



European  
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**EDAMBA**

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## **Foreword from the Summer Academy Chair**

**EDAMBA, the European Doctoral programmes Association in Management and Business Administration** has the mission to support and facilitate cooperation by providing and managing a network to exchange information, disseminate best practices and raise the quality of doctoral education among its members in Europe and beyond. For the past quarter century, **EDAMBA** has helped the participating schools to increase the quality of their Doctoral programmes, as well as to create an environment of excellence with a European perspective, all the while pursuing diversity. In many ways it has proved to be an unparalleled forum of discussion to schools that have a long established tradition of doctoral education and also to those who have recently started this new practice. The ultimate goal is to have the **EDAMBA** network reach as far and wide as possible, while at the same time maintaining the integrity of the various programmes within the network.

Currently EDAMBA has 60 doctoral programmes as members of the Association coming from 24 countries. It is governed by the General Assembly, which elects each year an Executive Committee. The main current activities of the Association are the Annual Meetings, the Research Summer Academy, the Consortium on Doctoral Supervision, the Thesis Competition.

The Summer Academy operating since 1992 with its international dimension has been the privileged forum for dialogue on research paradigms and methodologies while building a strong scholarly network among doctoral students coming from a broad range of programmes and disciplines.

### **The Summer Academy**

- provide a forum for dialogue on research paradigms and methodologies in the field of management and business research
- allow participants to present their own research with a focus on its place in the research landscape in business and management
- Give young researchers means to motivate them to continue with their research and find a role and intellectual identity in today's research landscape
- build scholarly networks among young researchers from the various fields of management and business research

The first Summer Academy Series aims at publishing the work in progress of the delegates. With this publication, we hope to contribute to the dissemination of knowledge from throughout our network in Europe and worldwide.

### **Hans Siggard Jensen**

EDAMBA Honorary President

EDAMBA Summer Academy Chair

EDAMBA acknowledges the expertise, time and effort of the Faculty members:

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# Collaboration within universities: Individual factors which affect academics' knowledge sharing intention

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## Abstract

*The purpose of this study is to investigate the collaboration within universities, expressed in the knowledge sharing intention among academics, and the factors which influence that intention. It analyzes the influence of individual factors such as self-efficacy, the enjoyment in helping others, personal reputation and the perceived loss of knowledge power regarding academics' knowledge sharing intention.*

*In addition, the relationship between interpersonal trust and knowledge sharing intention will be analyzed, and the moderator role of the norm of reciprocity, with regard to the relationship between interpersonal trust and academics' knowledge sharing intention, will be studied.*

**Keywords:** Knowledge sharing, knowledge sharing intention, self-efficacy, enjoyment in helping others, personal reputation, loss of knowledge power, interpersonal trust, the norm of reciprocity.

## Introduction

Universities and other higher education institutions are knowledge-intensive organizations, recognized to be in the knowledge business. They have knowledge at its very core, and its fundamental activities are associated with knowledge creation, dissemination, and learning (Rowley, 2000).

Knowledge sharing is the process where individuals mutually exchange their implicit and explicit knowledge and jointly create new knowledge (van den Hooff & de Ridder, 2004). It requires people's willingness to share the knowledge they have acquired or created (Bock, Zmud, Kim & Lee, 2005).

## The research problem

Although there is substantial amount of knowledge management research in commercial environments and a growing recognition of their role in public sector organizations, research on knowledge management in universities is very limited. Further, there is scant research on knowledge sharing in higher education, focusing mainly on the ways in which universities differ from other working contexts. This is contrary to expectations that universities would take a more active approach on the development of knowledge sharing strategies (Fullwood & Rowley, 2017).

This research will study the individual factors affecting intention of academics at universities to share their tacit and explicit knowledge, and the relationship between interpersonal trust, the norm of reciprocity and knowledge sharing intention.

## Research questions

Research questions are the following: How do individual and social interaction factors influence on academics' knowledge sharing intention? What influence do individual intrinsic and extrinsic factors have in the academics' knowledge sharing intention? What influence do interpersonal trust and the norm of reciprocity have in the academics' knowledge sharing intention? What effect does the norm of reciprocity have over the interpersonal trust and the academics' knowledge sharing intention?

## **Literature review**

Knowledge sharing intention has been defined as the degree to which one believes that one will engage in a knowledge sharing act (Brock et al., 2005). The best way to predict whether an individual will perform a specific behavior is by asking its intentions to perform that behavior (Fishbein & Ajzen, 1975).

People's beliefs in their personal efficacy, their perceived self-efficacy, refer to individual's capabilities to mobilize the motivation, cognitive resources, and courses of action needed to exercise control over events in their lives. To be successful, a person should not only have the required skills but must have self-confidence, which will enable them to reach the desired goals (Wood & Bandura, 1989). Perceived self-efficacy can help motivate people to share its knowledge (Lin, 2007).

According to Kankanhalli, Tan and Wei (2005), enjoyment in helping others is derived from the concept of altruism, which exists when people obtain intrinsic enjoyment from helping others without expecting anything in return. Altruistic people are intrinsically motivated to share their knowledge because they enjoy helping others.

Personal reputation has been included in several studies as one of the factors that motivate knowledge sharing, being defined as the degree to which a person believe that participation in knowledge sharing could enhance personal reputation (Hsu & Lin, 2008). Individuals are motivated to contribute their knowledge when they perceive that their participation will enhance their reputation (Wasko & Faraj, 2005).

Since knowledge is perceived as a source of power, knowledge contributors may fear losing their power if others know what they know (Gray, 2001). Thus, individuals may not be willing to share their knowledge due to a perceived loss of knowledge power.

Interpersonal trust is defined as "the extent to which a person is confident in, and willing to act on the basis of, the words, actions, and decisions of another", this applies at the level of interpersonal relations, such as the ones that are carried out by knowledge sharing among others in an organization (McAllister, 1995, p.25).

Kankanhalli et al. (2005) argued that reciprocity is considered a benefit for individuals to participate in social exchanges because they expect future help from others based on their contributions, and can serve as a motivational mechanism for people to contribute to knowledge sharing.

In his seminal study, Gouldner (1960) argues the norm of reciprocity acts as a "starting mechanism", which helps to initiate social interaction and is functional in the early phases of certain groups before they have developed a differentiated and customary set of status duties.

## **Conceptual model**

The conceptual model of the research is shown in Figure 1.

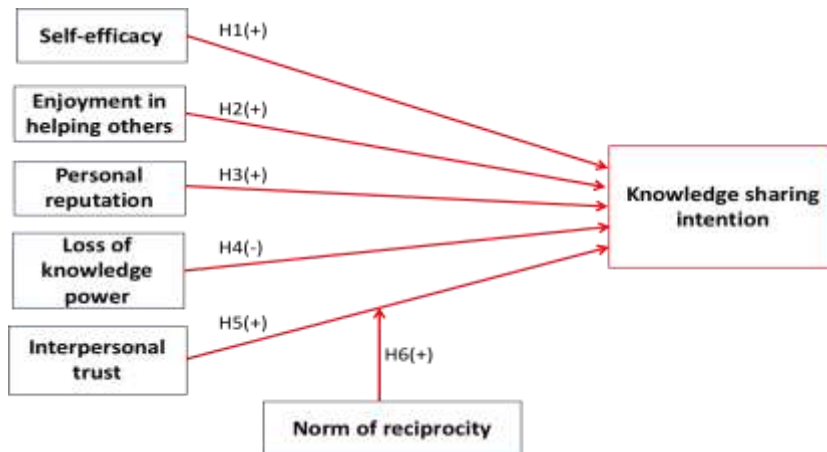


Figure 1. Conceptual model of the research

### Hypothesis

- H1: The perception of self-efficacy has a positive influence on the academics' knowledge sharing intention.
- H2: The enjoyment in helping others has a positive influence on the academics' knowledge sharing intention.
- H3: The building of a personal reputation has a positive influence on the academics' knowledge sharing intention.
- H4: The loss of knowledge power has a negative influence on the academics' knowledge sharing intention.
- H5: Interpersonal trust has a positive influence on the academics' knowledge sharing intention.
- H6: The norm of reciprocity moderates the direct relationship between the interpersonal trust and the academics' knowledge sharing intention. The higher the level of the norm of reciprocity, the more intense the relationship.

### Methodology

The research design will be based on the post-positivist philosophical paradigm, using a quantitative inquiry strategy through a transversal study. The data collection will be done through the application of questionnaires used or adapted from previous research.

The unit of analysis is the individual, that is, the university academic, and the population that is desired to generalize is composed of the academics of the universities in Peru, so the sample would be composed of university professors working in Peruvian universities.

Considering that a single method of data collection will be used through the application of questionnaires, special consideration will be taken to avoid the common method bias.

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# **Female employees in private security organisations: identity construction in a stigmatised industry.**

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## **Abstract**

*This research investigates the dynamic relationship between organisational and individual identity construction in a contested industry. The private security industry, worth an estimated £140bn worldwide, offers a unique research site. Stigmatised yet increasingly legitimised - with women sometimes construed as enabling this legitimisation - the private security organisation is under-researched as a site of meaning. Drawing on linguistic ethnographic methods, this project proposes the study of everyday security practices to offer insights into different articulations of female or feminized security employees. In particular, it explores self/other talk in how female private security employees experience their sense of self, and aims to show the extent to which organisations enable or hinder female private security employee participation.*

The construction of identities by and for individuals in social environments has long occupied scholars in a range of academic fields. Identity work is a concept that has mostly been developed in the discipline of organizational studies and captures the dynamic interplay between personal, work and broader identities (Watson 2008). It explicitly acknowledges employees' agency in processes of identity construction (Alvesson and Willmott 2002; Brown 2015) and sees identity as fluid rather than stable, temporary rather than fixed, fragmented rather than coherent, context-dependent rather than de-contextualised (e.g. Corlett et al. 2017; Bardon, Brown, & Pezé 2017). Construing identity work as identity-in-action, it is an important move away from defining employees in terms of personal traits, characteristics, competencies and skills in mainstream, mostly quantitative organisational research (Brown 2017). Activities that could be construed as identity work are conceptualised on a spectrum between polars of tacit and explicit, palpable and subtle, clear and ambiguous, intentional and habitual, and conscious and unconscious (see Brown 2017). In his overview and categorisation of identity work to date, Brown (2015) suggests that there is not enough insight into the ways in which particular types of organisations affect individual identity construction processes. Furthermore, although acknowledged as dynamic, the extent to which an organisation "defines the self and view of the world" (Brown 2017, p. 10) lacks empirical study. Organisations are also said to have identities that could be seen as multiple and constructed through identity work, for instance through stories organisational actors tell about who they are (Kenny, Whittle, and Willmott 2011). This is sometimes referred to as the experienced identity (culture) of an organisation (Soenen and Moingion 2002 in Kenny, Whittle, & Willmott 2011). In this research project, the focus will be on this type of organisational identity and the interplay with individual and organisational identity *work*. A useful way of capturing identity work in organisations is through the process of organisational identification, i.e. the ways in which people draw on membership of organisations in their construction of self (Brown 2017).

## *The private security industry as research site*

Private security organisations offer a unique research site in which to look at processes of identity construction. Stigmatised, yet increasingly legitimised, the private security industry is worth an estimated £140bn worldwide; recent analyses showed that private security officers now outnumber public officers in the majority of countries in the world (Provost 2017). The exponential growth of this ubiquitous industry has been attributed to processes of globalisation

and commoditisation, penetrating and replacing state functions (International Alert 1999; Chisholm and Stachowitsch 2016). Traditionally, this growth was concentrated in activity in the developing world in so-called weak states; however, a European Commission DG Migration and Home affairs-commissioned report (Ecorys 2015) estimates the private security industry in the European Union to offer employment to 1.4 million individuals, in over 40,000 companies (European Parliament 2017). Riding on the reputation of the armed forces, the UK's share in this industry tops the list of member countries with a € 9 billion turnover (Ecorys 2015); a 2015 figure by the Confederation of European Security Services puts the number of private guards at 232,000 versus 151,000 police officers (Provost 2017). Problematic issues associated with the private security sector worldwide, notably human rights abuses and a governance gap, are well documented (see Buzato, 2015, for a comprehensive overview), seem persistent, and are not limited to conflict zones outside of Europe (see for instance, a 2017 BBC Panorama documentary on abuse in an immigration removal centre run by G4S, a worldwide security company). In recent years, however, there have been a number of developments at international governance level that seek to address lack of accountability and malpractice. In addition, private security organisations themselves, in activity that could be construed as identity work at the organisation or industry level, see it in their interest to widen the gap between on the one hand involvement in security activities such as close protection, surveillance and intelligence and on the other, military activities such as armed combat. The most tangible of these professionalisation developments, perhaps, is a UN-endorsed, human rights-based International Code of Conduct (2011), to which over 700 companies worldwide currently subscribe. A multistakeholder initiative that included civil society, academia, states and non-state clients, representatives of the private security industry itself were key in its development (Buzato, 2015). The code addresses gender in areas of gender-based violence, selection of personnel, and harassment-free work environments. Alongside the development of a code of conduct, there are a number of professional bodies that have sprung up, notably in the UK including The Security Institute, Skills for Security and the Women in Security Society. Reporting to the Home Secretary, there is also the Security Industry Authority, which is tasked with regulating the private security industry in the UK in areas of training, certification and auditing against independently assessed criteria.

While academics continue to scrutinize security practices that are increasingly outsourced to the private sector, research to date has mostly centred on the legal, political and economic implications. A management and organization studies perspective has been slow to catch up, with little attention at the *micro-sociological level*, for instance research that recognises private security organizations as social sites of meaning shaping workers' identities (Brewis and Godfrey 2017). The few organisation studies that exist foreground stigmatisation (Hansen Lofstrand, Loftus, and Loader 2015; Jensen and Sandstrom 2015), arguing that security actors use defensive tactics and resort to taint and impression management to develop positive identities. To appreciate what an organization studies perspective could offer to the study of security, I briefly outline the major debates in security research the lead for which is taken by security's root discipline, international relations (IR). Over the past two decades or so, IR has moved away from framing security in essentialist terms, critiquing the idea that security agencies at the governmental and market level were merely offering security responses to threats coming from external environments (e.g. the so-called Copenhagen School; securitization theory, see Buzan, Waever, & de Wilde 1998). A critical security studies perspective unpicks processes by which security actors have authority to 'secure', with a focus on security agencies and political actors. A feminist security studies perspective (Eichler 2015) sees security practices as inherently gendered, underpinned by particular understandings of masculinity and femininity, which in turn inform hierarchical organizational practices. Of note

are Higate's (2012) study of 'fratriachal' practices - shaped by patriarchal values in environments characterised by close relations between men - and Stachowitsch's (2014) analysis of the private security industry as relying on 'hypermasculinity'. In these critical perspectives, professionalisation processes are conceptualised as distinguishing between 'cowboys and professionals' (Higate 2012a) where employees become the 'new humanitarians' (Joachim and Schneiker 2012) or 'ethical hero warriors' (Joachim and Schneiker 2012a). In a recent assessment of the International Code of Conduct and the voluntary nature of adherence to it, Eichler (2016) concluded that gender is seen by the private security industry itself as good for business, where employment of women in specific security tasks contributes to operational effectiveness. A focus on female employees, therefore, could crystallize further the ways in which the private security industry uses professionalisation activities, in this PhD project used as a proxy for identity work, to obtain further legitimacy.

However, even in critical security studies that sees security as socially constructed, securities are still construed as responses to insecurities or threats from the 'real world'; insecurity itself is not problematised enough (Bigo and McCluskey 2017). This seems particularly pertinent to countries which are essentially at peace, such as the UK, where ubiquitous commoditised security can only thrive in an imagined world of insecurity and threat. More recently, a critical anthropology of security (Goldstein 2010; Maguire, Frois, & Zurawski 2014) - seeing security as "differently experienced and culturally imagined" (Schwell 2015, p. 88) - and a 'Paris school' of thought (Bigo 2014 in Maguire, Frois, & Zurawski 2014) unpick not only security *responses* as socially constructed but also security *threats*, which it is argued, do not exist in and of themselves. Researchers here emphasise the importance of the study of *everyday* security and lived experience to investigate how security and insecurity are mutually constitutive, and the role of multiple security/securitising actors in this process. It is argued that an interdisciplinary approach involving anthropology, sociology and sociolinguistics is best capable to capture lived experiences of people affected by security practices whilst seeing symbolic power as the main unit of analysis (e.g. Bigo and McCluskey 2017). Such an approach requires an interdisciplinary methodology (e.g. Salter and Mutlu 2014) that shares a negotiated and reconciled epistemological problematization in discourse and practice (Bigo and McCluskey 2017).

Based on the problematisation of identity and security as outlined above, this PhD proposes to take the concept of identity work to the study of everyday practices of women in private security organisations. It asks *how does identity work, in which actors (individuals and organisations) engage through reflexively narrating a sense of self lead to (new) articulations of female private security workers?* I propose that the concept can advance security and identity research in the following ways: it allows an investigation of both the 'shop floor', i.e. the lived experiences of women working in private security, as well as looking at the more discursive positions in discourses in and outside of security more broadly. Secondly, it has the potential to capture the micro social, thick description of the everyday. Thirdly, it focuses on identities-in-action (Brown 2015) so is able to capture processes of continuity and change, rather than end states. Finally, it troubles the deterministic nature of discourses, e.g. private security workers as 'stigmatised' and 'hypermasculine'. Three sub-questions are formulated as 1. How do women position/talk about themselves in relation to 'others', e.g. organisational identity, in and outside of the workplace? How do they talk about 'us' and 'them' vis-à-vis security and protection, i.e. what is it that needs to be secured and/or protected and what is their role in this? How does the private security organisation present itself to its employees and the outside world?

### Data collection, analysis, and access

Linguistic ethnography (e.g. Rampton, Maybin & Roberts 2014; Tusting and Maybin 2007) is a relatively recent, interpretive approach which, in bringing together social linguistics and ethnographic methods, is inherently interdisciplinary, sees language and culture as a single unit of analysis (Copland and Creese, 2015), and seeks to relate the micro of interaction with the meso and macro levels of contextual and social structure (Tusting and Maybin, 2007). Although data can be collected from a range of sources – observations, interviews, documents – an analytic disposition usually dictates close attention to “situated language in use” (Copland and Creese, p. 29). The aim is to collect identity talk at both the organisational and individual level, with a view to compare and contrast the two, and to further understanding of processes of organisational identification. Particular attention will be given to ‘self-other talk’: “defining a person by defining others” (Alvesson and Willmott 2002, 629). This self-other talk is recognised at both the organisational level (Kenny, Whittle, and Willmott 2011) and the individual level (Ybema et al. 2009) as a good way of capturing identity construction processes. Data collection is envisaged as two stages. The aim of the first stage is to identify discourses of organisational and private security identity more broadly, and discourses around employment of women in PSIs in particular. To this end, I hope to interview professionals in training and development or management roles, or in advisory roles in professional bodies/advocacy groups such as the Women in Security Society (WSS), The British Security Industry Organization (BSIA), The Security Institute, or Skills for Security; and to speak with the editor of City Security Magazine. Discourses identified at this stage - in addition to the ones identified in the literature, as well as in organisation communications and industry policy documents - could then be compared with those identified in data of the second stage, where I hope to collect ethnographic data, such as observation of organisational practices, and interviews with 30 frontline, female private security officers.

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# **Directive Leadership, Role Ambiguity and Job Safety: An Exploratory Study**

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## **Abstract**

*The purpose of this paper is to examine the relationship between directive leadership, role ambiguity and on-the-job accidents. The study will examine whether safety climate (within each department) has a moderating effect on role ambiguity, and ultimately on the number of on-the-job accidents. Data will be collected from production workers employed in a power utility company. Participants will complete a 46-item questionnaire that will include the following measures: directive leadership, role ambiguity, safety climate, and on-the-job accidents. Practical implications will be provided to potentially improve safety in the workplace.*

**Keywords:** directive leadership, safety climate, role ambiguity, on-the-job accidents

## **Directive Leadership, Role Ambiguity and Job Safety: An Exploratory Study**

### **Introduction**

Organizational leadership is a predictor of safety outcomes and can have a positive or negative affect based on the leadership behavior. Although there are four main types of leadership behaviors, this paper will only study directive leadership and the effect it has on safety in the workplace. Along with leadership in the workplace, an employee must also understand their daily work scope. Failure to thoroughly understand their tasks can lead to on-the-job accidents and/or damage of critical equipment, which would affect the productivity of the organization. This study aims to examine the relationship between directive leadership, role ambiguity and on-the-job accidents. The paper will offer new directions for researchers, as well as organization leadership, on ways to improve the safety climate and whether directive leadership and role ambiguity are instrumental in on-the-job accidents.

### **Literature Review**

This section reviews the relevant constructs and variables, as well as their interactions: (1) Directive Leadership; (2) Role Ambiguity; (3) Safety Climate; and (4) On-the-Job Accidents.

### **Directive Leadership**

The directive leadership behavioral type describes leadership that primarily relies on position power, which at times has been referred to as legitimate power (Pearce & Sims, 2002). The leader must clarify the organizational goals and objectives and to be successful, they must ensure that the team knows both the goals and the strategy (Malik, 2012). This power industry does practice directive leadership since the supervisor is required to ensure the subordinate is aware of their particular job task for the day. The employee is initially trained for the job task during the first few weeks of their position or while in a training program if that position requires. An example would be for the electrician classification, they must complete a two-year apprenticeship program certifying them to perform work around electricity, breakers, etc. Whereas, an employee in an office setting isn't required to obtain a certification for administrative functions completed each day. The safety climate for the two employees is much different based on the work performed and the dangers of each classification. Leadership plays



an important role in the safety of the workplace. Zohar wrote that when job performance has direct safety implications, the quality of leader-member interaction influences the leader's concern for members' welfare, which in turn influences safety-climate perceptions in the group and hence the safety behavior of the group. This is based on evidence suggesting that closer, higher-quality relationships increase leaders' concern for members' welfare (2002). Directive leadership helps to ensure the relationship between the supervisor and the subordinate remains positive since the supervisor has clearly set expectations and expects the subordinate to follow the demand. The supervisor must also demonstrate a positive safety climate and follow the expectations set as well. Zohar also wrote that the relationship can be explained as a social learning process in which group members repeatedly observe and exchange information with their leader as a means for interpreting the organizational environment. Supervisory practices are relatively easy to observe due to their proximity and availability, and they routinely inform group members as to relative priorities as well as behavior that is valued and supported by both the leader and the organization at large (2010).

### **Role Ambiguity**

Role ambiguity results from a lack of information and therefore missing clarity in a specific job position. This leads employees to be uncertain about their role, job objectives, and associated responsibilities. Expectations of colleagues and supervisors also may be unclear (Schmidt et. al., 2014). Tremblay, Vandenberghe, and Petitta wrote that role ambiguity's negative consequences arise from the stress people feel when they lack clear, precise knowledge of goals, expected performance, the methods necessary for the job, and the consequences of their performance (2012). In the power utility industry, it is very important for an employee to understand their job expectation and what is required of the job task they are being assigned. An unclear understanding can result in an injury, or even a fatality depending on the severity of the on-the-job accident that could possibly occur. Often an employee may have been taught the task but may not clearly understand the task to be performed due to not performing the task daily. The employee may not advise the supervisor in fear of retaliation for not understanding the expectations, therefore resulting in employee stress while performing the job task. Previous research findings concerning role ambiguity seem to warrant two conclusions: First, role ambiguity is closely associated with individual stress, and, second, role ambiguity may moderate the relationship between leader behavior (initiating structure, consideration, and subordinate satisfaction). Role ambiguity has been described as a function of the discrepancy between the information available to a position occupant and that necessary for the adequate performance of his role and it has emerged as an important factor in employee morale (Valenzi & Dessler, 1978).

### **Safety Climate (by department)**

Schneider (1975) defined climate as a "summary of molar perceptions that employees share about their work environment (2017). The safety climate in a power utility industry must be communicated and portrayed daily by every employee for safety to remain of utmost importance. A number of meta-analyses provide good evidence of the link between safety climate and safety outcomes (Christian, Bradley, Wallace & Burke, 2009; Clarke, 2006, 2010; Nahrgang, Morgeson, & Hofmann, 2011). These studies consistently demonstrate that people work more safely when there is a shared social context where safety is prioritized and valued (Casey et.al., 2017). In this power industry, each of the employees are required to practice safety due to compliance regulations and employee performance management. Safety compliance refers to the core activities that individuals need to carry out to meet mandated safety requirements, which are typically specified in the rules and procedures (2017). Each of the departments have a safety plan that the employees within that department must follow to have a satisfactory rating on their performance management plan. Also, employees can engage in additional safety programs if they desire. Within the power industry that we are surveying,

employees can participate in the safety team (a team of individuals that meet monthly to discuss safety concerns and perform safety walk-down throughout the plant) or they can be a member of the Emergency Response Team, also known as the ERT (a team of individuals that complete additional training to answer emergency calls as needed at the plant level). Safety participation involves behaviors that do not directly contribute to an individual’s personal safety, but which help to develop an environment that supports safety (2017). Role ambiguity occurs when an employee doesn’t feel they have the necessary training or knowledge to perform the job task at hand. If an employee is unaware of the safety compliance regulations or isn’t active in the safety participation, then a negative impact can result in safety accidents.

**On-the-Job Accidents**

On-the-job accidents are unplanned and unexpected events that cause injury, property damage, and/or financial loss in the workplace (Accident, 2017). According to the Survey of Occupational Injuries and Illness, private industry employers in the United States reported nearly 3 million non-fatal workplace injuries in 2013. Approximately 40% of such workplace injuries and accidents can be attributed to a failure to properly implement safety practices, rather than the absence of proper safety practices (Jiang & Probst, 2016). An accident in the power utility industry can be considered minor or major depending on the accident and what has occurred. As reviewed in the safety climate section of this paper, safety is of utmost importance for a power utility company. Employees under pressure or that feel stress from their supervisor or work environment are more likely to have an accident. In most instances, employees who are under pressure to increase production output may deviate from safety rules that impede their progress. They may also perform tasks with less care, increasing the likeliness of errors, which would ultimately result in workplace accidents (Johari et. al., 2017). If an employee is uncertain of their role and what is required, then more on-the-job accidents are likely to occur.

- H1: Directive leadership is negatively related to role ambiguity.
- H2: Role ambiguity is positively related to on-the-job accidents.
- H3: Safety climate moderates the relationship between role ambiguity and on-the-job accidents.

**Theoretical Model**

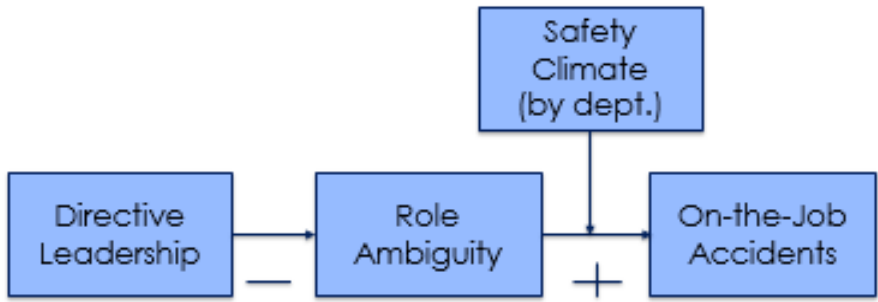


Figure 1. Proposed model.

**Measures**

**Questionnaires**

Participants will be requested to respond to a role questionnaire, indicating the degree to which they feel their level of understanding is accurate for each of the constructs. The questionnaire will consist of a total of 46 items based on the four constructs: directive leadership, role ambiguity, safety climate (by department), and on-the-job accidents. The questionnaire will be given after a weekly morning safety meeting where the following information will be reviewed: any near-miss accidents from the previous week and overall monthly safety numbers for their department and the plant.

*Directive Leadership.* Directive leadership will be assessed using a scale adapted from Litwin and Stringer (1968) which will assess the extent to which a leader displays directive leadership

(Bell et. al., 2014). Examples of questions that will be asked are “My supervisor expects me to follow their instruction precisely” and “my supervisor ensures I understand my task prior to performing work asked to be completed.” The questionnaire will measure 10 items and responses will be recorded on a 7-point Likert scale (1=strongly disagree, through 7=strongly agree).

*Role Ambiguity.* Role ambiguity will be assessed using Rizzo, House, and Lirtzman’s (1970) Role Conflict and Ambiguity Scales. According to Jackson and Schuler, approximately 85% of the empirical studies carried out on role conflict and ambiguity use Rizzo’s scale (1985). Example questions that will be asked are “I clearly understand the job duty that is being given to me at the roll out meeting” and “I know what my responsibilities are.” The questionnaire will include 14 items measured with a 7-point Likert scale (1=strongly disagree, through 7=strongly agree).

*Safety Climate (by department).* Each of the departments will be given a safety climate questionnaire based on the safety attributes of their particular job classification since each classification has different at-risk areas. Safety climate will be assessed using the National Institute of Occupational Safety and Health (NIOSH) Safety Climate Survey (Hahn and Murphy, 2008) which assesses the importance of safety procedures and compliance in an organization (Nixon et. al., 2015). Example questions include “The health and safety equipment used is safe and in working condition at all times” and “I feel I am adequately trained to perform my duties that are assigned.” The safety climate section of the questionnaire has 12 items and responses will be based on a 7-point Likert scale (1=strongly disagree, through 7=strongly agree).

*On-the -Job Accidents.* On-the-job accidents will be assessed using structured questions that measure how people feel about on-the-job accidents, and if they feel “safe” reporting an on-the-job accident. Example questions are “Do I feel I can safely report an accident to my supervisor without fear of retaliation?” and “Do I feel that every accident is always reported in our organization?” There are 10 items to measure this concept and the responses will be obtained using a 7-point Likert scale (1=strongly disagree, through 7=strongly agree).

### **Safety Data and Questionnaire**

Safety data will come from previously recorded safety accidents that have occurred at the power plant within the last ten years. If an employee has an accident (whether minor or major, anything that constitutes medical attention), a SLEA (Safety Event Learning Analysis) is given to that employee after they have been cleared to return to work, either by a trained ERT team member or by a certified medical doctor. Example questions on the SLEA include: Were you comfortable reporting your accident to your supervisor? Did you feel you had the training needed to complete the task being performed? Did you feel you had the adequate tools to complete the task safely?

### **Method**

The sample will consist of 215 production employees at a power utility organization. The organization is union-based and is separated by departments and then job classifications within each of the departments. Participants included in the study are as follows: Fuels (Equipment Operators and Heavy Equipment Operators), Mechanical Maintenance (Mechanics and Electrical & Instrumentation), Operations (Assistant Plant Control Operators and Plant Control Operators), and Warehouse (Materialman). In the overall sample, 92% are male, while 8% are female. The age range is from 21 to 71 years old. All participants have agreed to participate in the study.

### **Limitations**

This study was limited to only one power utility company and to the employees that work only at that location. Extending the study to include an additional utility company would allow us to review the results of the study and compare them to how the industry is affected. Another option

would be to also include the contractors that are on-site during a planned worker outage for maintenance purposes. In doing so, this would enable us to compare both the company employees and the contracted employees to see if there is any consistency with directive leadership, role ambiguity, safety climate, and on-the-job accidents. Thus, with additional respondents for other utility companies the study's findings could be inferred to a broader population.

### **Directions for Future Research**

This paper would advance research but only for the power plant that is being studied, and not the power plant industry. I feel that leadership and safety accidents are understudied and more value could be added if additional studies using similar data as well as related data from other companies were included in an additional study.

### **Conclusion**

We can see from previous research that directive leadership, role ambiguity, safety climate and on-the-job accidents have an effect in any workplace. This study hopes to conclude that by ensuring employees know and understand their task that is being given by their leader, along with ensuring the safety climate remains positive, that it will lead to fewer on-the-job accidents. The data collected could also be used for future research with other types of leadership to see which leadership style accurately depicts a positive culture.

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# Product supply chain functioning resilience management

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## **Abstract:**

*Supply chain resilience today is a key element in the competitive struggle. Every supply chain is a subject to manage, so the desired mode of its work should be reached and maintained to ensure firm position of concerned parties in the market. Despite the topicality of relevant questions the theory of resilience in logistics is still incomplete and debatable according to the carried out analysis of existing publications. Basing on both academic and practical perspectives the current research is aimed at clarification of the resilience essence, identification and classification of factors affecting the resilience, modelling relevant processes and formation of the control framework for them.*

## *Introduction*

The Japanese say that in a storm, it is the bamboo, the flexible tree, that can bend with the wind and survive. How to stay alive and prosper against all odds is the universal question that is also important in business. In particular, making product supply chains resilient is a critical problem in today's market environment. The way supply chain works influences final performance, so ensuring the desired mode of its functioning is a question of high importance for a certain company(s) or even national economy depending on the scale. Given all this, the whole set of related points became a subject to study for many researchers in logistics from different countries. Relevant questions are developed in works of such scholars as Y. Sheffi, T. Petit, V. Sergeev, M. Kramarz, V. Lukinskiy, D. Ivanov, A. Nekrasov, V. Tkach, H. Elleuch, A. Barbosa-Povoa, H. Winkler, G. Seebacher etc. Systematic review of numerous publications of both related and close to the theme of supply chain resilience could help to identify many interesting facts, but also some contradictions and gaps concerning scientific understanding of the topic which predetermined the choice of the points to look into and are described later on.

So, the main objective of the initiated research is to study the product supply chain functioning resilience phenomenon in current conditions, develop modelling and management approaches.

## *Key points of the research*

Being originally adopted from the sphere of natural sciences the term “resilience” today is widely used in economics and logistics. However, it still has no agreed-upon definition. Moreover, it was found that representatives of both global academic and practical communities use different words (not only “resilience”) for naming the same things or combine different conceptions under the same name (figure 1). To explore the “same” in this regard, to understand what is the same and what is not along with how scattered relevant notions are corresponded to each other is one of some key points in my research, since how we see it influences the way we think of it and existing fundamental differences hinder us from effective collaborative progress in this sphere.

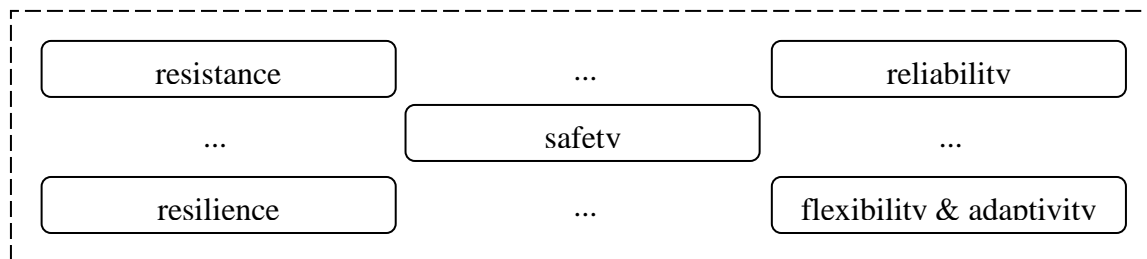


Figure 1 – Most popular relevant notions

In spite of the absence of a common definition, to make the subject matter clearer in this paper resilience can be generally defined as the supply chain’s ability to return to its original state or a more favorable condition after being disrupted. So as to deeper understand the nature of resilience in logistic context let us turn to the next key point of the research, namely formation of the resilience as a constituent part of logistics and briefly point out some milestones of its way in historical perspective.

As noted above the term “resilience” came to economics and subsequently logistics from the field of natural sciences. Understanding of the system resilience in physics is based on the Le Chatelier-Braun principle (was first proposed in 1884). It can be described as follows: whenever a system is disturbed from equilibrium the system tends to readjust itself back to its original state. It is thought that Leon Walras (1834-1910), who pioneered the general equilibrium theory, was the first to use resilience in economics. Subsequently the idea of resilience was developed by Alexander Bogdanov (1873-1928) as a part of the universal organization science and further by representatives of the systems theory, cybernetics and synergetics in 1970s. Having all this way passed resilience came to logistics.

The third key point of the research to be spotlighted is about finding and classification of factors that affect the resilience. How to evaluate the influence of these factors is planned to be seen as well as the structure of supply chain resilience indicators which are finally affected by the factors.

The next point is connected with modelling product supply chain resilience. The expanded universal model of material flows has been already created as a cornerstone for the dynamic model of supply chain functioning resilience to be developed. The latter one is needed for the reason of making logistic system evaluated in terms of resilience at any time not only qualitatively but also quantitatively.

Having all the noted points covered it will be possible to address the last point of developing the holistic control framework based on previous findings.

### *Research methodology*

The present study is planned to be carried out using both qualitative and quantitative research methods. Thus, interviews with experts, case studies, surveys, statistical analysis, modelling etc. are considered like the main tools for work. The ruling principle demands to take the best from relevant cutting-edge international experience. During the study some points can be added or slightly refined due to unexpected insights from communication with other people, all the more so because the majority of the interviews is still waiting to be conducted.

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# Psychological Situational Characteristics: Do they Cause Traits to Activate?

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## Abstract

*Using trait activation theory as our framework, we examined the moderating role of two psychological situation characteristics, positive and negative valence, and two personal characteristics, positive and negative affect, in predicting job search intentions. Results indicated a significant interactive effect of negative valence and negative affect, as well as negative valence on positive affect, but not for positive valence and positive affect.*

## Psychological Situational Characteristics: Do they Cause Traits to Activate?

According to trait activation theory (TAT), certain traits are expressed by individuals when they encounter trait-relevant situational cues (Judge & Zapata, 2015; Tett & Burnett, 2003). When these individuals encounter adverse situations, for example, they often react by showing a characteristic of trait negative affect, such as frustration, in response to the situational cue (Tett & Gutterman, 2000). These behavioral expressions subsequently influence more distal outcomes, which is important for organizations because employees encounter an array of situations at work.

Typically, TAT is studied in conjunction with objective aspects of the environment (i.e. job characteristics: Judge & Zapata, 2015), but recent research has suggested that employees may have differing perceptions of the same situational cues. For this reason, studying *perceptions* of the environment may provide useful insights into TAT. Psychological situation characteristics are a very recently developed concept (Parrigon et al., 2016), and they can be defined as the underlying perception of causal qualities which have a noticeable influence on the objects and actors within the situation (Parrigon et al., 2016). In accordance with TAT, the presence of these psychological situation characteristics may influence people with certain traits more than others (Tett & Burnett, 2003; Tett & Gutterman, 2000). The purpose of this paper is to show the interactive effects of two psychological situation characteristics (positive and negative valence) and two personal characteristics (trait positive and negative affect) on five outcomes: job search intentions, job withdrawal, absenteeism, job satisfaction, and life satisfaction.

This investigation provides several benefits for understanding TAT and relevant work dynamics. First, this paper emphasizes the importance of studying perceptions of the situation, rather than the situation itself. Second, TAT is often studied in conjunction with performance and variables closely related to performance (i.e. organizational citizenship behaviors, counterproductive work behaviors). This paper expands the scope of TAT to determine whether it likewise predicts withdrawal behaviors and affective outcomes. Lastly, there is very little research that focuses on understanding interactions of trait affect with the situation. This paper will provide further support that the application TAT is appropriate, thereby opening new avenues for future research and a better understanding of practice.

Traits are intra-individually consistent and inter-individually distinct properties that cause a person to behave in a certain way (Tett & Gutterman, 2000). This does not mean that the trait is always active, however. TAT explains that the behavioral expression of a trait requires activation by some situational cue or characteristic (Tett & Gutterman, 2000). Whether

a trait is activated and thereby influences outcomes is dependent on the contextual or environmental circumstance (Judge & Zapata, 2015).

TAT further specifies that a range of acceptable behaviors only occurs when relevant individual propensities are activated, as determined by the situation (Kacmar et al., 2009). Although certain traits may impact an outcome, this is dependent on selected work environments. These specific work environments may cause a particular trait to activate (i.e. positive or negative affect), which in turn may have an even stronger influence when a person *perceives* a psychological situation characteristic (i.e. positive or negative valence). For example, a situation may present as complex (high in task variety, etc.), but be perceived as adverse due to the individual not having the skills to complete the task. This in turn may activate a trait negative affect in an individual.

For this paper, we investigate two traits: positive affect and negative affect. Trait positive and negative affect have been found to exist as two unipolar factors that are independent of each other (Bradley et al., 2009; Burke, et al. 1993). These traits have been shown to directly influence job search intentions and other important work outcomes, but they may also interact with characteristics of the environment to influence work outcomes as we suggest below.

### **Positive Affect**

Trait positive affect is defined by Baron (1996) as a tendency to have a sense of well-being, experience positive emotions, and to view oneself as positively engaged in both interpersonal relations and achievement. George (1998) explains that trait positive affect is associated with communication skills that enable effective and self-fulfilling social interactions. Prior studies have shown that individuals with high positive affect perceive their situations in a positive light, and are also more proactive in seeking out positive situations (Harvey et al., 2007; Cropanzano et al., 1993; Mobley, 1977). For example, a person high in trait positive affect may look at an adverse situation (i.e. patient in cardiac arrest), and view the positive side of the situation such as the patient's gratitude after recovering from the myocardial infarction. Not everyone views situations positively, however, suggesting that a wide range of trait positive affect (low to high) exists in the general population.

### **Negative Affect**

The opposite of trait positive affect is trait negative affect. People that are more likely to experience negative mood states are considered to be high in negative affect (Brief & Weiss, 2002), and these people are prone to lower job satisfaction and lower overall life satisfaction (Breif & Weiss, 2002). This negative perspective on life tends to make these people more prone to negative situations, and individuals with high trait negative affect tend to also react with more negative emotions to these situations. For example, in a trauma situation the hospital employee may be high in trait negative affect, and as result feel anxious about the situation. Therefore, the hospital employee is unable to perform at a high level. Like trait positive affect, not everyone views situations negatively, once again suggesting that a wide range of trait positive affect exists in the general population.

### **Psychological Situation Characteristics**

Many studies have investigated TAT in conjunction with objective work environments, but very little research has looked at TAT alongside psychological situation characteristics. Although individuals may perceive the same situation differently, psychological situation characteristics are not idiosyncratic (Parrigon et al., 2016). Each individual's experience of a situation is made up of both the consensually shared perceptions of the situation, as well as their idiosyncratic deviations from these consensual perceptions. Evaluative psychological situation characteristics are meaning-generated, and are theorized to be the key driver through which objective situations influence psychological outcomes (Cantor et al., 1982; Edwards & Templeton, 2005; Ekehammar, 1974; Mischel & Shoda, 1995; Ross & Nisbett, 1991).

In the current study, we examine two psychological situation characteristics, positive and negative valence, to determine their impact on activating the traits of positive and negative affect, as well as their interactive effects on relationships between trait positive and negative affect and job search-related outcomes. We chose these two psychological situation characteristics due to their theoretical similarity to and association with trait positive and negative affect, suggesting that these two situation characteristics may indeed activate these two traits – in accordance with TAT.

### **Positive Valence**

Positive valence represents the degree to which a situation is positively charged (Parrigon et al., 2016). For example, a person has performed at a high level in their current position, and receives a promotion. Their perception of the psychological situation would be one that is considered to be positively charged and viewed as an exciting time in their career. Positive valence is composed of two major components: intimacy/interpersonal warmth and general positivity. Parrigon et al. (2016) describe the positivity component as, capturing the positive charge of the situation, and the intimacy/interpersonal warmth component as capturing the positive aspects of the situation as they are related to social love and affection. The general positivity component may activate social engagement components of trait positive affect and extraversion, and the intimacy components may manifest the compassionate aspects of trait positive affect and agreeableness (Parrigon et al., 2016; DeYoung et al., 2007; John & Srivastava, 1999). When positive valence is present, it may have an interactive effect with trait positive affect, which will subsequently influence job search-related outcomes. Based on this suggestion, we believe that psychological situations characterized by positive valence activate trait positive affect, and this interactive effect influences job search-related outcomes.

*Hypothesis 1: A psychological situation characteristic of positive valence moderates the relationship between trait positive affect and (a) job search intentions, (b) job withdrawal, (c) job satisfaction, (d) and life satisfaction.*

*Hypothesis 2: A psychological situation characteristic of positive valence moderates the relationship between trait negative affect and (a) job search intentions, (b) job withdrawal, (c) job satisfaction, (d) and life satisfaction.*

### **Negative Valence**

While positive valence captures the positive characteristics of a psychological situation, negative valence captures the negative characteristics of the psychological situation. Negative valence assesses the amount a situation is negatively charged (Parrigon et al., 2016), which may be perceived as potentially malicious or sinister. For example, a coworker gets a promotion that you were also up for, while the person that got the promotion perceives it as a positive situation, you may perceive the situation as negative. Similar to trait positive and negative affect, positive and negative valence show evidence of bipolarity, and negative valence is independent of positive valence (Parrigon et al., 2016). That is, positive and negative valence can both be present within the same situation. Therefore, we believe that psychological situations characterized by negative valence activate trait negative affect, and this interactive effect influences job search-related outcomes.

*Hypothesis 3: A psychological situation characteristic of negative valence moderates the relationship between trait negative affect and (a) job search intentions, (b) job withdrawal, (c) job satisfaction, (d) and life satisfaction.*

*Hypothesis 4: A psychological situation characteristic of negative valence moderates the relationship between trait positive affect and (a) job search intentions, (b) job withdrawal, (c) job satisfaction, (d) and life satisfaction.*

## **Methods**

### **Sample**

Respondents (Mage = 33.96, SDage = 10.02, 47% female, 67% American) were recruited from MTurk and provided a small amount of monetary compensation. This website is a platform that connects people willing to perform tasks on their computer, such as taking a survey, with those who need these tasks performed. Previous studies have shown results using MTurk as valid (Paolacci & Chandler, 2014; Shapiro et al., 2013), while other studies have been critical of this method of data collection (Smith, Roster, Golden, & Albaum, 2016; Babin, Griffin & Hair, 2016). The current study incorporated three time-points, which included 500 participants at Time 1, 263 participants at Time 2, and 220 participants at Time 3. An attention check was included at Times 2 and 3, and those that failed an attention check were removed from the analyses. The reported statistics, including sample size, represent the sample after removing these participants.

### **Methodology**

Participants first completed a Time 1 questionnaire that included demographic information alone. The next day, participants completed a Time 2 survey that included measures of situational work characteristics and personal characteristics. One day later, participants completed a Time 3 survey that included all outcome measures.

### **Results**

Correlations and Cronbach's alphas are included in Table 2. To test all interactive effects, predictors were mean-centered and multiplied together to create interactive terms. Then, the mean-centered predictors and interaction term were included in a stepwise regression. The results regarding positive valence and trait positive affect are presented in Table 3; results for positive valence and trait negative affect are presented in Table 4; results regarding negative valence and trait negative affect are presented in Table 5; and results regarding positive valence and trait negative affect are presented in Table 6.

Positive valence and trait positive affect had significant direct effects on each outcome (all  $p < .01$ ). The interactive effect of positive valence and positive affect did not have a significant effect on any outcome (all  $p > .05$ ). These results fail to support Hypotheses 1a, 1b, 1c, and 1d. Positive valence and trait negative affect showed no significant interactive effect on any outcome (all  $p > .05$ ). These results fail to support Hypotheses 2a, 2b, 2c, and 2d. Negative valence and trait negative affect also had significant direct effects on job search intentions, and job withdrawal (all  $p < .01$ ). Negative valence did not have a significant impact on job satisfaction and life satisfaction (all  $p > .05$ ), however, trait negative affect had a significant effect on both job satisfaction and life satisfaction (all  $p < .05$ ). The interactive effect of negative valence and trait negative affect, however, was significant in predicting job search intentions ( $\beta = -.296$ ,  $t = -4.079$ ,  $p < .01$ ), job withdrawal ( $\beta = -.230$ ,  $t = -3.259$ ,  $p < .01$ ), and job satisfaction ( $\beta = .195$ ,  $t = 2.790$ ,  $p < .01$ ). A simple slope analysis was performed on the interactive effects of negative valence and trait negative affect on job search intentions, job withdrawal, and job satisfaction. The simple slope analysis confirmed the interactive effects of negative valence on trait negative affect and job search intentions, when negative valence is low ( $p = .051$ ). This is demonstrated in Table 7. The simple slope analysis for the interactive effects of negative valence on trait negative affect on job withdrawal demonstrated no significant effects when negative was high or low ( $p > .05$ ). This is demonstrated in Table 8. The simple slope analysis for negative valence on trait negative affect on job satisfaction demonstrated a significant effect when negative valence is low ( $p = .057$ ). This is demonstrated in Table 9. The interactive effect was not significant in predicting life satisfaction ( $\beta = -.016$ ,  $t = -.199$ ,  $p > .01$ ). These results support Hypotheses 3a, 3c, and 3d. But they fail to support Hypothesis 3b and 3d. Negative valence and trait positive affect showed a significant interactive effect on job search intentions ( $\beta = .129$ ,  $t = 2.132$ ,  $p < .05$ ), however no significant interactive effect was found on job withdrawal, job satisfaction, and life satisfaction. We performed a simple slope analysis on the interactive effect of negative valence and trait negative affect on

job search intentions. This is shown in Table 10. The simple slope analysis demonstrated a significant interactive effect when negative valence is low ( $p = .043$ ). These results support Hypothesis 4a, however, they show no support for Hypothesis 4b, 4c, and 4d (all  $p > .05$ ).

### **Discussion**

In this study, we expanded on TAT through (a) incorporating perceived psychological situational characteristics, (b) investigating job search-related outcomes, (c) and studying the activation of trait affect. From the results of a time-lagged study, negative valence had a significant moderating effect on the relationship between trait negative affect and job search intentions and job satisfaction. Positive valence, however, did not have significant moderating effects on the relationship between trait positive affect and any outcome. Negative valence also demonstrated a significant moderating affect on trait positive affect and job search intentions. This suggests that a person high in trait negative affect will be affected more by their perception of negative psychological situational characteristics, than a person high in trait positive affect is affected by their perception of positive psychological situational characteristics. In other words, those high in trait negative affect are susceptible to negative aspects of their environment, whereas those high in trait positive affect appear to be unphased by even the positive aspects of their environment. Negative valence also had a moderating affect on the relationship between positive affect and job search intentions. Interesting that the only time trait positive affect was activated happened when negative valence was present, which negatively affected job search intentions. This is the only relationship, in regards to trait positive affect, that the trait was activated by a perception. These results have several implications for future research and practice.

### **Theoretical Implications**

Our study demonstrates the moderating affects of perceived psychological situational characteristics on the relationship between personality traits and job search-related outcomes. Unlike previous studies that investigate TAT from a perspective of objective job characteristics that activate certain traits, our study demonstrates that the *perception* of a psychological situation characterized by negative valence will also impact outcomes. A person not only is affected by the objective job characteristics, but they are also influenced by the way they perceive their situation psychologically. Our findings demonstrated positive valence having no impact on trait positive nor trait negative affect. Demonstrating that a perception of positive valence is not strong enough to influence someone's intentions to search for a new job, however, even when trait positive affect is present negative valence can influence their turnover intentions. This finding is important in determining the underlying factors and mechanisms that may cause a person high in trait negative affect to have higher job search intentions and decreased job satisfaction.

Similarly, job search-related outcomes have primarily been studied via objective characteristics in prior studies, whereas our study investigates job search-related outcomes from a more abstract perception. Once again, this novel perspective is important to understanding the underlying factors that potentially impact job search intentions as well as other similar outcomes. Perceiving a situation as having negative valence could be detrimental to decreasing the intentions of an employee to search for a new job.

Finally, our study looked at further developing TAT through incorporating perceived psychological situational characteristics, which has primarily been studied from an objective job characteristic perspective. Tett & Burnett (2003) explain that a key feature of trait activation theory is the situation-trait relevance. A situation is relevant to a trait if it is connected by the provision of situational cues (objective job characteristics). In contrast, our study demonstrates a perceptual affect on the relationship between personality traits and job search-related outcomes. We were able to show that a person's perception of their psychological situation will

also activate traits, which may help explain the underlying components involved in activating traits.

### **Direction for Future Research**

Although prior research has already provided deep insights, more research is needed to better understand person-situation interactions. Our study uncovered a possible underlying factor that impacts the personality-job search related outcomes relationship. Our study, however, does not account for objective situation characteristics. Future studies should investigate the objective situation characteristics in conjunction with the perception of the psychological situational characteristics, and their impact on the relationship between personality and job search related outcomes. This will provide further understanding of TAT, but also whether the perception of the psychological situational characteristic or the objective situation characteristic has a greater influence on the personality-job search related outcomes. Our study shows that TAT can explain phenomenon at the psychological-level through perceptions of a particular psychological characteristic. Future research should study TAT from the perspective of perceived psychological situational characteristics as an indicator of situational strength. Situational strength attenuates (strong situation) or accentuate (weak situation) the personality-behavior relationship. A situation can be conceptualized as either strong or weak depending on the clarity and consistency of the constraints or outcomes inherent to the situation (Barrick et al., 2012). Thus, research on situation strength adds clarity to an important question of, “When do personality traits lead to actions?” Our study focused on specific characteristics of the psychological situation, but did not fully discuss the strength of that perceived situation. Determining the strength of the situation, in conjunction with psychological situation characteristics, can lead to more clarity on the impacts of personality on work outcomes.

Several other avenues for future research should be briefly mentioned. Future research should map objective characteristics of situations onto their corresponding psychological characteristics to provide more direct insights into how situations may arouse certain affective, cognitive, and behavioral reactions. Also, our study, with a time lag of approximately a week, demonstrated a significant relationship between trait positive affect and a perceived psychological situation characterized by positive valence. Future studies, should investigate individuals’ life outcomes when exposed to a particular perceived psychological situational characteristic over an extended period of time. Lastly, studying psychological situational characteristics with an experimental design that ensures that manipulation is effective will help to further advance studies on perceptions of psychological situations characteristics.

# Examining the relationship between customers' interaction and engagement with the retailer in omnichannel

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## **Abstract**

*This study highlights the challenges that are faced by today's retailer about how to make the most of omnichannel and how to design a seamless customer experience. It sheds light on the complexities of customers' interactions in the omnichannel environment by examining the breadth and the depth of their interaction at selected touchpoints. It also the first study attempting to empirically validate the typology of customer engagement, and how the combination of omnichannel customers' interaction may lead to the certain engagement types. This study intends to utilise the customers' survey, of which the collected data will be analysed using the correlational and configurational approach.*

## **Introduction: The omnichannel retail environment**

The proliferation of technology has brought a huge impact in changing the retail environment as it changes how retailers do their business and how they interact with their customers. As a result, retailers now operate in a multichannel and multimedia environment which gives them more selections and flexibility to interact with their customers. At the same time, there is a phenomenon called "channel multiplicity" where customers rely on multiple communication channels to obtain information and on multiple distribution channels to attain sales support including payment, product fulfilment, and after-sales service (van Bruggen et al., 2010). Nunes and Cespedes (2003) also call this 'channel surf', which explains that the final sales does not always occur at the same channel of the information gathering process. Furthermore, today's customers also demand a seamless shopping experience (Rigby, 2011). It means that customers want to easily and freely move from one channel to another channel across the stages of the buying process without facing any limitation which might be set by retailers.

This brings us to the concept of omnichannel retailing, Brynjolfsson et al. (2013) described a seamless omnichannel experience as a state where there is no distinction between the offline and the online store which "turning the world into a showroom without walls" (p.24). In line with Verhoef et al. (2015), omnichannel is characterised by three distinguishing features: (1) the expansion of channel scope which include not only retailer's channel but also customers' touchpoints, (2) the focus of creating a seamless customer experience, and (3) the notion that performance is fuelled by the total integration of retail mix in all channels. These features mark how omnichannel retailing evolved from multichannel retailing. Omnichannel is not only about a number of touchpoints that retailers use, but it is more about making all resources support each other and act as one big integrated network to deliver a total shopping experience to the customer. In the end, omnichannel diminishes the boundary between the retailer and customer and invites the customer to participate in their own journey.

## **Objectives**

The omnichannel environment offers numerous means for customers to connect with a retailer in order to fulfil a buying process. As a result, customers could engage in different strategies in

utilising how they would search for the information or product, how they would complete the payment and product fulfilment, as well as how they would engage in after-sales activities. The purpose of this research is to identify how complexities in omnichannel interaction may lead to a certain dimension of customer engagement. Subsequently, this study aims to understand the mechanism behind the relationship between interaction and engagement, and explore the role of customer experience in the discussed relationship. Furthermore, this study intends to develop and empirically validate a typology of customers based on their engagement and show how different combinations of interactions and individual traits may affect each type, specifically in the context of the omnichannel environment.

### Value of the study

From an academic perspective, this is the first study attempting to collectively examine whether, and if so, how customers' interactions in omnichannel may trigger different types of engagement with a retailer. It presents evidence of customer engagement theory (Kumar et al., 2010), especially in the B2C market. As most papers within omnichannel literature are theoretical in nature, this study extends the literature streams by providing empirical results of customer behaviour in the omnichannel environment (Verhoef et al., 2015) and open a new direction of relational consequences. This study also contributes to the development of a typology of omnichannel customers, on the basis of their engagement and interactions, which offers a different perspective of customers' segmentation compared to prior research (De Keyser et al., 2015, Konus et al., 2008). Lastly, this study extends the application of the social penetration theory (Taylor and Altman, 1973) and organisation complexity theory (Wang and Von Tunzelmann, 2000).

In the managerial perspective, this study offers insights to managers regarding how to develop strategies considering different segments of omnichannel customers. As a result, managers could generate better strategies to target potential customers and customise their offer. This also relates to a more effective resource allocation among touchpoints. In addition, managers would be able to understand whether serving omnichannel has benefits beyond transactional value. Analysing customer engagement is valuable in determining the total value of customers, providing a better ground for the retailer to address their investment in customer marketing activities such as acquisition and retention. Van Doorn et al. (2010) postulated the consequences of customer engagement to the firm including increasing reputation and recognition, employee performance, and competitive advantage.

### The relationship between customers' interactions and engagement with omnichannel retailer

The customer journey across different stages of the buying process reflects the customer experience (Lemon and Verhoef, 2016). During each stage, customers may encounter and interact with retailer's employee, technology, and process (Bolton and Saxena-Iyer, 2009). Rose et al. (2011) described that customer interaction with a retailer may comprise product information search, purchase transaction, and service delivery. The accumulation of these interactions creates an experience (Gentile et al., 2007) which contributes to relationship building in long-term. Hence, this study believes that

This research is interested in investigating the total customers' interactions with touchpoints during all stages in the omnichannel environment. We are inspired by the organisation complexity theory (Wang and Von Tunzelmann, 2000) and the organisation knowledge search (Laursen and Salter, 2006) in order to analyse the complexities of omnichannel customers' interaction. In doing so, we borrow and build up the concept of *breadth* and *depth* of customers' interaction. Understanding customers' interaction breadth means to understand the breadth of touchpoints. It refers to the variety of touchpoints that customers employ during the buying process from prepurchase until postpurchase stage. Customers'



interaction breadth reflects how customers use different touchpoints to look for information and/or product, to fulfil the payment, to arrange delivery, and up to the point which touchpoints they use for channelling feedback and sharing an experience, all depending on their journey's goal. Customers' interaction depth displays the degree of touchpoints usage and intensity within the buying process. We propose that it is investigated by examining the level of customers' involvement which is measured by the number of activities customers performed within every touchpoints, and the frequency of that particular activity performed in specific touchpoints.

#### The outcome of the customer-retailer relationship

The advancement of technology does not only change the interaction between customers but also increase the retailer's ability to collect, store, and process customers' transaction and behavioural data. As retailers possess higher analytic capability in utilising these data, they can provide a more personalised offer to a customer. Hence, a retailer creates a more personal relationship with their customers (Cao and Li, 2015; Aguirre et al., 2015). The nature of this relationship is similar to the interpersonal relationship, and therefore becomes the basis for our adoption of the social penetration theory. This theory explains the development of the interpersonal relationship in which the reciprocal behaviour between individuals emerges (Taylor, 1968). According to this theory, the relationship between two individuals occurs as a result of the interaction. The relationship grows as individuals exchange more information, in terms of the variety of topic discussed and the degree of intimacy. Using this theory, the closeness of customer can be defined by their volume of interaction with touchpoints. It is no surprise that the more customers interact with retailer, the more knowledge for retailer to understand them. Assuming that privacy issue is not a concern for both parties, the openness of customers in sharing their shopping routines may result in personalisation which prompt a better experience. As long as both parties perceive the exchange as a positive outcome, the relationship continue to develop stronger.

As we examine the relationship building within omnichannel shopping, we also want to understand the consequences of such a relationship. Sopadjieva et al. (2017) found that customers who have experienced shopping in both offline and online store, are more inclined to use more retailer's touchpoints. They also found that the same segment engages in the more frequent shopping, resulting in a bigger shopping basket, and greater loyalty. Nevertheless, the result is merely correlation and not a causation. Besides, the only engagement they examine was the purchase behaviour. The fact is, customer cycle does not end at the purchase stage, it continues to the retention stage which may appear as loyalty, and also to the advocacy stage at the furthest end. As the relationship grows, customers move towards the end of the stage. In the advocacy stage, customers actively promote and recommend retailers to others through a variety of media (Yi and Gong, 2013). Given this basis, we refer to the conceptualisation of customer engagement by Kumar et al. (2010) which explains that there are four dimensions of customer engagement namely: customer purchase, customer influence, customer referral, and customer knowledge. Consequently, we propose that customer engagement should be positioned as the consequences of omnichannel customer search strategy as it includes comprehensive constructs reflecting the total customer cycle.

One mechanism that explains how interaction can affect engagement is through the creation of customer experience. As an internal subjective response (Meyer and Schwager, 2007), experience covers several elements. Unlike the common concept of in-store shopping experience which mainly focus customer response toward physical aspects such as atmospheric cues and the traits of sales assistant, understanding customer experience in omnichannel setting should go beyond this concept because customers do not only interact with retailer's brick and mortar but also with other touchpoints such as mobile store, social media, and newsletter. Hence, it should be seen from multidimensional perspective that comprises of customer's

affective, cognitive, physical, and social response (Verhoef et al., 2009). Only if interaction result in superior experience, customer then involve in positive engagement.

Examining customer engagement is important as it may affect a firm's value (Beckers et al., 2017), and the business sustainability through its contribution to a firm's customer acquisition and retention strategy (Schmitt et al., 2011). Despite this importance, there is a lack of knowledge to explain its linkages from omnichannel customers' interaction. Existing literature mainly predicts other outcomes such as the monetary value of multichannel shopping (Montaguti et al., 2016), and satisfaction which would lead to loyalty (Wallace et al., 2004).

### Proposed methodology

In the ideal scenario, we aim to combine both retail scanner data regarding retail customer interaction and transaction history, and customer survey. Customer interaction and transaction history will capture the independent variables of related to touchpoints complexity. A customer survey will be designed with a highly-structured questionnaire in which measurement items are adapted from the past studies. This survey aims to collect data regarding customers' traits, experience, and customer engagement dimensions. Besides that, customer demographic data will also be collected as control variables. The survey will be distributed to the retailer's customers so as to match this data with actual transactional scanner data from the same retailer. To test the proposition, correlational approaches such as structural equation modelling may be used. In addition to that, configurational approaches can also be employed such as optimization algorithms, comparative analysis, and cluster analysis. These approaches can be used as a means to identify complex combinations of antecedent conditions (i.e., alternative configurations of customer interaction) that lead to different types of customer's engagement in omnichannel. For reasons that this approach emphasises nonlinearity, synergistic effects, and equifinality (Fiss, 2007), and suits for typology development (Homburg et al., 2002).

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# **The impact of the contact employees' interpersonal communication competence on service quality**

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## **Abstract**

*The aim of the study is to examine the relationship between interpersonal communication competence and service quality. The research is based on the Conceptual Model of Service Quality proposed by Zeithaml, Parasuraman, and Berry who introduced the service quality concept based on customers' perceptions. Correlation analysis underpins the study wherein interpersonal communication competence is measured by the Conversational Skills Rating Scale and the service quality is examined using the SERVQUAL method. The research contribution consists in making an attempt to indicate to what degree service quality faults are the corollary of contact employees' insufficient interpersonal communication competence.*

**Key terms:** interpersonal competence, service quality, customers' expectations.

## **Introduction**

Lower Silesia is a region a high tourist potential owing to its spectacular landscapes, as well as cultural, and natural values. Such features as: diversified geological structure, wide variety of plants and animals, high forest cover, and diversified hydrographic network, specific climate, and the occurrence of significant therapeutic mineral deposits also contribute to the uniqueness of the region. According to information published as part of the *Development Strategy for the Lower Silesian Voivodeship 2020*, "... the tourism potential of the region is not fully used, and the tourist offer does not correspond to the latest trends everywhere. From the point of view of microeconomics, it is important that tourism enterprises strive to improve the quality of services provided. Therefore, the quality of tourist services in Lower Silesia appears to be an interesting issue of enquiry.

Understand the evolving customers' needs is deemed, by managements of leading service companies, as a prerequisite to strengthen brand identity and successfully managing customer networks (Kaplan & Palmer, 2010). For example, taking into consideration the fact that clients detest waiting to settle their business matters, Citibank has established a standard of answering phone calls within 10 seconds and responding to customer letters within 2 days (Kotler, 2011). Standards of superior service generate increase in customer loyalty as well as in a number of new customers, and place the service company in an advantageous position in the price competition (Berry *at al.*, 1994). High quality also causes reduction in the number of mistakes, complaints and re-performance.

High quality service may be maintained and developed on condition that contact employees display such skills and qualities as: effective listening, reliability, excellent team work (Berry *at al.*, 2006), high adaptability, ability to take ownership, and also capability of showing compassion and empathy towards the clients (Heskett, 1986). It is clear that the above skills and qualities are closely related to interpersonal communication competence. Yet, there appears to be scarcity of empirical studies addressing this relationship. The purpose of the research is to examine the impact of contact employees' interpersonal communication competence on service quality. The study is based on the Conceptual Model of Service Quality proposed by Valarie A. Zeithaml, A. Parasuraman, and Leonard L. Berry in 1980s, and the

SERVQUAL method of service quality assessment. Interpersonal communication competence is measured by the Conversational Skills Rating Scale.

The objective of examining the above relationship is to make an attempt to measure to what extent the interpersonal communication competence of contact employees may be deemed as a predictor of service quality understood as the discrepancy between customers' expectations and perceptions, where low discrepancy levels indicate high quality.

### 1. The nature of interpersonal communication competence

Interpersonal communication is “the verbal and nonverbal interaction between two (or sometimes more than two) interdependent people” (DeVito, 2007: 4). As DeVito asserts this definition implies that: 1) Interpersonal communication involves interdependent individuals, i.e. people that are somewhat connected and interdependent, since the actions of either of the participants have impact on the other; 2) Interpersonal communication is inherently relational, i.e. it is held between people tied in with each other by a relationship which is affected and defined by this communication; 3) Interpersonal communication ranges from being relatively impersonal to being highly personal (Miller, 1990); 4) Interpersonal communication involves verbal and nonverbal messages, i.e. apart from uttering words, the interlocutors use other systems of signals such as facial expression, eye contact, body posture, proximity, touch and other means of nonverbal communication, including silence; 5) Interpersonal communication exists in varied forms, i.e. apart from interacting face-to-face it encapsulates online communication, computer-mediated communication (CMC), and other channels.

The above characteristics of interpersonal communication indicate that communication is not restricted to face-to-face interaction, but takes a variety of forms. More importantly, it implies that interpersonal communication competence covers a variety of skills. The ability to communicate effectively, also referred to as interpersonal competence, being a measure of intellectual and physical interpersonal performance quality (Almeida, 2004) comprises the ability to accurately perceive the nature of social interactions, the capacity of interpreting behaviour, and the skill of acting in manners that will bring desired effects (Hayes, 2002).

### 2. The nature of service quality

The attempts to measure quality originally pertained to manufactured products and were mainly focused on their tangible attributes and characteristics. Since the 1980s it has become clear that the management of services is more complex and less easy to perform than the management of manufacturing physical products. Production and performance of services is markedly different from manufacturing physical products in terms of several aspects (Laws 2004). The differences between manufacturing and services are presented in table 1.

TABLE 1. The difference between manufacturing and services

<b>Manufacturing characteristics</b>	<b>Meaning</b>	<b>Service characteristics</b>	<b>Service feature</b>
Tangibility	Customer can test-drive a car	Intangibility	The consumer cannot sample a service before purchasing it
Separability	Customer is not involved in manufacturing	Inseparability	The consumer is part of the service and interacts directly with the organization and its staff during the service

Homogeneity	Each car is identical to others produced to a given specification	Heterogeneity	A particular service may be experienced differently by each client
Storability	Most new cars are stored for weeks or months prior to sale and delivery	Perishability	The organization cannot put an unsold service into storage

source: Laws 2004, p.15.

It is clear that there are several characteristics of services (intangibility, inseparability, heterogeneity, and perishability) that make services significantly distinct from manufacturing. Therefore, the long-standing definition of quality as “conformance to specification”, has been no longer applicable for services as that there are several customers’ needs (e.g. service explanation in simple language, confidentiality, freedom from burdensome work) that are not included in product specifications (Juran 1999). Consequently, the increased significance of the service sector has led to the reorientation of the approach to quality by placing more emphasis on the customer dimension wherein quality is defined as “delighting the customers by fully meeting their needs and expectations” (Grigoroudis Siskos, 2010: 53). Service quality has become a customer issue because it is the customer who will determine whether he has received the service and what quality it was. In simple terms, regardless of what the service provider thinks, the customer’s perception is crucial. If the customer is not satisfied the service is considered to have failed.

### 3. The impact of interpersonal communication competence on service quality

The impact of interpersonal communication competence on service quality may be demonstrated by presenting the example statements in the SERVQUAL method questionnaire used by Parasuraman, Zeithaml and Berry in the research aimed to determine the underlying causes of service quality shortfalls (Zeithaml *et al.*, 1990). The list of statements was prepared to obtain the respondents’ views on excellent service characteristics. The respondents are to assess to what extent they think each of the statements reflects excellent service. They are asked to selecting a number on a 6-point Likert scale (where number 1 means that a certain feature is not at all essential, and number 7 means that a feature is absolutely essential). The statements are listed in Table 2.

TABLE 2. SERVQUAL Questionnaire Statements

Dimension	Example statements in SERVQUAL Questionnaire
Tangibles	<ol style="list-style-type: none"> <li>1. Excellent companies will have modern-looking equipment.</li> <li>2. The physical facilities at excellent companies will be visually appealing.</li> <li>3. Employees at excellent companies will be neat-appearing.</li> <li>4. Materials associated with the service (such as pamphlets or statements) will be visually appealing in an excellent company.</li> </ol>

Reliability	<p>5. When excellent companies promise to do something by a certain time, they will do so.</p> <p>6. When a customer has a problem, excellent companies will show a sincere interest in solving it.</p> <p>7. Excellent companies will perform the service right the first time.</p> <p>8. Excellent companies will provide their services at the time they promise to do so.</p> <p>9. Excellent companies will insist on error-free records.</p>
Responsiveness	<p>10. Employees in excellent companies will tell customers exactly when services will be performed.</p> <p>11. Employees in excellent companies will give prompt service to customers.</p> <p>12. Employees in excellent companies will always be willing to help customers.</p> <p>13. Employees in excellent companies will never be too busy to respond to customers' questions.</p>
Assurance	<p>14. The behaviour of employees in excellent companies will instill confidence in customers.</p> <p>15. Customers of excellent companies will feel safe in their transactions.</p> <p>16. Employees in excellent companies will be consistently courteous with customers.</p> <p>17. Employees in excellent companies will have the knowledge to answer customers' questions.</p>
Empathy	<p>18. Excellent companies will give customers individual attention.</p> <p>19. Excellent companies will have operating hours convenient to all their customers.</p> <p>20. Excellent companies will have employees who give customers personal attention.</p> <p>21. Excellent companies will have the customer's best interest at heart.</p> <p>22. The employees of excellent companies will understand the specific needs of their customers.</p>

Source: Zeithaml *et al.*, 1990, pp. 181-186 (with changes).

It transpires from the above table that a good number of statements concern interpersonal communication effectiveness. For example, statements 10, 12, and 13, which belong to the *responsiveness* dimension, directly refer to communicative behaviours of contact personnel as they apply to, respectively: being informative and able to express ideas clearly, expressing willingness to provide assistance, displaying the attitude of giving top priority to attending to customers' enquiries. Similarly, statements 14, 16, and 17, which belong to the *assurance* dimension, apply to interpersonal skills of contact personnel. They concern, respectively: the ability to inspire confidence, e.g. by showing the personal commitment (Owen, 2004), displaying courtesy and etiquette, ability to clearly share information. In addition, statement 6 of the *reliability* dimension appears to be also related to interpersonal communication competence because a sincere interest in solving customers' problems can only be displayed on condition that the employees' command of interpersonal skills (including the use of non-verbal communication) is supreme. Likewise, statements 18, 21, 22, of the *empathy* dimension, also concern interpersonal communication skills of the personnel. Creating the feeling in the service recipient that he is given individual attention requires a high level of interpersonal competence, regardless of whether this demand is met, or not. A similar principle

applies to making the consumers convinced that their best interests and needs are fully understood and taken care of.

#### **4. Study design, research method, and data collection**

In terms of the approach to service quality, the study is based on the Conceptual Model of Service Quality proposed in 1985 by Parasuraman, Zeithaml and Berry, the “pioneers in conducting academic service research” (Kotler, 2011: 372). The researchers concluded that service quality should be referred to as the discrepancy between customers’ expectations and perceptions (Zeithaml *et al.*, 1990). In simple terms, meeting customers’ expectations leads to their satisfaction and positive perception of the service quality. If the customers’ expectations are not met, the level of satisfaction is lower and consequently the perception of service quality is less favourable.

##### *General research problem:*

Does the contact personnel interpersonal communication competence have a significant impact on the customer satisfaction in the hospitality industry?

##### *Specific problems:*

- P<sub>1</sub> What is the level of satisfaction with the services provided in selected hotels in the Lower Silesia in Poland?
- P<sub>2</sub> What is the level of contact personnel interpersonal communication competence in selected hotels in Lower Silesia in Poland?
- P<sub>3</sub> Is there a significant relationship between the contact personnel interpersonal communication competence and customer satisfaction with services in selected hotels in Lower Silesia in Poland?

##### *The subject of the research:*

The impact of contact personnel interpersonal communication competence on customer satisfaction in hospitality industry.

##### *The objectives of the research :*

- O<sub>1</sub> Assessment of the impact of the contact personnel interpersonal communication competence on the customer satisfaction with the services provided.
- O<sub>2</sub> Assessment of the contact personnel interpersonal communication competence in selected hotels in Lower Silesia in Poland.
- O<sub>3</sub> Assessment of customer satisfaction in selected hotels in the in Lower Silesia in Poland.

*The special scope of the research:* Lower Silesia, Poland.

*Time range:* the period in which the tests will be carried out: 2018 – 2021.

##### *The main hypothesis:*

Contact personnel interpersonal communication competence has a significant impact on the customer satisfaction in the hospitality industry.

##### *Specific hypotheses:*



- H<sub>1</sub> The level of customer satisfaction with the services provided in selected hotels in Lower Silesia in Poland is below average in comparison to European levels.
- H<sub>2</sub> The level of contact personnel interpersonal communication competence in selected hotels in Lower Silesia in Poland is below average in comparison to European levels.
- H<sub>3</sub> There is a significant relationship between the contact personnel interpersonal communication competence and customer satisfaction with services in selected hotels in Lower Silesia in Poland.

*Variables:*

*Independent variable (Y):*

The level of contact personnel interpersonal communication competence in selected hotels in Lower Silesia in Poland

*Dependent variable (X):*

The level of customer satisfaction with the services provided in selected hotels in Lower Silesia in Poland

*Indicators:*

*The indicator of the independent variable (Y):*

The levels of the contact personnel communicative competence will be measured using the Conversational Skills Rating Scale (CSRS). Communicative competence defined in CSRS comprises: (1) Speaking rate (neither too slow nor too fast), (2) Speaking fluency (pauses, silences, “uh”, etc.) (3) Vocal confidence (neither too tense/nervous nor overly confident sounding), (4) Articulation (clarity of pronunciation and linguistic expression), (5) Vocal variety (neither overly monotone nor dramatic voice), (6) Volume (neither too loud nor too soft), (7) Posture (neither too closed/formal nor too open/informal), (8) Lean toward partner (neither too forward nor too far back), (9) Shaking or nervous twitches (aren’t noticeable or distracting), (10) Unmotivated movements (tapping feet, fingers, hair-twirling, etc.), (11) Facial expressiveness (neither blank nor exaggerated), (12) Nodding of head in response to partner statements, (13) Use of gestures to emphasize what is being said, (14) Use of humor and/or stories, (15) Smiling and/or laughing, (16) Use of eye contact, (17) Asking of questions, (18) Speaking about partner (involvement of partner as a topic of conversation), (19) Speaking about self (neither too much nor too little), (20) Encouragements or agreements (encouragement of partner to talk, (21) Personal opinion expression (neither too passive nor aggressive), (22) Initiation of new topics, (23) Maintenance of topics and follow-up comments, (24) Interruption of partner speaking turns, (25) Use of time speaking relative to partner.

*The indicator of the dependent variable (X):*

The measure of discrepancy between customers’ expectations and perceptions in relation to service quality will be obtained by using the SERVQUAL method. The measure can be modelled as follows (Seth & Deshmukh 2004: 917):

$$SQ = \sum_{j=1}^k (P_{ij} - E_{ij})$$

where:

$SQ$  = Overall service quality;

$k$  = Number of attributes;

$P_{ij}$  = Performance perception of stimulus  $i$  with respect to attribute  $j$ ;

$E_{ij}$  = Service quality expectation for attribute  $j$  that is the relevant norm for stimulus  $i$ .

Accordingly, in the event of meeting the customers' expectations entirely, the  $SQ$  value equals zero. Exceeding the customers' expectations results in  $SQ > 0$ .

## Conclusion

Management of service production and performance is markedly different from the management of manufacturing physical products because providing services entails more intensive interactions between the customers and the personnel of service providers. In the case of hospitality services, the intensity of client-personnel interactions is particularly high. Perceived by the customers, service experience – being in its great part an outcome of intensive interactions with the contact personnel – determines the level of customer satisfaction, and therefore it constitutes the basis of accurate service quality assessment. High competence of contact personnel is vital for creating a positive customer experience. By the same token, contact personnel communication competence should substantially contribute to customer satisfaction. The aim of the study is to examine the relationship between interpersonal communication competence and service quality understood as the level of customers' satisfaction. A possible practical conclusion of the research findings is expected to be that more emphasis shall be placed on interpersonal communication skills with respect to the recruitment procedures and employees training programmes.

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# Practice to Policy: Assessing Evidence-Based Decision-Making in Health Policy in Greater Manchester

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## Abstract

*In the context of health policy, literature suggests that multiple actors have various preferences over which evidence to use in influencing their decisions, and that collaboration between policy makers and researchers is essential to improve knowledge translation. Through a mixed methods approach, this research aims to identify the factors and barriers that facilitate knowledge translation in decision-making and determine if collaborative working exemplified by the Greater Manchester Health and Social Care Partnership results into an improved uptake of evidence and better decision-making. The overall contribution of this research is to provide a small picture of what decision-making is like in the local level, in the midst of budgetary pressures and political agenda to provide effective solutions in the health policy context in Greater Manchester.*

**Keywords:** evidence-based; decision-making; knowledge utilisation; public health

## Introduction

There are many decisions being made by policy makers and practitioners in the provision of health and social care. Such decisions should be based on a systematic appraisal of high quality scientific and clinical evidence (Muir Gray, 2007; Jacob et al., 2017); however, empirical literature suggests that different types of research knowledge are used as evidence by decision-makers, not only to influence or inform policy decisions, but also to measure effectiveness of interventions, and evaluate the organisation, implementation, and feasibility of programmes. This refers to a vague, but rather an aspirational term called *evidence-based policy making*, where policy and practice should be informed by best available evidence to help make well-informed decisions (Nutley et al., 2002; Davies, 2004; Cairney, 2016).

Evidence-based policy making is exemplified in the United Kingdom governance, particularly by the New Labour government in 1997. As part of a movement to reform and modernise the way policy makers make decisions, the government pledges to improve effective policy making by delivering outcomes that matters (Davies and Nutley, 2002; Davies, 2004). By taking this approach, the government can identify what works, highlight the gaps where evidence is lacking, enable decision-makers to use evidence in budget and policy decisions, and use evidence from evaluation to improve program performance. This way, it reduces costs and wasteful spending, expand innovative programs, and strengthen accountability of decision-makers (Pew-MacArthur Results First Initiative, 2014).

In theory, evidence-based policy making sounds promising; however, in reality, policy making is a complex process. There are competing types of evidence that decision-makers use, and several contextual factors that could influence the use and translation of evidence from practice to policy. This raises challenges on the mechanisms of knowledge translation and highlights the existing gap between the two communities of researchers and policy makers.

## **Theory**

Notions on the transfer of knowledge are deeply rooted in traditional rational-linear models of research use, which mainly focuses on a one-way process between producers and users of knowledge (Davies et al., 2008; Wehrens, 2014). Majority of the advocates of public policy and knowledge translation conceptualise the relationship between the two domains through the *two-communities* theory. First outlined by Caplan (1979), the theory explains that researchers and users of research (such as policy makers, managers, practitioners, etc.) operate in two distinct worlds, with different cultures, values, goals, timelines, and rewards. As briefly mentioned in the previous section, social scientists or researchers are focused on narrow interests or specialised knowledge, while users of research such as government policy makers are practical individuals that deal with immediate issues. Since research is considered of little practical use in policy making, and policy questions are rendered too general to be accommodated into a scientific inquiry, there is oftentimes a mismatch on information (Kothari and Wathen, 2013; Wehrens, 2014) between the two communities. Policy makers are left isolated and are unaware of the work of researchers, therefore implying that there is a lack of direct contact with the producers of knowledge.

Such constraints impede the transfer and exchange of knowledge, which further explains the non-utilisation of research evidence that exists in the relationship of the researcher and the research system to the policy maker and the policy making system. Resulting from this is the emergence of literature on how to bridge the alleged gap between research and policy. Caplan (1979) suggests that linking mechanisms should be in place to integrate the two communities, moving from rational-linear models to linkage-exchange models.

The integrated collaborative models promote active interaction between the two communities, where *co-production* of knowledge is encouraged. Originally coined by Ostrom and colleagues (Parks et al., 1981), co-production is ‘a process in which contributions from individuals who are not in the same organisation are transformed into goods and services by users and providers’ (p. 1001). In health, co-production is described as a way to work together in order to improve health, creating a user-led, people-centred health care services (Heaton et al., 2016; Filipe et al., 2017). It is supported by elements such as: users as active agents (Ostrom, 1996); equality between the users and producers of knowledge; notion of increased capacity and ‘achieving more by working together’; and organisations that facilitate and support the co-production of services (Heaton et al., 2016). In effect, collaborations and partnerships between academics and government agencies are encouraged to promote a new initiative to link research into policy.

## **Literature**

In health policy, practitioners apply principles of evidence-based practice on day-to-day decision-making tasks for a more effective use of scarce resources and improved outcomes. However, the quality of evidence used by the health policy makers remains unmonitored and insufficient (Anderson et al., 2005; Katikireddi et al., 2011). Moreover, there is little data on how policy makers use evidence or which evidence they prefer to use, ultimately leading to the lack of information regarding the influence of evidence in health decision-making (Oliver and de Vocht, 2015; Jacob et al., 2017). As a result, recent studies attempt to address this gap by exploring decision-makers’ preference and use of evidence, and identifying potential recommendations.

Literature indicates that preference on evidence depends on frequency of use, and which types of information are most useful. Studies on health decision-making identify that it vary between settings, and are contextual to the individual user, including time, access, resources,

organisational setting and culture, perceptions of relevance, and position or role within an agency (Coleman and Nicholl, 2001; Orton et al., 2011; Clarke et al., 2013; Oliver and de Vocht, 2015; Jacob et al., 2017; Kneale et al., 2017). There is also a breadth and variability of sources that decision-makers use, such as quantitative data (e.g. clinical trials, meta-analyses, systematic reviews), published sources of evidence-based guidance (e.g. NICE, Cochrane, etc.), academic journals, local and national government data, economic evaluation, health impact assessments, and webinars and workshops (Coleman and Nicholl, 2001; Brownson et al., 2009; Orton et al., 2011; Clarke et al., 2013; Oliver and de Vocht, 2015; Jacob et al., 2017).

It is prevalent that professional background and seniority of the role have significant impact on the choice of evidence used for decision-making. For example, those who are trained in public health are more likely to use empirical evidence, while those in senior roles are more likely to use local data (Coleman and Nicholl, 2001; Clarke et al., 2013; Jacob et al., 2017). Brownson and Jones (2009) show that those working in public health agencies are likely to use scientific evidence because of their ability to assess public health problems, develop appropriate programs, and ensure the effective delivery of policies. Policy makers, on the other hand, rely more on “real world stories” and constituents, influenced mainly by their own political party’s agenda. On the other hand, Jacob et al. (2017) highlight that decision-makers in universities and health care facilities prefer to use academic journals, while local government or health agency staff prefer seminars or workshops. This is influenced by the lack of access to such academic sources, time constraints, and information overload.

Some studies have identified that one of the emerging sources of evidence that policy makers use in decision-making is the role of expert opinion (Orton et al., 2011; Oliver and de Vocht, 2015; Kneale et al., 2017). Due to the transition of the structural decision-making landscape in the UK’s National Health Service (NHS), some organisations experience an increased presence of political elements that had implications with the type and format of evidence needed (Kneale et al., 2017). Orton et al. (2011) reveal that in the NHS, the influence of key personnel has a big impact in the decision-making process, either by making judgments based on expert opinion or by acting as a filter through which evidence is transferred. Research evidence is only seen as an effective tool if it is supported by those who have the position to influence to change. Similarly, Oliver and de Vocht (2015) highlight that personal and political information are most influential on a day-to-day basis, and policy makers rely on colleagues with expert knowledge who may regularly use evidence-based guidance. Studies in Australia and Canada (Orton et al., 2011) also show that among public health decision makers, managers are more likely to connect with colleagues that determine the best practice, with some exclusively relying on a small group of trusted experts.

While it is clear that there is a discrepancy on when and how policy makers use evidence, this does not necessarily imply that academic evidence is not directly applied or used into decision-making. Various disciplines identify numerous types of use of knowledge, majority of which comes from the literature on research utilisation and how it is used or applied in making decisions or policies. The most common collectively identified types of use are: *instrumental*, *conceptual*, and *symbolic* (Caplan, 1979; Weiss, 1979; Beyer and Trice, 1982; Rich, 1997; Amara et al., 2004). Firstly, *instrumental* use refers to the direct application of research into specific decisions. This closely follows the rational choice model of decision-making, where research is used to solve an existing problem, based on a set of possible solutions (Amara et al., 2004; Ness, 2010; Tseng, 2012). Secondly, *conceptual* use refers to the indirect impact of research into the decision-making process, where research plays a longer-term role in influencing how policy makers may think about new ideas or proposed solutions for a better

understanding of a certain policy issue (Rich, 1977; Landry et al., 2001; Ness, 2010; Tseng, 2012). Thirdly, *symbolic* use refers to when research is used as a form of instrument of persuasion, to either bolster support for pre-determined positions or policy preferences, or to challenge political stance of others. Research can also be used to confirm the programs they wish to promote (Amara et al., 2004) or to push through a decision or a course of action (Nutley et al., 2007). Such types of research use explain the various types of evidence that has emerged over the years.

The conceptual use of research must not be viewed as a failure to translate research into policy (Rich, 1977), because there are many ways for research to contribute into action; however, its use is subtler and is difficult to trace. As early literature suggests, utilisation of research in the areas of public policy show that most policy makers do not effectively use or understand research findings. It is evident that the principal purpose served by research is not to provide information that can be directly applied to policy, but rather to reinforce any existing information that could potentially inform future decisions. This is exemplified by some empirical studies; for example, Jacob et al.'s (2017) analysis show that research evidence is used by policy makers to select policies, programs, or other types of interventions, justify the selection of interventions to funders, evaluate interventions, write a grant application, or plan and conduct a needs assessment.

This leads to the ongoing discourse about the barriers on evidence-based decision-making and how various misuse of sources of information lead to a gap between research and policy. Overall, literature (Brownson and Jones, 2009; Orton et al., 2011; Jacobs et al., 2012; Taylor-Phillips et al., 2014; Jacob et al., 2017; Kneale et al., 2017) illustrates the following challenges to effective use of evidence: full-text access to academic sources; capacity and skills to analyse and interpret evidence; undue focus on randomised controlled trials; lack of focus on local context and applicability; incompatible time frames for research and policy making; and presentation of evidence targeted to the needs of decision-makers.

These factors only exacerbate the two-communities gap (Caplan, 1979), where policy makers and academics are living in separate worlds with conflicting values, and different languages. Brownson and Jones (2009) emphasise the importance of bridging the knowledge translation gap, by moving from ineffective dissemination and implementation approaches, to building a system that facilitates proper utilisation of scientific research.

There is an abundant literature on strategies and recommendations on how to increase and improve the uptake of evidence in health policy, such as: emphasis on local, routinely collected data (Oliver and de Vocht, 2015); collaborative model and co-production of knowledge (Taylor-Phillips et al., 2014; Kneale et al., 2017); capacity building (Orton et al., 2011; Jacobs et al., 2012); improve low-cost administrative practices and information systems (Coleman and Nicholl, 2001; Jacob et al., 2017); and enhance evidence base and evaluation methods (Brownson et al., 2009).

Given the complexity of evidence-based policy and decision-making, which is built in practice from epidemiologic and behavioural policy research, decisions in health policy often involves choosing from one alternative to another given a set of rational choices. This study, therefore, explores how collaboration of organisations is applied in the local context of Greater Manchester Health and Social Care partnership to improve knowledge translation.

## Research question

While most studies extract the explanatory factors and provide suggestions on how to improve knowledge translation, there is little data on how collaborative partnerships improve the uptake of evidence within a local decision-making context. Therefore, this study focuses on the question, “Could collaboration improve the acquisition, dissemination, utilisation, and implementation of evidence in the health policy and local decision-making context?”

This will be addressed through the following research aims:

- To examine the relationship between evidence and policy, the role of knowledge within this interaction, and the contextual factors influencing knowledge translation in the health policy context
- To investigate the assumptions embedded in rational actor theories and its appropriateness to the current context of Devolution in Greater Manchester
- To evaluate if collaboration of organisations results into co-production of knowledge and improved uptake and utilisation of evidence

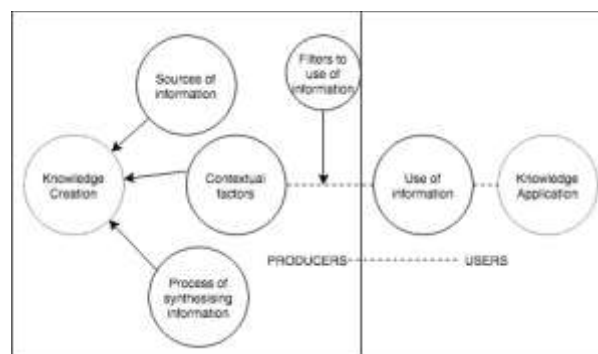
## Greater Manchester context

Greater Manchester sits in the heart of the Devolution Revolution and Northern Powerhouse, an ambition by the Conservative government in 2015 to boost the economic growth in the north of England. As part of these agreements, in April 2016, the conurbation took charge of its health and social care budget amounting to a sum of £6 billion, which include the transfer of control on health care services from London to the local authorities. As a response to radically reform the delivery of public services and improve the health outcomes of the population, Greater Manchester Health and Social Care (GMHSC) Partnership was formed as the overseeing non-statutory body to a five-year strategic plan called Taking Charge, which aims to reduce inequalities and improve well-being of residents in the city-region, from early age to their later years (Greater Manchester Combined Authority, 2015).

## Methodology

The ontological perspective of this research is pragmatism. The intended outcome of this study is formulated upon ‘what works’ and ‘what’s useful’. Within this context, it could be argued that truth cannot be defined as the correspondence with reality, but rather on how it is discovered and how it is used. Pragmatism focuses on the efficiency of solutions and applications of ‘what works’ to problems (Crotty, 1998; Creswell, 2007). Outcomes of the research, such as the actions, situations, and consequences of inquiry, are more important than precursor events.

## Framework



**Figure 1:** Collaboration within the KTA framework

This study adopts the *knowledge-to-action* (KTA) cycle developed by Graham et al. (2006) to promote research application for the process of knowledge translation (Lomas, 2000; Straus et



al., 2009). Using the KTA framework (see Figure 1), it promotes an iterative, dynamic, and complex knowledge translation process that is divided into two concepts: *knowledge creation*; and *knowledge action*. The end-users of the knowledge are included to ensure that the knowledge used is relevant to their needs. At the first stage of knowledge creation, researchers can tailor their activities and research questions based on the problems and the needs identified by the users. It then leads to the action cycle where the implementation of knowledge is represented by activities needed for knowledge application

### **Methods and data collection**

This study uses mixed methods approach to establish the extent and process of knowledge translation in the Greater Manchester health policy context. Mixed methods is becoming an increasingly popular methodological choice for many academics and researchers from across a variety of discipline areas, most notably in the fields of education, health and nursing and the social and behavioural sciences. It refers to the use of quantitative and qualitative approaches in to provide a better understanding of research problems than either approach alone (J. Creswell, 2007; Wisdom & Creswell, 2013). An exploratory sequential design is adopted, where the qualitative data collection and analysis builds to the quantitative strand of the study.

Semi-structured interviews will be conducted to selected stakeholders of the Partnership, particularly those who are involved in the governance, evaluation, and implementation of the health strategic plan (i.e. members of the Transformation Fund). This is to scope and identify which potential explanatory factors influence the decision-making process in the GMHSC Partnership. For example, which sources of information are used by members of the Partnership (research, guidance, peers, etc.); what contextual factors influence decisions (position within the organisation; access to information; etc.); how is information processed (rational or interactive); and who are the actors involved. The thematic results from the interviews build the potential variables of the survey. Electronic surveys will be sent out to all collaborating organisations involved in the Partnership to test whether the themes identified in the interviews exemplify better outcomes (i.e. use of evidence; improved decision-making, etc.).

### **Limitations and expected contribution to knowledge**

Since the study involves collecting data from NHS staff, it is currently undergoing Health Research Authority (HRA) ethical approval sponsored by the university. Once approved, collection of data will immediately commence approximately from July to September 2018. It is anticipated that the results of this study will not assume generalisability due to the nature and size of the sample. Due to the potential inability of the researcher to reach all members of the Partnership, purposive sampling and snowball techniques are advantageous because it draws on participants' own expertise in developing the sample as well as expanding the sample beyond contacts known to the researcher.

The results of this study expect to provide a new testable KTA framework, which can be applied in other public sectors under the Devolution agenda in Greater Manchester. The overall contribution of this research is to provide a small picture of what decision-making is like in the local level, in the midst of budgetary pressures and political agenda to provide effective solutions in the health policy context in Greater Manchester.

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# **Teamship: A collective case study exploring the effects of group cohesiveness, stage of formation and motivation in groups operating in extreme environments.**

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## **Abstract**

*The need to understand the enduring success of teams is of growing importance as organisations and the tasks that they perform become increasingly complex and distributed. The challenges for leaders of creating and maintaining effective intra-group collaboration and cooperation in the shifting organisational structures of modern organisations, imply the need for greater understanding of the dynamics at play in successful groups and teams.*

*The purpose of this collective instrumental case study is to explore, describe and interpret the dynamics of groups operating in extreme environments, focusing on the effects of group cohesiveness, stage of group development, collective purpose and leader interventions on outcomes of group endeavour.*

## **Background**

Tasks in today's global marketplace are becoming increasingly reliant on the work of teams (Levi, 2017:3, 11-17; McEwan *et al*, 2017). As creativity and innovation are frequently required for organisational success, work teams are becoming more and more prominent within all types of organizations (King, 2017). Despite an increasing academic interest in teams, much of the research appears to focus on *what* effective teams do, and *how* they are doing it (Marks *et al*, 2001; McEwan *et al*, 2017). Rousseau, Aube and Savoie (2006) capture these behaviours under the descriptors of 'taskwork' and 'teamwork' respectively. It could be argued therefore that the research focus on task-orientation in teams has come at the cost of investigation into *why* successful teams perform; what are the underlying mechanisms and structures that enable, support and transcend task-focus to deliver repeatable and enduring success. In their meta-analysis of 51 articles investigating the effects of teamwork intervention studies, McEwan *et al* (2017) identified four behavioural groupings of teamwork; behaviours observed (a) before, (b) during and (c) after the task, and finally (d) a dimension of behaviours that function to keep the team together. This last dynamic implies the sustainability of teams on a longitudinal basis, as opposed to the temporal considerations of the first three behavioural groups.

Teamship has emerged as a colloquial term in the last 15 years, specifically being popularised as a factor contributing to the success of the England Rugby Union World Cup team in 2003 (Woodward, 2004:309-311; Morgan *et al*, 2015:97). The participant descriptions of 'teamship' in this context highlight several antecedent conditions and symptoms that may be associated with the phenomenon, especially the impacts of exotic, stressful or extreme environmental conditions experienced by the group (Harrison and Connors, 1984; Driskell, Salas and Johnston, 1999; Driskell, Salas and Driskell, 2017). It is argued by these authors that under certain environmental stresses, interpersonal and task cohesiveness become increasingly influential in decision-making and outcomes. Janis (1972) also examined this phenomenon and the significance of environmental conditions in his generation of Groupthink Theory, identifying

the influence of high stress, external threat and insulation of the group as key antecedents associated with the cohesiveness of groups but resulting in negative outcomes (Fig. 1).

Whilst there is no empirical research available specifically investigating teamship as a phenomenon, the colloquial references to the term primarily describe the enduring interpersonal dynamics between members in teams operating in environments of high danger, risk or isolation (Woodward, 2004; Morgan *et al*, 2015); consistent the definition of ‘extreme environments’ offered by Driskell *et al* (2017).

Examining this gap in literature may bring benefit to both practitioners and researchers. Specifically, effective performance of teams operating in extreme environments often has immediate and long term implications on safety, survival and success of both the organisation and the individuals. Examples of such teams may include military (Smith-Jentsch *et al*, 2008), medical (Morey *et al*, 2002), and aviation (Brannick, Prince & Salas, 2005). Understanding of the antecedents and symptoms that lead to high performance in such environments may lead to new insight into organisational structure, leadership, selection, motivation, and management, providing practical guidance and frameworks for leaders and members alike.

My research aims to explore these antecedents, symptoms and behaviours with a view to adding to existing knowledge and theory regarding teamwork and intragroup dynamics. I plan to investigate the social interactions of groups operating in extreme environments to determine whether it is possible to identify anything that might suggest that ‘teamship’ is a relevant and unique concept, and is distinct from ‘teamwork’ and other theory associated with the effective functioning of groups.

## Teamship

‘Teamship’; it seems logical that this word would sit comfortably alongside ‘Leadership’ and ‘Followership’ in the description of the behaviours and actions of people functioning in social groups. The latter two are both colloquially and academically understood, studied and accepted in our daily vocabulary. ‘Leadership’ is described by the Oxford English Dictionary as “*The action of leading a group of people or an organization*” (Oxford Dictionaries | English, 2018). The Collins online dictionary describes ‘followership’ as “*the act of following rather than leading*” (Collinsdictionary.com, 2018).

Academic study provides much more depth, with the field of leadership and the study of group behaviours and dynamics providing focus for scholars worldwide. With its foundations arguably based in Gestalt Theory, and Koffka’s assertion that “*...the whole is other than the sum of the parts*” (Koffka, 1935), the notion that a collection of individuals can work together to achieve outcomes that would be difficult or impossible alone, remains both fascinating and important for practitioners and academics alike. This is evidenced by the continual interest of scholars in the concepts of ‘leadership’, ‘groups’ and ‘teams’; Google Scholar alone lists over 56,000 articles published since January 2017 using the search term ‘Leadership Theory’, and more than 83,000 articles or books in the same period using the search team ‘Group Dynamics Theory’ (Anon, 2018; Scholar.google.co.uk, 2018).

‘Teamwork’ describes the temporal actions and interactions of individuals in a group to fulfil a task; it does not explain the underlying - and potentially longitudinal and enduring - psychological and sociological considerations that contribute to the formation of a ‘team’ (Tuckman, 1965). Whilst ‘teamship’ is not a defined concept – and indeed may not in practice

provide any unique insight into group dynamics and function, but simply be a label by which existing knowledge can be usefully captured – the phenomena that have given rise to its use are identifiable, and as such allow for the examination of groups to explore antecedents that may be unique and warrant the academic offering of ‘teamship’ as a concept (Morgan *et al*, 2015).

## A proposed lexicological definition of teamship

For the purposes of the design and conduct of this study, and to allow consistent communication and understanding of its aims to participants, academics and potential sponsors, I offer a lexicological definition of ‘teamship’ as a noun with the following meaning and context.

The morphology of *teamship* comprises a stem (*team*) and suffix (*-ship*).

Katzenbach and Smith (1993:45) state “...*a team is a small number of people with complimentary skills who are committed to a common purpose, performance goals, and approach for which they hold themselves mutually accountable.*”

The suffix ‘-ship’ is defined as (sic) “...*possessing the qualities, skills, abilities or behaviours as associated with the stem lexeme*” (Merriam-webster.com, 2017). Through the agglutination of the stem and suffix, *teamship* can thus be defined as “the qualities, skills, abilities or behaviours of people who are committed to a common purpose, performance goals, and approach for which they hold themselves mutually accountable.” I have chosen to amend this slightly to provide the following working definition:

***“...the qualities of individuals functioning collaboratively, efficiently and effectively in a group with a common and shared purpose under specific antecedent conditions, where the purpose can only be achieved through collective effort.”***

This definition provides a foundation for the exploration of *teamship* as it relates to successful, high performing teams.

## Significance for knowledge and practice

It is the aim of this study to generate theory that fills the gap in literature regarding teamship, and to provide a robust definition of the same that sits alongside ‘leadership’ and ‘followership’. The study will examine the dyadic follower-follower relationship within teams, the triadic follower-follower-leader relationship, and the underlying mechanisms that exist in certain teams that transcend temporally affective ‘teamwork’, and establish a more enduring state, which may be referred to as ‘teamship’.

## Literature review discussion – the gap in knowledge

The desire to improve understanding of how to optimise team performance is of increasing importance in an increasingly integrated, yet distributed world. Competitive differentiation in business, success in sport, survival in extreme environments and collaboration in technical and scientific endeavour require groups to work together cooperatively to optimise efficiency, effectiveness and safety. The literature review explored seminal studies and texts, and touched upon several foundational theories that form the bedrock of understanding in this field of social science. However, amongst the extensive studies referenced in this review three themes emerged;

1. *Group cohesiveness and the relevance of understanding the important difference between 'teams' and 'groups', and the outcome implications.*

Burnette *et al* (2011) examined the 1996 disaster on Everest drew on an extensive collection of personal accounts, media descriptions, online interviews and past empirical studies to determine if groupthink was influential in the events. Their conclusions indicate the crucial difference in the importance of task-cohesiveness over interpersonal-cohesiveness in the poor decision-making of the group, and the influence of directive leadership in catalysing that state. However, implicit in their work was that although task-focus was very high, it was not a *collective* task focus. Ultimately, individuals were focused on achievement of their own personal goals, which needed collaboration of the group to attain, but did not require collective achievement for the individual to meet their own goals. This is a potentially significant missed insight into the difference between teams and groups, and suggests that understanding personal motivation and the true determination of group versus individual goals is critical in predicting positive or negative outcomes from group activities. If we relate this to – for example – the executive team of any organisation, we might find similarity in the conflict between personal ambition and goals, versus organisational goals.

2. *Groups operating in extreme environments experience underlying social and psychological factors that may affect the decision-making, resilience and cohesiveness of the group, and affect outcomes.*

Driskell *et al* (2017) examine the impact of high stress and high demand on group performance in extreme environments. The definition of 'extreme' provided in this review of research in this field of study would apply to all the instances of groupthink I have examined, including all sixteen case studies from Janis' original development of theory and the Everest case study. It would also apply to any sports team engaged in high risk, intense and demanding environments, particularly during an international tournament setting, such as the isolation, separation and insulation experienced in the Rugby World Cup. Their identification of critical considerations in these teams such as team roles, cognition, cohesiveness, stress and motivation all point towards the need for previous research into cohesiveness in groups to be reconsidered or recast. Their findings might also cause a re-think of the structure of Janis' Groupthink framework, and a redefinition of the antecedents and symptoms; it could be argued that certain antecedents have been overlooked, and others may not be antecedents at all, but may be moderators to antecedents.

3. *The stage of formation of the group affects the types of group cohesiveness, and may fluctuate over time.*

Morgan *et al's* (2015) research sought insight into resilience in sports teams and concluded that transformational leadership, shared team leadership, team learning, social identity and positive emotions are major contributory factors. Implicit in their research findings is the presence all three forms of group cohesiveness suggested by Feldman (1968). As the team develops over time and goes through both success and failure, functional integration (task-focus) remains constant, but interpersonal and normative (attraction to the group) increase significantly. These phases of strengthening of group cohesiveness would map to Tuckman's group development phases (1972).

Hall (2015) applies a lens through which all analysis of teams should be considered; what phase of the team's development is being observed? Without clarity of this, any conclusions cannot safely be applied to other groups and teams which may be at a different stage of development.

4. *Dyadic relationship analysis within group dynamic analysis tends to focus on the leader-follower relationship.*

The increasing body of literature and theory examining the interpersonal relationships in groups, such as Followership and Leader-Member Exchange theories, examine the dyadic interactions between leaders and followers. Omission of focus regarding the follower-follower dyad risks missing the potential importance of this essential relationship in high performing teams, as it pertains to interpersonal cohesiveness, and particularly regarding trust in high risk, extreme environments.

These themes identify both gaps and problems in current literature.

- a. *Teamship.* The lack of literature represents a clear gap in knowledge, and the emerging use of the term in academic studies suggests that understanding and clarity is necessary.
- b. *Stage of group development in group cohesiveness.* Investigations into group cohesiveness appear to omit clear recognition of the stage of development and tenure of the groups investigated. Experimental research designs observe groups in the formative stages of development, where task focus and interpersonal enthusiasm is high, but are unable to replicate normative cohesiveness, nor the impacts of 'storming', 'norming' and 'performing' stages of formation.
- c. *Qualitative research designs.* Many studies recommend future research designs should include more ethnographic or case study designs, as much of the existing research is based upon secondary data. The implications to the generalisability of findings is that many of the underlying dynamics within group function, which may influence findings, are not possible to observe or interpret from the data.
- d. *Follower-follower dyadic examination in groups operating in extreme environments.* In order to investigate the importance of this in high-performing teams, specific populations would need to be identified that presented extreme environments, longitudinal observation of the development of the group, and the potential for all three types of group cohesiveness.

## Research Problem

Based upon the findings from my pilot study and literature review, the research problem that my study seeks to address is ***the gap in empirical research regarding the impacts of stage of group formation, group cohesiveness, and individual and collective motivation of groups operating in extreme environments.***

## Research Purpose

Is teamship nothing more than a colloquial catchphrase that summarises positive teamwork? Or perhaps the context in which it has been colloquially employed reveals new insight into a specific area of group interaction and performance, which warrants the generation of new theory.

My research purpose is ***to explore, describe and interpret the dynamics of groups operating in extreme environments, focusing on the effects of group cohesiveness, stage of group***



*development, collective purpose and leader interventions on outcomes of group endeavour.* The concept of ‘extreme environments’ should not be limited in interpretation to purely physical risk or hardship; ‘extreme’ can be applied to any group working under significant duress, in stressful circumstances, with degrees of isolation, and as such this research has the potential to be generically applicable.

## Research Question

Research Question ***“To what extent does the extant theory of teamwork provide a coherent understanding of the dynamics of teams operating in extreme environments?”***

- |                |  |
|----------------|--|
| Sub-question 1 | What are the differences between groups and teams?   |
| Sub-question 2 | How do the multi-dimensional constructs of group cohesiveness affect team outcomes?                            |
| Sub-question 3 | How do the different dyadic and triadic relationships between followers and leaders affect group cohesiveness? |
| Sub-question 4 | How do extreme environments increase cohesiveness in groups, or alternatively encourage fracturing?            |
| Sub-question 5 | What impact does the stage of group formation have on the multi-dimensional construct of group cohesiveness?   |
| Sub-question 6 | What are the recognised characteristics of teamwork, and how do these compare to those suggested for teamship? |

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# MNEs' Subsidiaries Corporate Political Effectiveness: A Study of Political Capabilities and Subsidiary Strategic Configuration

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## 1. Introduction

It is widely acknowledged that firms' performance not only depends on the ability of managers to exploit economic markets but also on the management of political ones (Baron, 1995a, 1997). Among the various political strategies, a substantial body of research has been produced around the concept of corporate political activity (CPA), which can be defined as a set of activities aimed at shaping government policies and processes in ways favorable to firms (Hillman et al., 2004). CPA in fact entails proactive activities which are implemented by firms in order to improve their performance (e.g. Mellahi et al., 2016; Rawan and Liedong, 2015; Schuler et al., 2002), access political decision makers (e.g. Keim, Zeithaml, 1986) and influence political environments (e.g. McWilliams et al., 2002).

The importance of business-government relations has also been recognized for long in the International Business (IB) literature, but, unlike the management literature, the focus has mostly been on bargaining between firms and governments (Boddeyn and Brewer, 1994). Recently, CPA has also been studied under an international lens (e.g. Hillman and Wan, 2005). In particular, the focus has been on the antecedents of CPA (e.g. Banerjee et al., 2018; Blumentritt, 2003; Hillman, 2003; Hillman and Wan, 2005), the MNE strategic processes (e.g. Chen, 2007; Luo and Zhao, 2013), the nature of political behaviour (e.g. Boddeyn and Brewer, 1994; Hillman and Keim, 1995; Sun et al., 2010) and, although inconclusively, on CPA outcomes (Lux et al., 2011, Mellahi et al., 2015; Rajwani et al., 2015)

The resource-based view (RBV) of the firm is among one of the mechanisms that have been used to explain the relationship between CPA strategies and outcomes (Rajwani and Liedong, 2015). In a nutshell, the RBV (Barney, 1991) explains how organizations can obtain a competitive advantage by organizing internal resources. Recently, the concept of political capabilities (e.g. Holburn and Zelner 2010; Lawton et al., 2013) has been developed from the RBV literature in order to explain the competitive advantage MNEs can acquire by possessing specific political resources and capabilities to manage political processes.

Although prior research recognizes the role played by political capabilities on MNEs performance (e.g. Holburn and Zelner, 2010;), existing scholarship seems to have paid less attention to the mechanisms that condition political capabilities and in turn the effectiveness of MNEs' CPA activities and in particular of their subsidiaries. The focus has in fact mostly been around previous international experience (e.g. Holburn and Zelner, 2010, Yasuda and Mitsuhashi, 2017). However, the IB literature has developed over the years a large amount of literature on headquarter-subsidiary (HQS) relationship (for a review see Birkinshaw and Pedersen, 2009; Kostova et al., 2016), and on its impact on the development of subsidiaries' capabilities (e.g. Birkinshaw and Hood, 1998) or on what Rugman and Verbeke (2001) called subsidiary specific advantages. IB scholars have implemented the concept of *strategic choice* (e.g. Child, 1972; Prahalad and Doz, 1981; Birkinshaw and Hood, 1998; Paterson and Brock, 2002; Amobs and Birkinshaw, 2010; Ambos et al., 2010) – “an overarching concept that embraces several strategic configurations of subsidiaries and determines the contingencies of

headquarter-subsidiary relationship” (Ambos and Birkinshaw, 2010, p. 453) and examined its impact on various activities such as marketing (e.g. Venaik et al., 2005) and innovation (Bartlett and Ghoshal, 1989). However, what seems to be missing is an understanding of how different subsidiary strategic choice influence the development of subsidiary political capabilities, and in turn of the their CPA effectiveness.

Hence, the aim of the PhD. project is to explore how the political capabilities of MNEs subsidiaries, and in turn their political performance, is influenced by subsidiary strategic choice.

This research could provide practitioners with more guidance on how to organize their corporate political actions more effectively. CPA scholars (e.g. Barron et al., 2017; Boddewyn, 2007; Hillman et al., 2004; Lawton et al., 2013;) have in fact been claiming the need for more knowledge on how firms can improve their political actions effectiveness through managerial interventions.

## **2. Theoretical Background**

### **2.1 Corporate Political Activity**

While market strategies involve decisions such as product positioning, non-market strategies involve actions taken by the firm in its political, regulatory, and social environments in order to increase its firm value (Baron, 1995a, 1997). Hillman and Hitt (1999) proposed one of the main and most implemented classification of corporate political activities. In a nutshell, the authors argue that firms start by deciding the general approach to political actions, namely whether to use a transactional or relational approach; they then decide upon whether to act individually or collectively; and finally, they choose between different types of political strategies (i.e. information, financial incentive and constituency-building), which in turn embody several different tactics. Lobbying and research commissioning are examples of information strategy, contributions to politicians or party of financial incentive strategy and grassroots mobilization of employees, customers, citizens etc. of constituency-building. Although Hillman and Hitt (1999) make these neat distinctions between the various possible tactics, scholars have argued that companies tend to combine different tactics (e.g. Schuler et al., 2002a; Skippari, 2005).

The notion of corporate political activity and its value to firms is acknowledged by the literature both nationally and internationally (Bonardi et al., 2006; Getz, 1997; Hillman & Hitt, 1999; Keillor & Hult, 2004). According to Keillor et al., (2005), firms have several motives for engaging in political behavior. The first is domain advantage where firms pursuit their interests; the second consists with domain defense where firms manage public policies which are at odds with their costs; and finally, domain maintenance whereby firms try to influence those public policies that hinder their strategic goals. In turn, and as highlighted above, firms can implement different tactics in order to deal with the political environment which lead to firm benefits such as environmental uncertainty and transaction costs reduction (Hillman and Zakhooi, 1999). As Getz (2002) highlights, in order for firms to compete in the non-market environment, they “must recognize the need for an exchange: they must give something valued by public officials in exchange for getting favorable policies” (p. 318). In light of this, what seems to be missing from the literature is an understanding of how MNEs can best organize themselves in order to develop these political capabilities.

## 2.2 Organizing to Implement CPA: The Case of Political Capabilities

The RBV of the firm represent one of the theory CPA scholars have used to explain CPA performance (Mellahi et al., 2015; Rajwani, Liedong, 2015). Scholars implementing the RBV to explain the outcomes of CPA have looked at the impact of politicians on the company board (Hillman, 2005; Niessen and Ruenzi, 2010), firm-government affiliations (Wang et al., 2012), and strategies to raise rivals' costs (Mc Williams et al., 2002). As it can be observed from these studies and as Rajwani and Liedong (2015) point out, the use of RBV is mostly associated with positive outcomes of CPA.

Recently, the RBV theory has evolved the concept of political capabilities (e.g. Holburn and Zelner 2010; Lawton et al., 2013; Oliver and Zelner, 2008). By extension, firms differ in their political resources – “any firms attribute, assets, human resources, or any other resources that allow the firm to use the political process to improve its efficiency and profitability” (Frynas, 2006, p. 324) – and political capabilities, and hence differ in the way they manage the political environments (Rajwani and Paroutis, 2013). The concept of political capabilities has received two distinct definitions. The first, by Holburn and Zelner (2010), where political capabilities are defined as organizational capabilities to “identify key local political actors and their preferences” (p. 1292); the second, by Lawton et al. (2013), where political capabilities are defined as “the organizational and strategic activities by which senior representatives or acting representatives reconfigure, leverage and release political resources to achieve new resource configurations that enable the company to adapt to, anticipate or even shape changes in the corporate political environment” (p. 230). As Lawton et al.'s (2013) definition covers a bigger part of the process in which companies manage the political environment, I will adopt their definition.

Although studies adopting the concept of political capabilities are still not many, scholars have acknowledged how heterogeneity in political capabilities lead to differences in the way MNEs assess policy risks and manage the policy process (Holburn and Zelner, 2010), to more effective political activities (Oliver and Holzinger, 2008), and to internationalization in riskier countries (Holburn and Zelner, 2010; Yasuda, Mitsuhashi, 2017). What seems to be less understood are the antecedents of political capabilities. In other words, by understanding how to foster political capabilities, MNEs could become more effective in their CPA activities.

The limited understanding of the antecedents seems to be connected to the emphasises that scholars have given to previous international experience (e.g. Delios and Henisz, 2003a; García-Canal and Guillén 2008; Yasuda, Mitsuhashi, 2017). What I am arguing is not that previous international experience is not an important antecedent of political capabilities, but that, in order to fully understand how MNEs can develop political capabilities and hence be more effective in their policy process, we need to observe and study this phenomenon from different perspectives.

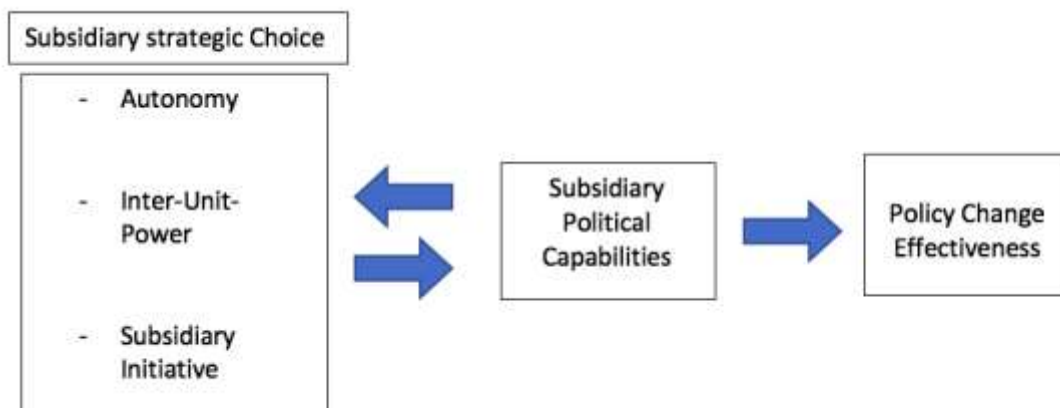
Two recent examples come from Rajwani and Paroutis (2013) and Lawton et al. (2013). Whereas the first underlines the importance of the institutional environment in the creation of political capabilities, Lawton et al. (2013) show how political capabilities can be enhanced by appropriate managerial actions. More precisely, senior managers have to decide the amount and the timing of the investment in human capital, organizational structure and network relationship in order to develop firm political capabilities.

## 2.3 Subsidiary Strategic Configuration

The angle under which I would like to study and understand how managers can foster the creation of political capabilities, and in turn be more effective in their political activities, is that of headquarter-subsubsidiary (HQ-S) relationship.

The headquarter subsidiary relationship literature has very much evolved since its conception (Kostova et al., 2016). Its starting point can be traced back to the 1960s, with the so-called strategy-structure stream (e.g. Stopford and Wells, 1972, Egelhoff, 1982; Daniels et al., 1984), where the focus was merely on the motivations behind MNEs structure adoption (Birkinshaw and Pedersen, 2009). Whereas the focus on the subsidiary as an independent actor was in this phase pretty much absent (Kostova et al., 2016), over the years the interest toward the role played by the subsidiary and its interaction with the headquarter became more relevant. Recently, in fact, MNEs have been considered as networks of semi-autonomous units which possess and control different stocks of resources (e.g. Bartlett and Ghoshal, 1989; Birkinshaw and Pedersen, 2009; Bartlett and Ghoshal, 1994; Hedlund, 1986), and can create what Rugman and Verbeke (2001) called subsidiary-specific advantages. Birkinshaw and Pedersen (2009), albeit a bit provocatively, argued that there seems to be a trend where the market side of strategy is becoming more integrated, whereas the management of resources seems to be managed with much more freedom by the subsidiaries in order to achieve effectiveness.

Figure 1 Theoretical Framework



(please note, I still have not elaborated on the arrow that goes from subsidiary political capabilities to strategic choice)

Figure 1 represents the theoretical framework. The term strategic choice has been used by several scholars (e.g. Child, 1972; Prahalad and Doz, 1981; Birkinshaw and Hood, 1998; Paterson and Brock, 2002; Amos and Birkinshaw, 2010; Ambos et al., 2010) as a concept able to embrace different subsidiary strategic configurations. According to Ambos and Birkinshaw (2010), subsidiary *autonomy*, *inter-unit-power*, and *subsidiary initiative* represent an “encompassing description of a subsidiary strategic configuration” (p. 453). Accordingly, higher level of strategic choice enables the subsidiary to have more autonomy and hence react more quickly to market challenges, to have higher inter-unit-power which allow the subsidiary not to be constrained by other units; and a higher level of initiatives highlights how capable the subsidiary itself has been in leading entrepreneurial actions. An extension to the way subsidiary roles and in turn strategic configurations should be examined, and that justify the study of the

antecedents for political capabilities and CPA, has been proposed by Rugman and Verbeke (2001) and Rugman et al. (2011).

In simple terms, subsidiaries cannot be recognized anymore according to an overall role. For instance, we could be having a specific subsidiary strategic configuration for every single value-adding activity (e.g. marketing, innovation, manufacturing), CPA included, within each subsidiary. To my knowledge, there are no studies that have examined the subsidiary strategic choice of CPA, and in particular how subsidiary strategic configuration can be better managed in order to enhance the effectiveness of CPA.

Although not strictly concerned with subsidiary political capabilities and CPA, scholars have in many occasions examined how subsidiary strategic choice or various combination thereof can affect subsidiaries capabilities and hence several subsidiaries' value-adding activities. For instance, Bartlett and Ghoshal (1989) found a positive association between subsidiary autonomy and MNE innovation; Birkinshaw (1997) found that subsidiaries will be able to effectively engage in "global market initiatives" when they possess high autonomy and low communication with the headquarter; Ambos et al. (2010) noticed how on the other how subsidiary autonomy might lead to more control on subsidiary should the latter be used to take initiatives; Venaik et al (2005) found how subsidiary autonomy has a positive effect on marketing innovation. Although these are only few examples, this existent literature will be of help in developing some propositions regarding political capabilities and CPA before the phase of data collection. Once data analysis will start, should the expected relationship between subsidiary strategic choice, political capabilities and in turn CPA effectiveness be different from expected, the research framework will be revised and new different propositions developed.

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# Liability as a Regulator of Professionalism for Lawyers

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## Abstract

*Lawyers must practice law in a business structure, as a matter of public policy, that imposes personal liability. This is a form of conduct regulation which the academic literature in the “Law and Economics” field hypothesizes is economically inefficient and is imposed in parallel with other regulatory requirements to control the same behaviour. An extensive literature review has identified debate about the value of liability as a regulator of professional conduct, but without empirical study of the effect or effectiveness of liability. This lack of empirical study is discussed in the literature without resolution. With the intent of filling this gap, I have developed a quantitative approach which seeks to answer the question “to what relative extent does liability affect professional conduct”. An extensive pilot process has validated the research design.*

## Study Parameter

The ability to empirically assess the behaviour modification effect of liability pursuant to tort action required selection of an important, stand alone and measurable, feature of professionalism in law practice. Assessing conflict of interest on client intake was selected as a measurable behaviour, the avoidance of conflict is a core tenet of professionalism, key to law practice management, believed to be influenced by liability risk. This has proven to be a suitable outcome factor to test the relative impact of the various methods used to regulate professional behaviour as identified in pilot study and literature review.

The model assesses the relative effect of six methods used to control professionalism behavior: liability, reputation, regulation internal (profession), regulation external (courts and tribunals), insurance (cost and availability) and professionalism (training and acceptance).

## The Basic Concepts - What Is The Enquiry – What Does the Literature Say

- i) Using tort liability to influence professional behavior imposes cost on both society and professional services firms. The question not answered is – does imposing liability cause a suitable reaction, and, if so, does imposing liability give benefit commensurate with cost. Law and professionalism literature contends that liability is an effective and needed regulator of behaviour but without empirical support.
- ii) An active debate on the literature questions the purpose of regulation of professional services and examines whether a direct regulation model or a liability model is more effective, again without empirical study.
- iii) If the intention of imposing liability is to influence ethical and management decisions within law firms, it is important to understand how professional services firms are managed and lawyers react to liability relative to other regulators of behaviour. Behavioural economics considers some aspects of this enquiry, again without empirical study.

## **What Are The Perceived Gaps Identified in the Literature**

- i) Many of the academic articles on topic in law and professionalism and law and economics are based on economic theory without behavior analysis or empirical study. Further, writing in behavioral economics contends that the body of work from those sources appear to incorrectly identify the incentives of professionals and do not measure reaction to liability as a conduct regulator.
- ii) The focus of the academic body of writing is on debating the preferred method of regulation, but without studying the relative effect of the behavior regulators, including liability as to effect and efficiency.
- iii) The literature fails to adequately recognize and consider sanction and incentive to ethical and effective delivery of professional services other than liability, including reputation, regulation and insurance requirements which significantly influence behaviour, possibility mitigating any effect of liability.

## **Why Does This Study Matter**

- i) In an increasingly litigious and regulated society imposing, additional regulation and liability on lawyers imposes a cost on delivery of legal services, often passed onto persons seeking access to justice and therefore a cost on society.
- ii) Regulation, including regulation by the imposition of liability, can promote effective best practices only if it creates the intended reaction at a firm and individual practitioner level. This has not been studied leaving the current academic and professional debate on the use of liability as a regulator without a foundation.
- iii) To develop a suitable foundation for considering continuation of the current model or proposing change to the regulatory environment, it is necessary to examine if the use of liability as a regulatory tool is an effective tool for promoting ethical conduct.
- iv) Cost effective and broadly available delivery of legal services is essential to the future of the profession and the societal requirements for legal assistance, creating management efficiency and a base for access to chosen legal assistance is key to safeguarding that future. The cost and service changes from liability risk need to be empirically understood to allow effective management.

## **The Factors for the Model**

The research study looks at the legal professional's acceptance or rejection decision in the face of a possible conflict of professional interest. The taking on of business when there is a potential conflict of interest, and therefore a professionalism determination, is governed by six factors which are intended to regulate the professional behaviour underlying the decision by providing adverse consequences for accepting a retainer when there might be conflict. The decision, despite considerable complexity and number of influences is binary - the dependent (y) is the choice of accept or reject a retainer when there might be a conflict.

The literature, and my 40 years of experience managing the issue, support the view that there are six factors that create the incentive/sanction when making the client retainer choice, all regulating the same professional assessment and choice:

x	1) Liability
x	2) Reputation
x	3) Regulation - Internal (Profession)
x	4) Regulation - External (Courts, Tribunals)
x	5) Insurance
x	6) Professionalism (training and acceptance)

These factors influencing the professional decision are well established and recognized in the academic literature as the key regulators of professional behaviour and lead to the model which follows. There is more academic discussion of the liability versus regulation effectiveness (without any quantitative analysis or survey based support for either position) than considering the other four factors but there is also adequate note made of the other four factors to include them in the model. While the decision about conflict and accepting or rejecting a retainer is not easy, and is very fact specific, these six regulators are the primary considerations that result in choosing to reject otherwise valued business because of the professional requirements regarding conflict.

## Defining the Variables

The intention is to use survey responses to first establish a basis for the dependent variable. Ten questions have been developed which are based on brief scenarios derived from review of an extensive panel of legal cases involving conflict of interest and lawyer liability. The cases and the scenarios for the questions were selected to include ones where there is liability imposed due to conflict, ones where a liability based in conflict was successfully defended and ones where there was no conflict and no liability claim. Each enquiry asks whether the respondent would accept or reject the retainer in that circumstance. A focus group has vetted the scenarios and questions to assess initially if the questions give a suitable cross section of the intended three situations – 1. conflict – law suit and liability; 2. conflict – law suit and successful defense and 3. No assessed conflict and no law suit - for a balanced response to define the dependent variable. The results in a base line for the dependant variable.

Then the six independent variables are each to be defined by survey response to four questions for each variable specific to the effect of that independent variable on the decision, each is intended to create an assessment of the extent of effect of that factor on the surveyed lawyers as to their conflict decisions. These questions have been developed from the literature and experience. There is no existing scale and so are each newly created to define a view of the effect of the variable on the decision to accept or reject the retainer. The questions have been piloted 5 times in substantial pilot runs. The last pilot was assessed for diagnostics. The results show that the questions are understandable and will be answered; the results respond well to diagnostics. The pilots also gave support to the view that the questions did result in responses as to the variables that seem suitable for the enquiry. This portion of the survey is mature and extensively pilot reviewed.

The effect of the independent variables will be assessed using confirmatory factor analysis and regression.

## The Model

The model is:

**Y (Accept or Reject Conflict)** =  $b_1$  (Reputation) +  $b_2$  (Liability) +  $b_3$  (Regulation Internal (Profession)) +  $b_4$  (Regulation External (courts tribunals)) +  $b_5$  (Insurance) +  $b_6$  (Professionalism (Training and acceptance))

Where  $i = 1 \dots n$  in which is the number of respondents, and  $s = 1 \dots 10$  for each of the scenario based questions

*There will be assessment for demographics, these questions will be asked of each respondent:*

- |   |
|---|
| <ol style="list-style-type: none"> <li>1. Experience (years in practice)</li> <li>2. Gender</li> <li>3. Country</li> <li>4. Nature of Practice</li> <li>5. Management Role</li> <li>6. Size of Firm</li> <li>7. Age</li> <li>8. Marital Status</li> </ol> |
|---|

Once the value of each of the dependent variable and the six independent variables are generated the logistic regression is run:

$$\begin{aligned}
 Y_{is} = & \beta_0 + \beta_1 (\text{Liability}_{is}) \\
 & + \beta_2 (\text{Reputation}_{is}) \\
 & + \beta_3 ((\text{Regulation - Internal (Profession)})_{is}) \\
 & + \beta_4 ((\text{Regulation - External (Courts, Tribunals)})_{is}) \\
 & + \beta_5 (\text{Insurance}_{is}) \\
 & + \beta_6 ((\text{Professionalism (training and acceptance)})_{is}) \\
 & + \delta_1 ((\text{Experience (years in practice)})_i) \\
 & + \delta_2 (\text{Gender}_i) \\
 & + \delta_3 (\text{Country}_i) \\
 & + \delta_4 (\text{Nature of Practice}_i) \\
 & + \delta_5 ((\text{Management Role})_i) \\
 & + \delta_6 ((\text{Size of Firm})_i) \\
 & + \delta_7 (\text{Age}_i) \\
 & + \delta_8 (\text{Marital Status}_i) \\
 & + \text{error}_{is}
 \end{aligned}$$

Where

$Y_{is}$  is dependent variable taking on a value of 1 if the respondent indicates he/she would take the retainer (accept), and 0 otherwise (reject)  
 $i = 1 \dots n$  which is the number of respondents to the survey  
 $s = 1 \dots 10$  scenarios

It is also intended to develop the dependent variable both as a binary and on a likelihood scale. This will allow a comparison using logistic regression on the binary decision against a scale response using probabilistic regression.

The survey will be sent to more than 3000 it is hoped there will be a 10% response rate. If there is not, the sample can be expanded to reach the minimum desired 300. Assistance from professional organizations to encourage response rate should result in a 500 response.

The data will be assessed based on the following:

	<b>Y variable (Accept or Reject)</b>	<b>Assess Demographics</b>	<b>Factor Values</b>
Responder - data will be sorted for each responder	Scenario based questions as to whether the lawyer would accept or reject the retainer based on conflict concerns. Set to assess tendency of choice and set a base line and scale.	1) Experience 2) Gender 3) Country 4) Practice Type 5) Position 6) Size of Firm 7) Age 8) Marital Status Based on extensive personal experience and some literature there are the characteristics that could differentiate responders.	1) Reputation 2) Liability 3) Regulation (Prof.) 4) Regulation (Ext.) 5) Insurance 6) Professionalism Independent variables heavily supported by literature and pilot results.

Pilot results show that despite literature speculation to the contrary -

- lawyers will respond to survey questions that ask about the effect of the 6 factors if the intention to act professionally is assumed;
- lawyers will answer fully and honestly as to the factors that most influence their decision making process regarding conflict of interest.

**Intended Assessment**

Some percentage of what leads to a lawyer to accept or reject business (and therefore revenue) where a retainer might be conflicted for professionalism reasons comes from each of those six factors. Liability has long been thought to be the primary motivator of professional behaviour but without any identified empirical study of its effectiveness, essentially the dialogue about the need for and effect of liability is speculative. Liability is an expensive and inefficient method of regulation of behaviour leading to a management need to assess the relative effect of more efficient and potentially effective methods of guiding professional behaviour for lawyers. Logistic Regression is selected as the primary analysis tool because the dependent variable can be viewed as a binary decision.

An additional survey question panel will seek to identify the perceived “why” the factors have the relative effect identified using more nuanced questions. These questions will be analyzed statistically on the basis of responses to why choices are made using the initial scenarios for the definition of the dependent variable.

# Modelling the household aggregate food demand system – case of Croatia

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## Abstract of the doctoral research:

*The aim of this research is to analyze food consumption as the largest category of personal household consumption, thus enabling a better insight into economic and socio-demographic determinants of food demand and croatian consumer preferences through econometric analysis of patterns of consumption of goods. Modeling the aggregate food demand taking detailed micro data into account will contribute to a deeper understanding of consumer behavior, greater precision of estimated demand parameters, and provide a better tool for forecasting the results of particular economic policies. The AIDS model will be used to model the aggregate demand for food resulting in income, price and cross-price food demand elasticity. The research findings can be used for future forecast of demand quantities, based on changes in the expected values of model exploratory variables such as the prices of goods, household income and socio-demographic characteristics.*

## Introduction

In most developed countries, household consumption is the largest macroeconomic aggregate with a share in GDP of about 60%. Croatia is no exception and therefore, even in times of deep recession, the share of personal consumption is relatively stable at about 60% of GDP. Personal consumption as a component of aggregate demand has a multiplicative effect on overall macroeconomic trends, emphasizing the significance of monitoring and analyzing the dynamics and characteristics of personal consumption in developed and less developed countries, for the creation and implementation of economic and social policy (Denona Bogović, 2002; Jurčić and Čeh Časni, 2016). Unlike previous approaches to personal consumption modeling in Croatia, which are dominantly macroeconomic, the modern macroeconomic approach is based on microeconomic foundations, and therefore, understanding the behavior of one household results in relevant conclusions regarding the aggregate level. As the most basic human need, food expenditures are the largest expenditure of households with a significant impact on welfare, representing an important subject of scientific analysis of academia and the interest of the wider community.

Moreover, the food industry in general is of great importance for the Croatian economy, since, together with the beverage industry, it accounts for about 24% of the total manufacturing processing industry and employs about 20% of employees. Thus, the reduction in demand for food products would, in addition to direct effects on revenue reduction, have adverse effects on other domestic producers involved in the production chain and on income components - employee compensation, taxes and business surplus (Buturac and Vizek, 2014).

Decisions on household spending are essentially a microeconomic subject, but “taking into account that household spending decisions may affect the country's economic development in the short and long term, then it becomes a macroeconomic issue” (Mankiw, 2012). Accordingly, the issue of aggregate consumption should be analyzed including both macroeconomic and microeconomic aspect.



## **Theoretical background**

Modeling demand based on microeconomic data is an analysis that provides a profound insight into the determinants of personal demand since the unit of analysis is a household. The research of consumer demand systems began with Linear expenditure system (LES) developed by Stone in 1954, which has been expanded and upgraded numerous times. One of the most important methods of analyzing demand using microeconomic modelling and popularization of this approach was initiated by Angus Deaton and John Muellbauer (1980) by developing AIDS model - Almost Ideal Demand System. Nowadays, AIDS is one of the most popular demand systems, using the microeconomic approach in modeling aggregate demand and thus becoming less biased predictor of future demand, taking into account the heterogeneous features of all consumers in the system. The main advantage of complex demand models is comprised in simultaneous estimation of demand for goods. By taking into account various independent variables and allowing for their interaction during the consumer decision process, the demand system models enable measuring the impact of the economic determinants of demand (consumer income, the price of the observed and all other goods in the system), but also other significant consumer characteristics such as household socio-demographic characteristics.

The macroeconomic model of aggregate demand, which has been estimated and analyzed using detailed microeconomic data, has wide application. Specifically, for example, the aggregate demand model can be used to predict the effects of changes in certain public policy such as the simulation of the change in the value added tax rate (Janský, 2014), the various exogenous shocks affecting the population's income (Blundell and Stoker, 2005) or prices of goods (Dybczak et al., 2014), effects of the income redistribution policies on inequality (Cseres-Gergely et al., 2017) or changes in the population structure such as, for example, aging population (Luhmann, 2005). Obviously, the spectrum of demand model application is very broad and significant, not only from the scientific, but also from the practical point of view which is reflected in the applicability of the model in economic policy management.

## **Data**

The data used in this research is collected by Croatian Bureau of Statistics on a multi-year basis, including data on household income, expenditure and various socio-demographic characteristics. The research will use data collected in 2014, with survey being carried out on 2029 private households. The consumption expenditures are collected and presented according to the Classification of Individual Consumption by Purpose. After thoroughly analyzing and cleaning the data from outliers that could potentially influence the parameter bias, the data will be aggregated into several categories of food products (Deaton and Zaidi, 2002), after which such a database will be subject to a statistical analysis. The next step following the data preparation involves the calculation of the price (in this case unit values) using the available data on quantity and expenditures for their purchase. The method of computing and using unit values as prices in the analysis is commonly used when modeling the demand system hence for their ease of use, especially in the particular case where scientists have available data on consumption and expenditures respectively (Deaton, 1986, Deaton and Grosh, 1997 Stavrev and Kambourov, 1999).

Having the data on the expenditures for a particular food category, we can easily calculate their relative shares in total expenditures. According to the COICOP classification, the food aggregation process in this research will therefore result in eight aggregate groups, taking into account total expenditure on food consumption, along with non-alcoholic beverages that are categorized outside the food group - (1) bread and cereals, (2) meat and fish, (3) milk,

cheese and eggs, (4) oils and fats, (5) fruits and vegetables, (6) sugars and confectionery products, (7) other food products and (8) non-alcoholic beverages.

## Methodology

The research will be conducted of several food demand studies. Firstly, the importance of the relationship between the dependent variable (food expenditures) and other relevant variables (total expenditures, size of the household, age and sex of the household head etc.) will be examined by a set of single equations using ordinary least square and quantile regression for parameters estimation.

Furthermore, the AIDS demand system as a more complex method will be used for estimating final demand elasticities. The main difference between single equation models and AIDS can be seen in simultaneity – when consumers decide about allocating their budgets, their decision is performed through multi-stage budgeting, thus taking into account information regarding all goods in the system. Another model which can be considered as an extension of the AIDS model is Quadratic Almost Ideal Demand System (QUAIDS) developed by Banks et al. (Banks et al., 1997).

The AIDS model is based on a set of equations estimating  $w_i$

$$w_i = \alpha_i + \sum_{j=1}^K \gamma_{ij} \ln p_j + \beta_i \ln \left\{ \frac{m}{P(p)} \right\}$$

with

$$w_i = \frac{p_i q_i}{m}$$

and

$$\ln P(p) = \alpha_0 + \sum_{i=1}^K \alpha_i \ln p_i + \frac{1}{2} \sum_{i=1}^K \sum_{j=1}^K \gamma_{ij} \ln p_i \ln p_j$$

where  $w_i$  stand for share of item  $i$  in the total expenditures  $m$ ,  $p$  are the prices and  $P(p)$  is the price index. Parameters  $\alpha$ ,  $\beta$  and  $\gamma$  are the coefficients to be estimated by the model, and ought to fulfill the following necessary conditions of additivity, homogeneity and symmetry:

$$\sum_{i=1}^K \alpha_i = 1 \quad \sum_{i=1}^K \gamma_{ij} = 0 \quad \sum_{i=1}^K \beta_i = 0 \quad \sum_{j=1}^K \gamma_{ij} = 0 \quad \gamma_{ij} = \gamma_{ji}$$

In addition, food demand modeling will also be carried out with its extension QUAIDS, which is, as we previously stated, an extension of the original AIDS model. Namely, a certain

good can be luxurious at lower levels of income, necessarily at medium income levels or inferior at very high levels of income (Benic, 2012). The QUAIDS model is an AIDS model that allows for more flexible Engel curves precisely by allowing the demand for the observed good to be differentiated depending on the level of consumer income (Banks et al., 1997). According to the QUAIDS methodology, the function of the share of good  $i$  now takes the following form:

$$w_i = a_i + \sum_{j=1}^K \gamma_{ij} \ln p_j + \beta_i \ln \left\{ \frac{m}{P(p)} \right\} + \frac{\lambda_i}{b(p)} \left[ \left\{ \frac{m}{P(p)} \right\} \right]^2$$

Therefore, another limiting condition is added to the previously mentioned axiom of additivity:

$$\sum_{i=1}^K \lambda_i = 0$$

The parameters that will be econometrically evaluated and analyzed are thus  $\alpha$ ,  $\beta$ ,  $\gamma$  and  $\lambda$ .

### **Expected findings and contributions of the doctoral thesis**

The empirical part of this doctoral dissertation implies modeling both food demand system using AIDS and QUAIDS methodology using the previously described database. The evaluation of model parameters will be conducted applying the NLSUR method, fitting a system of nonlinear equations by feasible generalized nonlinear least squares (Poi, 2008). The research findings of both models will be tested and compared, while model that better fits the estimation will be used to calculate appropriate income, price and cross-elasticity of food demand groups.

As mentioned above, except for the particular economic variables that impact the demand for particular goods such as the price of the observed good, the price of all other goods in the demand system and consumer budget, the independent variables used in estimation will be expanded with various socio-demographic elements that can be relevant in consumer's choice:

1. Household size
2. Age of the household head
3. Gender of the household head
4. Level of education of the household head
5. Presence of children in the household
6. Household head is retired

Thus, the  $\alpha$  parameter will be extended for various socio-demographic characteristics of the household, and the following form will be obtained:

$$\alpha_i = \alpha_{0i} + \alpha_{size} + \alpha_{age} + \alpha_{sex} + \alpha_{education} + \alpha_{retire} + \alpha_{children}$$

It is expected that the research will reveal different patterns of consumer behavior patterns, depending on most important characteristics that influence their decision, thus predicting the changes in consumer welfare and the evolution of aggregate food demand. Given the negative demographic trends that are subject to the population of the Republic of Croatia, this can affect the amount and structure of aggregate demand, and therefore have an indirect impact to the employment and sectoral production. The comparison of the research results is possible with theoretical foundations that impose certain legitimacy on food demand and models of food aggregate demand from other countries, with particular regard to transitional economies such as Croatian.

The main contribution of this doctoral thesis can be indicated by expanding the theoretical framework on food demand from both macroeconomic and microeconomic level, pioneering a detailed food demand model for Croatian economy and proposing a practical application of the model in economic policy management.

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# Supermarketization: investigating determinants of customer loyalty in traditional versus modern retail formats in emerging markets.

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## Abstract

*The purpose of this study is to investigate the determinants of both attitudinal and behavioral customer loyalty by decomposing total customer value into utilitarian, hedonic, social, epistemic and circumstantial dimensions and empirically test this conceptualization in an emerging market grocery retail context. The main contribution is the analysis and empirical testing of total customer value incorporating four dimensions; no previous study has incorporated four dimensions at the same time. Being able to increase retail executives' understanding of consumer purchasing behavior is very relevant especially in a context of highly competitive, largely commoditized retail markets as differentiating factors and potential sources of competitive advantage.*

Keywords: consumer behavior, attitudinal loyalty, behavioral loyalty, customer perceived value, theory of consumption values, retail industry.

## Introduction

Customer loyalty constitutes an underlying objective for strategic market planning and represents an important basis for developing a sustainable competitive advantage; an advantage that can be realized through marketing efforts. In the present environment of increasing global competition, rapid market entry of innovative products and services and maturity conditions in certain industries, the task of managing customer loyalty has emerged as a focal managerial challenge (Knox & Denison, 2000; Donnelly, 2009). This is the case of the retail sector, which has undergone a series of significant changes during the past few decades, resulting in an industry characterized by sustained growth, intense competition and reduced customer loyalty (Reardon et al., 2005).

While customer loyalty is a concept all managers in this industry want to achieve, studies have found inconsistencies both in its conceptualization and measurement, specifically in the sense that customer loyalty in retail does not directly translate into customer behavior (Andreassen et al., 1998). Dick and Basu (1994) developed perhaps the most robust and cited framework for customer loyalty which combines both attitudinal and behavioral measures. This composite definition considers that loyalty should always comprise favorable attitudes; intentions and repeat-purchase (Jacoby & Chestnut, 1978). Loyalty, with its high repeat patronage and high relative attitude is the ultimate goal for marketers, as it is crucial for developing a sustainable competitive advantage.

Modern retail structures are rapidly expanding in emerging economies, resulting in a growing number of research projects focusing on the effects of this circumstance (Slater & Henley, 1969; Reardon et al., 2005). This transformation of the retail industry has been underway in emerging economies since the early 1990s where supermarkets, hypermarkets and convenience stores have gone well beyond the initial upper and middle class niche target markets to reach the masses (Reardon et al., 2005), transforming the grocery retail industry at different rates and depths across regions and countries (Reardon et al., 2005).

This transformation of grocery retail systems in emerging regions has been characterized by the apparent replacement of traditional, small-scale family owned food stores – mom and pop stores<sup>1</sup> – by supermarkets and other modern retail formats (Goldman et al., 2002). However, in spite of the apparent opportunities in these emerging markets, supermarket companies and other modern format retailers report major difficulties in realizing their potential with market share figures remaining relatively small (Goldman et al., 2002). Traditional markets still retain an important position in these consumers' lifestyle (Hino, 2010; Capizzani et al., 2012; Hino 2014) as large percentages of all products continue to be distributed by traditional channels, especially the neighborhood groceries and specialty stores, instead of illuminated, air-conditioned supermarkets (Goldman et al., 2002; D'Andrea & Lunardini, 2005; Reardon et al., 2005; Maruyama & Trung, 2007; Capizzani et al., 2012; Hino 2014).

Despite the importance of retail customer loyalty and other related constructs, few empirical work has attempted to assess all the different factors that determine customer perceived value and customer loyalty – both considering its attitudinal and behavioral components. Furthermore, in regards to determinant factors in the retail sector, most studies have focused on analyzing one dimension (Uncles & Kwok, 2009; Babin et al., 2003) which may not be enough if we consider the complexity of true customer loyalty from both an attitudinal and behavioral perspective (Jacoby & Chestnut, 1978; Bloemer & Kasper, 1995). A review of the literature available on customer perceived value and customer loyalty in retail, shows that most studies focus on functional aspects of stores.

The purpose of this research is to study these additional factors that go beyond functional aspects of retail formats to explain why, if modern formats are superior from a functional perspective, many customers in emerging countries continue to patronize various traditional retail formats, especially the neighborhood mom and pop groceries and specialty stores. Hence this study will explore four important research questions: (1) does customer perceived value influence attitudinal and behavioral loyalty towards a retailer? If so, (2) which value dimension has a stronger influence on total customer perceived value and which has more influence on both attitudinal and behavioral loyalty? More specifically, (3) if modern retail formats offer superior functional aspects of the total customer perceived value construct, why do many customers in emerging countries still prefer to buy their groceries at traditional retail formats? What other factors besides functional aspects of retail formats that determine attitudinal and behavioral customer loyalty? Moreover, (4) what are their relative importance and relationship with attitudinal and behavioral customer loyalty and what conditions or determinants produce them in the grocery retail industry?

## Literature review

In order to answer these questions, we developed a research model grounded in Dick and Basu's conceptual model (1994) and Sheth et al.'s consumption values theory (1991a), to be tested with data collected from a survey of a sample of supermarkets and mom and pop stores in Lima. The data will be analyzed using structural equation modelling techniques. Our literature review builds on literature related to the retail industry, customer perceived value and customer loyalty

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<sup>1</sup> We will refer to single unit stores as "mom and pop" stores in this analysis for labeling purposes. These are single unit retail establishments, open in one location, that are typically small-scale, independent, usually controlled, operated and family-owned businesses that have a minimum amount of employees, a small amount of business volume, and are often sole, family-owned proprietorships.

as context of our investigation. The conceptual framework, integrates theories from attitude-behavior psychology posited by Fishbein and Ajzen (1975) with Dick and Basu's conceptual model (1994) and Sheth et al.'s consumption values theory (1991a) proposal which theorizes that value perceptions, which drive purchase decisions, are based on five independent consumption values.

This proposal adapts the model posited by Sheth et al. (1991a) to a retail setting and incorporates insights from Dick and Basu's (1994) and Sweeney and Soutar's (2001) conceptualizations of how these diverse factors can influence consumers' perceptions on different retail formats and diverse demographic factors and how these perceptions, in turn, affect retail customer loyalty.

Total perceived value is a sum of five value dimensions which means it is a formative construct. That is, in each situation, the customer evaluates the possibility of buying a product, brand, or attending a particular store and at that point each of the value dimensions is part of the customer's decision process. The customer makes an evaluation of the item in question (brand, product, store, etc.) as per the different values the item provides the customer and makes his or her decision. Retail literature points that the three aspects that are most studied in the retail industry are customer perceived value, customer loyalty and patronage behavior which is conceptualized here as the behavioral component of customer loyalty (Goldman et al., 2002; D'Andrea & Lunardini, 2005; Reardon et al., 2005; Hino 2014).

Regarding the relationship between attitudinal and behavioral loyalty, it is usually considered to be logical or consistent for a person who holds a favorable attitude toward some object to perform favorable behaviors (Fishbein & Ajzen, 1977). Additionally, the majority of past research studies indicate that the strength of consumers' attitudes toward a product or service can be a very good indicator of their behavioral loyalty (Aaker, 1996). Moreover, the widely accepted theory of planned behavior predicts and prior research validates the first hypotheses that posits that attitudinal loyalty will affect behavioral loyalty positively (Ajzen & Fishbein 1980; Chaudhuri & Holbrook 2001; Watson IV et al., 2015).

In addition, there is evidence that customer loyalty is determined by customer perceived value (Patterson & Spreng 1997; Eggert & Ulega 2002; Cronin et al., 1997; Sweeney et al. 1997; Brady & Robertson 1999). In fact, as per our literature review, prior empirical research has identified customer perceived value as a major determinant of customer loyalty in retail (Sirdeshmukh et al., 2002). Chang and Wildt (1994) report that customer perceived value has been found to be a major contributor to purchase intention – that is behavioral loyalty. Regarding attitudinal loyalty customer perceived value considers a series of intrinsic and emotional factors that form part of the construct (Sánchez-Fernández & Iniesta-Bonillo, 2007). However there is no consensus in whether there is a direct relationship between customer perceived value and each one of the dimensions of customer loyalty or whether this relationship is mediated by other constructs (Oliver, 1999; Ruiz-Molina & Gil-Saura, 2008).

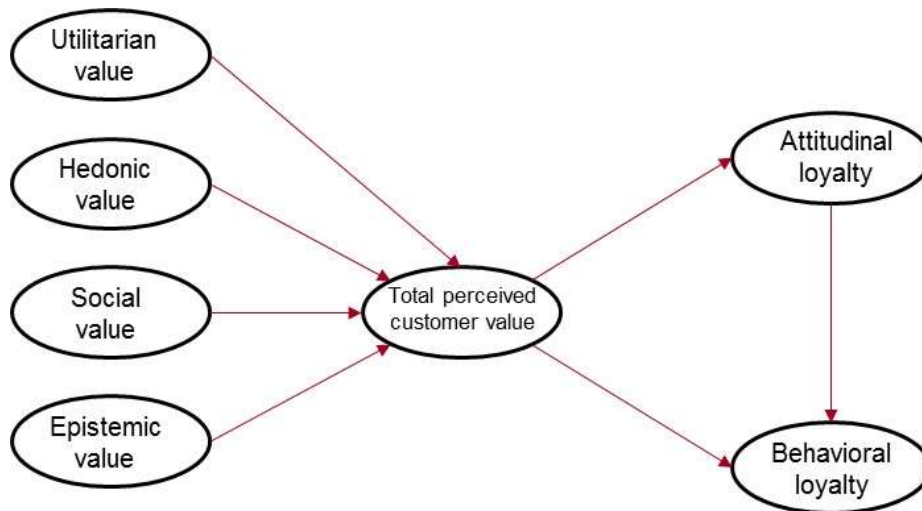
Despite the importance of retail customer loyalty and other related constructs, no empirical work has attempted to assess all the different factors that determine customer perceived value and customer loyalty. Furthermore, most studies have focused on analyzing one dimension – functional aspects – which is not only a limited vision but an error, if we consider the complexity of true customer loyalty from both an attitudinal and behavioral perspective (Jacoby & Chestnut, 1978; Bloemer & Kasper, 1995). Indeed, a number of studies have found a direct relationship between functional aspects of stores and customer loyalty (Sirgy et al., 2000; Wakefield & Baker, 1998). A few others have studied hedonic aspects and social aspects of retail formats but none have studied all the additional dimensions of value nor have they



compared or analyzed why - if modern retail formats are superior regarding functional aspects of the customer perceived value construct - many customers in emerging countries still prefer to buy their groceries at traditional retail formats. We hypothesize customer's value other aspects such as hedonic, social and epistemic dimensions and we analyze their relative importance and relationship with customer loyalty – both attitudinal and behavioral.

## Research Model and Hypotheses

**Figure 1 - Conceptual model: A framework for customer loyalty in retail**



Source: Based on Dick and Basu's conceptual model (1994) and Sheth et al.'s consumption values theory (1991a).

H1: Attitudinal loyalty positively affects behavioral loyalty.

H2a: Attitudinal loyalty will be positively influenced by customer perceived value, and

H2b: Behavioral loyalty will be positively influenced by customer perceived value.

H3a: The impact of functional values on modern retail formats' perceived customer value will be stronger than the impact of functional values on traditional retail formats.

H3b: Functional value will have stronger positive effects on behavioral loyalty than on attitudinal loyalty.

H4a: The impact of hedonic value on modern retail formats' perceived customer value will be stronger than the impact of functional values on traditional retail formats.

H4b: Hedonic value will have stronger positive effects on attitudinal loyalty than on behavioral loyalty.

H5a: The impact of social value on modern retail formats' perceived customer value will be stronger than the impact of social value on traditional retail formats.

H5b: Social value will have stronger positive effects on attitudinal loyalty than on behavioral loyalty.

H6a: The impact of epistemic value on modern retail formats' perceived customer value will be stronger than the impact of epistemic value on traditional retail formats.

H6b: Epistemic value will have stronger positive effects on attitudinal loyalty than on behavioral loyalty.

We want to contribute by analyzing the importance and relevance of both functional and other factors that determine customer perceived value and their relationships with customer loyalty –

both attitudinal and behavioral - for different retail formats. These other factors proposed by Sheth et al. (1991a) in their theory of consumption values include hedonic, social, epistemic and circumstantial factors. Increasing the understanding of these other aspects that determine customer loyalty in retail is relevant because these other dimensions of customer value are seen as meaningful and important aspects that complement the traditional and overly studied functional perspective (Rintamaki et al., 2006). Also, they represent possible differentiating factors in the highly competitive grocery retail markets especially as creating and delivering customer value is a condition for retailers to survive in today's competitive marketplace (Sheth, 1983; Rintamaki et al., 2006; Prahalad & Ramaswamy, 2013).

This study intends to fill this void in the literature by conducting an empirical study on the determinants of grocery retail customer loyalty in an emerging market. The proposed model studies the relationship between customer perceived value and customer loyalty – decomposed in attitudinal and behavioral components of loyalty – in a grocery retail context, taking into account the effect of the value dimensions posited in the theory of consumption values (Sheth et al., 1991a). This is because instead of defining customer choice only as a function of functional aspects, the role of hedonic, social, epistemic and circumstantial motives should also be recognized (Holbrook & Hirschman, 1982; Sheth, 1983, 1991).

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# Characteristics of the service innovation process in entrepreneurial firms

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## Abstract

*This study explores how entrepreneurial firms innovate service innovation by looking at their service innovation process and trying to figure out the characteristics of it, which may differ from which of the incumbent companies and from existing literature studying about service innovation. The study is established with an experimental case study on a fast-growing Finnish tech start-up and the initial findings were proceeded. The five key findings illustrate that the characteristics of the service innovation process in entrepreneurial firms are different from which in incumbent firms and are not as similar as mentioned in existing literature at some certain extent. It was found that the service innovation process in entrepreneurial firms is both ad hoc and planned; it is iterative and customer-oriented. The light-weight essence of start-up operation is favorable for this process to make it rapid and right-timing for market.*

## 1. Introduction

The role of service innovation has been globally signified in fostering economic growth and wellbeing (Coombs and Miles, 2000; van Ark et al., 2003; Gallouj, 2002). Service innovation has been recognized as a fundamental key for achieving competitive advantage (Schumpeter, 1934). Service innovation can transform businesses, create new operation systems or markets, and drive economic growth (Bitner and Brown, 2008). Due to the current technological advance, new influences of technology merge and people are brought closer together; service plays a crucial role to enhance and create new values (Magnusson et al., 2003; Lawson and Samson, 2001). To a certain extent, the Western economies depend widely on service and innovative services are not pursued only in traditional service sectors but also in manufacturing companies (Dörner et al., 2011).

Being different from incumbent companies with extensive regulations, sufficient resources, and strong market visibility, start-up firms are in most cases premature in business operations, while competitively aiming to create innovative products and services to expand the business (Paternoster et al. 2014). It is reported that more than 90 % of start-ups fail to develop an efficient service innovation; this is blamed for the lack of a methodical way to develop service innovation and the encounter of inevitable issues or challenges (Eisenhardt and Brown, 1998; Maccormack, 2001; Crowne, 2002; Marmer et al. 2012). Hence, there is an urge for developing an entrepreneurial and comprehensive service innovation process for start-ups to develop innovative services that meet the market needs.

## 2. Research problem

There are three existing gaps to be discussed in this research from a broader level of service innovation to a narrower perspective on start-up innovation process. First, several researchers point out that frameworks for the strategic management of service innovation is insufficient (Sundbo, 1996; Frei, 2008; Moller et al., 2008). Although some researchers have paid attention to service innovation and new service success factors (for example, Jones, 1995; de Brentani, 1989, 1991; Easingwood, 1986; de Brentani and Cooper, 1992; Scheuing and Johnson, 1989),

little is known about how new services are actually developed (Johne and Storey, 1998; Sundbo, 1997). Despite the notable trend in service innovation, the innovation literature has taken more restricted views by concentrating on technological innovations, tangible products and systems (Mayer & DeTore, 2001; Drejer, 2004; Johne & Storey, 1998; Nijssen et al., 2006). Due to the difficulty of service in the way it is delivered and the intangible nature of service which makes it difficult to manage and understand, service innovation is then challenging to measure, and the categorization of innovation is difficult to apply to the service sector (Goffin & Mitchell, 2010). Hence, service innovation as a term itself is unclear in literature and there is an underdeveloped and fragmented understanding of service innovation in relation to its impact and performance.

Second, there is a lack of studies that validate the service innovation construct and integrates the product innovation steps to service innovation processes. It is claimed that most researches in new service development (NSD) processes have been followed or adapted from the same generic product development process (Johne and Storey, 1998). These product development models do not capture the intricacies of NSD (de Brentani, 1989) because of the unique service characteristics of intangibility, heterogeneity, perishability and inseparability (Lovelock, 1983; Shostack, 1977; Zeithaml et al., 1985).

Third, discussing how entrepreneurial firms innovate service, it is widely known that young and new firms have strong profiles in radical solutions and advantages in innovation, only a few studies tackle the innovation process in these new firms (Keskin, 2013). The innovative service development literature collected in this study (Wang et al. 2015; Keskin et al. 2012) concentrate on building generic frameworks for innovative services with different models and stages on perspective of either traditional service or manufacturing firms and of large-sized companies. A modest number of researches on this field are found looking at start-up firms' innovation process. It is emphasized that elements regarding small firm's innovativeness need to be further researched (Hausman, 2005).

In order to solve these gaps, this research aims to study how entrepreneurial firms develop innovative services by providing a general perspective on service innovation characteristics and its relation to start-ups. The main research question is:

What are the characteristics of the service innovation process in entrepreneurial firms?

This question can be supported by the following questions:

1. What is service innovation and service innovation process?
2. What is the relationship between service innovation and entrepreneurial firms?
3. How do entrepreneurial firms develop innovative services?

The first question explained what has been studied in literature concerning service innovation process with its models and capabilities. The second question studies the characteristics of entrepreneurial firms when developing their innovative solutions and what entrepreneurial factors may influence the service innovation process. Finally, the third question is an empirical study to figure out the way start-up firms develop their innovative service solutions in practice to develop a framework for entrepreneurial service innovation process.

### **3. Research method**

I adopt an inductive methodology using a case study of a Finnish high-tech start-up to develop a framework of entrepreneurial service innovation process. Constructionism is the approach of this research, which refers to the realm of creating novel knowledge (the aim of generating an entrepreneurial service innovation process framework) (Korhonen, 2016). Case study is the most favorable strategy because of its in-depth and detailed investigation toward new and emerging phenomena. According to Yin, (2003, p.13) case study is “an empirical inquiry that investigates a contemporary phenomenon within a real-life context, especially when the

boundaries between phenomenon and context are not clearly evident” and it studies “the particularity and complexity of a single case, coming to understand its activity within important circumstances” (Stake 1995, p.11). Furthermore, case study is relevant for the purposes of theory development as it provides answers on how and why questions (Eisenhardt, 1989; Yin, 2003).

The sample of this study is the Finnish high-tech start-ups. According to many researches, Finland is an innovation leading country (Carra, 2014; Xavier et al., 2013) and the innovation environment is internationally regarded as top-class (Florida et al., 2011). High-tech start-ups in Finland are advanced by venture capital funding (Ruohonen, 2007) and the Finnish start-up ecosystem is drawing in the brightest high-tech minds and most innovative companies from around the world (Cord, 2014). Unmistakably, Finnish start-ups are the leading innovative forces and the drive for the country’s innovation. In the past decade, growth entrepreneurship has been one of the key policy items (Rouvinen and Pajarinen 2012). The case company in this research is Wolt, a Finnish high-tech start-up bringing digital service innovation (mobile app) to the restaurant industry for both B2B and B2C and is scaling fast internationally, it has gone through the entire service innovation process and meets the criteria of service innovation capabilities discussed in the literature review.

The primary data is acquired from an interview with the co-founder of Wolt- Juhani Mykkänen, he has experienced thoroughly the innovation process of the company from the very beginning until now. Hence, his insights are valid and reliable for this research. Furthermore, secondary data is acquired from a written article by the interviewee concerning similar matters published in 2017 (AEE, 2017). The purpose of the interview is to learn the case company’s NSD practices from the very beginning when the idea was generated until today when the service has been launched, scaled and adapted in different markets. The interview questions are based on the literature of the service innovation process (Dörner et al., 2011) and service innovation capabilities (Hertog et al., 2010), as well as the article provided by the interviewee (AEE, 2017). From this empirical study, the literature will be demonstrated, and an entrepreneurial service innovation framework will be developed.

**4. Early findings**

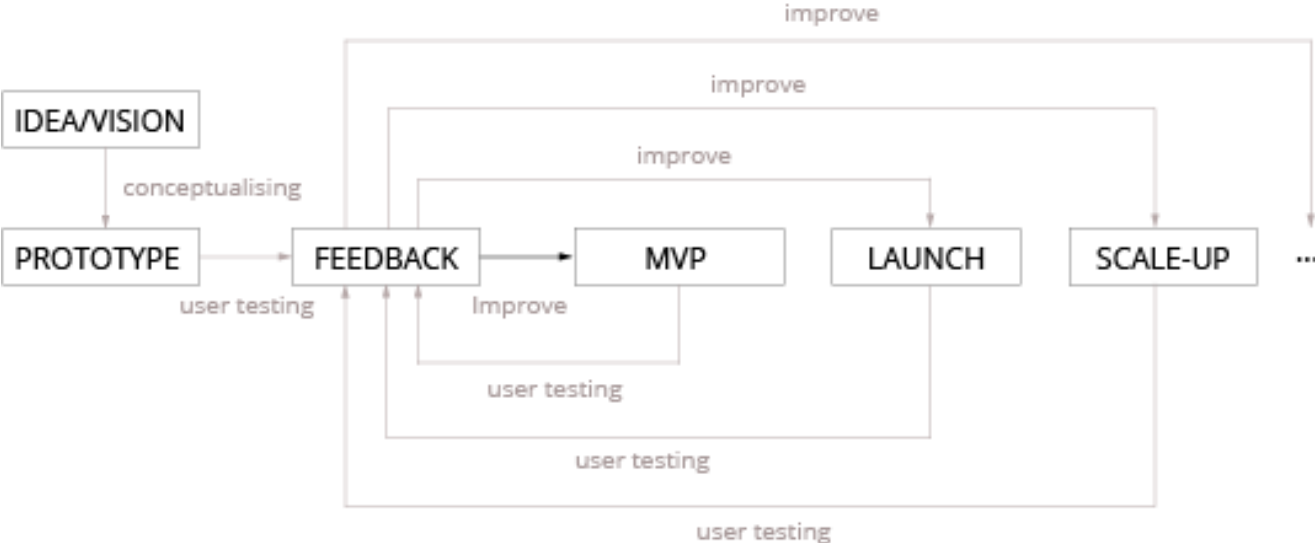


Figure 1. The service innovation process of the case company

The entrepreneurial service process initiates with an idea or a vision from the start-up founders. The vision is usually developed by adopting the megatrends such as emerging market boom,

aging population, digitalization, etc. in specific sectors (housing, travelling, entertainment, tourism, gastronomy, etc.). The idea/vision is conceptualized into a concrete and testable prototype with minimum desirable features to gain user feedbacks. Afterwards, the minimum viable product (MVP) is developed with more features for pilot testing to be improved and ready for the launch product. It is then tested, improved and adapted to scale up in a broader market. The process proceeds as the next versions are continuously tested for feedback, improved and delivered over a period of time as the start-up grows. From the initial case study, key findings regarding the service innovation process of the chosen entrepreneurial firms are discussed as the following:

#### 1. *Ad hoc* versus planned

Several researchers regard the NSD process (Gallouj and Weinstein, 1997; Martin and Horne, 1993; Kelly and Storey, 2000; Sundbo, 1997) as *ad hoc*. The entrepreneurial service innovation process is found not complete *ad hoc* but rather a blend of *ad hoc* and systematic methods. To illustrate, the ideation and conceptualization phase is very extempore because of the characteristic of the fuzzy front-end that the developers usually execute the process without planning. The first prototype is considered as quick and dirty for rapid idea validation. However, after the prototype is tested and the concept is clarified, firms follow guidelines to reach certain milestones during the process with specific tasks such as MVP delivery, launching, tracking growth, improving, scaling. These stages are executed with the methods such as data analytics, user testing, interviews, etc.

#### 2. The iterative property

Several researchers assert that the service innovation process is linear and operates within specific modules with certain steps and the process finishes when the final stage ends (Dörner et al. 2011; Keskin et al. 2012; Parrish, 2007). However, the empirical studies show that the entrepreneurial service innovation process does not have an end-point, the process is iterated over the time. In fact, it is a loop of delivery- testing-improve.

#### 3. The customer-oriented attribute

Edvardsson and Olsson (1996) claim that the emphasis in the new service development process are service concept development, service system development and service process development. The empirical studies show that the service concept and service system development are crucial for entrepreneurial service innovation process. There are two issues to be discussed: service concept development, which includes the ability of signaling user needs and technological options and transform a rough idea for a new service into a viable service offering (Hertog et al. 2010); and service system development, which refers to the configuration of technology and organizational networks organized to deliver services that satisfy the needs, wants, or aspirations of customers (Wang, 2011). In both ends, customers play a central role for the entrepreneurial new service development. For the case company, customers are crucial to validate the deliverables to achieve the product-market fit.

#### 4. The rapid pace and the light-weight structure

Both researchers Hertog et al. (2010) and Dörner et al. (2011) claim the importance of resources to the service innovation process in the incumbent companies. However, in entrepreneurial firms, there are scarce resources to establish the jobs that large-sized companies usually do in terms of financial and human resources. On the other hand, the limitedness of resources in the innovation process turns out to be an advantage for start-up firms due to the light-weight nature of the organizational structure that allows the process to be rapid and able to iterate and improve in a short period of time. The service innovation process in start-ups is much more rapid than



usual large-sized companies' one. It is a merit for start-ups to improve their offerings fast to reach the market needs.

#### 5. The right-timing exigency

As Dörner et al. (2011) discuss, it is strategic decision for firms on when customer will find the new service. For start-ups, right-timing is the most crucial factor for success because start-up innovative service offerings have to meet the market readiness. If timing is too early, customer will not comprehend and be ready for the offering; vice versa, if too late they will lose the advantage of the first mover in the market niche. Furthermore, right-timing also means that start-ups have to develop, fix and improve things quickly to satisfy the urgent customer needs and dynamic market change.

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# REGULATORY SANDBOXES: REGULATION AND INNOVATIONS INTERACTION

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## **Abstract:**

*Regulatory sandbox solves the most important task - reduces legal uncertainty, thereby preventing legal risks for all financial market participants. The requirements for licensing the company are either absent or minimal under the regulatory sandbox rules – this allows faster testing of the financial product. A regulatory sandbox introduces the potential of changing the nature of the relationship between regulators and financial service providers and can help to overcome a barrier between strict regulation tendency and innovation's assistance.*

**Keywords:** RegTech, digital regulatory technologies, regulatory sandbox, financial technologies, innovations, compliance-risk, digital economy, financial markets, regulatory risk.

A regulatory sandbox is a framework developed by a regulator of financial sector to let firms an innovations live testing and highly innovative financial products in a bounded environment (operating under a special exemption, allowance, or other limited, time-bound exception) under the regulator's supervision. The prototype, which was created during the rapid technological innovations in the financial markets, is a vivid attempt to eliminate the friction between the regulators' desire to encourage and stimulate innovation and pay particular attention to regulation after the financial crisis of 2007-2008.

A regulatory sandbox introduces the potential of changing the relationship nature between regulators and financial service providers (regulated or aspiring) to a more open and active dialogue. It can also allow the regulator to easily revise and form a regulatory and supervisory structure. However, creating a sandbox should not distract politicians who face elementary regulatory problems, and one should not expect that this will affect the change in thinking that it is necessary for regulators to keep on moving with the revolution of FinTech.

Regulators set sandboxes for various reasons, but the most common reason is to promote competition and efficiency in financial services markets through innovation. Regardless of whether the sandbox will achieve its goals, it will depend on how it is created and on market conditions (suppliers, competition, innovation quality, financial market infrastructure development level, customer confidence and participation).

The first sandbox-like structure was created by the US Consumer Protection Bureau (CFPB) in 2012 under the name Project Catalyst (CFPB 2016). In 2015, the US Financial Control Authority (FCA) came up with the term "regulatory sandbox" (FCA 2015). Since then, this concept has spread to more than 20 countries from Abu Dhabi to Sierra Leone.

The importance of innovation is well founded for financial integration. Regulatory sandboxes will play a role in using innovations to support financial integration. Even though low level of financial integration is still common in emerging and developing countries (EMDE), innovations are present and promise positive changes. Regulators of the financial sector should be responsive to this opportunity, but they face problems due to several factors:

- Lack of regulatory capacity in terms of adequate resources, staff, expertise and tools.

- Underdeveloped infrastructure of the financial market and a limited market with retail financial services.
- Difficulties in balancing key objectives of financial inclusion, stability, integrity, consumer protection and competition.

Regulatory sandboxes prevail in high- and middle-income countries, most of which do not deal with significant financial integration problems. This may explain why most of the regulatory sandboxes were not designed to primarily promote financial inclusions, where financial inclusion means the pursuit of making financial services accessible at affordable costs to all individuals and businesses<sup>2</sup>. In addition, in most of these countries, the regulator's mandate does not explicitly include financial inclusion. The central banks of Malaysia and the Bahraini normative sandboxes are the only ones that explicitly list the financial inclusion among the key tasks.

**Objectives.** The main objective of the regulatory sandbox is determined by the mandate of the regulatory body and is usually indicated in the constituent document. One of the common tasks of a regulatory sandbox is to promote competition and increase efficiency through innovation. However, the role of regulative sandboxes in promoting innovation can be limited in those cases when regulatory reform will be a more sensitive approach to deal with new participants and technologies.

**Eligibility.** In the first place the right to participate depends on the authority of the regulatory body and the legal framework. The sandbox can only include those institutions that may be subject to the regulator or regulators (there may be sandboxes formed by more than one regulator) and which are not under the exclusive authority of another regulator. Some sandboxes are allowed only to acting legal entities, others allow only start-ups, and some allow both. Only products or services whose innovative nature deserves special treatment, rather than direct approval or refusal of regulation, can enter the sandbox.

**Criteria for sandbox entities.** Sandbox entities are subject to restrictions, such as the maximum number of customers served, and they may need to introduce guarantees that reflect the risks and benefits of the proposed innovations, including increased disclosure and a compensation fund, to limit the potential impact of the failure of the test on market participants. They must also comply with mandatory rules, because regulators cannot give up the criteria established by law, if the law does not permit such action by the regulator.

**Timing.** Applicants must demonstrate willingness to test innovation. Any testing should be time limited to prevent a protracted exploration of innovations that are either not sufficiently developed or simply not viable.

**Costs.** Although the most jurisdictions offer a sandbox free of charge, there are costs associated with conducting tests. However, for some sandbox facilities (and some candidates that are not allowed in the sandbox), feedback to the regulator on the applicable rules reduces court costs that may be higher or even higher than costs associated with testing the sandbox. The regulator can have costs associated with the sandbox including new employees who may be hired.

#### **Regulatory sandboxes benefits**

- A standardized and public framework for working with innovations that promote open and transparent communication between the regulator and an entity to facilitate learning from each other.
- A clear signal to market that innovations are on the regulator agenda.

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<sup>2</sup> Investopedia: <https://www.investopedia.com/terms/f/financial-inclusion.asp>

- Potential for reducing time-to-market cycle, simplifying the authorization process and reducing uncertainty for market participants.

### **Sandboxes risks**

- Poor firms' selection from the sandbox due to the limited regulator ability to evaluate the technologies underlying innovation.
- Liability issues in case of unsuccessful testing, which caused damage to customers or other market participants, which could threaten the regulator reputation and the confidence of customers in the financial system.

The Bank of Russia are planning to run regulatory sandbox where banks and other financial companies will be able to test brand-new technologies without a risk to break the law. This was announced at the «Internet + Finance» forum on Wednesday, September 21, by the Deputy Chairman of the Bank of Russia.

Perhaps simplified identification is the most interesting technology for banks today, but this is currently not possible to test it on the real clients. Simplifying the identification there will be an opportunity to ease both the lending process and the use of other banking products in general because they will only have to provide information about themselves to the bank once. Also one of the urgent tasks is the system of simplified payments between bank accounts introduction.

### **Conclusion**

There is no single operating model for standard sandboxes. The rules governing the interaction between innovators and authorities - before, during and after the pilots - vary depending on the purpose of the sandbox, the power of the authorities and legal authority, the level of market development and the innovators interest.

Regulation and innovation are usually seen as contradictory directions. There is considerable priority to support this conclusion, but it does not have to be that way and it is possible to find a relationship between them. The sandbox solves one of the main regulator's supervision problems: obviously we wait for something really bad to happen, and then redirect the market or product. This concept allows us to use commonsense, data-based approach to regulation, which promotes progress.

This highly innovative regulatory technology will allow companies to focus their resources in creating innovative and efficient financial services products in the sandbox period before fully complying with various rules that can sometimes be very burdensome.

The use of these regulatory sandboxes confirms that governments adopt a more progressive and proactive approach to the idea of innovation in fintech. In addition, many countries are actively using blockchain technology in the evolution of their financial systems. As completely new ideas of financial institutions are checked and improved, the global financial landscape becomes open for prosperity.

The subject of regulatory sandboxes is included in the first part of our research. In the next chapter, the methodology of the regulatory sandboxes and other innovative financial and regulatory technologies application and ways to control financial risks from both the regulator and financial institutions will be considered.

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# India's Offset Policy as a tool for the development of external economic ties

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## Abstract

*Being the largest arms importer in the world India introduced offset in 2005 in order to drive its own defense industry and to achieve independence from the import procurements. There are many theories relating to role of offset for a country-purchaser of defense products. The research is aimed at studying influence of offset on Indian external economic ties, developing recommendations regarding offset application for enhancing country's defense industry and identifying other tools that can be also used for it.*

## Introduction

Within more than 70 years the Republic of India attempts to develop its national defense industry in order to provide its demand in defense products and to become an arms exporter. However India is still an importer of military products. Considering the data of Stockholm International Peace Research Institute in the period during 2013-2017 India's share of arms imports amounts to 12 % and the country is number one in top arms importers.<sup>3</sup>

The Government of India takes various measures to reach the independence from arms import: "Make in India" program, offset policy, defense industry support and etc. Offset as a mandatory requirement was imposed in 2006. Offset is a compensation tool which is used at arms market. The definition of offset is given in Offsets in Defence Trade report issued by U.S. Department of Commerce Bureau of Industry and Security. Offset is compensation practices required as a condition of purchase in either government-to-government or commercial sales of "defense articles" and/or "defense services", sometimes they are used in civil areas, for instance, civil aviation.<sup>4</sup> In world offset practice the following projects can be considered as offset: co-production, licensed production, investment, and transfer of technology, purchase, and training. At present more and more countries are imposing offset legislation (it can be called in different ways: industrial participation, industrial cooperation and etc.). In India many expectations are connected with the offset policy. Taking into account that offset practice in India has existed for more than 10 years there is a possibility to analyze it.

## Research concept

The position of offset is not obvious in the world trade. For instance the World Trade Organization (WTO) does not support offset as it is not in compliance with fair trade principles. In accordance with Article 4 of the revised Uruguay Round Agreement on Government Procurement offset cannot be used in the procurement process but this provision is not applied to defense purchases. The USA and the EU countries are taking measures which are aimed at the reduction of the use of offset. However the developing countries consider only numerous benefits from offset that allows them to become competitive at arms market. Offset and other compensation practices are the wide sector which many people are engaged all over the world. In the research there are several phases:

- reasons for offset introduction in India considering theories relating to offset;
- Indian offset legislation considering world offset practices;
- influence on Indian defense industry and external economic ties;

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<sup>3</sup> Trends in international arms transfers, 2017

<sup>4</sup> Offsets in Defense Trade. Twentieth Study

- development of the recommendations how to make offset more effective.

#### Literature review

The economics of arms trade offsets is introduced in the works of J. Brauer and J.P. Dunne. The authors study offset relating to economic theories. Other researchers such as Peter Hall and Stefan Markowski explained the reasons why offset is widely used. Travis K. Taylor outlined the contradictory nature of offset.

In the literature there are several reasons for offset introduction are given. Initially there was an opinion that offset enabled to increase the competitiveness of the exporters' offer considering the growth in competition at arms market. In the modern conditions offset is very attractive for importers. The researchers explained this fact by the following reasons.

Firstly, the availability of offset makes arms import grounded. If a country with national defense industry plans to procure military products it should make a decision: to purchase from local industry or abroad. The country can choose an import option in the following cases:

- required arms are not manufactured by domestic defense industry;
- required defense products are produced by local enterprises but their cost is higher;
- arms with required specification are not manufactured by domestic defense industry.

The second and the third options are more complicated. Military procurements are financed from the budget and the decision should be justified by figures. Offset is an additional benefit for a customer. If offset program contains the transfer of some technologies it allows developing new competences of local defense industry. Thus offset provides the balance between import and local investment: on the one hand, military products are acquired abroad on the other hand, local industry gains technologies.

Secondly, the offset obligations are usually fulfilled by investment, purchases of military products by exporter, training, setting up of licensed and subcontracting production, joint R&D. At that offset activities are not limited by defense area and they can be also carried out in civil sectors of economy. Such offset projects stimulate investments made by an arms country-seller to an arms country-purchaser and facilitate the shift of production to importers.

Thirdly, arms sale is usually accompanied by associated equipment and services. For instance, helicopters, tanks and etc. are required maintenance, repair. Without offset after sale support can be obtained by a separate contract, a tender and etc. And this transaction is required to be agreed with different committees of Ministry of Defense. It takes time and additional resources. If the offset is applicable to a deal there will be only one contract for the supply and maintenance activities.

Finally, the transfer of technology under offset is very valuable for the development of the defense industry of the country-importer.

In the theoretical part of the thesis the Indian offset legislation will be analyzed considering basic provisions for offset introduction, general offset parameters and comparing with offset guidelines of other countries.

In spite of publications regarding Indian offset comprehensive researches are not sufficient. The fact can be explained that some scientists focus on offset for Indian industry, other works are devoted to the offset from the countries-suppliers' viewpoint, and there are also researches with only critical approach to Indian offset.

There are several groups of sources that are used in the present research. The first group includes legislation relating to offset that are issued by the Indian Government and other countries and legal documents issued by international organization. The second part of sources consists of studies, researches, theses and monographies of Russian and foreign scientists. In the present research information is also used from articles in Russian and foreign magazines and from Internet (websites of companies), from consultations with experts. The statistics part of the research is based on data of Stockholm International Peace Research Institute, Centre for

Analysis of World Arms Trade, reports of U.S. Department of Commerce Bureau of Industry and Security, other agencies which are collecting data regarding offset (Frost & Sullivan, KMPG, and Deloitte and etc.)

#### Methodology

In the research quantitative and qualitative methods are used. The first part of the research is being carried out on the basis of comparative analysis and statistics methods; in the second part system approach for defining interdependence of external and internal factors, auditing and quantitative modelling approaches are applied. In the third part the main method is scenario analysis built on experts' interviews results.

The first phase of the research is devoted to analysis of Indian offset policy considering the standard parameters which are applied to offset practice such as type of offset (direct and indirect), offset threshold (contract amount which the offset requirements are applied from), volume of offset obligations, offset obligation discharge time frame, penalties for non-fulfilment of offset, multipliers (coefficients applied to the actual value of offset transactions to calculate the offset credit value), avenues for offset discharge and offset banking (accumulation of offset credits prior to the award of the main contract).

The Indian offset legislation was amended in 2008, 2011, 2012, 2013 and 2016. At the present time the most of offset parameters are covered in the Indian offset policy. The comparison of offset provisions in Defence Procurement Procedure-2006 and Defence Procurement Procedure-2016 is specified in the table below:

Sn	Parameters	Defence Procurement Procedure - 2006	Defence Procurement Procedure - 2016
1.	Offset	Direct and indirect (eligible products and services are only defence)	Direct and indirect (the list eligible products and services includes not only defence products but also other areas for instance civil aviation)
2.	Offset threshold	300 Crore rupees (apprx. 44 mln USD)	2000 Crore rupees (apprx. 295 mln USD)
3.	Volume of offset obligations	Not less than 30 %	30 %
4.	Offset obligation discharge time frame	period of the main contract	period of the main contract + 2 years
5.	Penalties	Penalties for non-fulfilment of offset obligation - 5% from unfulfilled works during the year, there is no cap	Penalties for non-fulfilment of offset obligation - 5% from unfulfilled works during the year, the overall cap of penalties is 20 % of the total offset obligations during the period of the main procurement contract. The cap is not applicable in case of penalty for failure to implement offset obligations during the period beyond the main procurement contract
6.	Performance bond	Not required	Required if the offset discharge period exceeds the period of main contract
7.	Multipliers	Not applicable	From 1.5 up to 3

8.	Avenues for offset discharge	Specified	Specified
9.	Offset banking	No option	Yes, valid for 7 years

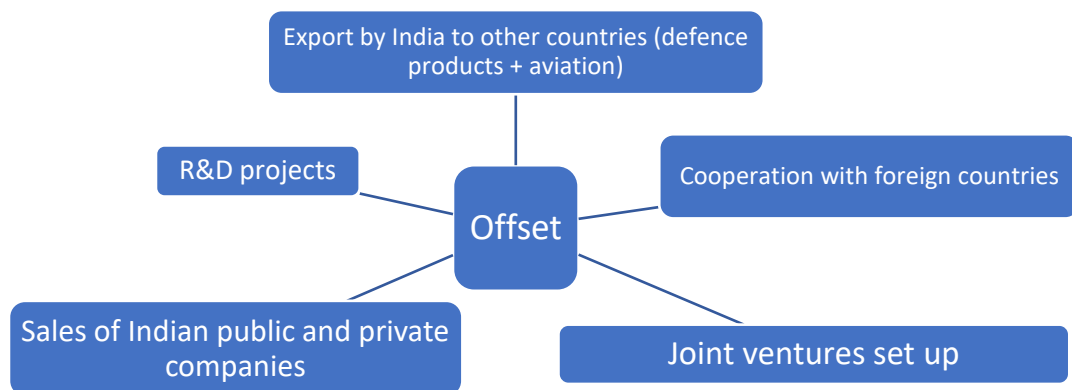
The table is developed on the basis of Defence Procurement Procedure – 2006 and Defence Procurement Procedure – 2016

Defence Procurement Procedure – 2006 permitted only 3 avenues for offset discharge: purchase of eligible products/services (defence) from Indian defense enterprises, investment in Indian defense industry for industrial infrastructure for manufacturing or for R&D.

In accordance with Defence Procurement Procedure – 2016 offset obligations in India can be fulfilled by the following avenues:

- purchase of eligible products/services from Indian enterprises;
- investment in joint ventures with Indian enterprises (financial investment);
- investment in „kind“ in terms of transfer of technologies to Indian enterprises;
- investment in „kind“ to Indian enterprises in terms of provision of equipment;
- provision of equipment and/or ToT to Government institutions and establishments;
- technology acquisition by the Defence Research and Development Organization in areas of high technology.

The second phase of the research contains an analysis which areas offset can influence on:



Firstly, offset influence on Indian export within the period from 1996-2016 and sales of major companies is being studied. Secondly, offset role in cooperation with foreign countries including R&D projects is being scrutinized. Thirdly, offset impact on foreign investment into India is being analyzed. The third phase of the research focuses on scenarios of development of the offset cooperation and recommendations regarding the alternatives to offset.

#### Early results

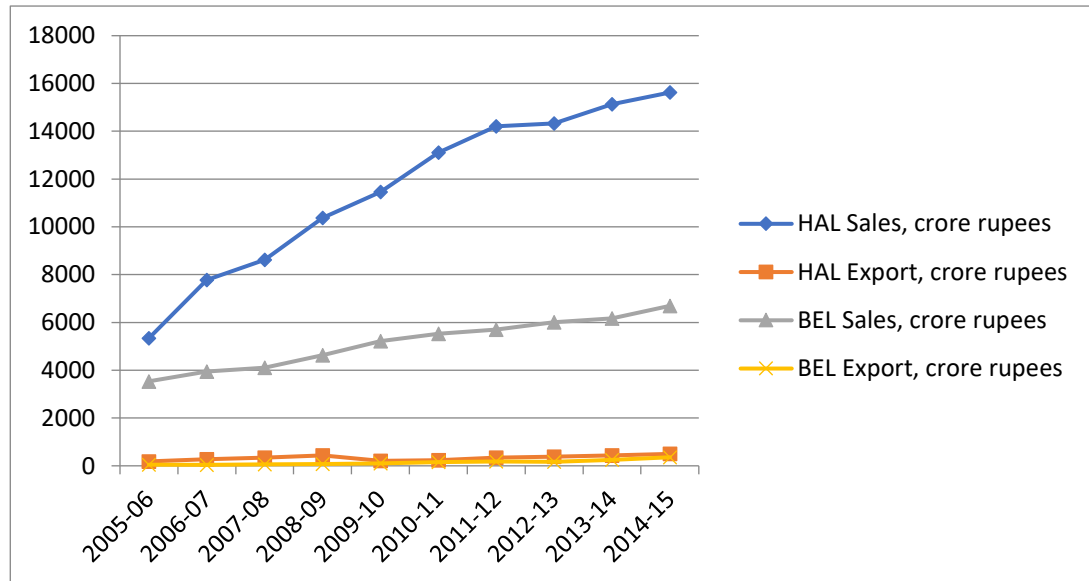
The research shows that that Indian offset legislation is in compliance with the world offset practice. Considering the avenues for offset discharge and requirements the following goals of offset introduction can be identified:

- generation of orders flow for Indian companies and their integration in the international supply chain;
- stimulation of new manufacturing/maintenance/repair facilities set up;
- investment attraction;
- fostering of joint ventures set up;
- involvement of micro and small enterprises in the defense industry, building of production ecosystem;
- acquiring advanced technologies.

The majority of the offset programs in India are a combination of setting up of facilities (equity or non-equity route) with purchase of products from Indian industry.

If we consider sales and export figures of two Indian companies which are involved in offset projects we can see the following trends:

Sales and export figures of Indian companies (HAL and BEL)



The graph is composed on the basis of data of Indian Defence Industry: An Agenda for Making in India written by L.K.Behera

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# What do we mean when we talk about value in agriculture?

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## Abstract

*The agricultural sector in Sweden is characterized by the high production costs due to environmental standards, expensive animal welfare and labor-friendly laws. The inability for significant number of agricultural SMEs to compete with actors who have low production cost advantage has created the need to rethink their value proposition to achieve competitive advantage. This study has aims to explore what activities farmers take to create value and to connect value creation activities with who (e.g., farm size, sector, organizational competence) is attempting to create value. To achieve the goals in this project, qualitative and quantitative data will be collected and analysed.*

## Introduction

“The creation of value is the core purpose and central process of economic exchange” (Vargo et al., 2008, p. 146). The term ‘value’ appears in business literature with a remarkable frequency, overgrowing in meanings and definitions. Traditionally the majority of scholars in economics and management fields are dealing with the value that can result in financial benefits to shareholders. What is missing in such approach is the applications to other stakeholder groups and considerations about the sustainability of the business that creates value. Purely profit-focused perception of business value where only a few reap benefits can no longer be running in the world the faces pressing environmental and societal challenges. For this reason, the way business understands value undergoes a transformation – while the creation of business value is still regarded to be the major objective of any firm, the way value is created, its targets and consequences are subjects of re-examination. The majority of industries are exposed to these changes.

In this project we look closer into value creation in agricultural sector with particular focus on farming in Sweden. Agriculture was selected because it is a specific industry that stands out from others. Close attention is usually paid to safety, security and sustainability of agricultural products due to their fundamental importance for humankind. Moreover, agricultural production causes a substantial impact on the environment and society. Unsustainable agricultural practices cause pollution, soil erosion, droughts and loss of biodiversity.

This implies that the way agricultural business works (e.i. how value network functions from production to consumption and further utilization) affects people and environment on a global scale. Therefore, the sustainability of business value created by agricultural producers plays a pivotal role in how sustainable the future of our planet will be. Consequently, this project explores value creation activities among enterprises in the agricultural sector and the sustainability of these activities.

In order to run a business that complies to sustainable development ideas, an agricultural enterprise is expected to target all three elements of Triple Bottom Line (TBL) framework (Elkington, 1998), namely integrate financial, social and environmental dimensions into business. This means that created business value should economically sustain agricultural SMEs and at the same time bring benefits to a larger scope of stakeholders.

The current situation in Swedish agricultural sector is characterized by high production costs that result in tough competition with often cheaper imported products. Agricultural SMEs are especially vulnerable under such market conditions: since the 1990s, the total number of Swedish farms has declined by 30% including nearly half of all farms that were between 10 and 50 hectares in size; at the same time, the number of large farms (i.e. those over 100 hectares) increased by 40% (Jordbruksverket, 2016). This makes it problematic for SMEs to achieve financial sustainability and even less realistic to manage environmental and social aspects of business.

### Objectives and contribution

This study has two primary aims. First, it will provide an evidence base of how value is conceptualized in agricultural sector. This will deepen our academic understanding of value concept and ensure that consistent and more nuanced definition of the concept is developed. Moreover, conceptual clarity will enable value to be measured in meaningful ways. This is essential for identifying and quantifying the impact various value creating strategies and activities have on SMEs' competitive advantage and profitability. In addition, this understanding will help to highlight missed opportunities for value creation in agricultural sector.

Second aim is to connect value creation activities with who (e.g., farm size, sector, organizational competence) is attempting to create value and how it affects financial, social and environmental sustainability. By addressing these issues, the study enables us to understand who is doing what and more importantly, provide insights into what things they should be doing. Highlighting what companies are doing to create value helps to identify gaps in areas where value activities are not currently pursued (e.g., cooperation, brand synergies from diversification, relationship management and improved services) which can lead to the identification of opportunities. Moreover, it will help us to understand why some organizations are effectively able to create value while others are not. This will enable agricultural advisory groups to supplement areas of the organization with things like knowledge transfer so more of them can start creating value that leads to sustainability by focusing on the right things.

### Approach

To achieve the goals of the project, first it intends to present an extensive review of academic articles from the agricultural field that discuss the concept of value. We will analyze the conceptualization of value in those articles as well as identify value creation activities practised in agricultural sector. The literature review has an objective to demonstrate the understanding of value by academic research and explore what value creation activities contribute to sustainable development of agriculture.

Second, we conduct qualitative interviews with selected SMEs in order to define and operationalize the concepts in the project. Based on this, a conceptual model will be built and transformed into a survey (comprised of open and closed-ended questions). The survey will be mailed out to a random selection of all agricultural SMEs in Sweden. Data from over 1000 companies (assuming a random selection of all estimated Swedish farmers is gathered and a confidence level of 95% and confidence interval of 3) will be coded and analysed quantitatively



using exploratory factor analysis, cluster analysis, and hierarchical multiple regression analysis (depending on the form our final model takes, structural equation modelling might be used).

With the help of obtained data we hope to confirm the existence of the gap in the understanding of value in agriculture. This will allow us to produce a number of suggestions of how value theory can become more relevant to academic research in agriculture, policy makers and practitioners. One more intention is to point out at a necessity of re-conceptualization of value theory in agricultural sciences.

### Philosophical challenges

There are important philosophical differences between research philosophies and the major debate often happens when it comes to the choice of ontological and epistemological positions in research. It is important to mention that no research paradigm is better than other and many call for the combination of research methodologies with an aim to improve the quality of research.

The majority of literature on research philosophy distinguish between two philosophical schools, namely positivism (or objectivism) and interpretivism (or subjectivism). These two ontological views on the nature of reality are extreme and mutually exclusive paradigms. Objectivism is “an ontological position that asserts that social phenomena and their meanings have an existence that is independent of social actors” (Bryman, 2015, p. 29). In contrast, interpretivism (also known as constructionism) “asserts that social phenomena and their meanings are continually being accomplished by social actors” (Bryman, 2015, p. 29) and it has recently been argued that researcher's own accounts of the social reality constitute a research (Bryman, 2015).

It can be argued that certain research philosophy does not imply certain data collection and analysis method but the vast number of books on research point at the presence of links between these two stages. The positivistic paradigm is usually linked to the tradition of quantitative research, while interpretivism should apply qualitative methods (Saunders et al., 2009). Furthermore, when it comes to the research approach, as a general rule, deductive approach prevails in the positivist studies whereas interpretivistic research makes use of inductive approach (Lancaster, 2005)

Referring to the current research project, the challenge is to combine qualitative and quantitative data treatment methods. One research question asks what value means, other aims at exploring connections between value creation activities and characteristics of business. Questions themselves predetermine certain methods.

To address this challenge, pragmatism research philosophy (Ormerod, 2006) will be applied. Pragmatists argue that the research question determines the research philosophy and depending on the question, one approach may be better than another to answer that particular question. Adherents of pragmatism suggest that a researcher in a particular study should view philosophy as a continuum rather than antagonistic points (Tashakkori and Teddlie, 1998).

Pragmatists acknowledge the existence of reality but note that reality is changing based on our actions that is why it is pointless to search for enduring stable reality. Opposite to interpretivism, pragmatism denies the idea that it is free to interpret experience in any way we see it. Instead,

actions have a predictable outcome and we build our lives in the frame of these actions-outcomes links. Pragmatists acknowledge the existence of not only individual experiences but also those experienced socially. On the societal level, the integration of practices, experiences, and knowledge happens. Thus, pragmatism deals with constructed but non-arbitrary truth rooted in practice.

Pragmatism allows to explore society with different opinions and practices and find patterns and contingent knowledge. In the case of this research it is particularly appropriate because of the combination of research questions that require a mixed-method approach. Pragmatism philosophy allows and even encourages the application of different methods and emphasizes that such approach will strengthen the research quality.

While pragmatism can be applied to build the philosophical foundation of the research, challenges intrinsic to this approach constitute inconsistencies in definitions (Tashakkori and Creswell, 2007). These inconsistencies deserve careful consideration before the start of the research.

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# **Internationalisation of Thai SMEs: the roles of networks and institutional factors**

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## **Abstract**

*Small and medium enterprises (SMEs) are shifting their focuses from domestic markets to international arena. Building on the institutional and network perspectives, this study explores the role of various network types in the internationalisation process of Thai SMEs and ascertain how they overcome environmental constraint and how SMEs exploit networks in the later stage when they decide to enter subsequent foreign markets. As SMEs involve in internationalisation, they operate in different kinds of societal context. It seems that environmental turbulence affects SMEs internationalisation process, institutional factors may increase costs. In addition, SMEs are normally resource scarcity, thus they tend to overcome these barriers. Through in-depth interviews, this study would work as a platform for SMEs that desire to pursue their international expansion.*

## Background of research

International expansion is significant for the business success and survival of SMEs (Manev and Mano, 2010). Internationalisation offers high growth to SMEs because their international expansion mostly toward new markets and niches and their ability to work with partners (Krasniqi, 2012). SMEs play an important role in the world economy, there has been world-wide recognition of the internationalisation process of SMEs by academics, researchers, governments, and policy makers (Crick and Jones, 2000; Nakos and Brouters, 2002). SMEs' characteristics differ greatly in relation to multinational companies. SMEs are usually flexible in decision making process and benefits from flat organisational structures. However, SMEs seem to face various challenges such as the liabilities of smallness, newness, and foreignness in the internationalisation process because they are normally resource scarcity (Lu and Beamish, 2006). These constraints hamper SMEs from facilitating growth and remaining competitive in the growing international economy (Coviello and Munro, 1995). In Thailand, SMEs play a crucial role in Thai economy in terms of employment numbers and economic growth. They are a significant mechanism for accelerating Thai economic development (Charoenrat and Harvie, 2014; Rojsurakitti, 2015), which occupy more than 90 percent of the total industry structure establishment (OSMEP, 2016). There are so many barriers that challenge Thai SMEs internationalisation, including financial constraints, inadequate and/or inexperienced human resources, insufficient management skills, lack of technical and innovation skills, lacking information accessibility, and limited use of government support (Brimble et al., 2002; Charoenrat and Harvie, 2014; Rojsurakitti, 2015). In addition, Thai SMEs mostly are in labour-intensive and low-technology activities (Brimble et al., 2002), but they seem to be competitive in cheaper labour costs. Up to now, very little attention has been paid to the internationalisation process of entrepreneurial firms from Thailand. Previous studies have mostly focused on larger Asian countries, such as China and India and ignored firms from South Asia (Peiris et al., 2012). In addition, so far, there has been minor discussion about SMEs based in emerging economies. Most of existing studies have been done based on SMEs from advance economies, however, what remains unclear is whether or these findings can apply to the process

of internationalisation of SMEs from less developed economies (Gassmann and Keupp, 2007; Luo and Tung, 2007).

Firms operating in different kinds of social context seem to be affected by institutional differences. These institutional differences between markets challenge SMEs' internationalisation. Giving SMEs are resource constrained in order to respond to these institutional differences require extra resources. Thus, these small firms seem to depend on networks to mitigate environment hostility and facilitate their internationalisation process (Coviello and Munro, 1995, 1997; Zain and Ng, 2006). SMEs can benefit from building relationships with various actors who provide them different sets of resource to facilitate them to expand abroad (Lamin and Dunlap, 2011). In addition, these relationships tend to modify and change when firms enter subsequent markets, however up to now, far too little attention has been paid to how firms exploit their networks to continue their expansion into other markets. Thereby, the primary aim in this paper is to explore the role of various network types in the internationalisation process of Thai SMEs and ascertain how they overcome environmental constraints and how SMEs exploit networks in the later stage when they decide to enter subsequent foreign markets. In order to explore the roles of network types and how SMEs use network to overcome environmental constraints, in the following section, will attempt to explore how institutional differences affect SMEs' internationalisation and how different network types may assist these small firms to mitigate constraints and facilitate their international expansion.

### Literature Review

The institution-based perspective views institutional environment in which a firm operates significantly shape its operation and performance (e.g., Scott, 1995; Hoskisson et al., 2000). Institutions are 'the rule of game in a society humanly devised constraints that shape human interaction' (North, 1990 pp. 3), which affect firm internationalisation strategies (Peng, 2003). As a firm involves in international operations, it faces not only competitions, but also environmental hostilities, these effect the firm's economic activity and behaviour (Gelbuda et al., 2008). The role of institutions in an economy is to reduce both transaction and information costs by mitigating uncertainty and establishing a stable structure that facilitates interaction between organisations (Lipuma and Prange, 2015). Scholars in international business research have stressed the effect of institutional differences, which refers to the extent of similarity and dissimilarity between home and host institutions (Scott, 1995). As firms internationalise in different environments, they face different sets of regulation and culture vary across markets. In order to survive, these firms need to conform and adjust to these differences in the environment (DiMaggio and Powell, 1983). According to North (1990), the institutional context comprises both formal laws, rules and regulations established by a government and regulatory authorities as well as the informal rules and constraints, such as widely shared values, norms and beliefs, which are supported by the general society. These unique institutions establish the basis of a nation's economic and social system (Williamson, 2000), which can cause the differential between countries. The institutional factors may increase transaction costs which may hamper the firm to expand to competitive markets. Thus, in order to success in international operations, the organisation need to adjust to the conditions of institutional environment. Thereby, institutional environmental differences between markets can create conditions that either facilitate or hinder firms' internationalisation process (Meyer, 2001).

Given constrained by limited resources, SMEs seem to depend heavily on networks to internationalise in relation to large multinationals (Hessels and Terjesen, 2010). Several studies have reported that firms use network as a useful instrument to overcome resource and

knowledge scarcity (Loane and Bell, 2006) because firms can identify partners and assist them to access to additional resources they need. As Coviello and Munro (1997) highlight that networks play a pivotal role to help SMEs to overcome internationalisation barriers. Networks allow SMEs to reduce risks when expand to foreign markets (Coviello and McAuley, 1999), because networks assist SMEs to overcome liability of smallness through relationships with various actors, eventually decrease risks (Madhok, 1997). SMEs can establish relationships with various actors because different types of network provide different set of resource (Lamin and Dunlap, 2011). Several studies (e.g., Granovetter, 1985; Bell, 1995; Lamin and Dunlap, 2011) posit that networking with business actors such as local and foreign partners, customers, distributors, competitors influence firms' internationalisation process by providing knowledge about foreign markets. While informal networks, which involve with personal relationship and social contacts with individuals, friends, family members, employees, have been found to have a positive impact on firms' internationalisation by many studies as well (e.g., Ellis, 2000; Zhou et al., 2007; Manolova et al., 2010). Some (e.g., (Senik et al., 2011; Oparaocha, 2015) argue that firms cannot ignore the important effect of intermediary networks which refer to a third party that connects the buyer and the seller (Ojala, 2009) including with government agencies, business incubators, research institutions, etc. The intermediary networks especially with government agencies can provide support and help for firms' international promotion (Senik et al., 2011; Makhmadshoev et al., 2015). The intermediary networks also can act as a bridge to form other types of network such as the business networks because SMEs can reach their potential partners through trade fairs and/or associations (Costa et al., 2017). In the study by Yiu et al., (2007) found that the intermediary network has more impact on firms' internationalisation because it can be used to mitigate information asymmetry. Despite the importance of institutional networks on SMEs internationalisation, still scant of research in this area (Gao et al., 2010), thus there is a needed to explore this type of network for a better understanding of its impact on firms' internationalisation process. As different types of network do not have the same influence on firms' internationalisation, however, most recently literature has emerged that offers contradictory finding about it. Studied by Yiu et al., (2007) found that political ties have a stronger effect than business ties on the internationalisation firms. Unlike Zhang et al., (2012) who argued that the relationship with government agencies do not assist them to expand to foreign markets. While, Granovetter (1973) posits that relationships with informal actors such as family members and friends do not provide knowledge diversity as establishing relationships with formal networks especially with business contacts. This inconsistency might be due to the content of environmental differences in which the firms must operate that shape how firms exploit the types of networks.

So far, this study has focused on how institutional differences could affect SMEs' internationalisation and how these small firms would benefit from establishing networks with various actors. The following section will discuss the change in network relationships that may occur and require SMEs to modify or adjust these relationships. Networks take time to establish relationships between firms and various actors, these connections, however can develop and change overtime. As SMEs engage in internationalisation, they face many challenges including competition and environment turbulence in foreign markets that they operate. These might create new situations that require the firm to form different types of network to access to new resources and at the same time the existing networks might be disbanded (Nummela, 2004). Thus, this suggests that SMEs' networks tend to change during the internationalisation process. According to Crick and Spence (2005) and Loane and Bell (2006) posit that when firms identified new opportunities in subsequent internationalisation, they mostly established new networks. The existing networks were still available in the existing markets to either repeat order or further penetration, but they are invaluable in entering later markets. In addition,

several studies attempt to investigate the roles of networks that change during the internationalisation process. For example, Ibeh and Kasem (2011) found out that informal networks have more influential at the initial stage of internationalisation, while formal networks with other business begin more dominant afterwards. Unlike, Monolove et al., (2010) found that the role of formal networks for internationalisation decreases over time because a firm engages with the formal network at the earlier of their internationalisation, but as the firm grows negatively moderates the effect of this type of network. In the context of Asian firms, Senik et al., (2011) found that Malaysian SMEs used various types of network such as formal, informal, and intermediary networks. These firms tended to use formal and informal networks when they started to internationalise, but as these firms grew, they needed support from intermediary networks such as from government. Therefore, it seems that firms have developed their relationships with others overtime. However, most studies in the field of network internationalisation only focused on how firms utilise networks to internationalise to their first foreign market. Previously studies have not dealt with the roles of networks and relationships at the later stage of internationalisation (Kampouri et al., 2017) and how these SMEs continue their expansion into another foreign market; if any differences of the used of network types. Thus, there is a need for more research into the roles of networks in the later stage of firms' internationalisation.

### Research Objectives

- 1) To explore on how Thai SMEs utilise networks to address institutional barriers between markets and facilitate their internationalisation process.
- 2) To investigate the roles of networks and how they change over time when Thai SMEs enter subsequent foreign markets.

### Methodology

This study is in the international business field which deals with multi-social entities in different countries. In addition, these multi-social realities in turn shape how people perceive social solution. Thus, the information that is required in this study comprises subjective and inductive. This study integrates the network and institutional perspectives to explore the roles of various network types and how these network types mitigate institutional barriers and facilitate SMEs to internationalise. Given constrained by limited resources, this may constraint SMEs to internationalise, these small firms tend to depend on network relationships to assist their international expansion. Thereby, for implications can be proposed to different parties, such as managers/owners of SMEs, government agencies, policymakers, and private sector institutions. Additionally, the value of this study can be represented in practical contributions. It presents a set of guidelines for small firms from emerging countries entering to foreign markets. This study adopts social constructivism as a position due to its claim that reality is formed by people's perceptions. As this perspective views reality as social constructed (Burr, 1995). SMEs are constructed in interaction between people which the study need to understand these interactions (Lindgren and Packendorff, 2009), thus the interactions construct their beliefs and knowledge. One of the key aspects of social constructivism is the use of language which the meanings derive from our experience and construct reality (Burr, 1995).

The social constructivism concerns about an attitude toward an examination of knowledge and changing in society. It argues that an individual's subjective and inter-subjective interpretation of reality establishes knowledge (Lindgren and Packendorff, 2009). Thus,

ontology is based on subjective idea and societal processes can be interpreted by following the construction the understanding of reality and actions by people (Cunliffe, 2008). The communication between various actors in networks and the role of language in conversations create meaning and reality which attach in the process of SMEs internationalisation. These SMEs can be understood as a particular form of life, which are created their own language and gather the meaning from different actors or parties. To propose or suggest the change in practices in SMEs is constraint by participants because there must be sufficient shared meaning among different actors which constructs the reality in a particular context. Thus, for stakeholders in SMEs such as owners, managers, government, institutions to acknowledge this change, they need to believe and value in the same meaning (Kukla, 2000).

This study adopts a qualitative approach, which uses multiple case studies, following the principles of data collection established by Yin (2009). This approach is consistent with a growing trend towards the case study method as a particular valuable research technique and well-established research in the international business research field (Coviello, 2006), due to the exploratory nature of research questions (Yin, 2009). The qualitative data can explain how these SMEs utilise networks to facilitate their internationalisation process and how institutional environments affect them in more in-depth. Interviews are conducted with owners or managers of SMEs in Thailand due to the nature of firms in the country mostly are family-operated and centralisation. The case method is recognised as being effective in collecting confidential information and establishing relationships between the top manager's thinking and process of decision-making. Thus, this allows the interviewees to express their views, stories, and perceptions on the topics. The research population is composed Thai SMEs, which is based on the definition of SMEs by the Office of Small and Medium Enterprise Promotion (OSMEP); is the government agency that is responsible for stipulating SME promotion policies and plans. OSMEP defines SMEs in Thailand as firms with up to 200 employees and a fixed asset not excess 200 million Thai Baht. This study chooses food product industry, as a sample due to it is a high growth sector in the country. Thailand is one of the world's largest producers of food products (OECD, 2011), which export to various destinations including Brazil, China, German, Japan, Russia, South Africa, the UK and the US (OSMEP, 2016). The characteristics of the sample are summarised to find the impact of networking and institutional factors on SME's internationalisation process. Data analysis is designed to identify pattern relevant to institutional barriers and the influence of network relationships on case studies. The process of data analysis, guidelines suggested by Eisenhardt (1989) and Yin (2009) are followed. The techniques of pattern-matching and explanation-building developed by Yin (2009) are used. All cases will be written out as standalone case histories, thus each case will be treated independently and then compared to each other. After that, the unique patterns of each case will be identified and similar patterns categorise under common themes. This will help to organize and summarise the collected data.

### Contributions and Limitations

Implying that it is necessary for SMEs to gain legitimacy to be successful in international operations, for this study several, several implications can be presented. For managerial standpoint, the findings would illustrate that establishing and utilising networks is crucial for SMEs internationalisation based in a small developing economy. Managers/Owners of SMEs need a better understanding of the impact of networks on the internationalisation process and the potential of these networks to facilitate their international expansions. Despite their limited resources and external environment barriers may hinder them to internationalise, but networking with various actors can provide them with additional resources to mitigate these

disadvantages. These network relationships enable SMEs to identify international opportunities and facilitate them to pursue growth opportunities in foreign markets. Thus, the value of this study can be represented in the practical contributions as a set of guidelines to pledge continuing viability and success for SMEs from emerging economies entering to foreign markets. Particularly, support and assist by the government, especially in a firm's home market to provide service required by SMEs should focus on cultivating networking capabilities and experiential learning opportunities through network interaction. Moreover, the findings can be proposed to policymakers to develop plans to support SMEs internationalisation. This study also possesses some limitations. As qualitative study is often criticised on the issue of generalisability, thus there is a need for more extensive quantitative study to examine the impact of institutional barriers and network relationships on SMEs internationalisation process. In addition, this study focuses only on a food sector in a single country, thus it would not be appropriate to apply the results with other emerging markets.

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# Knowledge transfer into business practice by university & university of applied sciences graduates

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## **Abstract**

*In the current situation training and education plays an important role for employee development and to the development of enterprises competitiveness (chapter 1). The value of training can be assessed by evaluation. The training is said to be effective when the trainees will apply the learning back to their job. Basing a literature review exploration of different models theories and concepts of training transfer evaluation is presented in chapter 2. The purpose of this dissertation project is to investigate whether and how effective trainings transfer happens from the higher education institutions to business practice by graduates (chapter 3). The empirical research focuses on the organizational aspects (work environment) and examines the influence of organizational aspects on the transfer of graduates to the field. Chapter 4 outlines the proposed data collections and data analysis methods. Chapter 5 will conclude with the future prospects of proposed research project.*

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## **1. Introduction**

The increasing complexity and dynamics of the environment raise the demands for enterprises and with it the demands for the staff of the enterprises (Becker, 2002). The survival ability of an enterprise depends on its ability to develop and on the ability of employees to develop, or their actual level of qualification (Berthel/Becker, 2003). Also Kauffeld (2010) postulates that the success of enterprises is decisively influenced by the abilities of the people working in it. Competence is increasingly becoming a competitive factor. Personnel development thus becomes an important success factor for organizations. Pawlowsky (1969) postulates that knowledge is a strategic competitive advantage and anticipates in the development and use of organizational knowledge the source of renewal processes in companies. The flood of information and the shortened half-life of qualifications have led to demands for life-long-learning. Organizations and individuals invest huge amounts in education and training. However, this alone would not be enough, and the primary goal of education is to transfer the acquired knowledge, behavior or strategies to job performance (Bergmann/Sonntag, 2006). However, the competences acquired by people in continuing education activities are not automatically translated into practice and used there (Niedermair, 2010). Studies on the subject of learning transfer showed that only a fraction of what was learned in a training was applied also immediately after work. One reason for this is that there is no evaluation of the transfer (Sims 1993, Saks 2013).

## 2. Theoretical background

„Transfer“ [from the Latin word, transferre' – meant transfer or take over. Learning transfer refers to the transference of qualified from the learning situation in](#) practice (Karg, 2006).

Tallman und Holt (1987) make a reference to the professional context in their definition of transfer: “Transfer of learning means that attitudes, knowledge, and/or behaviours that are presented in a non-work setting are later utilized fully or in a modified manner in settings external to the program, generally work-settings. Transfer implies change.”

Also describe Alliger et al. (1997: 345) Transfer as „behaviour that is retained and applied to the workplace“.

Thus, transfer comprises two dimensions:

- generalization: “The extent to which the knowledge and skill acquired in a learning setting are applied to different settings, people, and/or situations from those trained.”
- maintenance: “The extent to which changes that result from a learning experience persist over time.” (Blume et al., 2010: 1067)

In 1967 [Kirkpatrick has set up a 4-level model of the training evaluation.](#)

**Level 1: Reaction** - The degree to which participants find the training favorable, engaging and relevant to their jobs.

**Level 2: Learning** - The degree to which participants acquire the intended knowledge, skills, attitude, confidence and commitment based on their participation in the training.

**Level 3: Behavior** - The degree to which participants apply what they learned during training when they are back on the job.

**Level 4: Results** -The degree to which targeted outcomes occur as a result of the training and the support and accountability package.

[Transfer is the third](#) level in Kirkpatrick’s model.

In 1988 Baldwin & Ford developed a model of transfer. They define the transfer of training as follows: "Transfer of training is defined as the degree to which successfully applies the knowledge, skills, and attitudes gained in a training context to the job". For Hesketh & Frese (2002), controlling the transfer of a training effort is important to ensure that the skills learned can be applied "in a range of different contexts and tasks", because even though trainees perform well in training, this does not mean yet that it will now be easier for them to master similar tasks in the context of work.

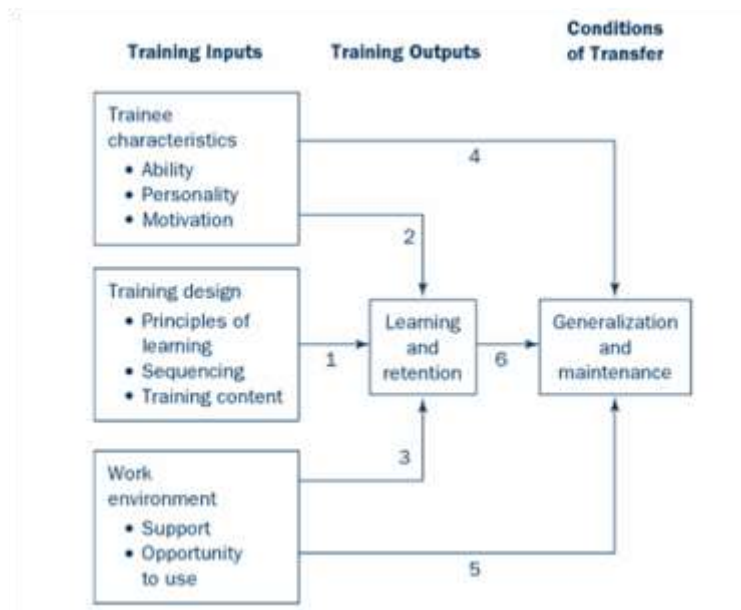


Fig.1: Baldwin & Ford, 1988, p. 65

Baldwin and Ford's transfer model summarizes the impact on the transfer of training from about 70 empirical studies into an overall model. According to Baldwin and Ford, the content of a training must not only be learned and kept but also generalized and maintained.

The influences were grouped into three factors: participant characteristics, measures characteristics and the working environment. All of these factors have a direct impact on learning and retaining content. At the same time, participant characteristics and measures have a direct impact on the generalization of knowledge and the maintenance of transfer. On the other hand, the measures have only an indirect influence on the actual transfer through learning and retention. For all influences empirical studies were listed. Baldwin & Ford tried to structure the existing literature and give new impulse for further research.

From these, in turn, more concrete indications for the practice can be derived. Implications for business practice include recognizing that there are numerous factors which influence the transfer of training.

For the measurement of the transfer it is decisive how it is measured.

Since the 1990s, more empirical studies on training transfer have been conducted (Cheng & Hampson, 2008: 330; e.g. Barrick & Mount, 1993; Warr & Bunce, 1995; Seyler et al., 1998; Ford et al., 1992; Gist et al., 1991; Baldwin, 1992; Colquitt et al., 2000; Blume et al., 2010; Fecteau et al., 1995; Brinkerhoff & Montesino, 2006; Fecteau et al., 1995; Holton III et al., 2000).

In a recent work, Weinbauer-Heidel (2016) identified twelve levers of transfer efficiency based on the findings of more than 100 years of transfer research:

- Participants: transfer motivation, self-efficacy conviction, transfer volition;
- Training design: expectation clarity, content relevance, active practice in training, transfer planning;
- Organization: application possibility, personal transfer capacity, supervisor support, peer support and transfer expectancy in the organization.

Due to their relation to Austrian companies and the actuality, these factors, the 12 levers of the transfer efficiency, are used for this dissertation project.

### **3. Research design**

Although there are general theoretical concepts and empirical research findings on the overall effectiveness of training and/or the transfer of acquired knowledge and skills to practice, no specific research is done on the transfer of knowledge by university/academic graduates in business practice and, above all, on the question of whether university/academic graduates acquire competences at Austrian universities/academies that they (can) transfer into their working environment and put them into practice.

This dissertation project aims to empirically gain insights into the knowledge transfer of graduates of (Austrian) higher education institutions from institution to business practice.

The focus of the study is on a specific course of study and on the factors influencing the working environment (work environment, Baldwin & Ford, 1988; Weinbauer-Heidel, 2016). In particular, the empirical identification of the correlations of the factors of organizational aspects discussed in theory is of interest in transfer efficiency. In addition, it is considered to what extent differences between open and closeness organizations (see Gebert et al., 1998) are related to the transfer. The comparison of openness versus closeness in organizations (Gebert et al., 1998) shows among other things a higher willingness to change, a more open learning culture, fault tolerance, etc. This leads to the assumption that open organizational cultures provide more favorable conditions for a positive transfer.

The central research question is: Which organizational features does the transfer depend on?

- > How different are the transfer results in open vs. closed organizations? (based on the questionnaire by Gebert et al.)
- > Which beneficial and inhibiting factors can be identified?
- > Which recommendations can be derived from this - for higher education institutions, academic staff, companies, students?

### **4. Methodology**

First, a theoretical review of transfer influencing factors and a critical analysis of transfer models described in the research will be carried out by means of a literature review.

Secondly, semi-structured interviews with experts from higher education institutions (academic lecturers, curriculum developers), practitioners, personal developers are carried out to information on the practice perception on transfer.

After a literature review and a qualitative preliminary survey, a quantitative field study will be carried out to investigate the hypotheses derived from the theoretical considerations. This will be preceded by a pretest. The quantitative survey of graduates of Austrian higher education institutions (in specific study programs) is intended as online survey. Questionnaire one includes the collection of organizational aspects, as well as personal and company data. Questionnaire two covers the transfer success - in terms of transfer quantity and quality.

Due to the difficulty of collecting data on several survey waves after graduation in the sense of a longitudinal study (repeated surveys) a cross-sectional study (one-time survey) is carried out. The survey is planned between 3 to 6 months after completion.

For answering the research question on the success factors of the transfer, reference is made on the part of the theoretical model by Baldwin and Ford (1988) as well as on levers of transfer efficiency (Weinbauer-Heidel, 2016) identified in a study.

The survey of transfer success refers to the third level (transfer) in the four-level model of the Kirkpatrick evaluation (1967), the organizational aspects (Baldwin & Ford, 1988, Weinbauer-Heidel, 2016) and based on the Q4TE questionnaire of Grohmann & Kauffeld (2013). To be

able to measure the transfer success, evaluation criteria are required. Kauffeld (2016) proposes to operationalize the behavior among other things the transfer quantity, transfer quality and the competence inquiry.

The data analysis methods used for the quantitative survey is not decided yet; for the interviews the qualitative content analysis by Mayring or a global evaluation by Legewie is proposed.

## **5. Relevance and prospects**

Success factors and the need for change for a successful practice of the knowledge transfer by graduates into business practice are to be identified empirically.

From the results recommendations for action for the future are derived - for the higher education institutions, academic lecturers, students and the organizations.

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# **Microfinance Interventions and Women Empowerment in Nigeria: The Case of Lapo Microfinance Bank Ltd**

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# Peeping on Poverty: Social Identity Strength and Moral Considerations in Slum Tourism

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Slum tourism shows poverty as a tourist attraction. Researchers on the topic have focused on multiples aspects, including the moral dilemma that results from the phenomenon itself (Freire-Medeiros, 2009; Basu 2012). On the one hand, the reactions against it abound: it is exploitive, humiliating, objectifying. On the other hand, there are also reactions in favor of it. It is a unique, authentic, educational, and exciting touristic activity, which not surprisingly makes it appealing to many consumers (Meschkank 2011, Dürr and Jaffe 2012, Mekawy 2012, Frenzel 2014).

Irrespective of the pros and cons, the literature is silent on the psychological processes underlying consumer preferences in this domain. Precisely, it is still unclear whether and, if so, why some consumers evaluate a slum tour as morally disgusting, and hence, deliberately avoid them, while others are willing to approach (and pay!) for this experience. We suspect that a systematic psychological bias is at play, which may explain why some tourists are more tempted to approach while others are likely to avoid this morally debatable touristic attraction.

Research on the in-group/out-group bias has documented that people who are socially closer to the target other (i.e., in-groups) are more likely to humanize the experience and react emotionally to it whereas people who are more socially distant from the target other (i.e., out-groups) are more likely to dehumanize the experience and react less emotionally to it (Harris & Fiske, 2006; Leyens *et al.*, 2007). We move a step further to suggest that out-groups (vs. in-groups) are less likely make a moral judgment about their actions (i.e., going on a Favela Tour), which in turn makes them more prone to choose and less likely to avoid this particular tourist attraction. In two field experiments, we test this main hypothesis.

In experiment 1, we assessed the extent to which groupness and the moral connotation of the target tour impacted tour preference. The study adopted a two (in-groups vs. out-groups) by two (morally questionable vs. morally neutral) between-subjects design.

Local and foreign tourists in Rio de Janeiro were presented with three tour options. Two non-target tours were the same across conditions while the target tour (“Favela Tour”) varied across conditions. Participants in one condition saw a flyer for a Favela Jeep Tour (morally questionable), whereas those in the other condition saw a flyer for a Favela Jazz Tour (morally neutral). A pre-test confirmed the perceived difference in the moral dimension.

Participants were asked to indicate which of the three tours they would like to take and which of them they would rather avoid. Various control variables were gathered, along with the other key independent variable, country of origin. Brazilians tourists served as a proxy for in-groups, whereas foreign tourists served as a proxy for out-groups.

The results confirmed our intuition. When the target tour was morally questionable, 45.7% of out-groups chose that option, whereas only 4.5% of in-groups did so ( $\chi^2(1) = 21.88$ ,  $p < .001$ ). When the target option was morally neutral, there was no difference: 38.2% of out-groups chose the target option, whereas 54.5% of in-groups made this choice ( $\chi^2(1) = 2.24$ ,  $p = .13$ ). Similarly, while 19.4% of the out-groups avoided the morally questionable tour, this proportion jumped to 60.0% among the in-groups ( $\chi^2(1) = 18.25$ ,  $p < .001$ ). Further, there was no difference across conditions when the target tour was morally neutral: 31.9% of the out-groups avoided the morally neutral tour whereas 23.3% of the in-groups did so ( $\chi^2(1) = 0.66$ ,  $p = .42$ ).

Experiment 2 followed a similar procedure, with the following exceptions: (1) because both tours may vary in other dimensions, we only showed the Jeep option, (2) we tracked the mechanism by priming half of the participants with unrelated moral judgments prior to the choice, while the other half served as control, (3) participants could actually win the tour they chose. The study adopted a two (groupness: in-groups vs. out-groups) by two (priming: morally disgusting vs. neutral questions prior to the main choices) between-subjects design.

Tourists were asked to fill out a short survey. The survey served as the priming manipulation. In the morally disgusting condition, moral judgments were made salient by asking participant's opinion about three morally questionable behaviors. In the control condition, they were asked for their opinion about three neutral topics.

Then, they were told that they would participate in a raffle to win one of the three tours: Favela Jeep, Historic Little Africa, and Floresta da Tijuca. They were asked to choose the tour they would most like to be raffled, and the tour that they would not want to be raffled.

The results supported our intuition. In the control condition, 45.27% of out-groups chose the target tour, while only 21.18% of in-groups did so ( $\chi^2(1) = 6.99, p = .008$ )—a replication of experiment 1 with a consequential DV. In the moral judgment condition, the percentage of out-groups who chose the target tour dropped to only 23.19% and the percentage of in-groups who chose the Favela Tour was 16.04% ( $\chi^2(1) = 1.39, p = .23$ ). Similarly, in the control condition, 22.00% of out-groups avoided the target tour, while 61.18% of in-groups did so ( $\chi^2(1) = 22.22, p < .001$ ). In the moral judgment condition, there was no significant differences across conditions: 43.48% of out-groups avoided the target tour, while 48.11% of in-groups did so ( $\chi^2(1) = 0.66, p = .42$ ).

This article contributes to the literature on a few fronts. First, it focuses on an exponentially growing consumer behavior phenomenon which has been under investigated in the literature. Second, whereas the ethical debate is pervasive, there has not been an attempt to address why some consumers find it so appealing whereas others may find it morally questionable. Third, we advance the field by showing that consumers are less likely to make a moral judgment when they are out-groups.

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# The price-volume relation of the Shanghai stock index under the perspective of uncertainty

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## Abstract:

*Due to dramatic responses of China's stock market in recent years, especially two periods of considerable volatility in 2007-2008 and 2014-2015, this study examines the price-volume relation of Shanghai stock market. To account for the impacts of unknown volatility and time breaks, we embed the price-volume relation in a VAR framework with structural changes and volatility thresholds. As a result, we obtain more evidence: First, the evidence indicates that there exist significant time breaking effects. Second, the high-low volatility effects are substantial. Finally, we only identify a linear causal relation from price to volume, which clearly rejects the public views.*

**Keywords:** Price-volume dynamics; Structure change; Market uncertainty; Threshold VAR

## 1. Introduction

Due to dramatic responses of China stock market in recent years, especially two periods of considerable volatility in 2007-2008 and 2014-2015, the price-volume relation could be substantially affected by structure changes and market volatility. In literature, the empirical price-volume relation is examined in a VAR framework. However, the conventional VAR approach to the dynamics of price-volume relation fails to account for the impacts of structural changes and volatility levels, which are common to China. This study contributes to the literature by estimating the price-volume relation in a VAR framework with structural changes and volatility thresholds. As a result, we obtain more evidence and robust inferences.

As discussed in Karpoff (1987), relation between financial asset returns and trading volume, labeled as price-volume relation, reveals important insights into operational efficiency and information dynamics in asset markets. Both Karpoff (1987) and Gallent et al. (1992) point that previous empirical work has focused mainly on contemporaneous relationship between price and volume. Yet, as far as prediction and risk management are concerned, the dynamic (causal) relation between returns and volume is more informative (Chuang et al., 2009).

Theoretically, some studies investigate the dynamic relationship between trading volume and stock returns, which may have some causal relationship implications. Copeland (1976) and Jennings et al. (1981) derive the information arrival model, who suggests a positive causal relationship between returns and volume in either direction. In the mixture of distributions model of Epps and Epps (1976), trading volume is used to measure disagreements as traders revise their reservation prices based on the arrival of new information into the market. Their model suggests a positive causal relation running from volume to absolute returns. While in Clark's (1973) mixture model, volume is a proxy for the speed of information flow which is a latent common factor affecting contemporaneous stock returns and volume. There is no causal relation from volume to returns in Clark's common factor model. Campbell et al. (1993) present a model which implies that price changes accompanied by high volume will tend to be reversed, and this will be less true of price changes on days with low volume. Blume et al. (1994) stress that volume provides data on the quality or precision of information about past price movement, and hence is useful for interpreting the price behavior. Wang (1994) analyzes dynamic relations

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between volume and returns on a model with information asymmetry, which shows volume may provide information about expected future returns.

Despite strong theoretical underpinnings, Karpoff (1987) provides for a thorough survey of empirical evidence in favor of the contemporaneous correlation between price and volume, which is mixed and weak at best; and see also Galent et al. (1992). Since 1990, the focus has moved to dynamic (causal) stock return-volume relations which mainly based on the Granger causality test. Related to this study, the evenly well theoretically grounded notion of causality from past trading volume to returns does not find a strong empirical support, either. For instance, Lee and Rui (2000) report that trading volume does not predict the next day returns on Chinese A and B markets in Shanghai and Shenzhen. Chen et al. (2001) report no causal link in France, Italy, Japan, the UK or the US. Lee and Rui (2002) find that trading volume does not Granger cause stock market returns on each of the US, Japanese, and UK stock exchanges. Volume-returns causality is not found by Rashid (2007) for Pakistan, and by Pisedtasalasai and Gunasekarage (2007) for five South-East Asian Emerging markets, either. Chuang et al. (2012) find volume to cause returns in only two out of ten Asian markets analyzed. Chen (2012) presents for S&P500 trading activity to affect subsequent returns only in bear markets but no volume-return causality when both market phases considered jointly. However, some studies do present the existence of volume-return causality, e.g., Saatcioglu and Starks (1998) and Rojas and Kristjanpoller (2015) for six Latin American countries.

A nonlinear relationship between volume and subsequent returns obtain some empirical support (Hiemstra and Jones, 1994; Moosa and Silvapulle, 2000; Chen, 2012). A recent paper by Chuang et al. (2009) uses quantile regressions to report that for the NYSE, S&P500 and FTSE100 indices past trading volume exerts a positive (negative) impact on returns from the top (bottom) of return distribution and Lin (2013), using the same methodology, confirms these findings for six emerging markets. Gebka and Wohar (2013) use quantile regression to show that for a set of mature and emerging Pacific Basin countries positive (negative) volume-return causality in high (low) return quantiles is not limited to one market but seems to be a common feature across countries. Matilla-García et al. (2014) investigate the volume-price relation using the method of non-parametric test based on permutation entropy. Hasan and Salim (2017) use MF-DFA and MF-DCCA methods to report cross-correlations between price and volume change.

The methodology of extant literature to investigate the price-volume relation, no matter linear or nonlinear, rarely considers the impacts of structure changes and market volatility. If trading volume is used to measure investors' trading behavior, then price-volume relation can be considered as the two-way interaction between trading behavior and market price. On the one hand, investors make their trading decisions based on their expectations of future stock price. On the other hand, their trading behavior in turn affects the market price. A basic fact that cannot be ignored is investors make trading decisions based on their expectations of future price, which means investors make trading decisions in an uncertain environment. Therefore, not only the expected price is considered by investors, they also care about the uncertainty of future price. Even at same expected price, the difference in price uncertainty may cause investors to make rather different trading decisions, so the price-volume relation could be affected by market uncertainty (i.e. risk, which can be measured by volatility).

## 2. Methodology

### 2.1. Linear VAR

We first use linear VAR model to examine overall price-volume relation of China stock market. Let  $t$  denote time index, and set stock returns ( $ret_t$ ) and volume ( $vol_t$ ) as explained variables of two regression equations, denoted by  $\{vol_t, ret_t\}_{t=1}^T$ . The  $p$ -order lagged values of the two variables are used as explanatory variables, thus forming a binary VAR ( $p$ ) system:

$$\begin{bmatrix} vol_t \\ ret_t \end{bmatrix} = \begin{bmatrix} c_1 \\ c_2 \end{bmatrix} + L^i \begin{bmatrix} a_{1i} & b_{1i} \\ a_{2i} & b_{2i} \end{bmatrix} \begin{bmatrix} vol_{t-i} \\ ret_{t-i} \end{bmatrix} + \begin{bmatrix} \varepsilon_{1t} \\ \varepsilon_{2t} \end{bmatrix} \quad (1)$$

Among them,  $L^i$  is a lag operator,  $i=1, 2, \dots, p$ .

### 2.2. Threshold VAR

Threshold VAR (TVAR) is extended VAR model that identifies the nonlinear features in the system. For research object of this study, nonlinearity means whether price-volume relation changes with some certain feature variable, which is called threshold variable. The model nonlinearity captured by threshold variable allows coefficient matrix to change before and after the threshold value. Assume the sample data is  $\{vol_t, ret_t, thv_t\}_{t=1}^T$ , where  $thv_t$  denotes threshold variable, then the mathematical expression of TVAR model is as follow:

$$\begin{bmatrix} vol_t \\ ret_t \end{bmatrix} = I(thv_t \leq \gamma) \left( \begin{bmatrix} c_1 \\ c_2 \end{bmatrix} + L^i \begin{bmatrix} a_{1i} & b_{1i} \\ a_{2i} & b_{2i} \end{bmatrix} \begin{bmatrix} vol_{t-i} \\ ret_{t-i} \end{bmatrix} \right) \\ + I(thv_t > \gamma) \left( \begin{bmatrix} c'_1 \\ c'_2 \end{bmatrix} + L^i \begin{bmatrix} a'_{1i} & b'_{1i} \\ a'_{2i} & b'_{2i} \end{bmatrix} \begin{bmatrix} vol_{t-i} \\ ret_{t-i} \end{bmatrix} \right) + \begin{bmatrix} \varepsilon_{1t} \\ \varepsilon_{2t} \end{bmatrix} \quad (2)$$

Among them,  $I(\cdot)$  is indicative function, which is equal to 1 if the expression in parentheses is true, and 0 the otherwise.  $\gamma$  is the threshold value to be estimated. TVAR model is estimated by the method of minimizing the sum of squared residuals (SSR): In the first step, the linear regression method is used to estimate the coefficients of equation (2) while taking the value of  $\gamma$  as given, then calculate SSR ( $\gamma$ ), which is a function of  $\gamma$ . In the second step, chosen  $\gamma$  to minimize SSR ( $\gamma$ ), and the estimated coefficients can be obtained accordingly. According to Hansen (1999), we can use likelihood ratio (LR) to test the significance of threshold effect:

$$LR = [SSR^* - SSR(\hat{\gamma})] / \hat{\sigma}^2 \quad (3)$$

The null hypothesis ( $H_0$ ) of LR test is “no threshold effect”.  $SSR^*$  is the sum of squared residuals under  $H_0$  (that is, linear VAR).  $SSR(\hat{\gamma})$  is the sum of squared residuals of TVAR.  $\hat{\sigma}^2$  is consistent estimator of the variance of disturbance term. The larger the  $SSR^* - SSR(\hat{\gamma})$ , the more the SSR is increased under  $H_0$ , the more likely it is to reject  $H_0$ .

The key to establish TVAR model lies in selection of threshold variable. When setting time as threshold variable ( $thv_t = t$ ), we can study the structure change characteristic of VAR system. We would apply TVAR model to investigate the impacts of structure changes and market volatility on price-volume relation.

## 3. Data

The daily data of closing price ( $P_t$ ) and trading volume ( $Q_t$ ) of Shanghai stock index from 2003/3/4 to 2016/6/24 is collected. The original data is processed as follows: First calculate daily return of Shanghai stock index according to equation (4), which will be used as adjusted price ( $ret_t$ ) in VAR model; Second, detrend volume series with regression equation (5), then filter the regression residual term out and use it as adjusted volume ( $vol_t$ ).

$$ret_t = [\log(P_t) - \log(P_{t-1})] * 100 \quad (4)$$

$$\log(Q_t) = c + \alpha t + \varepsilon \quad (5)$$

We use price volatility to measure market uncertainty. Fit  $ret_t$  with GARCH (1, 1) model as shown in equations (6), then filter  $\sigma_{ret,t}^2$  out and use it as the indicator of volatility.

$$\begin{cases} \text{Mean Equation: } ret_t = c + \phi ret_{t-1} + \varepsilon_t \\ \text{Variance Equation: } \sigma_{ret,t}^2 = \omega + \alpha \varepsilon_{t-1}^2 + \beta \sigma_{ret,t-1}^2 \end{cases} \quad (6)$$

The time series plots for all variables are shown in Fig. 1. Unit root test indicates that both adjusted price and volume series are stationary, thus satisfying conditions for VAR modelling. Due to page limitations, the results of descriptive statistics and unit root tests are not listed.

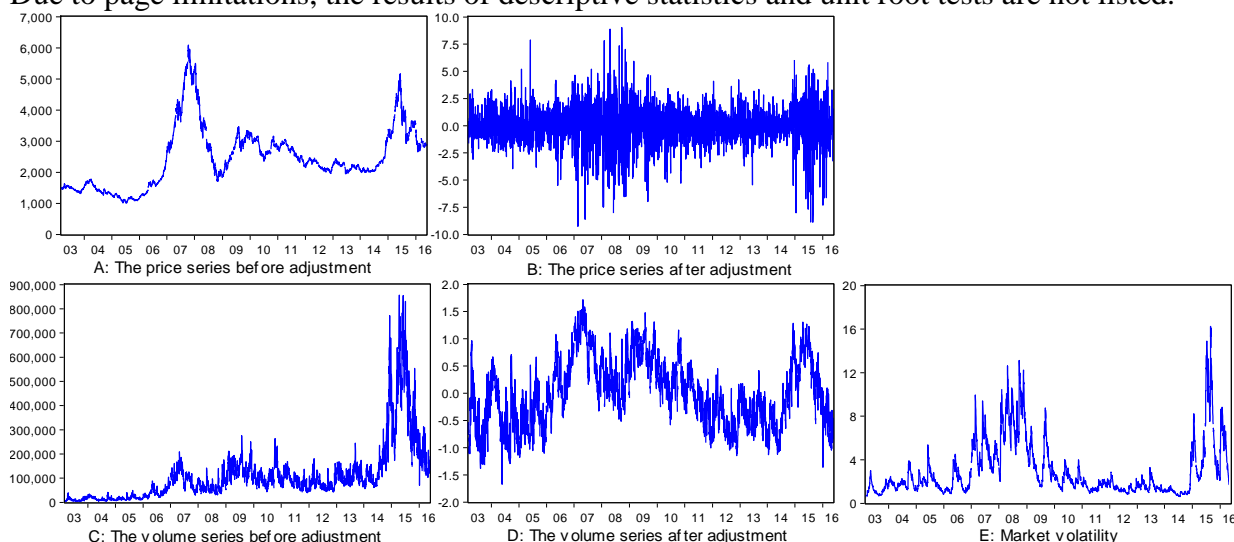


Fig. 1. Data plots

## 4. Empirical results

### 4.1. Overall price-volume relation of China stock market

According to Schwartz Information Criterion (SIC), the optimal lag order of VAR model is determined as 4, therefore we establish a linear model of VAR (4). Granger causality test result (Table 1-Panel A) shows that price is Granger cause of volume, which is highly significant at 0.1% level. Trading volume is also Granger cause of price, but with significance level only at 5%. Given the large sample size, 5% significance level is not that persuasive. Therefore, it can be inferred that the price of China stock market significantly impacts trading volume in 2003-2016, while trading volume has much weaker effect on price.

Table 1 Granger causality test

Null hypothesis	Alternative hypothesis	$\chi^2$ statistic	p-value	Test result
Panel A: Full sample: 2003/3/4-2016/6/24				
Volume does not Granger causes price	$vol_t \xrightarrow{G.C} ret_t$	12.02	0.0172*	Reject
Price does not Granger causes volume	$ret_t \xrightarrow{G.C} vol_t$	271.45	0.0000***	Reject
Panel B: Sub-sample 1: 2003/3/4-2007/10/16				
Volume does not Granger causes price	$vol_t \xrightarrow{G.C} ret_t$	15.39	0.0040**	Reject
Price does not Granger causes volume	$ret_t \xrightarrow{G.C} vol_t$	94.94	0.0000***	Reject
Panel C: Sub-sample 2: 2007/10/16-2008/11/4				
Volume does not Granger causes price	$vol_t \xrightarrow{G.C} ret_t$	1.1	0.2943	Accept
Price does not Granger causes volume	$ret_t \xrightarrow{G.C} vol_t$	16.28	0.0001***	Reject
Panel D: Sub-sample 3: 2008/11/4-2014/8/28				

Volume does not Granger causes price	$vol_t \xrightarrow{G.C} ret_t$	3.85	0.4270	Accept
Price does not Granger causes volume	$ret_t \xrightarrow{G.C} vol_t$	211.92	0.0000***	Reject
Panel E: Sub-sample 4: 2014/8/28-2015/6/12				
Volume does not Granger causes price	$vol_t \xrightarrow{G.C} ret_t$	0.47	0.4911	Accept
Price does not Granger causes volume	$ret_t \xrightarrow{G.C} vol_t$	48.23	0.0000***	Reject
Panel F: Sub-sample 5: 2015/6/12-2016/6/24				
Volume does not Granger causes price	$vol_t \xrightarrow{G.C} ret_t$	5.85	0.0538	Accept
Price does not Granger causes volume	$ret_t \xrightarrow{G.C} vol_t$	3.16	0.2056	Accept

Note:  $X \xrightarrow{G.C} Y$  denotes X Granger causes Y. \*, \*\* and \*\*\* represent significance level at the 5%, 1% and 0.1% respectively, similarly hereinafter.

## 4.2. Test of structure changes

Build a TVAR model with time thresholds ( $thv_t = t$ ). Estimation results are listed in Table 2-Panel A. Single threshold value estimated is  $t=2015/6/12$ , and LR statistics of both equations in TVAR system significantly reject  $H_0$  at 0.1% level. The best two threshold values estimated are  $t_1=2015/6/12$  and  $t_2=2014/8/28$  respectively, and the result passes LR test as well.  $t_1$  and  $t_2$  are exactly the starting and ending point of the bull market in 2014-2015.

Table 2 Estimation result of threshold values

Threshold variable	Setting the number of threshold value	Estimated threshold value	LR test			
			ret equation		vol equation	
			LR statistic	p-value	LR statistic	p-value
Panel A: sample period 2003/3/4-2016/6/24						
$t$	1	$t=2015/6/12$	61.58***	0.0000	115.32***	0.0000
$t$	2	$t_1=2015/6/12$ $t_2=2014/8/28$	46.79***	0.0000	185.9***	0.0000
Panel B: sample period 2003/3/4-2014/8/28						
$t$	1	$t'=2007/10/16$	76.99***	0.0000	176.22***	0.0000
$t$	2	$t_3=2007/10/16$ $t_4=2008/11/04$	30.07***	0.0000	138.67***	0.0000
Panel C: sample period 2003/3/4-2016/6/24						
$\sigma_{ret,t}^2$	1	$\sigma_{ret,t}^2=5.85$	61.58***	0.0000	115.32***	0.0000
$\sigma_{ret,t}^2$	2	$\sigma_{ret,t1}^2=5.85$ $\sigma_{ret,t2}^2=7.78$	61.58***	0.0000	115.32***	0.0000

$t_1$  and  $t_2$  divide original sample period into three sub-ranges, namely 2003/3/4-2014/8/28, 2014/8/28-2015/6/12 and 2015/6/12-2016/6/24. We further establish TVAR model for sub-range 2003/3/4-2014/8/28. The results are shown in Table 2-Panel B. Single threshold value estimated is  $t'=2007/10/16$ , and the two threshold values estimated are  $t_3=2007/10/16$  and  $t_4=2008/11/04$ .  $t_3$  and  $t_4$  also exactly identify the bull and bear cycle of 2007-2008.

According to  $t_1$ ,  $t_2$ ,  $t_3$  and  $t_4$ , original sample can be divided into five sub-samples, in which we can respectively establish linear VAR. Granger causality tests (Table 1-Panel B,C,D,E,F) show that only in sub-sample 1 does volume Granger cause price. On the contrary, the effects of price on volume are always highly significant only except for sub-sample 5. It can thus be inferred that the impact of price on volume in China stock market is far greater than the opposite direction, thus the market is mainly driven by price rather than volume. In sub-sample 4 (2014-2015 bull market), because the price increase was accompanied by a huge increase in trading volume (Fig. 1), it was widely thought that the bull market was driven by trading volume, that is, the increasing trading volume pushed price up. However, the empirical result shows that, the stock price rise was not caused by the increase in volume, it is instead the stock price increase that drove volume up, which clearly rejects the public views.



### 4.3. Threshold effect of volatility on price-volume relation

Build TVAR model with volatility thresholds ( $thv_t = \sigma_{ret,t}^2$ ). Estimation results are listed in Table 2-Panel C. Single threshold value estimated is  $\sigma_{ret,t}^2=5.85$ , and two threshold values estimated are  $\sigma_{ret,t1}^2=5.85$  and  $\sigma_{ret,t2}^2=7.78$ . Most of the observations in sub-interval  $\sigma_{ret,t}^2 > 5.85$  are clustering in 2007-2008 and 2014-2015 when large market movements occurred. According to  $\sigma_{ret,t1}^2$  and  $\sigma_{ret,t2}^2$ , original sample can be divided into three sub-samples. Because of discontinuity of observations in each sub-sample, Granger causality test in linear VAR can no longer be performed. Therefore, we study the impact of volatility on price-volume relation through comparing changes of coefficient and significance level of each explanatory variable in TVAR system. However, because of strong autocorrelation among lagged variables, it is difficult to interpret the meaning of coefficients and significance levels of all lagged variables. In general, 1 order lagged explanatory variable has highest impact on the explained variable. Therefore, we choose to compare changes of coefficients and significance levels of 1 order lagged price and volume in different sub-samples to identify the influence of volatility on price-volume relation.

The regression result of TVAR model is shown in Table 3. Changes in coefficient of vol(-1) in ret equation: in sub-sample 1, the coefficient of vol(-1) is 0.3761, which is significant only at 5% level; in sub-sample 2 and 3, it is no longer significant. Changes in coefficient of ret(-1) in vol equation: in sub-sample 1, the coefficient of ret(-1) is 0.0419, and it is highly significant at 0.1% level; in sub-sample 2 and 3, it decreases to 0.0197 and 0.018 respectively, while still with high significance level of 0.1%. It can thus be inferred that volume has slight impact on price when volatility is low, while price always has significant impact on volume. With the increase of volatility, the impact of volume on price has gradually disappeared, while the impact of price on volume has always been highly significant, but the economic significance has also gradually declined. Above findings confirm the conjecture at the beginning of the paper – market uncertainty significantly affects price-volume relation, because investors make their trading decisions in an uncertain environment.

Table 3 Regression result of TVAR model (threshold variable:  $\sigma_{ret,t}^2$ )

Explanatory variable	Sub-sample 1: $\sigma_{ret,t}^2 \leq 5.85$ (low volatility)		Sub-sample 2: $5.85 < \sigma_{ret,t}^2 \leq 7.78$ (higher volatility)		Sub-sample 3: $\sigma_{ret,t}^2 > 7.78$ (highest volatility)	
	ret equation	vol equation	ret equation	vol equation	ret equation	vol equation
ret(-1)	0.0135 (0.0222)	0.0419*** (0.0025)	-0.0679 (0.0495)	0.0197*** (0.0056)	0.0434 (0.0430)	0.0180*** (0.0049)
ret(-2)	-0.0632* (0.0255)	0.0043 (0.0029)	-0.1333** (0.0487)	-0.0073 (0.0055)	0.0220 (0.0358)	-0.0023 (0.0041)
ret(-3)	0.0645* (0.0254)	0.0079** (0.0029)	-0.0999* (0.0499)	0.0036 (0.0057)	-0.0499 (0.0350)	-0.0033 (0.0040)
ret(-4)	0.0055 (0.0245)	-0.0050 (0.0028)	0.1117* (0.0475)	-0.0033 (0.0054)	0.1023** (0.0341)	0.0003 (0.0039)
vol(-1)	0.3761* (0.1728)	0.6126*** (0.0196)	0.6054 (0.6601)	0.6790*** (0.0749)	-0.3159 (0.5907)	0.6254*** (0.0671)
vol(-2)	0.0636 (0.2047)	0.1127*** (0.0232)	1.2841 (0.6897)	0.1980* (0.0783)	-0.1221 (0.6726)	0.1117 (0.0764)
vol(-3)	-0.0715 (0.2049)	0.1027*** (0.0233)	-0.7933 (0.7335)	-0.0963 (0.0833)	1.0544 (0.6212)	0.1285 (0.0705)
vol(-4)	-0.2206 (0.1720)	0.1284*** (0.0195)	-1.4437* (0.6568)	0.1333 (0.0746)	-0.3938 (0.4872)	0.0648 (0.0553)

constant	0.0582 (0.0325)	-0.0026 (0.0037)	-0.2334 (0.1546)	0.0229 (0.0176)	-0.1345 (0.1630)	0.0118 (0.0185)
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Note: The optimal lag order of TVAR model is determined as 4 according to SIC Criterion. Standard error in parenthesis, \*, \*\* and \*\*\* represent significance level at the 5%, 1% and 0.1%, respectively.

## 5. Conclusions

Due to recent dramatic responses of China stock market, this study investigates the price-volume relation of China stock market in the VAR framework with structure changes and volatility thresholds. The result shows that: First, there exist significant time breaking effects in two periods of considerable volatility in 2007-2008 and 2014-2015. Second, the high-low volatility effects are substantial. Price and volume affect each other when volatility is low, but price has greater impact on volume. As volatility increases, the impact of volume on price has gradually disappeared, while the impact of price on volume still remained highly significant, but its economic significance has also declined. Finally, we as a whole only identify a linear causal relation from price to volume, which clearly rejects the public views.

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# **Research Title: Business model innovation in the FinTech ecosystem: A dynamic capabilities perspective**

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## **Abstract**

*Business model innovation is increasingly recognised as an imperative if organisations are to be resilient in a time of rapid technological change. This study is predominantly pursued within the context of the UK banking sector through a combination of two theoretical perspectives: digital ecosystems and dynamic capabilities. By using a large incumbent UK bank as the qualitative case study, this research will provide a better understanding of business model innovation and showing the implications to incumbent organisations in any industry about the mechanisms needed in order to adapt and stay competitive in a dynamic digital ecosystem.*

## **Background**

Business model innovation is increasingly recognised as an imperative if organisations are to be resilient in a time of change, and to create growth unbounded by the limits of existing ways of doing business (Christensen *et al.*, 2016). A business model is “a construct that mediates the value creation process” (Chesbrough and Rosenbloom, 2002, p.550), which consists of four elements: (1) customer value proposition, (2) profit formula, (3) key resources, and (4) key processes, which, taken together, create and deliver value (Johnson *et al.*, 2008, p.52).

Digital technology and related innovations have radically changed the nature of products, services and operations in many organisations (Yoo *et al.*, 2012), especially through ‘platform’ developments. Gawer and Cusumano (2014) describe platforms as products, services or technologies that serve as foundations upon which external innovators can develop their complementary innovations in an ecosystem. Thus, platform-based business models are increasingly disrupting the established business models in many industries for instance Uber in the taxi industry and AirBnB in the hotel industry (Shaughnessy, 2016).

Hence, this study is guided by the following question: “In a world of digital innovation, how do incumbent organisations, reinvent their established business models to stay competitive and adapt to the evolving industry ecosystem?” The research question is predominantly pursued within the context of the financial services industry, in particular, the UK banking sector, in order to instigate a deeper understanding of business model innovation.

The global financial crisis from 2007 to 2009 has resulted in a proliferation of financial technology (FinTech) innovations. FinTech is “concerned with building systems that model, value, and process financial products such as bonds, stocks, contracts and money” (Freedman, 2006, p.1). FinTech innovators create new financial products and services that challenge the stability of conventional banks (Cecchetti, 2014) by using novel platform-based developments

such as crowdfunding, peer-to-peer lending, digital wallet payment, digital banking, machine learning, data analytics and crypto-currency trading.

Due to the rapid development of FinTech and the digital disruption it is causing, it is essential for incumbent banks to evaluate these threats and opportunities and start creating new business options for future digital ecosystems (Weill and Woerner, 2015). Previous studies (Amit and Zott, 2012; Christensen *et al.*, 2016) have suggested that business model innovation is an imperative tool for value creation and corporate survival, but reinventing established business models are big challenges for banks. To date, little is known about business model innovation of incumbent banks and it is not clear how they are responding to the FinTech innovations.

In order to achieve the research aim and objectives, this study will employ a combination of two theoretical perspectives: digital ecosystems and dynamic capabilities. In a digital ecosystem (Selander *et al.*, 2013), symbiotic relationships are created through collaboration with others within the environment. The dynamic capabilities theory (Teece *et al.*, 1997) emphasises on the organisational and managerial competences in responding to the changing environment, such as the dynamic FinTech ecosystem.

This study aims to provide a better understanding of business model innovation by incumbent organisations. Specifically, it will analyse how an incumbent bank can reinvent its established business models in response to digital innovation, such as FinTech, in order to adapt and stay competitive within a dynamic ecosystem.

The stated aim will be achieved with the following objectives:

1. To critically analyse the relevant literature on: (1) business model innovation, (2) digital ecosystems, and (3) dynamic capabilities, particularly in the context of the banking sector.
2. To identify and evaluate the theoretical and empirical evidence of the FinTech ecosystem, with a focus on the UK banking sector.
3. To examine how an incumbent bank innovates its established business model within the dynamic FinTech ecosystem.
4. To analyse the business model innovation of an incumbent bank from the theoretical perspectives of digital ecosystems and dynamic capabilities, and provide both theoretical and practical contributions to knowledge.

## **Methodology**

This study will adopt a qualitative case study approach to achieve a deep contextualised understanding of business model innovation in the face of FinTech innovation. Through an in-depth analysis based on rich data obtained from the case, this method will extend the theoretical concepts of digital ecosystems and dynamic capabilities (Yin, 2014; Denzin and Lincoln, 2018).

The case study of a large incumbent UK bank is selected based on the criteria that such a bank will have established business models and is currently affected by FinTech innovations. At present, there are four large banking groups, all of which have had a UK-wide presence for more than a century: HSBC Group, Barclays plc, Royal Bank of Scotland Group and Lloyds Banking Group (CMA, 2016). Upon gaining the University's ethical approval, I approached potential gatekeepers from these four banks to be my case organisation and successfully gained access to Bank A (one of the four above). In order to ensure confidentiality in what follows, all

identities of the participants and their organisations will be anonymised and replaced by pseudonyms.

The data collection methods include semi-structured interviews, focus groups, and document analysis. Purposive sampling was used to select the documents and participants (based on their roles in Bank A or in the FinTech ecosystem), because they can inform an understanding of the research problem and central phenomenon of this study (Denzin and Lincoln, 2018). Additionally, a snowball-sampling technique was used, where participants were recruited and documents were obtained from (1) the gatekeeper of the case organisation and (2) other participants, who knew who could provide rich information (Creswell and Poth, 2018). The sample consists of 10 participants from Bank A and 16 participants from key players in the ecosystem. To date, 23 have been interviewed with interviews lasting for an hour on average. The study also intends to convene two focus groups of staff members and students of Oxford Brookes University in October 2018, to represent the individual user group of UK FinTech in terms of banking products and services. The table below shows a summary the data collection methods.

Data Collection Methods	
Primary data	Sources
Interviews	Semi-structured interviews with the senior managers of the case study
Interviews	Semi-structured interviews with the key players of FinTech ecosystem
Focus Groups	Focus groups conversation with two groups of individual users of banking and FinTech products or services
Secondary data	Sources
Document analysis	Archival documents from the case study
	Industry reports, consultancy reports and regulatory reports
	Publicly available articles and documents from the internet
	Video recordings and interviews from internet and professional network

Table 1: Data collection methods

The semi-structured interviews and focus groups are guided by an interview schedule, which consists of a set of open-ended questions. These questions are designed to understand business model innovation in Bank A and the FinTech ecosystem, based on the existing literature and the theoretical perspectives involving the digital ecosystems and dynamic capabilities. Upon informed consent, an audio recorder, a smartphone and a tablet are used to enhance the data collection process.

The data analysis consists of two intertwined analytical perspectives, i.e. the digital ecosystems and dynamic capabilities. As such, the data is initially arranged into two clusters: (1) within Bank A, and (2) key players within the ecosystem. Then, by using the qualitative data software, NVivo12, to analyse the verbatim transcripts, this study adopts two phases of coding approach. The first phase is the ‘lean coding’ approach (Creswell and Poth, 2018, p.190), which begins with five broad codes based on the theoretical perspectives: (1) roles in the ecosystem, (2)

business model, (3) capability to sense opportunities and threats, (4) capability to seize the opportunities and (5) capability to transform. In the second phase, the transcripts are further analysed via complete coding to expand the five lean codes with a list of themes that will emerge from pattern matching (Yin, 2014) of the data.

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