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International Business and Global Economy

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Foreword

It was our great pleasure to inaugurate our new bilingual bi-annual peer reviewed academic journal 'International Entrepreneurship' (PM) earlier this year. The journal is a multi-disciplinary and multi-contextual journal, dedicated to serve as a broad and unified platform for revealing and spreading economics and management research focused on international business, international economics, and especially international entrepreneurship.

For the first 2-3 years of our activity, we decided to use a double recognition. During this time, each issue will focus on a selected topic, forming a monograph with the ISBN number (the articles will be considered as book chapters). Parallel to that, we will consequently search for our own place on the publishing market and build our image as a journal dedicated to entrepreneurship. We will continue using the ISSN number for periodics. We do look forward to reaching international readers and gaining our own position among other journals through continuous efforts, commitment and dedication.

The theme of the this issue is *International Business and Global Economy*. It links economics with management by exploring global opportunities through particular businesses. We believe it is extremely important to recognise global opportunities, which have resulted from globalisation. The issue consists of 9 papers revealing various aspects of international business and its context.

Ireneusz Janiuk, Mirosław Jarosiński and **Natalia Ribberink**, in their article, *Comparative study of Polish and Dutch meat industry exports with the example of top Polish meat exporters exploiting international opportunities*, study the meat industry export from the Netherlands and Poland, and analyse interconnectedness of this industry in these two countries.

Vijay Narayanan presents in-depth literature review on internationalisation of the firm in business studies. The paper provides not only reach overview of international literature but also its assessment and criticism.

Krzysztof Wach, in the article entitled *Role of culture in international business: A synthetic review*, presents main classifications and typologies of cultural behaviour in international business practice stated in the subject literature.

Ucha Surmanidze investigates the influence of FDI inflow on local entrepreneurship as well as business climate and its impact on foreign investments in Georgia. The time period of the analysis is as follows: 2005 – 2014.

Drago Pupavac, Helga Pavlić Skender and **Aleksander Skendžić**, in the article, *Employment in distributive trade: Croatian experience and expectations*, analyse relationship between Gross Domestic Product (GDP), number of total employment and the number of distributive trade employees in Croatia in years 2000 – 2001.

Leszek Kwieciński presents qualitative scrutiny of factors that determine pro-innovation processes in the European Union. The Author takes into consideration European as well as regional level.

Rasidat Adejoke Oladapo and **Abedakin Simeon Asaju** describe position of market cycle in the quality of office property investment advice given by property managers in Victoria Island Lagos in Nigeria.

Strategic implications of voluntary disclosure and the application of the legitimacy theory by **Belle Selena Xia** explores theoretical and empirical aspects of various dimensions of corporate disclosure.

The last paper of the issue entitled: Measuring growth of the firm: Theoretical considerations by **Robert K. Gruenwald** consists of two section. The firs one describes basic measures of firms' growth. The second one, presents particular case of growth – measures of high – growth and hyper growth.

We do hope you will find these works of much interest and we invite you to participate in our academic conversation, for which we have set a stage in the form of our new journal.

Agnieszka Głodowska
Krzysztof Wach

Kraków, December 2015

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Comparative study of Polish and Dutch meat industry exports with the example of top Polish meat exporters exploiting international opportunities

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Abstract:

Today's world is more and more interconnected and so is its economy. This is especially visible on the example of EU meat industry which accounts for more than 16% of the total meat production and around 15% of the meat trade worldwide. The paper presents meat industry exports from the Netherlands and Poland, both countries ranked among 10 top exporters of meat in EU and not only, and the interconnectedness of the industry in these two countries. A comparative analysis of meat industry composition and export activities in the Netherlands and Poland shows a lot of similarities and allows for identification of push factors that drive internationalisation of meat producers in both countries. This is a starting point for in-depth analysis of how two leading Polish meat exporters, *GK Sokołów S.A.* and *Farmutil S.A.*, exploit international opportunities.

Keywords: internationalisation; meat industry; internationalisation of Polish firms
JEL codes: F23, M16, N64

1. INTRODUCTION

Today's world is more and more interconnected and so is its economy. This statement is even more accurate when speaking about the Single European Market. When one looks at the flow of goods and services one can easily see how different products (especially goods) circulate around the market. Companies buy products in particular countries and at the same time other companies, even from the same industry export their products to the same countries. This will be observed in this article on the basis of meat industry in the Netherlands and Poland.

The objective of this paper is to present the interconnectedness of meat industry in the Netherlands and Poland and show how Polish meat exporters exploit international opportunities. The article starts with the literature review on internationalisation. Then a general overview of European meat industry is presented which is followed by a short analysis of first Dutch and then Polish meat industry. This is succeeded by more detailed analysis of Polish meat exports and presentation of two the most important ones.

2. INTERNATIONALISATION AS A FIRM'S GROWTH STRATEGY

The strategy of internationalisation is one of the fundamental corporate growth strategies, which in the present increasingly globalised environment appears to be the most natural strategic direction for both the medium-sized and the large enterprises as well as for the small ones. It is actually one of the proposed growth paths recommended by Ansoff back in 1950s when he created his famous model of growth strategies (see Ansoff, 1957). The strategic path he proposed was called market development and although it could be understood as finding new groups of customers, the new customer groups could be on new geographic market. This is shown more explicitly in his new model where one of the dimensions is called *served geographic markets* (see Ansoff, 1987, 110).

In some way Ansoff's proposal of market growth trajectory is in line with the sequential development model. The sequential development model (see in detail Johanson & Vahlne, 1977, 1990, 2003, 2006, 2009; Johanson & Wiedersheim-Paul, 1975), or as it is often referred to the *staged international expansion model* (Johnson, Scholes & Whittington, 2012) or just the *stage model* (Hollensen, 2011), presupposes that after a long period of growth on the domestic market a firm begins its expansion into another country market which is close in terms of psychic as well as cultural distance and strive to achieve a significant position by means of increasing its organisational and capital commitment to newly entered market, as it "builds market knowledge and capabilities" (Johnson, Scholes & Whittington 2012, 178).

Only when this objective is achieved, a firm enters another foreign market and attempt to strengthen its position there as well. This kind of activity results in slow but gradual internationalisation of business activity.

Hence, many companies regularly decide to ”start small” at first and then gradually increase their scope of activities. This approach to internationalisation helps to minimize the risk as the risk of a market entry is in correlation with the amount of investment set in place; meaning that the higher the investment is, the higher is the risk involved (Lasserre, 2012, 210).

The alternative is to “start small” but expand rapidly on international markets very often immediately after or soon after setting up a company and engaging in dynamic development on a number of markets. This type of enterprise development is consistent with the model of early internationalisation, which states that, despite the psychic and cultural distance, firms enter numerous foreign markets already at the beginning of their operations and even frequently ignore the domestic market at the start.

Oviatt & McDougall (1994) in their early research analyse firms’ engagement in the process of internationalisation. They treat it as a company’s natural evolution process and distinguish four types of enterprises that are engaged in international activities in different ways. Two of these types (namely *Export/Import Start-ups* and *Geographically Focused Start-Ups*) focus their attention on a few foreign markets on which they are known. The third category (*Multinational Traders*) conduct operations on numerous foreign markets using their existing distribution networks. This signifies continuous expansion of activity as well as seeking opportunities for trading on new foreign markets which is in line with the stage model. However the behaviour of the forth category of firms described as *Global Start-Ups* is characteristic for early internationalisation model. These firms undertake the most radical activities on a number of foreign markets quite early in their development process (Oviatt & McDougall, 1994).

Knight, Madsen & Servais (2004) explain that the reason for such an “aggressive” behaviour of early internationalising firms may lie in the fact that they engage in expansion on foreign markets in the sectors providing an opportunity of achieving competitive advantage quickly gaining considerable market share. The enterprises search for markets with conditions more favourable than those on domestic ones. Quick internationalization allows them to avoid the barriers of growth connected with the domestic market being saturated. This type of internationalisation is characteristic for small and medium-sized enterprises which engage in international expansion relatively soon after they are set up.

The analysis of internationalisation processes compose quite a large stream of literature. Such analyses appear more and more frequently also in Polish research (e.g. Morawczyński, 2007; Jarosiński, 2013; Danik & Kowalik, 2015). The Polish stream of research indicates that both internationalisation models are followed by Polish firms but generally speaking although a considerable percentage of Polish firms undertake internationalisation their level of engagement is usually limited. Polish firms usually limit their activity to several foreign markets and concentrate mainly on the broadly defined European market. The share of foreign sales in total sales is most often at a low level. A still relatively small number of enterprises engages in foreign direct investment or uses other forms of activity on foreign markets such as licensing or franchising. Still the most popular mode of entry and operation on foreign markets is exports (Jarosiński, 2013).

3. EUROPEAN MEAT INDUSTRY – BRIEF OVERVIEW

Meat production is one of the most important agricultural sectors in the European Union, with four major meat product categories – pig meat, poultry meat, bovine meat, and sheep and goat meat – being produced, consumed and traded. The economic relevance of the sector is underlined by the fact that animal production – covering output for animals and animal products – accounts for almost 44% of the total European agricultural output (Eurostat, 2016). The objective target set by the European policymakers is to stimulate the production of qualitative, nutritious and affordable meat. This goal is undermined in the latest modification of the European Common Agricultural Policy (CAP), requiring a.o. greening of agricultural systems by livestock farmers, if they wish to preserve their income and offer products geared to market needs and to society's demand for environmentally friendly farming practices (Eurostat, 2015).

The European Union is one of the leading meat producers worldwide accounting for more than 16% of the total meat production and around 15% of the meat trade worldwide (European Commission, 2015).

4. DUTCH MEAT INDUSTRY EXPORTS OVERVIEW

The Netherlands – being a country with relatively small and predominantly saturated market – is strongly dependant on international trade and is ranked as a leading exporter in selected goods and services, among others agricultural products, including meat and live animals. Another factor contributing to a strong export orientation is a fact that the Dutch meat consumption is in a shrinking trend reflected in around 1% decrease annually over the last three years in a row. The current average level of meat consumption is equal to 84 kilogramme a year per capita (CBS Netherlands, 2015).

Table 1 represents the composition of Dutch exports over the last 4 years and their regional distribution. As shown in Table 1 the share of food and live animals accounts for 13.2% of Dutch exports in 2015, whereby 78% are intra-regional or intra-European exports. Furthermore, the export volumes both for the world as well as for indicated regions are increasing.

Around 15% of food exports are represented by meat exports. In 2013 the value of meat exported by Dutch producers amounted to 8.3 billion euro (CBS Netherlands, 2014). The largest consumers of Dutch meat are shown in Table 2. The largest two consumers of Dutch meat – specifically pork, beef and poultry – are Germany and the United Kingdom and account for almost 40% of exports.

Those two are followed by France consuming the amount of Dutch meat having a value of 817 million euro, or less than a half of German consumption. The top-10

Table 1. Composition of Dutch export flows, 2012-2015, in million euro

	Total goods				Food and live animals			
	2012	2013	2014	2015	2012	2013	2014	2015
World	429 717	433 106	433 405	427 266	50 047	53 871	55 974	56 615
EU	311 724	317 031	316 949	308 727	39 904	42 947	43 940	44 210
Non-EU	117 993	116 075	116 457	118 538	10 143	10 924	12 034	12 405

Source: CBS Netherlands, 2015.

export destinations for Dutch meat are European Union member states (see Table 2). The first exotic non-European market appears on rank 11 and is represented by Hong Kong, being presumably an entry port for the entire Chinese market. Despite the attractive market size and domestic demand in China the respective share of Dutch meat exports of 2.0% is still pretty moderate. Nevertheless, Chinese market and Asian region as a whole is seen by Dutch exporters as an attractive business opportunity in the long run.

Table 2. The top-20 consumers of Dutch meat, 2013, in million euro

Rank	Country	Meat exports from the Netherlands	
		EUR million	% of total
1	Germany	1785	21.5
2	United Kingdom	1409	16.9
3	France	817	9.8
4	Italy	758	9.1
5	Belgium	513	6.2
6	Denmark	333	4.0
7	Greece	332	4.0
8	Spain	260	3.0
9	Sweden	219	2.6
10	Ireland	204	2.5
11	Hong Kong	168	2.0
12	Poland	160	1.9
13	Russian Federation	115	1.4
14	Czech Republic	95	1.1
15	Portugal	92	1.1
16	Austria	89	1.0
17	South Africa	68	0.8
18	Romania	66	0.8
19	Hungary	62	0.7
20	Japan	55	0.6
	Total:	8300	100.0

Source: CBS Netherlands, 2014.

The Russian Federation is ranked as number 13 and accounts for 1.4% of Dutch meat exports only, which provides an explanation for relatively harmless impact of trade sanctions imposed by Russia in 2014 on Dutch meat suppliers. Another argument could be the fact, that a time span of some Russian sanctions being in force was limited by 2 years only. In June 2016 selected meat producers – specifically beef (e.g. Van Drie Groep) and poultry suppliers – in the Netherlands were allowed to serve the Russian market, together with 3 other countries, namely Italy, Denmark, and France (Bourenbusiness, 2015).

Poland accounts for 1.9% of Dutch meat exports compared to 4.5% of Polish meat exports going to the Netherlands respectively. This evidence of intra-industrial trade reflects a modern trend in consumption pattern of todays' consumers demanding a wide range of product features and product variety offered in a market. The latest is another argument in support of internationalisation efforts pursued by enterprises in the sector in both countries.

A closer look at the relevant international trade statistics leads to a conclusion that the Netherlands is predominantly involved in direct exports of meat. The share of transit trade in agricultural products and live animals is moderate, with annually only 3% of these goods being re-exported from the Netherlands in time period of 2012-2014 (the number of 3% stayed stable over the whole period) (CBS Netherlands, 2016). Thus, international processing activities, e.g. within internationally dispersed supply chains, in this sector are limited, and the major part of meat and meat products being exported has their country of origin (COO) in the Netherlands and is respectively labelled. Table 3 provides an overview of Dutch meat industry composition, specifically focussing on suppliers.

Table 3. Overview of Dutch meat suppliers (amount in numbers), 2010-2015

Farm type	2010	2011	2012	2013	2014	2015
All farm types	72 324	70 392	68810	67 481	65 507	63 913
Specialist grazing livestock	38 024	37 041	36682	36 086	35 204	33 641
Mixed livestock holdings	1072	942	819	724	684	660
Mixed crops / livestock	1859	1794	1677	1619	1547	1451

Source: CBS Netherlands, 2015.

The numbers shown in Table 3 let formulate an assumption of gradual consolidation of meat suppliers, both in all-farm-types-segment as well as in individual groups of farms. This aspect will be further investigated in the following section, while taking a closer look at one representative subsector of Dutch meat industry, namely pork production.

The export of pork from the Netherlands reached in 2015 the highest (record) level of 944 million kilogramme or 6% increase compared to 2014. Due to a low price the export value was 4% lower than in 2014 and was equal to 1.8 billion euro. As for regional distribution the remarkable growth was seen in Asia. The share of Dutch pork exports to Asia has doubled over the last two years and was in 2014 equal to 316 million euro (CBS Netherlands, 2016). In this perspective Dutch meat exporters follow the general European trend and extend their export volumes to the Asian region, a trend supported by policy-makers through various trade agreements (e.g. FTA) facilitating additional international trade flows.

The Netherlands is the sixth largest pork meat exporter and, thus, an important trade partner in this segment of international trade. Table 4 shows the 10 largest pork meat exporters worldwide.

Table 4. The top-10 largest pork meat exporters worldwide, 2014, in million euro

Rank	Country	EUR million
1	Germany	3801
2	United States	3668
3	Spain	2545
4	Denmark	2429
5	Canada	2113
6	Netherlands	1826
7	Belgium	1268
8	Brazil	1088
9	France	840
10	Poland	694

Source: CBS Netherlands, 2014.

Besides pork meat Netherlands is a large exporter of live animals (pigs). In 2015 the volume of these exports was equal 780 million euro. This is 14% lower than 15 years ago. Almost 70% of exported live animals go to Germany. The second largest market – with a remarkable gap to Germany – is Belgium with 7%, followed by Spain with 4% and Italy with 3.5% (ABN AMRO, 2014). As for the industry composition a trend of market consolidation in pork meat segment is evident during the last 15 years and is demonstrated in Table 5.

Table 5. Market consolidation in Dutch pork meat segment

Year	Number of companies	Number of heads (pigs), in million
2000	14 500	13.1
2003	10 700	11.2
2006	9000	11.4
2009	7600	12.2
2012	5900	12.2
2015	4900	12.6

Source: CBS Netherlands, 2015.

The number of companies went down over the last 15 years, whereby the number of heads per enterprise increased from 900 to ca. 2550, which reflects a trend of market consolidation in a given segment. The major drivers for consolidation of pork meat segment in the Netherlands could be classified as follows:

1. Market consolidation is as a rule collateral to internationalisation within an industry and defined through ascending M&A dynamics;

2. Increased pressure from retailers leads to lower prices and reduced profit margins, both for meat and meat products. The latest pushes suppliers to increase their market power and efficiency through consolidation.

The composition of production chain in Dutch meat industry goes from farm to slaughter, then to warehouses, trading companies and retailers. The number and major classification of Dutch farms was shown in Table 3. In order to provide some corporate examples within the industry the largest companies in slaughter segment are selected – based on numbers provided by the Dutch Ministry of Economic Affairs (Ministerie van Economische Zaken, 2012) – and summarized in Table 6.

Table 6. The largest Dutch slaughters by units per year, 2012

No.	Company	Region / Location	Units per year
1	Vion Food Group	Noord-Brabant / Tilburg	more than 75000
2	Exportslachterij J. Gosschalk en Zn	Gelderland / Epe	more than 75000
3	Wadden Vlees	Friesland / Dokkum	25000-75000
4	Abattoir Amsterdam	Noord-Holland / Amsterdam	25000-75000
5	Van Hattem Vlees	Gelderland / Dodewaard	25000-75000
6	Tomassen	Noord-Brabant / Someren	10000-25000
7	Wouters	Utrecht / De Hoef	10000-25000
8	G.J. Hutten en Zn	Overijssel / Nieuw Heeten	10000-25000
9	Slachthuis Nijmegen	Gelderland / Nijmegen	10000-25000

Source: Ministry of Economic Affairs Netherlands, 2012.

As the domestic market is saturated and even stagnating, companies active in Dutch meat production industry look for other sources for growth, usually available abroad. Not only exotic non-European destinations are of special interest in this perspective. Also in Europe some drivers for growth through internationalisation are given. One source of competitive advantage for Dutch meat producers is, for instance, generated through renewed implementation of minimum wage policy by German meat producers. This will stepwise reduce the existing gap in labour costs between German and Dutch suppliers and improve competitive position of Dutch meat industry. Further investment in innovation, improved product quality and efficiency are further sources of competitive advantage while serving international markets.

5. POLISH MEAT INDUSTRY EXPORTS OVERVIEW

Exports of Polish products and services have been steadily increasing for years. In 2010 they amounted to 120 billion euro and in 2014 already to 166 billion euro, which is an increase of almost 40%. The share of the food industry in the exports has been increasing systematically as well. In 2010 Poland was exporting agriculture and food products worth 13.5 billion euro. This value rose by 21.9 billion euro in 2014 and was supposed to reach 23.5 billion euro by the end of 2015 – see table 7.

Table 7. Polish food products export's value and growth, 2010-2015 (in bln EUR)

	2010	2011	2012	2013	2014	2015
Export value	13.5	15.2	17.9	20.4	21.9	23.5[f]
Export growth rate (year-to-year)	–	12.6%	17.7%	14.0%	7.3%	7.3%[f]

Source: Agencja Rynku Rolnego, 2015 – preliminary data.

In 2014 the dynamics were affected by the plunges in the East. Problems with food began already in the first quarter of 2014. Two cases of the African swine fever discovered in eastern Poland blocked the exports of pork not only to the Russian market but also to other markets outside the EU, primarily those in the Far East. As a result of the slowdown the stocks grew and the livestock prices plummeted. This was followed by trade sanctions imposed by Russia after which the exports of food classified as products of plant origin decreased by 17.6 p.p. (Woźniak, 2015).

The European Union is the main recipient of Polish food products – 82% of exports is directed to EU countries. The leading position is taken by Germany with 22% share in EU meat imports from Poland. Subsequent markets and their shares in the Polish exports include: the UK (9%), the Czech Republic (7%), France (6%), Italy (6%) and the Netherlands (6%) (Woźniak, 2015).

Polish firms attempted to compensate for the decrease of exports to Russia and Ukraine with the sales to Belarus and Kazakhstan. However, both Belarus and Kazakhstan reduced their import from Poland in the first eight months of 2014 which did not allow Polish producers, whose sales were directed to Russia and Ukraine, to fully compensate for their losses.

The decrease of the demand in the East was compensated by exports to European Union markets, which might be explained by their proximity. Nevertheless, the biggest profits may be generated on distant and risky markets such as Asia and Africa. Vietnam, for instance, may turn out to be one of the prospective markets for Poland. Its economy accelerates by almost 6% annually. Vietnam's middle class and its purchasing power are on the rise. One of the advantages of this direction is also the friendly attitude of the Vietnamese people.

Other prospective markets include: India, Indonesia, China, Malaysia and the Middle East (including the United Arab Emirates). Especially China still displays a great potential. According to the president of the Polish Information and Foreign Investment Agency (PAIiIZ) – Sławomir Majman, the growing middle class in China as well as the lack of trust to domestic food production offers Polish companies opportunities for increasing their exports. In Majman's view, the high quality of Polish products and the promotion of the food industry can contribute to the improvement of the turnover between Poland and China (Woźniak, 2015).

Apart from China, the markets of the Persian Gulf states are also attractive for the Polish agriculture and food industry. Polish food products are one of the export specialities offering opportunities for conquering those markets.

The data concerning 2015 demonstrate that livestock, meat and meat products constituted the largest part of the agriculture and food exports amounting to 20% (EUR 4.7 billion). The exports of meat and giblets were on the first position (EUR 1,638 million), while beef exports ranked the second (EUR 1,202 million). The third largest exports involved processed meat products (EUR 894 million), whereas the exports of pork were on the forth position (EUR 697 million). Just to compare imports of livestock, meat and meat products constituted in 2015 amounted to EUR 2.0 billion in value.

Over the last couple of years the exports of all these groups of products grew in value but pork's only deteriorated. Despite the fact that in 2014 the entire export of pork decreased, the customers from the EU purchased 25% more of it than they did in the previous year. Also the exports of livestock dropped considerably. The highest growth was recorded in the exports of beef. The export volume rose by 26 p.p. against 2014. The second place was taken by exports of meat and giblets which rose by 20 p.p.

Looking at the meat market value in Poland it also steadily rose over the past five years starting from 4.6 billion euro in 2011 and reaching 5.6 billion euro in 2015 (see Table 8). According to Canadean Report the steady growth should continue over at least next 4 years. The meat market value in Poland is projected to reach 6.7 billion euro in 2019.

Table 8. Polish meat market value and growth, 2011-2015 (in mln EUR[1])

	2011	2012	2013	2014	2015
Market value	4575.4	5147.9	5275.6	5350.9	5586.0
Market growth (year-to-year)	3.9%	12.5%	2.4%	1.4%	4.4%

Source: Canadean.

The analysis of Polish home meat market and Polish meat exports indicates that the production of meat and meat products in Poland is steadily growing.

6. DANISH VS. POLISH MEAT INDUSTRY EXPORTS – COMPARATIVE CONCLUSIONS

Comparative analysis of meat industry composition and export activities in two European countries – both ranked among 10 top exporters of meat – showed following similarities:

[1] For the purpose of easier data comparison the values of export revenues are expressed in euro. The National Bank of Poland (NBP) exchange rate was applied to convert the values of sales revenues from PLN to EUR. For the 2010 data: 1 EUR = 3.9603 PLN, rate of 31.12.2010; for the 2011 data: 1 EUR = 4.4168 PLN, rate of 30.12.2011; for the 2012 data: 1 EUR = 4.0822 PLN, rate of 31.12.2012; for the 2013 data: 1 EUR = 4.1472 PLN, rate of 31.12.2013; for the 2014 data: 1 EUR = 4.2623 PLN, rate of 31.12.2014 and for the 2015 data: 1 EUR = 4.2615 PLN, rate of 31.12.2015.

- Domestic market saturation is one of the major drivers for internationalisation of companies within the sector in both countries. A slight decline in domestic consumption of meat – e.g. annual decrease of about 1% during the last 3 years in a row in the Netherlands – also contributes to this trend. Both countries see and explore market opportunities in Asian region, especially China.
- Trade sanctions on selected meat products imposed by Russia in 2014 had less negative impact on exports from both countries than originally estimated. This could be explained by relatively high proportion of intra-regional (intra-European) trade in their export geography, with Germany being the major customer for both countries – a large market located in geographic proximity and implying similar quality standards on imported meat.
- Both countries – being major meat suppliers within the European Union – are also involved in bilateral intra-industrial trade. Thus, Poland consumes 1.9% of Dutch meat exports and the Netherlands 4.5% of Polish meat exports respectively. A classic explanation for intra-industrial trade flows could be assumed to be applicable here as well.
- In both countries a process of stepwise market consolidation – being of the collateral to internationalisation within an industry and reflected through ascending M&A dynamics – is evident.

7. EXPORTS IN POLISH MEAT ENTERPRISES

The analyses confirm the significance of the meat industry for the Polish export and demonstrate different levels of demand on foreign markets. Due to that fact, the meat processing companies were subjected to a more detailed study. One of the sources that served the purpose of the analysis was *the Ranking of Exporters – the List of 2,000 Polish Enterprises and Exporters.* In 2014 nine meat enterprises were identified among the 300 firms included in the list. In the course of analysis of meat firms in Poland it is worth mentioning the values of export revenues – see Table 9.

The data in the table demonstrates that in 2014 the largest exporters on the meat market generated export revenues ranging between EUR 24.8 million to EUR 163.8 million. The changes in the share of export in the sales of meat companies in the years 2009-2014 confirm the growing tendency in relation to the share of meat products in the export of agriculture and food products. The diversity of markets on which meat enterprises operated increased as well. In 2014 *GK Sokołów S.A.* and *Farmutil S.A* had the highest export revenues. Both of these firms achieved export revenues of over EUR 100 million. Whereas the next 7 companies had export revenues of less than EUR 100 million.

GK Sokołów S.A. focuses on pork and beef, while *Farmutil S.A.* functions on poultry and pork markets. However, the issues connected with the diversity of the shares of export on particular meat markets require more in-depth analyses.

In the context of conducting business operations on foreign markets, the largest Polish meat exporter is *GK Sokołów S.A.* It is an economic grouping whose export revenues in 2014 amounted to EUR 163.8 million, whereas its annual share of exports in the total sales in the years 2009-2014 reached the average level of about 20%. The enterprise on the second position in terms of export revenues in 2014 was *Farmutil S.A.*, which earned EUR 125.7 million. In the case of this firm the share of export in the company's total sales had been systematically rising since 2010 to reach 25% in 2014 (see Table 9).

Table 9. Meat companies with the largest export revenues

No.	Company name	Export revenues[2] (EUR million)			FSTS (%)				
		2012	2013	2014	2010	2011	2012	2013	2014
1	GK Sokołów S.A.	149.4	183.1	163.8	21.0	20.7	21.2	24.1	21.8
2	ZRP Farmutil HS S.A. GK	106.6	n.a.	125.7	20.1	20.3	23.0	24.0	25.0
3	ZDM Superdrob S.A.	54.6	73.1	85.9	33.0	43.0	43.0	51.0	54.0
4	Polski Koncern Mięsny Duda S.A. GK	n.a.	n.a.	54.6	n.a.	13.6	14.3	14.1	13.8
5	Indykpol S.A. GK	n.a.	n.a.	54.4	n.a.	17.9	18.6	18.5	20.7
6	Zakłady Mięsne Łmeat-Łuków S.A.	n.a.	n.a.	33.0	n.a.	18.0	20.0	20.0	24.1
7	Indyk Śląsk sp. z o.o.	n.a.	n.a.	32.1	n.a.	56.3	57.0	53.7	55.2
8	Pamapol S.A. GK	n.a.	n.a.	31.0	n.a.	16.3	21.5	27.6	34.2
9	Zakłady Mięsne Skiba	n.a.	n.a.	24.8	n.a.	11.3	14.4	29.7	21.8

Source: own study on the basis of *The Ranking of Exporters – the List of 2,000 Polish Enterprises and Exporters* Special Supplement to *Rzeczpospolita* daily, 3. December 2013, p. 8, 9; *The Ranking of Exporters – the List of 2,000 Polish Enterprises and Exporters*. Special Supplement to *Rzeczpospolita* daily, 28. October 2014, p. 8, 10; and *The Ranking of Exporters – the List of 2,000 Polish Enterprises and Exporters*. Special Supplement to *Rzeczpospolita*, 21 October 2015. p. 10-12.

The history of *Sokołów* dates back to the end of 19th century. The present corporate group *GK Sokołów S.A.* was established in the process involving numerous mergers and acquisitions of meat processing plants, which was an effect of the consolidation of domestic enterprises in the meat industry that have taken place over the last two decades. In 2003 and 2004 *GK Sokołów S.A. was* acquired *by* two foreign investors, namely, the Finnish meat concern *HK SCAN* Corporation and the Danish meat concern *Danish Crown*. The equity injections enabled the company to modernise its plants and purchase modern technology lines and in this way increase its production capacity, improve the quality of products and adjust the operations of the firm to market requirements. Currently 100% of the group's shares are held by Danish meat concern *Danish Crown*.

Present-day *GK Sokołów S.A.* is an industrially diversified organisation that gradually develops its potential and strengthens its position on the meat market, which can be confirmed by the fact that in 2009 it achieved 6% share in the meat

[2] For the purpose of easier data comparison the values of export revenues are expressed in euro. The National Bank of Poland (NBP) exchange rate was applied to convert the values of sales revenues from PLN to EUR. For the 2010 data: 1 EUR = 3.9603 PLN, rate of 31.12.2010; for the 2011 data: 1 EUR = 4.4168 PLN, rate of 30.12.2011; for the 2012 data: 1 EUR = 4.0822 PLN, rate of 31.12.2012; for the 2013 data: 1 EUR = 4.1472 PLN, rate of 31.12.2013; for the 2014 data: 1 EUR = 4.2623 PLN, rate of 31.12.2014 and for the 2015 data: 1 EUR = 4.2615 PLN, rate of 31.12.2015.

market (see Janiuk 2011, p. 94-97). In the context of export it is also worth turning attention to the structure of the Group. Its particular subsidiaries operate in the following areas: *raw materials production*, *processing and production* as well as *distribution and sales.* The organisational segments of the corporate group *GK Sokołów S.A.* are presented in Table 10.

Table 10. Organisational segments of the corporate group GK Sokołów S.A. and specialisation of particular subsidiaries

SEGMENT GK Sokołów S.A.	SPECIALISATION OF SUBSIDIARIES
PRODUCTION OF RAW MATERIALS	Agro-Sokołów: Agriculture and livestock farms producing pigs for slaughter.
PROCESSING AND PRODUCTION	- Branches in Sokołów Podlaski, Jarosław and Robakowo pig slaughter and meat processing. - Branches in Koło and Tarnów: cattle slaughter. - Branches in Czyżew and Dębica: meat processing and cold cuts production.
DISTRIBUTION AND SALES	- The network of distribution on the domestic market: 42 distribution centres and warehouses in the main cities of Poland. 49 of the firm's own retail outlets and affiliated retail outlets in large chain stores. 670 own-brand outlets. - Sokołów-Eksport: international trade. - Sokołów-Service: technical support. - Sokołów-Logistyka: transport and logistics.

Source: own study on the basis of www.sokolow.pl

The subsidiary *Agro-Sokołów* operates in the segment of *production* and is responsible for breeding. Therefore, it provides the Group with access to high-quality pork. The segment of *processing and production* consists of seven large, modern and specialised production plants which operate on a large scale and at the same time maintain high-quality standards. The production plants owned by the Group are the most modern sites of this kind in Poland. *GK Sokołów S.A.* produces about 22,000 tonnes of meat and meat products of great variety monthly. The firm's products include: fresh pork and beef, meat for roasting, hams, salami, steamed meats, smoked meats, thin sausages, dry sausages, meats for grilling, ready meals and tinned meats.

In the segment of *distribution and sales* functions the Group's own domestic network of distribution. It comprises centres of distribution, warehouses, the firm's own retail and affiliated retail outlets in large chain stores. A coherent and consistently implemented marketing strategy of the Group allows it to strengthen the *Sokołów* brand which is well-known in Poland.

From the perspective of development of exports, important role is played by the subsidiary *Sokołów-Eksport,* which is responsible for foreign trade. In addition, the structure of *GK Sokołów* includes entities conducting complementary activity. They are the following: *Sokołów-Service* (technical support) as well as *Sokołów-Logistyka* (transport and logistics) – see Table 10.

The analyses presented in this paper demonstrate that exporting is particularly significant and increasingly important for the development of the corporate group

GK Sokołów S.A. Individual branches of the Group operate on such markets as: China (including Hong Kong), Japan, Kazakhstan, South Korea, Russia, the USA, Ukraine, Thailand, the United Arab Emirates and some African countries. The EU, however, remains its main market which accounts for about 86% of the Group's exports. The main European Union markets include: Italy, the UK and Germany. Outside the EU the Group's products can be found on all continents. Similarly as in the case of the entire Polish meat industry, China is a prospective market for the Group as well. Currently, only raw meat is exported there. However, the Group endeavours to obtain permits for production and export of processed products which would allow the company to generate greater sales profits (www.hurtidetal.pl accessed on 19.03.2014).

As mentioned before, the exports of *GK Sokołów S.A.* account for about a quarter of the Group's revenues. Effective operation on foreign markets makes it possible for the company to generate the largest export revenues of all the Polish meat exporters. In accordance with the declaration of Bogusław Miszczuk, the president of *GK Sokołów S.A.*, the Group's strategy involves maintaining exports at the level of 25%-30% of the sales revenues (www.portalspozywczy.pl accessed on 19.03.2014).

The second largest meat exporter in terms of revenues is *Farmutil S.A. ZRP Farmutil* is a grouping of companies with domestic capital. It established its positions in the industry predominantly by means of transformations of private companies. In the process of natural investment of financial surplus, it gradually expands its industrial and market scope of operations. The company sees opportunities arising from the consolidation of the industry and purchases shares or stocks of entities operating in the broadly defined agriculture and meat industry. It uses its principal area of operation as a base and enters fields with which it is related technologically, organisationally or in terms of market. By investing in technological development *Farmutil S.A.* incorporates independent businesses into its own business activity structure. The restructuring it conducts leads to functioning in the form of a corporate group. The group includes subsidiaries considered to be indispensable in the concept of further growth. This makes it possible to utilize complementary resources of particular entities. Moreover, it allows for expanding the sources of raw materials as well as the processing and distribution base. By extending its scope of activity the firm improves its variety of products and secures further development.

The organisational structure of *Farmutil S.A.* is worth analysing as well. Its segments and structure are presented in Table 11.

The segment *production of raw materials* includes Agricultural Production Enterprise *Agrifarm Sp. z o.o.*, which conducts broadly defined agricultural activity. It comprises pig, poultry and cattle farms. Raw materials production takes place also in the Grain Processing Enterprise *Eko-Młyn* in Wałcz. The company processes grain and fodder. The aforementioned firms provide *Farmutil S.A.* with access to high-quality pork, beef and poultry. The remaining companies in the raw materials production segment conduct supporting activity. They are the following: Service and Research Laboratory *Biochemik Sp. z o.o.*, Insemination Station *Insefarm* in

Śmiłowo, Transport and Environment Protection Facility as well as Meal, Fat, Concentrate Production and Utilization Plant in Śmiłowo.

Table 11. Organisational segments of the corporate group Farmutil S.A. and specialisation of particular subsidiaries

SEGMENT ZRP Farmutil S.A.	SPECIALIZATION OF SUBSIDIARIES
PRODUCTION OF RAW MATERIALS	- Agricultural Production Enterprise *Agrifarm Sp. z o.o.:* Agricultural activity. Pig, poultry and cattle farms. - Grain Processing Enterprise *Eko-Młyn* in Wałcz: Processing grain and fodder. - Supporting activity: ▪ Service and Research Laboratory *Biochemik Sp. z o.o.*, ▪ Insemination Station *Insefarm* in Śmiłowo, ▪ Transport and Environment Protection Facility, ▪ Meal, Fat, Concentrate Production and Utilization Plant in Śmiłowo.
PROCESSING AND PRODUCTION	- Processing of meat; purchase; slaughter; production of cold cuts, tinned meats and fats. - H. Stokłosa Meat Plant in Śmiłowo Operation on the pork market. - *Łmeat-Łuków* Meat Company in Łuków: Operation on the pork and beef market. - Poultry Processing Plant *Koziegłowy*: Operation on the poultry market.
DISTRIBUTION AND SALES	- Distribution centres, manufacturer's retail outlets, domestic network of retail and wholesale distribution. - Export departments in: - *Łmeat Łuków* Meat Company (pork and beef market), - Poultry Processing Plant *Koziegłowy* (poultry market).

Source: own study on the basis of www.farmutil-hs.pl

The segment of *processing and production* consists of three large and modern meat plants. Their scope of activity encompasses meat processing, making purchases, slaughter as well as production of cold cuts, tinned meats and fats. The Meat Plant in Śmiłowo operates on the pork market. *Łmeat Łuków* Meat Company functions on the pork and beef market, whereas the Poultry Processing Plant *Koziegłowy* concentrates on the poultry market. The activity of these companies makes it possible to conduct large-scale production. Specialisation, on the other hand, makes it possible to expand the range of products. Particular meat plants are equipped with the latest machinery and equipment for processing and packaging meat. This improves general effectiveness of operation and maintains high quality.

The segment of *distribution and sales* consists of distribution centres, manufacturer's retail outlets as well as the domestic network of retail and wholesale distribution. The Export Departments functioning as parts of the meat plants in Łuków and Koziegłowy are responsible for the foreign trade. The Export Department in *Łmeat-Łuków* Meat Company takes care of the sales on the pork and beef markets, while the Export Department in the Poultry Processing Plant *Koziegłowy* deals with exports on the poultry market.

ZRP Farmutil S.A. is a multi-plant company with a full production profile. This ensures the high quality of products which fulfil the EU requirements due to the use of modern technologies. The company's products are of the highest quality in all ranges. They include: fresh pork, beef and poultry, cold cuts, smoked meats, sausages, tinned meat, fats and fodder. Well-qualified staff which has for years worked in the meat industry offers products which fulfil the expectations of the firm's customers. Moreover, *Farmutil S.A.* intensively develops the network of its retail and wholesale outlets. In 2014 the manufacturer possessed a network of 220 retail outlets in Poland, which makes the firm’s products more accessible. In addition, maintaining high quality opens foreign markets as well. *Farmutil S.A.* exports primarily to the EU countries such as Germany, the Netherlands, the UK and France. Its products can be found on Eastern European markets such as Russia, Ukraine and Moldova as well. What is more, the company possesses permits allowing it to export to such countries as: Iran, Canada, Congo, Hong Kong, Japan, Taiwan, the USA, Ivory Coast and Vietnam.

8. CONCLUSIONS

The meat industry constitutes a major share in food industry both in European Union and in both analysed countries. Poland and Netherlands are also important exporters of meat. The presented examples of two Polish meat producers *GK Sokołów S.A.* and *ZRP Farmutil S.A.* show that their strategies of internationalisation stem from the need to find more favourable functioning conditions. The forms of engagement in international operations described in the article indicate potential enterprise development and growth directions. The firms operating on foreign markets take into consideration their specific needs and take different levels of risk. When building their competitive position they take advantage of a variety of sources of competitive advantage. They also search for opportunities to utilise their existing competitive advantage on foreign markets. Despite the problems appearing on some markets the companies can flexibly redirect their sales to other markets (including Asian ones) exploiting new international opportunities.

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Theoretical discussion on internationalisation of the firm in business studies

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Abstract:

Internationalisation and the involved processes such as globalisation and Europeanisation have many different dimensions, horizons, perspectives and levels. As internationalisation is an ongoing process, it is not possible to provide an universal definition for it (Wach, 2014, Narayanan, 2015) and what is more internationalisation can be researched into at three levels – macro (economy), meso (industry) and micro (firm). In the current generation of increasing internationalisation with advancements in communication, firms around the world are trying to expand into foreign markets. Expanding into international markets may provide benefits like new and profitable businesses, facilities to develop new ideas, make innovations in manufacturing and in new technologies (Knight, 2000; Hollensen, 2007). The main objective of the paper is to discuss the concept of the internationalisation of the firm in business studies. The article is based on in-depth literature review and its critics.

Keywords: international business; internationalisation; globalisation; MNCs; SMEs
JEL codes: F20, F23

1. INTRODUCTION

The firm-level internationalisation is explained as the expansion of business operations in geographic locations that are new to the organisations (Matanda, 2012; Narayanan, 2015). During the internationalisation process, firms are able to exploit their existing potential to new business opportunities in external markets (Koksal & Ozgul, 2010; Matanda, 2012; Narayanan, 2015). Closeness to foreign markets, reduced growth possibilities in domestic markets, economic expectations, underutilized production capacity and opportunities to diversify and enter new markets are the key motivators for SMEs to go international (Sullivan & Bauerschmidt, 1990; Ahmed, Baalbaki, Hadidian, 2006; Narayanan, 2015). Due to internationalisation, firms must adopt business strategies that balance both domestic and international requirements through transfer of innovation and learning (Bartlett & Ghoshal, 1987; Klein & Wocke, 2009; Matanda, 2012; Narayanan, 2015).

The main objective of the paper is to discuss the concept of internationalisation of the firm in business studies. The article is based on in-depth literature review and its critics. The article consists of six sections. The first section discusses the definition of internationalisation of the firm. The second section includes review of theoretical conceptualisation of various theories on internationalisation. The third section describes the various stimuli and barriers for internationalisation. The fourth section explains the various patterns of internationalisation. The fifth section gives an overview of how to measure internationalisation of firms. The last section provides the summary conclusion on the concept of internationalisation of firms in business studies.

2. DEFINING INTERNATIONALISATION OF THE FIRM

Internationalisation from an economic perspective is connected mainly to international trade. International trade has increased significantly in the last few decades that have given rise to greater economic integration. This has further contributed to the formation of regional trade blocks like NAFTA, APEC, and the EU (Rodriguez, 2007). Firms generally can slightly influence the level of internationalisation of the industry they belong to. Industry level internationalisation is primarily driven by international marketing environment. How the firm reacts in these situations depend on the strategic behaviour of the firm's international competitive structure (Hollensen, 2007).

Internationalisation is not only restricted to large multinational firms. The Entrepreneurship Unit of the European Commission undertook an empirical study among the twenty seven countries in the Union (EU27) and found that 25% of SMEs belonging to EU27's export, 7% of them either undertake subcontracting work for other companies or they themselves hire subcontractors. The tendency to export was stronger among larger SMEs. 53% of the medium-sized SMEs export followed by 38% of smaller SMEs and 24% of micro SMEs (EC, 2010; Gubik & Bartha, 2014).

There is no one universal definition for the internationalisation process of the firm. The widely accepted definition of internationalisation is Dunning's definition "an enterprise that engages in foreign direct investment (FDI) and owns or, in some way, controls value added activities in more than one country" (Dunning & Lundan, 2008; Gubik & Bartha, 2014).

Harvey & Novicevic (2002) in their study pointed out various reasons that can be attributed to the increasing internationalisation of firms and they can be broadly classified into four categories. They are i) macro-economic factors, ii) political factors, iii) technological factors, and iv) organisational factors. The macro-economic factors include issues like increased technology transfer among nations, rise in population among developing countries, etc. Political factors include changes in laws like liberalisation of trade, increased privatisation, increased free trade etc. Technological factors include effective increase in communication through technological innovations, advancements in transport sectors through which trade between nations can increase resulting in higher level of internationalisation. Organisations like multinational enterprises (MNEs) also play a major role as agents of internationalisation. The change in strategy of organisations with more global focus as well as managers viewing the world as a market place have ultimately impacted in increasing firm level internationalisation (Thoumrungroje & Tansuhaj, 2007).

3. REVIEW OF THEORIES ON INTERNATIONALISATION OF THE FIRM

In the literature there exist abundant models, concepts or theories that explain the patterns of internationalisation of a firm. There seems to be a common principle of patterns in the firm level internationalisation. Still several inconsistencies exist due to the fact that the models can be explained from different perspectives and can be classified in many different ways. The main approaches to firm level internationalisation according to Wach (2014) are tabulated below in Table 1 (Wach, 2014).

Stages models explain internationalisation as a stage wise development process where the requirements for successful internationalisation occur in gradual steps. The Uppsala model was developed in the 1970s by Swedish researchers (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977) from the University of Uppsala. Their model was based on the internationalisation of the Swedish manufacturing firms and their study was influenced by the work of Aharoni's seminal study done in 1966. It is best explained by the Figure 1 below which explains that the firms enter new markets based on the psychic distance which includes factors like differences in language, culture and political systems. This means, firms will enter markets that can be easily understood by them (Hollensen, 2007).

As the firm's knowledge grows, so does its internationalisation in incremental steps. According to this model, there are four stages of internationalisation namely: (i) no regular export activities, (ii) export via representative in the foreign markets, (iii) sales subsidiary in the foreign market, (iv) production / manufacturing in the foreign market. In the first stage, the firm has no information about the foreign market (knowledge) and hence no presence in the foreign market. In the second stage, by selling through a sales representative the firm has not still made any significant resource commitment. In the third stage, there is a controlled information flow and the fourth stage is when the resource commitment is made. This stage is reached when the firm has accumulated significant amount of knowledge about the foreign market. Johanson and Vahlne (1977) emphasize that market knowledge leads to resource commitment decisions with the end result being market commitment (Johanson & Vahlne, 1977; Narayanan, 2015).

Innovation related models (I-models) were derived from the initial work of Rogers from 1962 (Ruzzier, Hisrich & Antoncic, 2006). Innovation-related models (as

Table 1. Main approaches to Firm level Internationalisation according to Wach

Approaches	Models	Representatives	Brief Characteristics
Stages	U-model	J. Johanson & F. Wiedersheim-Paul (1975), J. Johanson & J.E. Vahlne (1977)	Internationalisation is explained in terms of gradual development of stages. Knowledge of markets or technical knowhow works as drivers and advancement in each stage enhances the possibility of internationalisation.
	I-model	W.J. Bilkey & G. Tesar (1977), S.T. Cavusgil (1980), S.D. Reid (1981), L.H. Wortzel & H.V. Wortzel (1981), M.R. Czinkota (1982), J.S. Lim, T.W. Sharkey & K.I. Kim (1991), R. Rei, T.R. Rao & G.M. Naldu (1992)	
	Hybrid models	K. Yoshihar (1978), R. Swedenborg (1982), M. Juul & P. Walters (1987)	
Resource-based view (RBV)	Resource-based models, Capabilities-based models, Resources-and-Capabilities based models.	P. Westhead, M. Wright & D. Ucbasaran (2001), O.N. Toulan (2002)	Resource based view emphasis on development of unique resources that are difficult to copy by competitors and that provide competitive advantage in the market.
Networking approach	Theories of network internationalisation	J. Johanson & L.G. Mattsson (1988), H. Håkanson & J. Johanson (1992) , J. Johanson & F. Wiedersheim-Paul (2009)	Networking approach explains the advantage of forming formal and informal networks or strategic alliance that helps to reduce risk, enhance synergies and provides access to markets that were previously unknown or not available.
International entrepreneurship	International entrepreneurship general models (GIEMs)	M. Ruzzier, R.D. Hisrich & B. Antoncic (2006), H.Etemad (2004), R. Schweizer, J.-E. Vahlne & J. Johanson (2010)	International entrepreneurship models discuss about acquiring knowledge / information from a very early stage of their initiation and go global instantly.
	International new ventures (INVs)	P.P. McDougall & B.M. Oviatt (1994)	
	Born globals (BGs)	G.A. Knight, T.K. Madsen & P. Servias (2004), R. McNaughton & J. Bell (2004)	
	Rapid internationalisation	I. Kalinic & C.Forza (2012), N. Hashai & T. Almor (2004)	
Managerial and strategic approach	Strategies-based models	J. Bell, D. Crick & S. Young S. (2004), B. Hagen, A. Zucchella, P. Cerchiello & N. De Giovanni (2012)	Managerial and strategic approach models discuss the strategic orientation and strategic behaviour in decision making and performance linkage to internationalisation.
	Decision-making models	R. Schweizer (2011)	
	Organisation-based models	S. Andersson& H. Florén (2008)	
Integrative approach (Protoholistic approach)	General holistic models	R. Flecher (2001), J. Bell, S. McNaughton, S. Young & D. Crick (2003), H. Etemad (2004)	The integrative or proto-holistic approach approaches help in explaining an integrative model that incorporates the existence of multiple internationalisation roadmaps. These models attempt to provide a generalized explanation to internationalisation.
	Knowledge-based models	K. Mejri & K. Umemoto (2010), M. Kutschker, I. Bäurle & S. Schmid (1997)	

Source: Adapted from Wach (2012 cited in 2014, p. 16).

a sub-group of various stages models) explain internationalisation as stage wise innovation of the firm. Various authors distinguish different stages involved in the innovation of the firm and they are determined on export to sales ratio (Yenera, Doğruoğlu & Ergun, 2014, Narayanan, 2015). Leonidou and Katsikeas in their comprehensive study in 1996 of the various existing models (like Bilkey and Tesar, 1977; Cavusgil, 1980; Reid, 1981) concluded that there exists definite number of stages between models that are consistent. In general the number of stages may vary from three to six and there exists three stages that are generic to all models (i) pre-export stage, (ii) initial export stage, (iii) advanced export stage (Ruzzier, Hisrich & Antoncic 2006).

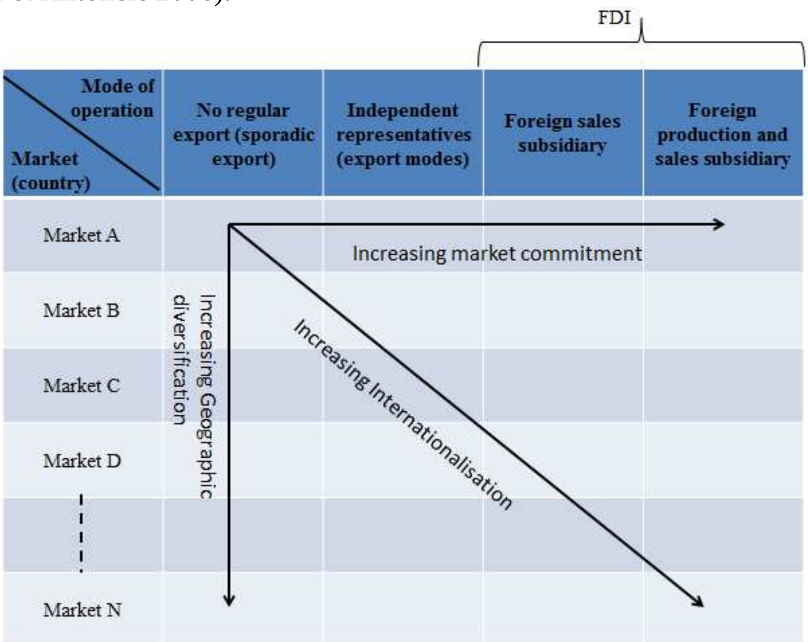

Figure 1. Internationalisation of the firm: an incremental (organic) approach
Source: Forsgren and Johanson (1975) quoted in; Hollensen (2007, p.64).

Resource-based view (RBV) or theory (RBT) provides insight on the firm's ability to derive competitive advantages that are valuable and rare. Such advantages can seldom be copied and cannot be substituted (Barney, Wright & Ketchen, 2001). These resources can be considered as both tangible and intangible assets like the firm's management skills, organisational processes and routines and the information and knowledge the firm has with it (Barney, Wright & Ketchen, 2001; Armstrong & Shimizu, 2007). Resource-based view provides the explanation for the optimum conditions under which a firm's resources can provide the maximum benefits in the form of competitive advantage. Such resources obtained must be rare to provide the competitive advantage else these resources will only provide competitiveness for the firm and no distinct advantage (Barney, 1991; Armstrong & Shimizu, 2007).

Networking approach helps in overcoming functional problems by formation of strategic alliance or any formal or at least informal networks formation in the internationalisation among entrepreneurial firms (Beamish, 1999; Lu & Beamish 2001). Inkpen and Tsang (2007) define a strategic alliance as a long term agreement between two or more firms at a strategic level where they together improve their performance level by sharing resources and risks (Zhao, 2014; Narayanan, 2015). Previous researches have pointed out many benefits to alliance formation such as reduction in transaction costs, increased market access, and shared risks, resources, access to information (Kogut, 1988; Mowery, Oxley & Silverman, 1996; Gulati, Nohria & Zaheer, 2000; Lu & Beamish, 2001; Narayanan, 2015). Strategic alliances help overcome obstacles and help SMEs reduce their mistakes and help in acquiring market knowledge at a faster pace. They also help the SMEs overcome deficiencies in resource and capabilities (Lu & Beamish, 2001; Narayanan, 2015).

International entrepreneurship (IE)**,** contrary to the stage-wise development model in which knowledge acquisition is a slow and gradual process, focuses on rapid and accelerated internationalisation. International new ventures (INVs) or born globals (BGs) based on the international entrepreneurship concept do not exploit prior knowledge, however, are able to exploit current networks and quick acquisition of knowledge to expand quickly and internationalize (Coviello & Munro, 1997; Oviatt & McDougall, 1994; 2005; Casillas & Acedo, 2013; Narayanan, 2015). Such firms from the onset establish sales footprints in several international markets. This new trend of rapid internationalisation has led to several new internationalisation concepts that can be explained under (Knight, Madsen & Servais 2004; Madsen & Servais, 1997; Oviatt & McDougall, 1994; Sleuwaegen & Onkelinx, 2014; Wach & Wehrmann, 2014; Narayanan, 2015) (i) INVs, (ii) born globals, (iii) born-again globals, (iv) global startups, (v) born regionals (vi) international entrepreneurs.

4. OBSTACLES AND STIMULI FOR INTERNATIONALISATION OF THE FIRM

Sheth and Parvatiyar (2001) defined the major drivers for global integration in business (internationalisation) that includes both stimulus and obstacles. The stimuli include i) removal of trade barriers (deregulation), ii) development of global key account customers, iii) network organisation (both internal and external), iv) standardisation of worldwide technologies, v) worldwide market – common strategies for a product segment worldwide, vi) global village – growing homogeneity among different cultures, vii) worldwide communication through low cost methods like internet and viii) global cost drivers. The obstacles include i) cultural differences, ii) regional protectionism and iii) deglobalisaton trend – cultures returning to their traditional practices (Hollensen, 2007).

There exist four types of motivation to indulge in FDI activity namely i) natural resource seekers, ii) market seekers, iii) efficiency seekers and iv) strategic asset or capability seekers. The natural resource seekers primarily invest overseas to acquire high quality resources at low cost compared to home market availability. The reason for this kind of investment is to make the enterprise more profitable and competitive in the market to which it belongs to. The resource sought could be physical resource (like raw material, manufactured goods etc), cheap production by skilled and semi-skilled labour and technological alliance or partnership. The market seekers are those firms which invest in markets to serve them and adjacent markets/countries. Primarily these markets would have been served by exports. Investment would have been justified if transaction costs have risen or the market size would have grown large enough to justify FDI. Efficiency seeking FDI is done when it makes sense to rationalize the organisational structure by already established resource based or market seeking firms when it makes sense to maximize benefits through common governance consolidating geographically diversified operations. The strategic assets seekers invest in FDI by acquiring firms to meet their strategic requirements (Dunning & Lundan, 2008).

Many of these obstacles are responsible for smaller firms to view exporting with doubt and refuse to enter such markets, new exporters tending to withdraw and seasoned exporters struggling with diminished performance and their survival threatened in international markets (Leonidou & Katsikeas, 1996; Miesenböck, 1988; Leonidou, 2004; Narayanan, 2015). According to Shaw & Darroch (2004), barriers to internationalisation can be classified into five categories namely i) financial, ii) managerial, iii) market-based (domestic and international), iv) industry specific and v) firm specific (Table 2).

5. PATTERNS OF INTERNATIONALISATION

Going international is an important decision a firm can make to achieve better results with respect to their competitors. Depending on the challenges faced during internationalisation with respect to the conditions in the new market, firms might need to take decisions that would not be restricted to one form of entry mode. At times a combination of entry modes would be needed for successful launch as deciding for one entry mode and waiting for it to gain momentum and make progress would be counterproductive (Burillo & Moreno, 2013).

Wach (2014) classifies the important patterns of internationalisation such as: (i) entry mode, (ii) entry scope, (iii) entry pace, (iv) entry strategy.

5.1. ENTRY MODES

The choice of an entry mode is an important decision a firm is to make in its foreign investment strategy as choosing one mode over the other can have an enormous strategic bearing on the firm (Chang & Rosenzweig, 2001). The mode of entry to a new market, a new country or an industry is a critical strategic decision that involves companies, the target market countries and their regulations as all of them are related. Though many entry modes are available, companies tend to choose those modes that are suitable to their characteristics. The entry modes are key to the understanding of the weakness the firms have and it pays way to the process of correcting them. Though the decision on entry mode will be strategic, may other factors like returns, bigger profits, control, risk, resource commitment, assets specificity etc. play an important role in defining the entry mode for internationalisation (Burillo & Moreno, 2013). According to Hollensen (2007), market entry modes may be classified into i) export modes (exporting modes), ii) intermediate modes (contractual modes) and iii) hierarchical modes (investing modes).

Table 2. Summary of barriers to internationalisation according to Shaw & Darroch

No.	Typology	Barriers	Authors
1	Financial barriers	financial barriers in general	Burpitt & Rondinelli (2000); Campbell (1996); Ward (1993)
		resource availability	Ali & Camp (1993); Karagozoglu & Lindell (1998)
		cost of operating overseas	Rhee (2002)
		limited access to capital and credit	Ward (1993)
2	Managerial barriers	managerial attitudes	Andersson (2001); Burpitt & Rondinelli (2000); Manolova *et al.*, (2002); Zahra *et al.*, (2000)
		lack of international experience and skills	Chandler & Janson (1992) Karagozoglu & Lindell (1998) Manolova *et al.*, (2002); Rhee (2002)
		commitment	Lamb & Liesch (2002)
		partnership difficulties	Karagozoglu & Lindell (1998)
3	Market-based barriers	liability of foreignness	Chen & Martin (2001); Lu & Beamish (2001); Rhee (2002)
		environmental perception	Andersson (2001); Manolova *et al.*, (2002)
		government regulations including tariff and non-tariff barriers	Campbell (1996); Karagozoglu & Lindell (1998); McDougall (1989)
		economic conditions	Burpitt & Rondinelli (2000)
		lack of market knowledge	Karagozoglu & Lindell (1998); Lamb & Liesch (2002)
		cultural differences/psychic distance	Bell (1995); Karagozoglu & Lindell (1998)
		access to distribution	Karagozoglu & Lindell (1998)
		strong domestic market position	Autio *et al.*, (2000)
4	Industry specific barriers	competition	Karagozoglu & Lindell (1998)
		technology	Chetty & Hamilton (1996); Fontes & Coombs (1997); Karagozoglu & Lindell (1998)
5	Firm specific Barriers	liability of newness	Lu & Beamish (2001); Rhee (2002)
		limited resources	Fillis (2001)
		size	Ali & Camp (1993); Calof (1993); Campbell (1996); Chetty & Hamilton (1996)

Source: Shaw and Darroch (2004, p. 330).

Wach describes that the path chosen for internationalisation depends on both internal and external factors (Figure 2) and they can be classified as (i) exporting modes like indirect, direct and cooperative export, (ii) contractual modes like contract manufacturing, assembly operations and licensing and (iii) investment modes like foreign branch, joint venture subsidiary and wholly owned subsidiary (Wach, 2014).

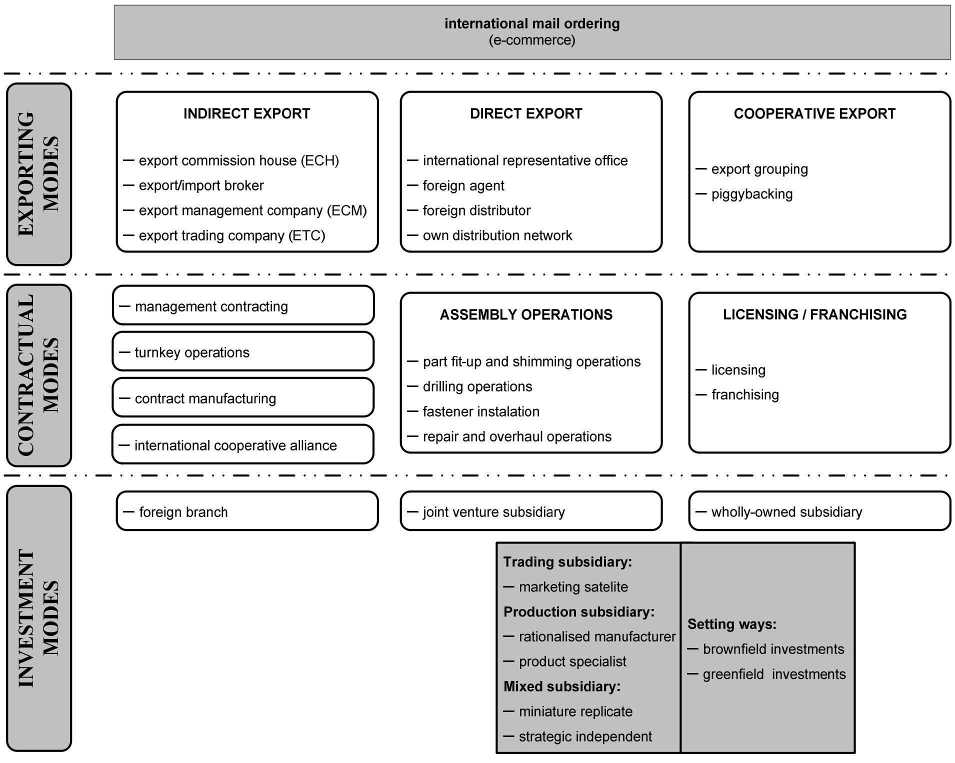

Figure 2. Classification of market entry modes
Source: Wach (2014, p. 23).

5.2. ENTRY SCOPE

The general entry and expansion scope of firms depends on the distance of these markets from their home turfs. The initial target markets tend to be limited to neighbouring countries. Many other factors like language, culture, business practices and industrial development also play an important role in identifying and expanding into new markets (Johanson & Vahlne, 1977; Anderson, 1993; Liesch & Knight, 1999). The expansion in scope of firms is discussed along two dimensions of:

1. Geographic scope which is measured by number, spread and diversity of the foreign markets within the scope of the firm and (Jones & Coviello, 2005; Oviatt & McDougall, 1994; Stray, Bridgewater, & Murray, 2001; (Hashai, 2011).

2. Extent of foreign operations that can be seen by the commitment in resources that adds to the value chain (Jones & Coviello, 2005; Oviatt & McDougall, 1994; Stray, Bridgewater, & Murray, 2001; (Hashai, 2011).

Other scope factors that contribute to the internationalisation process includes addition of export markets (Thomas & Eden 2004; Pangarkar 2008), level of international production (Thomas & Eden, 2004; Jones & Coviello, 2005) and product diversification (Chang, 2007) are discussed in the literature (Cieślik, Kaciak & Welsh, 2012).

5.3. ENTRY PACE

The speed or pace of internationalisation are stimulated by many factors. Johanson and Vahlne (1977, 1990) showed that internationalisation is done in gradual steps as explained in their Uppsala model and initially firms target markets to close proximity. Over a period of time they target distant markets. Other models like Knight and Cavusgil (1996) and Oviatt and McDougall (1999) emphasis on development of technology like improvements in communication and transportation that enable entrepreneurs to internationalize rapidly. Many more factors like environmental influences, industry conditions, and the thinking capability of the entrepreneurs are also considered as primary drivers by Oviatt, Shrader, and McDougall (2004). Zahra and George (2002) highlighted the organisational influences like characteristics of the entrepreneurs as drivers for speed in internationalisation (Oviatt & McDougall, 2005).

The pace of internationalisation in classical literature has been studied as the delay between the initiation of the firm and the start of the international venture. Not much has been focussed on the speed (pace) of the internationalisation process itself after initiation. The former deals with the per-internationalisation period and the later focuses on the speed of the international growth (Casillas & Acedo, 2013).

Oviatt and McDougall (2005) discuss factors influencing internationalisation and explain three dimensions to be studied in the speed of internationalisation namely (Oviatt & McDougall, 2005):

1. The time delay between identification of the foreign opportunity and internationalisation of the firm,
2. How rapidly does the business grow in foreign markets and how far are they from the home turf and
3. The speed of commitment to the international business.

5.4. ENTRY STRATEGY

The time line on the study of various entry strategies in internationalisation started in the 1960s with the focus on exporting versus FDI. In the 1970s the focus shifted towards other strategic approaches like licensing, franchising and subcontracting. The 1980s saw the revival of mergers and acquisitions as a rapid way to globalise.

This period saw the choice of selection between green field ventures versus acquisitions. In the 1990s, the role of FDI was on an increasing trend in emerging economies like East and Central Europe, China, Vietnam etc. Buckley and Casson (1998) further classified twelve basic entry strategies based on entry mode types and their variants (Table 3).

Table 3. Twelve entry strategies and their variants according to Buckley & Casson

No.	Type	Description	Variants
1	Normal FDI	Entrant owns foreign production and distribution facilities.	1.1. Both facilities are green field. 1.2. Both facilities are acquired. 1.3. Production in green field and distribution acquired. 1.4. Distribution in green field and production acquired.
2	FDI in production	Entrant owns foreign production, but uses independent distribution facilities.	2.1. Production is green field. 2.2. Production is acquired.
3	Subcontracting	Entrant owns foreign distribution, but uses independent production facilities.	3.1. Distribution is green field. 3.2. Distribution is acquired.
4	FDI in distribution	Entrant exports to own distribution facility.	4.1. Distribution is green field. 4.2. Distribution is acquired.
5	Exporting/ Franchising	Entrant exports to independent distribution facility.	–
6	Licensing	Entrant transfers technology to independent integrated firm.	–
7	Integrated JV	Entrant jointly owns an integrated set of production and distribution facilities.	–
8	JV in production	Entrant jointly owns foreign production, but uses an independent distribution facility.	–
9	JV in distribution	Entrant jointly owns foreign distribution, but subcontracts production to an independent facility.	–
10	JV exporting	Entrant exports to a jointly owned distribution facility.	–
11	FDI / JV Combination	Entrant owns foreign production and jointly owns foreign distribution	11.1 Production is green field. 11.2 Production is acquired.
12	JV/ FDI combination	Entrant owns foreign distribution and jointly owns foreign production.	12.1. Distribution is green field. 12.2. Distribution is acquired.

Source: Buckley & Casson (1998, p. 548).

6. MEASURES OF INTERNATIONALISATION

To measure the level of internationalisation, a wide variety of variables are used in the literature starting from macro-economic variables like FDI, trade and firm level variables like the number of foreign subsidiaries or sales value of the foreign subsidiaries (Ietto-Gillies, 2009). There are abundant examples of the usage of single or composite indicators in measurement of firm level internationalisation. There are limitations in using these indicators. Single indicators are not able to completely explain the complex internationalisation process and composite indictors on the other hand are a too compromise measures as they try to cover multiple dimensions of internationalisation (Cerrato, Crosato, & Depperu, 2016). Dunning and Lundan (2008) proposed seven criteria from research on the existing studies on internationalisation and they are (Dunning & Lundan, 2008, Gubik & Bartha, 2014):

1. The number and size of the overseas subsidiaries,
2. The total number of different countries the firm operates in,
3. The ratio of foreign assets to total assets, ratio of foreign sales to total sales, ratio of foreign income to total income and ratio of foreign employment to total employment,
4. Internationalisation of the firm's management,
5. The intensity of the activities done in foreign locations like the value of R&D done abroad etc.,
6. Involvement in the control of international networks in foreign lands, and
7. The extent of financial and marketing decisions made with respect to the foreign locations.

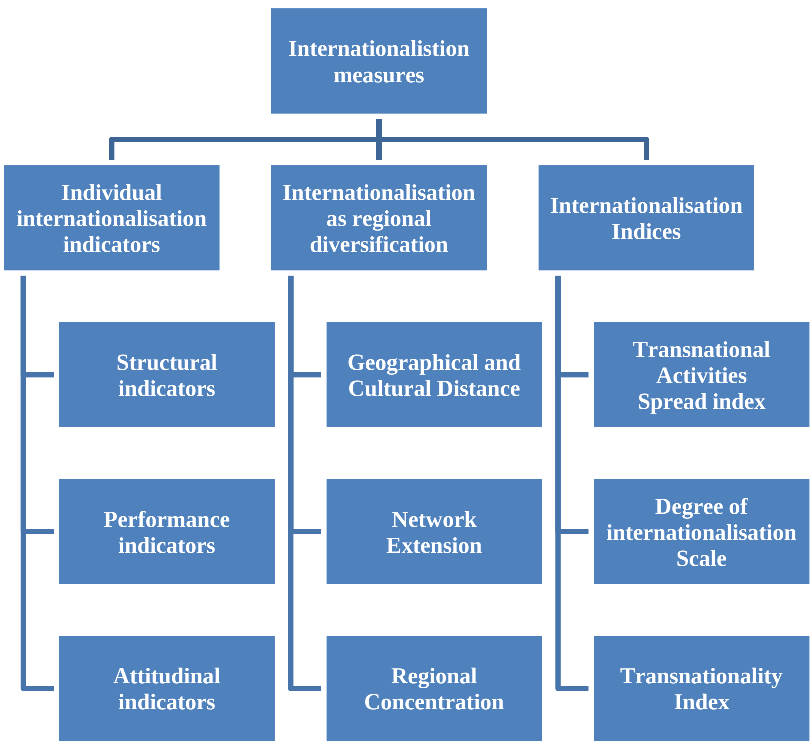

Figure 3. Measures of internationalisation according to Dörrenbächer
Source: Dörrenbächer (2000, pp. 2-9).

Majority of the indicators that can be found in the literature are at the level of the firm as firm specific data is easily available. Also, indicators and indices are mostly related to larger companies are for the same reason than that for smaller companies. Some authors prefer macro and firm level indicators whereas organisations like OCED advocate for a more global indicator like FDI activities, international spread of technology and trade (Ietto-Gillies, 2009). Dörrenbächer (2000) in his work on the various measures of internationalisation classified the measures of internationalisation as shown in Figure 3 (Dörrenbächer, 2000).

6.1. INDIVIDUAL INTERNATIONALISATION INDICATORS

Aharoni (1971) used three dimensions to define the internationalisation of multinational enterprises namely structural, performance and behavioural. Dörrenbächer (2000) also classified three dimensions as i) structural, ii) performance and iii) attitudinal. Each of these individual indicators has a host of contributors as shown in Table 4.

Table 4. Individual internationalisation indicators

Structural Indicators	Performance Indicators	Attitudinal Indicators
1. Relating to foreign activities a) Number of countries a company is active in b) Number or proportion of foreign affiliates c) Number or proportion of non-capital involvements abroad (e.g. strategic alliances, franchised operations) d) Amount or proportion of foreign assets e) Amount or proportion of value added abroad f) Amount or proportion of sourcing abroad g) Number or proportion of foreign employees	**1. Foreign sales** a) Demand: Amount of foreign sales by customer location which is Exports from the home country + Revenues of foreign affiliates – their revenues from exports to the home country. b) Supply : Amount of sales of foreign affiliates which is Sum of revenues of foreign affiliates	**1. 'Soft' indicators** a) Ethno-, poly-, regio- or geocentric management style according to: organisational complexity, authority, decision making, communication flows, recruiting, staffing, control
2. Relating to governance structures Number of stock markets on which a company is listed a) Amount or proportion of shares owned by foreigners. b) Number or proportion of non-nationals in the board of directors.	**2. Operating income abroad** Sum of operating income of foreign affiliates	**2. 'Hard' indicators** International experience of top managers cumulative duration of the years top managers spent working abroad weighted by the total years of their working experience

Source: Dörrenbächer (2000, p. 4).

6.2. INTERNATIONALISATION AS REGIONAL DIVERSIFICATION

As per Dörrenbächer (2000), internationalisation can be expressed as the level of regional diversification a firm has (Table 5). It can be explained as i) regional concentration – which explains how homogenous or heterogeneous the foreign activities are distributed as well as regional indicator of the firm versus the total distribution of the same indicator in the rest of the world, ii) network spread index which is the ratio of the network affiliates to FDI minus the home country and iii) geographical and cultural distance which is explained by the geographic and cultural diversity the foreign locations have with respect to the home country and psychic dispersion index given by the different zones the company is active in out of the 10 zones identified worldwide (Dörrenbächer, 2000).

Some structural indicators do shed light over geographical issues but they do not differentiate between far away affiliates or firms operating in different countries or cultures. Schmidt (1981) developed the Herfindahl index to measure the homogeneity and heterogeneity of firms international activities followed by Perriard (1995) who developed the GINI index to measure regional distribution to global distribution of selected indicators (Gubik & Bartha, 2014).

Table 5. The measurement of regional diversification

Regional Concentration	Network Extension	Geographical and Cultural Distance
1. Homogeneous vs. heterogeneous distribution of foreign activities (Schmidt 1981). 2. Extent to which the regional distribution of a certain indicator at a given company complies with the total distribution of this indicator in the world (Perriard 1995).	Network spread index: (Ietto-Gillies 1998) Number of foreign countries in which a company owns affiliates as a proportion of total number of countries in which foreign direct investment has occurred – One country (home country of the company.	1. Countries are weighted according to their geographic and cultural distance to the home country (Kutschker 1993). 2. Psychic dispersion index: (Sullivan 1994) Number of zones with different cognitive maps relating to management principles in which a company is active (out of a total of 10 zones worldwide).

Source: Dörrenbächer (2000, p. 6).

6.3. INTERNATIONALISATION INDICES

Many studies have been done in the past using individual indicators. Individual indicators can be combined to form indices or composite indicators. It is evident that internationalisation is multidimensional and measuring it using a single indicator only partially represents the whole picture. Also due to the multidimensionality effect, studies done in the past have resulted in contradictory conclusions in case to case basis because of the indicator used. Last but not the least, the effects of systematic measurement errors, contingent influences and effects of transfer pricing are not effectively captured. From the literature only three composite indicators have been identified namely i) transnationality index, ii) transnational activities spread index and iii) degree of internationalisation scale as given in Table 6 (Dörrenbächer, 2000).

According to Ietto-Gillies (2009), from the various available indicators required indices can be developed by applying suitable mathematical and statistical methods. Depending on the technique applied, the indices can be simple or complex (Ietto-Gillies, 2009).

Table 6. Composite indicators used to measure corporate internationalisation

Transnationality Index (UNCTAD 1995)	Transnational Activities Spread Index (Ietto-Gillies 1998)	Degree of Internationalisation Scale (Sullivan 1994)
(Ratio of foreign sales to total sales + Ratio of foreign assets to total assets + Ratio of foreign employment to total employment) / 3	(Ratio of foreign sales to total sales + Ratio of foreign assets to total assets + Ratio of foreign employment to total employment) / 3) x Number of foreign countries in which a company owns affiliates as a proportion of total number of countries where foreign direct investment has occurred – One country (=home country of the company).	Ratio of foreign sales to total sales + Ratio of foreign assets to total assets + Ratio of foreign affiliates to total affiliates + „International experience of top management„ + „Psychic dispersion„ of international operations.

Source: Dörrenbächer (2000, p. 9).

7. CONCLUSIONS

Firm level internationalisation is a complex ongoing process that is still in the stage of evolution and has no one concrete definition for it. The widely acknowledged definition of internationalisation is Dunning's definition "an enterprise that engages in foreign direct investment (FDI) and owns or, in some way, controls value added activities in more than one country". Various models can be found in the literature explaining the process of internationalisation which includes traditional models like Uppsala model to modern concepts like international new ventures and born globals. The literature identifies several facilitators (stimuli) and deterrents (barriers) for internationalisation that are applicable to both MNCs and SMEs. Examples of stimuli and barriers include removal of trade barriers, development of global key account customers, network organisation, standardisation of worldwide technologies etc. Barriers include cultural differences, regional protectionism, deglobalisaton trend etc. The internationalisation patterns include entry mode, entry scope, entry pace and entry strategy. Internationalisation can be measured using individual indicators, regional diversification indicators and internationalisation indices.

This study attempts to provide an overview to firm level internationalisation in business studies by bring in a complete frame work based on prior studies done on isolated topics in this field. In this context, this study helps in establishing the fundamentals of firm level internationalisation.

As with any study, this study has its limitations. In the attempt to provide a comprehensive overview, the study covers all major topics. In depth analysis of each topic is beyond the scope of this study as well as empirical analysis in the concerned areas. It is important that the theoretical research continues in this direction so that the fundamentals are clarified and a strong foundation is laid for future research. Suggestions for future research include conducting empirical studies to link the different concepts discussed to internationalisation as well as empirically link internationalisation to firm level outputs like performance, regional diversification etc. It will be interesting to see how large scale enterprises and SMEs differ in their internationalisation attempts as well as how SMEs fare within their segment (small, medium and micro enterprises).

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Role of culture in international business: A synthetic review

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Abstract:

The main objective of the paper is to discuss the role of culture in international business and to present main dimensions and typologies of cultural behaviours while doing business internationally. The article is organised in two sections. At first, cultural context of international business and entrepreneurship is discussed, which constitutes a separate research stream within the international entrepreneurship domain. The second passage is dedicated to the various most important classifications and typologies of cultural behaviours in international business. The article is a typical literature review.

Keywords: culture; internationalization; international business; international entrepreneurship
JEL codes: F23, L20

1. INTRODUCTION

We can define culture as a mental program shaped by the local community, which determines how the individuals and the organizations act (Hofstede, 1980, 1991; Trompenaars, 1993). In business, there are three common approaches to issues related to intercultural differences, however, the quoted above definition of culture is clear that a universal or global approach (standardisation) towards cultural differences in business is inaccurate due to the local nature of culture. It may seem that the local approach (adaptation, localisation) taking into account regional socio-cultural conditions is better. However, the latest global tendencies (supported by research) in management and business studies of various international aspects of doing business, including organizational culture and intercultural communication, speak for a mixed approach, i.e. glocalisation. In the context of doing business internationally, glocalisation (or glocality[1], as it is also called sometimes), is understood as the so-called mixed approach, taking into account both the benefits of the globalization (including economies of scale, economies of scope, standardization etc.), as well as local conditions, which are predominantly socio-cultural circumstances rooted in the local community. While managing a business in a proper way it is essential to communicate the firm with the external environment, mainly with potential buyers of products. A firm in its activities of planning and carrying out operations in international markets should take into account the socio-cultural factors, which especially currently play an important role, being one of the dimensions of the international environment (Belniak, 2015; Bednarczyk & Wach, 2004). The most important elements of the socio-cultural business environment include among others hierarchy of values, attitudes to foreign products, the problems associated with the issue of linguistic correctness, political correctness and cultural conventions (Griffin & Pustay, 2015, p. 108-170; Horskà & Paluchovà, 2014, p. 69-102).

The main objective of the paper is to discuss the role of culture in international business and to present main dimensions and typologies of cultural behaviours while doing business internationally. The article is organised in two sections. At first, cultural context of international business and entrepreneurship is discussed, which constitutes a separate research stream within the international entrepreneurship domain. The second passage is dedicated to the various most important classifications and typologies of cultural behaviours in international business. The article is a typical literature review.

2. CULTURAL CONTEXT OF INTERNATIONAL BUSINESS AND ENTREPRENEURSHIP

In a broad understanding, international entrepreneurship includes at least two different research areas (Wach, 2015; Wach, 2014, p.434; Wach & Wehrmann, 2014, p.15):

– creative process of recognition and exploitation of opportunities in foreign markets; in this sense, this research area is the same as the traditional approach of the theory and practice of entrepreneurship, using the same analytical tools as in the case of establishment of domestic ventures; what is crucial, it is characterised by a high degree of creativity, innovation and entrepreneurship, and a special role in the internationalisation process is attributed to the entrepreneur,
– international studies and comparative research in the field of entrepreneurship; in this sense, this research area is the same as with traditional international comparative studies, placing entrepreneurship as the main subject of these comparative studies (e.g. GEM).

Jones *et al.* (2011) point out three parallel streams (types) of research within international entrepreneurship, namely:

[1] The term is a patchwork of two words (glocal = global + local).

– entrepreneurial internationalisation (A),
– international comparisons of entrepreneurship (B),
– international comparisons of entrepreneurial internationalisation (C).

It should be noted that in the framework of international entrepreneurship, there are many concepts and models (Coviello *et al.*, 2014). On the basis of an ontological analysis of the articles in this area for the years 1989-2009, Jones *at al.* (2011) have developed a taxonomy containing 69 different themes within 14 thematic areas and three main types. International comparisons of entrepreneurship is threefold: cross-country, cross-culture as well as combines cross-country and cross-culture comparisons.

Cultural context significantly influence the way of conducting a business (economic practice), forcing the adaptation of a firm activity to socio-cultural requirements which are in force in a given local community (Wach, 2003; Glinka & Thatchenkery, 2013). They perform a fundamental role in conducting business activity at the international scale (international business / international entrepreneurship), particularly in the process of the world economy globalization and integration in Europe (Wach, 2015).

3. CROSS-CULTURAL DIFFERENCES AND DOING BUSINESS WORLDWIDE

In the literature of the subject, various solutions to the problem of cross-cultural differences in business are suggested (Szczepankiewicz & Wach, 2006). In 1960s Hall identified two types of cultures, which are still commonly used in business studies, they are low and high context cultures (Hall, 1960). Representatives of high context cultures pay a lot of attention to nonverbal communication and the cultural situational context, while low context culture representatives are very direct and focus on verbal communication (Figure 1). Croucher et al. (2012) based on a survey's results of 1795 respondents (India n = 657, Ireland n = 311, Thailand n = 232, USA n = 592) confirmed that high-context nations prefer the avoiding and obliging conflict styles more than low-context nations, whereas low-context cultures prefer the dominating conflict style more than high-context cultures.

Based on a research study among 53 countries, Hofstede (1980; 1991) developed a model of five dimensions of national culture (Figure 2), which are power distance, individualism vs. collectivism, masculinity vs. femininity, uncertainty avoidance and long-term orientation (Hofstede, Hofstede & Minkov, 2010; Hofstede, Pedersen & Hofstede, 2002).

Based on a study over 15 years in 50 countries, Trompenaars (1993) prepared a five-element concept of cultural dimensions, which was developed later into seven dimensions (Hampden-Turner & Trompenaars, 1993). They are universalism vs. particularism, individualism vs. collectivism, neutral vs. emotional, specific vs. diffuse, achievement vs. ascription, sequential vs. synchronic, internal vs. external control.

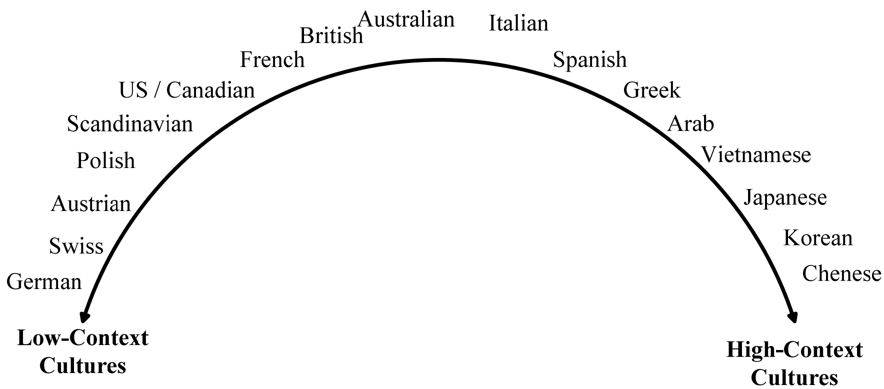

Figure 1. Examples of low and high context cultures according to Hall
Source: adapted from Hall (1960) and Hall & Hall (1990).

Figure 2. Hofstede's five dimensions of national culture
Source: adapted from Griffin & Pustay (2015, p. 129).

Lewis (1996; 2005) distinguishes three types of cultures: linear-active, multi-active and reactive ones (Figure 3). Representatives of linear-active culture (e.g. Germans, Scandinavians, Brits) focus generally on one task at a time, while multi-active culture representatives (such as Italians, Spaniards, Slavs) can share their attention among different business tasks. The representatives of reactive cultures wait until the other side is listened.

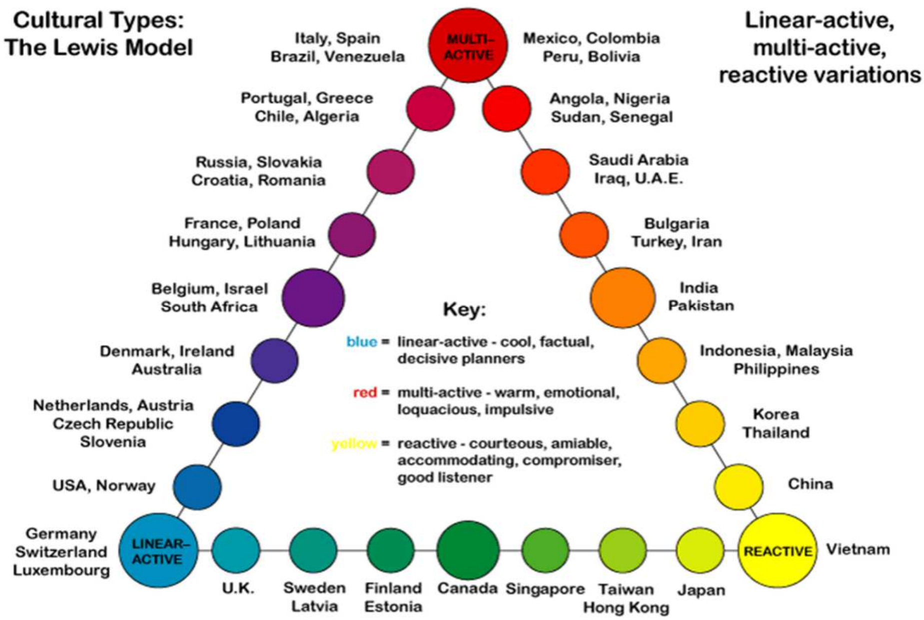

Figure 3. Cultural categories of communication according to Lewis
Source: Lewis (2005, p. 89).

In his research first published in 1990, Mole (2003) answers the question posed by himself: “How to cope with the difference in cultures on the common European market area?” He proposes the use of a simple tool facilitating the assessment of various methods of firm functioning that so-called “the Mole map” is (Figure 4). Mole distinguishes two models of leadership (the individualistic one and the group one), and two models of organization (the systematic one and the organic one) according to which he performs the division of cultures in Europe (Wach, 2004). The systematic model of an organization recognizes the mechanistic functioning of an organization designed and built according to certain specifications, which enables to achieve the goal intended by the organization. Thus, the foundation of a systematic organization is coordination and clearly defined relations among the organization members. The model is typical for Scandinavian countries, among others. On the other hand, the organic model of an organization is based on the conviction that an organization resembles a living organism and is the personification of its members' needs. The effectiveness of an organic organization depends on the extent to which its members are able to cooperate in order to achieve the common goal. The organic model of an organization is typical, among others, for Mediterranean countries (Spain, Portugal, Italy, Greece). The individualistic model of leadership reflects the autocratic management model (directive, despotic, "top-down" management). Its basis is the conviction that people are unequal by their nature and the most competent individuals make decisions on behalf of others. According to Mole's concept, "powerless" creatures are supposed to submit to "powerful" creatures. A typical example of a country with the individualistic approach to leadership is Russia. On the other hand, the basis of the group approach is the conviction that although individuals may differ in capabilities or the effectiveness of action, everybody has the right to be heard, and everyone is entitled to participate in taking decisions concerning them. Such a model is reflected, among others, in the Swedes' or Danes' approach. The map shows mainly cultural differences occurring in Europe (Daszkiewicz & Wach, 2013, p. 154).

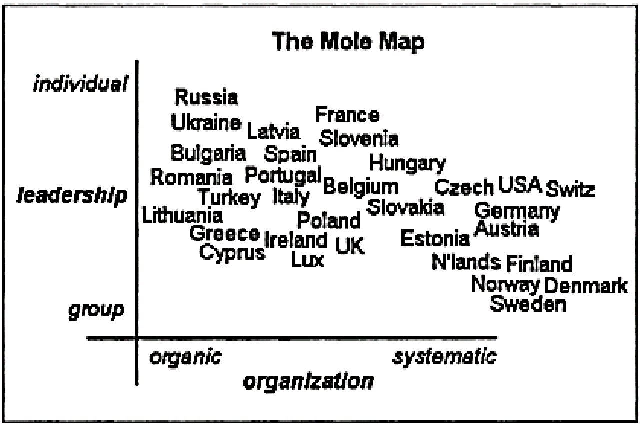

Figure 4. The map of entrepreneurship culture in Europe according to Mole
Source: Mole (2003, p. 39).

Gesteland (2005) proposes the classification of business cultures based on four variables, out of which each is two-dimensional, as a result of which one can isolate eight main features of the business world cultures, and on this basis divide entrepreneurship cultures (Table 1). The culture types according to this concept are as follows: relationship-focused – deal-focused; formal – informal; rigid-time – fluid-time; expressive – reserved cultures.

Of course, in practice we can also come across types of cultures which depart from model behaviours, then they are defined as moderate, or as moderate with the direction of attitude. Although in some cultures mixed cultures also occur, it often happens due to the regional differentiation of individual nations (Wach, 2004). The knowledge of cultural differences enables entrepreneurs to avoid misunderstandings in negotiations with a foreign partner and to achieve mutual agreement. However, regardless of the awareness of differences in the world of international business, two iron principles are in force (Gesteland, 2005, p. 16): the seller is expected to adapt to the buyer, as well as the visitor is expected to observe local customs.

Table 1. Cultural models of behaviours in business according to Gesteland

Criterion	Types of culture	Characteristics
Business orientation vs. personal relations („Great divide")	relationship-focused	Focus on people and the use of a complicated network of personal relationships. Mutual understanding, honest, open and not much context-embedded expression of oneself is important.
	deal-focused	Focus on task completion and openness to make business with foreigners. During meetings, it takes only a few minutes (or it happens immediately) to get down to business.
Significance of social status, hierarchy, power and showing respect	formal	It is based on clear hierarchies reflecting great differences in social status and the scope of authority among people, and strong attachment to tradition in interpersonal relations. Respect and esteem are shown, differences in social and professional status are valued.
	informal	More egalitarian organization is appreciated, with smaller differences in social status and scope of authority, and less attachment to tradition. There are few protocol rituals and they are not complicated.
Attitude to time and schedules	rigid-time	A lot of emphasis is put on punctuality and adherence to schedules, as well as the rigidity of fixed dates. Meetings are rarely interrupted.
	time fluid	What is valued are loose schedules and sittings during which a few meeting can take place at the same time. People and relations among them are more important than punctuality and precisely arranged schedules.
Non-verbal ways of behaving in business	expressive	High expression of speech, both the verbal one and the body language. Quite loud way of speaking, interruptions, silence causes embarrassment. Spatial distance is very scarce, interlocutors often touch each other. Direct, intense looking into somebody's eyes.
	reserved	High verbalism of speech, its relatively low expressiveness. Only verbal utterances count. The interruptions of utterances take place rarely or do not happen at all. They value distance, avoid intense, constant looking into partners' eyes, little gesticulation.

Source: own study on the basis of Gesteland (2005 – various pages).

In early-1990s House conceptualised the GLOBE (Global Leadership and Organizational Behavior Effectiveness) study researching into nine dimensions of cultures, namely power distance, uncertainty avoidance, human orientation, institutional collectivism, in-group collectivism, assertiveness, gender egalitarianism, future orientations as well as performance orientation (House, Hanges, Javidan

& Dorfman, 2004). Radziszewska (2014) using the GLOBE results proposes a relational concept linking cultural dimensions and entrepreneurship orientation and behaviour (Table 2).

Table 2. Relationship between cultural dimensions and international entrepreneurship

Cultural dimensions	Influence on entrepreneurship
Long term orientation	positive
Short term orientation	negative
Low power distance	positive
High power distance	negative – new family firms creation positive – entrepreneurship can be used to increase one's power
Individualism	positive
Collectivism	negative – entrepreneurship is based on individualistic orientation positive – more social support is offered in collectivistic societies
Human orientation	positive
Performance orientation	positive
Future orientation	positive
Low uncertainty avoidance	positive
High uncertainty avoidance	negative – formalisation and resistance to risk is against entrepreneurship positive – quality of products and services

Source: Radziszewska (2014, p. 44-45).

The GLOBE puts nations into cultural clusters that are grouped based upon cultural similarities and currently there are the following ten societal clusters (Javidan & Dastmalchian, 2009):

1. Anglo-Saxon cultures including England, Australia, South Africa (the white sample), Canada, New Zealand, Ireland, the United States;
2. Germanic Europe including Dutch-speaking (Netherlands, Belgium and Dutch-speaking France) and German-speaking (Austria, German-speaking Switzerland, Germany, South Tyrol, Liechtenstein);
3. Latin Europe including Italy, Portugal, Spain, France, Switzerland (French and Italian speaking);
4. Nordic Europe including Finland, Sweden, Denmark;
5. Eastern Europe including Hungary, Bulgaria, Romania, the Czech Republic, Slovakia, Poland, Lithuania, Latvia, Estonia, Serbia, Greece, Slovenia, Albania, Russia;
6. Latin America including Costa Rica, Venezuela, Ecuador, Mexico, El Salvador, Colombia, Guatemala, Bolivia, Brazil, Argentina;
7. Arab cultures including Algeria, Qatar, Morocco, Egypt, Kuwait, Libya, Tunisia, Lebanon, Syria, Yemen, Jordan, Iraq, United Arab Emirates, Bahrain, Saudi Arabia, Oman;
8. Sub-Sahara Africa including Namibia, Zambia, Zimbabwe, South Africa (Black Sample), Nigeria;

9. Confucian Asia including Taiwan, Singapore, Hong Kong, South Korea, China, Japan, Vietnam;
10. Southern Asia including India, Bangladesh, Indonesia, Malaysia, Thailand, Iran, Philippines, Turkey.

4. CONCLUSIONS

In every society there is a hierarchy of values resulting from tradition, the current standards of education or religion. Entering a foreign market, a firm should adapt to these values. It may be noted that many businesses, no matter what strategy chosen (standardization adaptation or the mixed strategy), are trying to fit the mould of their activities, especially promotion strategy to the current socio-cultural system. Still, from time to time they erupt further scandals associated with failure to consider the local environmental conditions. In March 1999, in the Czech newspapers the advertising of *Volkswagen Bora* appeared. It was an army map of the Czech Republic, and the advertising slogan sounded *Great spring offensive*. It is hardly surprising that the Czechs were shocked, because exactly 60 years before a German came up with exactly the same idea. *Volkswagen* had no choice but to apologize to the Czech customers for that unfortunate advertisement of a new car make (Wach, 2004).

In practice, many firms entering new markets break the existing system of values unconsciously. There are also examples of usually large companies that intentionally try to maintain promotional activities in such a way as to come into conflict with the socio-cultural in a given market. A classic example is the Italian company *Benetton*. This Italian clothing manufacturer used to be one of the most scandalous promotion in international markets. As the creator of such a line of action is considered Oliviero Toscani, the author of the most controversial billboards. They elicited numerous protests, but sales of *Benetton* was growing. One of the most popular examples of a strategy based on a conflict with the socio-cultural environment are billboards from 1990s with a nun and a priest kissing each other. In Poland and Italy, these ads were negatively welcomed, but in England, the poster was awarded.

Emotions to foreign products also play an important role. Almost all markets phenomenon of solicitation to buy goods of domestic production. In many countries, they developed slogans urging to buy domestic goods (including *Buy British* in the UK, *Buy American* in the USA, or *Teraz Polska* in Poland). In some countries, there are very radical currents against foreign goods imported from a particular country (e.g. Polish food on the Czech market).

It is important to have proper knowledge or at least to be aware of the main conditions that occur in the market in which we do business or have negotiations with, especially these conditions resulting from the socio-cultural factors. In recent years, it is turning more and more attention to cultural factors that can lead to numerous conflicts and ultimately bring the opposite than expected, intentions. Some management styles may not be easily transferred from one cultural group to another one, because it may encounter resistance or reluctance of employees, this is why glocalisation seems now to be the approach that is most commonly used by modern businesses.

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The impact of FDI and domestic business climate on local entrepreneurship in Transcaucasia: A case of Georgia in the years 2005-2015

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Abstract:

The main objective of this paper is to examine the impact of FDI inflow on local entrepreneurship in Georgia. The secondary objective of the article is to determine what effects the business climate in the country has on the growth of local entrepreneurs. To verify the impact of foreign investments on domestic entrepreneurship, dynamics of active local enterprises in Georgia in the years 2005-2014 is used as a dependent variable. In regard with business climate, international business and credit rankings were selected to show how they are interrelated with foreign investments and how they affect domestic entrepreneurs. FDI has no significant effect on local entrepreneurship in Georgia, neither on their growth, nor on their fall, as Its share in the local economy is nominal. It is noteworthy, however, that inflow of foreign capital has positive impact on the country's business climate, promoting its image and rising international recognition. The favorable business climate can help many local enterprises, especially SMEs, to benefit from liberal environment, financial and tax incentives, less regulation and bureaucracy. This paper intends to enrich relatively poor literature about FDI effects on Transcaucasian countries, providing a clear understanding to what extend the local entrepreneurship are under the influence of FDI and general business climate in the country.

Keywords: FDI; entrepreneurship; business climate; Transcaucasia; Georgia
JEL codes: P45, F21

1. INTRODUCTION

Despite scarce resources of certain economies in particular (small market, limited natural resources, low-skilled labor force, etc) they are still capable to arouse an interest in international investors and attract foreign capital. Policies to attract foreign direct investments (FDI) have become very common among the governments, irrespective of the geographical location, development levels or industrial structure of their economies (Bellak et al 2008). FDI is one of the potential sources of economic growth for developing countries and great opportunity for them to catch up with developed states (Caves, 1996; Markusen & Venables, 1999; Javorcik, 2004). Investment process is primarily an initiative and decision of the investor, whereas a government of the receiving country is initiator and implementer of those reforms which influence the investor to make that decision. In most cases, both sides have strong interest in this form of cooperation, but they both have their risks. Investor may fail to gain expected income (both due to internal and external factors), while for the host state the concept of the risk is more complex. But still, in the era of globalization, most countries try not to hinder the entrance of foreign companies, including MNCs. They bring huge financial means, management know-how, technological progress and prestige for the country, but perspectives of local firms in these circumstances might be lusterless and unpromising, especially in developing countries where they are less powerful and "qualified" to face such competition due to lack of required assets. Many political, non-governmental and professional groups (unions) see this rivalry as an unfair reality which harms not only certain domestic businesses but the business environment and the whole economy as a result. Foreign companies set their rules on the market, attract skilled workers, gain bigger market shares and respectively, create some barriers in their industries, which put local entrepreneurship in a disadvantaged position. Some even say that domestic production is shrinking in this case and general investment climate of the country becomes less prospective. Foreign investors often repatriate their revenues to the country of their origin or to other countries, while local entrepreneurs reinvest the money in their businesses mostly in their countries, and the fierce competition which limits their production abilities can negatively impact state's economy.

In small and culturally distinctive countries, issues with FDI and globalization in general, are especially problematic as they affect not only the host economy but a socio-cultural side, carrying a serious threat to a cultural/national identity of the state. South Caucasian states (Azerbaijan, Armenia and Georgia) can be indubitably included in the list of such countries. These nations, distinct with their unique traditions and native customs, lived in closed borders (the Soviet Union) for many years, and long wished independence for them has started with wars, extreme poverty and many other problems. At the present times, despite some existing difficulties, these states are developing and growing economically. They attract foreign investments, try to promote local production and be actively involved in the global trade. This paper will examine what impact FDI and internal business environment has on the local entrepreneurship in Transcaucasia, focusing on Georgia, the country with the most open economy and successful (economic and political) reforms among Caucasus states according to various international organizations (World Bank; Transparency International, Heritage Foundation, S&P, Moody's, etc)

It seems that Georgia does not spare efforts to create attractive business environment and stimulate inflow of foreign capital. It has favorable and geopolitically important location, multilingual labor force, strong legislative support and tax benefits for entrepreneurs. Recently Georgia signed the Association Agreement with the European Union which considers its gradual integration with the EU. This includes an economic integration. The one of the most important sections of the agreement – DCFTA (The Deep and Comprehensive Free Trade Area) enables locally produced products and services to have free access to the markets of the European Union after the fulfilment of all obligations of the agreement. All these make investment climate in Georgia appealing for the investors, particularly for businessmen from such countries like Turkey, Azerbaijan, China, Netherlands, the UK, the USA. Main target sectors for the potential foreign investors are transport and communications, construction, energy, manufacturing, financial services, real estate and tourism. The country has the bilateral investment treaties with 33 countries and free trade agreements with 11 states. Local politicians and economists agree that country needs more foreign investments to boost economic growth, especially at this stage of acute currency devaluation (by more than 35% against US dollars), however, some experts state that it negatively affects the local entrepreneurship and additional pressure on domestic businessmen from foreign players will worsen their positions.

This paper is organized as follows: the literature review, which revises relationship between FDI and local entrepreneurship, is followed by description of materials and methods used for the research. Final sections of the paper are presented for analyzing results and drawing proper conclusions.

2. LITERATURE REVIEW

While much of the literature points out on the positive influence of FDI on receiving economy (Barry et al., 2003; Javorcik, 2004; Blanchard et al., 2009), there are still some evidences of its negative effects (Caves, 1996; Aitken & Harrison, 1999). Furthermore, the character of this impact largely depends on how foreign and local companies are related to each other, horizontally (intra) or vertically (inter) (Javorcik & Spatareanu, 2008) and whether foreigners' products are strategic substitutes or complements (Fudenberg & Tirole, 1984; Bulow et al., 1985).

FDI is linked to management know-how and technology transfer, hence, it is logical that the literature finds the dissemination of innovations on home firms mostly common positive spillover effect on the local entrepreneurship (Barrios et al., 2005; Ayyagari & Kosova, 2010). Javorcik (2004) and Haskel et al., (2007) claim that spreading of innovative ideas and technology brought by foreign firms will take place both across and within industries of the host economy. This type of positive spillover is called demonstration effects, or contagion-imitation effects (Kokko, 1992; Barry et al., 2003), implying that local companies will imitate foreign ones in technology, in developing of new products and business processes and in adapting their management styles/organizational structures. Moreover, export-oriented MNEs can serve as perfect instructors for domestic firms of how to enter overseas markets (Greenway et al., 2004), stimulating by this the growth of country exports and expansion of local businesses (Greenway et al., 2004; Christiansen & Ogutcu, 2002). FDIs bring new products and services to the receiving country and create with these new markets and business opportunities (horizontal effects). It can also spur local firms, by subcontracting or partnership with them for certain activities (vertical effects). Kim and Li (2012) single out two important aspects within supply-demand chain when foreign firms emerge in the country, these are backward and forward linkages. Backward linkages reflect the situation when foreign companies obtain raw materials for their products from local firms, whereas forward linkages occur when local firms buy goods and services from foreign-owned counterparts. Both sides benefit from such relationship and what is more important, the domestic economy benefits from it most of all.

Perhaps the most debated subject in the literature on relations of MNEs and local entrepreneurship is labor issues. While some scholars suggest that FDI has positive spillover effect on certain labor aspects, on labor mobility for instance (Caves, 1996; Fosfuri et al., 2001), most authors agree that impact of foreign groups on domestic businesses in terms of labor supply is negative. Local firms undergo so called “brain drain”, as their foreign competitors attract skilled workers by offering them much better employment conditions (salaries, development potential, etc) (Grossman 1984; De Backer & Sleuwaegen, 2003; De Backer 2011; Danakol et al., 2013). Furthermore, higher wages at MNEs can attract not only employees of domestic companies but also impulse some local entrepreneurs to give up their low-income business occupations in favor of employment at MNEs (Grossman 1984; De Backer & Sleuwaegen, 2003). Apart from crowding out local firms on the labor market, other negative effects include increased domestic market monopoly and setting high market entry barriers for local companies. Presence of well-established MNEs make industry extremely competitive which may lead small and less efficient local players to leave the market what eventually cause “market stealing” effects (Aitken & Harrison 1999; Djankov & Hoekman, 2000). Some academics argue that negative spillover effects are usually reported in countries with transition economies (Djankov & Hoekman, 2000; Konings, 2001; Sabirianova et al., 2005), whereas the opposite is observed in the middle income states (Doytch & Epperson, 2012). Based on the panel analysis of 104 countries, Kim and Li (2012) concluded that FDIs have positive impact on less developed countries with weak institutional support and particularly on new business creation there.

3. MATERIAL AND METHODS

Objective of this study is to understand effects of FDI on local enterprises in regard to the amount of their number. This paper also aims to understand how the business environment in the country influences the growth of local companies. As literature suggests, there are mixed results concerning the impact of FDI on domestic businesses, where in one scenario MNEs can impulse their growth and emergence, but in the other, they might create invincible barriers and force them to exit the market. Grossman (1984) states that FDI decreases the number of domestic entrepreneurs, whereas Jovanovic’s (1994) model of firm formation sees the positive linkage between the growth of foreign entrants and increasing numbers of local businesses.

In any case, changes in number of domestic firms in the economy are easily observable, therefore, the dynamics in number of active local enterprises in 2005-2014 years is employed to understand the case in Georgia and then to analyze the data for making proper conclusions. Distribution of FDI inflow across the economic sectors and the country's main macroeconomic indicators will be also presented in the article. International assessment of Georgia's business and economic reforms by prestigious worldwide organizations in the form of rankings and ratings are employed to have the whole picture about local business environment. Statistical information is collected from National Statistics Office of Georgia (Geostat) and working materials of National Bank of Georgia, as well as from data of various international organizations available at their websites.

4. FDI AND LOCAL ENTREPRENEURSHIP IN GEORGIA

After the implementation of reforms brought by the so-called "Rose Revolution" in 2003, Georgia started attracting more foreign capital, reaching its peak in 2007 with over 2 billion USD. This trend did not affect the number of local entrepreneurs until 2008, when first considerable change in the figure was observed. In 2008, the number has increased by 15%, however, it coincided with 22% fall of FDI inflow. While the inflow of foreign capital shrank to 658 million USD in 2009, the number of local enterprises continued stable growth in the same period. Similar tendency was noticeable in 2011-2013 years. In 2014 FDI inflow reached more than 1 758 million USD, 87% rise from 2013 (942 million USD), whereas the number of local enterprises in 2014 fell almost by 10 000 units. Despite such results, it will be misleading to argue that the growth in FDI flow caused the decline of local enterprises on the Georgian market and forced some domestic players to exit. Fluctuating dynamics is a cause of various complex issues that Georgian economy has undergone during these years, high unemployment and low wages for example stimulate many individuals to leave their jobs and start their own businesses, contributing therefore to growing number of local enterprises. Nepotism and cultural peculiarity towards hiring are also additional factors why so many Georgian professionals engage in starting own business rather than working for others, whereas recent Economic downturn (2013 – present), on the contrary reduced the number of local enterprises notably because of their bankruptcy or termination of the business activity.

Attraction of many foreign businesses was also conditioned by low taxes and legality of gambling business (including casinos) which is forbidden in Turkey and that is one of the main reasons why so many Turkish entrepreneurs come to Georgia. 2008-2013 years' stunted condition in respect to foreign investments is related both to Country's military conflict with Russia and global financial crisis, these important events could not leave macroeconomic parameters of Georgia unmarked.

Entrepreneurship in Georgia is very attractive occupation as many young individuals aspire to start their own businesses rather than to work for very low wages in an uncertain job market. Number of entrepreneurs is rising year by year in parallel with the improvement of the business environment in the country. Every government of the country state that business should be main creator of jobs, so it encourages the sector by creating liberal and business friendly climate. Tax incentive, less regulation and bureaucracy contributed the expansion of the local businesses, especially in the financial sector. Recently, business supporting state programs were developed to help small and medium enterprises to expand. These programs are focused mainly on manufacturing and export oriented sectors, as well as on

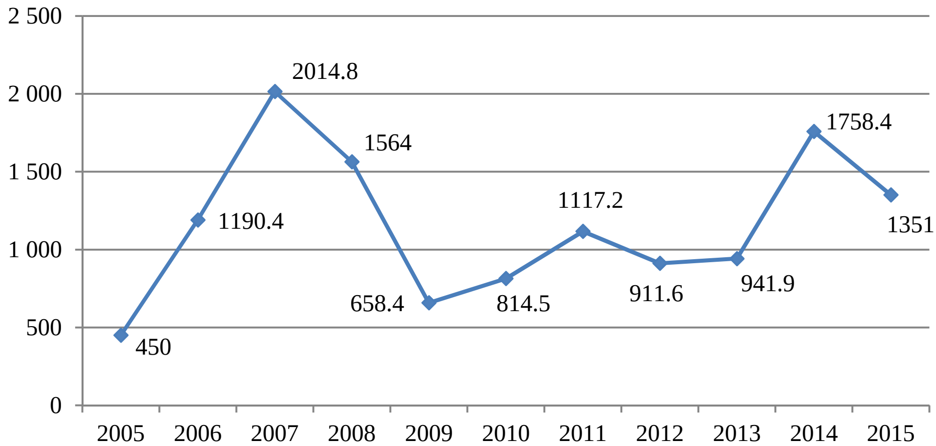

Figure 1. FDI Inflow into Georgia in the years 2005-2015 (in mln USD)
Source: National Statistics Office of Georgia.

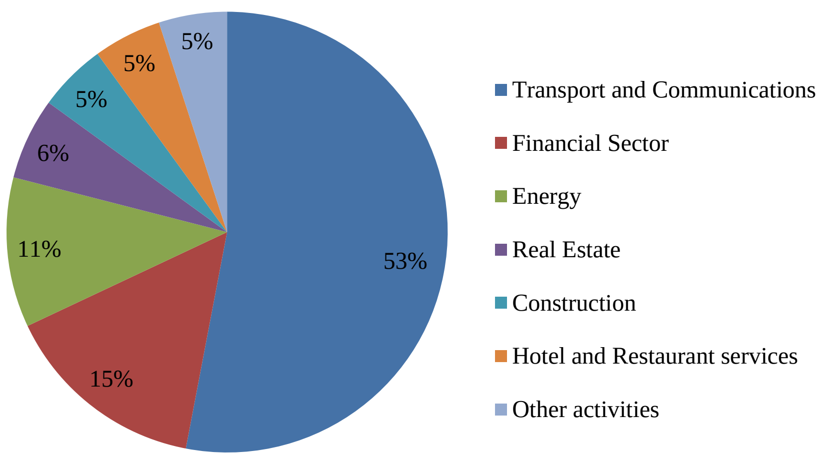

Figure 2. FDI Inflow into Georgia by Economic Activities in 2015
Source: National Statistics Office of Georgia.

tourism industries and even on start-ups. This made doing business in Georgia even more encouraged and less costly. Furthermore, association agreement with EU allows Georgian firms to access EU market without tariff barriers on almost every product. Some successful international business models were also introduced. From 2017, companies will be exempted from corporate income tax in case of its reinvestment in the business.

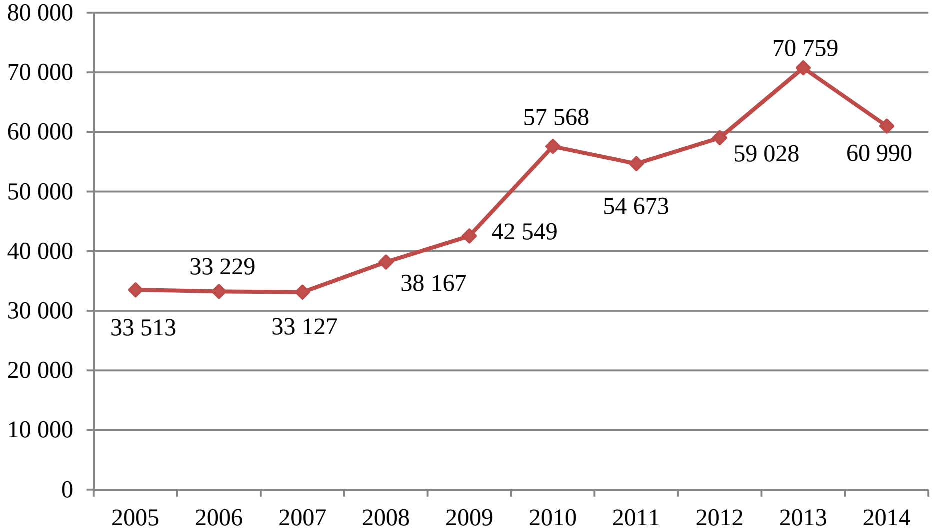

Figure 3. Number of Active Local Enterprises in Georgia in the 2005-2014
Source: National Statistics Office of Georgia.

5. BUSINESS CLIMATE IN GEORGIA

As the small country with scarce natural resources and limited domestic market, Georgia tries to attract FDIs and stimulate exports by various fiscal and financial incentives. It has investor friendly business environment with low taxes and liberal trade policy. The country also tries to use its location as an important asset to stand out from neighboring states. It is the main transit country for cargoes from Turkey, Kazakhstan and Azerbaijan. Apart from institutional support, the government spends actively in infrastructure to contribute in making Georgia regional economic and business hub. Small internal market leaves no choice for the country but to open its borders, limit trade barriers and exempt both export oriented local and foreign entrepreneurs from taxes. Both export and re-export are exempted from customs duty and value added tax. Import restrictions are extremely rare. Foreign investors have all rights to repatriate their profit and dividends back to their countries and there are no limits in hiring foreign citizens.

Economic slowdown in recent years are conditioned mainly by economic and noneconomic problems in Georgia's main trading partners (Turkey, Azerbaijan, Ukraine and Russia) and depreciation of the national currency decreasing foreign trade and aggregate demand as a result. Sharp decline in population also has its negative effects on the overall economy. Despite the rise of emigration, remittances to Georgia continue to fall. Positive trends are observable in the number of new international hotel brands, foreign tourists and business visitors.

Table 1. Key economic indicators in Georgia in the years 2010-2015

Georgia	2010	2011	2012	2013	2014	2015
Area	69 700 km^2					
Population (Thousands)	4436.4	4469.2	4497.6	4483.8	4490.5	3713.7
GDP Nominal (Million, USD)	11 637	14 439	15 847	16 140	16 508	13 960
GDP per Capita (USD)	2623	3231	3523	3600	3676	3759
GDP Real Growth (%)	6.2	7.2	6.4	3.4	4.6	2.8
HDI	0.733	0.736	0.741	0.744	0.754	–
Annual Inflation Rate (%)	11.2	2.0	-1.4	2.4	2.0	4.9
Unemployment Rate (%)	16.3	15.1	15.0	14.6	12.4	12.0
Labor Force (Thousands)	1945	1959	2029	2003	1991	2022
Foreign Trade Turnover (Million USD)	6913	9259	10 413	10 433	11 463	9935
FDI Inflow (Million USD)	815	1117	912	942	1758	1351
Currency	GEL (Georgian Lari). 1 GEL=0.43 USD/0.38 EUR					

Source: National Statistics Office of Georgia; National Bank of Georgia; World Bank; IMF.

Favorable business climate and economic reforms have their recognition in various rankings provided by international organizations and rating agencies:

– Ease of Doing Business, by the World Bank Group combines 10 different indicators which sets the regulations supporting or preventing the business activity.
– Transparency International's Corruption Perceptions Index (CPI) illustrates the overall level of corruption (frequency and capacity) in government and public sector.
– Index of Economic Freedom (IEF), by the Heritage Foundation encompasses 10 main factors which determine the degree of economic freedom in nations.
– Global Competitiveness Index (GCI), by World Economic Forum measures states' macroeconomic stability, various aspects in business environment and their technological advancement.
– Fitch's, Standard & Poor's and Moody's ratings – ratings of biggest credit rating agencies which aim to provide potential investors with valuable information on country's economic, business and financial perspectives.

Promotion of the country in rankings was an echo of economic reforms started in 2004. Georgia has been remarkable in the region in terms of the progress in international rankings. In all major publications the country outruns all neighbor states, being in advantaged position for attracting investors. Ease of starting and doing business is one of the main factors for local and foreign businessmen for starting a business in Georgia. It is also worth to underline successful reforms in delivering various public services which are based on "one-window" principle, significantly simplifying investor's business occupation. The country was one of the most corrupted states in Europe in 1990s and early 2000s, whereas according to the International Finance Corporation (IFC) survey in 2015 businesses face "near-zero corruption" in the country. Both local and foreign investors relied on these rankings and felt less risk when investing in a small post-soviet state, and on the other, government used these standings for promoting the country as favorable business destination. It is also noteworthy that progress in credit ratings and international rankings is closely linked to macroeconomic parameters and in case of continuation of recent downturn rankings might change in the near future.

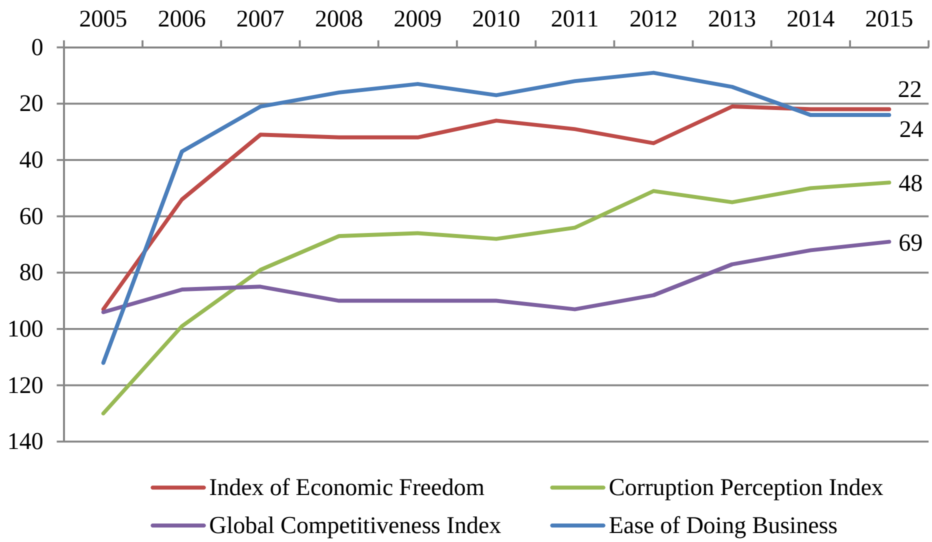

Figure 4. Positions of Georgia in four selected rankings in the years 2005-2015
Source: own study based on the data of the World Bank Group, the Transparency International, the Heritage Foundation and the World Economic Forum.

6. DISCUSSION OF RESULTS

Growth of FDI inflow is vitally important for the small economy in transition, especially for the post-conflict country. With international support and government's active intervention in the economy, FDI figures in Georgia started recovering. Restored confidence, economic incentives and association agreement with EU played important role in regaining interest in international investors. Number of local firms also has upward trend since 2008, but sharp decrease in 2014. This paper could not find any interrelation between the FDI trends and the number of local enterprises, as FDI has a small portion in the national economy and has no significant impact on the domestic entrepreneurship. There is no clear evidence that recent steady growth in number of enterprises or its dramatic fall in 2014 were somehow related to FDI inflow. FDI are distributed across such economic sectors (transport and communications, financial services, energy, real estate) which do not stand out by the concentration of the local entrepreneurs unlike trade, agriculture, manufacturing and construction, hence, there is a little intersection between these two groups. Products or services by foreign firms do not represent substitutes for domestic producers and this is one of the preconditions for their peaceful coexistence. Furthermore, it is noticeable how new generation of Georgian companies are engaging in untraditional (for Georgia) business activities utilizing novel management approaches and innovative business models. There is a reason to assume that such tendency is a result of contagion-imitation effects. As both indexes (FDI inflow and number of local enterprises) have similar growth trajectories, some might assume that it is a result of vertical effects of their interrelation (partnership, subcontracting). Although they cooperate in some occasions, the scale of these collaborations is insignificant, so if there are vertical effects at all, it is quite small. This applies to backward and forward linkages (Kim and Li's Supply-Demand Chain). The first linkage is extremely rare, whereas the latter is more observable but without notably affecting business environment and the local economy a fortiori. In regard to labor mobility issues, effects are uncertain as more than 50% from employed population in Georgia are self-employed, hence, that data are too thin to understand the trends in this respect.

Business friendly environment has clearly positive impact on domestic entrepreneurs. Easiness of starting business in Georgia, low taxes and attractive trade regimes impulse local citizens to engage in entrepreneurial activities. Rapid decline in number of domestic businesses in 2014 was conditioned by economic troubles caused by deprecation of the national currency and economic (and noneconomic) problems in main trading partners of the country (Turkey, Azerbaijan, Russia, Ukraine), causing shrink in both exports and imports. Many Georgian companies relying on markets of above mentioned countries and those with bank loans in US dollars found themselves in very difficult situation, some stating bankruptcy, cutting production and jobs, selling their assets etc. It is also worth mentioning the rise of excise tax and planned regulation of labor contracts as possible reason for the decline in the number. Despite this downturn in the last two years, many SMEs became beneficiaries of state supporting programs allowing them to co-finance bank credits, to use free consulting and technical support, and as minimum, to stay on the market without incurring in more debts. Business associations and individual entrepreneurs praised new reforms related to corporate income tax and VAT, prospects of EU market and free trade agreements with China and European Free Trade Association (Iceland, Liechtenstein, Norway and Switzerland). General liberal approach to entrepreneurship (as to main creator of jobs) in the country is easily visible by local and international communities, raising confidence and desire to support and be involved in the business activities.

7. CONCLUSIONS

Georgia creates environment where doing business is safe and less burdened, justifying its name as the leading reformer in the (Transcaucasian) region. Macroeconomic situation in the country is improving, so the central bank started decreasing discount rate gradually to make credits cheaper for commercial banks and its customers, and therefore, to encourage entrepreneurial activities and make those less costly. International recognition and high positions of Georgia in various rankings motivate the government to continue creating liberal economic climate and business-friendly legislation. As a result, both local and foreign firms, operating in the country, benefit from this attitude by expanding and diversifying their businesses, going global and generating high profits. However, it is essential to make the local economy more resilient to external shocks. Recent global economic slowdown and regional crisis in particular, made country's exports and remittances to fall, depreciating the national currency and making debt service for the local entrepreneurs more expensive. This hinders further investments and employment, and worsens economic situation in Georgia. Maintaining hard currency by gradual de-dollarization (more than 65% of total deposits and loans in commercial banks are in US dollars) is key for the healthy economy. Local businesses need also to diversify both their export products and export destinations, to be less dependent on neighboring countries which are not distinguished with economic and political stability.

There is no direct connection between the growth of FDI in Georgia and decline of domestic firms, and there is no connection in the opposite phenomenon too. Attracting FDI in industries heavily populated by local firms can be threatening for the domestic entrepreneurs, however, in the long-run, foreign investors may become their partners and leave many positive linkages. Furthermore, many local companies benefit from foreign investors by copying their management styles and business models, and by cooperating with them as their customers and rarely, as their suppliers. FDI has never represented significant portion of the country's GDP, hence, it cannot influence on local entrepreneurship solely. Other macroeconomic indicators should also be assessed with more depth to understand ongoing trends within local entrepreneurship issues, however, this is beyond the scope of this paper. Qualitative approaches in the form of in-depth interviews with local entrepreneurs would be very helpful as well, to understand Georgian entrepreneurs' perceptions on foreign companies and local business climate, and what's more important, actual effects of the latter two on the domestic businesses. It would allow to conduct more exploratory research rather than descriptive, offering more complete picture on the topic.

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Employment in distributive trade: Croatian experience and expectations

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Abstract:

In Croatia, distributive trade is one of the most important economic sectors. The direct contribution of distributive trade to GDP in Croatia was 9,6% of total GDP in 2013. Another important fact is that distributive trade is a labour intensive industry. In Croatia, where problems such as high rate of unemployment, public debt, unfavourable trade balance systematically and cautiously planned distributive trade development plays an important role in the country's economy. It employs 205,849 people or 15,3% of the total labour force in Croatia. Economic crisis has diminished the importance of distributive trade in the creation of new jobs. Number of employees in this industry so decreased by 23.8 percent compared to 2008. Therefore, the main purpose of this research is to examine the relationship between the Gross Domestic Product(GDP), number of total employment and the number of distributive trade employees of the Republic of Croatia for periods 2000-2014. The methods of correlation and regression analyses are used to determine the possible contribution of trade sector as an economic activity in solution of the unemployment problem in Croatia by 2030. Data analysis and numerical calculations are performed using *Statistical* software.

Keywords: Croatia; employment; distributive trade; forecast
JEL codes: J21, J49

1. INTRODUCTION

Employment refers to the number of workplaces in one economy, economic sector or particular economic activity over a year. Employment in distributive trade shows the national economic structure and the level of human resource engagement and allocation. Distributive trade represents a significant economic activity within national economy (Knego, 2004). Its importance is commonly indicated by its contribution to the national GDP and labour force employment (Slabinac, 2014).

In periods of economic crisis distributive trade shows greater sensitivity to market events (Pupavac, 2014), in a way that trade companies quickly reduce labour costs in order to maximize profits or minimize losses, because that is the easiest way to make cuts in the short term. The reduction of salaries and/or downsizing them seems as an efficient solution so as to maintain market position of trade companies (Pupavac, 2015).

Accordingly, the objective of this paper is to evaluate the effects of the distributive trade and to point a solution of the unemployment problem in the post-crisis perspective. To achieve the intended goal, numerous scientific methods were used in various combinations, including statistical methods of regression and correlation analysis. The obtained insights could help trading companies and managers at all levels as a basis for calculating an estimated number of employees in the distributive trade.

2. RESEARCH PROBLEMS AND MTHODOLOGY

The labour market is a complex and important area of economic and social subsystems because it validates workforce and determines working conditions, amount of monetary compensation, employment levels, job security, dynamics and structure of employment, social division of labour, labour mobility, unemployment dynamics and the like. Economists agree that a certain unemployment rate should always exist. Low unemployment is not a big problem for a country. Even the most developed countries have a number of people of working age who are not employed, at any time. However, when the unemployment rate exceeds a certain limit and remains high year after year, it becomes a major problem, and it is usually a symptom of other economic disorders.

In 2008, arguably the greatest global financial and economic crisis since the Second World War happened, with consequences influencing economies of the EU-27 to a greater or lesser extent. In Croatia, the highest GDP decline was recorded in distributive trade and transport sectors. In the aforementioned sectors in 2009 there was a decline in unemployment compared to 2008. The share of distributive trade in the total number of employees declined from 17.36% to 15.33%, in transport from 5.47% to 5.41%.The average number of employees in distributive trade(EDT) in 2014 has been reduced by 23,73% since 2008. In comparison, overall employment (TE) in the same period decreased by 13,68 %. This means that in times of employment decline, the number of distributive trade employees falls faster (cf. Figure 1.).

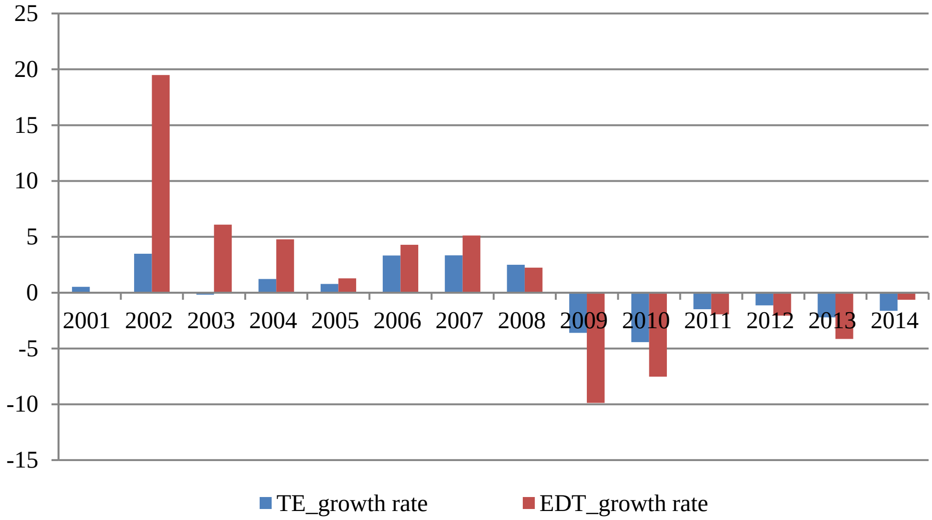

Figure 1. Interrelation of annual growth rates of total employment and distributive trade employment from 2000 to 2014

Source: own study on the basis of Statistical Yearbook of the Republic of Croatia 2015.

There are 5.5 million operating business entities in the distributive trade within the EU, that is, every fourth business is registered in trade. In Croatia, more than a quarter of businesses is registered in trade, or 26,03% (Anić, 2013). Number of employees in distributive trade in Croatia and the EU indicate that distributive trade is the leading and second largest employer (Dunković, 2014). According to the Central Bureau of Statistics, more than 15 % of all employees work in distributive trade, while in the EU that share is 13% or 29 million people.

Negative economic trends had a negative effect on Croatian distributive trade. Reduction in real income and purchasing power had a negative impact on employment trends within the distributive trade. Drop in employment in distributive trade has been intensified since the beginning of crisis. From 2008 to 2014, 64.063 positions in distributive trade were lost. Number of employees in trade continues to drop in 2015 – in January 2015 it dropped by 2,8% in comparison to January 2014, and in retail by 1,8%.

However, this is not unusual, since retail is labour-intensive business and in conditions of low demand retailers reduce the number of employees to rationalize labour costs and operating expenditures. In times of positive economic growth ratio of the total number of employees and number of employees in distributive trade is declining, while in times of negative economic growth this proportion is growing (cf. Figure 2.).

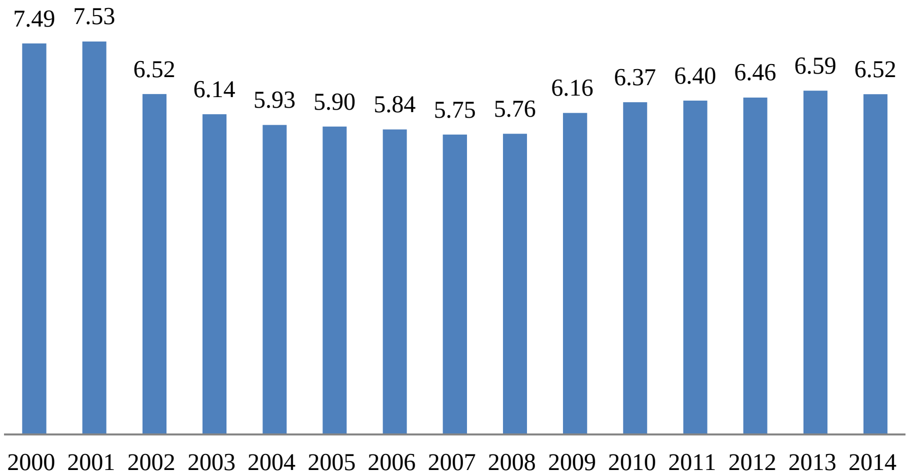

Figure 2. Ratio between total employment and employment in distributive trade
Source: own study on the basis of Statistical Yearbook of the Republic of Croatia 2015.

Managers of trading companies are faced with an important issue concerning planning of human resources: how are employment in the distributive trade, national economy and total employment exactly correlated? To answer this in a scientific manner, this study will explore the interdependence between the number of employed in the distributive trade, gross domestic product and total employment in Croatia using data from Table 1.

In order to make an objective forecast the number of employees in distributive trade in Croatia, a theoretical model should be defined first. This study investigates dependence the number of employees in distributive trade (EDT) as the dependent variable and the number of total employees (TE) and gross domestic product (GDP) as the independent variables. Accordingly, a model to estimate the number of employees in distributive trade can be written as a function:

$$EDT = f(GDP, TE) \tag{1}$$

where:

EDT – number of employees in distributive trade;
GDP – gross domestic product;
TE – total employees.

Variable EDT is a dependent variable, while GDP and TE are independent or explanatory variables.

Supposing that the number of employees in distributive trade depends on the GDP and the number of total emploees, its linear form would be as following:

$$EDT = b_0 + b_1 GDP + b_2 TE \tag{2}$$

Table 1. Movement of GDP, total employment and the number of employed in the distributive trade from 2000 to 2014

Year	GDP (mill.HRK)	Total employment (000)	Number of employed in the distributive trade (legal entities)
2000	239.9	1341	179 000
2001	250.4	1348	179 000
2002	263.5	1359	213 895
2003	274.8	1393	226 940
2004	285.2	1409	237 768
2005	297.5	1420	240 827
2006	311.8	1468	251 155
2007	329.8	1517	264 008
2008	344.1	1555	269 912
2009	324.1	1499	243 277
2010	320.2	1432	224 980
2011	320.2	1411	220 633
2012	314.4	1395	216 112
2013	311.3	1364	207 153
2014	310.1	1342	205 849

Source: Statistical Yearbook of the Republic of Croatia 2013., (online data at www.dzs.hr , PC-Axis) (access: 5/10/2014)

3. RESULTS AND DISCUSSION

Based on data given in Table 1, correlation analysis was conducted (cf. Table 2). It shows a high interdependence between the number of employed in the distributive trade and GDP (r=0,73), and between the number of employed in the distributive trade and the total employment (r=0,90).

Table 2. Interdependence of the number of employed in the distributive trade, GDP and total employment

	Means	Std. Dev.	GDP	TE	EDT
GDP	299.8	30.55	1.000000	0.736234	0.735542
TE	1416.9	66.60	0.736234	1.000000	0.907870
EDT	225 367.3	26 873.73	0.735542	0.907870	1.000000

Correlations (Distributive_trade.sta) Marked correlations are significant at p < ,05000 N = 15 (Casewise deletion of missing data)
Source: own calculation.

Since there was a high interdependence between the number of employed in the distributive trade, GDP and total employment, regression analysis was also conducted using data from Table 1 (cf. Table 3).

Regression analysis between the number of employed in the distributive trade (EDT), GDP and total employment (TE) has resulted with the following model of multiple linear regression:

$$EDT = -270\ 631 + 129 \cdot GDP + 323 \cdot TE \tag{3}$$

Table 2. Interdependence of the number of employed in the distributive trade, GDP and total employment

	Beta	Std. Err. of Beta	B	Std. Err. of B	t(12)	p-level
Intercept			-270631	72631,68	-3,72607	0,002895
GDP	0,146602	0,173764	129	152,83	0,84369	0,415345
TE	0,799936	0,173764	323	70,12	4,60359	0,000607

Regression Summary for Dependent Variable: EDT (Distributive_trade.sta) R = 0.91327418 R2 = 0.83406972 Adjusted R2 = 0.80641467 F(2.12) = 30.160p
Source: own calculation.

According to regression analysis (cf. Table 3), it can be concluded that there is a statistically significant correlation between the number of employed in the distributive trade, GDP and total employment ($R = 0.91$; $F(2.12) = 30.16$; $p < 0.01$). The correlation is positive, indicating that an increase in the number of employees in distributive trade is connected with the number of total employees (TE) and the GDP. Application of the mentioned model for planning the movement of the number of employees is shown by Figure 3.

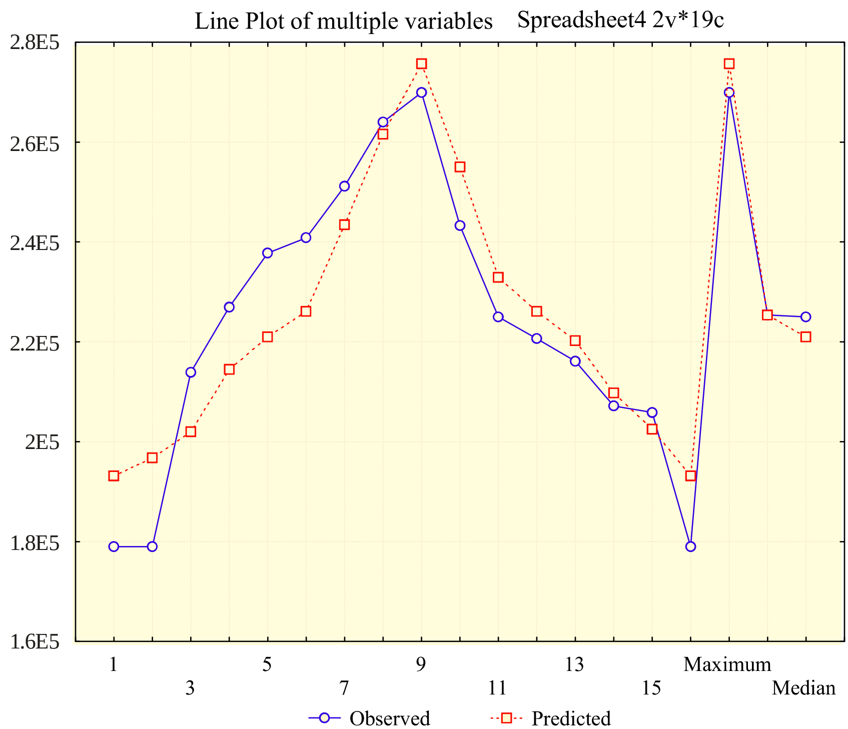

Figure 3. Comparison of results obtained by using econometric model and real data on the movement of the number of employed in the distributive trade in Croatia from 2000 and 2013
Source: own calculation.

Based on the given model (3), an estimate of the number of employees in the Croatian distributive trade by 2025 was made. It seems appropriate to assume that the considered variables – the number of total employees and GDP – will increase in the coming period, so if we anticipate that the average growth rate of GDP will grow at an annual rate of 2% and the number of total employees will grow at an annual rate of 0,81%, the number of employed in the Croatian distributive trade by 2030 will also be on the rise (as shown in Table 5). Assumptions on the average growth rates of GDP and the total number of employed were made based on average growth rates in times preceding the recession. From 2000 to 2009, the average growth rate of the GDP was 4.61%, and of total employment 1.87%. This means that for an increase in total employment by 1%, the growth rate of GDP had to be 2.46%.

Table 4. Estimate of the total number of employees in the Croatian distributive trade by 2030

Year	Number of employees
NE_{2017}	215 954
NE_{2019}	224 894
NE_{2021}	234 020
NE_{2023}	243 337
NE_{2025}	252 851
NE_{2027}	262 566
NE_{2029}	272 488
NE_{2030}	277 528

Source: own calculation.

4. CONCLUSIONS

Distributive trade is a significant source of employment. It employs 13% of the total labour force in the European Union. In Croatia, about 205 000 people are employed within the distributive trade or 15,3% of the total workforce. This study proves the statistically significant correlation between changes in the number of employees in distributive trade as the dependent variable and the number of total employees and GDP as independent variables. Estimated number of employees in the Croatian distributive trade by 2030 is calculated according to average annual growth rates of GDP of 2% and the number of total employees of 0.81%. According to a multidimensional linear regression model and assuming the average annual growth rate of the total number of employed and the GDP, we can estimate that Croatia will reach the 2008 number of employed in distributive trade in 2029. The main limitations of this study stems from the fact that employment in distributive trade is seen as a dependent variable of only two independent variables. In the future researches in the model for estimate the numbers of employees in distributive trade should be included the greater number of variables, for example the impact of technology, sales formats, development of e-commerce, purchasing power and demographic factors.

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Proinnovation processes in the European Union: Relationships between European and regional level

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Abstract:

This article shows the main aspects of Europeanization of the innovation policy. Especially important is the regional aspect of this processes because on this level all European guidelines should be implemented. Regional resources like culture, human and social capital, institutional infrastructure are the key factors, which should transfer knowledge based economy into the practice. In this context we can observe a lot of critical factors. The author makes a qualitative analysis of all of these factors on regional level.

Keywords: proinnovation policy; regional innovation system; Europeanization
JEL codes: F15, O31

1. INTRODUCTION

Since the beginning of the 1990s three processes have grown to become highly significant in most countries of the European Union:

- cohesion,
- subsidiarity,
- creating knowledge-based society, not only economy.

Since 2000 the European Union has been trying to implement within the framework of its first pillar i.e. policies which are coordinated at Community and not national level, the so called new policy of cohesion. A few key principles of such a policy have been assumed.

Firstly, the main guideline should be integration of the main policies of the EU coordinated in its first pillar: regional, innovation (research and development) and social. Such a holistic approach of the key policies of the EU shall ensure significantly greater effects than the previous so called "policy of programs", which was the basis of often contradictory tasks and objectives for the policies mentioned above. Regional Innovation Strategies are examples of such a cohesive approach.

Secondly, the cohesion of policies shall be complemented by the coherence of objectives in the scope of implementation of the assumptions of Lisbon Strategy and now Strategy Europe 2020 and consequently in connection with this new horizontal the objective shall be achieving social, territorial and economic cohesion. This means that such objectives and tools have been offered for the new policy of cohesion which shall allow for building EU system of competitiveness at regional level. The new cohesive region in the EU is the area in which currently a strong system of network connections is being developed through which the entities belonging to the network have access to jointly generated external and internal benefits such as economies of scale, scope, benefits of closeness that is benefits of agglomerations, benefits of urbanizations or recently so energetically promoted benefits of metropolization, which derive from huge urban systems with complex metropolitan functions. Due to the network connections between managing entities the drawing of competitive edge from external and internal sources frequently takes place not in the direct way, as would be suggested by the shortest line and time connections, but indirectly seemingly illogical and longer. The benefits generated in natural network systems are not fully capitalized on due to various kinds of communication, administrative, cultural, political, social, technological and other barriers. With the use of the tools of the new policy of cohesion such as Regional Innovation System (RIS), the European Union allows for avoidance of many such barriers and more efficient communicating, development of new more efficient network systems and consequently more efficient management of resources (Simmie 2002).

Thirdly, as already mentioned the key actors on the forum of the European Union that have been obliged to cooperate with the European Commission in respect of implementation of the provisions of the new policy of cohesion are the regions in member states. The regions have also been engaged to a large extent in building of the so called European Research Area (ERA). The concept of building the European Research Area includes pillars 6 and 7 of the EU Framework and Horizon 2020 Program and Lisbon Strategy. The basic condition of the success of ERA is the fact that the concept shall be built from the “bottom” by the regions of the European Union member states. As a result of the application of this approach the European Commission wants to find the answer to the question of how to coordinate the activities in the scope of research and development (innovation) policy with other sector policies and especially with those whose center of weight regards integrated development at regional level (European Commission 2001).

2. FROM EUROPEAN STRATEGY TO REGIONAL IMPLEMENTATION

Here turns up the issue of coordination of the assumptions of research and development policy more and more often called innovation policy and policy regional. The research and development (innovation) policy – acc. to Bränling and Harmsen (1975) refers to the financial, organizational and legally oriented operations aiming at creating, stimulating and regulating production, results of research and technology (Bräunling & Harmsen, 1975). Placing of emphasis in this definition on the regulatory function as the significant element of this policy demonstrates it as active structural policy aiming at modernizing national economy. The innovation policy has numerous connections with important sectoral policies such as armament policy, infrastructural policy, environmental protection policy, fiscal policy and regional policy (Sternberg, 1998). The very Regional Innovation Strategies which shall in effect create regional innovation systems in a given region constitute the common tool of implementation of the assumptions of the regionally oriented innovation policies. The similarity of the assumptions of these two policies is the result of two more facts:

– they both are co-financed from structural funds (regional policy instrument) or/and framework programs (innovation policy instrument) and thus by the European Commission from the Community budget,
– they both shall support firstly the implementation of the assumptions of Lisbon Strategy and now Strategy Europe 2020.

Since 1992 due to the introduction of the principle of subsidiarity, which is in line with the trend to regionalize Europe to Maastricht Treaty (process of extending independence and self-government of regions as well as local territorial units) and strengthening the civil society, the significance of the support of innovation instruments of regional development such as regional innovation strategies has grown even more.

In order to resolve all the problems described in all European strategies, the European Union as a whole and each of its member states should focus on creating such instruments which would stimulate the operations of the sector of private enterprises as well as the sector of science and technology. RIS's are the very tool which allows and to a large extent facilitates the cooperation of enterprises and scientific centers from universities to specialized research entities.

The European Union due to the necessity to compete at global level by popularization of the criteria of economic rationality in managing the regions must try to achieve a specific standardization of regional and local divisions. With the use of such standards it shall be easier and more objectively to implement the principle of subsidiarity and interregional and international solidarity which is the organizational basis of political functioning of the EU. It is obviously a long process. One of the key factors of further rationalization of territorial divisions may be so called regional innovation systems – the areas spatially limited by region researchers.

The concept of a regional innovation system comes from observation of the current territorial and production systems, which demonstrate specific ability to interactive development of permanent competitive edge of managing entities belonging to a given system. Apart from obvious location factors the source of such permanent advantages is the strong network connections and ability of the users of a given territorial system to cooperate (European planning studies, 1996).

Another important element which to a large extent affected the popularity of creation of RIS's in innovation policy of highly developed countries was the introduction of the notion of "knowledge-based economy (KBE)" by OECD in 1996. The term KBE was coined on the basis of empirical analyses as well as a summary of numerous theoretical works on the role of knowledge in economy and innovation systems. It should be strongly stressed that there is not one truly correct recipe for the development of KBE. The literature on the subject distinguishes two kinds of development of KBE, namely laissez-faire (liberal) and controlled (including development controlled mechanically and development controlled organically). The driving force of the Silicon Valley were the free market forces supported to some extent by the control mechanisms, whereas KBE and consequently the creation of RIS in most countries of Western Europe have been created not by the dynamics of the market forces but primarily by the strategy of thinking and operations of public forces, which skillfully use the opportunities generated by globalization processes (Kukliński & Orłowski, 2001).

When referring liberalism to globalization and regionalization another problem arises here visible both in the EU countries. On the one hand, the liberalization of international economic relations increases the pursuit of the decentralization and independence of regions in order to release their competitive skills. On the other hand, the economic liberalization leads to the growth of territorial variations which create premises for increasing centrally imposed redistribution. This originates the thesis that modern regionalism is the winners' movement (it creates territorial "drivers of growth"), whereas the old regionalism based on the pursuit of leveling off territorial variations is the movement for losers" (Kukliński, Orłowski, 2001). Both processes are visible in the EU where at the present stage of evolution of the EU the assumption of the *Value for money* principle and rejection of the principle of solidarity is offered. The EU countries want to support the initiatives which bring so called added value and do not focus only on equalization leveling off differences between the poorest and the richest regions. In sum, it can be noted that the regional process of creating Knowledge-Based Economy refers both to the issue of cohesion of activities and their subsidiarity.

The three horizontal processes were compared with so called European paradox diagnosed in 1994 which demonstrated that high level of scientific research did not and still does not translate into the ability to adapt new products, technologies and organizational solutions in the market. Europe is the world leader in the scope of basic research, whereas it loses decisively to both the USA, Japan and perhaps also with Asian countries in the scope of implementation (commercialization) of new scientific discoveries.

The European paradox was presented in the first European report from October 1994, which described strong and weak areas of the European sector of science and technology. A few premises of the maintaining of that paradox were identified. The following are those, which directly affected the necessity of introducing a new instrument of policy of innovation in the regional aspect, namely Regional Innovation Strategy:

- insufficient private investments in research;
- no coordination of national and regional policies;
- no European standards;
- classification of legal procedures and organizational structures;
- developmental gaps of state research institutions;
- legal and political constraints impeding the cooperation of scientists, entrepreneurs and public institutions.

To use the words of Porter (2001) the EU countries were and still are the leader in the scope of creating intentions but not innovations (Porter, 2001). As a result of analyses of the processes listed above the European Commission proposed in 1994 a new form of the development of regions that is RIS.

3. THE ROLE OF REGIONAL RESOURCES

Modern approach to the development strategy is based on looking for safe and permanent bases of growth inside regions with the commitment of local communities, oriented towards support of entrepreneurship, innovation, transfer and commercialization of technology, improvement of competitiveness, local and regional business activity programs that require professional institutional surrounding. In practice it means a need for establishing local development institutions specialized in operations for the benefit of economic growth (Matusiak, 2001) by:

- supporting entrepreneurship, self-employment, facilitating start and aid for newly established private companies; promotion and improvement of competitiveness of SME;
- providing conditions for transfer of new technological solutions for economy and carrying out innovative enterprises;
- increasing the quality of human resources by educations, trainings and consulting as well as popularization of patterns of positive activities;
- managing resources and carrying out infrastructure enterprises;
- creating networks of cooperation and partnerships of various entities operating for the benefit of dynamics of growth, increasing of welfare and resources of inhabitants.

The great myriad of objectives and necessity of taking into account local and regional conditions determines huge variety of organizational and institutional forms. The primary characteristic of the institutions in question is their non-commercial character. The objective of their operations is not to maximize profit but to meet unusual needs, initiate changes and transformations of local communities (Drucker, 1995). They provide services in the market by creating specific infrastructure which enables dynamization of growth processes and implementation of set strategies. Due to the scope of actions undertaken, mission and objectives as well as the assumption of non-profit character this category of institutions shall include the following kinds of entities:

– funds and associations or units established by them which implement programs of development of entrepreneurship and transfer of technology as well as operate for the benefit of local growth;
– public-private partnerships established on the initiative and with high organizational and financial commitment of public authorities which undertake pro-growth activities and are not obligated to generate profits to be divided between the shareholders[1];
– chambers of commerce, trade organizations, associations and unions of employers as well as other institutions representing business undertaking pro-growth initiatives and activities;
– organizationally and financially separate local units oriented to the support of local economic growth.

The structure and scope of tasks undertaken by individual institutions is determined by: objectives of local/regional strategy of development, cultural conditions, economic situation and the level of economic development. At the same time there is no one universal organizational and functional pattern for the institutions in question. The operations of each of them depends on: resources obtained from the shareholders, assumed mission, capabilities and professional preparation of the employees, external possibilities of raising funds for statutory operations, perception in local community. It is quite popular though debatable thesis that the institutions supporting economic growth serve their functions better in smaller communities and regions which have been fighting with specific economic and social problems for many years. The institutions in question are becoming more and more popular channel of redistribution of public and international funds for the regions which suffer certain economic, structural and social difficulties (King & Schneider, 1992).

The supporting institutions enable activation of internal (endogenic) resources and full utilization of local factors of growth. The modern strategies of growth do not use any more hierarchical structures based on a large scope of state interventionism and more often use network relations and citizens' initiatives facilitating penetration of ideas and exchange of information. The growth of the region should be stimulated by local needs and the will to change voiced by the inhabitants. The non-governmental organizations operating for the economic growth in such conditions provide a chance for:

– mobilization of all actors of local growth, activation of social groups standing on the sidelines, creation of the atmosphere of mutual trust and common goals;
– development of public-private partnership and socialization of economic policy, and in this case policy of innovation;

[1] This category often includes organizationally separate units which are active in the area of support of entrepreneurship and transfer of technology connected with public administration, schools of higher education, chambers of trade and commerce, trade unions.

- introduction of mechanisms of competition in the use of public funds, making pro-growth activities less bureaucratic;
- combining public with private funds and raising external means for pro-growth and infrastructural enterprises;
- development of modern forms of transfer of technology, supporting entrepreneurship and local marketing.

Functionally, the institutions in question focus their activity on the crucial for the processes of growth areas of support of entrepreneurship and innovation processes in the form of:

- dissemination of knowledge and skills by consulting, trainings, information available through training and consulting centers;
- aid in transfer and commercialization of new technologies through centers of transfer of technology;
- financial aid (*seed and start-up*) in the form of semi-banking loan and guarantee funds offered to persons undertaking economic activity and young firms without credit history;
- broad consulting, technical and location aid for newly established enterprises during the first stage of their operations in incubators of entrepreneurship, technology incubators and technology centers;
- creating clusters of enterprises and animation of the innovation environment by combining on specific developed area of business services and different forms of aid provided to firms in: technology parks, business zones, industrial parks.

The development of centers of innovation and entrepreneurship usually causes strong impulses for growth identified in local and regional perspective in the scope of:

- so called "diffusion of industrialization" taking place through the incubation of new firms (often connected with crafts) which make use of local skills which have been present for a long time in local culture in the peripheral and economically underdeveloped regions;
- strengthening market structures with new technological companies with great competitive power thanks to innovative skills which enable continuous adaptation of new products and technologies;
- development of high-tech industrial complexes and systems of innovative incubation in city agglomerations which possess strong academic base.

The origin of the supporting institutions goes back to social and cultural initiatives implemented traditionally on the margins of public and private sectors. The changes that took place in Western societies in the last quarter of the 20th century (USA – the turn of the 60s and 70s, Western Europe – late 70s) provided the non-governmental institutions, as the catalyst of changes and economic growth, with new possibilities (Matusiak & Zasiadły, 2004).

The theoretical concepts of the regional development are affected partly by newly defined concept of so called economy of innovation according to which the innovations are not linear but evolutionary, cumulative, multilevel process which is carried out with the social and economic cooperation and interactions and which results in novelties in the technological, organizational and social areas (Koschatzky, 2001). The literature on the subject refers to three fundamental arguments in favor of the concept of regional growth understood this way:

1. Spatial proximity – the fact of proximity between enterprises generates positive external effects, which are implemented through smooth and specialized division of work. By creating regional culture and identification, that is with the use of social processes, a base for mutual trust and cooperation between regional actors creating hierarchical and horizontal network connections is established. The concepts of learning regions and regional innovation systems indicate that the spatial proximity supports the generation of a collective process of learning and exchange of information as well as knowledge inside the region, especially in the case when the knowledge is implicational in character and consequently spatially bearing.
2. Networks and cooperation relations – horizontal and hierarchical cooperation relations full of trust are a significant resource of connecting / bonding innovative partners. The creation of a complementary structure of resources is an advantage of network. In this case the spatial proximity is not the only condition of creating networks; it may, however, support their development.
3. Regional variations – refers to the possibility of creating inter- and intraregional networks of production and dissemination of information by regional actors (Koschatzky, 2002).

Apart from these variables we should also indicate the four key components which shall determine both the framework of organizational as well as institutional activities and the choice of appropriate political strategy for the innovative region. They include: regionalization – understood as a decentralization of political competences (executive, decisive), extension of the arena of political activities by joining specific functional sub-systems of the regional political system, cooperation between public and private entities and coordination of the areas of operation of sectoral policies and actors implementing them (Batt, 1994).

4. THE CULTURE OF THE REGION VERSUS THE SECTOR OF ECONOMY

Taking into account the fact that the regional innovation system should become one of the functional sub-systems in the regional political system, its institutionalization should be “anchored” in the so called general culture of the region which shall determine both the process of creating this system and its material and non-material effects. In the scope of the discussion over this general culture of the region it is crucial – especially from the point of view of the presented opinions – to distinguish the bureaucratic from innovative society (Peters, 1999). In a bureaucratic society the social expectations of public administration as well as the scope of its functions (including mainly the regulatory one) are greater, whereas in an innovative society the processes of self-organization of the society with the self-restricting role of public administration are more developed. In the case of New Member States in the EU, such an innovative society may seem to be the panacea for all problems of the post-transformation capitalism. It may be then perceived as a way to limit unemployment, as a way to economic activation of the society and consequently as a way of building and strenthening the civil society. The existence of such a solution is a symptom of existing innovative society and development of all kinds of non-government organizations, including business surrounding institutions which while maintaing the substitutive and complementary relations with public administration may undertake activities consisting of:

– providing assistance (direct aid, consulting, education, information);
– implementing obligations of pressure groups;
– filling the gap in the system of public support;
– safeguarding the following principles: voluntary work, entrepreneurship, co-participation, variability, etc.

Each functional sub-system may also be considered in the following four aspects:

– hierarchic structure and equality both inside the political sub-system and in relations with other functional sub-systems of the region;
– freedom and obligation in the relation between interest of an individual and general interest;
– commitment and loyalty to the communities with which individuals identify themselves;
– trust and distrust in administration and inside micro-cummunities (Peters, 1999).

In connection with these aspects and earlier distinction of bureaucratic and innovative society, two general models of management of public administration can be identified. The characteristic features of the first of them – bureaucratic – include the following:

– hierarchic and stiff organizational structure;
– activities directed inside and toward procedures;
– dominance of short-term activities;
– commitment to maintain the current state;
– lack of cooperation with other sectors, including business, innovative organizations and entrepreneurship (Herbut, 2005)[2].

The other model – manegerial – is the opposite of the bureaucratic one and its characteristic features include the following variables:

[2] These institutions include: training and consulting centers, centers of transfer of technology, centers of technology, incubators of entrepreneurship, incubators of technology, industrial parks, science and technology parks.

- diversified, flexible and functional organizational structure;
- activities directed outside and toward specific needs of the regional actors;
- long-term objectives which shall generate effects in the long time term;
- frequent external audits and
- partnership and active cooperation with other sectors of the regional system (Miszczuk, 2001).

The implementation of principles of the managerial model whose main criterion of assessment of the functioning of public administration is the quality of services, efficiency of actions, rationalization of expenses and administrative structures, dynamization of the development processes, increase of competitive position of the economy, creation of new "high value" wokrplaces, etc. is necessary for building regional innovation. One of the examples of rationalizing public administration this way is the concept of *New Public Managament* in which the structures of public management are adjusted to the assumptions and objectives and not the other way around. In general this concept assumes that administration and management of this sphere of activity of the state requires the application of instruments adequate for the enterprises operating in the market.

The elements of general culture of the region described above and the concepts of public administration resulting from them are connected by feedbacks with the sector of enterprises. The entrepreneurs constitute the final, yet not decisive for the processes of transfer of knowledge and technology and innovation, link in the regional innovation system (so called demand-driven approach to the processes of innovation). The category of "enterprise" covers numerous institutional and legal forms such as new technology firms (e.g. *spin-offs*, *spin-outs*), young firms (e.g. *start-ups*), traditional manufacturing firms or/and service, micro, small and medium-sized enterprises, large companies (including so called flagships of the regional economy), foreign firms (both central headquarters and branch offices). The role of the enterprise consists in transferring available knowledge into innovation processes, products, services, sales methods, distribution, organization, market segment. In this context then their competitive capacity which is expressed in prices of production factors, HR quality, the way the resources are used, quality of management or the innovativeness itself is important (Fritsch, Koschatzky, Schätzl & Sternberg, 1998).

Only having specified the theoretical boundry conditions for creating the regional innovation system can this system be defined, its division determined and other factors which might implicate it again identified.

5. CONCERNING SYSTEM'S CHARACTERISTICS

Such a system is a set of various entities (actors), which affect the processes of innovation and connections (relations) taking place between them. This is a system of entities, interactions and events which as a result of synergy are generated in a specific territory and increase the capacity to absorb and diffuse innovations in the region. The regional innovation system is a system of inter-dependences and connections taking place between the sphere of science, R&D, industry, finances and public authorities, which favor the processes of adaptation and collective learning. The existence of network connections and innovation environment is the basis of such an activity (Jewtuchowicz, 2005).

OECD identified four forms of connections in such a regional innovation system (OECD, 1999):

- enterprise- enterprise connections, including the connections with commercial knowledge-intensive services for business (e.g. joint R&D activities, common products, patents). Frequently as a result of such connections clusters develop;
- enterprise-sphere of knowledge and research connections as well as public transfer of technology institutions (joint R&D activities);
- market transfer of technology that is diffusion of knowledge and innovations by e.g. purchase of machinery, equipment, licenses (indirect expenditures on R&D);
- mobility of employees and transfer of hidden and unidentified knowledge.

The regional innovation system consists of complementary and inter-dependent sub-systems which include (Markowski, 2000):

- production and services sub-system, which is created by business entities dealing with technological and industrial operations, implementations and commercialization of new solutions;
- research and development sub-system which is composed of different kinds of research and development entities, universities and other institutions of science operating in the area of innovations and transfer of technology;
- institutional sub-system which is composed of the whole myriad of entities supporting the course of innovation processes (centers supporting innovations and transfer of technology) such as parks and incubators of technology, transfer of technology centers;
- financial sub-system which is composed of financial entities and instruments facilitating the generation of innovations and transfer of technology to economy such as loan and fuduciary funds, banks, venture capital and private equity funds;
- social and cultural sub-system which constitutes the cultural features characteristic and specific of a given region (tradition, history), systems of values, forms and channels of communication, level of trust – system of specific behaviors and unrepeatable cultural and structural features of a given region which is at the same time a consultating platform with social and civic partners.

Referring the sub-systems presented above to the territorial implications in which they operate, three areas can be identified, which transcend one another: knowledge, innovation and consensus areas (Etzkowitz, 2002).

The regional innovation system is then a complex, territorial and systemic look at the problem of thw innovativeness of an economy. Its functioning favors the reduction of innovation risk for a specific business entity, facilitates the absorption of different kinds of knowledge, provides a possibility of interactive learning and exchange of experience. It is the basis of building competitiveness of the region in the era of global economy where innovation, knowledge and the process of learning are the key factors of business success. It also allows for adaptation of regional economies to the process of globalization.

The regional innovation policy should be created on the basis of the regional innovation system defined like this, which is usually a kind of materialization of the provisions of the regional innovation strategy. The regional authorities are the element binding the activities of individual elements of the regional innovation system.

The regional innovation systems are usually administratively separate systems. In addition to the administrative approach, each region should rely on historically determined sense of regional identity or geographic conditions.

The extent to which all relevant regional actors are taken into account in respect of their inclusion into the framework of the regional innovation system and the compatibility of administrative activities as well as morphological and cultural conditions may affect the success of failure of this functional sub-system.

The criteria of successfulness include the following:

– possibly high motivation as well as legislative and executive competences of? public or public and private structures of management;
– creation of the factors increasing the level of trust as the basis of cooperation and network;
– broad dissemination of information;
– regional awareness developed to a large extent by regional actors who may and even should define the profile of the region evolution;
– current monitoring able to define the means of implementation and their effectiveness as accurately as possible;
– participation in as many entities as possible;
– openness to the experiences of other regions, including foreign ones;
– openness to new, unconventional ways of solving regional problems.

On the other hand, the failure factors also should be defined and listed here:

– the lack of concentration of the resources (legal, financial, organizational) on enterprises, primarily from the sector of small and medium-sized firms;
– confrontation of forces in the region, which may result in the blockade of the implementation of the means to fulfill the obligations in respect of creating the regional innovation system;
– ineffective management of the means,

– too long period between the development of the regional innovation strategy and the implementation of the first notable activities/processes, which may result in demotivating the participants of the sub-system;
– overlapping of the decisive competences or their imprecision;
– no relevancy of the issues of innovative processes, which may result in the lack of legitimization of the objectives of the regional innovation policy;
– serious structural drawbacks within a sector of the sub-system e.g. insufficent human capital, too small/weak financial capital market, demand and supply discrapancies, etc. (Tödling, 1999).

6. CONCLUSIONS

Summing up, all implications described above, which constructively or degressively affect the development of the regional innovation system have an endogenic aspect. It is obvious that no analysis of the regional phenomena shall be made regardless of the context of global changes (general processes). It is then the issue regarding the determination of the role of the environment in which the system may develop or what external factors may determine its institutionalization.

Institutionalization of a RIS should be understood within the sphere of the non-institutional theories. These theories indicate epistemological assumptions regarding the way of perciving the processes of regional growth – the system of regional economy as a network of mutual relations between individual business entities, which are affected by such phenomena as trust, cooperation or mutuality; the most significant factors for the economic growth of a given area include the formal and informal institutions, first of all cultural norms, the methods of organization of economic system, mainly in respect of transfer of information and knowledge, learning skills, presence of structures of cooperation and mutual commitment as well as a specific legal system especially in the scope of ownership rights)regulating the functioning of these entities.

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Market cycle position in the quality of property managers' advice in Victoria Island, Lagos State, Nigeria

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Abstract:

The paper described the position of market cycle in the quality of office property investment advice given by property managers in Victoria Island Lagos, Nigeria. Previous study in that location had established the presence of a steep market waves between 1995 and 2014. This study further examined the various factors normally considered by these managers in counseling the office property owners with a bid to determine their level of knowledge and importance placed on market cycle in rendering such services. The study was a survey research in which data were collected through well-structured close-ended questionnaire administered to the office property managers / investors with variables capturing quality of managers advice on a 5 point liker scale with their mean scores calculated; while Kendall coefficient of concordance W was employed to identify the level of agreement that exist among these managers. The findings underscore managers' consideration of market cycle in that locality for a period of ten years while given advice but that most managers' emphasis was on market value trends. Market outcome trends had earlier been noted as a misleading and deceptive form of market performance and managers must be careful in its usage. The managers' rating further revealed lack of knowledge and application of the market cycle indicators; and that managers lack data storage and applied research credibility which could bear on their quality of advice on when to let, purchase or sell, start a new development or convert existing-use, or wait for ripe period. The second analysis inferred that there was no significant agreement at 5% level in the ranking of the variables managers considered while giving advice to their clients; an evidence of lack of cooperation among managers in the study area.

Keywords: real estate; office market cycle; managers advice; Nigeria
JEL codes: R30, D29

1. INTRODUCTION

Office property is a type of commercial property that its sub-units vary from high-rise office blocks mixed with shopping malls, purpose built office complex to open halls (Olusola, 2008). It often constitutes investment for many real estate owners/ investors due to its highest profile property rating and promiscuity of location in Central Business Districts and sprawling office parks. At its most fundamental level, the demand for office space is tied to companies' business activities, requirement for office workers, and the average space per office worker for services such as Banking and Finance, Accounting, Insurance, Real estate services, Management, Administration and Medical services. As these "white-collar" jobs grow, there is greater demand for office spaces (Stephen and Steven, 2002).

Generally, office property is very germane to the overall economic and business activities of any growing city. It plays a very vital role in any economy as it generates substantial income and employs millions of people thereby supporting the nation’s growth and sustainability. However the growth and regular flow of income from office property investment is not bereft of being affected by the economic condition prevailing at any given time. Hence, the trend in office property market has always been influenced by various forces that are both internal and external to the property itself.

Property market cycle constitute one of these several forces that affect buying, letting, financing and returns accruing to the investors. The real estate market cycle can be traced to Whitten (1987) riding the inflation cycle, as four-phase cycle defined as (1) recession, (2) recovery, (3) expansion and (4) contraction (oversupply). Barras (1994) noted that the cycle is a logical sequence of recurrent events reflected in demographic, economic and other factors that affect supply and demand for property subsequently influencing the property market. The Royal Institution of Chartered Surveyors (RICS, 1999) described it as recurrent but irregular fluctuation in the rate of all property total return which also apparent in many other indicators of property activity but with varying leads and lag against the all property cycle. The Appraisal Institute (2001) explained it as the successive periods of expansion, peak, contraction and trough that characterize the activity of the real estate market. In Scott and Guy (2000), the property market cycle follows a predictable pattern that normally reveals three distinctive phases being boom followed by slump followed by recovery before the next boom commences That is, if the property market cycle is unimpeded, it will always follow this pattern so a boom cannot precede another boom without first experiencing a slump followed by a recovery before the next boom can arrive (Kieran, 2008). This implies that real property market cycle often poses three or four phases and their length of time within each phase varies geographically among property types.

An analysis of the influence of this market cycle on the office property investment in Victoria Island area of Lagos state is examined in intervallic terms, owing to the fact that office property spaces have responded sensitively to the changes in economic conditions overtime. The area is chosen as a classical example of an area that developed rapidly. It was originally designated as an upper-class residential area (Lawal, 2000). Many private companies, retail stores, commercial banks etc. aggregate in the metropolis due to overcrowding in the old business district on Lagos Island. The demand for commercial properties no doubt increased especially as the working group grew overtime. An increased demand for office property causes an increase in rents/ property values because of the forces of supply and demand.

In early 1990s, the property investors/ owners are faced with some distortion within the office property zones with cases of abandoned, not fully let and vacant office spaces within Victoria Island and the returns expected being unrealized. By mid 2000s the same area began to witness sudden demand that outweigh the stock of off ices supply for letting. Giving advise then without proper knowledge and understanding of the market cycle can be misleading. To forestall this scenario, when to expect downturn or upturn market in both office development and investment together with other possible risks and incidents investors are likely to face can be explained with the turns in the market cycle. Some researchers have confirmed the existence of property cycle in various real estate markets (Brown and Kim, 2001 and Wang, 2003). This eventually led to pertinent questions that include: what was the nature of market cycles within the last two decades on office property investment? and what was the position of the market cycle in the quality of advice offered by the office property managers ? Answers to these pertinent questions become the main thrust of this study.

2. LITERATURE REVIEW ON OFFICE MARKET CYCLES

The review of literature showed that studies on Nigerian office property market cycles are scanty. In fact, most studies in the office property market analysis have not been on market trends and performance in Nigeria (Omuojine,1994; Oladapo, 2000; and 2004). So far most of the research into property cycles has been limited to the residential sector and available ones were on Australia, China, USA and U.K. property markets. Earlier studies by Pyhrr and Born (1996), Pyhrr (1989, 1999), Barras (1994), Dispasquale and Wheaton (1996) and Baum (1996) offered a comprehensive treatment of the concept and key defining characteristics of commercial property cycles with no substantial empirical support.

The property market cycles have been noted as the results of two possible mechanisms. On the one hand, exogenous business cycle shocks – such as inflation rates and interest rates, finance chain etc. which exerts a cyclical influence on office property prices. On the other hand, there are intrinsic characteristics of the real estate market that tend to amplify these exogenous shocks, causing overproduction of properties and generating endogenous cycles. The two types of cycles often coexist as exogenous induced endogenous cycle and their relative importance may differ across sectors and regions.

Clayton (1996) described .the property cycle as logical sequence of recurrent events reflected in factors such as fluctuating prices, vacancies, rentals and demand in the property market However, there are distinctions in property cycles, one being the physical cycle of demand and supply which determines vacancy and that in turn, drives rents (endogenous) and the other being the financial cycle where capital flow affects prices (exogenous). Trass (2004) further explained the property market cycles as market occurrences that are predictable on long /short term patterns witnessed under three distinct stages known as boom, slump and recovery. The cycles are predictable in that booms (expansion) are normally followed by slumps (contraction) and then market recovery, which gives rise to the next boom as the cycle continues.

Previous works highlighted the features of each of these phases as distinctive factors that market counselors need to be conversant with and understand vividly in their time to time contact with investors, developers and users of developed properties (Whitten,1987; RICS, 1999; Appraisal Institute, 2001; and Trass, 2004). What is observed during the boom/expansion phase includes: demand continues at increasing levels, creating a need for additional space, low vacancy rates coupled with few mortgage/forced sales on debt financed property; new construction finance is easy to obtain and there are a number of new lending facilities making borrowing easier; rapid rental growth are experienced which some observers call 'rent spike' The cycle peak point is where demand and supply are growing at the same rate of equilibrium. Apart from this, the time it takes for a property to sell after being listed for sale reduces markedly; property prices rise; yields fall as prices rise proportionally more than rents rise; there are and investors borrow against their increased property values and spend this money on consumer This period often turns most investors to speculators with the impression/ expectations that price growth will continue and that there will be no subsequent slump phase, but later in the boom, the media turns its attention to the reduced affordability of property.

The second phase which is the period of contraction/slump commences after peak/equilibrium point. Most participants do not recognize this peak point as vacancy rates is at lowest initially, but as supply growth become higher than demand growth, vacancy rate rise back towards the long term absorption average. As more stock is released to the market , rental growth slows The longer and bigger the preceding boom, the longer and harder the subsequent slump is likely to be. Market participants then realize that the market has turned down and their commitment to new construction should slow or stop.

The third phase is recession period occur when the market moves past the long term occupancy average with high supply growth and low or negative demand growth. A rational property owner when discovered that their rental rates are not competitive, then lower rents to capture tenants if only to cover some property running costs.

The recovery phase, being the last is always much shorter than the recession or slump phases. At the bottom point, occupancy is at its trough. What is observed during the recovery phase includes; increased rents and cash flows; the length of time to sell a property reduces; property prices begin to increase. As this continues, positive expectations about the market allow owners to increase rents at a slow pace. Eventually each local market reaches its long term occupancy average whereby rental growth is equal to real growth.

3. MARKET CYCLE INFLUENCE ON OFFICE PROPERTY INVESTMENT

Historically office property investment have been noted to have a cyclical pattern of returns normally due to the influence of office development cycle exacerbated by product of lagged relationship between demand and supply (Barras ,1994). The development cycle itself is product of different stages that could be predictable but are rarely regular as the length and depth of the intensity of each stage within the cycle are influenced by the driving factors in the national economy and their effect on property demand and supply. The stage could be demand driven, conglomeration of external factors such as political, economic, investors' confidence, vacancies, high/low interest, lending exchange and inflation rates (Oyebanji, 2003).

Returns from office property can thus be highly varied as the market tends to be sensitive to economic performances. That is ,office property cycles are results of two possible mechanisms; exogenous business cycles (shocks) and endogenous property market (attributes). They both interact to cause condition that generates endogenous cycle in the property market. The patterns the cycle exhibit are therefore often differ across property sectors and cities/nations.

No doubt , office property have high operating costs due to the facilities that enhance the effectiveness and efficiency of the occupiers. So when a newly developed office stays longer in the market or when the letting period of newly developed property is prolonged, it can have substantial impact on the returns from the property.

However, in Nigeria, office property market has been observed to be largely speculative (Omuojine, 1994). Developers were noted for construction without demand analysis and pre-arranged tenants, but rather based on the anticipation of potential demand, which may not be feasible for several years due to time lag between when construction works are initiated and completed (Lewis,1996). Apart from this, the market itself often lacks perfect information regarding the volume of new development in the market. The aftermath result is inaccurate data on supply and demand that can capture market analysis and predictions.

Dobberstein (2000) broadly classified factors responsible for real estate cycles into three namely, endogenous, exogenous and psychological influences. The endogenous are the imperfections in the property market that ranges from existence of time lag between when decision to develop metamorphosis to construction and the full absorption by the users. The exogenous influences occur in form of demand shocks of different sizes arising from the movements in the main economic variables, structural changes, change in space – time dimension and the growing ecological consciousness in the nation. Apart from the two, the market participants due to their human nature have equally been found to have impact on the market cycles.

Nevertheless the knowledge and understanding of the features of each stage within the market cycle of any property sectors often go a long way to reduce or prevent the risks of developing /investing, purchasing/selling, and letting/occupying office property within any locality, region and nation at large.

4. SCOPE OF STUDY AND RESEARCH METHODOLOGY

Victoria Island (VI) is an affluent city situated within the boundaries of the Eti-Osa Local Government area of Lagos State. The Island was originally entirely surrounded by water – bordered by the Atlantic Ocean on the south, the mouth of the Lagos Lagoon on the West, the Five Cowry Creek to the North and swamps on the East. The colonial government began the process of filling in the eastern swamps to reduce mosquito breeding areas (Lagos Street Map, 2008).

Victoria Island was later designated as an upscale low density residential area. Failing infrastructure and overcrowding in the old business district on Lagos Island and a subsequent planning permission led to commercial property development and mass migration of commercial activities over the last twenty-five years. Today, Victoria Island is one of Nigeria's busiest centers of banking and commerce, with most major Nigerian and international corporations headquartered on the Island (Lagos Master Plan, 1985).

This Victoria Island (VI) which has now assumed the modern Central Business Districts (CBDs) of Lagos metropolis, has been chosen because of its large percentage of rented office properties such as purposely built office complexes, shopping malls with mixed uses for banking spaces

This study therefore covered office properties situated along major roads within the commercial axis and inner areas of Victoria Island. The research has been limited to market transaction over twenty (20) years taking into cognizance the fact that the economic trends in Nigeria within this period has fluctuated greatly and rental values of office properties have varied proportionately .

The research methodology adopted survey design while the target population are the professional property managers often referred to as Estate Surveyors and Valuers in Nigeria. The practicing one among them in the study area constitute 260; a figure obtained from the 9th edition of the directory of their professional bodies (NIESV and ESVARBON); while a total of 260 office properties one from each firms was retrieved from their managing files. Data were collected through a set of close-ended questionnaire designed for the property managers. The data require from the property manager include: the characteristics of the office properties being managed, time taken to let, market position based on the market cycle indicators for those periods, frequency of their advice to developers/owners and market parameters used in giving their advice. The data were analysed using descriptive statistics of weighted mean scores on a 5 – point liker scale of very important:5, important:4. Undecided:3. Less important:2, and unimportant for the parameters used in giving their advice. The Kendall coefficient of concordance (W) was further used to express the level of agreement among managers' sets of ranking of the parameters.

$$W = \frac{S}{K^2 \cdot \frac{N^3 - N}{12}}$$

where:

$S = \sum(R_j - \overline{R_j})^2$

R_j - sum of ranks assigned by all the k judges

k - number of sets of ranking

N - number of objects ranked

$K^2 \cdot \frac{N^3-N}{12}$ - maximum possible sum of the squared deviation, or the sum S which would occur with perfect agreement among k rankings.

5. DATA ANALYSIS AND DISCUSSION OF RESULTS

In this study, the office property managers performed dual role, firstly as a provider of services relating to office property investment decisions in the market; and secondly as the advisers that carried out the lawful instructions of the investors/ owners of property in both letting and management of the office property, Hence data needed from the office owners are obtained through their property managers.

In Table 1, most of the respondents have long years of managing office properties, as about 70 percent (23;, 18; 28 %) have been managing office property for more than a decade. This outcome suggests that the mangers are well experienced in the management and market operation of the office property.

The physical structure of the office property in the study area are in many floor levels., More than 75 percent (6, 18., 21. 32.%) of this property have their number of floors above 6 storey buildings. This implies that the office properties in this location are purposely built for commercial activities and such confirms that the right type of real property is being studied.

The property market transactions period vary for new tenants to occupy vacant office spaces . The highest percentage of the respondents 36.92 perceive that it takes between 4 and 6 months to let an office property, while only 9 percent says an office property can be let within one to three month. This implies that an office property with several floors takes different periods to fully let all the floor spaces depending on the stage of the market cycles.

Table 1. Characteristics of Office Property under Management

	Frequency	Percentage (%)
Years of Managing Office Property		
Between 1 and 5 Years	38	15
Between 6 and 10 Years	42	16
Between 11 and15 Years	60	23
Between 16 and 20 Years	46	18
Above 20 Years	74	28
Total:	**260**	**100**
Number of Floors within the Property		
Between 1 and 5	58	22
Between 6 and 10	84	32
Between 11 and 15	55	21
Between 16 and 20	48	19
Above 20	15	6
Total:	**260**	**100**
Time Taken to Let Office Property		
Between 1 and 3 months	21	8
Between 4 and 6 months	72	28
Between7 and 12 months	30	11
Between12 and 24 months	38	15
More than 24 months	99	38
Total:	**260**	**100**

Source: Field Survey, 2014.

Table 2 gives an insight into the market position of the office property within two decades spanning from 1995 to 2014 in Victoria Island of Lagos State. Data relating to the market indicators for each year are obtained from the office property management files of those respondents that have being in the market property management practice since the year 1990. The study recognized four phases within the market cycles for these two decades (periods between 1995 and 2014) . The market position eventually showed a cyclical wave that began with recession (between 1995 and 1997), to recovery (between 1998 and 2001) to expansion/boom (between2002 and 2007), to contraction/slump (between 2008 and 2010), to recovery (between2011 and 2014).

It must be noted that supply of office property throughout these two decades were on the increase, but the demand and the vacancy rates changes differently across the years. Investors or their fund managers need to take caution and study these two elements that fluctuate in order to avoid ill-conceived decision that may not be worthwhile in the short term or long term basis.

Table 2. Office Property Market Cycle Position for Two Decades in Victoria Island (between 1995 and 2014)

Indicators	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Supply	Increasing	Increasing	Greater than demand	Greater than demand	Greater than demand	Increasing	Increasing	Increasing	Increasing	Increasing
Demand	Begin to increase	Less than supply	Begin to increase	Begin to Increase	Increasing at slow rate	Increasing at slow rate	Increasing at slow rate	Increasing slowly	Increasing slowly	Increasing slowly
Vacancy Rate	High	High	High	Decreasing to balance	Decreasing to balance	Decreasing to balance	Decreasing to balance	Decreasing to balance	Very low	Very Low
Rent	No growth	No growth	No growth	No growth	No growth	No growth	No growth	Positive growth	Positive growth	Positive growth
Market Position	**Recession**	**Recession**	**Recession**	**Recovery**	**Recovery**	**Recovery**	**Recovery**	**Expansion**	**Expansion**	**Expansion**
Indicators	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Supply	Increasing	Increasing	Greater than demand	Increasing	Greater than demand	Increasing	Increasing	Increasing	Increasing	Increasing
Demand	Increasing slowly	Strongly greater than supply	Strongly greater than supply	Decreasing	Decreasing	Increasing slowly	Increasing	Increasing	Increasing	Increasing
Vacancy Rate	Decreasing to balance	Decreasing to balance	Balanced	High	Very high	Decreasing to balance	Decreasing to balance	Decreasing to balance	Very low	Very low
Rent	Positive growth	Positive growth	Positive growth	No growth	No growth	No growth	No growth	No growth	No growth	Positive growth
Market Position	**Expansion**	**Expansion**	**Peak**	**Slump**	**Slump**	**Slump**	**Recovery**	**Recovery**	**Recovery**	**Recovery**

Source: Field Survey, 2014.

The result of Table 2 revealed the level of importance placed on certain variables by office property managers in offering advice on letting, selling or developing a new property to the property owners/ investors. The trend in market values was ranked first showed that managers depend much on trends in giving their advice. This was followed by the state of the economy, followed by feasibility and viability studies and marketing strategies normally employed was ranked fourth. Market cycle with its attending indicators was ranked second to the last variable while owners influence on what happen in the market ranked the last. The implication of these results was that the managers understanding of what constitute market cycle indicators (as shown in Table two) was not put to bear much while offering advice at whatever stage of the property investment and management. Market trends had earlier been observed in Omuojine (1994) as a misleading and deceptive way of describing market performance. Advice based on feasibility and viability studies could equally be shrouded with a lot of uncertainties. The state of the nation economy could either mar or make the market; but the national economic state was often revealed by the level of demand and supply with their vacancy rates which market cycle captured.

Table 3. Variables Considered by Property Managers in Offering Advice

Variables	Very Important (5)	Important (4)	Uncertain (3)	Less Important (2)	Not Important (1)	RII	Rank
Feasibility & Viability Studies	650	280	30	60	20	0.80	3
Market Value Trends	900	200	15	30	10	0.89	1
Market Cycle	500	320	15	90	30	0.73	5
Marketing Strategies	600	320	30	60	20	0.79	4
Owners' Influence Prevail	350	320	30	140	30	0.66	6
State of Nation Economy	650	320	0	60	20	0.81	2

Source: Field Survey, 2014.

In the Kendall Co-efficient of Concordance (W) analysis being used to show whether the managers' rankings were in perfect agreement; the maximum statistical responses of 20 were randomly selected from the 260 managers using the table of random numbers in Microsoft Excel. The degree of association among k sets of ranking (very important:5, important:4. Undecided:3. Less important:2, and unimportant: 1) of N (6 Variables specified in table one) were put in K by N matrix form (Table 3).

Using the formula, $W = 0.0678$; calculated $S = 475.02$ while S from the statistical table at 5% level $= 764.4$ then it could be inferred that (since the S from the table was greater than S calculated) the managers' sets of ranking were independent; and $W = 0.0678$ showed that maximum disagreement exist among the property managers in the market parameters used to give advice to property owners /investors in the study area.

Table 4. Randomly Selected 20 Responses For Concordance Scores by Managers

Rank	Feasibility &viability	Market trends	Market cycle	Marketing strategies	Owners' influence	Nation economy
Very Important:5	50	85	35	40	40	75
Important: 4	28	08	20	32	20	04
Undecided: 3	00	00	00	03	03	00
Less Important 2	04	00	08	02	06	06
Not Important 1	01	01	04	02	03	01
R_j	83	94	67	79	72	86
$(R_j - \overline{R}_j)^2$	8.07	191.55	173.19	1.35	66.75	34.11

Source: Field Survey, 2014.

6. CONCLUSIONS

This study had provided useful hints on the relevance of property market cycles in the office property investment market. It had been empirically deduced that demand and supply factors were key indicators of commercial office property market cycles, and their condition determined each of the stages that could be experienced in the market cycle. Hence, the property managers must have the knowledge of the market cycle in order to give appropriate advice that must be time specific to their clients/ property owners during letting and management of the office property. The determination of the market position was based on the decision rule earlier established in theory concerning the features expected in each phase of the market cycles. It must be noted that the cyclical nature of the cycle experienced in the study area was steep in slopes because of long period of expansion phase between 2002 and 2007 periods. The phases were not proportionately uniform in this study, hence the advice to give at a particular period or years must be defensible and justified.

The managers' rating revealed lack of knowledge and application of the market cycle indicators; and that managers lack data storage and applied research credibility which could bear on their quality of advice on when to let, purchase or sell, start a new development or convert existing- use, or wait for ripe period. The second analysis inferred that there was no significant agreement at 5% level in the ranking of the variables managers considered while giving advice to their clients; an evidence of lack of cooperation among managers in the study area.

Hence, property managers or analysts must embrace collaboration and create research units that monitored property transactions over a long period of their firms establishment, generate descriptive analysis of such data that would subsequently lead to informed and explicit judgment in their dealing with clients.

In addition, government policy formulation in construction industry, economic reforms and empowerments must draw their strength from research findings and the professionals in the built environment must be involved in the implementation of their economic development policies.

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Strategic implications of voluntary disclosure and the application of the legitimacy theory

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Abstract:

A broad and in-depth review of voluntary disclosure, as the consequential reflection of corporate governance, provides alternative explanations for some the research results discussed in the traditional literature. With regard to the implications of the information asymmetry and the agency theory on voluntary disclosure, we see that the correlation of such is not absolute. In this paper, our understanding in the subject matter is deepened, as we evaluate the various dimensions of corporate disclosure both from a theoretical and an empirical point of view. We discuss the strategic effects as well as the incentives behind corporate disclosure while mirroring the disclosure theory to the legitimacy theory in real life business settings. As we discuss the potential conflicts and drawbacks that researchers and practitioners may have encountered in their previous research, we have discovered that many fundamental research questions related to voluntary disclosure have, in fact, remain unanswered as a result of mixed interpretations. Finally, we propose directions for future research, and subsequently open new research arena to be tested by further research.

Keywords: corporate disclosure; corporate governance; agency theory; information asymmetry
JEL codes: F23, O30, M16

1. INTRODUCTION

The legitimacy theory is often associated with concepts of managerial science, sustainable development as well as voluntary disclosure, which can be both social and environmental; all of which are equally important to long-term business success. As a matter of fact, there is a growing interest in the legitimacy and the disclosure theory, as can be seen from the research emphases that have been put on them in the corporate governance literature. However, the definition of the legitimacy theory is rather broad and covers a spectrum of management activities, which are deemed proper according to a set of societal norms. Nevertheless, the close link of the legitimacy theory with voluntary disclosure is witnessed by their likelihood in quantifying the effects of organizational behavior. These behaviors whose social values are in line with the expectations of the society and moral beliefs seem to enhance firm performance both in the short run and in the long run, and thus deserves research merits on its own. As a matter of fact, the application of the legitimacy theory in a real life business setting is reflected by a number of socially desired business activities that are primarily performed in return for benefits that are otherwise unattained without these actions.

Hooghiemstra (2000) has addressed the topic of corporate social reporting utilizing the legitimacy theory. In other words, the author believes that corporates disclose social and environmental information as a result of public pressure and media attention; and that social disclosure is a strategy to affect the public perception about the legitimacy of the organization. Consequently, when it comes to the topic of corporate communication, the information from corporate social reporting can be used to understand the corporate identity along with the corporate brand. O'Donovan (2002) has analyzed the reasons why companies disclose environmental information in the annual reports. The author has aimed to find empirical evidence for the legitimacy theory in real life business settings. The author has explained voluntary corporate disclosure in terms of sustainable businesses in which firms must act in a socially acceptable manner. The author has also found supporting evidence for the legitimacy theory as the explanatory factor for corporate disclosures.

Researchers have been interested in the cause and consequences of voluntary disclosure. For publically listed companies, the amount, depth and quality of disclosed information affect the reputation, competitiveness and image of the company in the public eyes. Disclosure on its own does not add business values. The top management has begun to recognize the need for a better strategy in tackling corporate disclosure. While regulations and business interests both require management to disclose a certain amount of information, the public is also interested in information that is beyond the requirement of law. This pressure on the top management to reveal their social responsibilities has pushed corporate disclosure to a new dimension. Moreover, the growing importance of sustainable development has resulted in the rising interests in corporate disclosure. When it comes to corporate governance, it seems that voluntary disclosure is an effective way to measure management efficiency and financial success. Therefore, there has been a great dedication of effort invested in the research of voluntary disclosure in the arena of managerial science. The legitimacy theory, on the other hand, has received a controversial public response. Empirical cases seem to both support and contract the legitimacy theory. Nevertheless, it is acknowledged that both the legitimacy theory and voluntary disclosure include some degree of social characteristics.

Researchers have now gone beyond the sheer definition of the legitimacy to the stage of linking the legitimacy theory with the disclosure theory in order to further our understanding of corporate governance. Given the mixed results on the legitimacy theory and voluntary disclosure, the aim of this research is to form a holistic picture on the subject matter from different perspectives in order to clear our understanding in voluntary disclosure. Consequently, we differentiate between the propensity of companies to engage in voluntary disclosure, the academic view of voluntary disclosure, the empirical evidence of voluntary disclosure and finally the strategic implications of voluntary disclosure in the following sections.

2. LITERATURE ON CORPORATE DISCLOSURE

The popularity of the legitimacy theory and the disclosure theory is seen through the large amount of research effort dedicated in the subject matter. We have collected selected articles, which are representative of the trend, on voluntary disclosure in Table 1.

Table 1. Theoretical Articles on Voluntary Disclosure

Author(s) and Year	Research Nature	Key Result
Dontoh (1989)	Product theory	Value-maximizing firms may voluntarily disclose unfavorable information
Darrough and Stoughton (1990)	Signaling theory	Disclosing proprietary information provides strategic information to competitors but is useful to financial forecasts.
Verrecchia (1990)	Agency theory	The potential for full disclosure is associated with the quality of information and the level of competition.
Wagenhofer (1990)	Cost theory	Higher proprietary costs of higher risk of an adverse action can make disclosure more or less likely.
Gigler (1994)	Signaling theory	Firms disclose private information when verification is impossible, and such disclosures can be credible.
Feltham and Xie (1992)	Signaling theory	Partial disclosure exists when an informed manager wants to communicate good news and hide bad ones to the capital market but other way around to competitors.
Clinch and Verrecchina (1997)	Agency theory	Competitive disadvantages and intensive competitions decrease companies' incentives to disclose information.
Penno (1997)	Information asymmetry theory	Higher informational asymmetry is not accompanied by more voluntary disclosure.
Healy and Palepu (2001)	Financial reporting theory	Current research on financial reporting and disclosure has provided a number of useful insights.
Korn and Schiller (2003)	Corporate governance theory	The previous result that in equilibrium firms should disclose all their private information is not convincing.
Fishman and Hagerty (2003)	Product theory	Mandatory disclosure is necessary in markets where product information is difficult to understand.
Hughes and Pae (2004)	Asset theory	Only high precision information is disclosed
An et al. (2011)	Information asymmetry theory	Motivation for disclosure includes reducing information asymmetry; discharging accountability to stakeholders; and to signaling organizational legitimacy and excellence.

Source: own study on the basis of included literature.

McWilliams et al. (2006) raised the strategic importance of corporate social responsibilities in corporate governance. The authors proposed to analyze corporate social responsibility using a theoretical framework and defined corporate social responsibility to be voluntary actions that contribute some degree of social value to the society. Consequently, there is a positive trend in the research of corporate social responsibility as sustaining competitive advantage. Healy and Palepu (2001) have confirmed the importance of voluntary disclosure, which can be seen as part of corporate social responsibility. However, in the reality, in line with the research results of Fishman and Hagerty (2003), companies choose to voluntarily disclose information when doing so would bring them some of value than otherwise. As a matter of fact, companies disclose information that are not required by law but choose to do so under public pressure. Therefore, voluntary disclosure is justified in cases when there is a clear reason of doing so and consequential effects of doing otherwise, as confirmed by Wagenhofer's (1990) research.

Darrough and Stoughton (1990) differentiated between the costs and benefits of voluntary disclosure in terms of investors and competitors. Corporate disclosure poses a clear trade-off for management who wants to please their investors but to prevent their competitors from taking advantage of the disclosure. As a matter of fact, researchers such as Clinch and Verrecchina (1997) together with Darrough and Stoughton (1990) have confirmed the fact that the level of competition in the market plays a vital role in the extent of disclosure. When it comes to the information asymmetry between the company and the investors, Penno (1997) believes that information asymmetry does not have merits on its own in terms of voluntary disclosure, while An et al. (2011) believes that companies want to tighten the information gap with the outside environment. Given these mixed research results, it is no doubt that voluntary disclosure is an important topic of research, while the incentive to do so remains unclear.

Dontoh (1989) has shown that not all information, which is voluntarily disclosed are positive by nature, which contradicts the fact that companies use voluntary disclosure as a strategy to enhance their reputation. Gigler (1994) together with Hughes and Pae (2004) have argued that the quality of disclosure can be measured in terms of credibility, which separates our understanding of the quality of disclosure from the content of disclosure. Feltham and Xie (1992) together with Korn and Schiller (2003) have argued that disclosed information may also be misleading by nature, as companies disclose information based on its credibility instead of its authenticity. Subsequently, we see that the discussion in this section has focused on the theoretical development of voluntary disclosure, which has gained mixed as well as controversial results based on the previous research. Therefore, the need for empirical analysis on the subject matter is strong.

3. STRATEGIC IMPLICATIONS OF VOLUNTARY DISCLOSURE

While the theoretical development of voluntary disclosure has been well explored, the strategic implications of the subject matter still remain fully unexplored. First of all, voluntary disclosure needs to be properly defined. We also need to identify the different factors that affect the level of disclosure via empirical analysis. The incentives to disclose information needs to be classified along with the effects of the disclosure. Likewise, the implications of voluntary disclosure on corporate governance including the demand and the related costs of this activity can be quantified via empirical cases.

Theoretical Issues to Be Resolved

While the legitimacy theory is understood to include concepts such as corporate social responsibilities, environmental policies and corporate philanthropy, voluntary disclosure is often associated with disclosure in intellectual capital and intangible assets. The ambiguity in the definitions of these concepts makes it difficult to compare the research results of these studies. Having a consensus on the definition of voluntary culture is especially useful in the modeling of corporate governance in determining the strategic implications of disclosure activity within an organization.

Admittedly, mixed results on voluntary disclosure make it difficult to quantify the exact cause and consequence of the disclosure activity. While voluntary disclosure is favorably viewed as contributing social values, it is not clear the true motives behind this tendency. As a matter of fact, despite the fact that voluntary disclosure is used for marketing and control purposes, based on the annual reports it is still difficult to find persuasive information for the private incentives behind the disclosure. Incentives behind voluntary disclosure can be examined via research methods such as interviews and surveys. Having these theoretical issues resolved would allow us to analyze the role of voluntary disclosure in the management decision making process and clear out the cause plus consequences of doing so.

Strategic implications of voluntary disclosure views disclosure as a value-generating activity with the motivation to generate both social values and private values and that both types of value would be in balance. In situations where social responsible actions necessitate sacrifices of private benefits, the source of motivation behind voluntary disclosure may not originate from inside the company but would be a result of public pressure. We differentiate the motivation to serve others at the costs of private benefits as opposed to privately responsible actions that invite social costs. When privately responsible actions generate social values as a consequence, this would benefit the company and the society as well. This type of voluntary disclosure is similar to the case of externalities. In other words, disclosure may generate positive externalities that are beneficial to the public Nevertheless, it is often the case that trade-off between private benefits and social values results in management acting in a way that is not beneficial to the society.

The positive externality of voluntary disclosure can be increased by understanding the incentives for companies to do so. When the disclosure activity can be used as a strategy to generate values for the company, management may find it easier to do so. Besides the benefits of reputation and branding, the tendency of companies to disclose strategic information depends on the industry type and public response to it. One of the best motivation factors for companies to disclose information is when customers are willing to pay a premium for such an activity. That is, when financial benefits result from voluntary disclosure, companies have more incentives to behave in such a socially responsible manner. Increasing supply of voluntary disclosure would be a direct response to the increase in the profit margins.

In addition to the incentives to disclose information, the analysis of voluntary disclosure as a socially responsible activity also deserves research on its own. Answer to this question is not so obvious. The case when companies do well by being socially responsible is different making profits via the manipulation of information. While the alignment of financial performance and social performance has been already established, the effect of voluntary disclosure may not always be positive given the quality, content and the amount of information that is being disclosed. Research on voluntary disclosure reveals important strategic implications of the legitimacy theory. Both as a strategy to differentiate and to excel, voluntary disclosure have a vital role to play in the corporate governance arena.

Analysis of voluntary disclosure from the strategic implications' point of view is admittedly challenging and complicated by both firm-specific and industry-specific factors. Nevertheless, with the rising recognition of voluntary disclosure as sustaining competitive advantage, the application of the legitimacy theory to real life business settings also becomes ever more important. In summary, research on voluntary disclosure suffers from definition-related issues. Distinguishing between the strategic implications of corporate disclosure, socialistic corporate disclosure and coerced corporate disclosure would be a significant theoretical development. In addition, the mixed and sometimes even contradictory results on voluntary disclosure so far would benefit from stringent empirical tests.

4. EMPIRICAL ANALYSIS OF VOLUNTARY DISCLOSURE

In order to quantify voluntary disclosure in real business settings, we need to measure the level of disclosure in the annual reports. Admittedly, difficulties associated with the measurement of voluntary disclosure also hinder our understanding in the strategic implications of the legitimacy theory. One of the main challenges in the empirical analysis of the disclosure theory lies in the lack of unified measurement standards in terms of the level of disclosure. As long as there exist mixed results over the definition of voluntary disclosure, it would be difficult to measure and compare empirical results on the subject matter. Table 2 summarizes the research trend on voluntary disclosure based on selected articles.

Simon and Wong (2001) have tested a theoretical framework related to a set of corporate governance attributes and voluntary disclosure using a sample of publicly listed companies. The number of independent directors and the existence of a voluntary audit committee have found to be associated with an increasing amount of voluntary disclosure. This effect is confirmed by researchers such as Cheng and Courtenay (2006). Chau and Gray (2002) distinguished the low level of disclosure in family-controlled families. Eng and Mak (2003), on the other hand, have done a research on the impact of ownership structure as well as board composition and voluntary disclosure. Their results show that increased disclosure is mainly associated with lower managerial ownership and higher government ownership, lower outside directors, larger firms and firms with lower debt. Similar results were obtained by researchers such as McKinnon and Dalimunthe (1993); Hossain et al. (2007).

Table 2. Empirical Articles on Voluntary Disclosure

Author(s) and Year	Subject Nature	Key Argument/Result
Chow and Wong-Boren (1987)	Disclosure practices of Mexican corporations	The extent of disclosure is positively related to firm size but not to financial leverage and assets in place.
McKinnon and Dalimunthe (1993)	Based on a sample of 65 listed Australian companies	Ownership diffusion, the level of minority interest in subsidiaries, firm size and industry membership influence voluntary disclosure of segment information.
Raffournier (1995)	Multiple regression of 161 Swiss listed companies	Size and internationality affect the disclosure policy of companies.
Inchausti (1997)	Panel data analysis of 49 Spanish companies for three different years	Size, auditing and stock exchange influence the level of disclosure
Lang and Lundholm (2000)	Disclosure activity was increased six months before the offering	Increased disclosure may have been hype, which may have been successful in lowering the cost of equity capital.
Chau and Gray (2002)	Financial reporting practices of listed companies in the Asian settings	The extent of disclosure is likely to be less in family-controlled companies, a feature of the Asian stock markets.
Eng and Mak (2003)	Sample firms listed on the Stock Exchange of Singapore at the end of 1995	Lower managerial ownership and significant government ownership are associated with increased disclosure.
Prencipe (2004)	A multiple regression of 64 Italian listed companies	Proprietary costs limit the incentive for segment disclosure to the market.
Legoria (2005)	Firms in the pharmaceutical industry during1989-1997	When firms are faced with potentially increased political costs would respond by not disclosing advertising costs.
Cheng and Courtenay (2006)	Sample firms listed on the SGX at the 2000	A higher proportion of independent directors on the board are associated with higher levels of voluntary disclosure.
Hossain et al. (2007)	The priori expectations were based on the agency theory	Firm size, foreign listing status and leverage are related to the extent of voluntary disclosure
Heitzman et al. (2010)	Correlation and regression analysis of the advertising disclosure decision	Voluntary disclosure incentives are in place when the information is less likely to be material.

Source: own study on the basis of included literature.

Adams (2002) has shown that traditional literature on the corporate social reporting was closely linked to the impact of different corporate characteristics, such as size and industry grouping. As a matter of fact, Chow and Wong-Boren (1987) were the first ones to establish a positive relationship between firm size and the level of disclosure, which was later confirmed by researchers such as Inchausti (1997); Raffournier (1995).

Maignan and Ralston (2002) have done an empirical study on the corporate communication in terms of voluntary disclosure. For companies to appear socially responsible, voluntary disclosure is one of the important means to convey social meanings. Leuz and Verrecchia (2000) have questioned the correlation between voluntary disclosure and financial success given the existing reporting standards. Lang and Lundholm (2000) have also questioned the pure intention of companies to disclosure strategic information as part of their corporate social responsibilities. It is not clear that voluntary disclosure would automatically benefit neither the society nor the company in the long run, as shown by researchers such as Heitzman et al. (2010); Prencipe (2004) and Legoria (2005). As a matter of fact, Patten (2002) has concluded that while firm size and industry classification are shown to affect voluntary disclosure, there is a negative correlation between corporate performance and the degree of disclosure.

5. CONCLUSIONS

We define voluntary corporate disclosure to be the provision of company information, which is not required by the accounting regulations and government rules. Research in financial reporting has confirmed such information to be of strategic importance. Companies not only voluntarily reveal information for strategic purposes but this activity may be carried out extensively in order to satisfy the needs of outside investors. Companies may disclose information on the characteristics and strategies of their operations or reveal the impact of their socially responsible practices. Therefore, voluntary disclosure is vital not only to the investors but also to the stakeholders in terms of reducing conflict of interests and information asymmetry. Given the disclosed information, investors can make correct financial decisions benefiting the capital market and the general economy. The strategic disclosure of corporate information enhances competitive advantage.

Voluntary disclosure and financial reporting are important means for management to communicate information about their companies to the public. Therefore, frameworks to measure and evaluate voluntary disclosure remain a key focus in the managerial research arena. It is acknowledged that the level of disclosure is influenced by the level of regulations. On a micro level, voluntary disclosure provides the communication means to the outside investors and stakeholders. On a macro level, corporate disclosure is the foundation for an efficient capital market. Companies have incentives to disclosure corporate information when doing so is beneficial. Especially when it is making equity offerings and issuing new capital, it has high incentives to use disclosure as a strategy in return for a lower cost of capital. Moreover, when the board of directors and investors put pressure on the managers to perform, managers may also use voluntary disclosure to explain their poor performances.

In this paper, we have reviewed important academic and empirical research on voluntary disclosure summarizing the historical trends in the subject matter and identifying areas for future research. We have explained the capital market demand for voluntary disclosure as well as the implications of information asymmetry and the agency conflicts on the level of disclosure. The incentives to disclose corporate information may firm-specific or industry-specific. However, given the mixed research results on the subject matter, our study contributes values to those who wish to have a holistic picture of the legitimacy theory and voluntary disclosure. When it comes to the reliability of this study, it is acknowledged that the research results discussed in this paper may suffer from the problem of endogeneity and measurement errors. While research interests in voluntary disclosure will continue to grow in the future due to the rising importance of sustainable development, both the legitimacy theory and the disclosure theory will be affected by these global changes.

Conflicting interests between the managers and the outside investors result in information asymmetry, which hinder the efficiency of the capital market, which implies that the capital market will overvalue and undervalue some investment opportunities. The information asymmetry problem can be solved via optimal contracts and regulations in which the managers are forced to disclose private information. Nevertheless, from the capital market point of view, it is interesting to see whether information intermediaries, such as the analysts, can compensate for this information asymmetry completely without having the managers to fully disclose their corporate knowledge to the investors.

When managers behave in a way that harms the interests of the investors, conflicts between self-interests and public interests creates the agency problem. Investors' properties may be invested in highly risky projects that are financed by additional debts. The nature of the asset and the dividend management policy may benefit the managers in the long run but poses significant risks to the investors especially during financial distress. In order to align the interests of the managers and the investors in this case, compensation agreements, debt contracts and independent board of directors may require the managers to disclose valuable information that are critical to the decision-making process of the investors that would be otherwise undisclosed. Market also poses pressure to the managers in terms of hostile takeovers in case of poor financial performances. The question here would be the role of competition, which we have established before, whether such market forces would reduce the interest gaps between the managers and the investors. The following research questions are raised:

1. What would be the optimal level of regulation that balances the conflicting interests between the managers and the investors?
2. How effective are the existing accounting guidelines in influencing the management decisions?
3. How effective are the information intermediaries in strengthening the capital markets?
4. How can we improve the incentives for managers to engage in voluntary disclosure that result in positive externalities?
5. What are the differences between a free market approach to disclosure as opposed to regulated corporate disclosure?
6. Can voluntary disclosure deter new entrants to the market?

7. To what extent can we regulate the independence of the board of directors?
8. How do we measure and quantify the effectiveness of voluntary disclosure?
9. To what extent does the capital market contributes to economic growth?
10. What are the implications of international cooperation in the area of financial reporting on voluntary disclosure?

Market imperfections including externalities are the reasons behind the conflicting incentives of voluntary disclosure. As a result of information asymmetry, research has shown the justification for an extensive level of regulations attempting to correct for the imperfections. The gap between the informed and uninformed can also be reduced through regulations. Voluntary disclosure would potential investors to free ride the information paid by existing stockholders leading to its underproduction. It would be interesting to know how market failure in this case would affect the operating environment for new entrants.

The existence of an independent audit committee is confirmed to contribute to the credibility of the information disclosure, as stock prices react to earnings announcements. However, it has been shown that auditors mainly act in the interests of the managers instead of the interests of the public. Future research may choose to distinguish these conflicts of interests, and thus clear the role of the auditors in voluntary corporate disclosure. By information intermediaries, we mean financial analysts who collect data to evaluate the performances of the companies that they are following in order to make recommendations. While information intermediaries add value to the capital market, there exists a consistent bias in their analyses either being too optimistic or too negative. At the same time, it is acknowledged that the self-interests of the analysts, similar to the case of the audit committee, getting rewards for generating profits for their brokerage houses, would not always act in the best interests of the public. We have shown that there are still many research questions related to voluntary disclosure that remain unanswered.

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Measuring growth of the firm: Theoretical considerations

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Abstract:

The reasons and sources of firm growth are a part of economic research since approximately 50 years. Studying various empirical studies all over the world, it is no doubt, that the problematic issue is just how to measure growth of the firm. The main objective of the paper is to discuss the measures of growth of the firm in economics and business studies. The article consists of two sections. The first section reviews basic measures of growth. The second section elaborates on a particular case of growth – measures of high-growth and hyper-growth. The articles is bases on in-depth literature review and its critics.

Keywords: growth; high-growth; hyper-growth; measures
JEL codes: F23, M00

1. INTRODUCTION

The reasons and sources of firm growth are a part of economic research since approximately 50 years. As a starting point the theory of firm growth can be identified which has challenged in 1950s the neo-classical research. Contrary to the neo-classical theory of the firm, the theory of firm growth views the company not only as a transformer of market-price signals into optimal cost structures. Instead, Penrose (1959) determines the firm as an autonomous entity which is not successful and growing due to optimal price-quantity adjustment but because of the development and the combination of firm-specific resources.

The main objective of the paper is to discuss the measures of growth of the firm in economics and business studies. The article consists of two sections. The first section reviews basic measures of growth. The second section elaborates on a particular case of growth – measures of high-growth and hyper-growth. The articles is bases on in-depth literature review and its critics.

2. MEASURES OF THE FIRM-LEVEL GROWTH

The models and theories discussed in the previous chapters could be distinguished into two classes: (1) the firm as a machine that is a product or a trivial input-output-machine of internal and external forces and can thus be more or less described with measurable parameters or modeled with a mathematical-economics approach to identify cause-effect relationships; and (2) the firm is a system of information and activities and can be described by metaphors and models, but cannot by modeled in a positivistic sense. In the case of the firm as a system, only patterns can be identified and described verbally.

However, Achtenhagen et al. (2010) remark that academic scholars and entrepreneurs do not mean the same as the term *business growth*. For practitioners, growth is a complex process of internal development; therefore, they prefer qualitative measures whereas academic literature uses mainly quantitative measures, which are derived from financial analysis. Therefore, the positivistic approaches are the only approaches that have developed concepts to accurately measure growth. Thus, stochastic models operationalize growth, for example, with variables such as (1) net sales or (2) employee growth (e.g., Laitinen, 1999) or even (3) R&D expenditures (e.g. Toivanen et al., 2010), etc. to identify or falsify causal relationships between distinct variables.

The most advanced theories in terms of measuring growth and statistical correlations are industrial-economics approaches. Deterministic and management views of growth measure growth by the growth of revenues, profits, profitably, market share, etc. and are thus based on variable sets for which financial research provides metrics, to measure quantitative and qualitative firm growth. Overall, Delmar (1997; 2003) found that turnover/sales is the most frequently applied growth measure: More than 30% of the studies they examined used turnover/sales as a growth measure and 29% used the number of employees. Shepherd and Wiklund (2003) examined firm growth literature and noted that 60% apply sales growth as a metric for growth, 12.5% apply employee growth, 12.5%, 14.5% apply profit and profitability ratios, and 14.4% apply other measures as growth metrics (Table 1).

Table 1. Examples for Measures of Firm Growth as Dependent Variable applied in various Research Projects (2005-2014)

Measures	Authors
Net sales, turnover, revenue, sales growth	Mishina et al. (2004); Shaw, Duffy, Johnson, and Lockhart (2005); Gardner (2005); Simsek, Veiga, Lubatkin, and Dino (2005) Zatzick & Iverson (2006); Sine, Mitsuhashi & Kirsch (2006); Arthaud-Day et al. (2006); Moreno & Casillas (2007) Hölzl (2009); Anaydike-Danes et al. (2009); Evangelista & Vezzani, (2010); Cassia & Minola (2012); Murmann et al. (2014); Beers & Zand, (2014); Coad et al. (2014)
Operating income, Net income, Earnings, EBITDA	Shaw, Gupta & Delery (2005);
Market share	None
Employment growth	Shaw, Duffy, Johnson, and Lockhart (2005); Hölzl (2009); Murmann et al. (2014); Anaydike-Danes et al.(2009); Carz-nitzki & Delanote (2013); Barbaro et al. (2014)
Basic earning power (BEP)	None
Productivity	Boer & During (2001); OECD, 2006; Rocchina-Barrachina et al. (2010); Urgal et al. (2013)
Return on Equity (ROE)	Shaw, Gupta & Delery (2005); Westphal & Bednnar (2005)
Return on investment (ROI); return on invested capital (ROIC)	Luo & Chung (2005); Tan & Tan (2005)
Return on assets (ROA)	Miller & Eden (2006); Arthaud-Day, Certo, Dalton & Dalton (2006); Sanders & Tuschke (2007); Goerzen & Beamish (2005)
Total shareholder return (TSR), stock return; price/book ratio	Kumar (2005); Johnson, Ellstrand, Dalton, Dalton (2005)
Value-added measures such as EVA (economic value-added), etc.	None

Source: Own study based on a selective evaluation of *Management Journal*, *Administrative Science Quarterly* and *Strategic Management Journal* (2005-2014) as well as on Achtenhagen, Naldi & Melin (2010, p. 293) and own research in the field of high-growth-companies literature.

Therefore, it can be stated that the overwhelming number of studies on firm growth use financial measures and ratios, which leads to the conclusion that firm growth in scientific studies is generally measured in its quantitative dimension. According to a literature review of Achtenhagen et al. (2010), almost 50% of scientific studies measure firm growth in turnover and 30% measure growth in staff numbers both in Europe and America (see Table 2).

Achtenhagen et al. (2010) reviewed 55 articles published between 1997 and 2008 in selected journals[1] to compare metrics and concepts of growth in academic literature with 'entrepreneurial concepts' of growth (see Table 2). They interviewed 2,034 CEOs of Swedish companies. Their objective was to problematize "*the gap that exists between how growth is discussed and measured in entrepreneurship*

[1] Entrepreneurship Theory and Practice (ETAP), Journal of Business Venturing (JBV), Entrepreneurship and Regional Development (ERD), and International Small Business Journal (ISBJ).

studies and how it is perceived by entrepreneurs themselves" (Achtenhagen et al., 2010, p. 309). Their conclusion is that growth indicators and measures in academic literature are mainly quantitative whereas in entrepreneurial or management practices, growth is generally measured in metrics of internal development and thus more in its qualitative dimension (Achtenhagen et al., 2010). Instead, quality measures in academic literature are seldom. Only a few studies apply qualitative measures, such as innovation performance, as a measure for qualitative growth

Table 2. Most commonly used indicators for measuring economic development of SMEs in scientific studies

Variables	U.S.-based/Europe-based journals	Total	Percent
Growth measure			
Sales/turnover	17/6	23	41.8
Employees	10/5	15	27.3
Growth willingness/Growth intention	6/4	10	18.2
Profitability	3/1	4	7.3
Combinations of the previously mentioned measures	5/4	9	16.4
Growth strategies (e.g., diversification; product extension; internationalization)		9	16.4
Others (e.g., assets; value added)	0/4	4	7.3
Not reported	4/1	5	9.0
N	38/17	55*	
Motivation for choice of measure			
(−)	19/13	32	58.2
(+)	15/3	18	32.7
Partial, referring to prior studies	4/1	5	9.1
N	38/17	55*	
Growth definition/conceptualization			
(−)	24/12	36	64.3
(+)	15/5	20	35.7
N	39/17	56	
Time frame			
Cross-sectional	16/6	22	40.0
Longitudinal	22/11	33	60.0
N	38/17	55*	
Source of data			
Primary data	19/9	28	50.9
Secondary data	12/4	16	29.1
Both	7/4	11	20.0
N	38/17	55*	
Theoretical basis			
(−)	17/11	28	50.0
(+)	22/6	28	50.0
N	39/17	56	
Type of paper			
Qualitative	9/7	16	28.6
Quantitative	29/8	37	66.1
Mixed method	0/2	2	3.6
Conceptual	1/0	1	1.8
Total	39/17	56	

Note: * n = 55, because the conceptual article is not included. (−), not made explicit; (+), made explicit.

Notes: Concerning growth measures it is obviously that measures concerning the pure expansion of a firm in terms of sales and employees is the main metric to determine firm growth. Only one-fifth of the studies use qualitative financial metrics such profitability or value-added. Another one-fifth of the studies uses pure qualitative measures such as growth intention or diversification degree.
Source: Achtenhagen et al. (2010, p. 293).

(e.g, Beers & Zand, 2013). Wach (2012) notes that classic measures of performance and growth may not be sufficient to explain performance and growth. Classic measures are uni-dimensional, focused on isolated areas, and are not tracked in several independent areas, whereas the complexity of growth needs more complex systems of performance measurement systems (see Table 3).

Table 3. Traditional vs. Complex Performance and Growth Measurement Systems

Traditional performance measurement systems	Complex performance measurement systems
- Uni-dimensional focus on financial measures - Performance tracked in isolated areas - Prevalence on functional measures	- Multi-dimensional focus combining a variety of measures - Value-based - Performance tracked in several areas

Source: Own study based on Kanji et al. (2015, p. 51).

Beers and Zand (2014) or Frenz and Letto-Gilles (2009) measure firm growth in terms of share of innovative sales in total revenue. However, recent studies present no evidence for the relationship between innovation growth and firm growth (e.g., Acs, Parsons & Tracy, 2008). Therefore, it must be assumed that such growth measures may indicate growth in several areas of a company, but do not measure success-relevant factors because highly innovative firms are often not high-growth firms. Instead, serial entrepreneurs use in the meanwhile the term "*last mover advantage*" (Thiel, 2014, p. 44) to oppose the widespread belief that the first mover advantage is a success factor. Rather, also academic research accentuates more the risks of technology leaders or first movers and tends to pronounce the more likely success of second movers (e.g., Cleff & Rennings, 2011). Furthermore, it must be stated that such non-financial, qualitative research constructs are only second-order measures, measuring also only changes in isolated areas but cannot link qualitative measures with quantitative measures.

Other models mentioned in Table 3, such as corporate life cycle approaches and evolutionary approaches, provide only metaphors linked with assumptions concerning the change of financial variables (e.g., Churchill & Lewis, 1983). However, they do not provide approximate or even exact correlations between selected independent and dependent variables or the operationalization of variables, such as the *life cycle stage*, which seems arbitrary. Thus, for example, a company's age cannot be a valid proxy variable for qualifying the company's life cycle stage. Moreover, even positivistic approaches, such as industrial economics and managerial models, cannot deliver more than general statements such as that 37 independent variables explain about 80% of the ROI variance (Schoeffler, 1977, pp. 111-112).

Concluding it is necessary to state that for measuring the growth of the firm different scholars and researchers use mainly two measures, namely changes in (1) annual turnover or sales as well as (2) employment. This is a very pragmatic approach as it ensure slid comparisons among entities and it is more objective than other non-quantifying measures. What is more, even the high-growth and hyper-growth companies/entrepreneurship concept is based on these two measures.

3. MEASURES OF HIGH-GROWTH COMPANIES

Starting from Penrose's theory of firm growth as the "*only true classic*" of growth studies (Davidssson, Achtenhagen & Naldi, 2010, p. 7), the concept of 'gazelle companies' occurred in the 1970s in the field of business studies. The term and concept of 'gazelle companies' was coined by Birch (1979; 1987) in the 1980s and is now generally accepted for companies that show rapid growth rates of more than 20% in number of employees over a 3-year period in companies up to five years old (Audretsch, 2012, p. 3). However, this concept is now widely accepted, as it is mirrored in a definition by the Organisation for Economic Co-operation and Development (OEDC), which defines:

> "*High-growth enterprises, as measured by employment (or turnover), are enterprises with average annualized growth in employees (or in turnover) greater than 20% a year, over a three-year period, and with ten or more employees at the beginning of the observation period*" (OECD, 2011, p. 74).

According to the OECD, high-growth companies are a 'minority'. They represent only 3.5% to 6% of the total population, when measured by employment growth of 20% and even more when measured by turnover (OECD, 2011, p. 71).

The term *gazelle* is a synonym for these types of companies and is used to distinguish fast-growing companies from large corporations ('elephants') and small and micro enterprises ('mice'). In the sense of Gibrat's law, these companies can be found in the extreme tail of the normal distribution of firm growth rates (Audretsch, 2012). The concept of gazelle companies is introduced to label the companies that can be found in the extreme tail of an intra-country distribution and normally are not included in the research of the stochastic approach, in which the data sets are generally distributed to larger enterprises (Audretsch, 20126). Accordingly, the high-growth approach confirms the views of critics of the stochastic view of firm growth such as Laitinen (1999), Reichstein and Jensen (2005), Bottazzi et al. (2003), and Duschl et al. (2011). High-growth company research, which investigates the group of gazelles, concludes that smaller and younger companies in knowledge-intensive industries have significantly higher growth rates than the rest of an intra-country population (Audretsch, 2012). Thus, the thesis of stochastic growth must be rejected because companies with higher growth ratios show distinct characteristics.

However, even now, high-growth patterns are not well understood in the literature. It is debated whether growth depends on strategic patterns (niche or mass market strategies, etc.) or single variables such as firm size, age or industry, type of governance, entrepreneurs' ambitions, etc. (Bastesen & Vante, 2014). Additionally, there is no uniform definition for high-growth companies. Frequently, high-growth is measured by employment or by turnover (OECD, 2011). However, Wach

(2012) identifies six classifications of high-growth small- and medium-sized enterprises (SMEs) used in recent research literature with partially overlapping definitions and characteristics (see Figure 1): (1) high-growth SMEs, (2) innovative high-growth SMEs, (3) gazelle SMEs, (4) high-tech SMEs, (5) innovative SMEs, and (6) hyper-growth SMEs (Wach, 2012, p. 42).

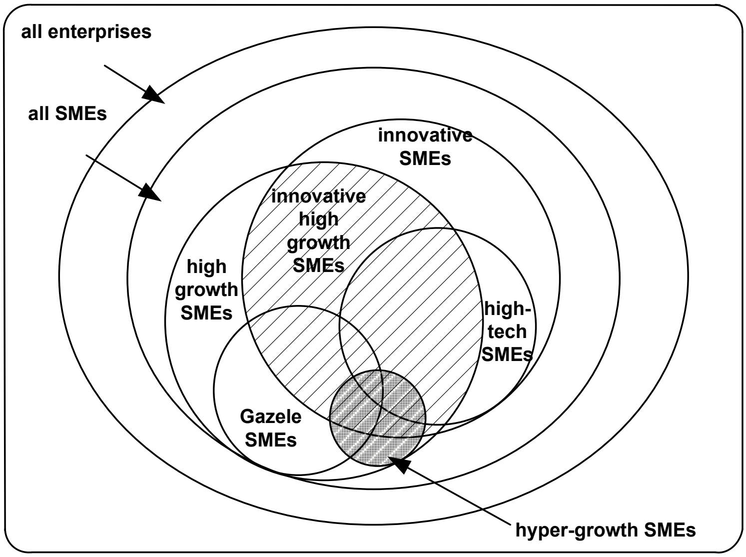

Figure 1. Typologies of High-growth Companies

Source: Wach (2012, p. 42).

According to Audretsch (2012), the new approach of gazelles occurred as firm growth studies began to include a broader spectrum of firm size and age. Thus, empirical evidence began to shift. Firm growth was found in most studies to be systematically related to certain specific characteristics (e.g., Geroski, 1995; Hall, 1987; Audretsch, 1995). Subsequently, studies including samples from European countries, supported initially U.S.-focused studies (Audretsch, 2012).

The particular interest in high-growth exists for at least four reasons:

1. Growth is typically equated with high performance and thus with higher returns for owners (Dobbs & Hamilton, 2007);
2. The second reason is the assumption that growing companies are twice as likely to survive compared to non-growing companies (Phillips & Kirchhoff, 1989);
3. Additionally, small firms have been identified as being responsible for 95% of radical innovations and 55% of all general innovations (Robbins et al., 2000), due larger firms focusing on products with stable and thus more predictable and less risky revenues;
4. High-growth companies provide a disproportionally higher number of jobs compared to other companies (e.g. Autio et al. (2000); Acs et al. (2008);

Anaydike-Danes et al.(2009)). Therefore, an increasing number of studies with SME focus have been carried out in the last 10 years, with each using different growth measures and explanatory variables (see Table 4).

Many other threshold values are available to distinguish high-growth and hyper-growth companies (Petersen & Ahmad, 2007). However, it must be questioned if the discussion about threshold values and new definitions has more than academically value-added in particular because Birch's intention was only to distinguish large businesses quoted on the stock market from slow-growing start-up firms and small fast-growing start-up firms (Birch et al., 1993).

Table 4. Definition of Different Growth-Levels in Terms of Financials

Term	Definition	Studies applying this Indicator
Diminishing Growth	Annual revenue growth (CAGR) <5% over a 3-year period	Own definition
Normal or moderate Growth	5% to 20% annual revenue growth (CAGR) over a 3-year period	Own definition
High Growth (Gazelles)	> 20% annual revenue growth (CAGR) over a 3-year period	e.g., Birch (1987); Birch & Medoff (1994); Schreyer & OECD (2000); Hoffmann & Junge (2006); Cassia et al. (2009); Sendervoitz et al. (2012);
Hyper Growth	Annual revenue growth rate (CAGR) >100% in a 5-year period (3000% in total!)	Fischer et al. (1997)
	≥ 500 revenue growth over a 5 year period	Markman & Gartner (2002);
	≥ 560% revenue growth over a 5 year period	Barringer & Jones (2004)

Note: Birch et al. (1987; 1994) and the other authors used the term *turnover*, Markmann & Gartner (2002) the term *income*. According to the IFRS/GAAP standard; here, the term *revenue* is used as synonym for both terms.
Source: Own study.

However, such threshold values are irrelevant for this study because a threshold value is always arbitrary und subjective, as it is evident regarding the manifold of different definitions presented above (see Table 4 above). In this study, however, companies are compared that perform above the total sample average in specific financial growth metrics with companies that perform below the average of the total sample. Thus, growth companies are not distinguished by arbitrary thresholds but are defined by the average of the total sample of all stock-listed companies of the three countries.

4. CONCLUSIONS

In overviewing the discussed models, theories, variables sets, etc., it is evident that firm growth is a very complex phenomenon that cannot be explained by a simple model or a simple linear model cause-effect relationship. Therefore, it is remarkable that theories of many studies apply under-complex statistical methods such as bivariate or multivariate analyses. Only the PIMS study applies an explorative factor analysis to sort different variables into groups in a way that factor loadings can be determined with the result that a group of variables explains firm growth. However, the problem in this case is the missing transparency of the data set containing internal corporate data and not on financial data available from external sources, such as the income statement and balance sheet. Therefore, some industrial economics and managerial approaches to measure and explain firm growth are not reproducible or are, in the case of Porter's (1980) approach, based on a sum of individual case studies using mainly qualitative research constructs, which are more or less metaphors, such as: How, for example, can the 'height' of the market entry barrier be measured? This can always only be a subjective evaluation of a researcher or respondents.

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