this customer group also insensitive to switching costs (Hartmann & Viard, 2008, p. 109). Thus, loyalty programs are most likely to be effective among moderate and light buyers of airline services both in the short and the long term, especially since frequent flyers tend to already reach their maximum purchasing capacity, which limits their ability to increase their usage levels of air travel services (Bolton et al., 2000, pp. 106-107). This consumer market segmentation has important implications for airline profitability, since frequent flyers with high loyalty levels are more likely not only to respond to ticket price promotions, but also to redeem their card membership rewards than other customer groups. By contrast, airline customers with light to moderate service purchase frequency are most likely to respond to loyalty program incentives with higher sales volumes. However, these market segments are oftentimes underestimated as potential sources of company profitability (Cortiñas et al., 2008, pp. 52-53).

Given the desire of companies to maintain relationships with both price-conscious and price-insensitive customers, the relationship between frequent flyer programs and customer loyalty is not necessarily likely to be positive. This follows from the challenges that attend the efforts of companies to broaden their customer base without significantly lowering the prices of their goods and services. Emphasizing the psychological gratification value of the rewards that customer loyalty programs offer still demands minimizing the costs that the latter involve. This indicates that frequent flyer programs have both advantages and disadvantages (Meyer-Waarden, 2008, p. 89).

These findings indicate the importance that tailoring frequent flyer programs to different consumer market sector has for airline profitability, especially since in saturated markets the overall impact of loyalty programs on aggregate consumer behavior can be limited (Lacey, 2009, p. 392). In terms of empirical research, studies inquiring into the effectiveness of frequent flyer programs may need to control for the influence of the self-selection bias on consumer behavior by sampling both loyalty program members and customers that are not enrolled into airline card programs, in an effort to ascertain whether significant differences in purchase frequencies and volumes between various customer groups exist (Liu & Yang, 2009, p. 106).

Thus, across different airline customer groups, the positive effect of loyalty program membership can be expected to be relatively limited. However, since previous studies have used a wide range of consumer behavior indicators, such as retention rates, behavioral intentions and customer expenditures, there is a need for additional research into the effectiveness of loyalty programs in view of divergent empirical findings (Verhoef et al., 2007, p. 105). This is closely related to the opportunities for personalized marketing that loyalty programs offer, since their member profiles based on purchasing behavior enable a narrow targeting of promotional offers and communication strategies to specific customer groups. Furthermore, directing preferential customer treatment to particular market segments can increase the effectiveness of loyalty programs as long-term relationship building mechanisms that can be expected to reinforce behavioral loyalty (Melancon et al., 2011, pp. 341-342).

### **The Disadvantages of Frequent Flyer Programs**

Some studies have indicated that loyalty programs have no effect or a weak influence on customer behavior (Meyer-Waarden & Benavent, 2006, p. 61). Recent studies indicate that the benefits of loyalty programs lose their direct effect on customer behavior shortly after customer enrollment (Meyer-Waarden & Benavent, 2009, p. 345). The effectiveness of loyalty programs can also suffer from perceived costs they involve, such as the purchase frequency pressure they may introduce or access to personal data they might require. Likewise, in some cases companies make loyalty program enrollment conditional upon meeting qualifying criteria that can incur additional, retroactive costs for customers, whereas in other cases loyalty programs are openly accessible, which can have a significant effect on their perceived costs (Demoulin & Zidda, 2009, p. 391). At the same time, personalized marketing strategies might entail economic costs if they become perceived as discriminatory or unduly favorable to particular customer groups, such as new program members. Therefore, loyalty program design may significantly affect both the attractiveness of these programs and their influence on customer behavior (McCall & Voorhees, 2010, p. 35).

It cannot, therefore, be ruled out that loyalty programs that demand from their customers a financial commitment in the form of enrollment fees or purchase volume can be unsuccessful in increasing customer retention

(Datta et al., 2015, p. 217). Frequent flyer programs penalize their members if they fail to achieve certain travel frequency targets by making their benefits, such as faster check-ins, free tickets and discounted service upgrades, conditional on accumulating particular mileage or bonus point amounts above airline-defined threshold values. Therefore, these practices can also decrease the influence of customer loyalty programs on airline selection, especially if their award points can be used for other consumption choices, such as restaurant dining or daily shopping, and vice versa, and if customer benefits, such as discounts, for retail purchases done with program-associated companies exceed those for air travel reservations (Löfgren & Carlsson, 2004, pp. 1-2).

Prior studies have indicated that in general satisfaction and loyalty levels among airline customers are relatively low (Gilbert, & Wong, 2003, p. 519). Additionally, there is mixed empirical evidence that customer loyalty schemes have a significant impact on consumer behavior. This could be due to the difficulty of changing existing purchase behavior patterns with the help of loyalty program benefits, especially in competitive markets, such as the airline industry, due to a widespread imitation of successful loyalty programs that can increase marketing costs without producing a positive change in buying behavior (Meyer-Waarden & Benavent, 2006, p. 61).

While loyalty programs are theorized to act as behavioral reinforcement factors that reward company patronage, this effect can, however, be conditional on utility-cost calculations that are likely to be dissimilar for different customer groups, while limiting the positive effect of loyalty programs on customer retention rates (Kivetz et al., 2006, p. 39). Whereas holiday and business travelers have been found to be equally influenced in their airline choice by airfare prices and flight time, research findings indicate that for leisure travelers frequent flyer programs are significantly less important than for business travelers (Hess et al., 2007, p. 221). Moreover, new market entrants increasingly compete with traditional airlines in the business travel sector as well, such as on transatlantic flights between London and New York, by offering boutique travel services, such as upscale seating configurations and in-flight offerings (Seo et al., 2015, p. 126).

## DISCUSSION

Given the growing presence of low cost carriers in the air flight market, airline customers may increasingly switch their loyalty to these carriers. Given the multiplicity of factors that affect airline customer choice, for both full-service carriers and traditional airlines the disadvantages of offering frequent flyer programs, such as their attendant costs, may not necessarily be offset by their putative advantages related to ensuring customer retention and increasing their purchase frequency and volume. This is corroborated by the mixed empirical evidence on the effectiveness of frequent flyer programs (Bolton et al., 2004, p. 271). For airlines, the primary value of frequent flyer programs appears to lie in the opportunity to provide personalized services based in customer preferences and characteristics the information about which is stored in membership profiles, while imposing psychological switching costs related to the perceived social status these programs provide and economic switching costs related to the foregone bonus points that customer accumulate (Palmatier et al., 2009).

While the air flight market is likely to be similar to other market sectors, where loyalty programs significantly decrease the likelihood that customer will switch between service providers (Meyer-Waarden, 2008, p. 87), the high and growing competition in the airline industry may limit the contribution of frequent flyer programs to company profitability. Nevertheless, frequent flyer programs can still be important in affecting the selection of airport and in-flight services, since point-related discounts can make particular choices, such as upgrading airplane seating type or using pre-departure lounges, more affordable than otherwise (Thurlow & Jaworski, 2006). As between-airline price competition grows, the psychological switching costs that frequent flyer introduce are likely to be their primary advantage, while their negative economic impact on airline revenues represents their disadvantage for airlines that may not necessarily be able to forgo these programs as potential instruments of customer retention (Meyer-Waarden, 2007; Taneja, 2003).

Frequent flyer programs can have influence not only on consumer choice between airlines, but also on the range of products and services that individual customers purchase. While the influence of loyalty programs on customer behavior can prove to be limited in its short- and long-term effectiveness among frequent service users, these programs can increase brand patronage levels, especially for low frequency service users (Liu,

2007, p. 19). In other words, despite the limited evidence on the behavioral effectiveness of loyalty programs in terms of customer retention in the airline industry, not offering these programs altogether can represent a disadvantage for airlines, due to the impact these programs have on long-term affective customer loyalty. Likewise, the utility of frequent flyer programs to airlines might be limited, since their lock-in effect on airline customer behavior across different customer groups may be relatively weak (McCaughey & Behrens, 2011, p. 1). Therefore, airlines can be advised to assess the advantages and disadvantages of frequent flyer programs separately for different customer groups while flexibly adjusting their characteristics to customer profiles (Kivetz et al., 2006).

## CONCLUSIONS

The interrelationship between the frequent flyer programs and their either positive or negative effect on customer loyalty and retention in different market segments only begins to receive research attention, especially in the framework of comparative studies that explore the interrelationship between these variables in relation to both traditional, full service airlines and low cost carriers. Therefore, whether strategically targeted frequent flyer programs can provide a significant competitive advantage to legacy carriers in their effort to maintain their market share remains uncertain, as the entry of low cost carriers into the airline industry may reduce the economic costs of switching between airlines that loyalty programs aim to increase (Seo et al., 2015).

Thus, the interrelationship between frequent flyer program membership and airline preference is likely to be insignificant. This may lead airlines to target these customer loyalty programs to market sectors that are most likely to generate revenues, such as medium-frequency flyers, that can compensate for the extra costs that premium services offered to frequent flyer program members involve (Martín et al., 2011, p. 367). However, legacy carriers that have traditionally been pursuing marked differentiation strategy emphasizing frequent flyer programs may need to be alerted both to their advantages and their disadvantages, since they have inflexible cost structures and can offer competitive airfare prices on particular routes only, such as short haul flights (Seo et al., 2015).



Therefore, future studies can be recommended to consider not only the expected benefits of frequent flyer programs, but also their increasingly unsustainable drawbacks, in light of empirical evidence. While this paper relies for its conclusions on secondary sources, its meta-analytical importance lies in the managerial implications that the examination of the state-of-the-art of scholarly literature leads to.

## **Implications**

The managerial implications of this paper are that providing tiered frequent flyer programs that are targeted to different customer groups by offering service-related benefits rather than price discounts could be the most optimal business strategy to deploy by both traditional and low-cost airlines. If the empirical case for the effectiveness of frequent flyer programs cannot be made unequivocally (Bolton et al., 2004), the cost of program-related discounts may not be recouped through higher sales volumes that customer loyalty programs are expected to lead to.

Additionally, frequent flyer programs may be marginally important for both frequently flying high-spending individuals who are likely to accumulate bonus point relatively fast and rare flyers that may base their decisions on route availability and cost considerations. Thus, frequent flyer programs may need to be primarily targeted at moderate-frequency flyers the airline choice of which may be swayed to a greater degree than that of other customer groups by a combination of social status connotations, point accumulation-related bonuses and service personalization. More prestigious membership ranks, such as gold or platinum frequent flyer cards, can also serve as targeted marketing channels for products and services that high-income individuals may be interested in obtaining (Gössling & Nilsson, 2010).

Furthermore, given the primarily psychological importance of frequent flyer programs for customers, in terms of their relationship with airlines, the economic value of the bonuses that these programs offer can be recommended to be reduced, in favor of providing more customized pre-departure and in-flight experience. As part of that, marginal discounts redeemable for bonus points can be offered, in order to expand per-customer purchase volume, rather than provide loyalty program-related airfare price discounts outright (Meyer-Waarden, 2007).

Thus, airline managers can be advised to increase and emphasize the symbolic value of frequent flyer programs by emphasizing the purchasing behavior of different customer groups, such as additional services for business-class travelers that loyalty programs can make more accessible. Additionally, cost-free membership programs can be expected to be associated with profitability-related advantages, since through these programs customer relationship can be developed with a wide range of customers ranging from infrequent, low-income customers to business-class frequent travelers. This could especially be the case for cost-conscious customers that airlines can be expected to retain to a higher degree if they reduce or eliminate the barriers for frequent flyer program enrollment (Datta et al., 2015; Dholakia, 2006).

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## BRAND LOVE AND PRICE PREMIUM OF REAL ESTATE IN THAILAND

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### Abstract

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The study aims at investigating the relationship between brand love and price premium of Real Estate, Thailand. This survey employed the quantitative method and used questionnaires as a tool to collect the data from customer who planned to buy real estate in the next 3 years in KhonKaen, Thailand. Finally, the data of **400** sampling units were analyzed through the Structural Equation Modeling (SEM). The study revealed that brand love had a positive direct influence on price premium. The results also supported all hypotheses of the study with the variances predicted by brand love and are 32%. As a consequence, in order to enhance brand love in minds to all customers, Real estate Company in KhonKaen should put more efforts on Meet and Greet activities seriously and continuously. The operator should also have information booth activities to create both awareness and perception for customers.

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### Key Words

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Brand Love, Price Premium, Thailand Real Estate

### Marketing and consumer behavior

#### BACKGROUND AND RATIONALE

Thai economics is increasingly growth for many years. After recovery from economic crisis in Thailand many year ago, especially in real-estate industry which dramatically increase continually. Overall economic stimulation are highly growth which result from many factors such as increased consumer income, basic structural facility by government investment and Asian economic community; AEC. These factors lead to both direct and indirect investment and budget into Thailand. (Kampanat S., 2548) Due to world fuel price is declined and decrease in consume rate so this can increase consumer buyer power. Finally this incident supports stock market growing in Thailand.

Real-estate market such as home or townhouse is both product and service. Because of its tangibility like home and intangibility like after services. Home is the one of most important thing for human basic needs. Anyone else who has their income and job they will looking for their own house in someday when they have enough money, they will spend its for get their own house for their family and self. (Duangjai C., 2549) The single house and townhouse market is very competitive because it gain a lot of profit to the firm. So every company need to set their strategy for leading the consumer decision on their brand and willing to tell other relative or friends.

Brand plays an important role on business viability nowadays. There are many brands in market, To win the competitor, brand needs to distinguish from others . In order to increase customers' perception, brand need to be different and unique from others. Marketer needs to build symbol in order to represent the specialty of the product. These can help company to improve the differentiation of their brands from the competitors. (Keller, 2012; Aker, 2014)

Brand love is the emotion occurred with consumers who feel love to the brand. Similarly to the love between persons to persons. Brand love can be built from close inspiration and engagement. (Fournier, 1998) Brand



engagement is lead to the consumer acceptance to pay in the higher price than other brand called " Price Premium" When customer have engaged to the brand they tend to also loved it. Finally they will develop to the state of brand forgiveness at all. This stage they will protect, forgive, pay higher price to their brand.

Brand love study in Thailand is very few at this present. Thus the researches try to discover the relationship between brand love and price premium in real estate industry. The finding result may beneficial use on marketing strategy planning in this business to increase profitability and pricing strategy for making higher margin by using brand love as a tools or pathway which could lead the customers' acceptance for the price premium for the brand. Brand love also plays the role to boost up the brand loyalty and also gain the company to the business leader in the industry.

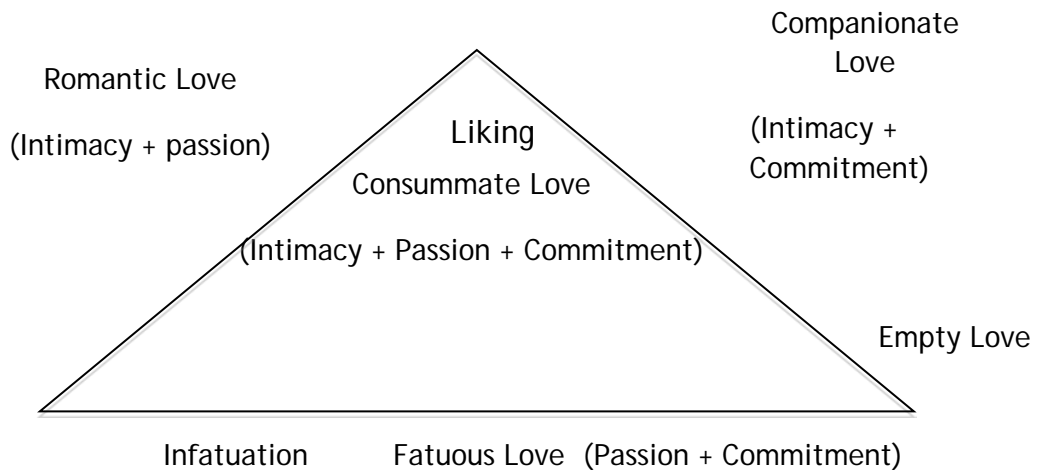
## **THEORETICAL AND LITERATURE**

### **Brand Love**

Love refers to a couple things, emotion relationship and social relationship such as people talking about their lovers. When love occurred, it is the relation between 2 people, talk about feeling love. Love is the involvement of feeling and understanding which unique process can be dynamically and indefinitely form (Lazarus, 1991)

Robert (1988) developed the Triangle of Love which is the view of liking and love in board view. The components of the triangle are intimacy, the relation which resulted in closeness or bondedness as in figure. 1

Figure 1: Triangel Model of Love



Source: Robert Sternberg, 1988

Strenberg (1986), Keh et al. (2007) and Shimp& Madden (1988) Love is closely related to loyalty. Carrillo&Ahuvia (2006) Brand love is emotional feeling and passionate of consumer to the brand. Brand love is also a good predictor for the brand loyalty.

Love does not only like, but it has more quality of feeling or emotion than liking. Marketers can use brand love as a tools because it is able to gain the positive attitude and loyalty to the customers. Regarding to Keh Pang & Peng (2007) Brand love composed of close passion and bonded.

### Price Premium

(Aaker, 1991) Price premium is described as when consumers tend to willing to pay for the higher price for their brand than others. The consumers who perceived about the worth of the brand or brand equity must accept to pay price premium ways on the passionate brand.

When the customers bond to the brand, they must have willing to pay price premium to the brand (Thomson, MacInnis& Park, 2005). People who know the value of brand must always pay price premium because they know what kind of worth they perceived and proud to pay for the brand(Keller, 2003).

Albert et al. (2008) suggested that consumer tend to accept the increased price because they still need to get the privileged of the brand continually. This because the customers feel good to the brand. Nyffenegger et al. (2014). Price premium or Willing to pay high price to each brand is based on the equity associated between satisfaction, sincerity and attractiveness of the brand. The Price Premium is related to satisfaction and perceived brand equity.

## Real - Estate Industry in Thailand

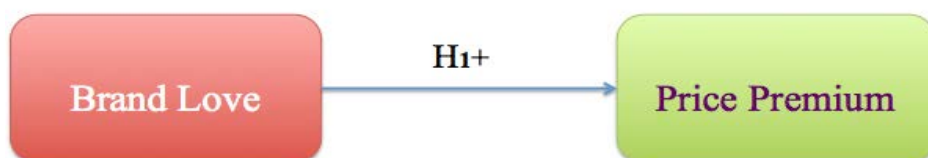
Real estate or Home builder industry is the cluster of house in the provided area which facility which government or private sector invested their monetary in advance to build the house in each units. The investors must allow the buyer to do leasing or payment after the project completed or finished. The contract will be reviewed and committed by parties, builder or Production Company and buyers.

The production companies play the importance role on created the strategy or marketing campaign to boost up the intention to buy occurred in the buyers' mind. For buyers, they have a lot of factors on their decision making such as the production history company, economic environment, market environment, type of real estate, their income and their needs and demands.

Townhouse is one kind of house but their walls must be share between two houses. They mostly build as a row of houses. They always have the car park in front of the house like the parking lot.

As described for the competitive environment in real estate industry in Thailand. This research aims to find out the influence of brand love towards price premium as the conceptual frame work in figure 2.

Figure 2: Conceptual Framework



## METHODOLOGY

This research examined the influence of brand love to price premium in real estates industry in Khonkaen Province, Thailand by using SEM model analysis to test the hypothesis.

## RESEARCH SAMPLE

The research samples include 400; most of them were employees for private company (26.7%) and woman (68.7%). Their age is 31-40 years old (39.7%) and with monthly income 20,001-30,000 baht per month (43.5%).

## MEASUREMENT TOOL

This research use questionnaire as the tool with 3 parts: The first part asked eleven questions about the respondents' personal information and their behavior with real estate buying in the next 3 years, the second part asked 11 questions about brand love Carroll & Ahuvia (2006) and the third part asked 7 questions about price premium Netemeye et al. (2004). The questions in the second and third parts employed a seven-point Likert scale (7 = it is most likely to be so/ the strongly agree, and 1 = not at all/ Strongly disagree).

## RESULT

Table 1: The Reliability of the Questionnaires

Variables	Cronbach's Alpha
Brand Love	.809
Price Premium	.872

Table 1 shown that the cronbach's alpha is greater than 070 which concludes that this questionnaire is reliable.

## Data Analysis

The relation between brand love and price premium were tested via structural equation model (SEM) which needs to do in 2 steps ( Hair et al., 2010; Kline 2010) Measurement model is used for relationships analysis between observed variable and latent variable called confirmatory factor analysis (CFA). This step will classify the similar and difference variable then group the similar ones and analyses the suitability of the grouped variable.

The next step is structural model will be employed for latent factors analysis and test hypothesis. These researches use the SPSS AMOS for running all results.

SEM model will analyze the relationship among brand love and price premium by Maximum Likelihood to comparative fit index (CFI). The result was shown in Table 2.

Table 2: CFA Analysis

Criteria	Cut off	Actual	Result
X2/df	<5.00	3.027	PASSED
GFS	>.90	.912	PASSED
CFS	>.90	.957	PASSED
RMSEA	<.90	.071	PASSED
SRMR	<.008	.044	PASSED

Regarding to

Table 3: BetaAnalysis between variable

Relationship	Beta	T-Value
BL-----> PP	.36	6.768***

According to table 3, the relation between brand love and price premium is significantly (B= .36,  $p < .000$ ) with predictor impact at 36.0 percent.

## CONCLUSION, DISCUSSION, IMPLICATIONS, RECOMMENDATIONS

This research found the influence of brand love toward price premium or the willing to pay when the price increased to the brand. Which can say that Brand love is positively influenced to Price Premium in real estate industry in Thailand? This finding also supported Amselmsson&Kalogarus (2007) which their study found the brand love is related to consumers who love their brand and perceived brand quality tend to accept to pay more than usual rate for the brand.

For the real estate industry, This research can be the guideline for them for marketing strategy to win the competitor in present day. They can use brand love as the tool for gain the consumer acceptance to love their brand first and lead to the price premium to the brand finally.

This phenomenon can explain that love the brand can be built up from liking and passionate which these both things can boost up the acceptance to pay more than ever to the brand. The reason may explained by the customers who perceived brand value or gain their worth things from the brand which differ each consumer will love and bonded to brand and decrease for price sensitive and accept the premium price.

Brand love can be use as a tool in real estate business as the efficient result to gain the customer and convert them to love the real estate brand and willing to pay for brand even the price has been increased.

### Recommendations

This study finds only the influence of brand love and price premium. The next research should examine the relation of them with brand forgiveness and words of mouth communication. Because these two factors is highly discuss in new marketing tools at this present.

This study has been done only in area of Thailand, It should me more reliable if have some finding from other area with and without Thailand to compare and make the efficient marketing strategy.

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## BOARD SIZE, FIRM SIZE AND FIRM FINANCIAL PERFORMANCE

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### Abstract

Several overseas researches in the literature review have investigated the relationship between corporate governance and firm performance/value (Abor & Biekpe, 2007; Acharya & Bisin, 2009; Himmelberg, Hubbard, & Palia, 1999; McConnell & Servaes, 1990; Morck, Shleifer, & Vishny, 1988). Different models and samples used by these studies support the idea that board size leads to creation of compensatory interest and entrenchment effects, resulting in inconsistent outcomes in the link between board size and firm performance. Nevertheless, there is no actual form of this inconsistent relationship throughout the prior studies. The objective of this study is to examine the relationship between board size and firm size, and firms' financial performance using (ROA and ROE) as performance indicators. The size of the sample is 65 industrial firms listed on Amman Stock Exchange (ASE) for the fiscal year 2013 as a cross sectional study. The hypothesis of the study is examined through statistical software, SPSS 20, to analyze data. The findings from this study suggested that board size has an influence on Jordanian industrial firms' financial



performance. The present study evidenced that there is a positive relationship between board size and ROA. On the other hand, the study revealed that firm size has no effect on ROA. Also, the study showed that both independent variables, board size and firm size, have an insignificant effect on ROE. Thus, generally, investors and regulators must be sensitive to the fact that the performance of industrial firms, represented by ROA, is affected by the size of board of directors.

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### Key Words

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Board size, firm size, Industrial firms, performance, Jordan

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## 1. INTRODUCTION

Corporate governance has witnessed a rapid development and become an important control system for both private and public sectors, and an instrument to strengthen confidence for the national economy and a guide of the existence of transparent and fair policies in order to protect investors and other stakeholders (Alabdullah, Yahya, & Ramayah, 2014). Corporate governance system plays an important role in enhancing firm performance and moreover in protecting the interests of stockholders. In that, good corporate governance is important to direct the resource of the firms through attracting capital funds and new investors. Additionally, corporate governance system leads to achievement of better firm valuation and enhancement of its performance (Alabdullah, 2016; Franck & Sundgren, 2012).

There is a variety of definitions of corporate governance in the literature. For example, Cadbury (1992) in their report explained corporate governance as a control system that controlled and directed a corporation. Moffett, Stonehill, and Eiteman (2009) showed corporate governance as representing the connection among stakeholders used to control and identify company's strategic direction and performance.

As for corporate governance mechanisms and its relationship with firm performance, there are several studies around the world that have been done (See Abor & Biekpe, 2007; Andres & Vallelado, 2008; Balasubramanian, Black, & Khanna, 2009; Black, Love, & Rachinsky, 2006; Chen, Chen, & Wei, 2009; Chhibber & Majumdar, 1997; Durnev & Kim,

2005; Jaafar & El-Shawa, 2009; Kim, Cha, Cichy, Kim, & Tkach, 2011). Yet, studies on Jordanian industrial firms considering board size as one of the important corporate governance mechanisms in terms of the relationship with firm performance are lagging behind in such a sector. In addition, firm size is considered as a very important independent variable as mentioned in a few studies done in developed countries. For example, there is a study done in Italian industrial companies by Bonaccorsi (1992) who revealed that the basic assumption is that large firms are better than small ones regarding competition and performance. Nevertheless, there is a lack to use such a variable in developing countries including Jordan in particular.

Concerning the firm financial performance indicator, this study used ROA and ROE as two financial performance indicators. Several studies have used them as the financial performance indicators (See Ehikioya, 2009; Erhardt, Werbel, & Shrader, 2003; Fauzi & Locke, 2012; Haniffa & Hudaib, 2006; Mashayekhi & Bazaz, 2008). Accordingly, this study considers the accounting based approach for measuring firm financial performance through relying on ROA and ROE. The accounting performance measurement is more directly related to its financial survivability than its share market value and allows the evaluation of performance of publicly traded companies (Sun & Tong, 2003).

The aim of this study is to examine the relationship between board size and firm size, and firms' financial performance using (ROA, ROE) as two performance indicators. This study aims at finding out if there is any relationship between these two independent variables and firms' financial performance in Jordan context. Hence, this study is expected to enrich the literature with the area of corporate governance among industrial companies in Jordan. Particularly, the current study uses a sample of Jordanian industrial firms listed on Amman Stock Exchange (ASE). Therefore, the information revealed that it is reliable and useful to Jordanian businesses and investors at large.

## 1. LITERATURE REVIEW

Board of directors is one of the important components of both board dynamics and corporate governance system that oversees the firm's business and reduces agency cost (Hassan & Ahmed, 2012; Mkrtchyan, 2014; Shleifer & Vishny, 1997). There is a consensus in the literature admitting that the effectiveness of board of directors can be accomplished

based on the level of knowledge (Mkrtchyan, 2013). Findings of the previous studies about effectiveness of the board of directors are inconsistent. Some studies proposed that the small size of the board is more effective than the larger board. Moreover, it might lead to cut poor decisions made by number of studies (Adnan, Htay, Rashid, & Meera, 2011; Haniffa & Hudaib, 2006; Jensen, 1993; Yermack, 1996).

On the other hand, other waves in the prior studies show that the larger the board leads to have effectiveness, knowledge, and expertise; thus this will lead to better performance (Buniamin, Alrazi, Johari, & Rahman, 2008; Jaafar & El-Shawa, 2009). Similarly, Abor and Biekpe (2007) and more specifically in Jordan context a study done by Alabdullah, Yahya, and Ramayah (2014) argued that one of the most important corporate governance tools is the large size of the board of directors, and this tool leads to better performance. On top of that, this study utilized firm size as a second independent variable to be examined in its relationship with firm financial performance. It is worth mentioning that in developed countries, firm size has an important and positive role on competition and performance (e.g., Bonaccorsi, 1992; Hall, 1986; Moen, 1999). For example, there is a study done in Italian industrial companies by Bonaccorsi (1992) who revealed that the basic assumption is that large firms are better than small ones regarding the competition and performance. Nevertheless, there is a lack of using such a variable in developing countries including Jordan in particular. Such a variable has not been given attention by previous studies in developing countries. In that, a few studies in developing countries have investigated firm size as a control variable (Alabdullah, 2016, 2016; Alabdullah et al., 2014) and no previous studies in such a context utilized it as an independent variable in its relationship with firm financial performance. Therefore, I predict that increasing board size will increase company performance. In addition, firm size has a positive impact on firm financial performance.

*H1. There is a positive relationship between board size and firm financial performance.*

*H2. There is a positive relationship between firm size and firm financial performance.*

## 2. METHODOLOGY

### Data Collection and Measurement

The current study considers a sample that consists of industrial companies for listed Jordanian firms through collecting the primary data from the annual reports for the year 2013. I collected accounting and other useful data for the independent and dependent variables that are available in the website of Amman Stock Exchange (ASE) for 65 industrial firms that served the current study to achieve its aim. This cross sectional study tested the hypotheses of the study using SPSS 20to analyze data.

This study measured the predicted variables(dependent variables) of financial performance via the ROA and ROE. The predictor variables (independent variables) have been identified as the board size (BOD) and a firm size (Fsize). Table 1 on the following page presents a summary of the measurement of variables.

Table 1: Summary of Variables Measurement

<b>Dependent Variable</b>			
1	Return on Assets (as a percentage)	ROA	Return on assets is measured as the percentage of net income to total assets.
2	Return on Equity (as a percentage)	ROE	Return on equity is measured as a percentage of net income to common equity.
<b>Independent Variables</b>			
4	Board Size (number)	BOD	The number of directors on the board of directors.
6	Company's Size (number)	Fsize	Natural logarithmic of the company's total assets.

The models of this study included particular variables, with the board size and firm size that have possible impact on firm financial performance; in other words, they influence their ROA and ROE. To examine the relationship between board size and firm size, and firm performance in one of the emerging countries, namely Jordan, a cross sectional research was adopted through real data collected from the annual reports for the fiscal year 2013. The analysis of linear regression was utilized to test the

effect between the predictor and predicted variables. The models of the current research are defined by the following equations:

$$1. \quad ROA = \alpha + \beta_1 BOD + B_2 Fsize + \varepsilon$$

$$2. \quad ROE = \alpha + \beta_1 BOD + B_2 Fsize + \varepsilon$$

### 3.RESULTS

#### Descriptive Analysis

The descriptive analysis of dependent and independent variables of the current study is provided for 65 industrial firms listed at Amman Stock Exchange by using descriptive analysis like mean, descriptive, standard deviation, minimum, maximum. The distribution of the variables is explained in Table 2.

In Table 2, the results also showed that the values for the kurtosis and skewness demonstrate that the research sample is normally distributed due to being within the accepted range of normality for both skewness and kurtosis. As explained by (Alabdullah et al., 2014), the normality of data could be achieved when standard kurtosis is within  $\pm 3$  and standard skewness  $\pm 1.96$ .

Table 2: Descriptive Analysis

Variables	Mean	Std. Dev	Minimum	Maximum	Skewness	Kurtosis
ROA	3.096	1.390	-1.100	6.980	0.097	0.914
ROE	4.805	4.184	0.000	12.100	0.348	-1.277
BOD	10.970	2.114	7	15	0.287	-0.882
Fsize	7.119	0.936	4.080	8.960	-0.835	1.021

## 4.RESULTS AND DISCUSSIONS

### Correlation Analysis

Table3 shows the correlation between dependent and independent variables. It demonstrates that independent variable (board size)hasa positive relationship with return on assets(ROA) with value (BOD.452). The Table shows that board size (BOD) has apositive relationship with (ROE) with value.171. The Table also shows that BOD has a highly positive relationship with ROA with a value of 0.452.

Table 3: Correlation test

	BOD	Fsize	ROA	ROE
BOD	1			
Fsize	-0.295*	1		
ROA	0.452**	-0.224	1	
ROE	0.171*	-0.236	0.316*	1
Level of significance *p < 0.05, **p < 0.01				

### MultipleRegression Analysis

The current studyadopted the regression analysis to examine the direction of the relationship between the independent and dependent variables,a common statistical method whichwas used in several science disciplines (Alabdullah, 2016).

#### Regression Results of Model 1

Based on a firm performance measured by ROA, the equation of Model 1 is defined by the following:

$$ROA = \alpha + \beta_1 BOD + B_2 Fsize + \varepsilon$$

Table 4 below reveals the results of regression showing that the R square value is 0.241 for ROA. This indicates that the value of R square explains

24 percent of the independent variables (BOD and Fsize) on the dependent one of ROA.

Table 4 : Regression Results for ROA

Model	ROA
R Square	0. 241
Sig F Change	0.001

In Table 5, the analysis of regression was run between all the variables of the current study represented by the independent variables and the dependent variable of ROA. The results reveal that board size (BOD) has a positive relationship with ROA (BOD B=.423). However, the firm size (Fsize) has an insignificant relationship with the ROA (Fsize; B = -.100).

Table 5: Regression analysis for ROA

ROA			
Standardized Coefficients			
Variables	Beta	t- value	Sig.
BOD	0.423	3.589	0.001
Fsize	-0.100	0.844	0.402
Level of significance **p < 0.05, ***p < 0.01			

For this research, the examining of the hypotheses for Model 1 regarding the relationship between the two independent variables and the dependent ones is shown in Table 5.

The study hypothesized that there is a positive and significant relationship between the board size and the ROA. The current study found a positive and significant relationship that exists at B= .423, T-value= 3.589, P< 0.1. This shows that the financial performance represented by (ROA) is influenced by large board size in industrial firms listed at ASE. This result is in line with what has been proposed in the present research. Such result is in line with a study done in Jordanian context by (Alabdullah, 2016). Therefore, hypothesis H1 (There is a positive relationship between board size and firm financial performance) is supported. Conversely, there is an insignificant negative effect in the relationship between the firm size

(Fsize) and the ROA ( $B = -0.100$ , T-value= 0.844,  $P > 0.1$ ). This indicates that a firm's financial performance is not influenced by the firm size of the service listed firms in Jordan. This result is incompatible with what the present research proposes. On the other hand, the research hypothesized that a significant and positive relationship exists between firm size and ROA as mentioned by prior work (e.g., Bonaccorsi, 1992; Hall, 1986; Moen, 1999). Nevertheless, this result is in line with a study that was carried out by (Samiee & Walters, 1990). They mentioned that there is no relationship between the activity of firm size and profitability. Thus, hypothesis H2 (There is a positive relationship between firm size and firm financial performance) is not supported.

#### Regression Results of Model 2

Based on a firm performance measured by the ROE for the present research, Model 2 can be identified by the following equation:

$$ROE = \alpha + \beta_1 BOD + B_2 Fsize + \varepsilon$$

Nonetheless, the present research will not show details regarding this model because of the results of ANOVA test. The model is insignificant with significance value of 0.117.

### 5. CONCLUSION

Recently, the business world has faced several failures at the level of all sectors such as Marconi and Enron and Arthur Andersen. Such failures and others have led to a shock for both developing and developed countries, giving consequently great attention to stakeholders that dealt with corporations which have poor level of corporate governance, which is a confused matter.

A number of studies have dealt with the relationship between corporate governance system and firm financial performance. Yet, there have been a small number of empirical researches that take into account the investigation of such relationship through choosing ROE and ROA as a measurement of firm financial performance and firm size with board size as a dependent variable in dealing with industrial Jordanian listed firms. The results suggest that there is a positive relationship between larger board size and firm performance with its measurement: ROA. However,



there was no relationship between board size and firm size, and firm performance with its measurement: ROE.

The present research recommended the future studies to investigate the size of board of directors and firm size with service firms listed at ASE as it also belongs to non-financial sector.

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## IMPACT OF SIZE OF COMPANY ON THE PERCEPTION OF IMPORTANCE OF INTANGIBLE MOTIVATION

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### Abstract

Motivation encourages creativity, innovation, professional development of employees and is the key for high business standards. Starting point for this research is that motivation for work will be greater if a person can fulfil several diversified needs. System of rewarding concentrates on design, implementation and maintenance of different forms. For this research intangible factors of motivation were defined. Aim of the research was to determine the differences in perception of intangible factors considering the size of the company they work in. The total of 536 respondents presented that without regard of the size of company they work for they consider intangible factors and strategies as very important.

### Key Words

motivation, intangible motivation, organization, human resource management

### Human resource management and career development

#### INTRODUCTION

Management and development of human resources is becoming increasingly important due to the new place and role of a human in all social processes and in the management of those. Motivation and employee satisfaction become the basis of occupation of modern human resource management because only the construction of quality motivational system can help the organization to increase its competitive ability and value of the company. Employee motivation is not only the area of psychological and sociological issue of work and work behavior but behavior directed toward a goal that excites the needs within a person. The goal is to satisfy these needs.

Internal psychological triggers that force a person to some activity are the cause of some specific behavior. Therefore the individual's performance depends not only on the ability of one but also on the motivation of a person. A great number of intangible strategies were designed among which there are: job design, management style, participation, management by objectives, flexible working hours, recognition and feedback, organizational culture, training and career development, etc. Mentioned strategies together with the material strategies constitute a full motivational system.

Great interest for motivation has basically three reasons: to improve productivity, efficiency and creativity of work, improving the quality of organization's working life and strengthen the competitive ability and success of the company. Among many theories of motivation (Batson, Duncan, Ackerman, Buckley, Birch, 1981) mainly three fundamental are emphasized.

The theory of the hierarchy of needs which is based on the specific needs and their satisfying as the basis for balance and survival of human organisms was developed by A. Maslow (1987). Theories of external influences and expectations emphasize the importance of environmental impact on the behavior of individuals and their reactions while the theories

of achievement motivation (McClelland, 1976) do not consider what it takes to survive but what the individual wants.

There are three types of motivational needs: the need for power, the need for interconnection and the need for achievement. An individual with a high need for power will pay a great attention to its influence and control while individuals with a high need for interconnectivity are happy only when being accepted and loved. The third need for achievement belongs to individuals with a great desire to succeed and at the same time these individuals fear of failure.

The current concepts of motivation system, motivational techniques and strategies are becoming scarce and insufficiently flexible so it is necessary to develop and introduce new ones that will by their versatility and concrete lead to high motivation and satisfaction of employees. At the same time these will influence development of a successful business. Particular importance is given to development and offering intangible forms of motivating employees.

## **THEORY OF INTANGIBLE MOTIVATION**

A complete motivational system along with tangible strategies that make up its foundation must include a diversified upgrades and infrastructure of different intangible incentives for work that meet the diverse needs of people in organizations. The fundamental starting point of motivation practice in organizations nowadays is the realization that the motivation for work will be greater when a person can meet more of its diverse needs, not just the existential.

Day by day the needs of higher order, the ones that consider development and validation of one own abilities and possibilities of autonomy and taking into account one's status, are more important.

Dimensions of work such as the content of the work (which includes diversity, autonomy in carrying out the tasks, the complexity of tasks, integrity of tasks), job function (including responsibility, authority, information flow, methods of work and the need for coordination) and relationships (the ability to work with others, to create friendship and requests for teamwork) directly affect the results of the work: the

execution of tasks (effectiveness and efficiency) and the reaction of the executor-employee (satisfaction, absenteeism and turnover) (Carrell, Elbert, Hatfield, 1995).

While motivating employees managers have a very important task to determine and monitor their needs and preferences with regard to remuneration they want to receive for their work. This is often the issue of a misunderstanding between the opinions of managers and real wishes of the employees. Differences in managerial perceptions about what employees want and the actual preferences of employees (Bahtijarević-Šiber, 1999) can be found in the following factors: interesting work, respect for the work done, the feeling that the employee is being informed about what is going on, job security, good payment, promotion and development within the organization, good working conditions, personal loyalty of managers, tactful discipline and compassionate assistance in personal problems. While creating a ranking list of priorities of those factors managers in the first place put factor 'good salary'. That is the only tangible factor of motivation on the list. At the same time the employees place 'interesting work' in the first place, while motivational factor that consider payment was positioned only at the fifth place. Significant differences in the perception of the importance of factors it is possible to notice with 'respect for their work' and 'the feeling that the employee is being informed about what is going on'. While these two factors are in the list of importance for the employees on the second and third place, with managers they are at eighth and tenth place.

By developing organizational culture a company has significant influence on the motivation of employees. According to Buntak, Droždek and Kovačić, 2013, culture that encourages high motivation has the following characteristics: binds its core values to their employees, quality work and services to consumers and customers, ensures a large space and adapts to the needs and demands of capable and creative people, develop a climate that encourages creativity and rewards innovators, does not punish mistakes, encourages risk-taking, demands continuous improvement, experimentation and introduction of changes, creates an informal friendly atmosphere that ensures hard work become pleasant and fun, creates and spreads a sense of success, satisfaction and pride for good work done and high quality on individual and organizational level and enhance the spirit of community and company caring of their employees.



## RESEARCH METHODOLOGY

The research objective was to determine whether there are differences in the perception of intangible factors and strategies and their impact on employees' motivation due to the size of the company and which factors and strategies are given greater importance. The starting hypothesis was: *Employees of small companies often attach more importance to the factors and strategies of intangible motivation compared to employees of large companies.*

The study included 21 companies of which 6 small ones, 9 medium-sized and 6 large companies.

The total number of respondents was 536 employees, of which 504 males (94%) and 32 female (6%). Most of respondents, 336 of them, have a high school education, while the least employee stated primary school as the education they have. Interestingly, only one respondent-employee has not completed primary education. The largest number of respondents is aged 30-40 years while the lowest number (less than 20) is over the age of 60. Distribution of respondents due to the working position in the company is shown in Table1.

Top management includes directors and board members, lower management are managers and heads of departments while the number of independent experts includes controllers, technologists and employees in IT support. In the non-production sector included were respondents from sales, logistics, accounting and procurement while in the process of production there were employees in the maintenance, installation, construction, machining and surface treatment.

Table 1: Distribution of respondents according to the position within the company

Working position in the company	No. of respondents
Top management	8
Middle management	38
Lower management	45
Independent expert	108
Non-production sector	89
Production proces	248

For the purpose of this study 18 key factors of motivation and 17 key strategies of motivation were defined. The key factors are: interesting work, respect for the job done, the feeling that the employee is being informed about what is going on, job security, promotion and development of the organization, good working conditions, education and seminars, personal loyalty of a manager, tactful discipline, empathy in personal problems, flexible working hours, recognition of success, participation in decision making, feedback, motivation and self-motivating, the status within the company, social climate and organizational culture.

The 17 key strategies of motivation include: high productivity of skilled workers, higher quality of products and services, more ideas and suggestions, teamwork, greater flexibility, greater job satisfaction, less absenteeism (less training required), less fluctuation (it is easier to replace workers), enrichment of work (multiple tasks and skills, responsibility and autonomy), design of work (use of individual features and potential), participation (inclusion in decision-making and problem solving), organizational culture (social climate and culture that govern the organization), training and career development, management by objectives, flexible working hours, recognition for a job well done and feedback.

The survey is divided into three parts: demographic information, statement to assess the attitudes towards the importance of factors of motivation and the last part contains statements for assessment the importance of strategy of motivation. Each statement is associated with a Likert scale marked by scores from 1 to 5 where 1 is completely irrelevant, and 5 is very important. Also, respondents were asked to rank the factors and strategies of motivation of importance from the most to the list important ones.

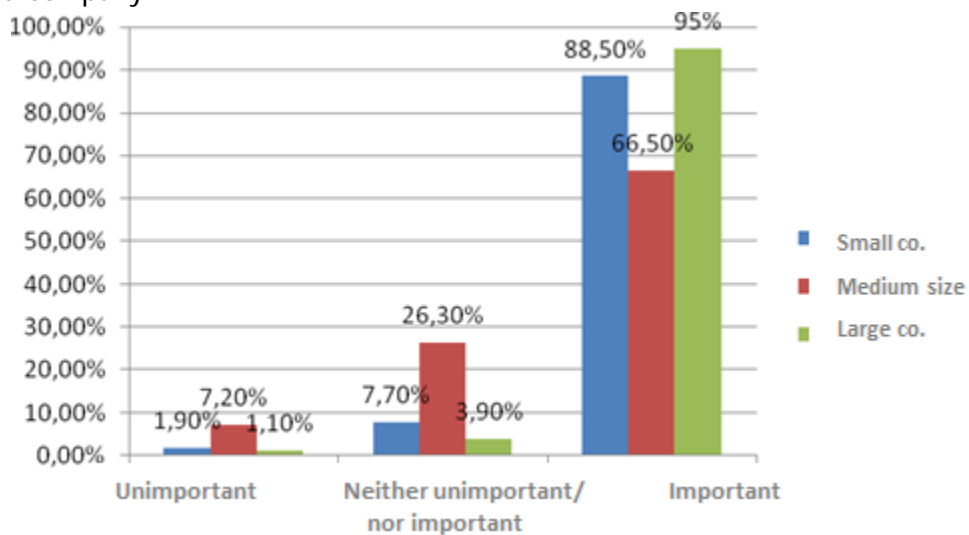
## **RESULTS AND DISCUSSION**

The research results showed no statistically significant differences in the perception of the importance of certain factors and strategies with regard to the size of the company from which the respondent comes. Also, when ranking importance of intangible factors respondents showed no significant variation in responses. The top three ranked factors that respondents find most important are: 'respect for the job done, 'job security' and 'working conditions'. The most important strategies of motivation respondents

considered 'higher quality of product', 'more ideas and suggestions' and 'job satisfaction'. These three factors and three strategies will be presented in continuation.

Factor "full respect for the work done" shows that 88.5% of the respondents from small companies evaluate it as partially or very important factor and 95% of respondents working in the large companies present the same opinion. Respondents from the medium size company are somewhat restrained.

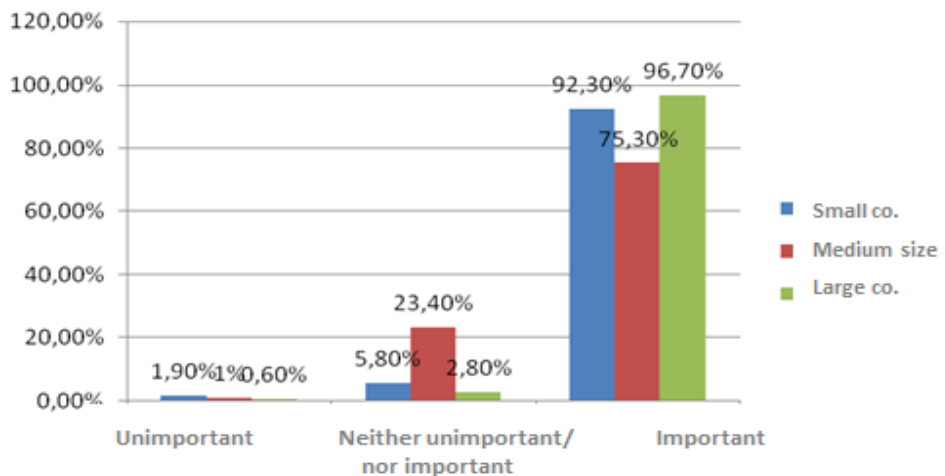
Figure 1: Factor "full respect for the work done" with regard to the size of a company



Source: Authors' calculations according to the survey

Testing "job security" as intangible motivation factor even 92.3% of the respondents from small companies evaluate as partially or very important factor. Similar opinion show respondents from large companies (96.7%), while respondents from medium size companies are a little more restrained and 23.4% of them considered "job security" neither important nor unimportant.

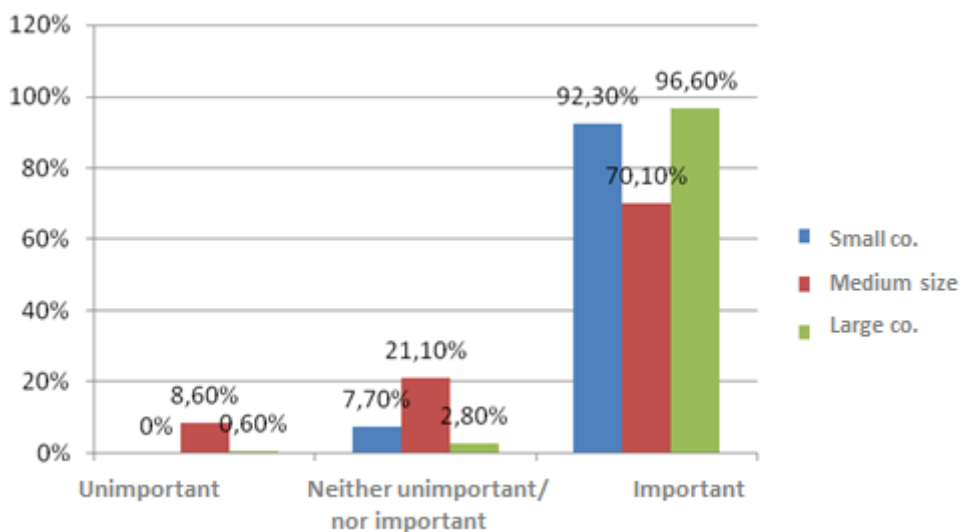
Figure 2: Factor "job security" with regard to the size of a company



Source: Authors' calculations according to the survey

Asked to evaluate "good working conditions" the respondents present that 92.3% of them from the small companies think it is partially or very important and 96.6% of respondents from large companies gave the same answer while the respondents working in the medium size companies show 21.1% of them consider this factor of intangible motivation neither important nor unimportant.

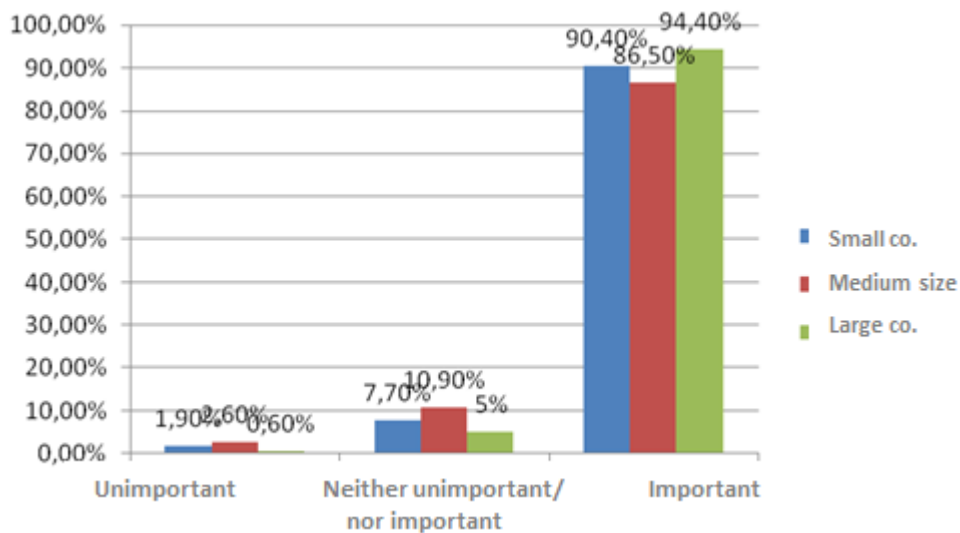
Figure 3: Factor "good working conditions" with regard to the size of a company



Source: Authors' calculations according to the survey

"Higher quality of product" as an intangible motivation strategy is evaluated as important one without regard of the size of the company. Only 0,6% of respondents from the large companies found it not important and 5% of the same respondents could not decide whether this is an important or unimportant strategy.

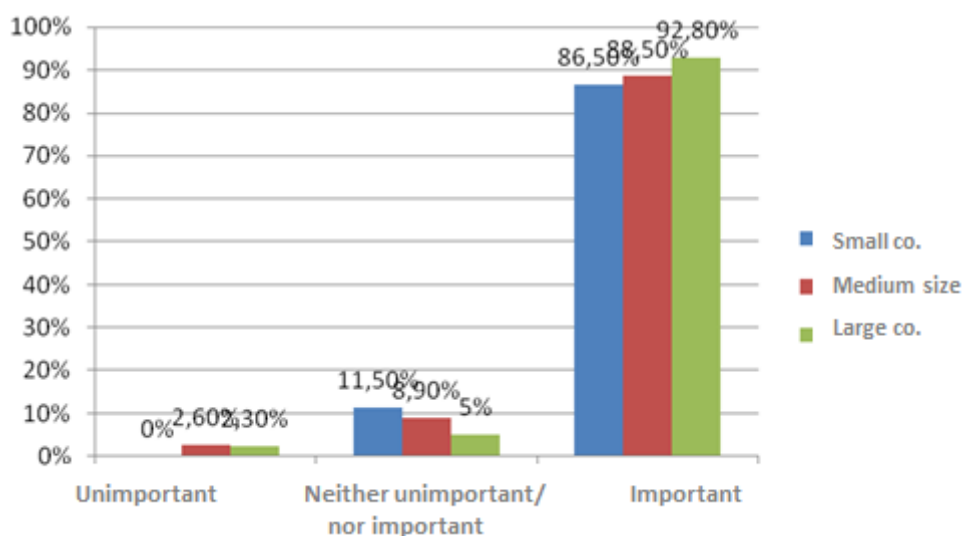
Figure 4: Strategy „higher quality of product“ considering the size of a company



Source: Authors' calculations according to the survey

The assessment of the strategy "more ideas and suggestions" shows that companies of all sizes consider this strategy of great importance. Respondents of small companies believe that strategy is very important in 86.5% of cases, but a slightly higher percentage of the same answers gave the respondents from medium size companies (88.5%) while the respondents from large companies show 92.8% of agreement with the importance of the strategy.

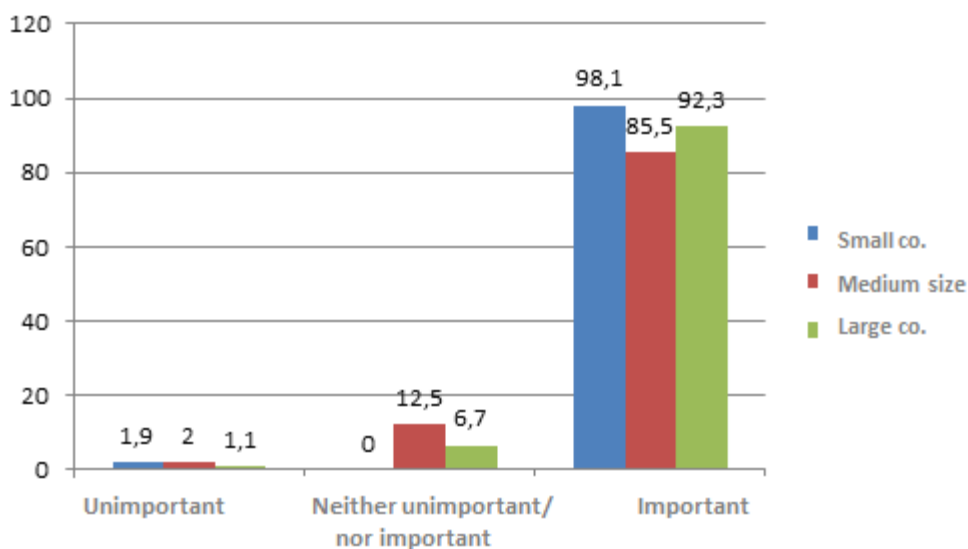
Figure 5: Strategy "more ideas and suggestions" considering the size of a company



Source: Authors' calculations according to the survey

High result of 98,1% of respondents from small companies estimated "job satisfaction" partially important or very important while the same importance showed 92,3% of respondents from large companies. Respondents from medium size companies were restrained and estimated job satisfaction importance at 85,5%.

Figure 6: Strategy "job satisfaction" with regard to the size of a company



Source: Authors' calculations according to the survey

The results show that the respondents from large companies presented greater importance of the intangible factors and strategies of motivation compared to respondents from small companies which is contrary to the assumption stated in the hypothesis.

Respondents of small companies give more importance to the strategy of intangible motivation "job satisfaction". At those companies job satisfaction was shown at 64% so it can be concluded that employees in small businesses enjoy greater job satisfaction than employees in larger companies.

## CONCLUSION

It is undisputed that motivating employees makes an extremely important part of the work of a successful manager and is an indispensable part in all business segments. Results of the presented study are another proof of the significance of intangible factors of motivation and it can be concluded that there are no statistical difference in the perception of the importance of factors and strategies regarding whether the respondents come from small, medium or large enterprises.

This means that the initial hypothesis was not confirmed which opens the door for further deeper research in this extremely important area. The study brings a new order of importance of factors of motivation, according to which the most important are: 'respect for the job', 'job security' and 'working conditions' and the most important strategies of motivation are: 'higher quality of product', 'more ideas and suggestions' and 'job satisfaction'.

Modern society find intangible mechanisms to be important part of the motivation process according to numerous studies and thus become a new task of a manager who needs to have the skills and knowledge necessary to understand the concept of a human, to identify characters of employees, their needs and desires, and who by using different strategies affects boost of motivation and ultimately the effectiveness of the achieving organizational goals. The primary task of a manager is to design and conceive such a system of motivation which will include a combination of more motivators that would affect all dimensions of work and make the

employees successful and able to increase the efficiency of company operations.

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## CO-MENTORING MODEL

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### Abstract

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Academy of welfare in working life - good working life in South Savo - aims at developing new models for supporting the aging employees. As part of the project, co-mentoring model has been developed especially for managers operating in the level of middle-management in order to promote their well-being at work.

Managers often work alone and leadership work is lonely work and those who are working in these tasks often feel themselves lonely. On the other hand, problems faced in management and leadership in different organizations are very similar. This co-mentoring model is a systematic way to share feelings, solve problems and give overall support to managers. Co-mentoring can help networking with professionals in your own field, too.

This model has been developed in the field of public health care and social work. It can be adopted in many other fields, too.

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### Key Words

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Well-being at work, managers` work, development of quality of work, co-mentoring

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## Topic Groups

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Human resource management and career development, Management education, training and development

### INTRODUCTION

South-Savo region is located in the eastern part of Finland. In this region the demographic structure is challenged from the point of view of economy since the working-age population of the region has lower health and wellbeing at work compared to their peers elsewhere in Finland. Every third (over 40000 people) in South Savo feel their overall wellbeing at work has diminished. On the other hand, welfare in the working life and especially supporting the aging employees` well-being at work are both nationally and regionally essential economic developing targets.

Especially those working in the field of social and health care are in a new situation because of rapid and even dramatic changes: public sector is cutting budgets and this means that each employee needs to work more than earlier and on the other hand, for example in eldercare patients and customers are older and weaker than earlier.

The aim of the project Academy of welfare in working life for South-Savo is to actively promote the overall health and wellbeing at work, and decrease early retirement. The project aims at improving quality of working life by developing new ways to improve well-being at work. This include supporting managers in their work, too. In practice this means increasing the knowledge of how to manage a workplace with aging employee segments and how to personally lead a healthy and active lifestyle. The above activities are expected to increase the overall wellbeing and personal health and decrease health-related risks.

In addition to improving aging employees' ability to work and enable them to lengthen their careers the project aims at searching and evaluation different models and methods to improve well-being in different organizations and piloting the selected ones, increasing the know-how on how to support careers throughout the working life and supporting the networking and sharing of good practices between different organizations. As outcome of the project well-being of the targeted employees is improved, new models and new product for supporting the aging employees careers are developed as well as knowledge of the ageing employees at work is increased.

Mikkeli University of Applied Sciences is a partner in the project coordinated by Sports Institute of Tanhuvaaara. South Savo Sports Federation is a partner, too.

Within the project, Mikkeli University of Applied Sciences has developed new models and new products for supporting the aging employees' careers as well as for improving quality of working-life and well-being at work. In South Savo region especially in the field of public health care and elderly care middle-management face many problems: lots of staff members on leave of sickness, budget cuts and patients and customers are older and weaker than earlier. Working as head of department or manager in this kind of organizations is lonely work.

Co-mentoring model has been developed in order to enhance managers' well-being at work especially in the field of health care and elderly care but this model can be adopted in other fields, too. The model has been developed especially for the use of one community in South Savo. As part of the development work Ms. Maria Luostarinen completed her bachelors' thesis about co-mentoring and collected valuable information by interviews. The model for co-mentoring was developed based on the information received. At the moment the model is being tested in the community concerned

## THEORY

Managers usually work lonely in many organizations, especially when a small organization is concerned. Loneliness of managers' work and the

idea of co-mentoring are combined for background for developing the model for co-mentoring.

## **MANAGER`S WORK CAN BE LONELY**

Manager is a person who leads the organization or unit, sets objectives, motivates and communicates, makes decisions and operates as a messenger between different groups as well as develops people. Managers have many responsibilities to take care of and the managerial work requires both management and leadership skills. Manager's responsibility is to be an example for his employees and to make sure they can feel their work meaningful. Responsibility on resources and developing employees' know-how is also part of manager's duties (Hakanen 2013). In addition to employees, managers are responsible to stakeholders - for example owners and investors.

Manager's loneliness is especially emphasized at the times when there are challenges in developing the work community and the manager has to take responsibility for its growth. Managers are too often forced to work in conditions that make them feel repeatedly insufficient in their roles. The feeling of being torn into too many places at the same time can become unbearable and weaken person's ability to work. Healthy work community should provide you with the possibility to concentrate on your work, to have support from your colleagues in challenging situations and to resolve contradictions in a constructive manner (Kettunen 2013).

How to cope with loneliness at work? It is important for every manager to lead both themselves and the group and make sure the straining factors and personal resources are in balance. Good managers are able to take care of both themselves and the rest of the organization. This way they ensure that the entire organization functions well. (Hakala 2013) When manager is feeling they are not receiving enough support but are given too many responsibilities and supposed to manage alone, the feeling of loading stress and anxiety are about to take over. Many managers feel that expectations and demands in relation to their performance and role are never ending (Luostarinen 2016).

Every manager and employee wants to be able to feel good about their work and have the feeling that their contribution is appreciated. This is crucial in order to maintain the working ability and the motivation.

(Kettunen 2013) It is important that every manager receives support from his own supervisor, staff, colleagues, occupational health and contacts outside the working environment (Hakanen 2013). Person who is happy and satisfied in his work is productive and valuable asset for the organization. Therefore it is important to keep up the working capacity. (Vuorensalmi 2015).

## CO-MENTORING

Traditional mentoring in working-life focuses on the relationships between inexperienced and experienced, those who are knowledgeable professionals. The focus is more on the mentee's areas for growth, development and gaps in knowledge, rather than on contributions or gifts. In traditional mentoring, mentor's role is to play a teaching and guiding role in order to help the mentee to expand the professional skills that align the mentee's goals (Totleben, Deiss 2015).

Co-mentoring is a form of mentoring where the action of mentoring is performed within a group or as pair work activity with colleagues or people who have an equal or similar professional background. According to Leskelä (2005) co-mentoring is a form of mentoring where the mentor is a colleague of the mentee or a person who is working in a similar position outside the organization.

There can be one or more mentors leading the peer mentoring and making sure everybody has the opportunity to express their opinions in the group and speak out. The group leader's job is to ask more specific questions if needed and make sure the intended themes are discussed during the meetings (Verme 2016).

The idea of co-mentoring is to support one another in work related issues by using the knowledge that already exists in the group. Typical characteristics of co-mentoring are trusting relationships between people and the dialogical nature of communication. Voluntary participation and the equality of the peers are also concepts associated with co-mentoring. Traditional form of mentoring is usually connected to the idea of older and more experienced mentor giving advice to a younger and less experienced mentee. This relation is more hierarchical compared to the co-mentoring which includes the aspect of collegial support (Grossman 2013, 34).

The main idea of co-mentoring is to develop the quality of work by sharing experiences and existing knowledge between group members. The aim is to build stronger professional identity through peer support and to share thoughts about daily subjects that are relevant and topical in participants' working lives. Participants have personal motives and goals they want to achieve during the mentoring program and it is good to determine these goals before starting the program. It is also important that the group determines the common goals it wants to achieve together, so everyone can try to proceed towards these goals. (Mitä hyötyä mentoroinnista on? 2015.) Participants of co-mentoring should also be aware of the common rules and practices and understand the concept of co-mentoring.

Confidentiality is one of the key factors for successful co-mentoring. Every participant should feel confident about sharing personal experiences and also situations of failure, without being judged or put down. Acceptance of different opinions helps building trusting relations between group members and seeing new angles in familiar situations (Luostarinen 2016).

Co-mentoring is based on the idea that people have valuable knowledge to share for others in a similar situation. Many professionals working in the same field face similar problems but they have nobody to turn to ask for advice. In these peer groups experiences can be shared and the group can find new ways to do things and develop their working methods. It's about learning together and having support from one another. Especially when resources are getting tighter, the significance of peer support becomes increasingly valuable (Vertaismentorointi vakinaistuu 2015). Well-being at work is being promoted.

An example of peer group mentoring is a well-known mentoring project "Osaava Verme". This project concentrates on teachers' well-being at work by using co-mentoring as a tool which strengthens professional identity and provides support in work. In Verme-mentoring people work in small groups of 4-10 teachers. Groups gather approximately once a month, 6-8 times during academic year, to discuss and share experiences and challenges participants have faced in their work. Meetings usually last 1,5-3 hours at the time, depending on the size of the group and the possibilities for the group members to arrange time for mentoring. There have already been over 600 participants in the project and the results have been good (Verme 2016). This mentoring project has been used as background information and example when developing the co-mentoring model was planned.

Mentoring should be organized in a way that all participants can influence timetables and discussion themes and express which topics they personally feel important. When planning the programme, the participants should have a feeling the program is customized for their needs and that they can influence the contents. Timetables in these mentoring meetings should be flexible enough, so there is time for open discussion as well as pre-planned programme in every gathering. Open and positive attitude is important to establish resource oriented way of thinking that focuses on existing knowledge and strengths. Otherwise discussion may only concentrate on things that are wrong and not working (Verme 2016).

## **METHODOLOGY**

The methodology used was qualitative, data collection was carried out by interviews of three managers working in the field of health care and social work in the community concerned. Ms. Maria Luostarinen completed the interview. Before interviews, self-evaluation questions were asked. These were closely related to the tasks and well-being at work. SWOT analysis was used as a tool for need for co-mentoring, too.

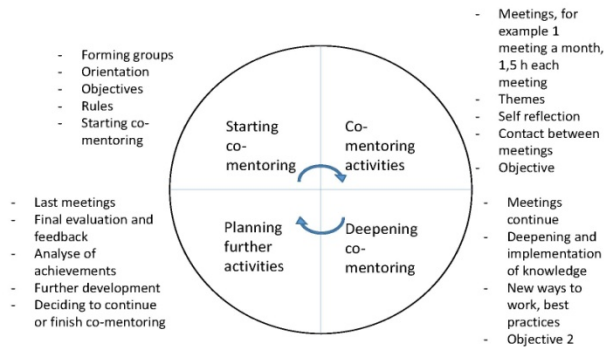
In interviews, the following questions were asked:

- What kind of support do you need as a managers?
- What kind of support have you already received?
- What expectations do you have for co-mentoring?
- How much time are you ready to spend in co-mentoring?

## **FINDINGS AND DISCUSSION**

### **Annual schedule**

Based on results of interviews an annual schedule for co-mentoring was developed.



Annual schedule of co-mentoring can be used in helping the basic structure of co-mentoring and what actions should be in different quarters of the year. There is one objective in each quarter.

At the moment testing of the model in two different units of the community is beginning. Information about the process of co-mentoring will be collected and the model will be developed further based on the information received. After these steps, Academy of welfare in working life for South-Savo will consult managers` of different organization, especially in the field of social work and health care, in applying and implementation of co-mentoring model.

## DISCUSSION

Co-mentoring is a good way to increase knowledge in organization without big costs. Operations are based on existing knowledge/experience that will be shared to others who can then benefit from it. Everybody has valuable and interesting aspects in their work that can be eye-opening for others in a similar situation. Through discussions participants can find whole new ways to look at their work and pin point things they would like to improve. Co-mentoring can provide rewarding experiences when the tacit knowledge is put into words with the help of others identifying it. Realizing that you



know more than you have thought can be encouraging and may help building stronger professional identity.

Shared thoughts and the feeling that you are supported by your colleagues can help you perform better at work. Conversations can give new perspective and encouragement to make decisions. They can also provide tips for identifying how to be a better manager and an inspiring member for the rest of the work community. Co-mentoring can provide a new support net and help networking with professionals in your own field. Together people can build their knowledge and find new skills they can use in their work. Reciprocal relationships are of benefit to all participants involved and more results can be accomplished with less time and input compared to situation where development of personal working life takes place separately (Luostarinen 2016).

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## METHODOLOGY

The methodology used was qualitative, data collection was carried out by interviews of three managers working in the field of health care and social work in the community concerned. Ms. Maria Luostarinen completed the interview. Before interviews, self-evaluation questions were asked. These were closely related to the tasks and well-being at work. SWOT analysis was used as a tool for need for co-mentoring, too.

In interviews, the following questions were asked:

- What kind of support do you need as a managers?
- What kind of support have you already received?
- What expectations do you have for co-mentoring?
- How much time are you ready to spend in co-mentoring?

## FINDINGS AND DISCUSSION

### Annual schedule

Based on results of interviews an annual schedule for co-mentoring was developed.

## HOW DOES AN ENTREPRENEUR THINK?

### The Strategic Thinking in Start-ups

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#### Abstract

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Entrepreneurs are working in an uncertain and complicated environment where the changes are happening very rapidly. The technologies and public policies which are modifying every time increase this complexity. Due to this chaotic situation, entrepreneurs and start-ups have difficulties to discover new opportunities and navigate themselves successfully in the market. Making strategic decisions in this environment require thinking strategically which helps entrepreneurs to forethought and visualize market trends and identify opportunities realistically and to be prepared to interact with unexpected changes. However, there are some studies which examine how some people have the ability to exploit opportunities, just handful studies have been accomplished to clarify the entrepreneurial mindset procedure efficiently. In this study, we try to explore this process and answer to this question: how does an entrepreneur think. To do so, we review the related literature in order to understand better the concept of entrepreneurial strategic thinking.

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#### Key Words

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Well-being at work, managers` work, development of quality of work, co-mentoring

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## ANALYZING AND COMPARING THE PROPERTIES OF WOMEN ENTREPRENEURSHIP IN SLOVENIA AND TURKEY

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### Abstract

Nowadays women entrepreneurship is very important in so many countries. Women entrepreneurship can help economic growth in a country. By the help of the women entrepreneurship, women can get self-confidence and they can manage their work well and can get knowledge about how to develop themselves better. In addition to this, for struggling with poverty women entrepreneurship activities are also important. Women employment increases and women have better position in their daily and social life. Aim of the study is analyzing and comparing women entrepreneurship in Slovenia and Turkey. Research methods were content analysis and compilation method of secondary and primary data. Different governmental and professional published secondary sources and primary interview data. This study contributes to literature by analyzing the differences and properties of women entrepreneurship by using content analysis method and compilation method with more details. First part is about introduction, second part is about women entrepreneurship; third part is about comparing women entrepreneurship in Slovenia and Turkey

and at the fourth research is given. The last part is about conclusion and results.

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## Key Words

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Women, Entrepreneurship, Slovenia, Turkey

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## Topic Groups

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Entrepreneurship, Human resource management and career development, economic growth

## 1. INTRODUCTION

Women entrepreneurs bring particular sets of skills that not only set them apart from their male counterparts, but also lend themselves to being successful entrepreneurs. Women entrepreneurs have a more nuanced view of risk, identifying more strongly than men as financial risk takers, while remaining concerned about “fool hardy risks. “Women display greater ambitions to become serial entrepreneurs than their male counterparts. More broadly, an increase in the number of women in business leadership positions is correlated with increased business returns and payout ratios ([www.kauffman.org/.../entrepreneurship.../women-entrepreneur](http://www.kauffman.org/.../entrepreneurship.../women-entrepreneur)).

Women entrepreneurship is very important for economic growth for a country. Governments and different organizations must support women entrepreneurship and promote growth. By systematically help to develop women entrepreneurship, women employment increases and they have opportunity to develop and use their potential to get better position in their daily and social life.

However, there are many issues need to be addressed. Women face a myriad of social, economic and structural barrier, which prevent them from succeeding in their pursuits. A high proportion of women entrepreneurs in developing countries operate in the informal economy, which restricts the potential for their business to grow (<http://www.huffingtonpost.co.uk/katharine-tengtio/women->

entrepreneurs-developing-markets-the-importance-of-women-e\_b\_2143245.html).

Aim of the study is analyzing and comparing women entrepreneurship in Slovenia and Turkey. Research methods were content analysis and compilation method of secondary and primary data. We use different governmental and professional published secondary sources and primary interview data.

## 2. WOMEN'S ENTREPRENEURSHIP

### 2.1. Definition

Women entrepreneur may be define as a woman or group of women who initiate, organize, and run a business enterprise. In terms of Schumpeterian concept of innovative entrepreneurs, women who innovate, imitate or adopt a business activity are call "women entrepreneurs (<http://www.Your article library.com/ entrepreneurship/women-entrepreneurs-concept-and-functions-of-women-entrepreneurs-explained/41096/>).

As confirmed by Kaufman (s/Rich-Dad-Financial-Education-Blog/July-2015/The-3-Things-Women-Entrepreneurs-Need-Today.aspx):

- Women entrepreneurs have a more nuanced view of risk, identifying more strongly than men as financial risk taker, while remaining concerned about "fool hardy risks."
- Women display greater ambition to become serial entrepreneurs than their male counterparts do.
- More broadly, an increase in the number of women in business leadership positions is correlate with increased business returns and payout ratios.

Among the barriers, Kaufman suggests keep women from entrepreneurship are (s/Rich-Dad-Financial-Education-Blog/July-2015/The-3-Things-Women-Entrepreneurs-Need-Today.aspx) :

- Lack of mentors,
- The perception of starting a business as masculine, not feminine,
- Work-life balance issues, i.e., being a working mother.



### 3. COMPARING WOMEN ENTREPRENEURSHIP IN SLOVENIA AND TURKEY

#### 3.1. General Information about Slovenia and Turkey Women Entrepreneurship

Slovenia has seen an increase in its total early-stage entrepreneurial activity (TEA) rate over the last years. From a record low of 3.65 % in 2011, it increased in 2013 to 6.45 % and remained stable in 2014, with 6.33 %, which is below the European average of 28 countries. European TEA rates range from 4.03 % in Kosovo to 11.35 % in Romania (GEM, 2016).

Modern female enterprise in Slovenia have appeared between eighties and early nineties during transition from socialistic to market economy. At that period sector of private property increased. Women have chance to progress to senior management positions, some have lost their jobs and they have therefore opted for their own entrepreneurial path (PCMG, 1910). Glas and Petrin (1998) describe three reasons why the proportion of female entrepreneurs in relation of male increase. These three reasons are:

- elimination of administrative barriers,
- growing services sector,
- supported environment that encourages female entrepreneurship.

Slovenia in 2012 had 28,000 self-employed women (Statistical office RS, 2016), which is less than a third of all self-employed. Slovenia is at 23th place from 24 observed countries of GEM survey in 2015 (Rebernik et al., 2016), data show that only 27.9 % of women are involved in early-stage entrepreneurial activity. Women lead only 23 % of enterprises, among micro enterprises almost 30. Only 20 % of women have leading positions in highest income enterprises (Pšeničny, 2008). 5 % of CEO of companies, which participate on Stock market are women, and woman represent 23 % of board members. But, on some specific fields, such as public institutions (40%), banks (37%). Some firms wants to balance between men and women.

While lower technology innovativeness is a feature of Slovenian early stage businesses, the level of innovativeness of products has significantly increased, and 58 % of early stage entrepreneurs reported that they have

products that are new for all or at least some customers. They are also characterized by their strong international orientation and the share of early entrepreneurs who believe that more than 25% of the buyers of their products or services are coming from abroad increased to 32 % (from 26 % in 2013), which is the highest in the past four years (Kelley et al, 2016).

According to GEM (Global Entrepreneurship Monitor) 2014 Turkey results, 19 out of every 100 persons initiate entrepreneurship in Turkey. This has been the highest figure in Turkey since 2006 and it is higher than the average in developing countries (which is 14.73 %). The rate of entrepreneurship in Turkey is higher compare to developed nations such as the USA or Germany. Similar to the number of entrepreneurs in Turkey, there is also a significant increase in the number of people wanting to become entrepreneurs. The rate of those who intend to become entrepreneurs between 2006 and 2012 was 0 percent whereas in 2013, the rate increased up to 31.64 percent. It observed that in 2014, the rate is 35 percent. This is the sixth highest rate among the rates in 30 developing countries. In 2013, Turkey had the 11th rank in the same list. According to the research that also measures the entrepreneurship potential of countries, 53 percent of the total Turkish population has the characteristics of entrepreneurship. 64 percent of the adult population is courageous about setting up their own business, whereas 56 percent of the population has sufficient self-confidence in terms of knowledge and skills. 39 percent observes good opportunities in near future. One of the most remarkable points about GEM (Global Entrepreneurship Monitor) 2014 Turkey results is that the rate of young entrepreneurs aged 18 to 24 in Turkey increased by 50 percent in 2014 compared to the previous year, up to 22.62 percent. This means that it has become an increasing trend among young people to start their own business instead of attending a university. Assessment is verify by the decreasing level of higher education among entrepreneurs. According to the research in 2014, the rate of entrepreneurs with bachelor's or master's degree decreased down to 34 percent whereas it was 52 percent in 2013. In Turkey 48 percent of the entrepreneurs have high school or pre-high school education (<http://webrazzi.com/2015/12/18/turkiyede-gencler-universiteye-gitmek-yerine-girisimci-oluyor-gem14-raporu/>).

Slovenia in 2012 had 28,000 self-employed women (Statically office RS, 2016), which is less than a third of all self-employed. Slovenia is at 23th place from 24 observed countries of GEM (Global Entrepreneurship

Monitor) survey in 2015 (Rebernik et al., 2016) data show that only 27.9 % of women are involved in early-stage entrepreneurial activity. Better info is the average value of entrepreneurship out of necessity in Slovenia dropped in last few years. The share of early-stage entrepreneurial female activity in EU, associated enhanced opportunities (from 68.69 % in 2014 to 75.09 % in 2015).

Slovenia also found on the 14th place on the scale of the studied countries with 24.91 percent (Rebernik et al., 2016). The proportion of women in SME and crafts in Slovenia is between 23 and 27 percent, 96 percent of micro-enterprises and individual entrepreneurs without employees. Entrepreneurial and intellectual potential of women and their contribution to European competitiveness is not exploited (DG Enterprise and Industry / EC 2008). Given the low entrepreneurial activity reveals comparison of intellectual capital between men and women at European level, certain Disturbing Truth. Women granted only 8.3 % of patents granted by the European Patent Office. When assessing innovation of their business assessments women lower than those of men (Product innovation: 13.9 % of women compared with 14.5 % for men, innovation process: 4.1% of women compared with 7.8 % of men; Innovation in organization: 5.2 % of women compared with 6.5 % of men; marketing innovation: 9.1 % women, compared with 10.45 % for men).

Only 20.3 % of companies owned by women started its business with venture capital and only 5-15 % of businesses owned by women in business high-tech industries (DG Enterprise and Industry / EC 2008).

In Slovenia, the rate of unemployment in June 2016 was 11.8 % that mean 99.117.000 unemployment people. 51% from them belong to women. The highest peak are between 30 to 50 years age, and under 55. Most of unemployed people has secondary level of education or less ([http://www.ess.gov.si/trg\\_dela/trg\\_dela\\_v\\_stevilkah/registrirana\\_brezposelnost](http://www.ess.gov.si/trg_dela/trg_dela_v_stevilkah/registrirana_brezposelnost)).

According to the Permanent Household Workforce Survey for September 2015 by Turkish Statistical Institute (TÜİK), in Turkey, the number of women aged 15 and above is 29 million 281 thousand and the number of workforce is 9 million 225 thousand. 8 million 58 thousand people in the workforce are employed whereas the remaining 1 million 167 thousand people are unemployed (TÜİK (Turkish Statistical Institute), 2015). And according to this for women;

- The rate of labor force participation is 31.5 %,
- The rate of unemployment is 12.6 %,
- The rate of non-agricultural unemployment is 17.2 %,
- The rate of employment is 27.5 %.

The number that is not included in the workforce is 20 million 56 thousand. 31 % of the employed women are in agriculture, 15% are in industry, 1 % are in construction, and 53 % in services sector. According to the Women's Employment Action Plan, 31 % of the employed women are in agriculture, 15 % are in industry, 1 % are in construction and 53 % are in services sector ([http://www.ilo.org/wcmsp5/groups/public/---europe/---ro-geneva/---ilo-ankara/documents/publication/wcms\\_484715.pdf](http://www.ilo.org/wcmsp5/groups/public/---europe/---ro-geneva/---ilo-ankara/documents/publication/wcms_484715.pdf)).

**Table 1: Gender Indicators, 2014, Turkey**

Chosen Indexes	Men	Women
Illiterate Population 25 +age (%)	1,8	9,2
College and Faculty Graduated Population 25+age (%)	16,2	11,7
Employment Percentage 15+age (%)	64,8	26,7
Labor Participation Percentage 15+age (%)	71,3	30,3
Young Unemployment Percentage (15-24 age) (%)	16,6	20,4

Source: <http://www.tuik.gov.tr/HbPrint.do?id=21519>

**Table 2: Variations in Entrepreneurs in Turkey by Years**

	2004	2009	2013	2014/8	Variation by Decade (%)	Variation by 5 Years (%)	Variation in Past 8 Months (%)
Male Entrepreneurs	916	1132	1088	1113	18.8	-3.9	2.3
Female Entrepreneurs	49	77	94	109	91.8	22.1	16.0

Source: <http://www.dunya.com/print.php?type=1&id=246772>

According to the data of Turkish Statistical Institute (TÜİK), in Turkey, the rate of employment among men is 70% whereas the rate of labor force

participation among women is 30%. Compared to the European Union (AB) member nations, this rate is less than half of European average. Eurostat 2015 data reveal that the number of women employed in European countries is 62.3% (<http://www.dw.com/tr/t%C3%BCrkiyede-kad%C4%B1n%C4%B1n-istihdamda-ad%C4%B1-yok/a-19100722>).

The key to understanding the differences between businesses run by men and women, it is therefore necessary to look elsewhere. The structure of sectors in which businesses operate, can shed some light the reasons for the differences. Generally establish small service and retail companies, as these companies require less initial capital and less technology (Rebernik et al., 2016).

Slovenian citizen are very confident with skills and knowledge necessary to start a business and are not afraid to take risks, but their perception of opportunities to make business is poor, ranked far below the European average. In 2014, only 17.25 % of adult population see good business opportunities in their living area, Slovenia ranks lowest among the European nations (GEM, 2016). The highest entrepreneurship rates is among 35-44 year-olds. Their businesses are mostly smaller than men owned business. They share 30% of micro businesses in 2008 and only 20 % of them are part of the highest income companies (Pšeničny, 2008).

In 2009, the majority females were in trading (19.4) and restaurants (18.6) business sectors. They are also opting for activities in the field of education, health and social care, cultural, entertainment and recreational activities as well as advisers, translators or real estate intermediary (Krašovec, 2009).

Women establish their own business in order to become their own boss, and are determined to make the company profitable. By having their own business, they provided more freedom and flexibility, which helps them to combine family responsibilities and work. Owning companies and entrepreneurial activity of women is the most occurring in the two largest cities Ljubljana and Maribor. Most female entrepreneurs prefer to start-up capital using their own savings and loans from family and friends rather than bank loans.

Mostly are well-educate. GEM special report on women entrepreneurship (Kelley et al. 2015) discloses data on the share of early entrepreneurially active women entrepreneurs and entrepreneurs with more than secondary

education. They had previous work experience, they receive support of a family, they are able to run a business and to cope with the requirements of its market (Krašovec, 2009).

Their businesses are mostly smaller than men owned business. They share 30% of micro businesses in 2008, and only 20% of them are part of the highest income companies (Pšeničny, 2008). Researchers have compared the business the success of entrepreneurs and entrepreneurs, among them did not confirm the systematic differences (Du Rietz, Henrekson, 2000).

In Slovenia, among the early entrepreneurially active women held 72 % secondary or higher level of education and among men is only 47% (Rebernik et al., 2015).

According to the Research about Women Entrepreneurs in Turkey, 82 percent of women entrepreneurs are in service sector whereas 40 percent of them are in trade and sales sector. In the research, it is underlined that 75 percent of the businesses operated by women were establish in the year 2000 and afterwards and this is because of the policies and practices encouraging women's entrepreneurship. It is noted that 70 percent of women run micro-businesses. According to the results of the Research about Women Entrepreneurs, the profile of women entrepreneurs in Turkey is as below (<http://www.ekovitrin.com/dergi2016/subat/14-sanem.pdf>):

- 61 percent of women entrepreneurs have bachelor or master's degree,
- 72 percent are married,
- 84 have working experience,
- 45 percent are aged between 25 and 34, 32.9 percent are aged between 35 and 44 when they start their own businesses.

According to "Women in Statistics 2014", it is observed that women participate further in labor force as their education level gets higher.

According to an article in Turkish Time Magazine (issue July 2015), in Turkey, 14 percent of micro-businesses and 18 percent of SMEs are run by women. However, a rapid growth is evident in the number of women entrepreneurs. In the last five years, the number of women top executives increased by 42 percent. In the five years ahead, it is anticipate that there will be 5 million new women entrepreneurs. Statistics reveal that the businesses managed by women are up to 30 percent more profitable. Women entrepreneurs work with twice as much cross-sale ratio more than men do. The wind of women in the business world created a new line of

business in banking called “women’s banking”. Banks in Turkey are offering products peculiar to this field. It observed that some of the banks are also in the phase of preparing new products. For example, European Bank of Reconstruction and Development (EBRD), which acts by the aim of providing loans worth 300 billion Euros to the women entrepreneurs in Turkey, organized meetings with women entrepreneurs in May, in Gaziantep and Kayseri, the two industrial hubs in Turkey (<http://www.turkishtimedergi.com/genel/kadin-girisimci-araniyor/>).

In Slovenia, we made a research (Year?) of female interest for entrepreneurship training. Sample for brief interview were top managers of training institutions and incubators. Details are present below:

- Job seekers programs. Promoting entrepreneurial spirit and self-employment programs supporting by Unemployment office during year 2013 that 45.2 % of participants were female (RZZZ RS 2014). Similar programs are support by local communities and in some cases by EU funds. At the Gorenjska region at the programs organized with Regional agency SORA and Business support center Kranj dominated female participants with 60% of all participants.
- On social oriented entrepreneurship courses female participants dominated. On the courses organized by Uspešenpodjetnik belong 80% of participants to female participants.
- Another group of training programs which support ambitious people, which want, grow fast in go to global market (born global) organized by specialized firms such as Hekovnik, SEED and others, dominate male participants, there are less than 20% of women participants.

In recent years in Turkey, “Practical Entrepreneurship Education and Courses” are made available by KOSGEB (Small and Medium Enterprises Development Organization), in partnership with İŞKUR (Turkish Employment Agency), metropolitan, province and administrative district municipalities, universities and academies, associations, foundations, development agencies, trade associations, entrepreneurship associations, craftsmen’s associations, and local chambers of commerce and industry. The Practical Entrepreneurship Education and Courses offer certification issued by KOSGEB, Ministry of Education and İŞKUR. Thus, the candidate entrepreneurs may also make use of loans and grants for establishing their business and make use of other New in Business Support by KOSGEB after setting up their businesses (<https://www.girisimcilikkurslari.com/is-kur>).

When we analyze Ljubljana University Incubator. We can see that women are also the director. Since 2008 LUI supported 135 start hopes, and only few of them led women. Her opinion is that the main reason are women characteristic, they are not risk takers. Women are more prone to organic growth of the company.

Table 3: Women in Ljubljana University Incubator

	2013	2014	2015
Number of companies adopted incubation	27	22	9
Female % in the team founders	15	17	11
The number of women in business in incubator	4	5	2

Further big challenges lie in increasing the proportion of women entrepreneurs and improving the entrepreneurship ecosystem.

When we analyze corporations in Slovenia we can see that 5 % of CEO of companies participate on Stock market are women, they represent 23 % of board membership. Firms wants to balance between men and women. But on some specific fields, such as public institutions (40%), banks (37%), ...

According to the research in Turkey by Catalys in 2013, the rate of women members in the boards of directors of companies has been only 17%. Women made up only 14.6% of top executives and 4 % of CEOs. According to the Global Gender Gap Report by the International Labor Organization (ILO), Turkey is the second country with the highest number of chairwomen. However, Turkey ranks 94th among 108 countries in terms of the number of top executives and managers. Turkey has the lowest rank among 49 countries with the rate of 14.3% in medium and higher level of women managers in private and public sectors. Wage is one of the sharpest gaps among women and men in the business world. Women in Turkey receive 60 percent of the payment received by men doing the same jobs. This rate is 76.3 % in Germany, 74.3 % in England, 73.8 % in Canada and 73.7 % in the USA. Turkey has the lowest rank among 31 OECD countries



with women's employment rate of 26.5%, according to TÜİK. Moreover, according to the latest data of OECD, the rate of women's participation in labor force in Turkey is 29%. Iceland is one of the countries with the highest rate of women's participation in labor force, which is 71% (<http://www.haberturk.com/ekonomi/ekonomi/haber/1044033-tuikin-verilerine-gore-calisabilir-durumdaki-kadin-nufusu-29-milyon-kisi>).

The highest rank category in the distribution of the status of women participating in labor force is paid work with 61.7 %. Only 1.2 % percent of women are in labor market as employers. In the distribution of women's status in informal employment, it observed that 56.8% are in unpaid household work and 26.9 % are in per diem work. It declared that projects for women's employment will be support and the inclusion of women in agriculture, temporary agricultural employment and in household work and of all other women that are employ informally, as well as of the women with disabilities and disadvantages, will be ensured. It was also noted that special programs for supporting women looking for jobs for the first time and for creating new employment opportunities for women will be sustained ([http://www.ilo.org/wcmsp5/groups/public/---europe/---ro-geneva/---ilo-ankara/documents/publication/wcms\\_484715.pdf](http://www.ilo.org/wcmsp5/groups/public/---europe/---ro-geneva/---ilo-ankara/documents/publication/wcms_484715.pdf)).

Table 4: Women Political Empowerment in Slovenia

Political empowerment	Rank	Score	Sample average
	16	0,385	0,23
Women in parliament	21	0,58	0,27
Women in ministerial positions	10	0,78	0,20
Years of female head of state (last 50)	45	0,03	0,20

Source: The Global GenderGap Report 2015,  
<http://www3.weforum.org/docs/GGGR2015/cover.pdf>

Table 5: Women Political Empowerment in Turkey

Political empowerment	Rank 105	Score 0,103	Sample average 0,23
Women in parliament	86	0,22	0,27
Women in ministerial positions	139	0,04	0,24
Years of female head of state (last 50)	36	0,06	0,20

Source: The Global GenderGap Report 2015,  
<http://www3.weforum.org/docs/GGGR2015/cover.pdf>.

According to Global Gender Gap report; Slovenia has 16th score for political empowerment women, Turkey has 105<sup>th</sup> score for political empowerment women. According to these criteria above: women's political empowerment and other activities that they play key roles have influence on women entrepreneurship activities.

### 3.2. Global Entrepreneurship and Development Index (GEDI)

GEDI is carried out by the Global Entrepreneurship Development Institute, since 2008 and within this scope, based on GEM data and data from other institutions (Global attitude), ACTI (entrepreneurship actions) and ASPI (entrepreneurship spirit and aspiration). In the Global Entrepreneurship Development Institute (GEDI) published the 2015 Female Entrepreneurship Index (Terjesen and Lloyd, 2014).

Female entrepreneurship index analyses 77 countries (Terjesen and Lloyd, 2015). There are three sub-indices to the Female Entrepreneurship Index: Entrepreneurial Environment, Entrepreneurial Eco-System, and Entrepreneurial Aspirations. Broadly speaking, Entrepreneurial Environment focuses on assessing the 'entrepreneurial spirit and culture' of a given society as well as the presence of institutions to support entrepreneurial start-ups. The Entrepreneurial Eco-System contains variables that capture the access to resources and institutions needed for female business development. The final sub-index, Entrepreneurial Aspirations, focuses on the individual entrepreneurial characteristics as well as resource availability needed

for 'high potential' female entrepreneurship to prosper and contribute to economic growth. These three sub-indices stand on 15 pillars, each of which contains an individual and an institutional variable that corresponds to the micro- and the macro-level aspects of entrepreneurship.

According to Table 6 below, Turkey has the 45th position in the ranking whereas Slovenia has the 21st position. According to the figures by GEDI, the rate in Turkey is 39.3 % and the rate in Slovenia is 55.9 %.

Table 6: Regional Differences in the Gender Index, Including Strengths and Weaknesses

Regional ranking			Strongest areas	Weakest areas
<b>East Asia</b>	<b>Score</b>	<b>Global Rank</b>	<ul style="list-style-type: none"> <li>Market Size</li> <li>Access to Childcare</li> <li>Monopolized Markets</li> <li>R&amp;D Expenditure</li> <li>Business Gazelles</li> </ul>	<ul style="list-style-type: none"> <li>Opportunity Recognition</li> <li>Perception of Skills</li> <li>Willingness to Start</li> </ul>
Singapore	59.8	16		
Taiwan	53.4	26		
Korea	40.1	43		
Japan	40.0	44		
China	38.3	48		
<b>Europe</b>	<b>Score</b>	<b>Global Rank</b>	Many, but in particular <ul style="list-style-type: none"> <li>Tech Sector Businesses</li> <li>Secondary Education</li> <li>SME Support and Training</li> </ul>	<ul style="list-style-type: none"> <li>Opportunity Recognition</li> <li>Perception of Skills</li> <li>Know an Entrepreneur</li> </ul>
United Kingdom	70.6	3		
Denmark	69.7	4		
Netherlands	69.3	5		
France	68.8	6		
Iceland	68.0	7		
Sweden	66.7	8		
Finland	66.4	9		
Norway	66.3	10		
Ireland	64.3	11		
Switzerland	63.7	12		
Belgium	63.6	13		
Germany	63.6	14		
Czech Republic	59.1	17		
Lithuania	58.5	18		
Poland	57.7	19		
Latvia	56.6	20		
Slovenia	55.9	21		
Estonia	55.4	22		
Austria	54.9	23		
Slovakia	54.8	24		
Hungary	53.7	25		
Spain	52.5	28		
Italy	51.4	30		
Croatia	49.9	31		
Portugal	49.8	32		
Romania	49.4	33		
Montenegro	43.7	37		
Greece	43.0	40		
Macedonia	41.2	42		
Turkey	39.3	45		
Bosnia and Herzegovina	31.6	59		
<b>Latin America</b>	<b>Score</b>	<b>Global Rank</b>	<ul style="list-style-type: none"> <li>Executive Status</li> <li>Entrepreneurship Ratio</li> </ul>	<ul style="list-style-type: none"> <li>R&amp;D Expenditure</li> <li>1<sup>st</sup> Tier Finance</li> </ul>
Chile	63.5	15		
Colombia	52.0	29		

Source: Terjesen and Lloyd, 2014: 14.

The following indicators are use in the detection of the results in the female entrepreneurship index: Opportunity recognition, perc. of skills, willingness to start, know an entrepreneur, executive status, opportunity business, tech sector business, highly education owners, innovativeness, entrepreneurship ratio, new product, new technology, business gazelles, female leadership, export focus, 1st tier financing.

Table 7: The Indicators FEI (Female Entrepreneurship Index) Results by Country

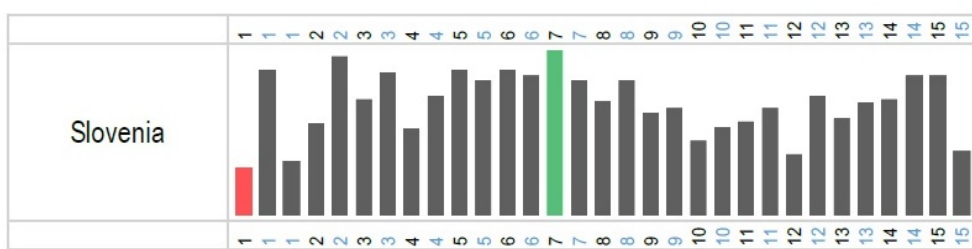
Pillar	Indicator	Pillar	Indicator	Pillar	Indicator	Pillar	Indicator
1	Opportunity Recognition	4	Know an Entrepreneur	8	Highly Educated Owners	12	New Technology
1	Equal Rights	4	Internet and Networks	8	SME support and training	12	R&D Expenditure
1	Market Size	5	Executive Status	9	Innovativeness	13	Business Gazelles
2	Perc. Of Skills	5	Access to Childcare	9	Monopolized Markets	13	Female Leadership
2	Secondary Education	6	Opportunity Business	10	Entrepreneurship Ratio	14	Export Focus
3	Willingness to Start	6	Bus Freedom & Movement	10	Labor Force Parity	14	Globalization
3	Business Risk	7	Tech Sector Business	11	New Product	15	1st tier financing
		7	Tech Absorption	11	Technology Transfer	15	3rd tier financing

Individual level indicators are listed in black; Institutional level indicators are listed in blue

 Highest score  Lowest score

Source: Terjesen and Lloyd, 2014: 30.

Table 8: Slovenia with Indicators



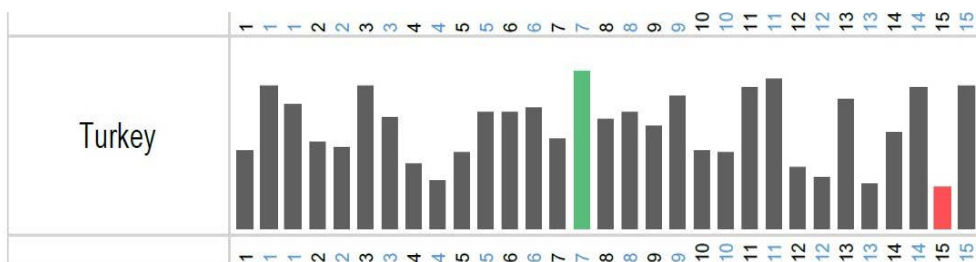
Source: Terjesen and Lloyd, 2014: 30.

According to these indicators, the lowest score is in opportunity recognition and the highest score is in tech sector business. It is also observed that in Slovenia, the scores are also high in secondary education and equal rights and the lower scores are in new technology, market size and 3rd tier financing.

The 3rd tier of financing measures the 'Depth of Capital Markets'. It measures access to equity capital for high growth entrepreneurs.

Countries with better developed equity markets provide risk capital, an exit strategy for investors and provide financial rewards for successful entrepreneurs that do not exist in countries that have bank-centered capital markets owner-manager of a new business (no more than 42 months old) which tend to be much more conservative (Terjesen and Lloyd, 2014: 38).

Table 9: Turkey with Indicators



Source: Terjesen and Lloyd, 2014: 31.

It is observed that in Turkey, the lowest score is in first tier financing and the highest score is in tech absorption. Additionally, in Turkey the scores for equal rights, willingness to start, and technology transfer are high whereas the internet and networks, R&D Expenditure and Female Leadership scores are low. In FEI results, the scores of both countries in equal rights are high. Slovenia's score is higher than Turkey's score.

Considering the women's entrepreneurship index in Turkey, it is evident that women are rather powerful in corporate basis in terms of technical achievement, looking into the corporate indicators. Considering the weaknesses according to this indicator, it is observe that the first tier financing is low and women have difficulties in financing their own business start-up (Table 9).

The first tier financing relates to debt capital and financial literacy and includes the combined percentage of women with a bank account at a formal institution, the percentage of women with a bank account for business purposes and women's access to finance programs (Terjesen and Lloyd, 2014: 38). Technological advancements have resulted in the increasing active participation of women into the labor marketing Turkey, as well as worldwide (Soysal, 2010: 107).

## 4. RESEARCH

### 4.1. Aim of the Study

Aim of the study is analyzing and comparing women entrepreneurship in Slovenia and Turkey by using content analysis and compilation method.

### 4.2. Importance of the Study

Women entrepreneurship is very important for economic growth for a country. By the help of women entrepreneurship women employment increases and the women can develop their potential and can have better position in their daily and social life. This study contribute to literature by analyzing the differences and properties of women entrepreneurship by using content analysis method and compilation method with more details.

### 4.3. Method of the Study

Method of the study is content analysis<sup>2</sup> and compilation<sup>3</sup> method.

The data is analyzed which get from different primary and secondary sources and news. In this study, the profiles of women entrepreneurship in Turkey and Slovenia were analyze and compared. This study is analyzed according to some criteria especially age, education, experience, GEDI (*Global Entrepreneurship Development Institute*) index, (Female Entrepreneurship Index)FEI results, sector, the situation among the other countries, universities and courses which are linked to women entrepreneurship activities, women managers in both countries, women political empowerment also women's marital status etc.

## 5. CONCLUSION AND RESULTS

In this study, the profiles of women entrepreneurship in Turkey and Slovenia were analyzed and compared. This study is analyzed according to some criteria especially age, education, experience, GEDI (*Global Entrepreneurship Development Institute*) index, FEI results, sector,

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<sup>2</sup>Content analysis is a research technique used to make replicable and valid inferences by interpreting and coding textual material. By systematically evaluating texts (e.g., documents, oral communication and graphics), that have been gathered into a collection ([www.terry.uga.edu/management/contentanalysis/research/](http://www.terry.uga.edu/management/contentanalysis/research/)).

<sup>3</sup>Compilation means a group of things (such as songs or pieces of writing) that have been gathered into a collection (<http://www.merriam-webster.com/dictionary/compilation>).

the situation among the other countries, universities and courses which are linked to women entrepreneurship activities, women managers in both countries, women political empowerment also women's marital status etc. According to GEDI (*Global Entrepreneurship Development Institute*) index in Slovenia, the lowest score is in opportunity recognition and the highest score is in tech sector business. It observed that in Slovenia, the scores are also high in secondary education and equal rights and the lower scores are in new technology, market size and third tier financing.

Opportunity is the lowest graded indicator. This pillar combine 'Equal Legal Rights' with 'Market Size'. Equal legal rights is high evaluated. Women and men faced with certain problems in the business decision-making, their opinion is, that these problems are not discriminatory conditioned. Major problems connected to unfavourable regulations, bureaucracy and lack of financial resources and availability of skilled and motivated workforce. In terms of equality were adopted three laws: Equality between women and men, Employment Relationships Act and Parental care and family income act. Opportunity is affect by a country's market size. Domestic market is limited on 2 million habitant. The market variable captures both a country's urbanization and the size of the domestic market create conditions for business development.

In Turkey 1st tier financing is the lowest score; tech absorption is the highest score. Also in Turkey equal rights, willingness to start, technology transfer is high. In Turkey, also internet, networks and female leadership are low. Considering the women's entrepreneurship index in Turkey, it is evident that women are rather powerful in corporate basis in terms of technical achievement, looking into the corporate indicators. Considering the weaknesses according to this indicator, it observed that the first tier financing is low and women have difficulties in financing their own business start-ups (Terjesen and Lloyd, 2014: 31).

In Turkey female leadership must be developed. By the help of the women entrepreneurship activities female leadership can be developed. If female leadership increases in Turkey, then the status of women in society economically and socially increased.

According to the data of Turkish Statistical Institute (TÜİK), in Turkey, the rate of employment among men is 70 % whereas the rate of labor force participation among women is 30 %. Compared to the European Union (AB) member nations, this rate is less than half of European average. Eurostat

2015 data reveal that the number of women employed in European countries is 62.3 % (<http://www.dw.com/tr/t%C3%BCrkiyede-kad%C4%B1n%C4%B1n-istihdamda-ad%C4%B1-yok/a-19100722>).

Slovenia in 2012 had 28,000 self-employed women (Statistical office RS, 2016), which is less than a third of all self-employed. Slovenia is at 23th place from 24 observed countries of GEM survey in 2015 (Rebernik et al., 2016), data show that only 27.9 % of women are involved in early-stage entrepreneurial activity. Better info is the average value of entrepreneurship out of necessity in Slovenia dropped in last few years. The share of early-stage entrepreneurial female activity in EU, associated with enhance opportunities (from 68.69 % in 2014, to 75.09 % in 2015). Slovenia also found on the 14th place on the scale of the studied countries with 24.91 percent (Rebernik et al., 2016).

When we analyse education of women, the GEM special report on women entrepreneurship (Kelley et al. 2015) discloses data on the share of early entrepreneurially active women entrepreneurs more than secondary education. Mostly are well-educate, with previous work experience, they receive support of a family, they are able to run a business and to cope with the requirements of its management (Krašovec, 2009). In Slovenia, among the early entrepreneurially active women, 72% held secondary or higher education and among men early entrepreneurs is such only 47 % (Rebernik et al., 2015). Their education is higher than male. They have different education orientation; business topics dominated. They have previous work experience mostly they have more than 10 years professional experience. The reasons for the establishment of the dissatisfaction with relationships, salary, and job lose. They take advantage of knowledge application to career development. They work on the field of financial and business services, trade, manufacturing and engineering. They have lack of management, marketing, accounting, entrepreneurship knowledge sometimes they are out of information flow.

When we analyse Turkey according to GEM 2014 Turkey results is that the rate of young entrepreneurs aged 18 to 24 in Turkey increased by 50 percent in 2014 compared to the previous year, up to 22.62 percent. This means that it has become an increasing trend among young people to start their own business instead of attending a university. This assessment is verify by the decreasing level of higher education among entrepreneurs. According to the research, in 2014, the rate of entrepreneurs with bachelor's or master's degree decreased down to 34 percent whereas it



was 52 percent in 2013. 48 percent of the Turkey entrepreneurs have high school or pre-high school education (<http://webrazzi.Com/2015/12/18/turkiyede-gencler-universiteye-gitmek-yerine-girisimci-oluyor-gem14-raporu/>).

Also according to the Research about Women Entrepreneurs in Turkey, 82 percent of women entrepreneurs are in service sector whereas 40 percent of them are in trade and sales sector. In the research, it is underlined that 75 percent of the businesses operated by women were establish in the year 2000 and afterwards and this is because of the policies and practices encouraging women's entrepreneurship. 70 percent of micro-businessesrun women's.

According to "Women in Statistics, 2014" it is observed that women participate further in labor force as their education level gets higher.

When we analyze the situation in Slovenia, the proportion of women in SME and crafts in Slovenia between 23 and 27 percent, 96 percent of micro-enterprises and individual entrepreneurs without employees. Entrepreneurial and intellectual potential of women and their contribution to European competitiveness is not exploited (DG Enterprise and Industry / EC 2008). A large proportion of female entrepreneurs are married and have children. Female entrepreneurs establish their business between 35 and 44 years age (WES 2007).

If we use Hofstede system of evaluation. Slovenian culture is not risk-taking oriented, ranked as high uncertainty avoidance. Their dominated short term oriented companies. Slovenian female entrepreneurs are responsible for operational energy, communication and have tendency towards independence. Their decisions are mostly conservative, responsible to team and families. Managers are not prepared to take high risk decision. In comparison with other development countries. On risk taking avoidance Slovenia is high ranked (Jazbec, 2005).

In Slovenia, in corporations on Stock market, women participate 5 % of CEO, and 23 % as board members. Firms wants to balance between men and women. But on some specific fields, such as public institutions (40 %), banks (37 %); On the other hand according to the research in Turkey by Catalys in 2013, the rate of women members in the boards of directors of companies has been only 17 %. Women made up only 14.6 % of top executives and 4 % of CEOs. According to the Global Gender Gap Report by the International Labor Organization (ILO), Turkey is the second country

with the highest number of woman chairpersons. However, Turkey ranks 94th among 108 countries in terms of the number of top executives and managers. Turkey has the lowest rank among 49 countries with the rate of 14.3 % in medium and higher level of women managers in private and public sectors.

In Slovenia are non-formal and formal education institutions, incubators and accelerators - as part of business ecosystem for jobseekers training programs to self-employ and social entrepreneurship programs.

In Turkey, Practical Entrepreneurship Education and Courses are made available by KOSGEB (Small and Medium Enterprises Development Organization), in partnership with İŞKUR (Turkish Employment Agency), metropolitan, province and administrative district municipalities, universities and academies, associations, foundations, development agencies, trade associations, entrepreneurship associations, craftsmen's associations, and local chambers of commerce and industry. The Practical Entrepreneurship Education and Courses offer certification issued by KOSGEB, Ministry of Education and İŞKUR. Thus, the candidate entrepreneurs may also make use of loans and grants for establishing their business and make use of other New in Business Support by KOSGEB after setting up their businesses ([https://www. girisimcilik kurslari. com/is-kur](https://www.girisimcilik.kurslari.com/is-kur)).

As a conclusion, we can say that Slovenia and Turkey try to make better situations for their women entrepreneurship. In Turkey, women also work in agriculture. Many of them need new opportunities. Turkish government and ministries support some programs and courses. By the help of this, some training activities are designed for Turkish women (also who work in agriculture). In this training programs they can learn cooperatives, how to use micro-credit for entrepreneurship and how to make production and service effectively. Temporary agricultural employment for women is very important for economic growth in Turkey. By the help of the women's entrepreneurship activities in Turkey women gain self-confidence and can manage their work well. Because of the policies, strategies, practices and legal procedures women in Turkey can develop their entrepreneurship skills better. Also in Turkey by the equal rights, willingness to start, technology transfer women are also updated themselves.

In Slovenia, adults are very confident their skills and knowledge required start a business and they are not afraid of taking risks. Their perception of opportunities for business is poor, ranking far below the European average,

with only 17.25 % of the adult population in 2014 seeing good business opportunities in the area where they live, Slovenia ranks lowest among the European nations (GEM, 2016). The highest entrepreneurship rates is among 35-44 year-olds. Their businesses are mostly smaller than men owned business. They share 30% of micro businesses in 2008, and only 20 % of them are part of the highest income companies (Pšeničny, 2008). Also in Slovenia proportion of female entrepreneurs in relation of male, increase. Glas and Petrin (1998) describe three reasons: 1) elimination of administrative barriers, 2) growing services sector and 3) support environment that encourages female Entrepreneurship. Slovenia in 2012 had 28,000 self-employed women (Statistical office RS, 2016).

In Slovenia, among the early entrepreneurially active women held 72 % secondary or higher education, and among men is such only 47 % (Rebernik et al., 2015). Their education level is higher than male. They have different form of education, business topics dominated. They have previous working experience; mostly they have more than 10 years professional experience. The reasons for the establishment of the dissatisfaction with relationships, salary, and job lose. They take advantage of knowledge application to career development. They work on the field of financial and business services, trade, manufacturing and engineering. They have lack of knowledge on management, marketing, accounting, entrepreneurship; sometimes they are out of information flow.

As a result, we can say that women entrepreneurship activities are very important for all countries, because if women population develop themselves and come to better conditions they will help economic growth in their countries and have better situations in their societies.

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## THE EVOLUTION OF GENDER BUDGETING IN ITALY

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### Abstract

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This paper aims to analyze the role and the importance the gender budgeting plays inside the public local administrations; it is a key tool for evaluating public policies and to balance the allocation of resources through a more equitable distribution. It is recognized as an important element of the "gender mainstreaming" which aims to promote equity between men and women. Facing such a scenario, even the Legislator, over the last decade, has used the legal instrument to accelerate the adoption of gender budgeting by public administrations.

In the first part of this paper, after a brief introduction on the role of the budgeting and the evolution of the regulatory framework, the objectives and structure of gender budgeting are presented.

The second part focuses on the most significant national experiences following the adoption of this document by the public local administrations.

These reflections allow us to appreciate the current trends and the possible future perspectives on the topic as well as the critical issues.

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### Key Words

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## Topic Groups

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Gender, diversity and social issues

### 1. INTRODUCTION

In the democratic and institutional framework typical of each public body, the political actions, especially of economical aspect, are not neutral but impact differently on citizens, or affect different social groups (the elderly, the unemployed, people in discomfort, women, children ...). In this scenario, the gender budget is the document that assesses public policies from a gender perspective and evaluates the impact they have on the female and the male component of the population (Elson D.1999). According to the theoretical postulate underlying this document, the allocation and distribution of public resources must comply with the interests of equity and equality between men and women. But reading a public policy with a gender perspective means bearing in mind the personal, family, social, working and economic differences insisting on women and men, and evaluate, from the socio-economic point of view, how such an action might impact on different lifestyles, and different conditions compared to another public intervention. This way, the administrators can be more responsible and fully aware of the consequences of their policy on men and women.

Gender budgeting is therefore “an important gender mainstreaming tool that allows to analyze and help reduce gender inequalities by means of an exercise in transparency, democracy and accountability in the management of public resources and distribution, to the benefit of the whole community” IRS (2006: 9).

Assuming a gender perspective should be an integral part of every political, economic and social choice, or it must be a guiding principle in public policy actions (Florio S. 2000).

Indeed, although the principle of equal opportunities between women and men is recognized and accepted by western countries, its practical implementation is somehow delayed. This prevents women from fully contributing to the social and economic development process. Gender budgeting, therefore, "is not a simple economic tool, but rather a key tool which allows the political authority to define the socio-economic development model to be performed" (Bianchi L. 2007), it determines the policies and distributes public resources for the benefit of the whole community, thus reducing gender inequalities.

## 2. REGULATORY SCENARIO

Gender budgeting is the most suitable instrument for promoting and implementing the gender mainstreaming<sup>4</sup> that since the seventies, has developed, as a guiding principle in equal opportunity policies. Internationally, Australia was the first country to experience the gender budget in 1984 (Sharp R., Broomhill R. 2002)<sup>5</sup>; then other experiences developed around the world both in industrialized countries (South Africa, USA, Norway, Denmark, France, Israel, Canada, Great Britain, Italy, Switzerland, Sweden, Scotland, Russia, etc.) than in developing ones (Barbados, Fiji, Kenya, Mozambique, Tanzania, Zambia, etc.) (Budlender D. 2001). At the international level, the Beijing Fourth World Conference (1995) officially recognized the value of gender budgeting as the tool to implement

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<sup>4</sup> "Gender mainstreaming is the (re)organisation, improvement, development and evaluation of policy processes, so that a gender equality perspective is incorporated in all policies at all levels at all stages, by the actors involved in policy-making" the Council of Europe, [www.coe.int](http://www.coe.int).

<sup>5</sup> Gender budgeting was introduced by the Job Federal Minister Bob Hawke "these exercises seek to obtain information about what is being done for women, to raise the profile of women's programs in bids for funding, but also to build into each department a clear awareness that everything they do, every dollar they spend, has an impact on women - and that impact is very often different for women than for men" (South Australian Government 1987: 11).



gender mainstreaming (Walby S. 2005)<sup>6</sup>. Since 2001 the European Union has adopted the indications of that Conference and has been focusing its strategies in promoting and disseminating gender budgeting.

In 2003 the "Report on gender budgeting - Building public budgets from a gender perspective" was presented to the European Parliament by the Commission on Women's Rights and Equal Opportunities. The report highlights that the gender budgeting allows to "adopt a gender impact assessment at any level of the budgetary process, and to restructuring revenues and expenditures in order to promote equality between men and women" (European Parliament Resolution no.1.3.30). Moreover, "the gender budgeting methodology must tackle socio-economic inequalities between women and men taking into account the different realities at local, regional, national and European level" (European Parliament 2003); this principle is fundamental for a concrete promotion and dissemination of gender budgeting.

The European Commission, when stating the strategies of gender equality for the years 2006-2010, has reinforced this logic; and it has also claimed "the application of methodologies for equality between women and men, such as the impact assessment with respect to gender and gender budgeting", as a strategy that "will promote equality between women and men and will bring greater transparency and reliability" (European Commission 2006).

Italy has immediately accepted the impulses of the Fourth World Conference on Women and the recommendations of the European Union and since 2001 has been committed in preparing gender budgets<sup>7</sup>. In the Italian legislation the first overt reference to gender

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<sup>6</sup> In the final document "Beijing Platform for Action" the various strategic objectives are listed: "restructure and target the allocation of public expenditures to promote women's economic opportunities and equal access to productive resources and to address the basic, social, educational and health needs of women" is one of them.

<sup>7</sup> The equality principle, stated by art. 3 Constitution, "All citizens are equal and they are equal for the law, with no distinction of race, language, religion, political

balance is contained in Directive no. 23 of 2007 of the Department for Equal Opportunities concerning the measures to implement equality and equal opportunities between men and women in public administration (Marcucci M., Vangelisti M.I. 2013). In the Directive it is hoped that "Gender Budgets become an established practice in the social reporting activities of the Public Administration". For this aspect the Brunetta decree is quite relevant; it requires the Public Administrations a "Report on performance" containing the "organizational and individual outcomes achieved in respect to the individual planned objectives and to financial resources" and "gender budgeting carried out" (art. 10, Legislative Decree no. 150/2009). This is a fundamental step; despite the gender budgeting is not considered as mandatory, it represents the essential tool for implementing a good performance. Accordingly, it can trigger the mechanism of "optimizing public labor productivity and the efficiency and transparency of public administrations" (Legislative Decree no. 150/2009).

In addition, art.21 of Law 183/2010 is in line with this approach. It aims to "ensure equal opportunities, welfare of workers and non-discrimination in public administrations" and provides for the establishment of "Committees for Equal opportunities, enhancement of the worker and non-discrimination".

In this national scenario, it is clear that gender budgeting "is not only a transparent mode of reading the budget, but also a privileged instrument for implementing equal opportunities and equality strategies suitable to build the "European social model" that demands a broader human promotion" (IRES Piemonte, 2011: 7).

### 3. PURPOSE AND STRUCTURE OF GENDER BUDGETING

As it has been observed the gender analysis is a strategy that allows to check the effect of a public body's economic policies on men and

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ideas, personal and social conditions"... is actualised with the amendment of art. 51, in 2003, which states "...the Italian Republic promotes the equality between men and women, by means of specific provisions".

women. This analysis aims to achieve the following five objectives, taking into account the gender preferences and needs:

- Efficiency: it allows a better cost-benefit ratio, optimizing the outcome of the service obtained in terms of cost and reducing the waste of resources;
- Effectiveness: it allows to give more precise responses, targeted to individual needs;
- Equity: it allows a fair distribution of resources;
- Awareness: it allows administrators to include the gender perspective among the decision and programming tools for their political actions;
- Transparency: collectivity is given the tool to assess the actions of the public body, and citizens acquire greater awareness of the economic policies of public administrations being duly informed (IRS 2006).

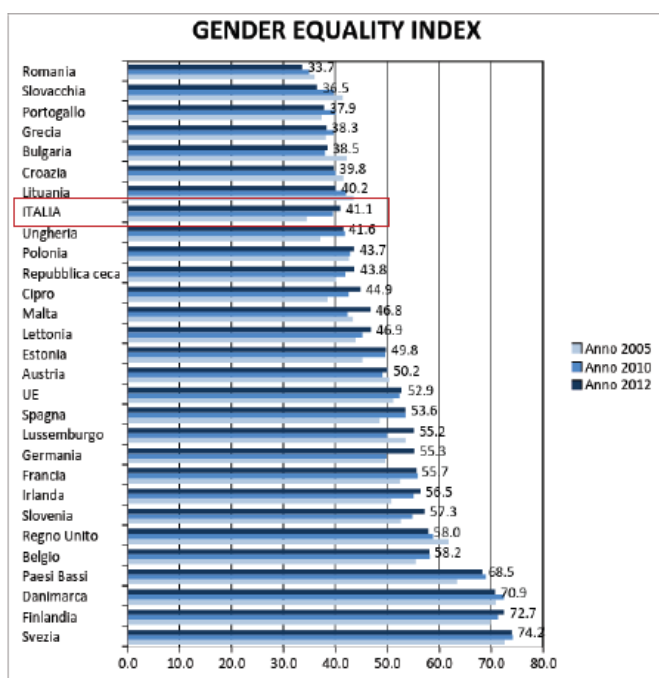
From an operational point of view, the development of gender budgeting can be carried out with different modes and detailing levels depending on the body; however, the recommended structure involves the following four steps (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili 2008):

1. context analysis, the local territory and the citizens' characteristics are analyzed according to a perspective which examines the differences between men and women, so as to highlight the different needs and expectations in terms of services;
2. analysis of the staff, where institution's personnel is analyzed by gender;
3. analysis of policies and programs and budget reclassification, where the political strategies and policy choices aimed to women population are highlighted and the cost centers are reclassified so to present the revenue and expenditure according to categories by gender perspective;
4. analysis of the services offered by the institution, where the use of the Administration's resources for service delivery and for carrying out the activities is examined; besides, elements for assessing the quality of the services and their matching the different needs of women and men are provided.

## 4. EXPERENCES IN ITALY

Unlike other countries where the experiences of gender budgeting have been undertaken at national level, in Italy the first trials have been carried out by public local administration, especially by municipalities and provinces (Galizzi G. 2012, Pulejo L. et al. 2008). The active action conducted by local authorities "positively characterizes the commitment of our country for gender equality although a little behind compared to other EU countries; Italy is always below the EU average, despite an improvement over the years 2005-2012 "(ANCI, 2016). See Figure 1.

Figure 1: Gender Equality Index



Fonte: Indice Europeo sull'uguaglianza di genere

The first three provinces to be engaged in drafting gender budgeting, Genoa, Modena and Siena, in 2003 signed a memorandum of understanding for the promotion of gender budgeting and the exchange of best practices. Over the years the interest for this document has grown and public administration have drawn or planned it, while other administrations have signed the Memorandum of Understanding. They were: the provinces of

Alessandria, Ancona, Ferrara, Florence, La Spezia, Milan, Parma, Pesaro-Urbino, Turin, Rome and the municipalities of Genoa, Aosta, Cuneo, Florence, Pesaro, Rimini, Siena, Sestri Levante, Torino, Collegno, Bari, Pinerolo.

In this framework, it was found that flexibility is the outstanding feature when drafting gender budgeting; it allows to adapt the analysis to the peculiarities of any institution. The main approaches that have occurred so far in preparing the document are as follows: capabilities approach, Performance Oriented Gender Budgeting approach, Strategic Impact Assessment Approach on Equal Opportunities (SIAAEO- VISPO in Italian).

The first is based on the assumption that the public body should not concentrate its actions on the use of resources or the policy efficiency, but on the policies and choices evaluated for their ability to develop the capacity of women and men on the territory. This model essentially aims to highlight the "opportunities" that public policy can generate for the benefit of citizens (Sen A.1987).

The second approach, on the other hand, intends to evaluate the whole process - input, output and outcome - of the public performance according to the three indicators (3E): efficiency, effectiveness, economy, introducing the fourth indicator, the gender equity (Budlender D. et al. 1998).

The SIAAEO model<sup>8</sup> differs substantially from the Performance Oriented Gender Budget model since it employs ex ante evaluation methods of gender potential impact of the planned interventions.

## 5. CONCLUSIONS

The analysis carried out highlights the gender budgeting as an important innovation tool that allows to evaluate the performance of public administration with regard to spending decisions and investment, and allows gender policies to become an integral part of this *modus operandi*.

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<sup>8</sup>In 1999 we have been approved "The VISPO Guidelines. Implementation of the principle of equal opportunities for men and women, and equitable gender impact assessment in the operational planning" by the Department of Equal opportunities of the Presidency of the Council of Ministers.

It would be essential, therefore, to empower the Administrators so they would introduce the gender reading of the public budget as a common working tool, defining a shared and unitary methodology, and homogeneous patterns of gender budgeting, thus making the exchange of experiences possible by means of spatial and temporal comparisons. It is necessary to prevent the gender budgeting from remaining a stand-alone document, an impromptu and contingent experience, not capitalized and harmonized with the institution's governance, but left with no actual room for improvement (Ires Piemonte, 2011).

Adopting the gender budgeting means starting a process of cultural change that requires the balance policy to be deeply rethought by focusing with great awareness on the various stakeholders, on the satisfaction of their needs, on their changing requirements, on the impact each choice has on the living conditions of many citizens.

As we have seen from the survey, interesting experiences at the local level have been started in Italy, although gender analysis is adopted ex-post, enquiring on balance sheet data, and not with an ex-ante evaluation, when the distribution of resources is decided. It would be essential, instead, for this analysis to become an ordinary work tool so that equality culture in local authority policies can be strengthened.

Gender budgeting is therefore an important tool for modernization the application of equal opportunities, an essential condition for the socio-economic development, welfare and quality of life.

This survey aims to provide an initial starting point for further reflections in business administration.

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## CULTURAL DIVERSITY AND TRUST BUILDING IN MANAGEMENT PRACTICE

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### Abstract

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The discussion on culture and management practice has been framed by Hofstede's strongly contested conceptual framework of key dimensions of national cultures, and similar approaches. This conceptual framework needs updating, because it is based on assumption of stable value orientations, and the dominance of the nation state, both of which are becoming increasingly irrelevant in a quickly globalising world.

In this paper, we discuss the fundamental flaws and the limited relevance of Hofstede's framework, while proposing an action oriented managerial approach to deal with cultural backgrounds in a business context, that is based first on determining the type and degree of cultural diversity, formulating appropriate measures to enhance mutual understanding and trust, and finally measuring success in transcending cultural differences.

As a first step, a diversity index for language can be calculated for an organization. We maintain that 1<sup>st</sup> language diversity is a better proxy for cultural diversity than nationality. If values are in the top range, larger investments and stronger measures to manage diversity are justified. Secondly, concrete trust enhancing measures must be by creating rituals and performing ceremonies for the team or the organization. By linking the literature on national cultures to trust, the main operational question becomes how trust can be enhanced across cultures. The commonly held

idea that appropriate cross-cultural communication can address the issue is not valid when diversity is very high. We argue that a focus on repeated interaction, reciprocity and demonstrated principle-based leadership is the best way to get results. Finally, the results of these interventions can be measured by including questions on clarity of communication and trustworthiness of colleagues in annual employee engagement surveys.

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### Key Words

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cultural dimensions theory, value orientations, student group management

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### JEL Codes

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Z1 Cultural economics

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## 1. INTRODUCTION

The purpose of this paper is to distil from theories about culture and cultural diversity some implications for the management of groups with highly diverse cultural backgrounds. Although we believe that in practice personal values and personality traits always trump cultural background in explaining behaviour, when cultural diversity is large the issue must be addressed in order to avoid conflicts, and to promote mutual learning and respect as a source of strength for the organization.

In the first part, we focused on Hofstede's framework of dimensions of national cultures, which is widely quoted in the management literature. Hofstede framework concerns nation-states, although he has applied it to sub-national cultures, such as the French and Flemish speaking parts of Belgium. In large parts of the world, however, this framework is irrelevant

since in most parts of Latin America, Asia and Africa, however, the nation-state was never fully developed, or failed to come into being.

In the second part, we outline a general framework for thinking about diversity in an organization, and increasing the level of trust and understanding among members of different cultural backgrounds. Diversity is a highly subjective concept, created by members of a particular group, who on the basis of their social identity categorise others as similar or dissimilar. We follow Rijamampinina, and Carmichael suggestion to think in terms of primary, secondary and tertiary dimension of diversity, in order of decreased visibility, or ease of observation. We postulate that language is a good proxy for the secondary and tertiary dimensions of diversity. How to translate a word from one language to another, for example, is not a trivial matter, and how to do this is determined by underlying values and associations within a specific language group.

Finally, we conclude that measurement as to the impact of trust building interventions is required in order to decide on the adequate level of effort and fine tune specific measures.

## **2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK ON CULTURAL DIVERSITY**

Culture is a contested and controversial concept, because it can justify stereotyping, racism, social Darwinism and other unpleasantness. There are broadly two strands on culture in the literature. The first one sees cultures as inherently contradictory, heterogeneous and dynamic. Values, in this dynamic approach, are learned once, and then developed further over a life time. Most people at some stage ask critical questions about the values they have been taught, comparing them with the values endorsed by others possibly in an attempt to assess their merit (Rawles 1998, 132). We find this approach dominant in anthropology, and also present in economics, and other social sciences. According to this dynamic approach, there are no assumptions about the role of cultural values in determining outcomes at individual or organisational levels.

The second strand sees national cultures as mostly coherent, homogeneous and static. This corresponds to seeing values as dogmatic and learned only once during childhood. We find this type of approach in some of the management science, sociology and political science literature. The

implicit assumption is that culturally determined values play a preponderant role in determining the behaviour of individuals, the adoption of specific approaches to management and leadership, and in final instance the performance of organisations. One implication, for example, is that some national cultures would be inherently inhibit the ability of organisations to perform their missions, or to build trust effectively.

A substantial part of the sociological work on culture, is directly or indirectly inspired by Max Weber's hypothesis from 1905 on stable, religiously based value orientations being the determining influence on the course of capitalist economic development (Weber and Kalberg 2013). Since the 1980s there has been numerous articles referring to national cultures worldwide as characterised by a small set of standard cultural dimensions (Geert Hofstede 1980; Geert Hofstede and Hofstede 2005; Trompenaars and Hampden-Turner 1997). In particular, Geert Hofstede's work is widely quoted: google scholar lists over 100.000 citations and a corresponding h-index of 76 (Harzing 2014).

Culture is term with many meanings, connotations and uses. "Culture" or *cultura* in Latin is derived from the Latin verb *colere*, which means to cultivate land, or as *cultura animi* metaphorically the cultivation of the mind. It was often seen in opposition to nature or *natura* in Latin, and became synonymous with civilisation. It is opposed to material culture, which is the collection of artefacts used by a specific society. Culture can be broadly defined as a system of behavioural patterns which are characteristic of members of a society, and which are not the result of biological inheritance. There is no consensus on national cultures' existence, uniqueness, homogeneity, and degree of coherence independent of time and context and power structures (Malesevic 2011). Ethics are seen as codes of conduct which prescribe what we should or should not do. Values refer to things we aim towards, that we regards as worthwhile of good in some sense (Rawles 1998).

We believe the debate in the management literature on static cultural dimensions would greatly benefit from the literature in anthropology. The founders of modern anthropology in the 1920s Malinowski and Benedict started questioning the homogeneous view of national cultures, in favour of an approach that takes into account culture's heterogeneity, open-endedness, and their dynamic and interactive nature. In the 1960s and 1970s, the view that sees culture as a bounded, homogeneous, causal and

stable systems of meanings shared by its member was abandoned by most anthropologists and other social scientists (Heijes 2010).

The Nobel prize winning development economist Amartya Sen, for example, notes a relative neglect of cultural dimensions by economists, possibly because of the unproven existence theorem of a national culture. He stresses the dynamic and heterogeneous nature of culture: "Taking culture to be independent, unchanging and unchangeable can be problematic", and "Culture does not sit still." He is aware that "cultural features - from the most trivial to the most profound - can change radically, sometimes leaving little trace of the past behind". He warns against the risks of cultural determinism (Sen 2002). As to the relevance of cultural research for policy, development economist *Amartya Sen* explored how a better understanding of the relationship between culture and development can lead to more effective policies (Sen 2002). In Sen's view, the main role of policy is to guarantee individual freedom so that the multiple potentialities present in all great cultural traditions, can be realised (Sen 1999) (Evans 2002).

Hofstede deserves credit as the proponent of a theory of cultural dimensions, that can be quantified and tested. He established a paradigm for discussing culture in cross-cultural psychology, management sciences, development policy, and cross-cultural communication. His original model was derived from a factor analysis of survey results of IBM employees in the 1960s and 1970s. Because of the corporate setting of the initial Hofstede research, many assume it can be applied to a wide range of management issues. Some, for example, believe cultural dimensions are highly relevant for employee or team performance, or the practice of management or leadership in organisations.

Initially, his theory proposed four dimensions along which cultural values could be analysed: individualism-collectivism; uncertainty avoidance; power distance (strength of social hierarchy) and masculinity-femininity (or task orientation versus person-orientation). After research in Asia, Hofstede added a fifth dimension, long-term orientation, to cover aspects of values not discussed in the original paradigm. In the 2010 edition of *Cultures and Organizations: Software of the Mind*, Hofstede added a sixth dimension, indulgence versus self-restraint, as a result of co-author Michael Minkov's analysis of data from the World Values Survey (G. Hofstede 1983) (Hofstede and Hofstede 2005).

Throughout his career, Hofstede has been dogged by academics discrediting his work in part or whole. This is probably mostly due to culture being an inherently controversial topic (Ailon 2008) (G. Hofstede 2009). The situation is not helped by some academics who blindly ignore Hofstede's original caveats and support his work in a dogmatic manner or applied it to situations which it was never meant for. They quote Hofstede's work with unabashed confidence, many including his findings as absolute truths (Ailon 2008).

Hofstede maintains that national cultures can be captured by measuring five dimensions, which are stable over time. These cultural dimensions can then be causally linked to other social phenomena. The approach however has been widely criticized in the same literature as "**sophisticated stereotyping**" (G. Hofstede 2009; G. Hofstede 2009; Osland and Bird 2000). Although not denying the usefulness of Hofstede's frameworks in some cases, a review of 180 articles published between 1980 and 2002, asks for more attentions to the dynamic nature of cultural phenomena, and the small size of cultural effects in some cases (Kirkman, Lowe, and Gibson 2006). Others have questioned Hofstede's approach on methodological grounds, and his role in scholarly debates (McSweeney 2002a; McSweeney 2002b; McSweeney 2009).

Some sociologists and political scientists propose similar approaches to Hofstede. Inglehardt and Welzel, for example, discuss culture in the context of modernisation, post-materialism and the emergence of democracy. Their main focus is on change processes, not so much on measuring values for specific indicators. Using WVS data, they map national culture on two orthogonal dimension: traditional vs. secular-rational values, and survival vs. self-expression values. Self-expression values include environmental values. Different questions in the WVS are used to construct the dimensions for each year, but since they are all closely correlated the authors argue their final results are robust (Inglehart and Welzel 2010).

Regarding environmental values, for example, Inglehars and Welzel's prediction is that a higher value will be given to environmental concern as a result of economic development or higher GDP per capita (Franzen 2003). As our analysis shows, however, it seems in the last 20 years the opposite phenomenon is in fact occurring. Inglehart and Welzel's attention to the importance of differences between gender, and the large differences between university educated and other subjects is laudable,

and introduces a degree of sophistication in the analysis. At the same time, however, the existence of these differences cast doubt on the stability of the configurations based adherence to traditional values.

Schwartz produces a more complex version Inglehardt's and Welzel's two dimensional framework, using three cultural value dimensions (embeddedness vs. autonomy, hierarchy vs. egalitarianism, and mastery vs. harmony) mapping the answers to fundamental questions such as the boundaries between individual and group, how to preserve order in society and how to manage relations with the natural and social world.

All these approaches seem overly general and deductive, and do not describe accurately through which mechanisms cultural values exert such an undue influence, or explain how cultural dimensions or value orientations are actually measured. Whether a question about a particular behaviour is related to individual vs. collective (Hofstede), survival vs. self-expression (Inglehardt) embeddedness vs. autonomy (Schwartz) seems a matter largely open to arbitrary interpretation and subjective preferences as to the choice of words. Whether these dimensions are the same, or differ substantially is unclear.

No matter how we think about the culture, the key operative concept for functioning organizations and markets is trust. As Amartya Sen wrote: "The invisible hand is an unintended consequence, but does not diminish the importance of the underlying trust relationship." Trust is therefore a key currency in business, because without trust companies can not function and markets will not operate. The challenge is therefore to develop actions that are trust building and independent of values systems, language or culture. In anthropological literature, for example, the importance of gift giving and reciprocity in ancient cultures has been highlighted (Marcel Mauss, 1954). In a very different discipline, experimental economics, the importance of giving and reciprocity is highlighted in all "trust experiments", which are done independent of culture (Berg et al. 1995).

### **3. TRUST BUILDING MEASURES: A CASE STUDY OF THE PAPUA NEW GUINEA UNIVERSITY OF TECHNOLOGY**

We follow Rijamampinina, and Carmichael suggestion to think in terms of primary, secondary and tertiary dimension of diversity, in order of decreased visibility, or ease of observation (Mazur 2010). The position and



dominance of each dimension are not static, but interact dynamically across time, making the concept of diversity more complex. We postulate that language is a good proxy for the secondary and tertiary dimensions of diversity. Language is linked to particular cultures which all represent a distinct constellation of meaning based on different associations and values.

Papua New Guinea is the most language diverse country in the world with over distinct 800 languages (not dialects). Each language represents a unique set of values and distinctive culture. Although these cultures are not “national” they are deeply rooted in over 50.000 years of civilisation, and well documented by numerous anthropological studies. Linguistic research has been done for less than half of those languages.

At the Papua New Guinea University of Technology, there are over 200 academics consisting of over 20 different foreign language groups. Although the Papua New Guinean student population is homogeneous regarding the more visible aspects of diversity (ethnicity, age) or balanced (gender), secondary (e.g. language) and tertiary dimensions (e.g. values) of diversity are diverse. A sample of 149 students of a population of about 3.000 students of the Papua New Guinea University of Technology revealed mastery over 65 distinct languages. Our case study found a very high degree of language diversity among the student population of the Papua New Guinea University of Technology. This may explain in part the University's history of frequent conflicts, and class boycotts.

If language diversity is high, and if it captures some of the less visible elements of diversity, the negative sides of diversity can be expected to be dominant within this student group. In situations of uncertainty and complexity, it may be difficult to communicate effectively due to different understanding of language filtered by various value systems. When problems need to be solved and decisions must be made, the high costs in terms of time and financial resources can preclude effective cooperation. In some cases these type of situations can degenerate into highly dysfunctional conflicts. The history of the university, in fact shows that conflicts have abounded. In the last 10 years, for example there have been 6 major class boycotts which led to major disruptions in teaching and discontinuation of students. There have been 2 instances of violence among different tribal groups, and regrettably in each case one student was killed.

The following interventions were developed for staff and students alike. First of all the management continuously referred to the need to solve conflicts through dialogue, and to respect the rules of the university and the laws of the land. These speeches were published on a blog, and sometimes recorded on youtube, so that the press and other interested parties would have a text to refer to, and could verify its meaning in their own time. Secondly, a monthly management forum has been held so that staff and student organizations can channel their concerns and at the same time management can communicate and clarify issues. Departments were constantly encourage to hold monthly departmental meetings and report to management about the results. Thirdly, an annual schedule of events and rituals has been published including the opening of the academic year, graduation, the celebration of the birth day of the university, but also industry breakfasts, lectures, festivities etc. All these measures have increased the frequency of communication and interaction, which is an essential condition to build up trust.

Finally, the principles behind the actions and behaviours of management must be clearly stated and demonstrated in all their behaviours. In particular, management team members must comply with high ethical standards as to conflict of interest, accountability and transparency. Accountability to the three main boards of the university - the University Council, the Academic Board and the External Audit Committee - has been improved by providing clear and timely reports. Those who still do not believe management will walk the talk, can see their distrust disproven by the actions of management every day.

As to the final step of evaluation, the first employee engagement survey was held in August 2016. It is too early to say whether all the measures above have had some impact. We expect, over time the engagement of employees should go up by better communication with their colleagues, and their perception of tribalism and favouritism should go down.

#### **4. SUMMARY AND IMPLICATIONS**

We concluded that empirical measurements of culturally relevant values show little evidence for stable value orientations. We found the Hofstede framework unhelpful, since the assumptions of stable value orientations can not be proven, and is irrelevant in the largest part of the world.

A framework to think about diversity has more tangible implications for management. Diversity is a highly subjective concept, created by members of a particular group, who on the basis of their social identity categorise others as similar or dissimilar. We postulated that language is a good proxy for the secondary and tertiary dimensions of diversity. When a population is ethnically mixed and cultural differences are better captured in language than anything else.

Since high diversity will lead to higher probability of conflict under conditions of uncertainty and complexity, for the communication to highly diverse groups, uncertainty and complexity must be minimized. In decision-making clear choices have to be presented. Communication skills, and ability to explain one's behaviours and attitude to others are essential skills in culturally diverse organisations. Despite best efforts, however, communication is not going to be as effective as actual behaviour. This behaviour must be demonstrated in public events which are held regularly and according to a predetermined schedule. Only by a set of consistent trust-building and trust-enhancing measures can a sufficiently high level of trust and engagement be created in a highly diverse team or organization to warrant consistent performance at a high level, without a disruptions through conflicts or communication breakdowns.

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## IS THE EUROPEAN STOCK MARKET ASYMMETRIC? EVIDENCE FROM THE EURONEXT 100 RETURNS

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### Abstract

Asymmetric effects are fundamental to stock market volatility. Considering their relevance, this study therefore examines the conditional volatility of returns to the EURONEXT 100, with a particular focus on the asymmetric properties of this market. The analysis entails an estimate of the symmetric GARCH and asymmetric EGARCH and T-GARCH models, using a data set of daily closing prices from the index that spans from December 3, 2000, to December 18, 2015. The findings show that conditional variance is an asymmetric function of past residuals, offering strong evidence of asymmetries in the returns of the EURONEXT 100.

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### Key Words

Asymmetry, EGARCH, T-GARCH, Stock Market Volatility

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### Topic Groups

Macroeconomics, Social sciences and business

## INTRODUCTION

The volatility of financial markets is particularly relevant in the modern era, considering its effects on the daily lives of companies and individuals. According to Bollerslev et al. (1992: 46): "Volatility is a key variable which permeates most financial instruments and plays a central role in many areas of finance." Since Markowitz (1959) introduced the concept, it has remained a relevant variable, especially in decision-making processes involving financial variables. Such decision making becomes especially evident in times of crisis, such as the 2008 global financial crisis (e.g., Soros, 2009). Furthermore, instability is increasing in financial markets may be due to several causes. For example, people experience high levels of risk and uncertainty, and markets are increasingly complex, filled with sophisticated products that have emerged from the derivatives market. Added to these developments, globalization trends extend the range of possible fluctuations of prices in a given market to more financial markets, according to their degree of integration. Therefore, it becomes necessary to analyze and model the volatility of returns on financial assets traded in the stock markets, to give investors the tools they need to make appropriate decisions. The role of information is particularly important in this process, in that it provides decision makers essential knowledge about market behavior (Bentes, 2011).

According to González (2016), portfolio managers also exhibit growing interest in the contagion effects of financial markets, which require cautious investment decisions. They need clear insights into the relationships among those aspects of the stock markets that promote volatilities, including whether positive and negative events have similar effects, in which case the absence of asymmetry should influence portfolio management decisions. Aboura and Wagner (2016) assert, according to finance literature, that asymmetric volatility exists in equity markets, such that returns and volatility relate negatively, and this relation is especially pronounced for negative returns. Asymmetric equity market volatility is a key characteristic of market volatility dynamics and price risk, with asset pricing implications, that also has critical roles for risk prediction, hedging, and option pricing. Finally, asymmetric volatility implies negatively skewed return distributions, so it might help explain some of the probability of large losses.

Chevallier and Ielpo (2014) note three main characteristics of financial returns: leverage (volatility asymmetry), conditional fat-tails (standardized conditional return is more fat-tailed than the Gaussian), and conditional skewness (standardized return is not symmetric). For stock returns, skewness is typically negative, so the probability of a large negative return is greater than that of a large positive return, even after controlling or adjusting for the recent level of volatility.

In power markets, supply or demand shocks, such as those due to unexpected outages or transmission constraints, cannot be compensated for in the short run, which can lead to sudden jumps, or spikes, in prices, especially if reserve capacity is limited (Erdogdu, 2016). Volatility is central to an understanding of the dynamics of markets, in particular with regard to their financial aspects, with massive implications for the economy as a whole. The issue is widely debated, starting with Shiller (1981a, b); LeRoy and Porter (1981) demonstrate that volatility in stock markets is too high to be explained simply by the arrival of new information about firms' fundamental value. Schwert (1989) concludes that only a small percentage of market fluctuations can be explained by traditional models of current value; Grossman and Shiller (1981) instead stress that the new information content contained in previous models has not ever been clearly defined, nor has its real impact on stock prices.

Much of the noise in transactions likely stems from irrational investors, so Hwang and Satchell (2000) propose a renewed view of volatility, defined as the result of a combination of transient volatility caused by noise and permanent volatility that stems from the arrival of random information into the market. This predicted role of information for volatility is not recent, having been reported by Ross (1989), who defines it as a result of the flow of information among various players.

However, a problem arises because volatility is not a directly observable variable. Zare et al. (2013) assert that stock market volatility has a negative effect on the recovery of the real economy; a determinant of stock market volatility is central bank policies. The time-varying risk premium or volatility feedback effect (see Campbell and Hentschel 1992, Wu et al. 2015) implies that volatility clustering can explain the phenomenon. For Gospodinov and Jamali (2012), higher (lower) stock prices and thus higher (lower) stock returns prompt lower security exchange instability, as suggested by the influence impact or "leverage



effect," which alludes to the unbalanced connection between securities exchange returns and instability.

For Vo et al. (2015), the intertemporal relationship between risk and returns is an important finance concept, subject to active research. Empirically, volatility appears asymmetric, so negative shocks to returns are associated more with upward movements of conditional volatility than are positive shocks of the same size. Large shocks, whether positive or negative, result in high instability, which tends to be trailed by high unpredictability (Vo et al., 2015). If unpredictability gets valued in the returns, an expected increment in instability raises the required return on the stock, causing the price to drop immediately. Substantial bad news thus not only decreases the price but also increases future volatility, which pushes the price down further, amplifying the impact of bad news. Substantial good news instead raises the price, as well as future volatility. The increased volatility exerts a negative impact on price, which dampens the impact of the good news. As a result, asymmetry occurs.

Asymmetry also can be described as a negative correlation between return and volatility innovations, such that the estimation of the relationship measures the level of asymmetry. Volatility models that represent this property usually depict the arrival progression better and give more precise gauges of instability, which is imperative information for subordinate valuation and risk management. Finally, time series of financial asset returns often exhibit volatility clustering, such that large changes in prices tend to cluster together, resulting in persistence in the amplitudes of the price changes. Using various methods to quantify and model this phenomenon, several economic mechanisms have been proposed to explain the origin of volatility clustering, in terms of market participants' behavior or news arrival processes (Cont, 2007).

Asymmetries have an important role for characterizing price movements, as manifested in the negative correlations that can arise between stock returns and volatility. Large negative shocks tend to be associated with a greater increase in volatility than large positive shocks (Ederington and Guan, 2010), a phenomenon for which gasoline markets offer a paradigmatic case: Increasing oil prices trigger jumps in gasoline prices, but oil price decreases of the same amount invoke smaller dips in gasoline prices. Similarly, in financial markets, the impact of bad news (negative shocks) traditionally is greater than the impact of good news (positive shocks), as initially documented by Black (1976) in stock market returns

(see also Christie 1982, Engle and Ng 1991, Pagan and Schwert 1990, Sentana 1992). Asymmetries also arise in sophisticated frameworks, such as those derived from Chinese stock markets (Hou 2013, Yeh and Lee 2000), FTSE 100 spot and futures markets (Tao and Green, 2012), Jakarta's Stock Exchange Index IND (Leeves, 2007), several European and U.S. stock indices (Ferreira et al., 2007), and the S&P 100 (Liu and Hung, 2010) and S&P 500 (Awarti and Corradi, 2005). According to an analysis of asymmetric influences of days of the week across five indices (Charles, 2010), calendar effects are especially interesting when incorporated in models with good volatility forecasts (Bentes et al., 2013).

According to Dajcman et al. (2012), international stock market linkages are of great importance for the financial decisions of international investors. Gel and Chen (2012) also assert that measuring volatility is key for assessing risk and uncertainty in financial markets. Solnik (1993) and Harvey (1993) discuss portfolio allocation implications when market volatility is predictable.

A popular framework also accounts for the temporal dependencies of stock market volatility, using conditional heteroskedasticity models (e.g., autoregressive or ARCH, generalized autoregressive or GARCH), which assume that markets are predictable (Bollerslev, 1986). That is, in the original formulation (Engle, 1982), current volatility is a function of prior squared residuals, but according to Bollerslev (1986), it also depends on the lagged values of the variance. Although the first generation of ARCH models enforce a symmetric response of volatility to positive and negative shocks and can accommodate volatility clustering—namely, big shocks are followed by big shocks, and small shocks are followed by small shocks—they cannot capture asymmetric volatility, because of the assumption that only the magnitude of the shock, not the sign, affects price oscillations. In addition, the estimated coefficients often violate the parameter constraints, and these constraints may restrict the dynamics of the conditional variance process, which limits the application of both models. To account for asymmetric effects, more flexible specifications allow for different impacts of positive and negative shocks on volatility, such as the exponential GARCH (EGARCH, Nelson, 1991), which relies on the non-negativity of conditional variance and constrains it to a logarithmic function to capture asymmetric effects, GJR-GARCH (Glosten et al., 1993) or threshold GARCH (TGARCH, Zakoian, 1994), which include extra terms for negative lagged residuals (Bentes et al., 2013).

Considering these extensions, this paper seeks to examine the temporal dependence of the returns to the EURONEXT 100, a representative European market, to determine if index returns volatility is asymmetric and, if so, which model describes this asymmetry best. This question is highly relevant because of the likely distinct responses to positive and negative shocks in markets. Accordingly, we apply and compare the most widely used asymmetric conditional heteroskedasticity formulations: EGARCH, GJR/TGARCH, and standard GARCH specifications. In prior empirical research, some studies favor EGARCH models (e.g., Cao and Tsay 1992, Loudon et al. 2000), whereas others assert the superiority of GJR-GARCH/TGARCH specifications (e.g., Brailsford and Faff 1996, Hou 2013, Taylor 2004, Yeh and Lee 2000); some investigations even indicate that EGARCH does not outperform a standard GARCH for forecasting volatility (e.g., Doidge and Wei 1998, Ederington and Guan 2010). To complement and extend this literature, we provide new insights with a three-step empirical analysis, undertaken during a period marked by massive market volatility. First, we estimate an autoregressive model AR(p) for each return series, to remove any serial correlation from the data. Second, to validate this specification, we test for serial correlation in the residuals. Third, we estimate the models, using GARCH (1,1), EGARCH (1,1,1), and TGARCH (1,1,1) specifications. The rest of the paper is organized as follows. Section 2 outlines the methodology adopted in this study. Section 3 presents a preliminary data analysis. The empirical findings are reported in Section 4. Finally, Section 5 concludes.

## MODEL FRAMEWORK

### GARCH Model

Let  $y_t$ , the return series of a given stock in the regression model, be

$$y_t = x_t' \xi + \varepsilon_t, \dots t = 1, \dots, T, \quad (1)$$

where  $x_t$  is a  $k \times 1$  vector of independent variables, and  $\xi$  denotes a  $k \times 1$  vector of regression parameters. The ARCH model characterizes the distribution of the stochastic error  $\varepsilon_t$  conditional on the realized values of

a set of variables  $\{y_{t-1}, x_{t-1}, y_{t-2}, x_{t-2}, \dots\}$ . The ARCH process is defined in terms of the distribution of the errors of a dynamic linear regression; Engle's (1982) contribution then was to set the conditional variance of errors as a function of the lagged errors, such that

$$\sigma_t^2 = \sigma(\varepsilon_{t-1}, \varepsilon_{t-2}, \dots, t, \xi, b), \text{ and} \quad (1)$$

$$\varepsilon_t = \sigma_t^2 Z_t, \quad (2)$$

where  $Z_t$  i.i.d. with  $E(Z_t) = 0$  and  $E(Z_t^2) = 1$ . In the ARCH framework, the error series is serially uncorrelated with a zero mean, but the conditional variance of  $\varepsilon_t$  is  $\sigma_t^2$ , which may vary over time. Engle (1982) then defines an ARCH ( $p$ ) process as

$$\sigma_t^2 = \omega + \sum_{i=1}^p \alpha_i \varepsilon_{t-i}^2, \quad (1)$$

where  $\omega$  and  $\alpha$  are non-negative to keep the conditional variance non-negative. The conditional variance expression accounts for volatility clustering. As in the ARCH model, the variance of the current error is an increasing function of the magnitude of the lagged errors, irrespective of their sign. Thus, large errors of either sign tend to be followed by a large error of either sign, for example, thus capturing positive serial correlation in  $\varepsilon_t^2$ , or volatility clustering (Daly, 2008).

Bollerslev (1986) generalized the ARCH model, producing the GARCH ( $p, q$ ) specification given by:

$$\sigma_t^2 = \omega + \sum_{i=1}^p \alpha_i \varepsilon_{t-i}^2 + \sum_{j=1}^q \beta_j \sigma_{t-j}^2, \quad (1)$$

where  $\omega > 0, \alpha_1, \dots, \alpha_p \geq 0$ , and  $\beta_1, \dots, \beta_q \geq 0$  to ensure non-negativity of  $\sigma_t^2$ . In this model, conditional current volatility depends on not only the lagged squared residuals but also the past squared values of the variance itself. Because it is an infinite order ARCH process, GARCH can parsimoniously represent a higher-order ARCH process. The most common GARCH specification in applied research is GARCH (1,1), where the effect of a

shock in volatility declines geometrically over time. The necessary and sufficient condition for the existence of the second moment of  $\varepsilon_t^2$ , under normality of  $\varepsilon_t^2$ , is  $\alpha + \beta < 1$ ; that for the fourth moment is  $(\alpha + \beta)^2 + 2\alpha < 1$ .

This class of models is suitable to deal with symmetric volatility, such that the impact of good and bad news are identical. However, this impact may differ in the presence of good and bad news. Over time, various authors (Awarti and Corradi 2005, Black 1976, Christie 1982, Engle and Ng 1991, Leeves 2007, Liu and Hung 2010, Pagan and Schwert 1990, Sentana 1992) have shown that negative surprises increase volatility more than positive surprises do. This class of models also exhibits several drawbacks, such that the estimated coefficients often violate the parameter constraints, the constraints excessively limit the dynamics of  $\sigma_t^2$ , and persistence remains difficult to capture using only this approach.

### EGARCH Model

To overcome the symmetry limitations of previous models, Nelson (1991) introduced the EGARCH model, which constrains conditional variance to be non-negative by assuming the logarithm of  $\sigma_t^2$  is a function of

$$\log \sigma_t^2 = \omega + \beta \log \sigma_{t-1}^2 + \alpha \frac{|\varepsilon_{t-1}|}{\sigma_{t-1}^2} + \gamma \frac{\varepsilon_{t-1}}{\sigma_{t-1}^2}, \quad (1)$$

where the coefficient  $\gamma$  captures the leverage effect of shocks on volatility and must be negative to produce evidence of asymmetry. In this model, positive and negative innovations of equal size do not generate the same volatility. This formulation has several advantages compared with the pure GARCH specification. First, the  $\log \sigma_t^2$  is modeled even if parameters are negative, so conditional variance will be positive, and there is no need to impose non-negativity constraints on the model parameters. Second, it allows variance to respond more quickly to decreases, compared with increases, in a particular market (Bentes et al., 2013).

## TGARCH Model

As an alternative that can analyze the asymmetric property of data, as derived by Glosten et al. (1993) and Zakoian (1994), the formulation of TGARCH is given by:

$$\sigma_t^2 = \omega + \alpha \varepsilon_{t-1}^2 + \beta \sigma_{t-1}^2 + \gamma \varepsilon_{t-1}^2 I_{t-1}, \quad (1)$$

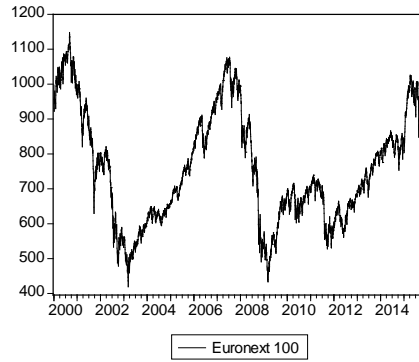
where  $\omega > 0, (\alpha + \gamma) \geq \alpha \geq 0, \beta \geq 0, (\alpha + 0.5\gamma + \beta) < 1$  (second moment),  $(\beta^2 + 2\alpha\beta + 3\alpha^2 + \beta\gamma + 3\alpha\gamma + 1.5\gamma^2) < 1$  (fourth moment), and  $I_{t-1}$  is an indicator function, such as  $I_{t-1} = \begin{cases} 1 & \varepsilon_{t-1} < 0 \\ 0 & \text{otherwise} \end{cases}$ .

This variable distinguishes between positive and negative shocks, so the asymmetric effects are captured by  $\gamma$ . Because  $I_{t-1}$  is 0 for positive shocks ( $\varepsilon_t^2$ ) but 1 for negative ones, the conditional variance  $\sigma_t^2$  is greater in the latter case, supporting a detection of asymmetry. In this model, positive news ( $\gamma > 0$ ) exerts an impact of  $\alpha$ ; negative news ( $\gamma < 0$ ) has an impact of  $\alpha + \gamma$ . The major advantage of this model compared with the EGARCH specification is that the effects on the volatility of positive innovations, relative to negative ones, do not remain fixed over time (Rabemananjara and Zakoian, 1993).

## PRELIMINARY DATA ANALYSIS

To investigate the asymmetric properties of stock market volatility, we collected data from the EURONEXT 100, which covers representative stocks in the European economy, to assess whether asymmetry is common to this market irrespective of its specific nature. The data came from Datastream, a database that features variation in the daily closing prices, for the period from December 3, 2000, to December 18, 2015, for a total of 4166 observations. Figure 1 depicts the time series evolution of the index.

Figure 1: Daily closing prices of the Euronext 100

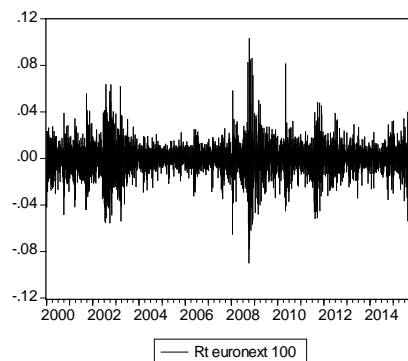


We rely on daily returns, computed as the log-difference in the daily stock index, as given by

$$R_t = \ln P_t - \ln P_{t-1}, \quad (1)$$

where  $P_t$  and  $P_{t-1}$  are EURONEXT 100 prices at moments  $t$  and  $t - 1$ , respectively. Figure 2 reports the fluctuations of the daily returns, illustrating the synchronized behavior of the returns compared with prices (Figure 1). Here, the spikes are much more evident. It also offers a clear picture of the volatility clusters. In this work, we focus on returns, not original prices, because the returns are stationary, which is an assumption of GARCH-type models.

Figure 2: Daily returns of the Euronext 100



The clusters are quite evident: high volatility checks in 2002, following a low volatility cluster, and then a high volatility cluster around 2008 followed by another low volatility cluster. In 2011 we find another high volatility cluster, following the low volatility, and then again a high volatility cluster in 2012 followed by a period of low volatility returns that is followed by higher volatility between 2014 and 2015. If we compare this chart (Figure 2) with the original prices (Figure 1), we can determine that the high volatility peaks in returns correspond to peaks in prices, whereas low volatility corresponds to low prices. As expected, these two graphs are synchronized. It is also easy to compare these graphics with crises and periods of expansion; the subprime crisis of 2008 clearly appears as a high volatility cluster, and the subsequent recovery is reflected in a lower cluster. Table 1 contains a preliminary analysis of these daily return data for the whole sample period.

Table 1: Preliminary analysis of the daily returns of Euronext 100

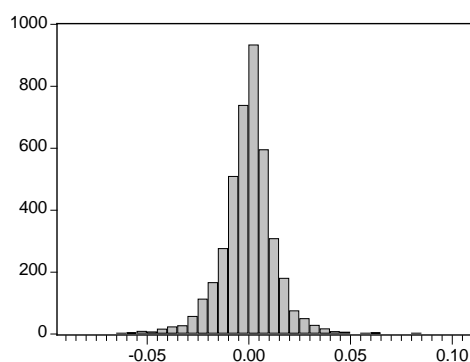
Mean	0.0000
Standard Deviation	0.0135
Kurtosis	8.2077
Skewness	-0.0090
J-B	4706.57**

Notes: J-B: Jarque-Bera (1987) test; \*\* Significant at 1%.

The statistics indicate a zero mean, which is not surprising because we deal with returns, not closing prices. Furthermore, the average daily returns are very small compared with the standard deviation. Series also display weak negative asymmetry and strong positive kurtosis, implying a heavier tailed distribution than Gaussian, such that we can reject unconditional normality. The Jarque-Bera (1987) test reflects the null hypothesis of normality, which also can be verified in the histogram in Figure 3 that signals the presence of kurtosis (fat tails).



Figure 3: Histogram of daily returns of the Euronext 100



Before estimating the ARCH-type models, we must check for stationarity and the absence of autocorrelation. In addition, because this study is applying heteroskedastic models, we must check for heteroskedasticity (ARCH-LM test). We present the results of these checks in Table 2.

Table 2: ADF and KPSS unit root tests for the Euronext 100

Returns	ADF <sup>a, b</sup>	KPSS
EURONEXT 100	-31.4795**	0.065

Notes: MacKinnon et al. (1999) critical values: -3.960241 (1%) for constant and -3.410883 (5%) for constant and linear trend. Kwiatkowski et al. (1992) critical values: 0.216 (1%) and 0.146 (5%) for constant and linear trend. Exogenous terms are the number of lags in both cases: 0. ADF means Augmented Dicker-Fuller and KPSS is Kwiatkowski, Phillips, Schmidt, and Shin (1992); \*\* Significant at 1%.

To confirm our results, we apply the KPSS test, which offers an opposite hypothesis, such that  $H_0$  predicts that the series is stationary. If we do not reject this  $H_0$ , it confirms the results of the ADF. Consistent results in both cases indicate stationarity in the returns of EURONEXT 100. Because we used the return series, not the original prices, we performed unit root tests in levels, equivalent to taking the first differences of the price series. In a Ljung-Box test,  $H_0$  indicates the inexistence of no autocorrelation. The null hypothesis of no autocorrelation is rejected; the probability is zero in all cases. Because the values are statistically significant at 5% and 1%, we can conclude that there is autocorrelation. We also employ the Breusch-Godfrey (BG) test, where  $H_0$  again predicts no autocorrelation. Both tests indicate evidence of autocorrelation. One of the assumptions of ARCH

models is a lack of autocorrelation, so this assumption is not verified. We accordingly must eliminate it. We also test for heteroscedasticity, because ARCH models are heteroskedastic, such that we can use them only if the data series exhibit heteroscedasticity. We rely on the ARCH-LM test (Engle, 1982), in which  $H_0$  predicts no conditional heteroscedasticity. According to this test, the values are statistically significant at 1%, so we reject the null hypothesis ( $H_0$ ) of no heteroscedasticity. We confirm this result with McLeod and Li's (1983) tests, applied to the squared residuals. In this second test, the values are all statistically significant, so we reject the null hypothesis ( $H_0$ ). Heteroscedasticity exists, which justifies the use of ARCH-type models.

## RESULTS

To remove any possible serial correlation in the data, we first estimate an AR(p) model; the correlogram plots for the return series suggest using AR(5) for the EURONEXT 100 returns. To affirm the adequacy of a time-series model to account for the conditional mean, we also ran diagnostic tests, as summarized in Table 3.

Table 3: Residual analysis for the fitted AR(p) model

	EURONEXT 100
Mean	-3.885E-19
Std. Dev.	0.0135
Skewness	-0.134053
Kurtosis	7.7669
J-B	3951.252 **

Notes: J-B represents the statistics of the Jarque and Bera's (1987) normal distribution test; \*\* Significant at 1%.

The mean and standard deviation are very low. The mean of the residuals is very small compared with the standard deviation. As observed in Table 5, the Jarque-Bera test of the AR(p) residuals indicates non-normality; together with the negative skewness and excess kurtosis, this result reveals a heavier tailed distribution than normal.

To verify if the AR(5) model is sufficient to capture serial correlation in the data, we checked whether, after estimating AR(5), autocorrelation

remains, again using the Box-Ljung and Breusch-Godfrey tests. The null hypothesis of non-autocorrelation is not rejected; therefore, the AR(5) model captured linear dependence in the mean. The Breusch-Godfrey test provided the same conclusion, so the absence of autocorrelation is not rejected. Neither the Ljung-Box nor the Breusch-Godfrey statistics are significant (large  $p$ -values) in any series, so there is no serial correlation on the residual series. That is, the AR( $p$ ) specification we adopted is satisfactory for capturing linear dependence in the original return series.

Having fitted an AR( $p$ ) model to capture linear dependence in the mean, and noting the evidence of ARCH effects in the residual series, we proceed with an estimation of GARCH, EGARCH, and T-GARCH models and seek to capture dependence in the variance values. To estimate the parameters, we used quasi-maximum likelihood estimation (QMLE) with Eviews 7.0 software. Because the original return series exhibits fat tails, we selected a Student- $t$  distribution. The model estimates and residual tests for the returns of the EURONEXT 100 index are in Table 4.

Table 4: ARCH Model estimates

	$\hat{\omega}$		$\hat{\alpha}$		$\hat{\beta}$		$\hat{\gamma}$		Student's $t$
GARCH	1.69E-06	**	0.0966	**	0.8965	**	-		-8.5796
	(4.11E-07)		(0.0095)		(0.0094)		-		(1.0880)
EGARCH	-0.2669	**	0.1087	**	0.98	**	-0.1457	**	11.5361
	(0.0251)		(0.0130)		(0.104)		(0.0104)		(1.8672)
T-GARCH	2.00E-06	**	-0.0212	**	0.9154	**	0.1809	**	11.3605
	(2.89E-07)		(0.0077)		(0.0078)		(0.0151)		(1.8193)

Notes: Values in brackets are standard errors; \*\* Significant at 1%.

The parameters  $\omega$ ,  $\alpha$ , and  $\beta$  in the conditional variance equations are mainly positive and highly significant. The statistical significance of the Student's  $t$ -distribution means that this distribution is adequate to capture the statistical behavior of the EURONEXT 100 returns. In the symmetric AR(5) model with GARCH (1,1), all the coefficients are positive and statistically significant at 1%, revealing volatility clusters, such that high volatility periods succeed low periods, and so on. Both AR(5) models with

EGARCH (1,1,1) and GJR-GARCH (1,1,1) reveal persistent asymmetric effects in volatility; the  $\hat{\gamma}$  in the EGARCH (1,1,1) model is negative, and it is positive in the GJR-GARCH (1,1,1). The effect of bad news thus is greater than that of good news.

Regarding the descriptive statistics, the means are -6.2% for GARCH (1,1), 1.99% for EGARCH (1,1,1), and 2.5% for TGARCH (1,1), and the standard deviations are consistently high in all models, compared with the mean. The Jarque-Bera (1987) test of the residuals indicates non-normality, which, together with the negative skewness and excess kurtosis, reveals a heavier tailed distribution than the normal distribution. These results are corroborated by the histograms, which clearly reveal that the residuals do not follow a normal distribution (results available on request).

Next, we determine the most adequate model of the described data, using the SIC, AIC, and maximum value of the logarithm of the likelihood function (log-likelihood). To select the best model, we search for the one that maximizes the value of the logarithm of the likelihood function and minimizes the SIC and AIC criteria. According to these information criteria, the best model that captures the behavior of the data is EGARCH, followed by TGARCH, and finally GARCH. These results are not surprising; asymmetry exists in the data, and the GARCH model assumes symmetrical effects on volatility.

## CONCLUSIONS

Estimates of stock market volatility are important for making capital budgeting decisions and formulating optimal portfolios. Volatility clustering is a stylized fact, present in most financial time series, such that volatility offers a fundamental variable for both theoretical and applied work. In particular, financial volatility exhibits asymmetric behavior; bad news in the market have a greater impact than good news of the same magnitude. Considering the importance of this effect, we have applied three models of conditional volatility—symmetric GARCH and asymmetric EGARCH and T-GARCH—to the daily returns of the Euronext 100 index over 2000-2015. Our main objective is to investigate the extent to which symmetric/asymmetric effects are present in the data.

These data exhibit some notable characteristics. In particular, the prices of this stock index are non-stationary, but the returns, which are the focus of our study, are not. Therefore, we employed unit root tests and determined that the values of the standard deviation imply that volatility is high in this index; we also conducted a combined analysis of the estimators and found that the distributions move away from normalcy, indicating leptokurtic behavior. That is, the kurtosis values are always greater than 3, indicating an excessive concentration of frequencies around the skew and tails of the respective distributions. This indication is confirmed by tests of the skewness and kurtosis coefficient values and the normal distributions proven by the Jarque-Bera tests. The uncertainty in financial asset returns thus is higher than would be expected if it followed a Gaussian distribution.

A preliminary analysis of the results uncovers non-normality, serial correlation, and heteroskedasticity in the return series. We thus fitted an AR(5) model to the EURONEXT 100 return series to capture autocorrelation in the data. A diagnostic analysis of the residuals shows that serial correlation is no longer present; this specification was appropriate to remove the evident autocorrelation in the return series. The ARCH-LM test and Ljung-Box statistic of the squared residuals also imply heteroskedasticity. To investigate the asymmetric effects, we estimated GARCH, EGARCH, and T-GARCH models. The results show that the stock index returns of EURONEXT 100 exhibit asymmetry. Finally, the diagnostic test of the residuals shows no ARCH effects; these models are adequate to account for this data feature.

In the maximum likelihood estimates, the parameters of time-varying correlation, skewness, and fat-tails are all statistically significant, and t-Student density suits the data well and increases the log-likelihood substantially (Wu et al., 2015). The information criteria indicate that the best model is EGARCH, followed by TGARCH and finally GARCH. The great advantage of these models is that they can capture the linear dependence of the volatility of the financial assets.

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## MANAGING GENERATION Y: A STUDY OF GENERATIONAL SHIFTS IN TURKEY

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### Abstract

This study examined generational differences in the intrinsic, extrinsic, social environment, altruism, freedom-related, status-related work values of Turkish university students (classes of 1980 and 1997, representing 'Generation Y', respectively). A sample of 272 members of generation Y was drawn from several universities in Istanbul, Turkey. Data was gathered using Work Value's Scale developed by Lyons (2004). Factor analysis suggested the five factors model. Analysis proved that there were significant differences between work values chosen by male and female Gen Y students. Theoretical and practical implications of the survey findings were discussed, limitations of the study were specified, and directions for future research were suggested.

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### Key Words

Generation Y, work values, intrinsic and status-related work values, generational differences

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## INTRODUCTION

The examination of work values has received considerable attention for many decades due to its importance in determining employee behaviors (Chu, 2007; Kim et al., 2007; White, 2006). Work values refer to the right or wrong in the context of work. In other words, work values can be defined to be the desired outcomes by which employees feel that these outcomes should be fulfilled (Olson et al., 2006; Queiri et al., 2014).

There is an assumption that generations differ significantly in their goals, expectations and work values. This assumption has been subjected to relatively little empirical evaluation while it is widely reflected in the popular press or HR magazines. Managers, human resource specialists, and researchers are increasingly becoming interested in how to manage and lead the new generations who enter the workforce (Cennamo and Gardner, 2008). This new generation, called Gen Y, is born into technology, thus they are aware of everything such as corporations tainted with scandals. Also they have witnessed several organizational downsizing (Loughlin and Barling, 2001). Consequently, they have become skeptical, mistrustful, and apathetic toward traditional hierarchies and authority (Martin and Tulgan, 2002; Munro, 2009). Generation Y knows how to avoid the mistakes of their parents. They also learn their parents' values such as hard-work, education and power of money. These characteristics are quite different than Generation X (Meier et al., 2010).

Anthropologists, physiologists, sociologists, especially marketing and business academics have all contributed to generational literature from their unique perspectives. While most of this literature is written for practitioners and the popular press rather than for academic audiences, it serves nonetheless as a source of suppositions that can be explored through empirical research (Lyon, 2004). It is important to understand employees' values, because it can explain the degree to which employee's value their job influences their attitudes towards work (Chu, 2007). Several studies reported that values are likely to have significant influence over a variety of attitudes and behaviors (Brown, 2002; Chu, 2007; Gursoy et al., 2008).

Generational differences in work values have been linked to changes in the meaning of work, to rearranging work schedules due to expectations for

work/life balance, to changes in employees' career expectations, to the increased use of electronic media and continuous learning of new skills (Ruiz-Quintanilla and Wilpert, 1991; Harding and Hikspoors, 1995; Bernstein, 1997; Macky et al., 2008).

Research in western countries proposed that young generations are more individualistic and prefer intrinsic work values such as work autonomy, work identity, challenging jobs, and self-expression (Lee et al., 2012). Most of the empirical research had conducted in North American society, however; there is little research on work values of Gen Y in Turkey. There is a need to confirm and contribute whether there is the generational shift in Turkey and also whether generation Y's work values is different from other generations. Most of the researches about new generations' values have conducted in North American society; however, it is important to understand the features of Generation Y in different cultures.

The purpose of this paper was to investigate the work values of members of the generation Y and explored differences among this cohort related to demographic factors (i.e., gender, city of birth). It was also try to contribute to the Human Resources research field.

## **THEORICAL BACKGROUND**

### **What is Generation?**

Generation, called a cohort, is defined as "the aggregate of individuals (with some population definition) who experienced the same event within the same time interval" (Fisher and Crabtree, 2009). Generation is a kind of national subculture that reflects the values priorities, sense of purpose, expectation of management etc. that emphasized during a country's particular historical period. Culture evolves over time. Thus, cultural change is an ongoing evolutionary process. It involves changes in the priorities of values at both individual and societal levels (Inglehart 1997; Strauss and Howe, 1991). Therefore, it is important to point out that people who belong to the same generation were marked by the same historical events and cultural phenomena that create a collective memory. When experienced in a shared context, these historical, social and cultural effects influence the generation's attitudes, values and personality traits (Caspi et al., 2005; Saba, 2013). Individuals born during a particular time, and thus corresponding to the same cohort, will often share common

collective memory. Therefore, each generation has its own well-defined characteristics include principles and values, loyalty, respect for power, and expectations of management.

Generational cohort theory explains the differences of people's values, attitudes, beliefs based on important historical events and social changes in society. Generational cohort theory was popularized by Strauss and Howe (1991) in their book *Generations: The History of America's Future, 1584 to 2069*. According to them, social cycles repeat themselves every four generations. The definitions of four distinct generations currently in the workplace are shown as (Strauss and Howe, 1991);

- 1925-1942            Veterans (or Silent Generation, Matures, Traditionalists)
- 1943-1960            Baby Boomers
- 1961-1980            Generation X (or Thirteenth, Baby Busters, Lost Generation)
- 1981- 2000            Generation Y (or Millennials, Nexters, Echo Boomers)

There are many names for each generation. Furthermore, definitions of generation boundaries are problematic (Wyatt, 1993; Smith and Clurman, 1997). However, these generational labels and the exact years represent are often inconsistent. It can be said that generational analysis is an inexact science (Craig and Bennett, 1997). The classification and the names used for the groups of relevance to this research are Generation X (born 1961-1981), Generation Y (born 1982-1999) adapted from Strauss and Howe (1991) and Zemke et al. (2000).

### **Toward Understanding Gen Y**

Generation Y is confident, independent, and goal-oriented. Generation Y often knows more about the digital world than their teachers and parents (Meier et al., 2010). The technological knowledge meant to them that is accessible everywhere to anyone. Gen Y are the most connected generation ever thanks to cell phones, pagers etc (Eisner, 2005; Martin, 2005). They are multi-tasking like simultaneously surfing the web, texting friends while listening music (Shaw and Fairhurst, 2008; Dnetto, 2011). In addition, Generation Y has different kind a decisionmaking process. They have an expectation of constant feedback from friends, families and employers instead of trusting their own judgment (Dnetto, 2011).

Gen Y workers work hard on the job, but they refuse to let work be their whole life. Unlike their parents, who placed a high priority on career, Gen Y employees need to work-life balance (Daft, 2007).

They also characterized as valuing empowerment, challenge, and excitement (Izzzo, 2002). They have high self-esteem (Meier et al., 2010) and also a different approach to career management from Gen X. They don't want to traditional career paths (Munro, 2009).

Generational differences in work values influence recruitment training and development, career development, rewards and working arrangements, and management style. As a result of these supposed generational differences in workplace, managers need to advice on how best to manage generational differences at work (Parry and Urwin, 2011). Since values affect attitudes which influence behavior, if different generations have different value systems, then there is support for their attitudes and their behavior, being distinct one from the other in the workplace (Greenwood et al., 2008).

## METHODS

The purpose of this paper was to investigate the work values of members of the generation Y and explored differences among this cohort related to demographic factors (i.e., gender, city of birth).

### Sample

Data were obtained from a survey of undergraduate university students in Turkey (*totalN* = 272). The demographic questions related to the participants' sex, age, and cities of their birth. Of the study participants, 66.2 % were female and 33.8 % were male. The participants had a mean of 25.97 years old, the median was 24, and the mode was 22 %. Of the participants 50% were born in Istanbul, 50 % were born in other 43 cities like Ankara, Bursa, Hatay, Mersin, Uşak etc.

### Measures

Work values scale consists of 31 items and was developed by Lyons (2004). The items represent values that people consider to be important in their work. Each items of the scale contains a value, so scale has 31 values such

as accomplishment, contribution. Responders indicated how important each item is to them. All the items in the questionnaire were accompanied by an 8-point rating scale (0: Not important- 3: important, 6: Very important, 7: supreme important). Also if they feel the item is opposed to their values, there is an "-1" rate in the scale. Therefore scale measured how important each of the items is to them with respect to work.

Data were analyzed using various multivariate techniques to assess the impacts of demographic variables on work values.

## **FINDINGS**

First of all, the factor and reliability analysis of data collection tools have been made in the research. All factors have passed the KMO Measure of Sampling Adequacy and Barlett Test of Sphericity which means that our data set is appropriate for factor analyses.

Validity of Work Values Scales were analyzed by their developer and used and tested in various studies by other researchers as well. Therefore these instruments are adequate and stable. For the reliability of the surveys, The Cronbach's alpha scores obtained was  $\alpha = 0,925$  for the scale, which indicates that the scale is reliable.

The construct validity of the scale was tested by factor analysis. Exploratory factor analysis using varimax rotation was conducted to estimate the underlying factor structure for the sample data. For the measure, items which factor weight 0.50 or higher and unique items in a factor, and items with close factor weights are leaved out of evaluation. Based on the results, 10 items were deleted according to the factor loadings and eventually 6 factors were found. The factor analysis results are shown in Table 1:



*Table 1. Factor Analysis of Work Values Items*

	1	2	3	4	5	6
Advancement	,711	,169	,332	-,046	,091	,077
Prestigious	,699	,246	,127	,361	,028	,011
Recognition	,699	-,037	,337	,051	,023	,115
Influence	,640	,347	-,181	,104	,106	,218
Feedback	,515	,040	,236	,246	,420	-,060
Challenge	-,054	,779	-,091	,014	,087	,206
Creativity	,164	,703	,347	,089	,197	,081
Intellectually Stimulating	,497	,631	,128	,171	,065	-,094
Interesting	,395	,629	,219	,267	,160	-,047
ContinuouslyLearn	,372	,594	,322	,288	-,027	-,045
Salary	,286	-,044	,658	,008	,265	,141
Fairness	,086	,142	,657	,262	-,095	,093
Benefits	,073	,208	,539	,133	,383	,124
Travel	,188	,223	,536	,086	,162	-,074
Co-Workers	,003	,075	,189	,822	,023	,122
Fun	,234	,192	,292	,738	,108	,045
MoralValues	,217	,107	-,154	,507	,375	,015
Work Alone	-,115	,265	,042	,007	,766	,008
Hours ofWork	,216	,050	,450	,097	,573	-,048
Autonomy	,184	-,036	,195	,131	,554	,349
Authority	,122	,020	-,001	,157	,028	,818

The first factor, labeled "status-related work values" explained 32 percent of the variance and had a reliability coefficient of 0.80. This factor contained five items pertaining to intrinsic elements of work such as advancement, prestigious, recognition, influence and feedback.

The second factor referred to as "intrinsic work values" explained % 8 of the variance and had reliability of 0.84. This factor contained five items related to intrinsic elements of work such as challenge, creativity, intellectually stimulating, interesting and continuously learns.

The third factor labeled to "extrinsic work values" explained % 7 of the variance and had reliability of 0.76. This factor contained four items related to extrinsic elements of work such as salary, fairness, benefits and travel.

The fourth factor referred to as "social work values" explained %7 of the variance and had reliability of 0.75. This factor contained three items such as co-workers, fun and moral values. It is interesting to social work values had loaded moral values in Turkey.

As shown in Table 1, the fifth factor labeled as "freedom-related work values" contained three items such as work alone, house of work and autonomy. This factor's cronbach's alpha score is 0.70

The sixth and final factor had load just one item (authority), so it was excluded from further analysis.

Overall, the five factor solution explained 64% of the variance. All of the factors had high reliability of 0.75 or higher. Reliability coefficients (cronbach's alpha) for the factors ranged from 0.70 to 0.80.

The second part of analysis used the independent sample t-test for measurement of differences in generational work values between genders, city of birth. Table 2 provides the results of the t-test for gender (male/female) and work values' factors.

Table 2. Results of the Independent Samples T-Test related to gender

<i>Values</i>	<i>Women (N=168)</i>	<i>StD</i>	<i>Men (N=72)</i>	<i>StD</i>	<i>t</i>	<i>p</i>
Status-Related WV	6,2064	1,07093	6,2262	1,07093	3,103	.002
<i>Intrinsic WV</i>	5,6044	1,12979	5,8144	1,12979	3.179	.002
Extrinsic WV	6,0729	1,18573	5,8276	1,12923	1.592	.113
SocialEnvironment	6,4464	,81961	6,1098	1,08363	2.784	.006
Freedom-Related WV	5,6369	1,25086	5,4280	1,28251	1.258	.210

As shown in Table 2, there are significant differences on status-related, intrinsic work values and social environment at work between genders. Based on the SPSS results, there is no significant difference on work values between cities of birth.

## DISCUSSION and CONCLUSIONS

Edmunds and Turner (2005) suggested that managers need improve an effective strategy to manage global generations. Some researchers showed that it is important to understand the features of generations in different cultures.

With the arrival of Gen Y, who brings distinct values, assumptions, and behaviors, they foster widespread organizational concern regarding how to engage them in the workplace. This generation is the hardest to recruit and retain (Weingarten, 2009). It is important for organizations to clearly communicate values and priorities so that an assessment of fit can be made (Cennamo and Gardner, 2008).

Based on the factor analysis results, work values pointed to a five factor structure. These are Status-related, Intrinsic, Extrinsic, Freedom-related work values, and social environment at work. Altruism factor's values were deleted according to the factor loadings. The results show that there were significant differences between male and female students in their status-related, intrinsic and social work values between genders. Generation Y has some characteristics like to work either alone or with others if they can develop close companionship with their co-workers.

Greenwood and Murphy (2008) suggested that the generational value differences influence attitudes and behaviors, thereby creating a "generation gap". Leaders must understand the different needs of each generation and the needs of the different generations in countries. By examining each generation's value structure in different cultures, one can develop a profile of each group which can guide how each is managed (Greenwood and Murphy, 2008).

Each generation has its own well-defined characteristics include principles and values, loyalty, respect for power, career expectation, career development, reward system and work values. The organizations realize and consider these differences and needs for positive organizational outcomes such as job satisfaction, organizational citizenship behavior etc. It is important to understand how to manage and work with people from different generations in the workplace. The results clearly show that each generation has its different work values. There is a generational shift in work values. Kupperschmidt (2000) suggests that understanding these

generational differences may be a tool that managers can use to create more employee productivity, innovation and corporate citizenship. Organizations need to set some clear policy for rewarding, career development about attracting and keeping this new generation of employees.

In 2004, Tulgan predicted that the workplace revolution of the last decade has been profound, but now there are powerful demographic forces underway that will cement the generational shift. Consequently, the revolution in workplace's values and norms will continue.

The future studies can be compared to results from other generational cohorts, and to other cohorts' job satisfaction, career expectations etc. Also, further studies of the values of generations need to be conducted in other geographic areas of Turkey. Thus it can be compared to results of the cohorts in the future as they progress through their life-cycle.

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## COMPETITIVENESS OF PACKAGE TOURS OF TOUR OPERATORS – SIGNIFICANCE OF TRANSPORT SERVICES

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### Abstract

Having in mind that the generally accepted marketing theory tells us that consumers are primarily led by the value the alternative (product) provides when selecting a product or a service, then the analysis of tour operator operation must start from package tours. Package tours are the basic products designed and sold in the market by tour operators. A great number of services that package tours are made of have an impact on their competitiveness. The objective of this paper is to analyze possibilities for the improvement of package tours' competitiveness. Transport services are unavoidable in package tours designed by tour operators. In theoretical and practical analysis of package tours' competitiveness it is extremely significant to consider the effect of transport services. The paper will have a particular view on the significance of transport services.

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### Key Words

transport, tour operator, service, value

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## INTRODUCTION

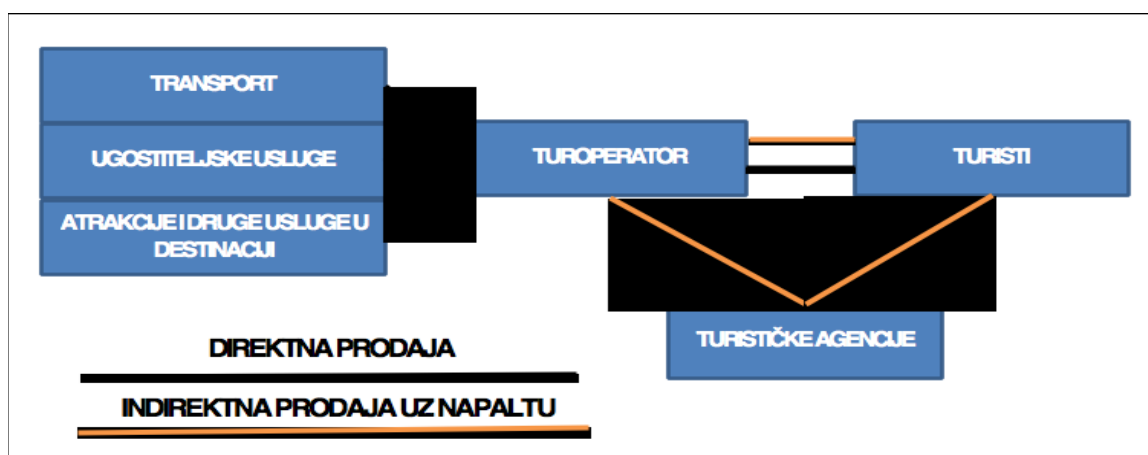
In the value chain in realization of touristic travels tour operators are defined as participants focused on the procurement of a large number of versatile tourism services that they unite into unique packages(Holloway: 2009). Unique packages essentially present products of tour operators intended for a broader market. The role of tour operators was strategically very significant for the origin of tourism as an activity and for broadening the base of tourist movements.

Products designed by tour operators are called package tours. Package tours designed by tour operators for users of tourism services are complex and contain a large number of different services. Products designed by large tour operators are called package tours. Essentially, package tours are divided into (Wong, Kwong; 2003):

- Basic package tours that contain accommodation and transport of tourists;
- All inclusive package tours that, apart from transport, services and accommodation, also contain a large number of different services that facilitate the travel and influence the creation of a unique experience during the travel. Additional services are services of guides, organization of excursions, reservation of tickets for visiting various events, etc.



Figure 1: Place of tour operators and agencies in the value chain



Holloway: 2009: 468.

Regardless of the type of package tour concerned, the fact that both products imply that the larger number of services is being sold to tourists at a unique price is essentially significant (Maričić, Đorđević: 2012). Sales can be realized through travel agencies or directly to tourists, as was shown in figure 1, which demonstrates the place of a tour operator in the chain of service delivery to tourists.

Figure 1 shows that the integral elements of package tours designed by tour operators are: (1) transportation and accommodation (basic package tours) and (2) transportation, accommodation, attractions and other services at a destination (implied by all inclusive package tours).

It is essentially significant to have transportation as an integral part both in case of basic and all inclusive package tours. Transportation of tourists is one of the key activities for origination and development of tourism industry. For a long time transport had been regarded as a separate activity (transportation) in the value chain analysis in tourism that had a significant impact on the designing of total value for tourists. In modern literature, transport has been treated as the integral part of tourism activity and it is one of the inseparable elements of the value chain (Biederman: 2007). From the perspective of tourists, transport presents a binding element of emitting and receiving destinations.

Participants of value design in transport are: transportation organizations that provide transport services and participants directly connected to transportation infrastructure (motels, road side restaurants, airports, etc) that provide services to tourists.

## **2. PACKAGE TOURS VALUE DESIGN AIMED AT IMPROVING COMPETITIVENESS**

Value for customers is defined as the difference between the utility that a customer receives by purchasing and utilizing products and services, and the sacrifices, which imply investments into procurement and utilization of those products and services (Holbrook: 2004).

The increase of the designed value for tourists by having tour operators design package tours is realized on several bases.

The first and the most significant method for designing value done by tour operators is the reduction of the overall (total) price of travel. Basic features of tourism activity are high fixed costs and expressed fluctuations in demand, which enabled tour operators, due to the developed sales network and expertise, as well as due to the possibility to unite greater number of services into unique packages, to reduce the sales price and thereby increase the designed value.

Because of the inability to sell 100% of their capacities by themselves, service providers are willing to sell part of their capacities at lower prices (Kotler, Bowens: 2010). Tour operators have the possibility to make procurement at considerably lower prices. Tour operators sell the provided capacities as part of packages at a price that is lower compared to the selling price of the very service providers, such as transport organizations. The main thing here is that this kind of approach enables tour operators to considerably reduce the total price of travel. Apart from the transportation and accommodation service providers, other companies in tourism also have a similar method of operation, which is also formed due to high fixed costs. Hotel managers calculate their break even point with occupancy of capacities between 60% and 70%, which leaves tour operators, using the same principle, the possibility to procure capacities at lower prices. Tourism offer bearers are not able to offer lower prices due to insufficient expertise and/or lack of funds to cover the marketing costs and create sales network, which all contributes to having the maximum of

sales often below 60%. Sales efficiency and marketing costs are the best indicators of successfulness of tour operator's operation.

Expertise in sales and efficiency in performing marketing and sales activities enables tour operators, based on the quantity and scope of procurement, to reduce the price and to design value for tourists on that basis. For example, due to insufficient sales force "Singapore Airlines" enables larger Serbian tour operators on intercontinental flights, based on the demand for a higher number of tickets per flight, to procure them at a price that is up to 75% lower than the standard one.

Apart from leasing part of capacities, during the season tour operators lease entire airplanes (charter flights) as well as 100% of hotel capacities. Greater purchasing power of tour operators, which influences the quantity of procurement, reduces the realized price. Presented examples indicate that tour operators, due to the specificity of tourism as an activity, procure services at lower prices and reduce the total unit cost. The possibility to reduce prices also depends on the market "power" of a tour operator. Greater scope of lease of capacities increases the possibility for price reduction. For example, the lowest price that the Egyptian hotel managers can offer to Serbian tour operators is higher for averagely 15% compared to the prices offered to tour operators from Russia (*Pegaz*), which is a direct result of the scope of procurement, but also the negotiating capabilities.

Before the start of the season tour operators additionally reduce the capacities lease price, but also enable the tourism offer bearers to get capital needed to cover operational costs. Leasing capacities in advance for the entire season or year implies the advance payment ranging between 30% and 100% of the total value (Holloway 2009). The greater the scope of lease of capacities and the height of advance payment given, the greater is the level of price reduction for the leased capacities.

Additional price reduction is also realized by the willingness of tour operators to lease capacities off season. In order to achieve the continuity of operation, offer bearers are prepared to offer services off season at the price that covers variable costs and slightly influences to the increase of contribution margin (Čačić: 2010). However, their sales network and marketing efficiency are frequently incapable of selling services at such prices. In order to continue their operation off season, they are relying on tour operators who have access to certain market segments. This way the

value that would not be available to certain segments of tourist without the intermediation of tour operators is delivered (retired people with a lot of free time, but with lower discretionary income, student travels or school excursions, etc).

There are many examples to confirm the fact by which the basis for making the competitive advantage, with European tour operators, lies in the possibility to procure capacities at the lowest possible price (*Holloway: 2009*). Permanent market rivalry that exists between “Tui” and “Thomas Cook”, two of the most significant European tour operators, is reflected in the search of ways to achieve the lowest possible procurement price that would enable the increase of value provided for tourists, which further leads to the increase of market share.

### 3. DESIGNING PACKAGE TOURS IN OPERATION OF TOUR OPERATOR

Package tours are designed by packaging of tourism products. By packaging products, tour operators increase the designed value for tourists. From the perspective of tourists, a lot of services present parts of a unique whole that they purchase in the form of package designed by tour operators. Packaging of tourism products by tour operators falls among more complex packaging forms. There are two types of product packages offered to tourists by tour operators (*Canadian Tourism Research Institute: [www.conferenceboard.ca](http://www.conferenceboard.ca)*):

- **Products for groups.** They include classical package arrangements prepared by tour operators for larger groups of passengers. These products are the most prevailing ones in the tourism market. Classical summer and winter holidays are mostly, over 65%(UNWTO), sold as group packaged products; and
- **Products for individual tourists** (FIT - Fully Independent Travel). A great number of individual travels are also packed into unique (package) products. Unlike packaging of products for groups, products for individual tourists are packed according to the wishes and preferences of individual tourists.

Values designed by tour operators when packaging products are multiple (*Canadian Tourism Research Institute: [www.conferenceboard.ca](http://www.conferenceboard.ca)*):

- **Facilitated selection of products.** During their travel tourists use a large number of additional services that satisfy various needs. When selecting additional services there is most often a larger number of alternatives, so it is difficult to select the right one without high economic, psychological and social risk due to limited information available to tourists. By uniting the offer, tour operators reduce the risks and adapt additional services to the purchasing power, preferences and expected experience of tourists;
- **Simplification of transaction process.** Tourists who decide for individual travels procure all services by themselves. Due to foreign exchange risks, language barrier, unfamiliarity of the way of functioning of the offer (subway transportation, selection of taxi associations that guarantee lower price, method for reserving seats on buses, etc), procurement of all services within a unique package significantly simplifies the transaction process. Tour operators have the largest share in sales of travels that require greater number of services, which significantly reduces the effort for tourists during the travel;
- **Designing a unique experience** through connecting different products into a unique whole. The success of tour operators largely depends on the ability to procure different products that, when united, provide tourists with a unique experience (*Holloway: 2009*). During the travel they use a lot of different services that, united into a unique package, can offer special experiences, which would be the source of value. According to the research of stated authors, over 80% of travels from Europe to Canada, as a product of special interests, are being realized through tour operators. Because of their expertise in packaging and designing special experiences, tour operators specialists for particular products or destinations are becoming increasingly significant in the global market (UNWTO), which indicates the relevance of the stated source of value.

Apart from the already mentioned ones, tour operators also provide additional services related to the organization of travels, which increase the designed value. During the travel tourists use a large number of

different services that they frequently do not take into account when making travel decisions. Such services are, for example, the organization of transfer from the airport to the hotel, organization of non-accommodation food services, visits to attractions, etc. Apart from these, there are also various atypical needs during the travel, such as the possibility for groups of friends to sit together during transfer, visits to attractions that have no mass visits, etc. During the travel tour operators provide a series of services through the activities of guides (providing information necessary for a more pleasurable stay, interpretations on attractions, assists in procurement and utilization of additional services, etc), which increase the value. This type of value has great significance. According to a survey performed at the largest Serbian travel agency that also performs tour operator operation, Kon Tiki Travel, apart from the price, the quality of guides was marked as a crucial factor in the selection of travel organizer (77% of surveyed people stated that, after the price, the quality of guides is the most important selection factor).

There are many different risks during the travel the reduction of which is influenced by tour operators. Provision of information on a destination by guides influences the reduction of possibilities for misuse by local population. Non-accommodation offer bearers tend to achieve high profit margins by selling services at high prices to tourists who are unfamiliar with market circumstances. Existence of this type of risk is usually expressed in less developed countries with weaker financial and fiscal control (Turkey, Tunisia, Egypt, etc). However, this type of financial risk is also present in more developed countries. For example, average prices of goods and services in New York near railway and bus stations are averagely 20% higher (New York Times).

Tour operators sell travels in advance, by which they reduce the foreign exchange risk. Since travels are often directed to states with different currency than the domestic one, there is the possibility of domestic currency depreciation. Reservations and advance payments to tour operators for a larger number of services would reduce the risk from price increase in case of domestic currency depreciation. Tour operators design this type of value in stable currencies, based on the pre-agreed fixed price, by which they create protection in the foreign exchange market. Designing this type of value implies a good negotiating capability of tour operator and forecasting of foreign exchange fluctuations, together with the use of expertise in the protection against foreign exchange fluctuations

(operations in the forward currency market and insurances through hedging currency funds).

Apart from the above mentioned, tour operators influence the reduction of psychological risks. Due to physical separation of offer and demand during the travel, there is a certain suspense (risk) regarding the quality and inadequacy of tourist offer. Tour operators reduce these types of risks by making various brochures that contain detailed information on travels (travel programs, itineraries, quality of accommodation, features and facilities at destinations, type and quality of transportation, illustration of experiences, etc). In order to reduce the risk, tour operators are making increasingly larger brochures that contain a lot of quality photographs. Tour operators have a very developed graphical production and they present different destinations and individual products separately (e.g. nautical tourism product, special interest product, etc) (*Holloway: 2009*). In his research Holloway has pointed out that the quality of graphical production, with regards to presentation of travel program, has a significant impact on designing value offered by tour operators.

Apart from catalogues and brochures, an increasingly important role in modern tourism operation is also being given to web presentations of tour operators, in which the method for designing value is very similar.

A tour operator's brand also has a significant influence on the risk reduction (*Canadian Tourism Research Institute: [www.conferenceboard.ca](http://www.conferenceboard.ca)*). Branded tour operators have an important role in involvement of new tourist destinations in the global market as well. Tour operators with the established brand present a guarantee for quality of travel. In that respect, many national tourism organizations opt for the strategy of co-marketing with tour operators in certain areas in order to stimulate demand or assert new destinations. A significant role in the development of tourism of special interests in Canada was given to the renowned European tour operators, financially supported by the national tourism organization of Canada. In the first stage of the development, the national tourism organization of Canada paid significant financial funds to branded European tour operators in order to promote products (*Canadian Tourism Comision: [www.canadiantourism.com](http://www.canadiantourism.com)*).

#### 4. INCREASE OF PACKAGE TOURS COMPETITIVENESS BY IMPROVEMENT OF TRANSPORTATION SERVICES

The most significant elements of value in transport designed by transportation organizations are the price, viewed as money expenditure, time that tourists spend in transport between two destinations and comfort of transport means (*Holloway: 2009*). Money expenditures spent by tourists for transport services are a significant item in the structure of travel unit price. Share of transport costs in the total price of travel is close to 47% (*Čačić: 2010*). By reducing the transport price, the total value for users of touristic services is considerably increased. Reduction of transport price is achieved in two ways:

- By increasing the operational efficiency of transport companies, which would make savings in costs and enable provision of services at lower prices; and
- By efficient usage of transport capacities the unit price per single service is being reduced. More efficient filling of capacities is achieved by better organization and sales operations, planning of capacities and developing distribution channels by transportation organizations. Tour operators realize greater occupancy of capacities through packaging of products and more efficient marketing approach to the market, by which they make a significant impact on the transport price reduction and design value.

Time envisaged for transport (the second element of value design for tourists) presents an effort that reduces the total value. The increase in speed of transport reduces the needed efforts, which increases the total value. The speed of transport is achieved in several ways (*Biederman: 2007*):

- By improving the technical characteristics of transport means and by increasing the possibilities for faster movement;
- By construction and modernization of transportation infrastructure between emitting and receiving destinations (railroads for high speeds, modern highways, marinas, airports, etc); and
- By more adequate organization of transport when several transport means are used in transport (e.g. internal transfer by bus from airport to hotel, time synchronization and spatial connection of railroad and air transport, etc). Apart from the classic transport, transportation organizations or tour operators also provide services



beyond transport means (ground service) to design added value. Services beyond transport means imply a whole series of facilitating measures that reduce the effort during travel. Services that facilitate luggage handling, assistance in checking in at airports and ports, facilitation with layovers if travel is to be continued, etc.

The price and time in transportation present typical forms of economic value. Apart from economic, there are other types of value being designed in transport. The utility that influence to the increase of comfort and a sense of pleasantness during transport are also sources of value (*Holloway: 2009*). Apart from reducing the effort during travel, the comfort also partly presents the form of hedonistic value. Transport of tourists can also be viewed as a part of enjoyment during the entire travel. In order for the travel to be as comfortable as possible, transport means follow the latest trends that imply high standards of comfort in transport: interior of transport means (quality material, form and design) and technical equipment. Also, for comfort purposes, food and beverages are served in transport means and various forms of entertainment are organized (music, animation, children's play, etc). Designing value through the provision of such services partly depends on employees, who contribute, with their kindness and forthcoming attitude, to the pleasantness of travel and the growth of the designed value.

The value is also designed beyond transport means at places directly connected to transportation infrastructure. Here we primarily have in mind airports, marinas, ports, railway stations, bus stations, stopovers and resting areas on the way between destinations. These are places with different services where tourists spend part of their time while waiting to board or during breaks (exchange offices, conventional restaurants, fast food restaurants, classic shops, duty free shops, cafes, bars, entertaining activities for adult passengers and children, etc). They have an impact on the increase of value through the reduction of travel efforts and the increase of comfort. Airports are definitely the most developed locations that present serious trade and hospitality complexes within themselves with developed contents that affect the increase of value.

Hedonistic values designed in transport also include the possibility of visiting various attractions on the way between destinations. During the travel tourists frequently visit cultural, natural and constructed attractions and various hospitality facilities (restaurants, vineries, etc), located between the emitting and the receiving destination. Intensity of the

impression experienced by tourists during visits to attractions is positively correlated with the designed value in transport. Tour operators frequently design travel programs that include organized tours offering a unique travel experience. In case of individual travels, tourist signalization and adequate approach to attractions (roads, parking lots, etc) between destinations have an influence on the increase of value in transport.

Apart from the stated elements, the flexibility in movement during the stay of tourists at destinations is also a source of value. The existence of tourist signalization, the adequate approach to attractions and hospitality facilities, inexpensive or free parking lots at receiving destinations - these are some of the basic sources of value for tourists who use private cars in transport. Provided parking lots at destinations that are safe and inexpensive also have a significant impact on designing value. For campers (a special segment of tourists who travel with camping trailers), one of the basic values to be designed is a provided adequate parking lot with accompanying contents required for the travel using camping trailers. Finally, it is important to emphasize that tourists at destinations use various forms of transport by rent-a-cars or by using the public road, railway or water transportation, which can present the basic and/or added value during the stay (*Holloway: 2009*). A great number of tourist during their stay at a destination rents cars, boats or motorcycles in order to increase movement flexibility. Apart from the above stated method, in this case value is also designed with the existence of organizations that rent out those transport means (rent-a-car agencies, sailing barges, etc). Public road transportation (e.g. double-decker buses in London), railway transportation (rides on trains with narrow railroad lines in Swiss mountain centers, "Sarganska osmica" at Mokra Gora, etc), rides on ferryboats or yachts at the seaside, are all a part of value offered to tourists during their stay at destinations.

## CONCLUSIONS

Package tours are one of the basic products of tour operators. Designing value for tourists in package tours that is greater than the competition's achieves competitive advantage in the market. Due to the increasingly emphasized difference in expectations and preferences of modern tourists, the growth in the number of offered services with different quality, as well

as increasingly greater competition, the challenge of designing competitive package tours is becoming greater.

Transport services are a significant factor of each package tour and they contribute to the increase of competitiveness. In order to design a competitive package tour, it is necessary to pay a special attention to transport services. It is significant for tour operators who design package tours to have transport services with the lowest possible prices, but also to minimize efforts during the transport of tourists. In that respect it is important to make a good evaluation of possibilities when selecting a partnering transport organization in order to have the adequate competitiveness of package tours.

If transport organizations wish to have partnering cooperation with tour operators, they must design a service at the lowest possible price, but at the same time provide the minimization of effort for tourists during the travel. Non-strategic orientation of transport organizations with pretensions to the transport market of tourists using package tours, as well as their unwillingness to adapt to the requirements, can have an impact on the loss of market. There is also a particular danger from the loss of market due to the fact that an increasing number of larger tour operators tends, if they can achieve cost efficiency, to organize provision of transport services within their own operation.

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Dr Aleksandar Djordjevic graduated and earned his Ph.D. at the Faculty of Economics in Belgrade. He earned his Master's Degree in Business Economics within the HEC business school in Paris (*Executive master d'Economie et Management HEC Paris*), which falls among one of the most prestigious business economics schools in Europe.

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## EFFECTS OF ORGANIZATIONAL CULTURE ON SUCCESSOR'S INNOVATIVENESS IN FAMILY BUSINESSES: CASE OF SLOVENIA

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### Abstract

The main purpose of the research is to increase our understanding of the factors which affect innovativeness of successors in family SMEs and what is the role of organizational culture in successors' innovativeness. The main research question is: What is the relationship between organizational culture (individual versus group orientation; internal versus external orientation; centralization / decentralization of coordination and control) and innovative behavior of successors in family SMEs? We adopted a quantitative empirical research approach, based on questionnaires for founders and successors of family SMEs. 103 family SMEs responded and enabled a detailed answer to our research question. The originality and the value of the paper lies in the identification of family culture as an important factor affecting successors' innovativeness. The research was carried out in Slovenia. We assume that findings of our research may also have implications for other transition economies.

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## Key Words

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Family SMEs, Successors, Organizational Culture, Family Culture, Innovativeness

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## Topic Groups

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Entrepreneurship, Innovation Management

## INTRODUCTION

The vast number of family firms around the world published in a review of the state of family businesses worldwide according to Laforet (2012) highlights their predominance, economic importance and significance. Family SMEs represent an important share in the structure of all firms; between 70 - 80 % of all firms worldwide, according to Mandl (2008) and most of SMEs are micro, small or medium sized. The recent research on characteristics of family businesses in Slovenia from 2015 (Antončič, Auer Antončič, and Juričič, 2015) revealed that 83 % of businesses are family businesses, they create 69% of entire sales, 67% of value added and employ 70% of all employed. This estimate involves large companies employing over 250 people as well. Thus increase of innovativeness of family SMEs is crucial for development of EU and Slovenia, which is one of the innovation followers with a below average performance, as an innovative society. In this paper we limit ourselves to successors of family SMEs in Slovenia and the role of organizational (family) culture in promoting their innovativeness.

In order to achieve a complex, detailed understanding of the issue under investigation, our theoretical framework presents the resource based theory (RBT) in connection with entrepreneurship theory (family business) - it is important for RBT, that production resources due to their tacit dimension and social complexity can not be replicated. On the field of entrepreneurship theory tacit, socially complex production resources are often linked to the founder and his/ her firm. These are idiosyncratic resources, having a higher value when used within the firm than outside this firm. Tacit resources are difficult to be observed, described or evaluated, but they have a large impact on competitive edge of the firm (Itami, 1987, in: Širec, 2009; Letonja, 2016). Many production resources,



which enable heterogeneity are socially complex, like firm's culture (Barney, 1986, in: Širec, 2009; Letonja, 2016), firm's image (Hill, 1990, in: Širec, 2009; Letonja, 2016) and human capital (Carpenter, Sanders and Gregersen, 2001, in: Širec, 2009; Letonja, 2016). Socially complex resources enable to use business opportunities more effectively than the others do (Širec, 2009; Letonja, 2016). According to Zahra et al. (2004) family SMEs can capitalize on their organizational culture. All dimensions of organizational culture: individual culture against group culture orientation; centralized against decentralized control; and strategic against financial orientation of control have significantly greater impact on entrepreneurship in family SMEs than in non-family ones (Miller, 1983; Letonja, 2016).

In this paper, we limit our research to the transfer of organizational (family firm) culture from the first (founding) generation family firm to the second one which is found to be the most problematic generational transfer (e.g., Miller et al., 2003) as only 30 % of the family firms survive this phase. The focus of our research is on intergenerational family succession in family micro, small and medium-sized firms (family SMEs), as research findings show that the majority of family firms' leaders prefer to pass the control over the firm to the family members; that is true especially in family SMEs (e.g., Letonja and Duh, 2015; Bjuggren and Sund, 2001).

The main goal of our research is to increase our understanding of the role of organizational culture in successors' innovativeness. The main research question which we address in our research is: What is the relationship between organizational (family firm) culture and innovative behavior of successors in family SMEs? We begin our paper with the theoretical framework, then the methods and empirical findings are presented, we continue with discussion and end our paper with conclusions and implications.

## **THEORETICAL FRAMEWORK**

Previous research by Litz and Kleysen (2001) has revealed that the next generations are the driving force of innovation in family firms. According to Aycan et al. (2000) and Schein (1990) organizational culture is a combination of beliefs, values and assumptions shaping management styles and processes in the organization and as Prajogo and Sohal say (2001) has

an effect on innovation performance - "more innovative the culture, the higher the innovation performance". Organizational culture as a construct has more facets and according to definition encompasses propositions, beliefs, goals, knowledge and values, shared by members of an organization (Deal and Kennedy, 1982; Cameron and Quinn, 1999). A comparative analysis of some organizational model in the most innovative societies has revealed which factors can significantly affect development of innovativeness (Ženko, 1999, 134-139). Organizational culture can affect how people shape their personal and professional goals, perform their tasks and manage resources in order to achieve the goals. Organizational culture affects the art of conscious and unconscious thinking of people, it affects as well their decision making and perception of things, feelings and operations (Schein, 1990).

According to the literature organizational culture plays an important role in the way firms innovate (Cakar and Ertuerk, 2010; Naranjo-Valencia et al., 2011), but there is still little research on the relationship between organizational culture and the different types of innovation in the family firm context (Kraus et al., 2011). Research from Naranjo-Valencia et.al. (2011) has shown that organizational culture is important for the innovativeness of a family firm. The family firm's culture is inevitably affected by personality, values and attitude of the founders' generation. Often family patterns, values and attitude toward employees dominate the family firms. The family firm's culture is closely connected with culture of the local community (Kelly et al., 2000). According to Denison, Lief and Ward (2004) the continuation of founder's values in the family firm's culture can explain their research results which indicate that family firms have recognizable, for business operations encouraging culture. As generations of successors in family firms nurture the culture of founders the culture of family firms is difficult to imitate and it can be the source of family firm's competitive advantage. Dyer (1988) identified four types of culture in family firms — patronizing, laissez-faire, participative, and professional, which are drafted on seven categories of propositions, how the organizations see themselves, society and the world (the nature of relationships, human nature, nature of truth, focus on the environment, universality/ particularity, the nature of human activity, time). Dyer noted that the patronistic pattern is the most typical culture of family firms, yet even in the first generation of family firms. In the next generations over two thirds of patronizing family firms faced the change of culture, mostly it becoming professional. According to the opinion of Kets de Vries (1993) in well managed family firms employees feel as a part of the family and

birocracyis less evident. Substantially planar structure, small managerial teams and often smallness of the family firm enable flexibility and adaptabilityof the family firm to the changing environment (Mandl, 2008; Denison et al., 2004). These characteristics of family firms strongly reflect the clan structure, defined by Cameron and Quinn (1999) and confirmed by Duh et al. (2010). In order to protect „family agenda“ the owners and managers of family firms focus on the non-financial goals (Westhead and Howorth, 2006), which on the other hand may increase the potential injustice towardthe non-family employees (Barnett and Kellermanns, 2006).

Zahra et al. (2004) focused on four dimensions of family culture influence on entrepreneurship: individual versus group orientation; an internal versus external orientation; short versus long-term orientation; assumptions regarding centralization/ decentralization of coordination and control. A potential advantage for a family firm, according to Zahra et al. (2000), is when these four dimensions of organizational culture encourage the family firm to be more pro-active, innovative, and risk-oriented. Most family firms centralize their operations, that is, ultimate decision-making lies with one family member - the owner/ founder. Centralization is believed to be a factor that undermines entrepreneurial activities (Hall et al., 2001) and could inhibit innovation (Miller and Friesen, 1982; Damanpour, 1991). As well decision-making structure is more centralised in first-generation family firms than in later-generation family firms (Dyer, 1988). This centralised decision-making is mainly caused by founder centrality, that is, the powerful influence of the founder on organizational development present in first-generation family firms (Brun de Pontet, Wrosch and Gagne, 2007). This founder centrality is found to reduce when the firm moves to the second generation (Cruz and Nordquist, 2010), and consequently, decision making becomes less centralised (Kelly, Athanassiou and Crittenden, 2000).

As Zahra et al. (2000) say, the culture of orientation toward decentralization of control and coordination positively associates with entrepreneurship. Laforet (2012) claimed that »fostering culture of innovation involves many things, including facilitating creativity, taking more risks, making bold and adaptive decisions, at a high level being able to create and lead change; as well as being resilient, that is overcoming obstacles that impede innovation and most importantly, liberating oneself from constraints.« Especially, maintaining creative environments in families during childhood are prerequisite for creativity and innovation in

businesses (e.g., Ženko and Mulej, 2011). Family firm cultures are found difficult for rivals to imitate (Dierickx and Cool, 1989) because of the ambiguity about their origins and their embeddedness in family history and dynamics.

Each family has its own unique family culture. The research has shown, that family environment and family culture affect the innovation potential of individuals (e.g., successors; appropriate education, family values, size of the firm, birth order (Mumford et al., 2002).

Our assumption is that successors are more innovative than founders if they apply the culture of individual and an external orientation and decentralization of coordination and control, which is in line with Zahra et al. (2000) and Craig and Moores (2006). Therefore, we developed the following hypotheses:

*H1: "Family culture of individual orientation affects innovativeness of successors in family SMEs."*

*H2: "Family culture of decentralization of decision making, control and coordination affects innovativeness of successors in family SMEs."*

*H3: „Family culture of external openness (trust and equality) and a positive relationship between the founder and successor which starts developing in successors early childhood, affects innovativeness of successors in family SMEs."*

*H4: „Family culture of long-term orientation affects innovativeness of successors in family SMEs."*

## **METHODOLOGY, SAMPLING AND DATA COLLECTION**

We adopted a quantitative empirical research approach which was focused on organizational culture as one of the factors influencing innovativeness of successors in family SMEs and innovativeness of successors in family SMEs. Two questionnaires were developed, one for the founders and one for the successors of family SMEs. Quantitative research started with developing our own questionnaires and validating these questionnaires which were tested by experts and on the smaller pattern of founders and successors in selected family SMEs in Slovenia. Revised questionnaires were

sent to a random sample of 408 family SMEs, selected from the data base of the authors of this paper. We received 206 fully completed questionnaires from 103 family SMEs - 103 for founders and 103 for successors. After conducting the online research, primary data was controlled and edited. For processing and analysing data we used the statistical program IBM SPSS Statistics 22 and used as well MS Excel 2013. As our research includes two independent samples with mostly ordinal data, we used univariate (analysis of means, variance, reliability index Cronbach alpha, t-test) and multivariate (simultaneous analysis of more variables, correlation) statistical methods. The Student t-test was used for testing the hypothesis on statistically significant differences between the mean values of variables in two samples - in our case between the founders and successors in family SMEs. We used coefficient Cronbach alpha to test the reliability of the variables involved. The Cronbach alpha values range on the interval from 0 to 1; higher values show a better reliability, acceptable are values between 0.60 and 0.95, Cronbach alpha, lower than 0.50 is unacceptable (Bhattacharjee, 2012). The Pearson correlation coefficient was used to test the strength of dependency (not causality) between the variables. The values of the Pearson coefficient between 0.3 and 0.5 (plus, minus) reflect medium strength of correlation (plus, minus) between variables, closer to 1.0 (plus, minus) reflect strong correlation (plus, minus), values between 0 and under 0,3 (plus, minus) reflect moderate strength of correlation. In social studies we are usually satisfied with 5 % (0.05) or even 10 % (0.10) precision (Hussey and Hussey, 1997, in: Vadrjal, 2005). If the values are higher then 0.05, the correlation is random, not statistically significant, there is not enough evidence that they exist.

Regarding the size class, we did not limit our research to small and medium sized family firms (from 10 to 249 employees) only, as we suppose that numerous micro family firms from zero to nine employees face the problem of transferring ownership and management to the next generation as well. To make the concept of family business operational (e.g., Lambrecht and Lievens, 2008) we define a family business as a business where the founder / owner/ manager considers the business as a family one. Therefore, the first question was, "do you consider your firm as a family firm?" Using this approach, applied by Chua, Chrisman, Sharma (1999) and Sharma, Chrisman, Chua (2003), we avoid threat, that answers would not be representative, as they include answers of different interest groups from SMEs.

## RESEARCH RESULTS

All founders and successors from the 103 family SMEs declared their firms as family firms. The average age of the family SMEs in our research is 23,5 years. In the sample the first generation family firms prevail (79.6%, N=103) in comparison to the second generation family firms (20.4%, N=103). In the family SMEs of the first generation the founders are strongly involved into management and daily operations of the firm, they are active and employed, while successors are already involved, but not actively, they are students and pupils and not employed yet in the family firm. In the second generation of family firms successors are already formally involved in the family firm and they are employed, the management and ownership of the firm was already partly or entirely transferred from the founders to the successors, while founders are retired, but still active in a firm. The sample consists of 54 (52.4%) micro, 30 (29.1%) small and 19 (18.5%) medium size firms. Although micro firms prevail in the sample, the average number of employed is 30, which is the size of a small firm and these firms employ on average 3 family members (2.77). Our sample is dominated by the firms from service industries - 46.6 % (48), followed by production firms - 27.2% (28) and trading firms - 26.2% (27). The sample involves firms from all but one statistical region of Slovenia (Zasavje) and the distribution of the sample is broadly consistent with number of firms in statistical regions of Slovenia (SURS, 2015b). The average revenues of these firms in the recent five years (2010 - 2014) were 3.6 mio EUR, showing an increase of 32,6 % in revenues in this period. The sample consists of 85 (82.5%) male founders and of 18 (17.5%) female founders. Most of the founders are still active and employed in their family SMEs. The successors in our sample are mostly men (63; 61.2%); there are 40 female successors (38.8%). The successors are mostly already active - being formally involved, employed and/ or on one of the managerial positions in a family SME (65; 63.1%). Most of the founders finished technical high school or vocational school and most of the successors finished bachelor degree in business or a high school. Most of the successors do not have previous working experience from other companies (45; 43,7 %).

To measure innovativeness of successors we involved 11 variables, shown in the table 2. Coefficient of reliability (Cronbach alpha; shown in the table 1) is 0.764, which means that the reliability of the construct innovativeness of successors is good (the value of the coefficient is between 0.70 and 0.90).

Table 1: Coefficient of reliability of the construct of innovativeness of the successors

Coefficient of reliability - successors	
Cronbach's Alpha	N of Items
.764	11

Table 2 : Variables of successors' innovativeness

Variable	Statement - argument
V1	I often surprise with novelideas
V2	I am often being asked to help people in creative activities
V3	I am more satisfied if I develop a novelidea as if I master a skill
V4	I prefer work which requires original thinking
V5	Usually I do not continue with work as I was used to do
V6	I prefer the work which requires inventiveness as skills and practice
V7	I am a very creative person
V8	I like to experiment with different styles of doing the same things
V9	In the recent 5 years I developed / started to market 0, 1, 2, 3-5, more than 5 new lines of products and services
V10	In the recent 5 years I developed / started to market 0, 1, 2, 3-5, more than 5 newprocesses
V11	In the recent 5 years the changes in production / services/ process lines ....

Measured on the Likert scale from 1 - I do not agree at all to 5 - I fully agree; exception V9 and V10, measured on the Likert scale from 1 -In the recent 5 years I developed 0 new lines of products and services/ new processes; 2 - In the recent 5 years I developed 1 new line of products and services /processes; 3 -In the recent 5 years I developed 2 new line of products and services /processes; 4 - In the recent 5 years I developed 3-51 new line of products and services /processes; to 5 - In the recent 5 years I developed more as 5 new lines of products and services/ processes.

To test if family culture of the founder positively correlates with innovativeness of successors in family SMEs we used 4 variables, shown in the table 4. The coefficient of reliability of the construct family culture of the founder (Cronbach alpha; shown in table 3) is 0.744, which means that the reliability of the construct family culture of the founder is good (the value of the coefficient is between 0.70 and 0.90).

Table 3: Coefficient of reliability of the construct family culture of founders

Cronbach alpha - Family culture of the founder	
Cronbach's Alpha	N of Items
.744	4

Table 4: Variables of the family culture of the founders

Variable	Family culture of the founder	N	Mean	Standard deviation
V12	Family culture of individual orientation is positively correlated with innovativeness of the successor.	200	3.95	.996
V13	Family culture of decentralization of decision making, control and coordination is positively correlated with innovativeness of the successor.	192	3.85	.938
V14	Family culture of external openness (trust, equality) is positively correlated with innovativeness of the successor.	203	4.19	.793
V15	Family culture of long-term orientation is positively correlated with innovativeness of the successor.	201	4.02	.883

The arithmetic means of the variables in the construct on the field of family culture of founders are between 3.85 («Family culture of decentralization of decision making, control and coordination»; V13) and 4.19 («Family culture of external openness (trust, equality)»; V14), at which the standard deviations, which are ranging between 0.793 and 0.996, are 0.938 and 0.793 (at the highest value of the mean). Standard deviation data is below 1.0 and distribution of data is consistent.



Table 5: Correlation between family culture of the founders and innovativeness of the successors in family SMEs

Innovativeness of successors		V12	V13	V14	V15
I often surprise with novel ideas (V1)	Pearson Correlation	.049	-.021	.128	.260**
	Sig. (2-tailed)	.635	.842	.203	.009
	N	97	93	100	100
I am often being asked to help people in creative activities (V2)	Pearson Correlation	.155	-.088	.146	.214*
	Sig. (2-tailed)	.133	.411	.152	.034
	N	95	90	98	98
I am more satisfied if I develop a novel idea as if I master a skill (V3)	Pearson Correlation	.041	-.085	.148	.092
	Sig. (2-tailed)	.691	.419	.140	.359
	N	98	93	101	101
I prefer work which requires original thinking (V4)	Pearson Correlation	.086	.014	.033	.200*
	Sig. (2-tailed)	.405	.892	.746	.047
	N	97	93	99	99
Usually I do not continue with work as I was used to do (V5)	Pearson Correlation	-.100	-.024	-.024	-.060
	Sig. (2-tailed)	.332	.819	.811	.555
	N	96	91	99	99
I prefer the	Pearson	.059	.073	.103	.09

work which requires inventiveness as skills and practice (V6)	Correlation				1
	Sig. (2-tailed)	.562	.489	.305	.368
	N	98	93	101	101
I am a very creative person (V7)	Pearson Correlation	.212 <sup>*</sup>	.034	.081	.222 <sup>*</sup>
	Sig. (2-tailed)	.037	.743	.421	.026
	N	97	93	100	100
I like to experiment with different styles of doing the same things (V8)	Pearson Correlation	.188	.138	.082	.212 <sup>*</sup>
	Sig. (2-tailed)	.066	.190	.418	.034
	N	97	92	100	100
In the recent 5 years I developed / started to market 0, 1, 2, 3-5, more than 5 new lines of products and services (V9)	Pearson Correlation	.167	.090	.151	.255 <sup>*</sup>
	Sig. (2-tailed)	.124	.417	.157	.016
	N	86	83	89	89
In the recent 5 years I developed / started to market 0, 1, 2, 3-5, more than 5 new processes (V10)	Pearson Correlation	.227 <sup>*</sup>	.109	.127	.174
	Sig. (2-tailed)	.041	.341	.248	.112
	N	82	79	85	85
In the recent 5 years the	Pearson Correlation	.098	-.054	.139	-.00

changes in production / services/ process lines... (V11)	ion				7
	Sig. (2- tailed)	.374	.634	.200	.94 5
	N	84	80	87	87

Correlation revealed that between innovativeness of successors measured by »I often surprise with new ideas« (V1) and »family culture of long-term orientation« (V15) exists a weak positive correlation; innovativeness of successors, measured by » I am often being asked to help people in creative activities« (V2) shows positive, weak correlation with »family culture of long-term orientation« (V15). Positive, weak correlation is between innovativeness of successors, measured by »I prefer work which requires original thinking « (V4) and »family culture of long-term orientation« (V15). Positive, weak correlation is between innovativeness of successors, measured by »I am a very creative person« (V7) and »family culture of individual orientation« (V12) and »family culture of long-term orientation« (V15). Innovativeness of successors, measured by »I like to experiment with different styles of doing the same things« (V8) and »family culture of long-term orientation is a weak positive correlation« (oznaka V15). Innovativeness of successors, measured by »In the recent 5 years I developed/ started to market 0, 1, 2, 3-5, more than 5 new lines of products and services« (V9) is positively, weakly correlated with »family culture of long-term orientation« (V15). Innovativeness of successors, measured by »In the recent 5 years I developed/ started to market 0, 1, 2, 3-5, more than 5 new processes« (V10) and »family culture of individual orientation« (V12) are positively, weakly correlated.

We confirmed 8 positive although weak correlations (statistically significant at  $p < 0.05$ ) between the transfer of family culture of the founders in family SMEs with innovativeness of successors. Family culture of long-term orientation is one of the factors, which is most often positively correlated with innovativeness of successors in family SMEs.

## DISCUSSION

In our research we followed Zahra et al. (2004) who focused on four dimensions of family culture influence on entrepreneurship: individual

versus group orientation; an internal versus external orientation; short versus long-term orientation; assumptions regarding centralization/ decentralization of coordination and control.

The research revealed that while family culture of individual orientation is seen in the eyes of 200 founders and successors in family SMEs as very important for innovativeness of successors, and the arithmetic mean value was 3.95 (out of 5 on Likert scale), but there are only few weak positive correlations between the family culture of individual orientation and variables measuring innovativeness of successors. As results show family culture of individual orientation is important for the creativity of the successor and for development of new processes. In our research we assumed that family culture of individual orientation means that successors in comparison to founders develop family culture of individualism, where taking care of her/his own interest at the first place, investing into innovative processes and higher risk-taking leads to higher innovativeness of successors. Our assumption is in line with Zahta et al. (2004). On the basis of our research results we can confirm our hypothesis H1: *"Family culture of individual orientation affects innovativeness of successors in family SMEs."*

Our research revealed that 192 founders and successors believe that family culture of decentralization of decision making, control and coordination affects the innovativeness of successors in family SMEs. They agree with the argument and the arithmetic mean of their responses is 3.85. Though, studying the correlation between the variables measuring innovativeness of successors and family culture of decentralization of decision making, control and coordination, no positive correlations were confirmed. So we can not confirm our hypothesis H2, that family culture of decentralization of decision making, control and coordination affects innovativeness of successors. The reason for such a result might be anchored in the relatively small sample of family firms (103) and structure of our sample with a stronger presence of the first generation family firms (82) while we know the research of Dyer (1988) revealed that decision-making structure is less centralized in the second generation family SMEs. As previous research has shown in most family firms ultimate decision-making lies with one family member - the owner/ founder and centralization is believed to be a factor that undermines entrepreneurial activities (Hall et al., 2001) and could inhibit innovation (Miller and Friesen, 1982; Damanpour, 1991). This

founder centrality is found to reduce when the firm moves to the second generation (Cruz and Nordquist, 2010), and consequently, decision making becomes less centralised (Kelly, Athanassiou and Crittenden, 2000). On the basis of our research results we reject our hypothesis H2: *“Family culture of decentralization of decision making, control and coordination affects innovativeness of successors in family SMEs.”*

The research showed that family culture of external openness (trust and equality) has the highest value for innovativeness of successors in the eyes of both, founders and successors. The arithmetic mean of 203 responses is 4.19. But results of correlation calculation show no correlation between the variables measuring innovativeness of successors and family culture of external openness (trust and equality). Thus we can not confirm our hypothesis H3 that family culture of external openness affects innovativeness of successors. We believe that we should upgrade family culture of external openness with the relational dimension of social capital, expressed through the relationship between the founder and successor, which can be measured with trust and mutual integrity. Our belief is in accordance with research in the past, which revealed that trust is the most important for cooperation between the founder and successor (e.g., Salvato, Pernicone, and Chirico, 2006). The higher the level of trust, the higher the level of openness and bigger are opportunities and readiness for creativity in the certain period of time (Koskinen, 2003). On the basis of our research results we reject our hypothesis H3: *„Family culture of external openness (trust and equality) and a positive relationship between the founder and successor which starts developing in successors early childhood, affects innovativeness of successors in family SMEs.”*

The fourth variable, included in our construct of family culture, is the family culture of long-term orientation. The family culture of long-term orientation was given by founders and successors of family firms the second rank according to its importance for innovativeness of successors. The arithmetic mean of the variable was 4.02. The correlation between the family culture of long-term orientation and innovativeness of successors in family SMEs shows positive, although weak correlations with six out of 11 variables, measuring innovativeness of successors (development of new ideas, cooperation in creative activities, original thinking, creativity, experimenting with new ways of doing things, developing new products and services). Our research results are in line

with Zahra et al. (2004) and Craig and Moores (2006) who believe that long-term orientation means a joint vision of the founder and successor, means the capability of innovating and bringing constantly new products, services and processes to the market and putting emphasis on industry leadership to remain competitive in the global business environment. On the basis of our research results we confirm our hypothesis H4: *„Family culture of long-term orientation affects innovativeness of successors in family SMEs.“*

## CONCLUSIONS AND IMPLICATIONS

Family firms can capitalize on their organizational culture (Zahra et al., 2004). Successful family firms are the ones which remain competitive and under the control of the family, survive transfer between generations and share the family culture, which fosters matching of goals between the family members and common view of the world, desired future and a shared desire of the family that their family firm succeeds (Campbell, Heriot and Welsh 2007). When family members enter the family firm, they were previously socialized at home and are able to transfer the family culture into the company (Letonja 2016). The cultural mechanisms of the family can not be transferred to someone outside, at least not entirely, that's why it is not necessary that this mechanisms maintain through the generations. Family culture provides basis for the family firm. Entrepreneurial families which transfer their efficient family culture to their family firms will face more familiness in their firm, which is a good basis for their competitive advantage(Letonja 2016). The culture of a family firm is affected by personality, values and beliefs of the generation of founders. Continuation of founders' values in the culture of the family firm shows that family firms have a recognizable, for business operations encouraging culture, which is difficult to be imitated and is a source of competitive edge of family firms (Denison, Lief and Ward 2004).

The results of our research are mostly in accordance with findings of Zahra and co-authors (2004),who focused on four dimensions of family culture impact on entrepreneurship: »individual against group orientation«; »internal against external orientation«; »short-term against the long-term orientation«; »propositions about centralization or decentralization of coordination and control«.Our research shows that transfer of family

culture is positively correlated with innovativeness of successors in family SMEs. Statistical calculations confirmed positive correlations, although of a weak nature. The factors, most often correlated with innovativeness of successors in family SMEs, are family culture of individual orientation and family culture of long-term orientation. Culture of long-term orientation is strongly connected with mutual trust and integrity between the founder and the successor. This starts to develop in the early childhood, when successors observe their parents how they manage their firms. In order to make a family firm survive on a long-term, founders most often become less willing to take risk, but their successors have to become more risk-oriented if they want the family firm to be competitive in the terms of global economic crisis. Our research confirms findings of the research in the past, that organizational (family firm) culture affects innovation activity in firms and - more innovative the culture, the higher is innovative activity in the firm (Prajogo and Sohal, 2001). Adequate culture for innovating has to be created in family SMEs. A lot can be contributed by the family culture of the founder. Knowledge on innovation management is of key importance as well - it contributes to the higher competitiveness of family SMEs in global environment and to more successful succession of potential successors in family SMEs in a dynamic, changing business environment.

The empirical findings of our research will have practical implications for key stakeholders in the family SMEs succession process as well as they provide basis for a broader empirical research. The research question can be widened and transfer of family culture from the founder to the successor in family firms and its correlation with innovativeness of successors can be studied in connection with early inclusion of the successor into working environment of a family firm, positive relationship with the founder as a parent - the relational dimension of the social capital, motivation and readiness for risk-taking of successors.

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## MOTIVATIONAL APPROACH MODEL TO DEALING WITH THE TREATMENT OF PATIENTS WITH CHRONIC DISEASES

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### Abstract

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This paper deals with a problem of communication competences in the relation between medical doctor and a patient and its impact on confidence between them and consequently to improve cooperation of more motivated patient in his commitment to the treatment of chronic diseases. This can lead to better work organization and to fewer complications and exacerbations of chronic diseases and hospitalizations. We assume that the quality of the relationship between doctor and patient are determined by the doctor, the patient and the environment. Consistency of doctor and patient communication competencies contribute to greater confidence in the patient's doctor. We estimate that the communication is as important for the safe treatment, such as advanced diagnostic procedures and investigations. We start from the basic theoretical relational model of communication competencies in health care that emphasizes the relational and interactional aspects of interpersonal communication in healthcare.

In the empirical part, for data collection method a classic survey among patients and in-depth interviews with experts were chosen. In examining the research problem we respect the principles of medical ethics. Patients

gave their consent to participate in the survey, we ensured the anonymity of the participants and gave concrete instructions and explanations for the cooperation and ensured confidentiality of data. The research results indicate the suitability of the implementation of the relational model of communication competences.

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### Key Words

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communication competences, communication model, confidence, doctor-patient relation, chronic illness

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### Topic Groups

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Organizational Behaviour, Health Management, Business Communication Management

## INTRODUCTION

Chronic diseases, diabetes, cancer, cardiovascular disease, asthma, and chronic obstructive pulmonary disease are on the rise, and they require long-term treatment. Indirectly affecting the health, well-being and patient standards, while directly affecting the cost of their medical treatments, and the business results of companies in which employees are people with such chronic diseases. The nature of these diseases requires mutual exchange of information and close cooperation in the treatment process.

Chronic patients are burdened with the disease and with the mental aspects of the adoption of diseases, such as anxiety and loss of control over the body and health, the changed perception of their own body and increased dependence on others along with constant reflection on the progress of the disease. With the development of society and modern communication technologies, the patients have become more educated about health, more versed suggests Eržen (2007), while increasing their expectations of modern methods of treatment and care. With emotional distress not only doctors can help, but also the environment and loved ones, other medical personnel and professionals, who effectively accede with open to open discussions, in order to find answers. When faced with

a patient with a chronic disease, we have to face two things: the treatment of chronic disease and the patient's feelings and needs. Given the fact, that a Slovenian doctor has seven minutes for the examination of the patient (Zupanič and Vukelič 2013), the time for the interview is limited, making it difficult to establish a relationship of trust between doctor, patients and medical staff. With the development of the model for a better approach to communication and motivation of chronic patients, we can improve their commitment to cooperate in the treatment and prevention of development of complications, exacerbations of chronic diseases and reduce the number of hospitalizations, rational organization of work, resulting in greater productivity and lower costs.

The purpose of this paper is to propose a model of approach, which would contribute to solving the problems of the chronically ill and the optimized organization of the treatment system, which includes rational use of resources and better organization of working with patients. In carrying out the tasks provided by the organizational model, apart from doctors, nurses, medical administration, experts from other disciplines, psychologists and management must participate as well. Communication between doctor and patient is a key element in the process of diagnosis and treatment, because the treatment is not only a professional medical activity, but also human relations based on the exchange of information, in particular on trust.

One of the starting points when considering the problem is the relational model of communication competence in health care (RHCCM), which emphasizes the relational and interactional aspects of interpersonal communication in healthcare. Matching elements of communication competence between the doctor and patient relationship and trust is a key element in any interpersonal relationship, it's especially important for the relationship between patient and doctor (Mechanic and Schlesinger, 1996).

## THEORETICAL FRAMEWORK

The main focus of the communication in healthcare is on specific, health-related transactions and circumstances that affect them. The model for communication in health care is accurately described in the publication of Health Communication by the authors Northouse and Northouse (1997, 17-20), which underline the key elements in the process of health communication: Interpersonal Relations, Environment, and the Relationship between patient and doctor.



Modern literature cites a series of models of relationships between a doctor and patient, which is determined by the decision-making process on the method of treatment.

In this paper we expose partnership, also called consultation partnership, which is based on an equal relationship and requires the activity of both the doctor and the patient (Emanuel and Emanuel, 1992), so this relationship also depends on their interest and motivation of both for such a relationship.

The partner relationship allows forming an alliance with the patient and includes, as summarized by the authors Jago, Mc Dermott (1999), O'Connor, Seymour (1996), Whitemore (2002): 1. Good contact; 2. Communication using all the senses, which speed up the learning process; 3. Collecting accurate information; 4. Believing that the patient can contribute to the success of their treatment; 5. Questions for increasing motivation; 6. Repetition and memory and 7. The return of communication and commitment.

Disorder and misunderstandings can arise at any stage of communication, and these, as recalled Ule (2003, 180), not only lead to patient dissatisfaction, but also errors in compliance with the doctor's instructions to a lack of patient motivation for treatment and change of lifestyle habits. Lack of time is one of the typical interferences in this process - the time pressure on doctors. The quality of health services is often associated with congestion of healthcare workers, stress in the workplace, not least the pressure on management and the management itself for a more rational organization of work, greater productivity and lower costs. Conflict situations are all too often not resolved by talking, but degenerate into blame or avoiding interpersonal (culture of silence) communication (Zdolšek and Stojan 2001).

Spitzberg and Cupach (1989) studied the different criteria for communication competences appearing in the scientific literature and found, that the combination of the two main criteria, namely efficiency and suitability, provide the framework by most theoretic competencies accepted as useful. Health communication competence is defined as "the ability to effectively use the skills of interpersonal relationships for search and submission of relevant health information" (Krebs, 1988, 351).

Spano and Zimmermann (1995, 19) believe that "competent communicator must possess a sufficient degree of communication skills, have the ability to demonstrate that knowledge in its ongoing interaction with the need to be motivated for this action." Empathy (including support) is a key aspect of communication competence (Coulehan and others 2001). Doctor's empathy means understanding the patient's experience, his feelings and the ability of viewing the world from a patient's point of view (Coulehan and others 2001).

Numerous studies have repeatedly shown that doctors miss 70 to 90 percent chances to express empathy. By raising awareness, they could identify situations in which they can provide supportive, empathic communication in addition to the basic solving health problems (Hsu and others 2012). An important part of empathy is trust. Care and trust are important and dynamic aspects of empathic and supportive communication, while empathy, care, responsibility, trust are relational categories and responsibility in these categories is the key (Ule 2005, 349). If the patient is assessed that a doctor can not establish a partnership, consolidation of confidence is not present at all (Hall and others 2002).

Previous studies have found, that patients were more satisfied when their doctor provided more information (Street, Gordon, Haiden 2007; Ommen and others 2011), established a partnership with the patient, (Stewart and others, 2000; Tarrant, Colman, Stokes 2008) with a lot of communicating (Little and others 2001, Platonova, Kennedy Shewchuk 2008; Zandbelt and others 2007). Research also indicates, that the two components, doctors focus on the patient and greater satisfaction and trust of patients are positively correlated (Ommen and others 2011; Tarrant, Stokes, Baker 2003; Zandbelt and others 2007; Saha and Beach 2011; Skirbekk, Middelthon, Finest 2011). Patient-centered communication style affects the elimination of absence patient and mistrust for doctors (Zandbelt and others 2007), greater readiness to participate (Zandbelt and others 2007; Street, Gordon, Haiden 2007), the perception of mutual and common search for solutions (Stewart and others in 2000), eliminating patient anxiety (Verheul, Sanders, Bensing 2010), demonstrating an impact on reducing the number of diagnostic tests and follow-up referrals (Stewart and others 2000). Medical care is not solely composed of professional medical points of view, but also includes psychosocial skills (Ommen and others 2011).

Ommen and others (2011) found in a study, that patients who had the impression, that the doctor can discuss personal matters with a conversation carried out in normal and empathic manner, as well as patients who have had enough time to think about important decisions, expressed significantly greater confidence. Significantly greater confidence was expressed by patients who felt that they actively participate in the treatment process and whose wishes were respected and had the opportunity to influence the healing process and achieve mutual agreement with the doctor about the treatment goals. The results of these studies, therefore confirms, that support communication and shared decision-making are key factors for building trust between doctor and patient.

The theoretical basis from which we proceed in orders, one of the starting points is the relational model communication skills in Health Care (Relational Health Communication Competence Model - RHCCM) by authors Query and Kreps (1996).

The model illustrates interdependence of the relationships, which exist between providers and users in the provision of health care. Provider and user of health services come into interaction, which requires a high level of communication skills in order to achieve communication objectives, such as greater satisfaction with the progress and outcome of treatment, increased confidence, better cooperation and reduced risk. Relational models of communication competences in healthcare assume, that greater communication competence leads to a "therapeutic communication, support, customer satisfaction, information sharing, trust and cooperation." Less competence leads to communication, which lacks the support of discontent, information barriers and lack of cooperation (Krebs 1988, 354).

The present model is based on the idea of creating a supportive environment for the chronic patient, in which the patient is encouraged to cooperate and commit in the treatment of chronic diseases. Trusted motivator doctors (medical staff) should offer emotional support, pose challenges with respect and seek to empower the patient. The patient wants to be understood, therefore, it is necessary to first try to understand, to use two-way communication, always try to look at from the patient's perspective and to praise his every effort, always try to communicate with empathy and be aware of the importance of not just „what“ we say, but also „how“.

While introducing the approach, issues related to the discussed topics are important. Professionals together with the doctor can offer a range of solutions, which are not necessarily acceptable to the patient, which may cause the discomfort and act counterproductive. The patient should be involved closely with doctors and his surroundings, family members, friends, co-workers, and especially people, who the patient trusts and respects their opinion.

## METHODS

The primary purpose of this empirical research was, to use quantitative and qualitative analysis to verify the applicability of theories about communication skills in the field of relations between doctor and patient. Interactive relationship between doctors and patients is demanding, because it interweaves on various levels of communication; it combines the lay and professional relationship, in which it is expected for the patient to trust the decisions of the doctor, that he should obtain the patient's trust, the relationship is upgraded with informal work, which should be characterized by the expression of respect for the patient.

Data for reviewing the consultative clinic were acquired by a quantitative and qualitative research method. We conducted a survey among the reference group of patients and in-depth interview with several international experts for that area. The selected population of patients came from the Central Slovenian region. This population depending on the demographic and health parameters is considered as typical for Slovenia and the information obtained can be generalized as applicable to the whole country. We interviewed a total of 112 patients, of which 6 handed back incomplete surveys. For data processing, we considered 106 surveys. Based on the information obtained, the following hypotheses was checked: There is great interest in chronic patients for an integral approach to the treatment of chronic diseases with the inclusion of regular dialogue and consultations with doctors and medical staff on the conduct and monitoring of disease.

## FINDINGS

Survey questionnaires were properly completed by 106 respondents. 48.1% of patients were female and 51.9% male. Chronically sick over 5 years were 59.4% of the respondents, only 9.4% less for than a year. Most patients (50.9%) are afraid of the complications posed by the disease. Among the diseases, that respondents have the highest proportion of diabetes (51.9%) and is also very close to high blood pressure in 48.1% of patients. They are followed by high cholesterol and asthma, chronic bronchitis, and the state after a heart attack. In the last year, the specialist doctor once visited by 18.9% of patients, twice as 35.8%, 25.5% and three times more than threefold to 19.8%.

The vast majority of respondents (80.2%) would like to receive regular consultation about their disease. Likewise, the majority (67.9%) believes in changing their attitude to the disease, as a result of the consultation. Only 11.3% do not believe in any changes, 20.8% have a clear position about it. 90.6% of respondents trust their doctor, 8.5% are undecided. With regards to the method of treating, the majority (77.4%) corresponds with their doctor, to decide about treatment, 14.2% of them believe that the decision is up to the doctor, only 6.5% would like to decide independently on the basis of information provided by the doctor.

93.4% of respondents believe, that the friendly conversation with a specialist doctor is very important and the remaining 6.6% think, that it is important. 95.3% of the patients consider, that the doctor explained the diagnosis of their illness understandably. Interestingly, all respondents stated, that the doctor explained exactly how to take prescribed medication. The explanation of the effect was perceived by 89.6% of patients, 5.7% did not understand 4.7% did not elaborate on that question. Likewise, the majority of respondents (87.7%) stated, that the doctor checked their understanding of how the treatment of their disease, 4.7% answered the question negative and 7.5% did not know the answer. Similar percentages were also in response to a question on whether the doctor instruct the patient about the risks and benefits of lifestyle changes in its chronic disease. Most (89.6%) confirmed, 6.6% did not confirm and 3.6% did not know how to decide on the issue.

Doctor questions were clear to all respondents except one. The vast majority (96.2%) of doctors understand the way of expression, one patient (0.9%) does not understand, and three patients did not respond (2.8%). All

respondents confirmed question whether they have a doctor approached in a friendly and all but two liked when the doctor complimented on their efforts and success in the treatment of disease.

Most patients (95.3%) believe, that they accurately presented their own problems. Only one of the respondents did not do that, while four (3.8%) do not know how to answer this question. All respondents argue, that the doctor openly and thoroughly answered their questions as well as taking the instructions of your doctor into account because of their confidence in him. Only two patients are either negative or hesitant to answer the questions about relaxation during a conversation with the doctor. Only one of the respondents did not ask the doctor about their problems and four have not been able to answer.

The answers to the last question, which was: "Please indicate your interests or concerns with your chronic diseases" were diverse, but were dominated by concern over the progression of the disease and the effects of deterioration. For example, in diabetic patients, there is great concern for the amputation of legs and blindness, some rare fear of death, some troubling breathing etc. However, in many of the responses indicate optimism, primarily related to the confidence in the doctor.

In the qualitative part of the research we conducted in-depth interviews with experts. The first interview was conducted with the doctor, dr. P. Powell, who participates in the project European Asthma Research and Innovation Partnership (EARIP). The project operates under the auspices of the European Lung Foundation and Asthma. Its priority is to promote and foster effective communication between patients and health care personnel and develop partner attitude to improve the commitment to participate in the management and treatment of chronic asthma. They advocate the implementation of patient education and experts of different professions who deal with chronic asthma patients, organize workshops and trainings. They explore the interaction links between asthma, socio-economic and psychological factors and accompanying diseases in order to reduce the risk of heavy exacerbations of chronic diseases of asthma ([www.EARIP.eu/roadmap](http://www.EARIP.eu/roadmap)). Within the project, there are groups of patients grouped in the Patient Advisory Group, they organise eg. regular teleconferencing, patient involvement in the new law represents an increase in their motivation.

The second interview was conducted with dr. John Haughney ([john.haughney@ggc.scot.nhs.uk](mailto:john.haughney@ggc.scot.nhs.uk)), which considers the light of his experience, that the results of the treatment and mastery of chronic diseases such as asthma accompanying diseases and smoking are affected also with the patient's commitment to treatment eg. the correct technique of medicine (e.g. inhalation therapy) administration, familiarity with side effects that are explained by trusted motivator or a doctor or medical staff, that with empathy contributes to the partnership relation between patient and medical staff. Unexplained technique to take such. inhalation therapy leads to increased drug costs, which has also negative economic consequences.

The third interviewee, a Swiss medical specialist pulmonologist ([patrick.muggensturm@spitalzollikerberg.ch](mailto:patrick.muggensturm@spitalzollikerberg.ch)) has stressed that they have organized the Zurich Lung League, which is mostly privately held, they organize asthma schools for the proper administration of the therapy, for patient monitoring, which are treated with oxygen at home or have CPAP therapy. Chronic patients with diabetes are managed in the hospitals by specially trained counselors nurses.

In examining the reasons for and against a partnership based on empathic communication and motivation for participation of the patient in the treatment, doctors have indicated one important cause - lack of time. To support such an approach, however, they have indicated support of equipment and videos for proper administration of inhalation therapies which are demonstrated in fewer hospitalizations, emergency visits, fewer side effects and more grateful patients.

## DISCUSSION

Communication is a process, that we learn about from birth onwards. Probably that is why we believe, that this process we mastered to the last detail. Communication is a loop and its importance lies with the response that we get- what we do, affects the other person, and what they do, affects us. When we talk about effective interactive communication, we're talking about taking responsibility for their part of the loop, being aware of the effects that it creates, about responding the interlocutor effectively and understanding and respect for the interlocutors model of the world (O'Connor and Seymour 1996).

Good communication between doctor and patient includes (in addition to good clinical care) building a relationship by demonstrating respect, empathy and support, which will increase the possibility, that the patient will listen and work with psycho-social support (Kurtz and others, 2003). The doctor should be a trusted motivator, with three roles, that give emotional support, raise challenges with respect and empower the patient (Schein 1997).

We also want to emphasize the importance of the accession of NLP (neurolinguistic programming) as an effective communication and motivational tools for individuals, teams and organizations. A well-designed positive questions, in contrast with critical observations, can help individuals and teams to create an exceptional and lasting change in their mutual relation, synergy and team spirit. For example, they learn to positively motivate each other through empathy, to create a team spirit by simple means, to better communicate with customers, to communicate in a way which adapts to those around him and in context. Empathy in a doctor patient relationship contributes to a better economy, a better use of time, better economic cost of the entire treatment process (Bellet and Maloney 1991).

Mutual relationship of doctor and patient with a chronic disease is difficult, because the doctor faces a dilemma in many cases, about how to meet the expectations of the patient and the possibilities of cure, of the disease in relation to the rapid development of medical and pharmaceutical products. It is crucial to win the confidence of the patient. A trustworthy doctor should motivate answers adapted to the level of education of the patient and his perception of life situations, it must be viewed from the patient's perspective. The task of good communication and motivation of patients is associated with the appropriate organizational measures, which are feasible in practice and subject to human, physical and financial limitations. A doctors relationship with the patient is following protocol, it is planned, but it can be upgraded with informal work, based on respect for the patient. By maintaining his doctor distance, he may not always be involved in all segments of the patients life.

With preliminary processed data from the survey and the views of experts we interviewed, we have confirmed the hypothesis, that there is great interest in chronic patients for an integral approach to the treatment of



chronic diseases with the inclusion of regular dialogue and consultations with doctors and medical staff on the conduct and monitoring of the disease.

Based on the theoretical basis and the research results, we introduce the idea of model "Consultation clinics" into the existing health system. The basic idea behind the model is, that the family doctor gets help for his performance from reference clinic. These clinics are ment for family medicine, enhanced by a graduate nurse. It is to strengthen the team of family medicine and thus primary care, which is a priority for health policy. In this way, the quality of work and patient satisfaction improves. The introduction of new personnel also allows the transfer of certain tasks and responsibilities.

A specialist doctor does not enjoy similar support, which could help chronic and acute patients. Drawing on the reference, the consultation clinic should be developed in the model. Both groups, the first formed by the family doctor and the reference clinic and the other one consisting of a medical specialist and consultative clinics represent an organic whole, which enables the successful treatment as well as relieve elements associated with the disease. The idea of the consultation clinic requires approval of professional peers, as well as patients themselves.

## CONCLUSIONS AND IMPLICATIONS

The relationship between patient and doctor is a constant, dynamic and variable process. Every meeting or conversation is a new contribution to the creation of relationships. The doctor and the patient evaluate and adjust their behavior in the process, and they observe how and what affects the healing process of the patient. Occasionally, it is useful, that the topic of conversation or meeting creates an alliance in order to evaluate the current process and figure out what works and what could be changed in order to become more effective. The patients satisfaction with the way of medical treatment, adequate information, emotional support and involvement of doctors in the patients treatment process itself is proven to strengthen the relationship between doctors and patients. It is apparent especially in our case, with chronic diseases, because the long-term impact on the course of the disease and factors such as the patient's compliance with prescribed therapies and treatments. It was found that the patients who have developed a personal relationship with the doctor,

patient-centered communication, were less likely to return to the doctor, there were less further posting, which is of course associated with purely business and economic factors.

Doctors who strive to meet the patient's needs and acceding to their vocation in a more compassionate, humanistic manner (eg. by expressing their communication behavior that provokes trust), will develop a more open, sentient and sincere dialogue with the patient. In the presence of honest, open, two-way communication, there will be (at least theoretically) improvement of patient compliance with the prescribed treatment. These patients are encouraged to participate in the process of strengthening partnerships, and thus becoming an active participant in decisions regarding their own treatment. In the model we advised, consultation clinics will be important added value in this process.

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