

## Combi2011

Conference Proceedings



Contemporary Views on Business  
Developing Business Excellence

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Conference Proceedings

**HAMK University of Applied Sciences  
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# Foreword

## Contemporary Views on Business: Developing Business Excellence

Combi2011 is an international conference, where practice and research become one. The conference is held at Hämeenlinna, which is a traditional and vibrant educational and cultural town at the junction of nationally important rail, road and waterway network. Combi2011 is held at HAMK UAS Visamäki Campus area. It is hosted by three Universities of Applied Sciences: HAMK, LAMK and Laurea. The themes for 2011 were: “Learning and Working in a Virtual World”, “Doing Business in a Global World and Enhancing Entrepreneurship” and “Accelerating Innovations”.

Combi conference joins the great minds of academics, business leaders and other professionals from both private and public sectors to share and co-create knowledge on business-related topics. It increases the integration of local enterprises, regional authority and other local actors with research entities. As a result of attending this international conference, new business solutions and activities are expected to arise among the participants. Combi is an important forum for knowledge co-creation and intellectual exchange emphasising partnering and international knowledge transfer as sources of competitive edge.

A rigorous double-blind peer review process led to close to 30 full-length scientific paper and abstract presentations. Furthermore, conference keynotes and invited speakers represent both business and academia, and come from prestigious affiliations and corporations worldwide. The program is for 3 days, full with program consisting of key note presentations and track presentations. There are over 100 persons who signed in to attend the Combi2011 Conference. The participants come from both academic and business sectors, from about 10 different countries.

Combi2011 Conference organizers would like to express our gratitude to all the contributors for their effort and commitment in making this event successful one and ensuring the high quality of these Proceedings in particular. Combi2011 is indebted to the Foundation for Economic Education and The Federation of Finnish Learned Societies for the granted financial support.

On behalf of the Combi2011 Organising Committee, in Hämeenlinna, October 5, 2011.

Minttu Lampinen  
Head of Project

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## **Enterprise and Competitiveness – Some Illustrative Evidence from Europe and the Periphery**

### **Abstract**

The successful national and regional economies of Europe are driven by a common factor, that of competitiveness. This paper addresses two issues; it suggests firstly that competitiveness cannot occur or be maintained without high and sustained levels of enterprise. It then questions why two peripheral European economies – Finland and Wales<sup>1</sup> - differ so greatly; the former leading in almost every published competitive measure whilst the latter remains one of the poorest areas in Europe.

**Keywords:** Enterprise, Competitiveness, Peripherality, Finland, Wales

### **Introduction**

With continued globalisation the way in which national economies develop and compete is increasingly seen as being driven by competitive factors that are invariably associated with successful internal policies. Success in creating national economic competitive advantage means that countries on the periphery of Europe are not necessarily disadvantaged. However, a number of different factors are required to drive success, beginning with successful enterprise, innovation and internal domestic competition. Finland, a country on the periphery of Europe, has been particularly successful in identifying and driving factors that have led to competitive success; Wales, equally peripheral has failed to achieve any measure of competitive success. Using published sources, a comparison is made between the two, although since different national statistical sources prevent an analytical comparison, a narrative approach is taken.

### **Enterprise**

The importance of enterprise and new business formation and its function in the wider context of economic development and competitiveness cannot be

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<sup>1</sup> Porter and others all use the words nation, region and country interchangeably; in this paper Wales is treated as a country and nation even though some references refer to "region."

over emphasised. A major factor in uneven national and regional economic performance is low business formation rates, low stocks of regionally based businesses and the consequent lack of competitiveness (Ball 2008). New businesses are dynamic, provide choice, competition, and are invariably, locally owned and committed to the local area. High rates of new business creation have been linked to invention and innovation, new product development, strong local multiplier effects, substantial sources of employment, drive competition and have been shown to provide a *causal link* to economic growth and well-being. In addition, research in the USA (Acs et al 2004) has shown that high rates of new business creation can make a difference of as much as 5% of GDP. This startling statistic reflects the importance of high levels of enterprise and competition in driving economic growth. The role of competitiveness in economic development is reflected in economic theory; resources are allocated efficiently by the market, this drives competition and which in turn requires large numbers of business organisations.

Many economies, reflecting the economic orthodoxy of the time – Wales is a case in point - had since the end of World War Two, based economic development policies on inward investment from external donating regions. This invariably meant the attraction of large (usually manufacturing) plants yet this policy has served to militate against the dynamism inherent in enterprise. As long ago as 1971, the Bolton Report (CMND 4811, 1971) warned that

*we fear that an economy dominated by large firms cannot for long avoid ossification and decay*

and that

*we can think of no substitute for the dynamic influence of new forms in preventing the ossification of the economy*

## The background to competitiveness

The link between successful national competitiveness and the challenge raised by peripherality depends upon the level of domestic rivalry and crucially on the creation of new businesses to create new competitors. The role of new firms is central, new business formation creates new competitors that feed the process of innovation, itself a determinant of wider economic well-being (Porter 1998). High levels of domestic rivalry mean that businesses need to innovate in such a way as to be competitive initially in the domestic economy and then in the wider economy. To provide the impetus to innovate and compete, emphasis is placed on home demand as the driving force. Businesses are sensitive to the demands of their closest customers and so the characteristics of home demand are fundamental as the drivers of competition. In addition to a healthy local economy, made up of sophisticated and demanding buyers, growth is needed in the home market. On the supply side, businesses provide specialisation in products, driven by differentiation but above all, innovation. This intense domestic rivalry based on innovation and competition spills out from the home market as businesses seek markets further away. This approach

to developing competitiveness explicitly recognises the correlation between domestic success and the global dimension of modern economies and business - regions which are more competitive and successful internally will become successful and competitive externally As Porter (*op cit*) puts it:

*Paradoxically, the most enduring competitive advantages in a global economy seem to be local*

The concept of developing national competitiveness is reflected in much contemporary thinking, notably by Porter (*op cit*). This has led to a number of different publications and studies of competitiveness (Huggins et al 2004, 2006, 2007; Eurostat 2010, World Economic Form 2011) that present the opportunity to compare and contrast economies with different levels of competitiveness. Porter's (*op cit*) thinking is based on the development of an economic climate driven by business competitiveness and has changed the emphasis from national natural advantage to national competitiveness and the role within that of business. It draws together variables that inter-connect and underpin the importance of the wider contribution of business to competitiveness. Significantly, Porter (1998) recognises the importance of the national dimension, pointing out that the characteristics of nations are sufficiently important and robust and that it is the *country* rather than the city or region which is the relevant unit. Thus the culture of a nation is explicitly recognised as an important determinant of successful national competitiveness.

However, since this paper is concerned with the concept of competitiveness, the issue to address is – what is ‘competitiveness?’ While Porter (*op cit*) does not provide a clear definition of “competitiveness,” Huggins and Sootarsing (2004) describe it as

*..the capacity of an economy to attract and maintain firms with stable or rising market shares in an activity, while maintaining stable or increasing standards of living for those who participate in it.*

They go on to note that competitiveness is

*increasingly being measured in terms of creativity, knowledge and environmental conditions rather than accumulated wealth*

## **Wales and Finland – comparative competitive positions**

### **Overview:**

It is illuminating to develop Porter's ideas on competitiveness by comparing two peripheral economies; Wales, a poor and underdeveloped economy and Finland, one of the most advanced economies in Europe..

The population of Finland (5.3 million) is approximately double that of Wales (3 million) but the difference in GDP is striking; Finland GDP is €179Bn whilst Wales is less than a quarter of that at €41bn. The difference is further emphasised when GDP per head is presented; in Finland it is €33307, the corresponding figure for Wales is €22567. One of the major problems facing the Welsh economy is one of space. Over a third of the total population live in the former mining valleys and the coastal area around the capital, Cardiff. The total area of Wales is just 20,780 km<sup>2</sup> reflecting a population density of 143 per km<sup>2</sup> in contrast to Finland's total area of 338,145 km<sup>2</sup> and a population density of 15.7 km<sup>2</sup>. There are economic similarities. Both are at the edge of Europe, both have been – and to some extent still are – dominated by a large neighbour and both have history of past dependence on a few industries.

### **Finland:**

The starting point is the European Competitiveness Index 2007 (Huggins and Davies). In addition to examining internal regions, the 27 European Union states were ranked by competitiveness and Finland was first, improving from fifth in the 2004 index. The World Economic Forum's Global Competitiveness Report (2011) emphasises the hypothesis that peripherality is not a handicap to developing successful economies. Finland is the fourth most successful (an improvement from seventh in 2010) whilst Sweden is third (a decline from second) and Norway is tenth (an improvement from 14<sup>th</sup>). Two other peripheral economies, Ireland and Iceland are 29<sup>th</sup> and 30<sup>th</sup> respectively, both having declined dramatically (for Iceland from first place) invariably as a consequence of the banking crises and sovereign debt issues.

Huggins and Davies (*ibid*) also noted that regions within Finland are amongst the most competitive and wealthy in Europe and to which reference is made later. The Finns are proud of being Finnish companies but global players, reflecting Porter's (1998) view of the impact of national culture and pride. This success is a consequence of developing businesses, especially in the manufacturing sector, which are based on innovative ideas, high technology, new firms and products which in turn, drive further business creation.

### **Wales:**

Competitiveness both in Europe and the UK is further illustrated through the work of Huggins and Sootarsing (2004)<sup>2</sup> and Huggins and Day (2006)<sup>3</sup> which is particularly illuminating. The European Competitiveness Index (Huggins and Sootarsing 2004) is a composite analysis developed from five factors; creativity, the knowledge economy, productivity, economic performance and infrastructure. The 2004 index comprised a total of 91 nations and regions in

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<sup>2</sup> *The index is currently being updated although it is the magnitude of the differences that are the important measure, not the date of the publication*

<sup>3</sup> *Ditto*

Europe. Of these, Wales languished near the bottom in 64th place with a score of 63.6. The only UK region to perform worse was the North East of England, in 69th place with a score of 59.9. To put this into perspective, the highest scoring region was Uusimaa, Finland with a score of 261.8. Significantly, regions within countries of the same size as Wales, Finland, Netherlands, Denmark, Ireland and Switzerland (all of which with the exception of the latter are to a greater or lesser extent peripheral to mainland Europe) had far higher levels of competitiveness. Later research showed that Wales' position has not improved, but rather had substantially declined. The 2006 Index was extended to 118 in total to include nations and regions from the former eastern block. This showed that Wales had slipped from 64th place to 68th; and as in 2004, regions within smaller European states, notably again Finland, were recorded as performing better than Wales. By this time all the regions of the UK performed better than Wales and significantly, certain regions of the former eastern block also performed better than Wales (Huggins and Davies 2007)<sup>4</sup>.

### **Knowledge Based Industries:**

There is a further dimension to competitiveness and that is the role of knowledge based and creative industries. Although such industries are by no means the be-all and end-all of competitiveness, since to some degree all industries require and develop knowledge, the picture for Wales remains bleak. Creativity in its many forms underpins competitiveness and knowledge and is the basis of innovation. Competitiveness is based upon the propensity for a country to develop creative businesses that drive the economy away from dependency on external ownership and control, because competitiveness is ultimately about internal strengths. The 2004 Creativity Index was again a composite index of eight variables that provided measures of creative talent and activity within the 91 regions and nations of Europe (Huggins and Sootarsing 2004). Again, Wales scored very poorly, and of the 91 countries and states recorded, Wales was ranked 55<sup>th</sup>. As was the case with the European Competitiveness Index, the most creative European region again, was Uusimaa in Finland which was nine times more creative than Wales, and four times more than the South East of England.

### **Wales Internal Position**

However, international competitiveness begins with domestic success and making the comparison between competitiveness and creativity between Wales and the rest of Europe is only part of the story. When this comparison is extended to the Welsh economy and the notion of competitiveness is examined *within* Wales and the UK, problems become even more obvious. The 2006 UK Competitiveness Index (Huggins and Day 2006) was devised using

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<sup>4</sup> *Ditto*

a three factor model to examine competitiveness in the twelve economic regions of the UK. Wales was eleventh. Applying the same methodology to all the 433 local authorities of the UK; it was found that the areas within which the majority of the Welsh population reside – the former mining areas clustered in the southern valleys - were the least competitive of all. Merthyr Tydfil, Blaenau Gwent, Rhondda Cynon Taf, Caerphilly and Neath Port Talbot all appeared in the bottom twenty. The City of London was eight times more competitive and the top five areas (all around London) were three times more competitive. The UK Competitiveness Index was updated in 2010 and of the 12 economic regions of the UK, Wales has slipped to bottom. Of the slightly lesser number of local authorities (379) across the UK examined, the bottom four places were all authorities in the south Wales valleys - Blaenau Gwent, Merthyr Tydfil, Caerphilly and Rhondda Cynon Taf.

### **Employment Structure and Exports:**

Porter's reference to national culture is particularly appropriate to Wales where enterprise and business is neither understood nor encouraged. Research has consistently shown that Wales lags behind the rest of the UK and most of Europe in the approach to new business creation in particular. The economy continues to rely on outdated industries (the largest single employment is in steel manufacture), remains dominated by externally owned organisations, 41% of all employment is within business sites that employ 250 or more and are therefore not conducive to encouraging enterprise, and 31% of all employment is in the public sector.

The dependence on size and a few industries is illustrated through exports from Wales, metals and engineering account for 28% of total exports, energy for 15% and automotive 12%; the USA is the largest single market although the European Union is overall the major export destination. The level of exports also provides a useful proxy for the extent to which international competitiveness is driven through direct contact with other economies; Finland's export equate to 62% of GDP whilst Wales' is just 30% and mainly restricted to a few sectors such as those noted above.

### **Education and Innovation:**

Reference has already been made to the substantial difference in competitiveness between Wales and Finland illustrated in The European Competiveness Indices of 2004 and 2007. Education and innovation are central to economic development and competitiveness and although paucity of statistics on the performance of the Welsh economy make direct comparisons difficult, the role of education in driving the Finnish economy is informative. The Knowledge Competiveness Index (Huggins 2010) is a composite index of 19 separate factors that provides an overall benchmark of knowledge and capability of a region and the extent to which these factors are translated into wealth. The index examined 145 regions and not surprisingly, given the education and knowledge bias to the data used, the most successful regions were in America. However, the three regions of Finland that featured in the research dis-

played high scores, of the 145 regions; Pohjois-Suomi was 20th, Etela-Suomi 23<sup>rd</sup> and Lansi-Suomi 40<sup>th</sup>. Again illustrating that nations on the periphery are not necessarily at a disadvantage, Stockholm was 6<sup>th</sup>, West Sweden was 16<sup>th</sup> and Iceland 11<sup>th</sup>. This though is only part of the picture. Education is by its very nature dynamic and the index also produced an Index of Knowledge Intensity; this measures the underlying knowledge base in relation to direct knowledge output and is therefore an indicator of *future* economic potential. The Finnish position is very positive, of the 145 regions Pohjois-Suomi was 3<sup>rd</sup>, Lansi-Suomi 9<sup>th</sup> and Etela-Suomi 18<sup>th</sup>.

Similar comparable data for Wales is not available. However, the success in education by Finland is not replicated in Wales where the number of applications for university places has fallen by 10% between 2009 and 2011, youth unemployment is at an all time high with over 20,000 unemployed and the number of “neets” (not in education, employment training) has grown. Fully 20% of the entire workforce have no qualifications at all. The problem lies in basic education, the OECD PISA report for 2009 examined school results in 67 countries and of these, Wales ranked 36<sup>th</sup>. Finland ranked first (Bradshaw et al 2010).

### Reasons for the difference

The World Economic Forum (op cit) provides three fundamental reasons for the success of the Finnish economy. The first is a strong focus on education, occupying the top spot for education in the Forum’s index while well functioning public institutions and the willingness to embrace innovation, technical adoption and adaptation are the third best in the world.

Huggins and Davies (2007) note that Finland has encouraged innovation across the entire country and successfully driven a knowledge based economy. The country also ranks as one of the highest in Europe in the encouragement of Research and Development and government has encouraged new competitive skills through education, learning and high levels of collaboration between universities and industry. Interestingly, the government approach has been to encourage supportive economic conditions throughout the country and for whatever kind of business activity in preference to encouraging specific clusters. Interestingly, in September 2011 the Welsh Government announced five new “Enterprise Zones” to develop clusters in specific product areas, despite evidence from Finland and research that suggests Wales is simply too small an entity for such a policy to be successful (Porter 1998, Ball 2008)

The reasons for Wales’ poor competitive position are clear and long-standing. There continues to be an over-emphasis on employment creation *per se* and invariably provided by external, inward investing organisations in all sectors, or in more contemporary times, on attempts to alleviate poverty and provide welfare in its many forms. This has been to the detriment of developing competitiveness, productivity, the creation of wealth and the establishment of an indigenous business climate and culture. Over reliance on inward investment

and the consequent branch plant and employee economy, low levels of entrepreneurship, poor education standards and a bloated public sector are symptomatic of an economy with serious underlying structural flaws.

The fundamental difference between the two economies is one of political leadership; the Welsh practice has been to follow policies and having a political ideology that almost totally opposes that of Finland where business awareness, innovation and education are central to the nation's culture and economic success. The Finnish approach has been to address strategic issues, Finland 2015 for example; while in Wales individual piece meal initiatives remain the way forward.

Being on the periphery of Europe does not mean that national economies have to be poor or far from economic success or competitiveness. The economies of Finland, Sweden and Ireland remain extraordinarily successful, even Israel, not so much on the periphery as in relative isolation, has been referred to as the "second Silicon Valley." Although there are structural and cultural differences between these and other peripheral countries and Wales, geographic peripherality is irrelevant. It is the dynamic and competitive nature of the economy that makes the difference.

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## **Accessibility in tourism through service innovation case Helsinki Arabianranta**

### **Abstract**

This study encompasses the outcomes of the project Accessible Service Innovation in Arabianranta, being part of the Service Innovation in Tourism course offered in Laurea University of Applied Sciences, Kerava Unit in January–April 2011. Within the course, the third year students from the Tourism Degree had undertaken an exhaustive research pilot project, under the supervision of Leena Kuosmanen, Senior Lecturer and in partnership with Art and Design City Helsinki Ltd represented by the Project Manager, Sari Snellman.

Tourism is a complex system in which the accessibility represents an essential dimension which should be present in each of the 5 stages specific for a tourist experience: anticipation or preparation, journey to the chosen destination, participation, travel back and recollection (Krumpe 2010). Moreover, the attendance in travel and tourism opportunities is considered a fundamental human being's social right. Consequently, the accessible tourism as a tourism emerging niche has evolved as a significant field of academic study and industry practice.

Accordingly, the study's theoretical background is based on the social model of accessibility. Conforming to the above-mentioned model, disability is seen as a result of the socially constructed disabling environments and social prejudices that exclude disabled people from social participation (Buhalis and Darcy 2011, 27). Furthermore, this paper examines the inter-reliant connection between accessibility, universal design and whole-of-life approach. The core of universal design concept incorporates the idea of designing and delivering products, services, buildings and environments effortlessly usable by all people irrespective of their age, sizes, and abilities. In addition, the whole-of-life approach draws the attention to the access requirements issue as a major component of the human life span and also as a phenomenon which can affect people at any stage of their life (Russo and Borg 2002, 635).

On the other hand, the global importance of this approach is reflected by the fact that it has been estimated that persons with disabilities represent a growing population of travellers consisting of 80 million people in Europe and 650

million people worldwide (Legacies Now 2010). Moreover, in the latest published book concerning the accessibility topic, Professor Buhalis and Associate Professor Darcy (2011) emphasize the complex meaning of accessible tourism concept not only from the perspective of inclusiveness and tourism as a fundamental right for all, but also involving the business facets of this phenomenon. Thus, accessible tourism is perceived as a viable solution capable of providing business, employment and prosperity opportunities.

This paper examines the concept of accessible tourism through the perspective of Helsinki Arabianranta tourist destination case study. The overall purpose of this research is to observe and analyse the current services and service chains in and to Arabianranta, assessing which services are suitable or not to disabled visitors and customers, and based on the research results, to design a set of recommendations about the services, packages and service chains should be developed for our case destination in order to strengthen its image as a visitor-friendly and barrier-free destination.

Conforming to the research outcomes, the level of accessibility in the Arabianranta district still needs improvement measures in the fields of signalisation, road marks signs, lightening, traffic control and transportation, information system and way finding. Consequently, the study proposes a set of suggestions such as: implementation of signalisation with multilingual option, informative touchable panels located at accessible height integrating vivid colors, incorporated lights, and Braille option, visible multilanguage panels inserting emergency phone numbers, classification of the routes according to the various categories of mobility impairments, tourism information digital boards with touch screen, visible road marks with specific colors, adapted toilets, resting benches, the user-friendly pedestrian crossings, in-road lightening and in-pavement flashing warning lights.

In conclusion, these recommendations support the strengthening of visitability and hospitality in and to Arabianranta, as positive consequences of improved accessibility in the area, in order to make it more visitor-friendly for all and enable the users to benefit from higher quality barrier-free tourist services.

**Keywords:** Arabianranta, accessible tourism, barrier-free tourism, social model of disability, universal design, visitor-friendliness, whole-of-life approach, PwD

## 1. Introduction

The present study intends to generate valuable knowledge and suggestions regarding the tourism potential of Helsinki Arabianranta as a barrier-free tourist destination. The study's structure comprises a theoretical approach regarding accessible tourism which stresses its relationship with three interconnected concepts: universal design, visitor-friendliness and whole-of-life-approach. Moreover, the paper's theoretical background encompasses as a main concept, the accessible tourism seen from the perspective of 5 E criteria, pat-

tern designed by our team under the supervision of our facilitator, Leena Kuosmanen: ethical, economic, ecological, (a) esthetic and educational criteria.

On the other hand, this study includes an empirical section based on primary and secondary data collecting, structured observation, project work in small teams, field work (February –March 2011), documentation by camera and video and visits organized at various tourism organizations for assessing their level of internal and external accessibility. The research outcomes reflect the current situation of the services provided in Helsinki Arabianranta and their adequacy for the visitors and customers with special needs from the perspective of Finnish winter conditions: long winters with low temperatures and big amount of snow and ice which decisively influence the quality of services and service chains within the destination case.

## **2. Aim and objectives**

The major aim of the present study consisted of analyzing and assaying the level of internal and external accessibility within the selected case destination and make recommendations for improving the accessibility in the area in order to provide barrier-free tourist services and environments for all the visitors and customers.

In accordance with the paper's aim, the main objectives of this study are as they follow: to analyse and evaluate existing services and service chains within international tourism destinations such as: Australia, New Zealand, Portugal, Spain, Germany, United Kingdom, to observe and analyse the current services and service chains in Arabianranta and to Arabianranta, to evaluate which of the services are adequate or not for disabled customers and visitors and to provide recommendations on what type of services and service chains should be developed according to the research's outcomes.

## **3. Background**

### **3.1 Accessible tourism definition**

Definitions related to accessible tourism had developed during the time in consonance with the evolution of the disability concept. Hence, the phase of medical model which considered disability as an issue concerning only the individual was followed by the social model phase in which the accent was put on socially constructed barriers or disabling barriers ( Buj 2010, 9) represented by social, economic, political and cultural structures, transport, built environment, leisure services which affect the individual's social participation. Moreover the social model based on the assertion that disability is the product of disabling environment, promotes the idea that disability should not be perceived as a deviation from the realities which society classifies as 'normal', but regarded as an illustration of human diversity. As a consequence, the accessible tourism concept has embraced different shapes such as: disabled or

disability tourism, easy access tourism, barrier-free tourism, inclusive tourism, universal and responsible tourism.

The target groups which this tourism niche had taken into consideration were people with visible and non-visible, permanent or non-permanent disabilities (PwD) such as: mobility impairments (independents' wheelchairs' users or supported by a helper, people with walking sticks and crutches and any person with any mobility requirement), sensory impairments (visual and hearing impairments), communication impairments (persons with delayed and limited capacity to use expressive and receptive language), intellectual impairments and mental health problems, hidden impairments (heart and circulation problems, breathing difficulties, diabetes, epilepsy, problems related to liver, stomach and kidney ) and seniors.

A step forward was made due of the efforts of Darcy and Dickson (2009) who implemented the whole-of-life approach perspective connected with the accessibility topic. In accordance with their viewpoint expressed through the Figure 1, accessibility requirements are not resumed only at visitors and customers with visible and non visible impairments, but they also encompass wider categories of people who may benefit from the access facilities and services such as families with small children and prams, pregnant women, travelers with heavy luggage, shops customers using trolleys and people with temporary disabilities.

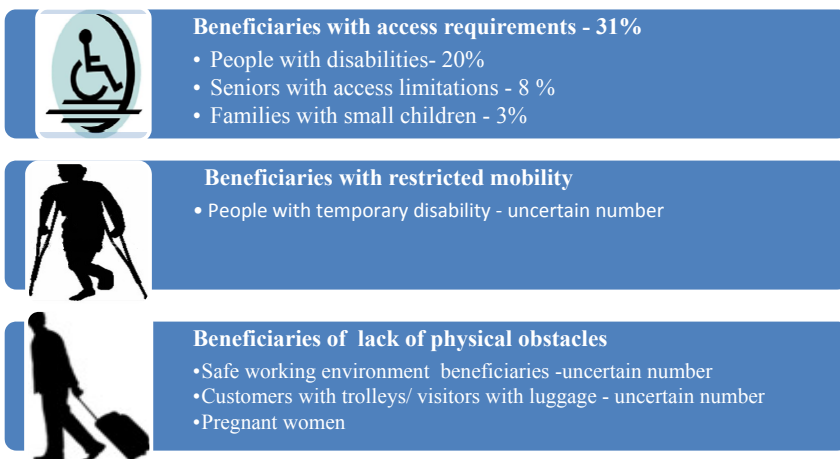


Fig. 1 Accessible tourism beneficiaries (Darcy and Dickson 2009)

On the other hand, the definition of accessible tourism is closely linked with the universal design paradigm whose aim is to simply the life of all visitors and customers by creating and delivering products, communication and environments more usable in accordance with the principles that stipulate the equitable access: unbiased use, flexibility in use, simple and intuitive use, per-

ceptible information, tolerance for error, low physical effort and suitable size and space for approach and use (Buhalis and Darcy 2011, 8-9).

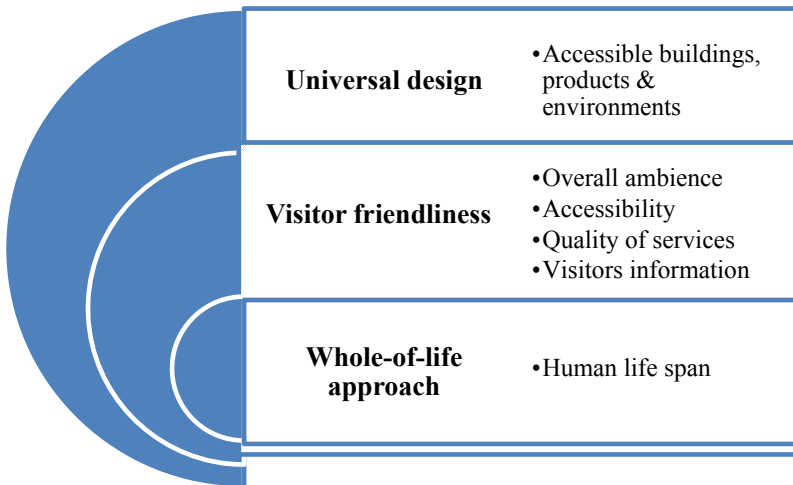


Fig. 2 Accessible tourism definition

In conclusion, the accessible or barrier-free tourism enables people with access requirements, including mobility, vision, hearing and cognitive dimension of access, to function independently and with equity and dignity through the delivery of universally designed tourism products, services and environments (Darcy and Dickinson 2009, 34).

#### 4. Accessibility and tourism industry

Enabling access to travel and tourism opportunities for people with special needs as well as for whole visitors and customers requires an adequate legislation and also a proper functionality of tourism system in order to ensure the participation of everybody to the travel experiences.









The awareness concerning the topic of accessibility and tourism was first time stated during the World Tourism Conference in 1980, when it was adopted the Manila Declaration which affirmed that tourism is a fundamental right for all (Buj 2010, 11). From this major landmark, the juridical basis for accessible tourism was enriched with significant documents such as: The Disability Discrimination Act – Australia (DDA 1992), based on principle of PwD access to all elements of social participation; moreover, the same act recognised two types of disability standards, one for accessible public transport and other for access to premises (Darcy and Dickson 2009, 41).

Other important stage in the evolution of legislation regarding accessibility and tourism was The Cape Town Declaration (2002) which highlighted the

concept of responsible tourism through which tourism is perceived as an inclusive social experience, accessible for all (Carlos Buj 2010, 11). This was followed by The New Zealand Sign Language Act (2006), through which the sign language was formally recognized as the third official language of New Zealand along with English and Maori (Access Tourism NZ 2011).

An important milestone in the process of implementing a legislation regarding the accessibility was The United Nation article 30, Convention for the Rights of People with Disabilities which stipulates the rights of people with special needs to culture, recreation and tourism, followed by the EU formal ratification of UN Convention for the rights of People with Disabilities adopted on 2010, December 23<sup>rd</sup> with the purpose to establish a non-restrictive Europe for people with special needs and The New European Disability Strategy 2010- 2020 adopted by European Commission (Darcy and Dickson 2009, 32-44). An important role in organizing and increasing the effectiveness of activities related to the accessible tourism across the Europe belongs to European Network to Accessible Tourism (ENAT 2011). As a result, conforming to the Table 1, the universal icons were adopted as indispensable tools for ensuring the accessibility in tourism industry.

Table 1 Universal Icons in accessible tourism (Sydney for All 2011)

Icons	Signification
	Mobility access is available offering a clear path of travel throughout the venue including an accessible toilet
	A clear path of travel throughout the venue for visually impaired people
	Audio description is available
	Hearing loop or audio induction loop is available
	Auslan sign language interpretation is available
	Text captions provided for audio content
	Telephone Typewriter is available
	The labeling, signage and printed materials are available in Braille

On the other hand, the accessible tourism framework encompasses all the components of the service chain within a tourism destination, so-called the six 'A': amenities, attractions, ancillary services, activities, available tourism packages and accessibility (Buhalis and Darcy 2011, 50). Consequently, accessibility takes into consideration the visitors' and customers' information needs chain starting from the pre(planning) trip phase consisting of gathering information about the tourism product and booking, continuing with the transit information phase and on site information phase on the duration

of the trip and ending up with the generic information phase during the post trip period.

Furthermore, according to the experts' viewpoint, the tourism industry has to deal with three categories of constraints: physical access constraints, behavioral constraints and lack of information (Buhalis and Darcy 2011, 51). First type of constraints is related to the inaccessible transportation, accommodation and attractions, being also linked with the built environment accessibility. Conforming to the latest findings, the most critical access issues are represented nowadays by paths, parking and staircases and especially the concern of ensuring the pathways' fluency from the hotel to sightseeing, amenities and events (Stumbo and Pegg 2005, 188). Other serious matter which should be considered is the inappropriateness between access and conservation interests, particularly in the case of heritage sites or natural areas in which any modification in the direction of accessibility may harm the authenticity of this type of tourism attractions.

Secondly, the behavioral constraints comprise the individual and public attitudes towards PwD. If the public behaviors can be changed through a proper legislation, the alteration of people's private attitude can be realized by promoting adequate educational and training programs.

Finally, the informational constraints encompass two aspects: the disdainful attitude of tourism personnel and the incapacity to provide exact and trustworthy information for disabled visitors and customers. The specific of travels for physically challenged people implicates very detailed and accurate information primarily in the trip pre-planning stage because the supplying of accessibility information determines the decisional process of the future visitors and customers in order to select the destination, plan and book the trip. Moreover, as a consequence of social media impact, the accessible web design and navigation easiness are elements which should be taken into consideration in order to provide web pages which are user-friendly for PwD.

## **5. Accessibility and tourism business**

It is obvious that the advancement to a completely inclusive tourism will involve the investments of considerable resources; on the other hand, conforming to Dr. Rains (STCRC 2008), accessible tourist destinations do not represent a symbol of charity, but they are only good business. As an illustration, PwD are an increasing population of travellers being 650 million persons worldwide: 60 million people in Europe, 54 million people in USA, 4, 4 million people in Canada and so on (Legacies Now 2010). The above-mentioned figures emphasize a growing and frequently underserved market to which businesses and communities should pay more attention and interest because it can provide benefits for all of the involved parts: visitors and customers, local communities, tourism sector professionals and different businesses.

Furthermore, analyzing the economic contribution of visitors and customers with special needs, the experts have highlighted its substantial input to Tour-



ism Gross Value Added (GVA), Tourism Gross Domestic Product (GDP) and tourism employment. If in USA in 2007, the visitors and customers with disabilities or any mobility requirements spent an average of \$ 13, 6 billion a year on travel (SRCRC 2008), in Australia they spent in 2003-2004, between \$8034, 68 million and \$ 11, 980.272 million, generating 16, 41% of the total of Tourism GDP and supporting 77, 495 direct jobs in tourism industry (Dwyer, Forsyth and Spurr 2004, 313).

On the other hand, the PwD represent a customer segment with specific features which can also sustain the tourism businesses: most of them opt for 3, 4 and 5 star hotels because these are able to provide adapted accommodation, many of them prefer travels during the low-season and a certain part of visitors and customers with specific needs are interested in adventure activities such as diving, riding a horse, paragliding and rafting (Buj 2010, 37-38).

In conclusion, the accessible tourism is a benefic factor for all involved players: the visitors and customers with special requirements are more socially active and integrated in the community life; the various businesses may access a significant market; the influx of visitors and customers with special requirements supports the increasing of jobs' number within tourism industry and ancillary sectors and generally it can be a source of prosperity.

## **6. Case study Helsinki Arabianranta**

The first question related to the pilot project which is the object of this study is 'Why Arabianranta was chosen as a case destination?' In a nutshell, the area of Arabianranta, located on the Eastern side of Helsinki, is recognized for its multitude aspects, combining old and modern, art, design and technology, urbanity and nature. As a residential district, Arabianranta is home for 10 000 people, work place for 5 000 people and campus for 6 000 students and know-how professionals. Moreover, Arabianranta represents an area with a huge tourism potential due especially of its status as 'Art and Design' space, incorporating unique art work which can be admired and visited within built environments, premises or public yards.

Arabianranta residential district also excels through an original architecture hosting diverse types of housing such as contemporary lofts, city village, student housing, community houses for active seniors or special needs housing, all benefiting from the principle of integrating art in the building environment, the sustainable development and tight connection to the natural environment (Helsinki Virtual Village 2011).

Other argument for supporting the idea of Arabianranta as a tourism destination is the fact that in the same area are located tourism attractions such as Helsinki Old Town, the well-known Arabia ceramic and glassware factory, The Museum of Technology, The Annala Garden, and the nature area which offers fishing and bird watching opportunities.

Besides of these, Arabianranta is a potential area for increasing different types of business and students' campus. This district represents a focal point for 300 enterprises in creative industries. The current trend consists of rising the amount of small and medium enterprises operating in the zone and stimulating them to initiate different development projects in cooperation with the local educational organizations. In order to strengthen the involvement of community in the district's development, in Arabianranta was created 'Helsinki Living Lab', a laboratory in which were tested in cooperation with the residents, various services and products, such as the housing association web site.

## 7. Research methodology

From the perspective of research conducting process, the project had progressively evolved, including the following stages: a comprehensive analyse of the current services and service chains in Arabianranta and to Arabianranta, an examination of which services are suitable or not suitable for the physically challenged visitors and customers based on structured observation and an investigation for identifying the gaps in the services and service chains. Finally, starting from our research results, we had designed a set of recommendations about the services, packages and service chains should be developed for our case destination.

In order to achieve the project's goals, we used during the research process both types of data collecting, primary and secondary data, quantitative and qualitative data, structured observation and participation, project work in small teams, field work joined by written and recorded comments and documentation by camera and video. Thus, the students involved in the project, gathered data from the sources of secondary information, books, journal papers, magazine articles, television broadcasts and data presented on the World Wide Web in order to identify the most eloquent examples of good practices in the field of accessible tourism from countries such as Australia, New Zealand, Portugal, Spain, Germany and United Kingdom.

The case study which served us as a research method was Sydney. Our option for Sydney was determined by the fact that Australia is a significant example of accessible tourism destination, being among the first countries which had implemented a legislation concerning the accessibility. Moreover, the 'Sydney for All' website (Sydney for All 2011) in which were inserted the accessible activities and attractions in town, represents a valuable tool for disabled visitors. The web site design is user-friendly, being accessible for any customer due of its adapted features such as: resizable texts, different colors contrasts, texts equivalents for images and so on.

Besides of these, the web site lists the most important outdoor and indoor tourism attractions located in the town, in the harbour, around Sydney, specifying about all places of interest for which types of physical impairments are suitable or not. The website provides a set of accessible maps, including The National Toilet Map and an exhaustive presentation of the accessible public transportation: buses, trains, ferries, monorail and light rail, all being

equipped with lift or ramp access, wheelchair area, priority seat for seniors, physically challenged persons and families with prams, accessible emergency help points, color-contrasted doors and handrails, accessible toilets, audio and visual destination's information (Sydney for All 2011).

Additionally, the visits and observations organized at Kerava Art Museum, Helsinki City Planning, Art and Design City Helsinki, Helsinki International Airport, Port of Helsinki, Scandic Hotel Simonkenttä, Nordic Travel Fair-Helsinki were excellent opportunities for evaluating the level of accessibility of the environments and services provided by the above-mentioned organizations. During the research development, the students implicated in the project also identified and analyzed from the accessibility angle, various tourism organizations and service providers' web sites. Furthermore, the research was completed with the field work in accordance with the Figure 3, field work realized by four students' teams charged with the investigation of four sections in Arabianranta: the urban area, the nature area, the historical town and the garden area.

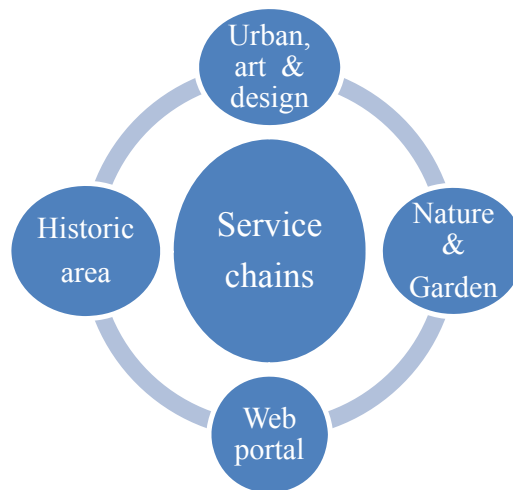





Fig. 3 Accessibility observation in Helsinki Arabianranta

The purpose of the field work was to assess the current state of the services in the above-mentioned sections and supply service innovation ideas from the perspective of accessible design, signalisation, public transportation and traffic control, service environment and web portal, in accordance with the criteria designed by Jokiniemi (2007) in his doctoral dissertation: the quality of service environment, visitor-friendliness, the ease of functioning and architectural elements.

In addition, in order to ensure a homogenous shape of the project, the assessed services were categorized such as: positive, neutral and negative, taking into consideration the type and level of visitors and customers' physical

impairment and the fact that the provided services do not affect the individuals with different special needs in the same way. Conforming to the below-inserted table, the services evaluation was realized through the angle of three categories of visitors and customers with mobility requirements.

Table 2 Categories of physically challenged customers – subjects of the research (Undiscovered Britain 2011)

Icons	Signification
 <p>1</p>	Accessible to an independent wheelchair user
 <p>2</p>	Accessible to a wheelchair user with assistance
 <p>3</p>	Accessible to someone with mobility difficulties, but able to walk up a maximum of three steps

## 7. Analysis of the results

### 7.1 Observation of service chains

The outcomes of the students’ field work were related to the evaluation of accessibility current situation within the service chains in Helsinki-Vantaa Airport, Olympia and Viking Line terminal and Helsinki Central Railway station and also to and within Arabianranta district; besides of these, the analyse included the urban part, the historical town, and the garden and nature areas within Helsinki Arabianranta.

Based on our observation of service chains within Helsinki-Vantaa Airport, Olympia Viking Line Terminal and Helsinki Central Railway station, we assessed as positive the following aspects: the presence of an adequate number of accessible parking facilities, availability of refreshing room, the efficiency of customer service and information desk for providing professional and multilingual service.

In addition, the public transportation facilities to and within Arabianranta are generally accessible and consequently, we evaluated as positive. As an illustration, the transportation from The Helsinki Central railway station, Helsinki International Airport, Helsinki Western Harbour and Helsinki center are ensured by a wide range of transportation means such as: from Helsinki International Airport to Helsinki Central Railway Station and Western Harbour, the buses 615 and 615T and the trams, 4, 4T and 3T; moreover, from the Helsinki City centre, trams (6 and 8) and buses (70, 71,72,75,742,77,68,748) assure excellent connections to Arabianranta district. Furthermore, part of

these transportation means is equipped with low platforms accessible for persons with mobility requirements.

Our measurement encompassed three types of judgments: positive, neutral and negative according to the accessibility degree of the analyzed service as in Figure 4. Moreover, in certain situations, a service was evaluated with a double rate based on the assumption that each service affects the persons with special needs in a higher or less extent in accordance with their sort of impairment. For example, a tram which is not equipped with low platform is inaccessible for wheelchairs users or mothers with prams, but it is accessible, for hearing impaired people or persons with communication impairments.



Fig. 4 Transportation and car park facilities to and within Arabianranta

On the other hand, the aspects of the traffic control and signalization in the above-mentioned zones were evaluated as neutral /positive, because they are not adequate for all the types of impairments. As an illustration, we noticed the lack of countdown pedestrian signal which are user-friendly in case of people with mobility requirements; the informative panels are too high located in some of the stations being not accessible for amblyopic persons. Further, not all the stations provide the transportation timetable; additionally, the multilanguage, audio and Braille options are nonexistent.

In the same degree, the road marks are not always positioned in the most suitable places in order to be visible for people with visual impairments; in addition, their colors and sizes are quite heterogeneous. The Figure 5 is eloquent in this respect: first photo emphasizes a bus station mark height placed, without timetable, audio, multilanguage and Braille facilities. The second presents a road mark related to the access of cyclists, sign which is not user friendly due of its dark color and improper size. The third photo shows a double signalization on the same pillar: the previous cyclists mark almost invisible in the photo is located at the inferior part of the pillar meanwhile the blue and brown arrows located in the top of the pillar signalize different directions.



**Neutral**

**Negative**

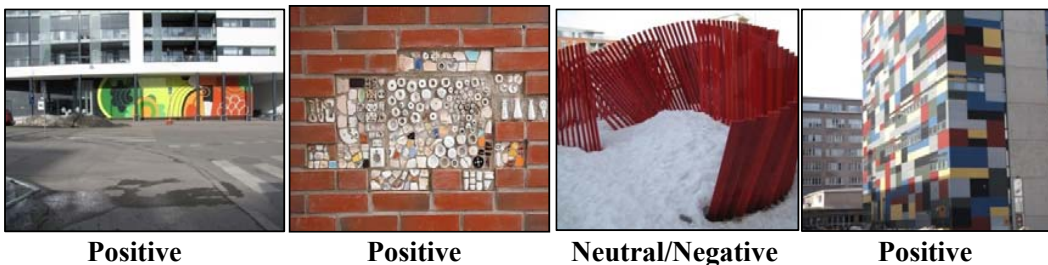
**Neutral/Negative**

Fig. 5 Heterogeneous signalization/road marks to and within Arabianranta

### 7.2 Observation of urban area

The Arabianranta urban area is characterized through the heterogeneous housing design and outdoor and indoor works of art which can be seen and experienced by the visitors, customers and residents. From the beginning, art was implemented as a major element of the building project and the result is represented by the numerous works art spread on the streets, gateways, courtyards, communal courtyards such as in Majstranden and inside of the buildings.

The Figure 6 displays art works which comprise both functions: aesthetical and accessibility. The bright colors used by artists and architects permit to the visually impaired visitors, customers and residents an effortlessly orientation in the area. Moreover the work piece represented in the second photo, ‘Pieces of Everyday Life’ of Anne Siirtola placed on Gunnel Nymanin katu involves a multisensory perspective, activating the touching sense especially for the visually impaired people. The ‘Sirocco’ sculpture from the third picture designed by Kivi and Tuuli Sotamaa, painted in ten different nuances of red is accessible due of its color and wide spaces between its nine curving surfaces which allow even to the wheelchairs users a unique experience. Unfortunately, the winter conditions and the big amount of snow affect the functionality and accessibility of ‘Sirocco’ place for physically challenged persons.



**Positive**

**Positive**

**Neutral/Negative**

**Positive**

Fig. 6 Arabianranta urban area accessible work art

Accessibility in the urban area is positive due the extension of trams 6 and 8 and various buses; the public stations insert the timetable of the transportation means providing also the maps of the area conforming to Figure 7; however they are not equipped with multilanguage, audio and Braille facilities.



**Positive/Neutral**



**Neutral**

Fig. 7 Accessibility in Arabianranta- urban area

Moreover, the winter conditions prevent an efficient accessibility in the urban area for visitors and customers with mobility requirements, generating a barrier-environment; the presence of the warning red-yellow strings is necessary and user-friendly from the perspective of visually impaired persons as it can be noticed within Figure 8.



**Neutral**



**Negative**



**Negative**

Fig. 8 Accessibility in Arabianranta- urban area in winter conditions

Furthermore, Arabianranta urban zone includes old buildings which were projected without taking into consideration the accessibility requests. Despite of this reality, they are prepared to deal with the need of satisfying the accessibility requests of their residents, visitors and customers by implementing adapted facilities such as bright painted railing or wide back entrances for users of wheelchairs as in Figure 9.



**Positive/Neutral**



**Positive**

Fig. 9 Adapted facilities within old building in Arabianranta- urban area

### 7.3 Observation of Old Town

The Old Helsinki is also situated in Arabianranta zone, being a small district located at North of Toukola, founded by the Swedish king, Gustav Vasa in 1550.

The Old Helsinki zone affordability was affected by the snow and ice problems; therefore we assayed as negative few of the access ways in the area during the winter from the perspective of physically challenged visitors and customers according to the Figure 10.



Fig. 10 Negative affordability access in Old Town Arabianranta – winter conditions

The main landmark of Old Town is the Museum of Technology which encompasses two historical buildings: the red brick building and the yellow filtering tank building. The museum's web site does not offer multi-lingual services and besides of this, the visitors and customers are warned that the car's navigation systems do not identify the museum's address (Tekniikan Museo 2011).



In order to assess the accessible facilities provided by this place of interest, we started from the assumption that the historical character of these buildings does not permit too many facilities for the physically challenged visitors. In reality, both buildings have a positive or neutral level of accessibility being endowed with access ramps, unapproachable due of the winter's conditions.



Fig. 11 Museum of Technology, Old Helsinki Arabianranta – winter conditions

The space's affordability in the area around the museum is positive, being partially affected by the snow. The museum has indoor ramp for wheelchairs users, bright colored warning stairs and slopes, adapted elevator for disabled visitors as they can be seen in the Figure 12.



Fig. 12 Positive accessible facilities within Museum of Technology- Arabianranta

Moreover, many of the exhibits are easily reachable and touchable by users of wheelchairs being positioned at an accessible height. Further, in consonance with Figure 13, certain items such as digital screens activate the multiple senses of the visitors and customers allowing a multisensory experience, but they do not offer Braille option. In accordance with the same Figure 13, the museum's yellow building hosts an adapted toilet meanwhile the red bricks building does not offer such a service.



Fig. 13 Museum of Technology facilities

Road marks and signalisation within Old Town comprise a wide range of signs with various shapes and sizes; predominant are the warning user-friendly signs based on vivid colors and universal icons as they can be seen in the Figure 14. The inserted information is delivered generally only in Finnish and Swedish and seldom in Russian as in the last photo, fact which make them inaccessible for international visitors and customers.



Fig. 14 Warning signs in Old Town – Arabianranta

### 7. 4 Observation in the nature area

Nature area in Arabianranta is represented by Vanhankaupunginkoski rapids and Lammasaari islands providing beautiful sights also in winter and in addition, Nordic walking, skiing, fishing and birds' watching opportunities. As a result, the area contains numerous informative panels related to these sports, but the information inserted on the panels is mostly in Finnish. We noticed the same lack of Braille and audio facilities, but generally the panels are situated to an accessible height being approachable for people using wheelchairs or children. From the multisensory perspective, these informative boards activate the visual and touchable senses conforming to the Figure 15.



Fig. 15 Informative panels and maps in Arabianranta- nature area

The affordability of the area is really difficult for the physically challenged visitors due of the snow and ice conditions, with the exception of the big bridge which allows the access of the wheelchairs users', fact visible in the Figure 16. Inside the forest, there is a special road marked with wooden pillars which are supportive for visitors and customers with mobility requirements as it can be seen in the second photo of Figure 16.

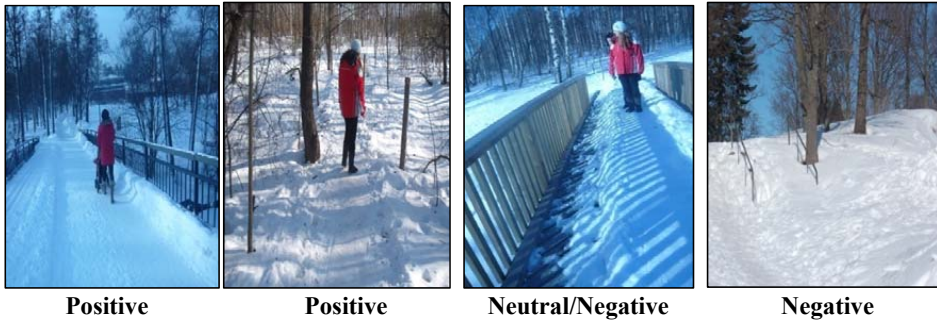


Fig. 16 Accessibility in the Arabianranta – nature area

Furthermore, the signalization of the area comprises a variety of signs and road marks realized mostly from wood in consonance with the environment character, but not user-friendly for visually impaired visitors and customers. Besides of this, some marks are worn-out and should be urgently replaced.



Fig. 17 Inaccessible signalisation in Arabianranta- nature area

## 7. 5 Observation in the Annala Garden area

Annala Garden is a recreational area and its focal point is represented by the gardening activities based on the principles of sustainable development. Annala Garden is easily accessible by foot, fact facilitated through the small paths and connection roads. The classicist architecture of the main building from Annala Garden built in 1826, the formal garden surrounding the villa and the Orangery which hosts a collection of traditional house plants are the main places to see in the zone.

During the winter, the area's affordability is challenging because of snow conditions and lack of facilities for physically impaired visitors and customers. Especially the utilization of the steps from the main building seems very demanding within the winter time. The narrow entrance door of the Orangery according to the Figure 18 prevents the access of wheelchairs users.



Fig. 18 Accessibility within Annala Garden area

## 8. Conclusions and recommendations

Based on the research results, we draw out a set of conclusions organized in two categories: positive and negatives. The positive conclusions are related to the transportation, signalization and hosting community attitude aspects.

According to the research outcomes, public transportation facilities are predominantly positive to and within Arabianranta district. The signalization and road marks are visible in public places, using universal icons, but they are still heterogeneous, being quite diverse as size, colors and shapes.

The attitude of local community towards area's development is positive being based on principles such as diversity, respect for life and nature, sustainability, incorporation of art within the building environment and a strong community spirit. As a consequence, the mixture between art and design, the main attraction of the zone, the magnificent natural ambiance and historic architecture generates the favorable conditions for imposing Arabianranta as a visitor-friendly and ultra modern destination.

On the other hand, the negative conclusions were connected more to the service environment. Their level of accessibility was partially influenced by the poor weather conditions which create difficulties in reaching certain sights especially for the physically challenged visitors and customers, an eloquent example in this respect being Annala Garden area.

Moreover, the illumination system in the Old Town was affected by the winter time and some electric pillars were not functional as it can be seen in the first of the Figure 19. In addition, we noticed the lack of ecological toilets: we identified only one which it was not serviceable as in the third photo of Figure 19.

Other negative aspects were related to the insufficient number of benches for resting and admiring the scenery, the lack of phone facilities within the area in case of emergency, the communicational barrier represented by the fact that information is provided mostly in Finnish and Swedish, the absence of information office or informative digital screens. Besides of these, the service environment quality is affected by the absence of Braille facilities, limited car park area for disabled customers, lack of enough entertainment, restaurants, bars and events opportunities: the second photo of Figure 19 is illustrative in this direction, emphasizing the remains of the main restaurant in the Old Town, destroyed in a fire.



Fig. 19 Negative aspects within service environment in Arabianranta

Based on the research conclusions, we designed a set of recommendations in order to strengthen the accessibility and visitability features of the chosen destination case. Our proposals were connected to the fields of transportation and traffic control, signalization and road marks, service environment and online facilities and education and training.

In order to ensure the fluency of the people traffic in the sightseeing area, we propose the implementation of distinct routes signalized through lightening system for pedestrians, cyclists and the three categories of people with mobility requirements which we took into consideration during our analysis. Furthermore, we consider that the traffic will be more accessible for people with mobility requirements, visual and hearing impairments if certain modern control traffic systems will be adopted, such as: Puffins-Pedestrian user-friendly intelligent crossings, countdown pedestrian signal joined by an au-

dio background represented, for example, by the ‘talitiainen’ songs, in-pavement flashing warning lights orientated upward, ‘virtual colored walls’ across the roads created by lasers, audio and visual destination information in all the trams and buses stations. As well, the signalization can be improved through the visible road marks with specific colors and icons for each type of disability located at an adequate height.

In addition, the service environment needs improvements and as a result, we recommend the implementation in the area of few digital informative screens equipped with a multilingual translator system as Google type and Braille option. These digital screens should display accessible information such as maps, accessible routes, transportation means and toilets.

Moreover if the winter conditions do not allow the implementation of the digital boards or 3 D panels or they are not suitable with the architectonic spirit of the area, we propose to arrange a system of informative panels consisting of mobile columns: each column should insert a specific sort of information provided in different languages and the texts should be touchable in order to be accessible for the visually impaired visitors and customers.



Fig. 20 Mobile informative columns

Also the online portal should include a specific section for physically challenged visitors and customers, information about the accessibility facilities for each tourist site in Arabianranta, accessible maps and routes and emergency phone numbers. In order to increase the attractiveness of the destination case, we recommend the realization of a calendar of events encompassing festivals, carnivals, and exhibitions, organized in cooperation with the local educational organizations and artists’ community and focused on topics related to the history of the area, the gastronomy and folklore.

From the perspective of education and training, we appreciate that it is requested a systematic training for the staff involved in the public services and service chains and implementation of education concerning accessible tourism within tourism degree programs.

In conclusion, this study provides valuable knowledge and suggestions regarding the degree of hospitality and visitability of the selected case destination. As a pilot project it can be considered an illustration of Arabianranta spirit of launching development projects with the participation of local community, authorities, and educational organizations. Moreover, all the partners involved in this project hope in a development and extension of the present research taking into consideration the Helsinki World Design Capital 2012 event, in which Arabianranta as an art and design and barrier-free destination should reveal its accessible service environment features to the numerous international visitors and customers.

On the other hand, this project was planned and applied in the winter time, fact which led us to certain conclusions exclusively connected to the winter conditions. As a result, we propose to continue the study with a new phase in which the focal point should be centred on analyzing the accessibility and hospitality of the Arabianranta district during the autumn season.

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## **The Studios a European Business accelerator, triple helix model**

### **Introduction**

Howest has a long history of working closely with industry partners. In fact, it was founded by industry-players in the late 1880's. Howest is now part of the Ghent University Association (60.000 students which equals 30% of higher education in Flanders). Howest is growing fast but remains relatively small (6.000 students), which gives it flexibility and fast-decision-making abilities. It has the mentality of an innovation-driven SME.

Howest has a solid reputation when it comes to valorization -oriented, client-driven research, community services and permanent training, both nationally and internationally. Fifty-five percent of our partners are industrial (Large Enterprises, SMEs, Sector Federations) and not-for-profit partners (8%). Forty-five percent are government and partner-research institutions. Since 1997, Howest has generated more than 90 billion Euro in innovation-funding for valorization -oriented research.

With the help of a well-developed research and valorization program, within applied research, it made sense to create a service geared towards our undergraduate and graduate students. The result was the creation of an on-campus business accelerator, which helps to give graduating students the possibility of starting up their own companies within a known and safe environment. Additionally, it widens their network of advice and support by giving them direct access to senior entrepreneurs and national Chambers of Commerce, as well as to Creative Starters that offer workshops and memberships for young bright people who want to create their own start-ups.

The Studios embedded collaboration with Howest University makes it a successful triple helix model. It takes full advantage of its industry liaisons, which help in networking, mentoring and fine-tuning the business ideas and approach with the startups. Its association with the University of Ghent gives it insights on the more academic approach. Its close relationship with public institutions helps stimulate companies in innovation by bringing them closer to possible funding for feasibility studies, prototype development and the like.

Start capital (E-Clic - European Collaborative Innovation Center) Interreg North Sea Region (European funding for inter-regional collaboration) co-financed national and regional government and municipality.

The Studios business accelerator was launched within the North Sea region Interreg project called E-Clic (European Collaborative Innovation Centers). Thanks to E-Clic, not only were we able to come up with the ‘The Studios’ concept but also to give it a broader, European context by working towards similar goals with E-Clic’s European partners in Sweden, Norway, The Netherlands, The UK and Germany.

Our goals at The Studios include but are not limited to:

- Learning from and collaborating with other existing accelerators
- Being on top of the new, related concepts that come along
- Co-working and being part of a larger national and international network
- Extending our network and fostering optimal matches between micro-companies and freelancers, which allows increased flexibility with remote ‘offices’ being more and more possible thanks to WIFI.
- Having available spaces for seminars, workshops and other sessions, along with a creative room – all which are very attractive within our creative industry.
- Welcoming continued input from our young entrepreneurs, product developers and designers.
- Benefiting from our valuable collaboration with Howest and all the great things it has to offer.
- Creating a good vibe in the building with a great mix of people, open spaces and offices which combined promote interaction and create synergy. (We weren’t convinced by the word “synergy” at first either – but we sure have seen it come to life here!)

## Methodology

*The Studios – where creative businesses work*

*Who is at The Studios:*

Creative minds from the fields of industrial product design, new media & communication technology and digital arts and entertainment. Each person brings something unique to the mix.

*Why The Studios:*

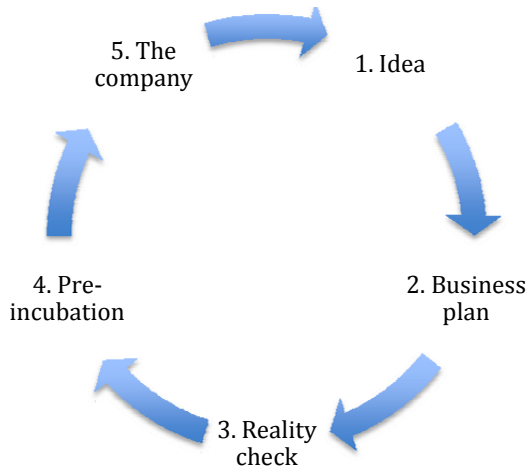
The Studios brings a mix of innovative people together, eager to build successful companies. With Howest as a neighbor, companies have loads of resources, knowledge and facilities, research access, a library and more. The Studios

is a fully equipped, dynamic setting with affordable offices, meeting rooms, a hall of fame display area, seminar space, brainstorming gardens, parking areas, a lively kitchen and even a basketball court. Inspiration and innovation are in every corner.

*Making it happen:*

The concept was created by ‘Elevenfeet’, a young product design company (*settled at The Studios*). Before construction could take place, the concept had to be visualized and this is where another start-up company named ‘Triangle Factory’ came into the picture (*settled at The Studios*). They focus on 3D-visualizations and instead of creating a common model, they created a walk-through of the new environment.

**Assisting the starters.**



*Screening and advising the starters, pre-incubation process:*

The Studios focuses on companies within the fields of industrial product design, new media & communication technology and digital arts & entertainment. These companies should consist of at least two driven entrepreneurs who need to pass a screening process, during which they propose their ideas and business plan. This is part of a delivery for the professional bachelor (Small Business Project). If talent is spotted there, and students want to work more intensively on the idea, they can do an internship in their own company, with guidance from The Studios. They go into pre-incubation for 3 months starting in February. During this period they can research more on the idea, if it has a market and social acceptance and commercial potential. If they are still driven and convinced about their company idea, they can stay at The Studios until September. After September they need to decide if they will go to work as an employee, start up their company or continue studying.

This process is attractive and challenging considering the student has to go through the whole process of focusing on the idea, building up the company

along with its potential clients and markets. They also have the opportunity to explore whether they want to work with private capital, business angels, venture capital and the like.

*From pre-incubation towards a company with a legal structure.*

We have learned quite a lot these last years from practicing this methodology and it is clear we need to adjust the process, in terms of earlier integration into the undergraduate curriculum.

Up until now, we have only started talking about entrepreneurship and practicing Small Business Projects (SBP) during the last year of undergraduate studies (Bachelor degrees) in almost all disciplines at Howest. Within the final semester, students generally must also do an internship in their own country or abroad.

We have come to conclude that the introduction to entrepreneurship is happening too late. Therefore, we are starting to integrate the concept into the curriculum from the moment they begin their studies and expect more entrepreneurial activities and results by the time the final year comes. In terms of integrating entrepreneurship teachings into the curriculum, the classic lecture approach is avoided and replaced by a more hands-on workshop principle with lessons coming from real entrepreneurs they can relate to. This allows students to learn from peers, who started their own businesses and have first-hand, inspiring experiences to share. The idea is that by the end of the final year, students will be influenced and inspired to start up their own companies. By then, they will also have become familiar with The Studios on campus business accelerator so the step from student to start-up at The Studios will feel quite natural.

Once they are set-up at The Studios, the start-ups are closely followed by experienced mentors working within the accelerator. It is interesting to see how each start-up develops within the first year. They become more mature, more serious and learn to value networks, all of which increase the quality and quantity of their work.

*Triangle Factory observations after a year.*

*The Story of Triangle Factory:*

In 2008 they came in second in the worldwide Microsoft Imagine Cup, for game development.

### **Team Drunk Puppy Productions**

Team Members: Kenny Deriemaeker, Filip Van Bouwel, Timothy Vanherberghen, Jeroen van Raevens

Kenny, Filip and Timothy, started their own company in 2010 and joined The Studios in January 2010.

By winning the Imagine Cup, they received €15,000 as capital for starting a business. In the beginning, they were convinced they needed a bank loan or a private investor to be able to launch their start-up. After several rounds of meetings with banks and investors, Triangle Factory decided neither approach was an option and decided to invest in their company themselves.

They did very well in their first year thanks to their Howest network, good contacts and by speaking to the right people at the right time. They developed a Facebook game, which in Belgium terms is successful, and they are the first company to leave The-Studios-at-Howest nest, to move on and grow further by going into partnership with their most important client

### **Testimonial from Kenny Deriemaecker – Triangle Factory:**

“As every young entrepreneur will quickly realize at one point, your idealized ‘Big Plan’ can fall apart fast when the realities of time and money start setting in. They force you to go outside your comfort zone a little bit and get to know about subjects and people you normally wouldn’t come into contact with. You get pushed to try new technologies, to understand what a client’s needs are, and to deliver quality on time and within a budget.”

#### *Lessons learned from Kenny Deriemaecker after 1 year Triangle Factory:*

- Have a back up plan, if things don’t work out like you thought
- Be critical
- Take responsibility
- Don’t sink your time into meetings and emails
- Focus

#### *The exit of Triangle Factory:*

Triangle Factory is one of the first companies that will leave the The Studios to go into a more close collaboration with their new partner Proudfield to get more active in the social media space. They will share an office together, and might merge in the future.

This growth fits in well with the concept of The Studios as it is not our intention to keep the start-ups in the business accelerator for more than two or three years. The idea is for the companies to move on as they grow, partner with other companies, or even attract investors, which will be discussed further later.

#### *The story of Elevenfeet:*

Elevenfeet, came together during a pilot internship project. It was the first time they worked in a multidisciplinary team and had great experiences with their clients. Actual leads came out of the internship, which triggered Elevenfeet to start their company. Elevenfeet is active in several, quite varied start-up support organizations, such as Creative Starters (a local government driven network to support creative starters) and the Belgian Chamber of Commerce called VOKA with their Bryo (BRight YOung entrepreneurs) initiative to support young entrepreneurs. VOKA Bryo can be compared to a network of researchers who create spin offs, while Creative starters is more of a mix of different sectors and is not as academically linked. Both of these organizations work for them in a different way and lead to different results.

*Bottlenecks for Elevenfeet after a year experience:*

- Project management
- Time management
- Administration management
- Growth management

*The story of Mobilejuice*

Another start-up that came from the same academic year as Elevenfeet and Triangle Factory was Mobilejuice. Mobilejuice shared similar start-up experiences with the other two companies but differed in that they had a private investor from the start. The investor, an established company specialized in events and other services, saw that Mobilejuice could fill their mobile needs. Mobilejuice have the advantage of being professionally guided and of working with an experienced investor with a sales channel behind them.

It is important to note that these three companies, prior to establishing their legal structure, prepared six months ahead thanks to their Small Business Project and doing internships within their own companies. During these internships, which is the pre-incubation stage, they were able to prospect the market potential, look for valuable partners and explore and expand their talents. They learned and adapted at an early stage and continue to do so. This is what will make them successful!

*The mix with senior entrepreneurs:*

At The Studios, we have two other companies; MobileMinds and Stack and Heap. The founders of these companies are more experienced as they have existed for quite some time. MobileMinds is a spin-off of digital communication company Sweet Lemon. Stack and Heap is a consulting agency for enterprise companies, specialized in Adobe Flex technology and Java. Stack and Heap was founded by alumni from Howest. These “senior” companies bring business experience and maturity into The Studios. The open set-up of the building naturally leads to spontaneous conversations, lunches together and so forth. Combined with all the things that are happening in The Studios, the mix of companies creates real synergy and business opportunities. Over

the past year we have had nearly 1000 visitors at The Studios from Howest of course, but also via partner organizations and European partners as well.

*The open spaces:*

When the companies get started at The Studios they immediately get introduced to each other, the open-space environment, the multidiscipline-approach and creative mix. While each company of course keeps its own identity, the variations at The Studios make it a special environment, where people get the opportunity to think beyond their own skills and comfort zones.

The clients and contacts that come in for meetings can clearly see the different aspects of The Studios eco-system and also have their own creativity stimulated thanks to this confrontation.

*The networking with the industry for young starters:*

The Studios is managed by Christel De Maeyer, who has years of experience with the digital wave on an international and national level. De Maeyer's own expansive group of contacts combined with Howest's industrial-liaison program in various domains, open up an immeasurable network to starters here. The Studios organizes monthly seminars, workshops and international conferences with leading speakers, where a good mix with senior and junior entrepreneurs is created. This leads to new insights, a professional attitude and a drive to be successful and learn from the best.

The Studios' seminars focus on various topics in relation to business, market-trends, technologies as well as experimental and inspirational ideas.

Howest University organizes 3 international conferences, which attract leading speakers from all over the world:

- Multi-Mania; for multimedia designers and developers – sponsored by industry partners,
- Designweek; for industrial design and architecture
- Design for Persuasion. Co-organized with Dr. BJ Fogg, Director of the Persuasive Technology Lab at Stanford University.

*User groups and other cluster-organizations:*

As in all other countries, Belgium also has its set of Adobe-Microsoft user-groups, Mobile Mondays, 140 char meet-ups, etc... Our students and starters get involved in these user groups as much as possible. For students, participation in such groups can be their first introduction to the real world of business and entrepreneurship. These are the starting seeds for spotting who has the drive or special talent. Invaluable lessons are learned by talking to peers and observing them. For the starters, it is a very informal way to meet with peers and exchange knowledge and it generates leads and projects as well.

### **International aspects:**

In 2010, The Studios at Howest, in a partnership with IBBT (Interdisciplinary Broadband technology research center), went into close collaboration with U.S.-based Silicon Valley business accelerator, Plug and Play Tech Center. Through this shared network, The Studios is able to introduce Belgian companies to the US market. Howest students will also have the opportunity to do internships via Plug and Play and to learn more about the Silicon Valley entrepreneurial approach, which varies a lot from that in Europe. This is just the first exciting step of a hopefully long-term, fruitful collaboration.

The first reactions from Belgian companies that have spent a reasonable amount of time in Silicon Valley with a product in prototype mode have been revealing though not surprising. As the business culture and approach are very different in the US than in Belgium, there has to be an openness and change of mindset to properly adjust to the fast US market, valley of business angels, venture capital, etc... Belgian companies, however, do succeed in starting and having a business in the US, if they prepare well! The first U.S. experience teaches Belgian businesses that preparation is the absolute key. Also essential are acting quickly, doing good follow-up, building up a network and going to a lot of events, mostly organized in the evenings. Belgian companies also need to determine whether they are going for sales pitches or for venture-capital pitches, as each has to be approached differently. They also have to be prepared to present their ideas in one-minute demos and be very clear about what they want to achieve.

Needless to say, companies have to realize that such a trip is an investment of time, money and effort. They have to be dedicated to the experience and make a clear choice to go abroad as they risk too much by approaching it too lightly.

The Studios will collaborate on a second screening in Q3 to select Belgian companies that want to explore the US market. Based on the first experience, The Studios will also be more involved in the preparation process, with advice and insights from the companies that have already gone through this process.

#### *Our Students going international:*

Howest organizes yearly inspirational trips for its students to The U.S., China and European countries to broaden their horizons. In each of these countries, Howest has liaisons through which students can do international internships as well. International internships happen on a limited level. In 2008-2009, eight digital arts and entertainment students did their internship abroad, in Germany, Sweden and the Netherlands. Twelve multimedia and communication technology students interned abroad, in the UK, Spain and Denmark.

### **Bar d'office, co-working spaces; the next logical step to mingling and mixing:**

The Studios has recently joined Bar d'office, a co-working concept, that started in Antwerp and is spreading all over Belgium. Co-working spaces are



mainly setup for freelancers and people who travel a lot and who want to create synergy with other people in the same or related line of business. The multidiscipline approach is also applied here and stimulates the growth of temporary collectives, which can evolve into different, sometimes larger and more complex, projects. Each co-working space has a set of services, which the co-worker can use once within the network. The co-worker joins the network by becoming a member and paying a monthly fee. The members are entitled to a certain amount of hours in a co-working space, which they can use in several, different spaces. This approach helps people avoid isolation and mobility problems and opens up a new and different network. The creative hubs and co-working spaces bring people together who are working independently yet allow members to keep their autonomy and independence.

### **Pitfalls and constraints in entrepreneurship in an EU and Belgian context:**

Entrepreneurship in Europe is perceived very differently than it is in the US. In the US, there is room to explore and experiment and to fail and start over. In Europe, the mindset needs to change in this perspective. There are a lot of stimulating local and European government programs to support and help start-up companies, though some are more successful than others. Unfortunately, as long as the perception of entrepreneurship remains risky and negative, the majority of people will not dare to start a business and will instead choose to stay within the comfort zone of being an employee.

Each country has its own set of rules. Recent statistics show that 45 % of people in the EU start a business, 55 % in the US and 75 % in China.<sup>1</sup> The lower percentage in the EU is not because it is administratively difficult to start up a business, although in some countries it is a cumbersome process. It is mainly due to the lack of risk-taking in the EU. Even when it comes to calculated risks, which business is all about, there is such a strong stigma related to failure within the EU. Fear of failing prevents young entrepreneurs from starting up a business. In some countries, such as The Netherlands for example, the law is very hard on those who fail, not allowing them to have a second chance. Other disruptive factors can be high tax rates on companies and the heavy social charges that need to be paid when hiring people. Finding a balance between the US and the EU model would be very welcome for most entrepreneurs on both continents if it combined the best of both worlds.

Nevertheless, Europe does have a 45% rate of people that start up businesses. Hopefully the percentage will increase even further as such growth is needed to keep the innovation processes and prosperity going in the EU.

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<sup>1</sup> Marco Curavic (Head of Unit Entrepreneurship, European Commission DG Entrepreneurship & Industry)

### Offering a roadmap for growth, ecosystem:



Public/government funding channels in Belgium are numerous, but not always easy to access for young starters. This is different for start-ups that spin off from a University, where researchers have already had experience working with funding and know these channels very well. The founders of these spin-offs are generally slightly older as well, but the ‘business’ problems remain the same. Their need for capital is also very different compared to the starters we house in The Studios and they are likely to look for venture capital or angel investors in Belgium or abroad. This is an area in which Howest’s collaboration with the University of Ghent is helpful as Howest benefits by learning about this process through them. These lessons will be essential when The Studios’ starters go into the 2.0 phase of their company. At that stage, they will be growing and might need venture capital in order to expand, hire more employees and possibly internationalize their company within other EU countries or even within the US.

#### *The creative sector in Belgium - Flanders:*

As the focus is more and more on the creative sector, The Studios has worked together with Flanders DC on the platform ‘Creative industries’ to do a study on what this market represents in Flanders, Belgium. The study is in collaboration with Antwerp Management School, with the latest facts and figures coming from 2008.<sup>2</sup>

These figures show that the creative industry represents 3 % total added value in Flanders. This is good for 13,5 % of independent employment within full-time employment. In terms of independent employers, they are exceedingly within the food-service industry, metal and ICT sectors.

It is strongly believed that the creative industries are drivers for innovation and prosperity in Belgium and the EU in general.

<sup>2</sup> Guiette, A., Jacobs S., Schramme, A., & Vandenbempt, K. (April 2011). , *Antwerp management school*

**Creative industry Flanders-  
Belgium represents 13,5 % of  
independent employment**



■ Total independent  
workers in other  
sectors 334.100

**Creative industries total  
employment in Flanders  
Belgium, represents 3 %**



■ Total employment in  
Flanders Belgium  
(population 6 mil)

In parallel with this study, a round-table creative-industry day took place, during which six priorities for the Belgian government were outlined as stipulated below:

1. Working towards an international future with the creative industry  
The forum of creative industries would like to form an international umbrella organization to set up an action program. Internationalization is financially and content-wise necessary to build long term careers. Internationalization also has a positive effect on Flanders' image
2. Working towards more clustering and cooperation  
A better cross-sectorial organization, a collaborative strategy and stimulating better usage of sharing knowledge, will make it easier for the creative industry to play a potential role in exploring social innovation. There is a need to collaborate with the policy makers to create an integrated policy for media, culture, economy, innovation and education.
3. Working towards an entrepreneurial, creative industry

Business and entrepreneurial skills are not only essential to getting access to financial aid, but also help a creative activity to consolidate, valorize and grow.

4. Working towards a better financial climate and tax policy

Create a favorable fiscal environment for creative people (creators, designers, writers, composers, film-makers ...) and encourage and optimize investments in the creative industries. Keep in mind the nature of the creative process.

5. Working towards a better infrastructure

Encourage clustering by developing co-working spaces with an optimal digital infrastructure in cities (i.e. free wifi, living labs) to develop and support new ideas, to have a more community-driven approach and have the ability to explore new platforms.

6. Working towards honest compensation and protection of creativity

Recognize intellectual property as an important source of income for the creative industries and guarantee a fair payment for creators.

*These 6 recommendations are a first step for those within the creative industries to organize themselves and strive for a more international approach when in collaboration with organizations that are not used to working with the creative industry.*

### **What have we learned from our first year in operation**

As mentioned before The Studios currently houses four companies, of which two are start-ups and two are senior companies. The companies appear to be doing well thanks in part to the connection with Howest and to leads that come in via existing networks. The synergy that is created among the companies and the availability of the creative, open space has played a large role in The Studios' success so far.

With that said, we also see that start-up companies have a lot to learn in terms of business etiquette, follow-up, creating offers for clients, market-response, committing to deadlines, having deliverables and so forth.

The seminars held at and by The Studios are also a great asset as they can be used to repeat the important messages about good business practices as well as true stories of both failure and success. The good spirit and open environment at The Studios allows for spotting sensitive areas and lack of experience and guiding the start-ups pro-actively.

In conclusion, it can be said that The Studios at Howest is the start of a successful initiative that is unique to the region. The Studios welcomes many visitors from Belgium's neighboring countries and beyond, who see The Studios as a great example of a creative hub; a business accelerator for the new creative economy and all it demands.

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**Keywords:** pre-incubation, networking, mentoring, industry liaisons, academic association.

*Bio: Christel De Maeyer, manager The Studios at Howest*

Christel De Maeyer, BA in communication management - advertising has been riding the digital wave since 1989. De Maeyer did numerous electronic productions in the early 90's in a B2B and B2C market. In the booming CD-ROM days, she managed and produced children edutainment titles. In the early internet days, De Maeyer worked on numerous media campaigns for MSN, public Flemish television and major brands. During the internet hype, she started an official Macromedia Authorized training partner center and sold it to the international Pan European group Vision It. Multimediacollege™ is still alive in the group, under its own brand and as an Adobe authorized training and consulting partner.

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## **Small Innovative Enterprises: The Key Factors for Internationalization**

### **Abstract**

nowadays the global market has become more accessible not only for big corporations but for small enterprises as well. SMEs get the opportunity to be international players due to network communication, unification of the business processes, and improvement of the custom regulations. Among the whole pool of SMEs the small innovative enterprises (SIEs) seem to be the most promising and demanding for internationalization as they have unique products that can bring the success to the company. But for the small company it is not so easy to go abroad even if it has innovative products. There should be very essential reasons that motivate management to invest resources into internationalization process.

**In the paper I try to investigate key social factors that push SIE into the foreign markets.**

**Keywords:** small innovative enterprises, internationalization, key factors for internationalization.

### **1. Introduction**

innovative companies constantly involved in cumulative, collective and uncertain innovative process (Lazonick and O'Sullivan 2000) are open to new opportunities that can be found not only on domestic but on the foreign markets as well.

If we ask the question, “do innovations increase the probability of becoming international?” for many countries we can find the researches providing an affirmative answer. Thus, Basile's study shows that innovation is a very important competitive factor which helps to explain firm heterogeneity in export behavior among Italian firms (Basile 2001). Wakelin finds that the number of innovations used at the sector level in UK is positively and significantly related to the probability of becoming international, precisely of exporting (Wakelin 1998). Similarly, Lopez and García find that product and process innova-

tions, as well as the use of patents and R&D spending intensity have a positive and significant effect on firm's export propensity and intensity (López and García 2005). The evidence of positive correlation between innovation and internationalization can be found for Turkish firms (Ozçelik and Taymaz 2004), for Spanish manufacturing (Mañez et al. 2004).

Thus we see that innovative companies could be internationally successful. But there is a gap in investigating the factors that help companies to start internationalization. The results of the on-going researches illuminate the main factors of SIEs attempts to go abroad.

## **2. The key factors for internationalization of SIEs**

To reveal the key factors of SIEs internationalization the data of the two researches 2008-2011 were accumulated and analyzed.

### **2.1 Methodology**

The paper is based on the findings from case study of SIEs which have their offices in St. Petersburg. Also I use very preliminary results of on-going ROCKET research project designed as case study as well. I believe that case study approach help one to understand small international entrepreneurship more deeply and comprehensively.

I have investigated five Russian and six Finnish small innovative enterprises from the medical equipment field, IT and gas analytic equipment industries, construction, consultancy, physics, textile industry. 10 companies have successful experience of the international sales and partnerships; one Russian company has attempted to go abroad but failed.

The interviews with top-managers/owners were conducted, as well as documentation research, and the long-term in-depth observation in one company during 7 years by the author.

### **2.2 Intermediate results**

It was found that the SIE's owner play key role in making decision on the internationalization of the company. Each of the respondents indicated that the desire of the owner to enter the international market was decisive in the politics of internationalization. In every internationally successful company the owners are fluent in English and/or other languages; they have possibility to participate in international fairs, conferences, to take part in negotiations.

The top-managers from four observed companies stressed the importance of the public presentations at the international conferences, seminars, where they could present the paper on the related scientific topic. Such kinds of

presentation are useful not only for the sales, but also for establishing new joint projects or creating new ideas for the next products elaboration.

Some of the tops have friends or relatives in entering country; four have studied abroad. Usually, the owners establish the first international contacts by themselves. They noticed that it was very important to believe in the business partner as the risk of losing the intellectual property was very high.

The Finnish SIEs have demonstrated a tendency to follow the partners which have already entered the foreign market. Typically, they are large companies. As for the Russian companies no one has mentioned the experience of going abroad because of relations with the large MNC.

In the most cases for Finnish companies entering another market means that they have done everything what they could on their national market and that internationalization would bring them new financial opportunity. The Russian SIEs could not say that they have reached the maximum market share in Russia. Going abroad for them is more matter of image and the personal requirement of the owner (Table1).

In the contrast the company with failed international experience has the owner who was not personally interested in internationalization, he did not know any foreign language, had nor friends or relatives abroad, thus he had no possibility to know another business areas closer to evaluate the perspectives of his/her company development in other countries.

Only two Finnish and one Russian company have recalled the support of the state or non-government support in the internationalization process. But even they could not say that it was very sufficient help that motivate them to go abroad.

All revealed factors for internationalization can be summarized in two categories: external and inner factors (Table1).

Table 1. The KEY Factors that Influence the SIE's Internationalization

<b>External factors</b>	<b>Inner factors</b>
<ul style="list-style-type: none"> <li>• Easy access to Internet, mobile connection</li> <li>• Internationalization of the business-partners</li> <li>• Satiety of domestic market (for Finnish SIEs)</li> <li>• Good financial opportunities abroad</li> </ul>	<ul style="list-style-type: none"> <li>• International experience of the owner or top-managers</li> <li>• Willingness of the owner to enter international market</li> <li>• The owner's private network abroad</li> <li>• Attendance of international fairs, conferences</li> </ul>



### 3. Conclusion

Key social factor for successful internationalization is the SIEs' owner personality, his/her international experience, social network, language skills. Thus, I consider that it is very important to focus on the characteristics of the SIEs' owners in further research. It could be necessary for understanding more precisely how leadership, entrepreneurship, etc. traits of the owner influence the international development of the small innovative companies.

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## **Entrepreneurship Education in the Strategies and Curricula of Finnish Vocational Teacher Education**

### **Introduction**

Entrepreneurship has been set as an important goal of teacher education both in national and international level. The teachers are expected to support the entrepreneurial growth and behavior of their pupil and students. And the teacher education is expected to give the teachers readiness to do that (Ministry of Education and Culture 2009, 28 - 30).

In Finland there has been founded YVI-project. YVI means virtual learning environment of entrepreneurship education. It is a nation-wide, multi-science development and science project that has been funded mainly by European Social Fund. The money has been coordinated by the national board of education. The main actors are 7 teacher training schools, three university departments of teacher education, 2 other universities, 6 universities of applied sciences including all 5 teacher education units in Finland and 10 other partners.

The main goals of YVI are:

1. Generate a virtual learning environment of entrepreneurship (later EE)
2. Create a dynamic model for EE, in which planning, implementation and evaluation develop
3. Strengthen the network collaboration and regional development among the developers of EE
4. Improve the knowledge-level of the implementers of EE
5. Increase the knowledge of EE
6. Help teacher educators develop the pedagogical capabilities of EE

In this article we concentrate especially on vocational teacher education. There are five universities of applied sciences in Finland offering vocational teacher education which all are acting in wider area or even nationally. Every one of them has also international interaction.

It is important that the strategies and curricula directing the activities in vocational teacher education support entrepreneurship and not prevent it. This article presents results from a content analysis of their curricula and written strategies. It seems in general, that all written documents include some kind of a statement about the importance of entrepreneurship education. There are case curricula with a holistic entrepreneurial frame of reference tempting at pedagogically innovative and entrepreneurial vocational teachers but mainly curricula with entrepreneurship education as a separate subject.

## **The Role of Vocational Teacher Education in Entrepreneurship Education**

The meaning of vocational teacher education is to give the needed support to their students both in basic level and further training level of teacher education. It means that the students are already working as vocational teachers or they will do that in the future. To be teachers they need pedagogical and didactical skills which are in focus during their studies vocational teacher education.

Vocational teachers can not any more think that their students will be employed in big companies or public sector organizations. Most of people employ in small and medium sized enterprises and they need entrepreneurial skills to manage their working there. Of all private sector employees in Finland, 62 % work for companies employing fewer than 250 people. These enterprises generate about 50 % of the combined turnover of all Finnish businesses (Federation of Finnish Enterprises, 2011; Gibb 2005, 51 - 54) Entrepreneurship is a part of working, competency and professional skills. It can be seen as a way of thinking, acting and attitude in overall working (Koiranen & Peltonen 1995, 9)

Entrepreneurship can be seen as well as a part of vocational identity and working life. A skilled person needs self evaluation skills to find out his/her possibilities in working life either as a worker or an entrepreneur. The objective of entrepreneurship education is to support one's growth in intrapreneurship and entrepreneurship (Kyrö, 2005, 21 - 23). Thus the vocational teachers are supposed to support their students in their entrepreneurial growth.

The main skills of a vocational teacher are pedagogical skills, research and development skills, working community skills and substance skills.(Helakorpi 2010, 118 - 121) During the teacher education the students are expected to develop especially their pedagogical skills, that involve teaching and guiding skills of vocational growth. It means e.g. many-sized interacting and human relationship skills and emphatic abilities. Instead of single lessons he/she must be able to direct complicated learning processes both in personal and community level. To reach these skills and abilities he/she has to train teaching in practice by making different pedagogical and didactical solutions in his/her job. From the point of view of entrepreneurship education they should learn to use pedagogical and didactical solutions that support the for example

learning of opportunity seeking and realizing, bearing of uncertainty and interacting with the different stakeholders. (Gibb 2005, 56; Kyrö 2005, 76 - 79)

In Finnish ESF-project named YVI the main objective is to develop the Finnish teacher education to consider entrepreneurship education in their activities better than before. One sub-goal is to get entrepreneurship education mentioned in the strategies and curricula of teacher education organizations. In the pre-research of the project the strategies and curricula were read and the mentions of entrepreneurship or entrepreneurship education were found out and the meanings of the sentences were analyzed. Next are presented the main results of the vocational teacher education units.

### **Analysis of Curricula in Teacher Education Units**

In each Vocational Teacher Education Unit in Finland the curriculum is based on socio-constructive thinking. It means that both the social nature of learning and personal constructing of knowledge are emphasized. This offers good possibilities also for entrepreneurial learning and entrepreneurship education. (Fayolle, Kyrö & Ulijn 2005, 9.) And based on the curricula the teachers are able to do entrepreneurial solutions in their pedagogical and didactical plans.

In the Vocational Teacher Education Unit of Tampere University of Applied Sciences (TAMK) entrepreneurship was mentioned as an entrepreneurial behavior. But there are no actual studies offered.

In the Vocational Teacher Education Unit of Haaga-Helia UAS in Helsinki (H-H) the students study in the groups with 4-6 persons. The groups choose one theme for their studies. One of the choices is able to be entrepreneurship pedagogy. In curriculum there are shown also the learning tasks of each course. Entrepreneurship has been mentioned in the descriptions of tasks in three different courses.

In the Vocational Teacher Education Unit of Häme UAS (HAMK) the students have had a possibility to choose an Entrepreneurship Education directed line since 2006. The studies go thru in normal curricula but the emphasis of all the tasks including especially the teacher training and the study is entrepreneurship education. And very important part of learning entrepreneurship education is the spirit of the study group. People with the same kind of interest are able to develop together the pedagogy and didactics of entrepreneurship education by solving the problems together. Furthermore in HAMK there is a possibility choose an optional course of entrepreneurship Education with 3 credits.

In the Vocational Teacher Education Unit of Jyväskylä UAS (JAMK) all the student have to pass the compulsory course of "Working Life, Entrepreneurship and Competence" with 6 credits. In addition, there is an optional course of "Enthusiasm and Frame of Mind for Entrepreneurship Education" (translated by the writer) with 5 credits.

In the Vocational Teacher Education Unit of Oulu UAS (OAMK) almost all studies are optional for the students. The students are able to choose courses of “Entrepreneurship Education” with 3 credits and “E-learning Environment for Teaching and Learning Entrepreneurship” (translated by the writer) with 6 credits. The students have also a possibility to make 6 credits in the Entrepreneurship Incubator of OAMK.

## **Analysis of Strategies in Teacher Education Units**

As already mentioned, all Finnish vocational teacher education units are parts of universities of applied sciences. Only two of the units has written own strategic statements. In the Vocational Teacher Education Unit of JAMK they have written a vision and it includes the mention that they want to be internationally accepted developer of culture entrepreneurship. That may refer to JAMKs role as an educator of music pedagogies. In the Vocational Teacher Education Unit of Haaga-Helia they have not used the word entrepreneurship, but their activities are to serve the working and business life and it can be seen very near to entrepreneurship.

The other strategies are written for the whole university of applied sciences. But they offer the teacher education units as well. All the universities have written separately their visions, main strategies and sub-strategies.

According to main strategy or mission as it there stays Haaga-Helia is going to educate the professionals with the spirit of service selling and entrepreneurship. One of the sub-strategies in Haaga-Helia is “service-, selling- and entrepreneurship strategy”. It means that all the graduating students of Haaga-Helia are entrepreneurial and they are able to see entrepreneurship as one possibility for their carrier.

In its vision HAMK is in 2015 appreciated international university that is the leading promoter of innovations and entrepreneurship in its area. In the main strategy one way of HAMK is innovativeness that exists in strong working life integration and internationality and it creates a basis for results entrepreneurial activities. In its sub-strategies HAMK name entrepreneurship in the Pedagogic strategy and R&D-strategy.

JAMK wants to be in 2015 the best university of applied sciences in Finland that has shown its ability in international co-operation, quality of education, promoting of entrepreneurship and so on. They are not unpretentious but it could not help them at all. So it is better to want to be simply the best. Main strategy is very long and entrepreneurship has been mentioned five times. Also the sub-strategies are written very long and entrepreneurship has been mentioned several times.

The main strategy of OAMK tells that the most essential internal focuses of development are entrepreneurship, sustainability and internationality. In addition there are four sub-strategies and all of them are still divided to several focuses of development. One of these focuses is entrepreneurship and it

means that in OAMK they will improve the competences of entrepreneurship and encourage to entrepreneurship.

TAMK names four values and one of them is to appreciate competence and entrepreneurship. The policy of TAMK is ...to act with the entrepreneurial attitude for the best of TAMK. And finally one of the named six profiles in entrepreneurship pedagogy.

## Conclusions

It can be concluded that the Finnish vocational teacher education curricula provide at least possibilities to enhance entrepreneurship education and good partnership with entrepreneurs. More conceptual analysis and empirical evidence is needed to really judge the curricula based on their ability to enhance the competences of future vocational teachers in how they themselves conduct entrepreneurship education.

Possible focuses of developing the curricula of vocational teacher education in the future are for example

- How to develop the tutoring and vocational guidance in the Finnish vocational education and especially how to develop the education of vocational tutors and guides?
- How to develop the education of the vocational special educators? Many succeeded entrepreneurs have had special needs during their school time.
- How to make entrepreneurship education compulsory for all vocational teacher students and how to integrate it in the studies, for example in teacher training? If it is only optional it might divide the student into the two groups: those who are interested in EE and those who think that it is not my business.
- How to change the text of curricula into the activities in practice level? More important is the question of how to learn than what to learn.
- How to develop new and existing learning methods and environments like practice enterprises, incubators, student co-operatives, Junior Achievement, team academies and so on.
- How to educate the existing teachers to the entrepreneurship educators? We need curricula also for further education.

The directing strategies of vocational teacher education allow all entrepreneurship education in vocational teacher education. Much more it is depended on the activities in practice. The entrepreneurship educators are expected to be entrepreneurial themselves. It means that they should innovatively find out the opportunities in teaching and learning entrepreneurship. They should accept the uncertainty of working and also working activities of their students. It mean freedom and responsibility, creativeness and uniqueness, holistic view

of seeing the learners and finally it means action and interaction with each other. (see also Kyrö & Kansikas 2005, 131)

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## **Outside Looking in: Is China's Economic Boom Leaving Finnish SMEs out in the Cold?**

### **Abstract**

**In this paper, the author studies the interest and readiness of Finnish small- and medium-sized enterprises (SMEs) in the Uusimaa and Päijät-Häme regions to enter the Chinese markets. In comparison to its neighbor, Sweden, Finland has fewer SMEs that are considering the expansion of their business operations to the People's Republic of China (PRC). To explain the difference, this study examines macro- and micro-level factors. The surveys, interviews, and case studies conducted indicate that the most important macro-level factor affecting both the interest and readiness of Finnish SMEs to launch their operations in China is inadequate public support for their internationalization. When studying the factors at play at the enterprise level, the author finds that the most significant barriers to launching operations in China stem from the SMEs' ageing leadership, aversion to risk taking, and lack of resources, including capital and internationally experienced management. At the end of the study, the author offers policy recommendations to public sector officials that take into account best practices for increasing SMEs' level of readiness to expand to the Chinese markets.**

**Keywords:** small- and medium-sized enterprises, SMEs, Finland, China, Sweden, internationalization, globalization, public financial support, public-private partnership

### **Introduction**

China has become the world's second largest economy after the United States. It is now the European Union's (EU) second-most important trading partner. With its rapidly growing middle class, China's market for mass consumer goods has exploded and the country needs everything from clean energy to reliable infrastructure. Finnish small- and medium-sized enterprises (SMEs)

*Disclaimer: The contents in this report, other than reported statistics and references are strictly those of the author and do not necessarily reflect the views of the interviewees, the studied companies, and individuals associated with the BENCH project1*



produce many of the goods and services that the Chinese want, but are they ready to expand their business operations to China?

Gauging SME interest and readiness to enter the Chinese markets is important not only to SMEs themselves but also to the Finnish policymakers whose responsibility is to find ways to support growth-seeking businesses. SMEs are the cornerstone of the Finnish economy, and consequently, supporting such companies is essential for job creation and tax revenue. In this study, SMEs are defined in accordance with EU guidelines as enterprises with fewer than 250 employees, provided they are independent of other enterprises and do not have sales that exceed EUR 50 million or an annual balance sheet that exceeds EUR 43 million. Finland has a total of 263,000 enterprises (2008 figures, excluding agriculture), of which 99.7% are SMEs employing fewer than 250 people. These enterprises generate 49% of the combined turnover of all Finnish businesses, and they are responsible for more than 13% of Finland's export revenue (Statistics Finland, 2011) Since the domestic market in Finland is small, going abroad is often the only way for SMEs to grow and achieve economies of scale. Internationalization brings other benefits, too, such as increased innovation (European Union, 2010), which further contributes to SMEs' growth potential. For Finnish SMEs, China is not the only international market they can use as a springboard for growth and innovation, but it certainly is the most impressive in terms of potential returns.

The internationalization of firms has been researched extensively over the past 30 years, and there is a good historical understanding of how firms have become global players (Madsen and Servais, 1997; Oviatt and McDougall, 1994). There is also recent research available on the internationalization of European SMEs, such as a report commissioned and published by the European Commission in 2010. Much research has also been conducted on the modes of entry into the Chinese markets and, in recent years, on the adequacy of resources SMEs have at their disposal for taking their business operations to China. But this is not enough. Internationalization of SMEs in the 21st century as a focus of academic interest is always playing catch-up with the rapidly changing global business environment where e-commerce, new business networks, and digital marketing methods have revolutionized the market place. China is especially prone to rapid change. Research done on almost any aspect of its markets—and there are many of them—is in constant need of updating and expanding. From the point of view of this study, one interesting finding is that there is little research available on SMEs' own perceptions of their readiness to enter the Chinese markets.

The contribution of this paper is to increase our understanding of the extent to which SMEs in Finland are interested in expanding their business operations to China and the level of their preparedness for the expansion. The results presented in this study are meant to complement the existing body of research, which investigates the barriers that hinder SME internationalization. The author gives a comparative analysis of SME level of interest and readiness to enter the Chinese markets by studying SMEs in the county of Östergötland in Sweden and in the regions of Päijät-Häme and Uusimaa in Finland. Original research data comes from surveys and interviews conducted there.

In the Finnish regions under observation, the number of entrepreneurs as compared to other professions is the highest in the country (Hietala, 2006),<sup>1</sup> and therefore, the results of the surveys can be regarded, when complemented with other research on the topic, as important indicators of Finnish SME perceptions about their readiness to expand to Chinese markets.

## I. Methodology and Definitions

To study the level of interest SMEs have toward expanding their operations to China, the author uses primary data, including surveys and interviews. The surveys have been conducted under the auspices of the BENCH project. BENCH (Beneficial Business Contacts between the Central Baltic Region and China) is an EU-funded project to help small- and medium-sized enterprises (SMEs), especially cleantech companies, take advantage of growing Chinese markets. Its second major goal is to attract Chinese businesses and investment in the BENCH region. This region includes two provinces in Finland, one county in Sweden, and the country of Estonia. In Finland, the BENCH regions are Uusimaa and Päijät-Häme. In addition to primary data, the author relies on previous research on the internationalization of companies to China available from sources such as journal articles and official statistics collected by public and private entities and multilateral organizations, such as the European Union.

The term interest in this study is used to indicate a permanent mental position through which intellectual energy is directed toward an object. Showing interest is purposeful in character, and it often results in a lasting impression (Silvia, 1976). In this paper, SME interest in expanding operations to China and/or doing business with the Chinese is studied with this definition of interest in mind. The term readiness is used here to refer to “the state of having been made ready for use or action.” A state of readiness cannot be imposed on an SME; it must develop from within. But a number of actions can be performed outside and inside a firm to accelerate its development. The exact time at which a state of readiness is achieved can be determined only by SME decision-makers; if they themselves are not ready to undertake action, it matters little how ready the company is for it from the outsiders’ point of view. Nevertheless, tools such as SWOT, which is used to evaluate the firms’ strengths, weaknesses, opportunities, and threats at the outset of a new business venture, can be valuable to help business executives crystallize their visions and develop road maps for their businesses.

Finally, the term *internationalization* is used in this paper to refer to the process through which firms increase their exposure and response to international opportunities and threats through a variety of cross-border modes of operation (Morgan-Thomas & Jones, 2009). Because the term assumes that the firm is engaged in “a variety of cross-border modes of operation,” it is not used in this study as a synonym for the term *readiness*. By using the term *readiness*, the author wants to emphasize that the object of research is limited in

<sup>1</sup>In 2006, the Uusimaa region in Finland was the most favored region to register a business in Finland. The firms that operated there also had more employees than firms that operated in other 18 regions surveyed. They also generated the most revenues. The Päijät-Häme region was number three in the survey that studied the number of employees in firms.

scope to a take-off period in the process of internationalization. Therefore, the SMEs that have established themselves in China and have operated profitably in that country for more than two consecutive years are not the primary focus of this study.

To further define the object of research, the author groups SMEs into four different classes on the basis of the level of interest they have in doing business in China. The potential benefits that such classification has for policy making and public perceptions will be discussed at the end of the paper. The classification is not meant to be viewed as a series of stages that a firm must go through in sequence in order to reach the ultimate stage of establishing itself in Chinese markets (Johanson & Vahlne, 1977).<sup>2</sup> With globalization, market conditions change rapidly, bringing a degree of volatility to which SMEs are especially sensitive. Consequently, they may leap directly into any one of the classes, and they may also move in and out of the classes several times in the course of their internationalization process.

The four classes that SMEs are divided into in this research are: (1) Interested, (2) Involved, (3) Committed, and (4) Invested. Interested SMEs are in the early stages of developing their entry strategies and are looking for general information about China for use sometime in the unspecified future. Involved SMEs are actively working on their entry strategies, and their due diligence includes looking for partners either inside or outside the mainland. Committed SMEs have established their operations in the mainland, and most have Chinese partners who are helping them with *guanxi*, the personalized network of connections. The last category consists of Invested SMEs, who have devoted considerable time, money, and energy into doing business in China. If successful, Invested SMEs are expanding and consolidating their operations, making profits, and hiring new staff. If unsuccessful, they are making cost-benefit calculations and /or reorganizing their businesses in hopes of turning the corner to profitability.

The focus of this paper is on the first two classes of SMEs, the Interested and Involved. Most SMEs, such as bakers and hairdressers, are not included in any of the classes because they cater to the local markets and have no intention, interest, or need to expand beyond their localities. The Interested and Involved SMEs are a self-selected group of businesses that tend to be more ambitious than most SMEs. Many of them already have experience in foreign markets. The Involved SMEs have passed the fact-finding mode and are ready to expend resources to conduct market surveys in the mainland of China and study various market-entry options. Their due diligence includes looking for partners either inside or outside China. At the practical level, they are thinking of how to set up their offices, where to set them up, how to operate their businesses, and where to find staff. Finally, these SMEs want to know about the ways the public sector is helping businesses gain market access in China.

What motivates some SME executives to become interested in taking their businesses to China? In general, their main motivation is the desire to max-

<sup>2</sup>The author's emphasis differs from the traditional Uppsala model, one of the dominant models of internationalization, which involves the view that internationalization of firms takes place in phases that follow each other in sequence.

imize returns and minimize costs in production, purchasing, and sales. But there are other drivers, too, many stemming from personal skills, capabilities, and characteristics; SME owners and managers make the determination of whether they are ready to take their companies to China. It is interesting to note that although there is some research available about the pre-take-off phase of the SME internationalization process in China (Sandberg, S. 2008), such research is still in its infancy. The Uppsala model, which describes internationalization of a firm as a process through which a company intensifies its activities incrementally, starting from the domestic market, growing next to geographically and culturally familiar markets, and then to more distant markets (Johanson & Vahlne, 1977), has been found useful for studying early stages of internationalization, but less so for studying the pre-internationalization phase.

## 2. Chinese Markets: Huge, Fast and Furious

China has become not only the world's biggest exporter but also the world's second-largest and fastest growing economy. Its gross domestic product (GDP) grew faster than expected at 10.3% in 2010, and the growth remains strong. The World Bank still defines China as a lower middle-income country, but the country is a rising superpower, with \$2.6 trillion in foreign-exchange reserves. Commercial opportunities for Western companies in China are expanding at a remarkable rate as the country turns away from its export-oriented focus. For the Chinese party-state, boosting domestic demand and consumption is now a high priority, and foreign business executives are taking notice: they are spreading their company networks to rural areas and third-tier cities, where they are closer to new markets and a less expensive labor force.

Behind the Chinese growth miracle is a set of carefully crafted economic reforms that started in the 1970s when inefficient state industrial enterprises were closed. China accession to the World Trade Organization in 2001 accelerated growth, and its markets were further liberalized. Today, China has an increasingly affluent population that is calling for better services and quality of life. They are also demanding a cleaner environment and improved health care. Some of the newly rich are very wealthy. The country has more than a million millionaires, and it ranks eighth globally for households with assets worth more than \$100 million (Balfour, 2011). The luxury market is growing.

The rapid economic growth brought along far-reaching changes. China is no longer a manufacturing base for exports but an ambitious technology-driven country where indigenous innovation is encouraged, supported, and heavily subsidized. It is developing a consumption-driven economy based on its own design brands, technology, drugs, and services. Where does this leave the Nordic SMEs? According to Finpro, a public-private partner organization that helps Finnish companies grow internationally, Finnish SMEs know very little about China and "for Finns it is too demanding to take part in most major Chinese projects with the limited capital and resources Finnish companies have" (Pöysti, 2010). This assessment is sobering. Yet the same report identi-

fies a long list of potential opportunities for Finnish companies, including energy-efficient technology, environmental technology, information and communications technology (ICT), health care, pharmaceuticals, and construction machinery. It is the opportunities rather than challenges that feed the imagination of entrepreneurial minds. A self-confident head of a fast-growing Finnish SME may very well find going to China worth any perceived risk. In addition, in the near future he or she may find the business environment more SME-friendly than it has ever been in the past.

## 2.1. The Enhanced Role of SMEs

The second decade of the twenty-first century is the golden decade of SMEs in China. During Vice President Xi Jinping's visit to Sweden in March 2011, he emphasized that SMEs are a key to future growth and jobs in both Sweden and China, reflecting the official view that has been in the making since the late 1970s. As a result of a series of economic reform programs, China, in sharp contrast to Russia, has a vital SME sector and a host of government programs to support SME financing. China's SMEs created more than 180 million jobs by the end of 2010 and maintained an average growth rate of 14% in 2010. By September 2009, China had 10.3 million enterprises (excluding 31.3 million individually owned businesses), 99% of which were SMEs. SMEs contributed more than 60% of the GDP, more than 50% of the tax base, and made up nearly 70% of the value of import and export trade.

The enhanced status of SMEs in China has not gone unnoticed elsewhere in the world. Policy makers across North America and Europe, including the European Union (EU), are taking notice. The EU has readied itself for Chinese SMEs by opening the EU SME Center in China in January 2011. Sweden concluded an agreement with China on cooperation in the SME sector in 2010. In New York, the Chinese SME leaders held a forum in February 2011 with over 100 participants (Chinese SME leaders, 2011). Finland, however, lags behind in crafting a strategy for SMEs in China. Its first China Action Plan was announced only in July 2010, and it made no special mention of the Finnish SMEs. The revised plan is due within a year, and it is hoped that it will include more emphasis on business-to-business relations between Finnish and Chinese SMEs.

The official recognition and support the Chinese government is giving to its SMEs will have long-lasting effects. In the long run, SMEs will play a central role in the transition of China's planned economy to an increasingly more open-market economy and eventually toward increased political liberalization. Growing business-to-business contacts across the borders will lessen the effects of *guanxi*, the web of relationships built over a long period of time that have been central to Chinese society and commercial life. Domestic and foreign SMEs, for whom *guanxi* has been more critical than for large companies, will benefit noticeably, provided that China remains stable.

### 3. Finnish and Swedish SME Interest in China Compared

The Nordic countries of Finland, Norway, Denmark, and Sweden were the first Western countries to recognize and establish diplomatic relations with the People's Republic of China in 1950. Both Swedish and Finnish investments in China started in the 1980s and gained momentum by the end of the 1990s. Not surprisingly, the first companies to enter Chinese markets were large firms, followed by SMEs. In 2007 and 2008, mainly small-sized companies, with fewer than 100 employees, were entering China from Sweden (SEB & Swedish Trade Council China Survey 2008). Finnish SMEs were also entering China in greater numbers at that time than before (Kiinan kauppapoliittinen maaohjelma, 2008). The trend has continued, although the number of Finnish SMEs entering China has remained much lower than Swedish SMEs.

When studying the level of interest SMEs have toward Chinese markets in Sweden and Finland, it is important to keep in mind that in both countries the majority of SMEs are either small or micro companies. According to the definition used by the EU, a small enterprise employs fewer than 50 people, and its turnover and/or annual balance is less than EUR 10 million; a micro enterprise employs fewer than 10 people, and its annual turnover and/or annual balance is less than EUR 2 million. In Finland only one percent of all companies were medium-sized SMEs, that is, firms that had between 50 and 249 employees (Elinkeinoelämän keskusliitto, 2006). In Sweden, SMEs represented 99.9% of all enterprises in 2008, and 96% of them were micro firms (Statistiska centralbyrån, 2010). Consequently, the SMEs studied in this paper are mostly small firms. Most of the SMEs that responded to the BENCH 2010 survey, which measured Swedish, Finnish, and Estonian SME interest in conducting business in China, were either small or micro enterprises (Härkönen, Puus, Rönnbäck, Ya Zhang, 2010).

#### 3.1 Finnish SMEs – Intrigued but Restrained

The interviews the author conducted in late 2010 and in 2011 among SMEs in Päijät-Häme and Uusimaa indicate that entrepreneurs are knowledgeable about the significant opportunities that the Chinese markets present but don't know much about the country, let alone how to conduct business there. This conclusion is in line with the analysis done by Finpro on the SMEs in the Uusimaa region (Pöysti, 2010). Most SMEs cater to local markets, and expansion abroad is not planned. They also tend to lack motivation to grow, a characteristic that Finnish SMEs share with their foreign counterparts (Dorn, 2009). Those entrepreneurs who plan to internationalize in the future or who already are in other markets but not in China are curious about how other Finnish companies are managing various challenges in China, including protecting their intellectual property rights. For the most part this curiosity has not, however, translated into "interest" as defined in this paper—that is, into "permanent mental position through which intellectual energy is directed toward an object."

The number of Finnish SMEs that are interested in the Chinese markets is still small according to the 2010 survey conducted under the auspices of the project called Beneficial Business Relations between the Central Baltic Region and China (BENCH). The BENCH project is funded by the Central Baltic INTERREG IVA Programme 2007-2013. Within the BENCH project, which aims at helping SMEs in Estonia, Finland, and Sweden to take advantage of growing Chinese markets, two surveys were conducted to study SME interest in expanding their business operations to China. The surveys were conducted by Linköping University in Sweden, Aalto University/Lahti Center (after reorganization, BENCH was transferred to the Lahti University of Applied Sciences) in Finland, and the University of Tartu in Estonia. The goal of the first survey, conducted from August to November 2010, was to identify those SMEs that were interested in doing business in China or with the Chinese outside of China. To measure the level of interest, the universities used announcements published in newspapers and websites that had regional and national coverage to invite SMEs to become involved in the BENCH program. In addition, the research partners sent direct e-mails to those SMEs deemed to be most interested in the Chinese markets. The prospective participants in the BENCH program were told that their participation was free of charge.

The response rate to this invitation suggests a difference between Swedish and Finnish SMEs in their level of interest in Chinese markets. In Sweden, in addition to public invitations, email invitations were sent to 1,994 SMEs. In Finland, in addition to public invitations, 914 e-mail invitations were sent to selected SMEs. In Sweden, 293 SMEs responded to the invitation by completing the survey; in Finland only 29 SMEs responded. In other words, in Sweden 14.69% of the companies to whom the e-mails were sent participated in the survey; in Finland the figure was 3.17%. The low response rate in Finland suggests that Finnish SMEs are significantly less interested in the Chinese markets than their Swedish counterparts.

The results from the BENCH 2010 survey seem to indicate that Finnish SMEs are not interested in expanding their business operations to China. However, drawing such a conclusion on the basis of one survey may be misleading. The survey results may also indicate that the SMEs who received the survey questions but chose not to respond were not yet aware of the benefits of internationalization in general and expanding their business operations to China in particular. Or they may have decided not to participate in the survey because they had a low opinion of public support programs managed by officials who had not yet demonstrated their personal competence in matters relating to China or conducting business there. In other words, those SME managers who chose to disregard the BENCH survey may have merely cast a vote of non-confidence in a public sector program rather than expressed their level of interest in China. These caveats in mind, the author has complemented the BENCH survey findings by other research results still concluding that Finnish SMEs are less interested in the markets in China than their Swedish counterparts. They are also less prepared for expanding their business operations to China than SMEs in Sweden.

### 3.2 Macro Level Reasons Affecting Readiness

What explains a lower level of interest among Finnish SMEs in Chinese markets compared to Swedish SMEs? Does interest in faraway markets imply the presence of certain qualities, such as entrepreneurial drive, and capabilities, such as international business acumen? Or can it be explained in terms of more tangible factors, such as resources, including the ability to raise funding for internationalization and attract internationally sophisticated staff? What is it about Sweden that makes its business leaders more willing to take the risks of internationalization?

EU's country profiles of Finland and Sweden paint a picture of two countries that are similar in many respects, at least superficially. For example, in both countries the percentage of micro enterprises is higher than the EU-27 average; however, in both countries the contribution of micro and small enterprises to value added is smaller than in the EU in general (European Union [EU], Fact Sheet Finland & EU Fact Sheet, Sweden, 2010). In terms of other indicators measuring economic prowess, Finland and Sweden are also very close. In 2011, Sweden was recognized as the world's second-most competitive country in the World Economic Forum's (WEF) competitiveness survey for 2010–2011. The country was noted for its transparency, efficient financial markets, and world-leading adoption of technology. Although Finland reached the seventh place, most indicators ranked it very close to Sweden, with the most notable exception being the extent of taxation (Finland's place was 113th). Finland ranked among the top three countries in the world for its ability to use technology; it ranked number one of the world's top countries in innovation; it was number one in terms of higher education and the availability of engineers and scientists; and it led the other Nordic countries in patenting (Schwab, (2011). By most indicators, Finland and Sweden are both countries with marketable technological and innovative products and services that are highly valued in China.

Finland has not, however, reached its potential in the Chinese markets, and the country is not on par with Sweden. Why not? The apparent similarities with Sweden are striking, but there are some very important differences that may in part explain Finnish SME ambivalence toward the Chinese markets. In this paper, three areas of interest are focused on: (1) the level of overall internationalization, (2) the availability of public support, and (3) the amount of venture funding available for SMEs.

#### 3.2.1 Track Record of Internationalization

Swedish companies have traditionally been more active in international markets than their Finnish counterparts. Today, Sweden has a much higher percentage of exporters than Finland has, nearly 40%, compared to less than 20% in Finland. With more exposure to the international markets, Swedish business executives are comfortable with the idea of conducting business abroad in different cultural settings. Moreover, in the course of conducting international business, they have developed a “can-do” attitude regard-



ing most markets, including those in faraway countries. It is conceivable that Swedish history of international presence and its “can-do” attitude feed the perception among SME executives that internationalization is within their reach, and, in fact, it is often the only way for their companies to grow. According to EU statistics, the percentage of internationalized SMEs in Sweden is over 60%, whereas in Finland it is only about 48% (EU, 2010).

In regard to the internationalization to China, Swedish firms are ahead of Finnish companies. In 2010, more than 11,500 Swedish companies traded with China, and nearly 600 Swedish companies had established their presence in the mainland, primarily in manufacturing and sales of industrial products. In 2005, the figure for such companies was 350 (*Swedish Industrial Corporations*, 2010). For Sweden, the major push to move into Chinese markets took place from 2003 to 2006. At that time, most Swedish companies that entered Chinese markets were SMEs who were motivated mainly by the fact that their foreign customers had already established themselves there (Larsson, 2007). The volume of Sino-Swedish trade was 5 billion US dollars in 2004 and 8.7 billion US dollars in 2007 (EUROPECHINA 2008). By the end of 2010, a total of 1,026 investment projects from Sweden had been approved by China, with a total investment of \$1.96 billion, according to statistics from the Chinese Embassy in Stockholm.

In comparison, the presence of Finnish companies in China has been noticeably smaller. According to Finpro, around 260 Finnish companies operated 350 legal entities in China in 2007, employing more than 57,000 people (Pöysti, 2010). The number of Finnish companies doing business in China went up to 280 in 2011. The value of trade between Finland and China was 6.6 billion euros in 2007; it went down to 5.3 billion euros in 2009 and back up to 6.5 billion euros in 2010 (Kettunen, Leppänen, Penttilä, 2011). Finnish SMEs account for only about 12% of the total exports to China.

Swedish firms conduct more business in China than Finnish companies, but Sweden still has a long way to go before it matches the level of business activity many other European countries have with China. In the opinion of Mikael Lindström, Swedish Ambassador to China, Swedish exports to China are not particularly large, accounting for only 3% of the EU exports to the country. The economic downturn in 2009 left its mark on Swedish companies; firms not making profit in China increased from 34% in 2008 to 39% in 2009 (*Swedish Business in China, 2009*). Although the scale is different, the challenges faced by Swedish SMEs in trying to access Chinese markets and/or operate in China are very much the same as those faced by Finnish SMEs.

### 3.2.2 Availability of Public Support

What is the proper role of the state in the market economy? How much assistance should the EU provide for the private sector, especially for SMEs trying to achieve internationalization? Is public support to private companies helpful, or does it only frustrate entrepreneurs and undermine their vision and drive? Two major schools of thought exist. First, there are those

who believe in a limited government and think the state or supranational authority should intervene in the public sector only to remove barriers to trade and free market activity. The second school of thought is that the public sector can and should provide significant financial and nonfinancial support to companies, especially when the market fails. The latter point of view is preferred in small Nordic countries whose companies are dependent on foreign markets and have limited resources for internationalization.

Does Sweden support its SMEs more than Finland does? Comparing the two countries is not an easy task for both have been active since the 1980s in giving public support to the SME sector. According to a 2001 report by the Norwegian Trade Council, Finland has been “envied” by other Nordic nations for “its early efforts to give its industry and investors a coordinated public policy and clear objectives for coordinated actions to support innovation, entrepreneurship and internationalization of its SMEs (*Report for Nordic Industrial Fund, 2001*). But in some other sectors, Sweden has taken the lead. As far as the non-financial support for internationalization is concerned, Finland actually gave more support to its SMEs than Sweden did according to the 2009 EU report. Sweden, however, gave more financial support. In the report, nations were ranked in terms of their use of financial and non-financial public support for internationalization in 2009 (calculated as percentage of internationally active SMEs), and in this comparison Sweden’s rank was no. 13<sup>th</sup> and Finland’s no. 20<sup>th</sup> for financial support. For non-financial support Sweden was ranked no. 26<sup>th</sup> and Finland no. 18<sup>th</sup> (EU, 2010).

Non-financial public support is welcomed by SMEs, but it is the financial support that they view as most beneficial. Internationalization is expensive to all companies, but its cost is often overwhelming for SMEs. A review of the research concerning impediments to the growth of SMEs of any country indicates factors that are similar to those found when studying Finnish SMEs, including expansion to the Chinese markets. According to one survey conducted in 2002, one of the most significant obstacles to the survival and growth of SMEs, including innovative ones, was access to financing (European Commission [EC], 2002). Subsequent surveys confirm this finding. In the BENCH study, Finnish SMEs note their inability to obtain funding as one of their main reasons for not going to China to conduct business (Härkönen, 2011).

Why is it difficult for SMEs to obtain funding? One reason is that many of them tend to be innovative companies with more intangible than tangible assets. Intangible assets are difficult to assess and collateralize. Banks consider investment in SMEs to be too risky and uncertain. In Finland, raising funds from private individuals, including so-called angel investors, is challenging because few are willing to invest, and those who are willing have limited funds at their disposal. Moreover, unlike in the United States, there is no such program as the Small Company Offering Registration (SCOR) in Finland. With SCOR, the U.S. government facilitates small business capital formation, allowing SMEs to use a simplified registration as the disclosure document for investors (Arkebauer & Schults, 1998). For many SMEs in Finland, the government is the main source of funding for internationalization.

Sweden has deeper public pockets than Finland has. Public support for companies to internationalize has been more extensive in Sweden than in Finland in terms of financial support. In a survey conducted in 2010, 5% of Swedish SMEs reported obtaining some kind of financial support; in Finland only 3% did (EU, 2010). The Finnish government has given financial support for SMEs in various ways for years, but the funds have not been directed to their long-term internationalization. Instead of supporting long-term entry processes to international markets, the Finnish government has preferred giving loans, guarantees and grants to start-up companies, while only modest sums have been given to companies to finance their early phases of internationalization. The entities that channel such support include Finnvera Oy, the Finnish Funding Agency for Technology and Innovation (Tekes) and centers of the Centre for Economic Development, Transport and the Environment (ELY). SMEs modest public investment funds have come mainly from the government-owned investment companies such as Finnish Industry Investment Ltd. and Sitra.

### 3.2.3 Inadequate Venture Funding

The venture capital market is vitally important for start-up and growth-seeking companies that want to sell their products and services abroad. Compared to the United States and many European countries, especially the United Kingdom, the Nordic venture capital industry got a late start. It was only in the mid-1990s that venture capital industries in the Nordic countries came to life and even then only due to government initiatives. From the mid-1980s, when the financial markets were liberalized, to 2000, the most active year for Nordic venture capital firms was 2000. Figures from that year show a dramatic difference between the amount of funds raised in Finland and Sweden. In Sweden EUR 3.6 billion in venture capital (VC) was raised; in Finland only EUR 570 million was raised (Hyytinen & Pajarinen, 2001).

Finnish early-stage investment industry has remained thin and risk-averse; there were only five early-stage funds actively investing in 2008. Few funds had above EUR 50 million under management and, consequently, lacked the ability to scale early-stage companies to international growth. The Finnish paradox was born: the country was one of the most R&D intensive countries in the world and led international competitiveness tables, yet it had no effective commercialization paths for R&D products and only some meager amounts of early-stage venture funding. In the report by the Nordic Innovation Center, the gap between Finnish achievements and its poor investment infrastructure was called “striking.” (*Challenges and Initiatives, 2009*).

In the absence of institutional investors and sizable national venture funds in Finland, the vacuum for early-stage funding was filled by the government. The early-stage market became dominated by public entities such as Veraventure, which in 2007 commanded more than 80% of the early-stage market in Finland. In 2010, two of the former top tech VCs, Aqvitec and CapMan, withdrew from the market. According to a report released by Technopolis Online, there were 61 investments made into Finnish companies in

2010, worth EUR 92 million. Compared with 2009, the number of investments dropped by 15%, and the value of investments dropped by 21% (*2010 Venture Capital Investments*, 2011). Probably in response to the worst year on record for Finnish investment activity, Veraventure opened up access to its angel network in 2010 for all startups, but it is too early to tell whether this has helped SMEs expand to international markets, especially to China.

In Sweden, too, the venture capital market has traditionally been dominated by funds that have at least been partly financed by the government. There are, however, more business angels and private venture funds in Sweden than in Finland. In a recent survey, Swedish venture capital was ranked number one in Europe in terms of activity. In both Finland and Sweden, foreign capital is increasing its presence. This withdrawal of top VCs from Finland left a vacuum in the investment market, and foreign companies saw an investment opportunity. During the first six months of 2011, Finnish firms had already collected more investment funds than during the entirety of 2010, netting more than EUR 100 million (Holm, 2011).

### 3.3 Enterprise-Level Explanations

Finnish SME executives perceive similar barriers to their firm's internationalization as their counterparts do in many other European countries. Professor Leonidas C. Leonidou has given a general classification of these barriers, dividing them into internal and external impediments that hinder the firm's ability to initiate, develop, or sustain business operations in overseas markets (Leonidou, 2004). In this paper, the author has already discussed some of the external barriers, such as the availability of public support. An in-depth analysis of other external barriers, such as tariffs, taxation, and currency restrictions, is not possible within the scope of this paper. Besides, entrepreneurs seldom focus on most of these factors when making their entry decisions. The SME executives do, however, evaluate internal factors pertaining to their enterprises, such as the firm's leadership, executives' self-confidence, and tolerance for risks. As has been shown above, it may be that these internal factors play a disproportionately significant role in a firm's decision-making regarding internationalization to China. After all, in small businesses, especially in fast-paced growth companies, it is the owner-manager who often calls the shots on the basis of his or her intuition.

What are the central internal barriers to internationalization for Finnish SMEs? According to the survey of SMEs conducted by the Organization for Economic and Co-operation and Development (OECD) in several countries, including Finland, regarding the top-ranked barriers affecting their desire to internationalize, the following impediments were mentioned: (1) shortage of working capital to finance exports, (2) limited information to locate/analyze markets, (3) inability to contact potential overseas customers, and (4) lack of managerial time, skills, and knowledge (OECD, 2009). The high cost of the internationalization process was also found to be the most frequently cited barrier to internationalization in the survey conducted by the European Network for SME Research. These costs include purchasing legal consulting

services, translation of documents, adaptation of products to foreign markets, and travel expenses (European Network, 2004).

Similar barriers also topped the list of the Finnish SMEs that took part in the survey conducted within the BENCH project in January 2011 (BENCH 2011). When asked “What kind of problems do you expect your firm to face if it were to conduct business in China?,” 59.1% named as their main concern a lack of financial resources; 40.9% named a lack of knowledge about China, its government, and culture; 40% named a lack of contacts; and 31.8% named the lack of support from the public sector.

The author discussed the lack of funding and public support from a macro perspective as potential barriers to an SME’s decision to internationalize to China in the previous chapter. The lack of capital, whether caused by external or internal factors is, indeed, a major concern. But it does not need to be a deal-breaker. Most innovative SMEs, especially the growth-seeking ones, are chronically short of money, but they can leap into the foreign markets with a great product and resourceful and entrepreneurial leadership. Admittedly, these cases are few and far between and many fail, but they highlight the importance of leadership. Many companies grow and expand because their key decision-makers have the will and the fortitude to make it happen. One study indicates that the willingness and ability of the CEO, owner manager, or other strategic leader to internationalize depends on her or his formal and international contacts, experience of foreign cultures, language skills, and educational background (Lloyd-Reason, Damyanov, Nicolescu, Wall, 2004). Another study confirms these findings and shows that a culturally distant country can, in fact, be a familiar one in many ways because the “psychic distance” is based on a manager’s personal experience about how distant the country is rather than on cultural differences between the countries (Ojala, 2008). Many growth companies are led with internationally sophisticated owners and managers to whom borders matter little.

Unfortunately, there are very few growth companies in Finland. According to the OECD Eurostat definition, growth companies are “all enterprises with average annualized [employment] growth greater than 20% per annum, over a three-year period, and with ten or more employees at the beginning of the observation period.” During the years between 2006 and 2009, there were only 671 growth companies in Finland (*Kasvuyrityskatsaus*, 2011). In comparison to Denmark, Iceland, and Sweden, only one-third of Finnish entrepreneurs were expected to lead growth companies (Stenholm, 2007). The record is so dismal that one researcher calls Finland’s performance in nurturing high-growth companies as “a disappointing success” (Murray, 2011).

In addition to a small number of growth companies in Finland, the country’s prospects to have more SMEs expand to international markets, especially to China, are diminished by demographics. Compared to other EU25 countries, Finland has the greatest share of “senior” entrepreneurs, that is, mostly second-generation entrepreneurs who are older than 55 years of age. In the report published in June 2011 by *Suomen Asiakastieto Oy*, every sixth entrepreneur in Finland is approaching retirement age and therefore about 58,000

enterprises are looking for a new CEO (Raunio, 2011). Business owners like these are not likely to assume considerable risks in any market, let alone those that are in faraway countries.

Many of the external and internal barriers that diminish Finnish SMEs' drive to internationalize to China are more substantial than those faced by the Swedish SMEs. But there is a barrier that affects SMEs in both countries, although it has not yet received the academic or political attention it deserves: the commercial legitimacy problem. Unlike multinational corporations (MNCs), small- and medium-sized companies wanting to enter Chinese markets must work hard to dispel Chinese doubts about small foreign companies. In their eyes, especially if they work at large state-owned or privately owned enterprises, the size of SMEs raises questions about the ability to deliver goods and services at the scale expected of them. With MNCs, no similar commercial legitimacy problem exists. One would hope that the EU SME center, trade representatives of the small countries of Europe and other such stakeholders will work with the Chinese officials to level the playing field for SMEs in this respect.

#### **4. How to Get Inside the Gravy Train?**

For small countries with a high number of very small companies, China is a challenging place to excel. It ranked 79<sup>th</sup> in the world in a World Bank study on "ease of doing business." Finland ranked 13<sup>th</sup>, and Sweden ranked 14<sup>th</sup> (IFC and the World Bank, 2010). China's transition to a free-market economy is still incomplete, and because of this, the party-state controls much of the country's economic activity with bureaucratic red tape and political favoritism. The list of the most common impediments faced by Western companies attempting to do business in China is long: lack of transparent laws; the lax enforcement of intellectual property laws; unfair treatment of foreign firms; cultural barriers, to name a few. All these factors affect SME views of their own chances of succeeding in China and, therefore, their readiness to start the process of entering the markets. Many feel overwhelmed by perceived difficulties. In addition to the impediments that stem from the economic and political structures, SME ambitions to expand to the Chinese markets are hampered by their own meager resources to internationalize. The challenges are substantial. How much can the public sector help?

##### **4.1. Tailoring Public Support to Match the Needs**

In its 2007 report titled "Supporting the Internationalization of SMEs," the EU called for increasing the number of internationalized SMEs and observed that micro and small companies present a vast internationalization potential. Many of the report's recommendations, initially meant for cross-border and intra-Europe internationalization (EC, 2007), can also be applied with some modifications to internationalization to China. However, China is an exceptional country: it has unique sub-markets that change internally in relation to one another and also **in relation to** the entire national economic system.

For public officials to design meaningful support programs for SMEs aspiring to expand to the Chinese markets or for SMEs already operating there, a conceptual framework of various commercial environments in the country is helpful. Equally important is to increase analytical awareness of the seemingly obvious fact that because SMEs are different and their pace of internationalization varies, there is no “one-size-fits-all”- formula that can be used to satisfy their distinctive needs for public support.

Although the EU recognizes the need to tailor its support policies to match the needs of the SMEs (Cappellini, 2009), it does not offer a conceptual framework for doing so. The EU tends to refer to SMEs in the context of China as if they formed a homogenous block. In reality, however, these companies are diverse with their own separate strategies, needs, and business goals. Some export, some establish offices and manufacturing plants for internal markets, and some form partnerships and joint ventures with Chinese firms in the controlled segments of the economy. The differences among them are also apparent in the take-off phase to the foreign markets. If the accepted policy recommendation calls for nudging SMEs toward greater internationalization, analytical tools for matching support programs to the needs of various types of SMEs are needed.

To avoid the “one-size-fits-all” approach, the author has classified SMEs on the basis of their position on the road of internationalization to China into four groups: Interested, Involved, Committed and Invested SMEs. Each group requires different type of public support, although there are some policies and programs aimed at helping SMEs that benefit them all. For instance, Invested SMEs are already operating in China, and their executives understand the pitfalls and opportunities of doing business there. They do not need hands-on guidance about how to open an office in the mainland. Instead, it is in their interest to see national and supranational public authorities working with Chinese politicians to reduce trade barriers, improve the implementation of intellectual property laws, and curtail corruption. Removing such barriers to competitiveness is a need shared by all foreign companies operating in China or planning to do business there. For SMEs, macro-level commercial needs satisfied through government-to-government relations are important, but only if their aspirations to set up their businesses in China are first realized. Consequently, many SMEs expect public support for establishing business-to-business relations with Chinese companies and for this to happen an entirely different set of public action is called for.

#### **4.2. Calibrating Support for SMEs in Different Markets**

The Chinese economy is complex. The fact that the party-state controls economic activity makes operating in some market sectors challenging for all companies, big and small. However, the state-controlled economy is not the only economy in which the Western businesses operate. In addition to state-owned enterprises (SOEs), indigenous, privately owned businesses exist, many of them in conditions that resemble market-driven capitalism. In fact, by 2007 China had 42 million SMEs defined as businesses, with between 400

and 3,000 employees. These companies accounted for 99.7 percent of the total number of enterprises in the country (Hilgers, 2009). In the mid-1990s, the government set up a SME department in the State Economics and Trade Commission and in 2002 enacted the SME Promotion Law to advance fair treatment of small- and medium-sized companies. Since then, the number of new policies and opportunities for SMEs has multiplied, making them important players in the Chinese economy.

In spite of the increasingly central role of the foreign and indigenous SMEs in the Chinese economic landscape, public policymakers and the media have repeatedly described Chinese markets as monolithic. The problem with this view, besides it not corresponding with reality, is that it leads policymakers to design support programs that at times are blind to the needs of the companies they are supposed to help. There is a need for a frame of reference, a conceptual tool that can help national and supranational officials design, plan, and execute efficient support programs for SMEs doing business in various sub-markets in China.

But how does one make sense of the markets that appear so chaotic, so foreign, and so unpredictable? To understand the economic environment in which SMEs must operate in the mainland, a conceptual model created by Sakari Oksanen, CEO of Pöyry Finland Oy, a global consulting and engineering firm with decades of experience in China, is helpful. Mr. Oksanen divides the Chinese markets into three major submarkets: (1) the controlled market, (2) the dominated market, and (3) the free market. In the controlled market, the party-state makes all major economic and operational decisions but may allow aspects of a free-market economy to coexist. Industries that have strategic significance are controlled, including telecommunications, media technology, advertising, strategic technical research, strategic energy production, transportation, and logistics. In the dominated market, SOEs exercise control over energy production, transportation infrastructure (roads and railroads), oil and gas industries, banking, and insurance. In this sector, Western firms have faced unfair or strictly regulated competition, corruption, dealings with unofficial side businesses, and a closely integrated network of relationships (*guanxi*) that is difficult to penetrate. The last sub-segment of the Chinese economy is the free market, where Western companies have been the most successful. This market is characterized by manufacturing goods for export, light industry, local markets that are associated with production of luxury goods and technically advanced products, real estate, and segments of the service industry (Oksanen, 2011).

In the increasingly competitive Chinese economy, the challenges that SMEs face have been alleviated with various types of assistance from national governments and supranational entities. Such assistance has come in the form of training programs, workshops, seminars, trade delegations, and enterprise-specific counseling among other things. In both Finland and Sweden, governments have also provided financial assistance and developed a symbiotic relationship with the venture capital industry through organizations such as Finnish Veraventura, helping SMEs to gain access to VC funding. In addition, the public sector has set up public-private partnerships, such as Finpro,



and clusters, that is, groups of interconnected companies and associate institutions that work together to detect and exploit business opportunities for its members in China. One of them is the Finnish Environmental Cluster for China (FECC). These support measures are needed in order to help resource poor SMEs enter and operate in different submarkets of the Chinese economy. Too often, however, the support has not lasted long enough for SMEs to consolidate their market positions in China.

### 4.3. Training of Trainers on the PRC

According to the EU, some of the most desirable support measures that help SMEs to grow and prosper are programs that target management and focus on capacity building (EU, 2007). Capacity building in the China context includes acquiring and updating one's knowledge of the changing political, economic, legislative, and cultural landscape in the country. Such capacity building is important not only for companies aspiring to the Chinese markets and operating there but also for public officials who are in charge of China related training programs. In order for them to do their work well, they need to be abreast of important economic and political developments in China. Besides, by increasing their China-competence public officials are better equipped to evoke confidence among SME managers in their abilities to provide meaningful assistance to them.

In Finland, the level of China knowledge has improved somewhat in the past five years but there are still very few China experts in the country let alone people who can speak one of its main languages, especially the Mandarin Chinese. With China's growing global role in business and politics, it is important that all EU nations, including Finland, increase Chinese language training at all levels of their educational systems. In fact, this reform is long overdue. Matti Viljanen, Executive Manager of the Union of Professional Engineers in Finland, noted in 2006 that the major concern among Finnish business executives in China is the poor level of the Chinese language education in Finland (Virolainen 2004).<sup>3</sup> A step ahead of other EU politicians, Swedish Education Minister Jan Björklund called for Chinese language education to be taught in all primary and secondary schools in July 2011. The proposal stimulated some discussion in the Finnish media, too, but ended up generating little real interest in introducing Chinese Mandarin to school curriculums.

In addition to improving communicative skills, capacity building in the China context includes upgrading and updating public officials' knowledge of the country itself. How well is Finland prepared for providing such instruction? Not worse than many other EU nations, but the fact is that the country lacks cadres of experts with profound understanding of China's politics, economy, and the culture. The reason is that it was only in the late 1980s and early 1990s that the infrastructural foundation for teaching and research on China was created with hiring of full time professors to teach Asian politics at Finn-

<sup>3</sup> Pekka Virolainen, "Suomesta puuttuu huippukoulutus ja kiinan kielen opetus," *Tekniikka & Talous*, 16 September 2004.

ish universities. Consequently, public officials today have hardly any formal education on China. Still fewer has both expert knowledge of China and also private sector experience in part because professional mobility between the public and private sectors is not yet very high. Although there are increasingly more China chairs at Finnish universities and more Chinese-language education available now than five years ago, it will take a few more years, if not a decade, before these measures will bear fruit. Until then, the public sector will have to expend resources to educate its officials in charge of China programs in other ways. Unfortunately, besides short delegation visits to China and seminars on various aspects of the country's political, economic and cultural experiences, there are still no long term training programs specifically designed for public sector officials in Finland. Such programs are needed if the country makes a commitment to help its businesses to expand to China.

## Conclusion

Finland is one of the most competitive and technologically advanced countries in the world. It has sophisticated products and expertise that the Chinese want. But are the Finnish SMEs ready for the Chinese markets? To explore the question, the author first asked if the Finnish SMEs are interested in doing business in China. It was found that they are less interested in expanding to China than their Swedish counterparts. After presenting survey results, government statistics and other evidence in support of the argument, the author explored potential reasons for the disparity. Three probable explanations were presented. First, that the Finnish SMEs have less experience in internationalization in general and to China in particular than the Swedish SMEs do. Many Finnish SMEs are led by ageing leadership unwilling to assume risks of expanding their business operations abroad and a number of growth companies among all SMEs in the country is disturbingly small. The second probable cause for the disparity is the fact that Finnish SMEs receive less public financing for internationalization than their Swedish counterparts do. They also receive less private venture capital funding in part because Finland has fewer national VC and private equity firms with considerable fund sizes than Sweden has. With higher level of internationalization and better availability of public and private financial backing, Swedish SME managers are more confident and more willing to assume risks of going to China than their Finnish counterparts.

Finnish SMEs interested in the Chinese markets are often small and have little resources to identify qualified Chinese vendors, do market research, and recruit staff. Consequently, very few of them are seriously considering expanding to China. And those who entertain such plans are hampered by their lack of knowledge of the Chinese markets. They need support from national and supranational public entities especially if they intend to operate in the submarkets where party officials wield considerable power. In these markets, foreign SMEs encounter challenges that multi-national corporations do not need to face. One of them is the commercial legitimacy problem that pertains to the lack of trust on the part of the Chinese as to whether or not foreign SMEs can be serious business partners and deliver goods and services in the

scale needed. A second major challenge has to do with *guanxi*, the personalized network of connections. Penetrating the *guanxi* networks is difficult but necessary when doing business with government officials. The national and supranational public entities in Europe can substantially reduce these barriers, level off the playing field for SMEs, and influence perceptions among SME managers about their ability to conduct business in China.

The public sector can lower barriers to internationalization among Finnish SMEs at the national level, too. Knowing that the lack of capital is perceived by SMEs as the main barrier to their expansion to China, policy makers should focus on alleviating the impact of this impediment by improving existing support mechanisms and creating new policies and programs to help SMEs to gain access to external finance. Publicly backed finance through entities such as the European Investment Bank, the EU, and national governments is important but in the long run SMEs are better served with improvements of the entrepreneurial ecosystems in which they operate. These ecosystems should encourage innovation, risk taking, and growth seeking. They should value serial entrepreneurship and regard business failures as valuable lessons. To help SMEs to gain access to financing, the government should improve those elements of the entrepreneurial ecosystem that concern private equity funding. Since VC backed companies create more jobs than private companies in general, it would make sense for policy makers to introduce more incentives to help venture firms to flourish and pension funds to increase their interest in domestic business opportunities.

Besides easing SMEs access to financing, the public sector can help SMEs by non-financial means. Finland has already supported SMEs aspiring to the Chinese markets or operating there by providing them with networking and matchmaking opportunities, market research, and information. The availability of financial and non-financial support is warmly welcomed by the SMEs sector; however, for this help to be effective, it would have to be targeted. In this paper the author has suggested that policy makers adopt certain analytical tools to help them understand, design and implement meaningful support programs. One of them is for the purpose of highlighting differences among SMEs and includes classifying SMEs into four groups on the basis of their level of readiness to enter in and / or operate at the Chinese markets: Interested, Involved, Committed and Invested SMEs. The second set of analytical tools introduced by the author came from the private sector, from Mr. Sakari Oksanen, CEO of Pöyry, and it classified various sub-markets in China into three distinct submarkets: (1) the Controlled market, (2) the Dominated market, and (3) the Free market. On the basis of categorizations like these, public officials can design programs that are based on the matrix of needs and markets rather than on the mistaken view that regards SMEs as a homogenous bloc of companies who plan to operate or do business in the single, all-embracing and uniform market in China.

In conclusion, public support can play an important role in the promotion of SMEs' internationalization to China. Finland is small, but its private sector is known for high-tech products and the country itself has a rich resource base of good practices that can be applied to expanding SME business to China,

including a national innovation system that is among the best in the world. It also has a rich experience in clusters, cooperatives and informal networks that can be used to increase SMEs' collective readiness to enter the Chinese markets and also their commercial appeal in China. With more public financial and non-financial support, Finnish SMEs can overcome many of the barriers that thus far have hindered their readiness to enter the Chinese markets. But for this to happen, public entities themselves must be prepared to treat China as a global player that deserves their attention. The European Union and most of its member nations have been rather late in anticipating the rapid rise of commercial opportunities to European SMEs in China. Consequently, they have only begun to establish SMEs offices in China and design support programs to help SMEs to take advantage of commercial opportunities especially in the Chinese internal markets. This lack of preparedness reflects inadequate knowledge most European public officials have about the country. Public resources are needed to train those who are in charge of designing support programs for companies aspiring to expand their business operations to China.

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## **Promoting successful professional higher education**

### **Abstract**

Professional competencies are most successfully created in challenging and inspiring authentic environments, where research, development and innovation (RDI) activities are integral part of learning. In Universities of Applied Sciences (UAS) students' placement periods and theses traditionally offer opportunities for this. Also, there is increasingly more project based learning, where students are working in business and solving real problems of workplaces. However, it seems that these kinds of practices are not completely covering all the study programs in UAS. Necessary cooperation with working life is not yet adapted by all the teachers in UAS. The need for supporting the development of new kind of learning environments for successful professional learning is clearly noticed.

We need desirable models in creation of learning environments, which are naturally linked to the working life and inspiring for all the different stakeholders – students, teachers and labour market representatives. In this article, we like to discuss what are needed in co-creation of learning environment. Also, we describe the best practices and the challenges according to the personal experiences of the participants. It is necessary to understand the way how professional learning is most successfully organized and what the prerequisites for creating cooperative and collaborative environments are.

**Keywords:** professional competences, best practices, integration of learning and RDI

### **1. Introduction**

The recent ideas of successful professional learning (Billet, 2004; Tynjälä, 2009; Wenger, 1998; etc.) highlight the meaning of learning environments. The learning process includes research like activities as well as development and innovation. Learners are not just receivers of knowledge but more like investigators and co-creators. Learning can be seen as a connective process of building networks of information, contacts, and resources that are applied to

real problems (Anderson & Dron, 2011; Lawy, 2006; Siemens, 2005). Also, the structure of teachers' roles will change dramatically in future, as the tasks of teaching and learning become distributed among many rather than done by each teacher (Cohen, 1969; Cornu, 2001). To be able to change traditional school work to enable successful professional learning, we have to rethink the environments where these activities can take place.

By communities of practice, Wenger (1998) refers to the informal communities that people form as they pursue joint enterprises. The essential part of professional learning can be seen as participation in communities of practice, when workplaces and educational institutions together create learning environments. Himanen (2004) considers that in the information society, where learning continues throughout our lives, schools should not only distribute information but also, and equally importantly, build self-confidence and social skills, as well as help students to fulfil themselves by identifying their talents and creative passions. In addition, the challenge of lifelong learning in the information society requires that people must learn to learn – become able to identify problems, generate ideas, apply source criticism, solve problems and work together with other people (Himanen, 2004).

The continuous changes in the environment of the world of work and education need ongoing creativity and innovations. Creativity can be pictured as a collective form of self-expression happening in and through everyday actions. Innovation and co-creation requires right kind of environment, which can be seen to base on 3C formula: “culture of creativity” + “community of enrichment” + “creative people” (Himanen, 2004). Also, according to Ryan and Deci (2001) human beings can be proactive and engaged or, alternatively, passive and alienated, largely as a function of the social conditions in which they develop and function.

The innovation dynamics, also needed in co-creation of new educational environment, are according to Himanen (2004) based on certain values, which content can be briefly described as follows: Caring means that we work to create equal opportunities for all. Confidence gives safety and makes fruitful communality possible. Communality means openness, belongingness, willingness to include other people and to do things together. Encouragement refers to an enriching community whose members feel that they can achieve more than they ever could alone. Freedom includes the rights of individuality: the freedom of expression, the protection of privacy, tolerance for differences. Freedom creates space for creativity, the realisation of your potential. The forward-looking values, courage is required to realise the other values and having visions refers to insightfulness, the courage to dream, the willingness to make this world a better place. Balance is a type of meta-value: it refers to the balance between the other values. It means the sustainability of what we do. Meaningfulness is partly based on balance and the other values that have been described above, yet it is a value in its own right. In the end, we all want our lives to be meaningful. These values are important to all people and all kind of stakeholders in the learning environment. They also create the foundation for capacity to transform the traditional roles and practices in the university.

In the development of the educational environment in UAS, we can ask how these values are implemented in teaching and learning and how we can create the learning environment where all potential skills and creativity could be used to improve learning outcomes.

## **2. Context of the article – developing integration of rdi & learning in HAMK**

### **2.1. HAMK University of Applied Sciences**

HAMK University of Applied Sciences is a multidisciplinary educator of around 8000 young and adult students, and it offers 29 bachelor-level and 7 master-level degree programs to create a diversified learning environment that networks with the local world of work. HAMK operates in four regions, serving a labour market area with two million inhabitants. HAMK carries out applied research and development projects together with businesses and organisations, being the competence developer and promoter of the regional industrial strategy in its area of operation.

The strategic objective of the universities of applied sciences (UAS) in Finland is to integrate research, development and innovation (RDI) into the university competence-based curricula. The integration is expected to strengthen the students' preparation for the labour market, and help them recognize future trends in their professional fields. The collaboration of the UAS and the employment sector are seen to provide the foundation for challenging and inspiring learning environment which encourages students to understand their own role in a broader context.

One of HAMK's ways of supporting the weaving of R&D into teaching is structural, in organizing its functions in the form of Education and Research Centres. Each Centre contains several degree programmes and shared 'R&D Centres', which in practice conduct most of HAMK's R&D operations. The R&D Centres bring together researchers, teachers and students to work on shared research and product development projects, creating structures for continuous interaction with representatives of the labour market and fostering the growth of students into experts in their professions. The R&D Centres are staffed by personnel specializing in research, and they synergistically utilize specialist competence from diverse degree program.

HAMK education strategy highlights the need of RDI activities as a natural part of students' professional learning. The RDI activities create the environment for blended learning and integrative pedagogy, in which theory, practice and developing self-regulation skills are connected to each other. Students participate in RDI activities via courses or wider project works, work placement periods or final thesis. The most typical way is to conduct their thesis or participating in different kinds of projects as a part of their learning. Students' role in RDI projects can vary from customer's guidance or teaching activities to product, service or production process development activities.

However, HAMK UAS is a rather multidisciplinary institution. The customers vary in size and in their interest in own RDI activities and student participation, too. Also, the practices in various branches and in various fields of education are different.

In everyday teaching practice, the RDI activities' potential to generate successful professional learning has been noticed, even though the concepts (research, development or innovation) are not necessarily used in speech. The teachers use pedagogical solutions, where researching, developing and innovating are present and essential part of professional higher education acquiring competences needed. The students are participating in these activities, but often without classifying them as RDI activities. However, these kinds of learning activities do not fully cover all the teachers, all the degree programmes or all stages of the studies.

## 2.2. The development process of integration of RDI and learning

The aim of the development was to strengthen the RDI and learning integration in the whole organization of HAMK in order to create successful environment for professional learning. The mutual ways of functioning were seen as an essential factor. That is why, it was decided to co-create shared HAMK concept model for integrating RDI and learning in order to strengthen the shared concepts and functions in the whole UAS.

The need for developing things together was recognized in previous development processes. Previously during 2007–2009, pedagogical development (for example developing the guidance of a student) and development of RDI activities (HAMK Road) has been operated more like separate processes, but now the idea was to integrate educational staff and RDI- staff in order to create shared insights and guidelines together.

In HAMK UAS the students were also participating in the process. In 2010 students were interviewed and had the possibility to describe their experiences. From the students' point of view connections to the authentic working life was not sufficient and it was fragmented. The aspiration of the students was a stronger connection to the working life: *“Students need contact with the employment sector over the entire study path to be able to strengthen their professional identity, and the knowledge of the future trends in their professional fields. These objectives can be achieved only by integrating RDI as a natural part of the studies.”*

Resources for the development were channelled according to the six focus areas, which were also expected to create horizontal network within HAMK UAS by crossing the boundaries. This new networked operating model was expected to promote innovation and thereby required the specific operating methods, instructions, responsibilities and authorisations. Each focus area formed an internal network of experts and developers, whose operational development was managed by a focus team with leaders. The focus areas formed application-based subject areas according to which HAMK profiles its RDI activities. The focus areas responsibility was also to develop the customer in-

terface, the partnership network and stakeholder management within the area of application. The operations were aimed at flexibly serving customers and more effectively utilising the multidisciplinary competence of staff and students.

In order to foster the co-creation of HAMK concept model and the functioning of focus team network, there were several workshops organised during the academic year 2010–2011. This process was also called RDI training programme, where the staff from different units presented their successful practices in integration of RDI and learning. There were also meetings, in which the issues were discussed and pondered with the stakeholders. The collaborative development process enabled recognition and analysis of the best practices at HAMK. The learning was based on connectivism (Siemens, 2005) and the common premises of the meeting were arranged, both face to face and virtual spaces. Peer learning gave new ideas and understanding how learning process can be integrated into RDI activities.

### **3. HAMK learning environments**

#### **3.1 Qualitative study material**

In this chapter we utilize and illuminate study material collected during the development process of HAMK concept model for integrating RDI and education. The development focused on co-creation of learning environment, which promotes successful professional learning. This kind of environment was seen to confirm professional work as an integral part of education. The idea was to collect material to sustain the co-creation and development. The material consists of qualitative documents: open question inquiry as well as research diaries from the workshops and other meetings. Research diaries were done during the workshops and meetings by the assistants and authors of this article.

The inquiry consisted of open questions about following themes; current circumstances on integration of RDI and education, participation of teachers and students, how the cooperation and collaboration should be developed and what kind of support the staff felt they needed. There were also questions considering creating inspiration for students and the respondents themselves. Also, the staff was asked what issues prevent or hinder the integration of RDI and education and what good ideas they have for solving these issues. There were 45 teachers and other stakeholders, who answered the inquiry. These respondents were voluntarily participating into the development process. Thus, they responses cannot be generalized to represent the experiences of the staff as a whole.

In the workshops and the meetings different stakeholders were introducing their best practices and the work-based environments for learning. Some of the practices were organized via curriculum-based courses, when the teacher had been the responsible for creating the relations for the enterprises. Some of the practices were organized via specially named environments, such as Busi-

nessPoint, AutoMaint, Hyvinvoimala etc. In these environments the idea was to make the different stakeholders, students, teachers and workplace representatives to meet and to create joint process of learning.

These qualitative documents were content-analysed by both of the authors of this article. The aim was to find success and challenging factors for the development.

### **3.2 Accumulation of practices integrating education & RDI**

The learning environment ought to offer the possibilities to learn in a community of practice (CoP). It is a group of people who share a concern, a set of problems, or a passion about a topic and who deepen their knowledge and expertise in this area by interacting on an ongoing basis (Wenger, McDermott, & Snyder, 2002). According to the experiences gathered during the process there existed various kinds of communities where the students were solving authentic work-based assignments and the shared passion were clearly noticed. In these practices, the teachers were guiding the students in flexible and innovative way. The students, the teachers and the workplace representatives together formed a community of practice. However, according to the study material, these kind of practices were strongly accumulated to certain stakeholders and certain degree programmes. That is why they do not fully cover all the students in the UAS.

Half of the respondents of the survey believed that their students have learning opportunities in authentic environments during the study modules, project and thesis work. They considered that RDI operations in learning are targeted and intend. Especially adult learners have direct connections to their work places and these connections are well utilized. The other half considered that there were many improvements to make in order to create work-related learning.

According to the responses, there were big differences between degree programmes. In some of them the relations to the workplaces were limited or did not exist at all and some of the degree programmes were working with close connections with workplaces and in various ways. Also differences between teachers in the same study programs existed. Some of the teachers did not have the ideas why and how to integrate learning with work-based activities. Thus, despite the environment and the functions in the degree programme, the individual teacher seemed to have a significant role in creating successful learning.

Corresponding results were also found in the previous study about UAS learning environments. In the educational environment, the pedagogical practices which supported students' possibility to use their full-potential in learning where accumulated in certain teachers and study programs (Kunnari & Lippinen, 2010). Thus, it is important to study the whole learning environment, not only the practises of individual teacher. One teacher alone cannot create

functional learning environment and the innovation dynamics based on certain values does not come true, if it is not the mutual goal (Himanen, 2004).

### 3.3 Traditional school practices as a hinder for development

The respondents were asked what hinders or complicates the developing of the practices in integrating RDI and learning. The mostly mentioned issue were the traditional school practices. One respondent listed the issues: *“Pedagogical concepts and learning concepts, too teacher-focused teaching methods, the student-centred teaching is not fully understood, rigid curricula.”* Many respondents described the difficulties caused by too fragmented curricula: *“Teacher-specific study modules which have been tightly linked in timetable resources, one-two hours/week lessons system – no bigger coherent whole, where the students could concentrate on problem solving, only some of the teachers actively doing RDI with students.”* In the workshops, there arose also a question, whether the obstacle is the curricula themselves or the image of them. Some of the participants said that the curricula do not hinder anything, but the people who hold traditional ideas.

The teaching process and the RDI-process were also seen as separate practices. *“Now, the RDI and the teaching are needlessly too far from each other.”* And some of the respondents highlighted the difficulty: *“It has been hard to combine the RDI projects and teaching.”* It seemed that RDI and teaching practices were also managed through different processes and by different leaders, which in turn cause more separation.

The negative attitudes towards new practices were also mentioned as an obstacle for developing: *“Some of the teachers do not want to change, but do things in a good old way.”* The common challenge was also the individualist and separated working practices. Many of the respondents felt that there are no shared aims and guidelines for doing work together and integrating teaching and RDI. They wished for shared thinking model for integration of education and RDI in an organization as a whole.

The most promising improvements in order to create new kind of learning environment was based on pedagogical solutions related to collaborative, multi-professional team work in learning, even during the first year of studies. In these solutions students', teachers' and other stakeholders' roles were different compared to traditional roles in school work. The meaningfulness, confidence, caring and communality seemed to be present in the functions.

The participants and the respondents highlighted the need for support and leadership to be able to change the traditional practices. On the other hand, there existed communities and individuals who have created environments where the traditional roles were successfully transformed into self-directed and self-supported activities.

### 3.4 Requirements for generating enthusiasm

Respondents were asked what issues best create the enthusiasm for learning for the students. Most of the respondents mentioned that the authentic, real-work related and challenging environments themselves create the enthusiasm for learning. One essential thing was to be able to apply theory into practice, which is also the core issue in integrative pedagogy (Tynjälä, 2009).

One teacher described: *“The authentic learning environment and open welcome of real workplace inspire the student. The students are motivated when they are able to use their creativity and views in learning. Too completed and ready-made assignments are not the best models for successful learning.”* This can be seen as an implication of communality (Himanen, 2004), where the students are included to function as full agents in their learning environment.

The respondents highlighted the need for practical work and students’ own insights considering their learning. *“The students get excited the most, when they realise they have really learned.”* Also, Stenström (2009) argues, that being able to reflect on what has already been learned and what future learning needs are, can aid in connecting work and learning.

What creates the enthusiasm for the staff? According to many respondents their own enthusiasm is based on continuous regeneration of their work. One respondent wrote: *“Ongoing revision and challenging yourself. I never bother to implement the study modules exactly on the same way. Connections to the world of work in my teaching of the students motivate me.”* They highlighted also the significance to be able to have effect on their own work and to have the right kind of balance, which illuminates the importance of meaningfulness and confidence (see Himanen, 2004).

Like for the students, also for the staff the importance of feedback was mentioned many times as a precondition for enthusiasm. Himanen (2004) also argues that in many branches, for example, in science and art, where money has never been the primary motivator, all great achievements have been made thanks to this incentive: belonging and being a recognised person. The same power applies to business at its best (Himanen, 2004).

Furthermore, the students’ enthusiasm was the source of the staff’s own enthusiasm: *“The eagerness of the student to learn helps me to manage.”* These comments reveals the importance of enriching interaction, where encouragement means that you spur people on, including yourself, to be the best they can and that you give them recognition for their achievements (Himanen, 2004). The teachers and the students form the environment for successful learning together.

### 3.5 Communality as a core factor

Communality is one of the most energising experiences of life – being part of a larger community that shares your interests (Himanen, 2004). The need for



communality was repeatedly mentioned when the respondents were asked to describe the core issues in developing the educational environment and collaboration. The respondents highlighted the feeling of communality and the opportunity to learn from each other as one respondent wrote: *“We need common encounters within our unit as well as between the units, we need time to ponder what we can do together and how we can integrate learning and RDI.”* The communality with the students was seen to base on equal opportunities to participate: *“The students cannot be only “stooges”, the RDI processes have to be thrown so that students’ learning is the most important thing.”* The innovations need the concentrating interaction (Himanen, 2004) which is based on the confidence and through which an enthusiasm can be created. The collaboration between communities doesn’t arise by its own, but need certain kind of support from different stakeholders.

The RDI training programme and co-creation of HAMK concept model by its workshops and the focus teams were experienced as functional solutions for increasing communality by the participants. *“New ideas and ways of action have already been created from the fact that it has been opportunities in which the people of different units and multidisciplinary groups have been mixed. If you do not know the others, it will be difficult to imagine what could be done together. In this purpose the focus team and RDI training activity have been valuable and useful.”* It seemed that sometimes it is enough to create the opportunities for people to meet and have trust on the capacity to be able to solve things together.

Wenger (1998) suggests that indicators of a community of practice include sustained mutual relationships, shared ways of engaging in doing things together, rapid flow of information and propagation of innovation, and knowing what others can do. Further, communities of practice imply interdependence between members who taking responsibility for their own and others’ learning (Venezky & Davis, 2001).

### 3.6 Leadership as a support for development

The respondents were asked what kind of support they feel they need for developing their practices. The mostly mentioned issues were related to leadership and management. The respondents desired for clear visions and targets from the leaders and the managers, and the monitoring of them. *“The transparent engagement of the heads and directors is a crucial factor.”* They said they need resources for planning and creating new relations and collaborations. By the resources they meant the financial resources as well as expertise, such as pedagogical experts needed in the development of new learning environments. Also the sufficient time resources were mentioned: *“We need time to guide the students and the processes.”*

The sustainability and communality were seen as the core issues for leaders to create and to support by different means. The respondents thought that leaders are responsible for creating organizational structures as well as encounters and negotiations for genuine development in the learning environments to arise. They highlighted the need for informal discussions with colleagues

and other stakeholders. Also, the encouragement and the acknowledgement were needed in order to keep the continuous developing going on. *“We need much support (from the leaders) for the cultural transformation. There are always sceptics and drawbacks – you have to accept that, but at the same time you need to understand that resilience is crucial factor.”* Besides this, many of the respondents said they need more continuity in their work: *“We need long-span partnerships, where long-term elaborations are able to emerge.”* Sustainability and communality were seen intertwined, and these were repeatedly mentioned as an issue for leaders to manage.

#### 4. Discussions

People can achieve great results when they feel that they are able to fulfil their potential at work, and this meaningfulness makes them even more energetic and boosts their creativity. An encouraging atmosphere enhances well-being at work and job satisfaction (Himanen, 2004). In communities, meaningfulness is created by negotiating of meaning (Wenger, 1998). According to Wenger (1998), the negotiation needs both participation (a process of taking part and the relations with others that reflect this process) and reification (a process of giving form to our experience by producing objects that congeal this experience into “thingness”).

In HAMK UAS there can be seen separate communities between the units and between different stakeholders. During the integration process of learning and RDI it has been identified that there is the need for more cooperation and the need for a common and shared way of operating as a university. On the basis of the inquiry the staff regarded that the RDI training programme and the focus teams were functional solutions for creating successful environment for professional learning. Likewise the common meetings were experienced as a good way of breaking the barriers between different communities of practice in HAMK. The need for HAMK concept model was strengthened in the process.

Across separate communities, Wenger (1998) suggests that practices can influence each other through two types of connections: boundary objects (artefacts, documents, terms, concepts) and brokering (connections made by people). Likewise the staff in this study hoped to cross the “borders” by new ways of working together. They also highlighted the need for organizational structures to support the crossing of borders.

The written strategy for education and RDI-activities is one important artefact, but it is not enough. In order to open the strategy and implement it to daily work, the ongoing discussions and negotiations are needed between the different stakeholders. A curriculum is another important artefact and baseline for borders crossing. In HAMK UAS curricula have been seen as a statement of shared aims for students, teachers as well as for working life stakeholders. The process of creating curriculum is, at its best, collaborative activity where different ideas from different stakeholders were combined and in the end the curriculum forms a central artefact – it provides common language

and practice. This would also allow the working schedules, team teaching and work circulations to be developed.

Brokers are those people – teachers, principals, experts, researchers and students – able to make connections across communities of practice and open new possibilities for meaning. In the future, working life will emphasise people's skill to act as a part of a complicated network – co-creation skills, where the utilized and developed knowledge has been distributed to several experts who examine common problems from different starting points (see Asanti, Lehtinen & Palonen, 2002).

In HAMK the Focus Group network was one solution to strengthen the co-operation between teachers and degree programmes. Co-creation in the process was an attempt to break the traditional limits of the organization and to create new connections between the people through the focus teams. The leaders of Focus Groups have an important role as brokers. Wenger (1998) has described the broker's work as diverse and challenging. Cooperation, modification and sharing of best practices, mediating between different perspectives and reaching conclusions are included in the broker's task. The broker needs to have sufficient legitimacy and ability in order to influence emerging activities, kick-start important issues, and, if necessary, point out conflicting interests. A broker is expected to be able to connect the operational activities of various practitioners and identify best practices that promote learning when imported into new contexts. For example, a specific venture may have well-developed and diverse communication practices with which the members of the organisation are very familiar, but the group has not realised these practices could be offered for others to use. Our study aims to identify the requisites for successful brokerage. An ability to work in networks is essential, as is the ability to impact flexibly so that different actions support and help the work of teachers, and do not fatigue practitioners. A danger is that externally supported network-like activity will become a burden for practitioners if appropriate methods are not found.

The brokers need also different idea and concept level models, as well as the sharing and polishing of effective practices can be promoted through the use of social media. For example, blog or wiki services where everyone can comment provide an opportunity for others to acquire knowledge on individual ventures, allowing a comparison of outcomes and their application to one's practice.

The work culture and atmosphere are decisive factors in an economy where growth is increasingly based on innovations. The managers' main task is to promote creativity (Himanen, 2004). The leaders and managers on all levels must also empower people that they have possibilities and courage to cross borders.

## 5. Conclusions

On the basis of this study we cannot yet tell about the quality of the learning activity, but we can tell what kind of issues we should focus on while creating successful professional learning environments. The qualitative study material of this paper indicated that in HAMK (as a part of HAMK concept model) there operated extremely good and strong models in which the cooperation succeeded well with working life and the integration between learning and RDI was fruitful. However, according to the participants, the integrative pedagogy was the daily teaching method of the limited group of teachers and it had concentrated on a few degree programmes.

The respondents of this study presented their own ideas, which are the core issue in developing traditional school practices. They highlighted communality, caring, encouragement and meaningfulness in development of successful environment. They also presented the ways through which they thought the improvements should be made and what aspects should be supported. In the future, we need to focus on rethinking how these issues and ideas can be further sustained. It is clearly noticed that there are distinctly too few forums in HAMK where experiences and best practices are shared with colleagues. We can also ask if these forums are valued as an effective and significant way of fostering the changes needed. Even though, the participants of the development process considered them important and essential. The creativity of interaction must be seen as an important form of creativity, to which we must pay attention (Himanen, 2004). Also new ways of interacting and fostering organizational learning are needed, for example informal meeting points – physical and virtual, different forums and learning arenas.

Furthermore, we need to learn how to work and study in networks. The spider metaphor has been used when describing the construction of networks (Nilson & Nocon, 2002). The spider teacher constructs and maintains cooperation, and is motivated to develop the educational institute's teaching practices. The spider teacher must be very diplomatic in his role: negotiating, coordinating, considering and self-expressing. The ways of action must be made known in different opportunities and for example the mentoring can be used to implant the best ways of action in the daily doing. The development must be based on the curricula design and RDI strategies.

Work based interaction also increases productivity, improves the quality of work and provides significant opportunities for employment (Himanen, 2004). Thus, it is worth considering how the Universities of Applied Sciences create the sustainable and innovative environments, where workplaces are integral part of learning. Only this way, we can promote successful professional learning.

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## **About managing long-term factors of economic growth**

### **Preamble**

It is known that there are short-term and long-term factors of economic growth. Under the influence of the first ones economic growth becomes unstable and long superficial success may rapidly and unexpectedly turn into stagnation.

The short-term factors may be identified as follows:

- Favourable world market situation, influencing significant amount of exportation that reflects boost in demand and high prices;
- Comparatively rapid growth compared with previous decline;
- Increase in demand for domestic products and fast utilisation of available although technologically outdated manufacturing capacity.

Long-term factors of economic growth are mainly defined as the quality of labour resources, science development, creation and adoption of new technologies. Education, science, healthcare, and high living standards are the foundation of long-term economic progress.

In our opinion there are two main reasons behind economic growth. The first reason is that twofold reduction in production by the end of the 90s led the Russian economy and society to the fatal point with further unpredictable development. It made saving instinct go off. The second reason is the starting of the work of such natural resource of any government as the administrative resource, focused on disciplining, law execution, gradual elimination of chaos, as well as regulation of labour and manufacturing processes.

Professional and efficient management in the society and organisations is the meaning of existence of the society and organisations. Individual liberty, economic individualism liberty, and entrepreneurial liberty emancipate talents and provide them with constructive creative power though within the bounds

of legislation, which develop a social organism, protecting it from collapse and permissiveness and harm caused by citizens to each other.

It is important to transform that major but short-term success into long-term but not under command, but mainly by self-regulation methods, including relationships between governmental authorities, society and business.

## **Business competitiveness**

Reasonable, predictable and regularly reproduced rules of economic behaviour are necessary not only for entrepreneurs, but also for the government. The proposition that the less the government intervenes in the economy the better it is, is correct, but it has limitations as any proposition. Motivation of a private entrepreneur is profit in spite of the field. He relocates and creates capital, matches supply with demand, aspires to reach profitability. Private entrepreneur is flexible and reactive to market fluctuation, but his vision horizon is limited and big investment and particularly infrastructure projects are of little interest to him due to their prolonged recoupment. Private initiative is a powerful long-term factor of economic growth, but in tactical rather than strategic sense. Only big companies make 5-10 year development forecasting within the bounds of their field and produced products and services. Nevertheless they have already conceived that they should allocate no less than 7-10% of the company funds to R&D, otherwise competitors may outrun. When solving social issues (children, disabled people, retirees, birth rate stimulation) as well as issues of defence, science, law enforcement system, the interests of entrepreneurs do not coincide with the interests of the government, which is ought to provide security and development to all its citizens not just to its certain representatives.

It's no coincidence that nowadays many entrepreneurs complain of excessive tax burden, though it is even lower in Russia compared with developed countries, where taxes make a full-fledged budget sufficient for development of science, education, defence and social aspects. The point is not as much tax burden as inaccessibility of loans. Even now how can entrepreneurs develop their business and get to their feet if the interest rate exceeds reasonable profitability rate. Only fast speculative projects in trade and external economic operations are likely to be paid off.

Business competitiveness is tactics with elements of strategy, while government competitiveness is strategy with elements of tactics. Solving contradiction between the public and private interests means their mutual supplement of each other defined by the laws, education, entrepreneurial ethics and state officers.

Conclusions are useful, if they are based on concrete facts. Excessive interest in tactics instead of economic development strategy, demonstrated over the last years has led to real overestimation of the major factors of growth. We imply investments and reproduction of the basic capital.



More than half of enterprises do not invest in the basic capital. The reasons behind it are loan inaccessibility, entrepreneurs' desire for rapid growth of their personal income and aspiration for reaching the wealthy. On the other hand, government support of the small business including the regional level is more to be declared rather than implemented.

Many machinery enterprises in Russia are not involved in investment activities. The weakest investment activity can be observed in the light industry as well as timber industry, woodworking industry, pulp and paper industry. The reason is not only creation of modern large-scale production capacity but also the result of the end product uncompetitiveness and weak import substitution activity. The market does regulate but does not deregulate as paper, furniture, footwear and clothing are products which can be paid off rapidly. They currently increase income of foreign manufacturers with their high salaries and filled budget.

Russian enterprises have been planning to boost the investment volume. The main source of investment into the basic capital is equity (own funds) of the manufacturers. The main aim of investment is to replace the outdated technology and equipment, half of which (namely of the manufacturing field) had been acquired before 1990.

On the contrary, more than 70% of the equipment in the oil industry was acquired after 1990. Similarly, this indicator for the food industry makes about 70%.

The market is focused on the industries with high return on investment rate. Infrastructure and capital-intensive industries are acknowledged by the market faintly and state investments are apparently not enough for them. It may be explained by lack of strategic management practices.

The average age of machinery and equipment at manufacturing companies is often about more than 20 years. Nevertheless almost half of the resources accumulated of depreciation are not invested into the basic capital. The condition of these industries may be easily conceived in 4-5 years if they are in demand.

Due to the emerged market conditions the energy sector attracts over 20% of manufacturing investments, while machine building – over 3%. The government, as these are profits of the federal budget and private companies, is also dependant on the oil sector as it is very profitable. However economic development is not possible without export-driven high-capacity machine building industry. Tactics prevail strategy. World market and private initiative turn the economic structure of Russia around the way most beneficial for them. Thousands of machine building enterprises have already been liquidated while the rest has been undergoing the raiders hunt.

Integration of the Russian economy into the world economy is taking place, it is necessary and inevitable. It is happening gradually, rather by taking into consideration national interest, national employment rate, educational lev-

el enhancement, country development and defense strategy, than as a result of changing world market situation, which, besides objective circumstances, is regulated by developed countries' interests and aspirations of big financial actors.

Understanding similarities and differences of public and private interests as well as rationalisation of economic incentives of behavior make the art of economy management in terms of strategy implementation and development of stable self-regulated mechanisms.

Capital growth and modernisation of assets can particularly be regulated by exploring competitive edge of a country (advantageous location – construction of large highways engaging foreign partners; natural resources – concession with development of manufacturing field, comparably cheap labour resources – development of labour-intensive production), availability of loans to both individuals and entrepreneurs (along with private banks – a network of public banks with covered interest rates), budgeting at the federal and regional level for the period of 10 years including large-scale investment projects.

Private and specific activities must not overshadow long-term goals, just like strategy should have concrete content and should regularly be transformed into real successful projects. One cannot create a plain based only on its wing; the plain itself does not fly without properly constructed wings. Successful management model should also have a general long-term goal, accomplishment of which should be achieved with the long-term factors of economic development.

## **From market management to strategic management**

Recoupment of expenses is the main requirement of the efficient business for both a private company and the government as a whole. The difference is time. The fastest cover of expenditure is in trade, stock exchange, short-term financial tools, and short-term loans. Longer period of recoupment is in the field of manufacturing and distribution of products and services. Next is manufacturing of machines and equipment, which create material asset basis and capital that bring profit. Then it is production and social infrastructure.

The length of the recoupment period is dependent on a person, his educational and professional background, fundamental science development. Finally, expenses on defense, law enforcement system and state bodies do also have efficiency and recoupment period. If we save on defense expenses for a long time, the country will stop its existence as an independent government. The USA which is known to be the most democratic country in the world spends on defense as much as half of the world defense expenses.

The ratio of the state officers per 1000 people of developed countries is usually superior to that of Russia. The contemporary socio-economic system of the country requires quite a big number of qualified managers with strategic rather than market mindset.

Thus there can be pointed out 3 different time cycles of expense recoupment. The first one relates to turnover of products, services, money, and short-term financial tools. This is the most attractive field for businesses. The second cycle is the production of machines, technology and new technologies which become a material asset and bring profits. These aspects are also attractive for businesses, but mainly for larger business. The third cycle is expense recoupment on reproduction, training, education of people, and governmental needs. For businesses it is non-repayable expenses, therefore they are taken care by the government by collecting the resources with the help of taxation and non-tax profits.

There should be a balance between these three different recoupment periods, otherwise short-term success may be followed by losses in the long run. There are particular proportion standards of such balance. For example, defense expenses should make up 3-4% of the GDP otherwise the country may lose its defence capacity. Science expenses - 2-3% of the GDP, otherwise the country may become technologically outdated and may lose its competitiveness. Expenses on education are recommended to make up 4-5% of the GDP, if it is less, the level of qualification and the number of professionals will not meet the requirements. Healthcare expenses are 6-8% of the GDP, if less, in the long run it may turn into high mortality level, impairment of the nation's health that will finally result in the productivity level.

These proportions, undoubtedly depend on the development level of the country. But growth of this level itself is defined by meeting proportions between the public and private investments, expenses on fast repayable projects and long-term investments with longer period of recoupment, necessary for sustainable and efficient development of the country, enhancement of living standards of the entire nation.

For this reason management programmes should stem from not only concretely defined priorities of the country development but also from necessary expenses on the growth of the human capital in order to get good development perspectives for the country to help it take a decent place in the world community. Expenses on education and healthcare are paid off by growth of GDP but on the long run. It distinguishes them from the material, financial expenses and results, which we use when making business plans for particular projects.

The difference is that such expenses are more effective. To understand it, it is necessary to widen vision, prolong forecasting period and make a business plan not for a separate project but for the country as a whole, by widening the number of factors of economic growth by adding the indicators of human capital growth.

There is still an opinion that science, education and social field as a whole do not produce but consume GDP. It is due to the budgeting practices, according to which social field industries are mentioned only in the expenses item. Management through budgets and financial indicators overshadows long-term goals and leads to a crisis.

It's time to refuse this philosophy. Human capital is the most important resource of the post-industrial society. New technologies that create wealth enter the economy through the knowledge and managerial and organisational advancement. Only experienced high qualified professionals are capable of managing hi-tech processes.

## **Management of macro- and micro-processes**

Management as a science and educational programme has been developed apart from the economic issues over the years. Finance, costs, budget, economy of a country, industry, regions, organisations and enterprises do exist and as a rule are being studied isolated from management.

There are few researches and practical recommendations for such issues as expense and profit management, price management, reengineering management, enterprise efficiency management.

Crisis will be shaking the economy unless the economy per se and management will become as a whole.

If an object is not investigated enough and its elements and their interconnection are uncertain, it is hard to forecast and especially manage its future. Economy is a system still not studied enough; therefore a month before the crisis real estate agencies can award countries and companies with high sustainability and reliability rate. Invisible market forces do refuse to balance production and consumption rates. Product and service production rate outdistances solvent demand every time, whereas demand of millions of people for automobiles, housing and full-fledged nutrition has been far from satisfaction.

In economy management incentive methods of product and service production based on public and private investments alternate with methods of stimulating demand through growth of the real remuneration, pension and benefits. However in order for this macroeconomic dependence to work it is necessary to balance interests and motivation at the level of enterprises, firms, companies and organisations.

Power at enterprises and banks mainly belongs to the owners, i.e. shareholders. Sometimes shares are consolidated or belong to a few people. The owners' power is unlimited while the responsibility is minimal. They firstly take care of dividends and then of personnel, innovation and ecology. Rights and responsibilities of the production and financial actors should be balanced. The owners have unlimited rights and low responsibility while managers have high responsibility and limited rights. The knowledge owners like engineers, scholars, technocrats and constructors do not have enough rights. They are infringing upon their rights. Labour holders i.e. workers do also possess not enough rights, but are responsible for the amount of products and services. Just exactly the gap between the rights and responsibility of the owners, knowledge holders and labour holders is the basis of the economic recession.

On the contrary, efficient management provides a balance of rights and responsibilities. In this respect the American model of the shares allocation between the owners, managers, workers and population is aimed at the interests of the government and business that defines the efficiency of economy. Though there are problems hidden behind this. Desire for maximisation of the company capitalisation, growth of share prices, and increase of dividends via advertising and the mass media lead to the gap between the real and virtual economy that is followed by stagnation, bankruptcy of companies, industries and even countries. This is one of the main consequences of inefficient management.

## **Contemporary trends of management structure development**

Efficient management of federal property is very significant in institutional reforms. The resolution of this issue should be directed towards improvement of the federal property structure through reduction of its redundancy that does not underpin implementation of the state functions and does not align with the management opportunities of the government through both privatisation and establishment of big integrated structures. Decrease in the number of independent public enterprises will enable to focus management on a limited number of enterprises that will lead to the increase of the federal budget profits.

It is of paramount importance to issue a standard act and provide appropriate conditions for implementation of activities which will not only enable effective property management but also will result in maximisation of the budgetary profit.

The main aims and tasks of privatisation have remained unchanged over the years. These are as follows:

- Achievement of a reasonable level of the government intervention into economy, reduction of the public sector surplus through the sale of the shares of corporations which do not comply with the government's aims of participation in the economy.
- Transformation of the federal state unitary enterprises into a more transparent type of organisations, i.e. public corporation.
- Consolidation of government assets into integrated structures in strategic industries of the economy.
- Dragging profits into the federal budget.

The aforementioned priorities are topical in the future. At the same time, when forecasting privatisation rates it is necessary to take into account drop in investor business activity rate in respect of public property which is due to the deficit of investment resources in the world economic over the post-crisis period.

In case of strengthening the positive economic trends the number of shares will increase up to 300 p.a. (the Russian Federation is a shareholder of more than 3 000 corporations).

Privatisation of government unitary enterprises favours the solution of consecutive decrease of the private establishments. At the same time structure analysis of the federal state unitary enterprises reveals that this issue may be efficiently solved with the help of not only engagement of the privatisation mechanism but also implementation of reorganisation and liquidation procedures including transformation into non-profit organizations.

The most important way of the federal property structure improvement and state property management is establishment of integrated structures.

Modernisation of public corporation management mechanisms is going on. In this respect it is expected to enhance legislation in management of public corporations in order to increase responsibility of federal executive authorities and the responsibility of the representatives of the RF in the operating control of the public corporations.

Engagement of non-state officers into the operating control will go on and will be adjusted for the systemic control of professional directors performance efficiency on the basis of analysis of financial and economic indicators of the corporations.

Within the bounds of corporate legislation modernisation and corporate management system enhancement there is a work taking place in the following directions:

- Development of protection mechanisms of the property rights of shareholders and investors.
- Perfection of corporate management system including enhancement of the structure efficiency and effectiveness of the operating control organization.
- Development of the system of different business types and regulation standards for the public and closed types of business.
- Improvement of legislation in the field of reorganisation and operation of integrated business structures.

As for development of protection mechanisms of the property rights of the shareholders and investors, there is a number of legislative activities to be implemented, aimed at:

- Providing a restitution opportunity to the individuals who lost their rights on undocumented securities.
- Enhancing the stock exchange countable system and placing higher responsibility on register holders for violation of rules, underpinning credibility of special backup copies and their safety.

- Defining modes of resistance to emerging alternative shareholder register, including design of an effective renewal mechanism of the lost shareholder registers.

Development and legislative support of the mediation institution in settlement of corporate disputes in Russia will contribute to the reduction of corporate disputes and lowering the judicial system load.

A number of activities have been taking place, namely, aimed at formation of an efficient structure and operating control at Russian companies, enhancing efficiency of the corporate control, creation of an institute of real responsibility of the board of directors and top management for the loss caused by them, minimisation of the conflict of interests and stimulation of dividend payments.

In order to eliminate the discovered drawbacks of transaction regulations it is planned to review the issues of regulation of these institutes to increase efficiency, including organisation of relevant mechanisms of preventing and solving the conflict of interests, mechanism of providing control and transparency of transactions, mechanisms of improvement of the transaction approval procedure and specification of the applied notions.

As for the enhancement of integrated business structure functioning efficiency, it is planned to arrange and implement a number of legislative activities, aimed at underpinning the rights and interests of the subsidiary company shareholders and lenders; at regulation of issues of the cross possession of shares, forming of the institute of the control organisation, setting a special tax regulation for a network of people, consolidated tax registration and accountancy.

Under the condition of overcoming the consequences of the world crisis there is a necessity for the further improvement of legislative standards in the field of bankruptcy in terms of increase of the efficiency of rehabilitation procedures aimed at maintenance of jobs and businesses.

Within the bounds of these activities it is being planned to pay more attention to prevention of bankruptcy of a separate category of debtors depending on the industry in which they operate. Particularly it is planned to enhance bankruptcy procedures for the financial organisations, which is of significant importance for underpinning the financial as well as strategic organisations system stability, preservation of which is necessary to support government's defense capability and security.

Adoption of the federal law "On rehabilitation procedures applied towards a debtor" and further improvement of the suggested mechanisms will enable to adjust arrears of mortgages and consumer loans of individuals by providing them an opportunity to rehabilitate their solvency as well as to save their social status.

One of the most important issues is provision of the material rights guaranty to workers who got filed a bankruptcy lawsuit by launching mechanisms for providing salary in case the bankrupt employer has got no resources to pay with.

An important way of improvement of the domestic economy competitiveness will become implementation of the Competition development programme in the Russian Federation. Its main directions will become:

- Total enhancement of the competitive environment by reduction of unreasonable internal and external trade barriers, by creation of mechanisms for preventing redundant regulation, by development of transportation, information, financial and energetic infrastructure and by making it accessible for the market actors.
- Increase of the efficiency of protection against anti-competitive activities of the government bodies and businesses through development of antimonopoly regulation.
- Implementation of rivalry development arrangements in different industries by elimination of unreasonable internal and external trade barriers, use of tax and non-tax stimulation and support instruments.

As for the insurance sector development, there will be arrangements in accordance with the medium-term Strategy of insurance activities development in the RF in the following directions:

1. Enhancement of the role of insurance in development of the Russian economy (perfection of the mandatory insurance regulation, health-care, transportation).
2. Laying foundation for the government and business interaction (defining mechanisms of interaction between the government and insurance companies aimed at reparation of damages caused by force majeure (fire, catastrophe, etc.).
3. Protection of the rights of consumers of insurance services (creation of guarantee mechanisms for fulfillment of obligations by insurance companies in accordance with insurance contracts, enhancement of dispute settlement system).
4. Insurance regulation in accordance with international practices and main principles of the International association of insurance oversight (improvement of accountancy, enhancement of risk management efficiency, development of insurance oversight procedures).

The Russian banking services market will develop in the conditions of tough competition also as a result of increase of flow of foreign capital and regional expansion of large Russian banks that stimulates increase of the quality of banking services and adoption of contemporary banking technologies.

Maintenance of investment attractiveness of the banking industry will enable to increase its capitalisation rate first of all at the cost of selling newly is-



sued shares, acquired by Russian and foreign investors. Improvement activities of legislative conditions of attraction of foreign capital to the banking sector through public stock floatation will contribute to accomplishment of these goals.

Activities on the following directions will be continued:

- Ensuring transparency of lending organisation conditions, including transparency of the shareholders property structure.
- Simplification and reduction of costs on the reorganisation procedures, including merging of lending organisations, creation of extra conditions to keep people informed of the reorganisation procedures.
- Optimisation of conditions for development of a bank network serving community and businesses.
- Counteraction to the access to lending organisations of people who do not possess required professional expertise and have dubious reputation, including mechanisms of evaluation of the business reputation of the CEOs and owners of lending organisations.

There has been undertaken activation of efforts in enhancement of financial competences and development of financial education in the RF, particularly in the field of banking.

In order to develop the financial infrastructure of the economy it has also been planned to issue a law on microfinance organisations, further development of microfinance infrastructure and arrangement of activities aimed at increasing availability of financial services to the population.

One of the priorities of the stock exchange development in Russia will become foundation of the international financial centre (IFC) – the system of interaction of organisations which are in need of attraction of capital and investors, who are eager to place their assets.

The IFC should solve the issue of capital attraction and placement in more efficient way compared with national stock market through a big number of participants, integration into world financial markets and arrangement of special conditions for regulation.

Foundation of the IFC in Russia will support development of national financial market by providing solutions to the following issues:

- Attraction of a significant amount of extra foreign and domestic financial resources.
- Widening individual saving opportunities of population.
- Enhancing efficiency of placement of institutional investors' assets.

- Reduction of Russian companies' costs on access to capital.
- Pricing Russian assets and fulfillment of transactions with foreign contractors in the Russian currency.
- Deepening economic integration of the CIS countries and the Eastern Europe.
- Enhancing the role of the RF in designing global rules of financial market regulation.

“Russian venture company” (RVC) will be specifying the main principles of interaction with established venture funds in terms of hardening their information disclosure requirements, formalisation of mechanisms of selection and financing of venture fund projects, increasing the level of participation of the RVC in designing and implementation of fund investment policies.

According to the main points of the RVC strategy, it has been planning to base a fund of investments for innovative startups which will ‘fill the gaps’ of investment in hi-tech projects, including financing from the regional venture funds. Besides, the RVC will continue foundation of venture funds, venture market infrastructure development, including delivering of a number of informational and educational programmes and projects.

In order to attract significant amount of investments to the housing industry there will be continued development of concession agreement legislation. Concession agreement is one of the most efficient mechanisms of the public and private partnership in terms of attraction of private investments into the infrastructure projects of the government.

There will also be continued elimination of cross subsidizing that distorts consumer behavior encouraging inefficient consumption of goods and services of controlled organisations.

Attempts to avoid high payments encourage technologically inefficient decisions of consumers. Cross subsidizing impedes implementation of activities aimed at system regulation reformation.

For the purpose of enhancement of transparency of the activity of controlled organisations and regulating bodies, there have been offered information disclosure standards worked out by natural monopolies and housing organisations.

There have been settled mandatory norms for putting into operation buildings stipulating their compliance with the energy efficiency requirements.

There have also been stipulated:

- Imposition of long-term tariffs with guaranteed saving stemming from energy conservation activities for the period of minimum 5 years as an intensive for energy conservation for the regulated enterprises.

- Imposition of requirements for implementation of energy conservation and energy efficiency programmes as well as for obligatory inspection of investment programmes in terms of energy efficiency of offered solutions.

In the public sector, the enterprises which are financed from the budgets of all levels, corporations with the government's controlling stock, state corporations, as well as enterprises of all types applying for the state support are obliged to reduce their expenses on energy supply by 15% over 5 years under comparable conditions.

In the field of telecommunications development there have been defined the main directions of reorganisation and strategy of development of the holding "Svyazinvest". Processes of asset consolidation in the telecom and need for development of convergent services as the main factor defining competitiveness of the network providers have led to foundation of the united operating company on the basis of daughter companies of the holding "Svyazinvest". Foundation of the "national champion" in an industry of strategic importance is directed towards increasing the state property value, increasing efficiency of investments within the united investment programme and focus of resources on development issues of hi-tech industries of the economy.

Special economic zones (SEZ) are one of the efficient investment attraction tools for the economy of the country, its diversification and innovative way of development.

The purposes of establishment of the SEZ are development of processing, hi-tech industries, engineering, transportation and other infrastructure, production of differentiated products, development of tourism and recreation.

There have been established 13 SEZs by the Government of RF: 2 manufacturing SEZs in the Republic of Tatarstan and Lipetzk region, 4 technical and innovative SEZs in Moscow and Moscow region, St. Petersburg and Tomsk, 7 touristic-recreational SEZs in the Republic of Altai and Buryatiya, Altai, Krasnodar and Stavropol territories as well as Irkutsk and Kaliningrad regions.

The main directions of the activities of residents of the SEZs of technical and innovative types are information communication and electronic technologies, technologies of production of new material, nanotechnologies, biotechnologies and medical technologies.

The priorities of the activities of residents of SEZs of manufacturing type are production of automobiles, auto-componentry, chemical, petrochemical, processing and aviation production as well as mechanical engineering, metal-working, building material and household chemistry production. Touristic recreational SEZs have been created for the purpose of tourist and recreation development, increase of tourist flows, enhancement of the quality of recreational services in accordance with the world standards.

There has been continuous reduction of the public institutions with the adjustment of the financial planning for the provision of public services to businesses and individuals in accordance with the government quota with improved quality and accessibility of budget services.

There has been brought in a new type of an institution – bureaucratic institution. Government or municipal institution can be autonomous, budgetary and bureaucratic with expansion of the rights of the budgetary institutions and increased independence.

Central federal bodies and their territorial bodies i.e. state institutions, fulfilling the defense functions as well as safety and law enforcement functions can also be transformed into bureaucratic institutions.

Part of the federal budgetary institutions can be given to subjects of the RF (municipal organisations) in accordance with the rules of administration of the subjects of federation and municipal organisations (with the appropriate compensation of extra expenses to the budgets of the subjects of the RF or local budgets) and the other part can be transformed into autonomous institutions or organisations of other business types.

Supplement of the public (municipal) institutions with a new organisational type – autonomous institution – underpins transition of the management by costs to management by results that enhances the efficiency of budget expenses. Public (municipal) autonomous institutions will act apart from the existing budgetary institutions. The autonomous institution is financed by the founder in accordance with the mission of the founder stipulated in his statutes and with the grants of the federal budget and other legal sources.

The property of the autonomous institution is given to him on the basis of the right for operating management. The autonomous institution does not have the right to dispose of the real assets and especially valuable chattel assets given by the owner without the consent of the founder.

Thus there have been significant institutional changes taking place in the country, which require training of professional managers taking into account the world advanced training expertise.

## **Conclusion**

Efficient development of the Russian economy is inseparably linked with the successful development of the scientific and practical activities, defined as “Management”. It is an independent type of activity of organisations administration which has its functions, processes, field of responsibility. Management embodies great amount of scientific expertise, practical experience and art of managing.

Without special training it's not possible to efficiently manage a big, medium-size or a small firm in any field of the economy. It is not declaration of

obvious facts. It is the realisation of the fact that success and failure of necessary transformations, reformation, threat of competitors, and instability are defined by the professionalism of decision makers. There are about 5 million organisations operating in Russia (firms, companies, enterprises in all industries of services and goods productions). There are set up over 200 000 new organizations, including small and medium businesses every year. There are 25 000 municipal institutions in the country. Over 10 million people (from the 68 million employed population) are engaged in the management of various levels.

Higher and secondary professional educational institutions do annually graduate 2 million specialists. According to the statistics about 200 000 of them are enrolled in the “Management” programmes. Consequently, the high qualified personnel renewal in the management field is going on with the speed of (10million/0.2 million) – 50 years. Though this is just rough estimation, it does definitely disprove the statement about overproduction of managers. There is a lack of knowledgeable managers in the country that explains the increasing dependence of the Russian economy on the export of raw materials and energy supply. Professional managers of the foreign companies who work in Russia are often superior to the managers of domestic enterprises in the competition for customers and market niche expansion.

Lack of federal and regional financing of development of education, including training of professional managers ultimately turns out to be loss of competitiveness of organisations, businesses and government.

In such conditions the government needs to set such a strategic goal as training of competitive managers for the labour market with necessary knowledge, skills and competences in the following management aspects:

- Strategic and operative planning (prioritising goals, competitive strategies, plans, programmes, projects).
- The best organisational conditions (organisational structure, interaction way, responsibility allocation).
- Efficient motivation (human resources management, monetary and intangible incentives, forms of punishment).
- Regular control (analysis of execution of plans, reasons of deviations in the plans, management accounts).
- Co-ordination of departments and employees performance.
- Educating leaders who inspires and encourages accomplishment of strategic goals and tactical tasks of organisations.
- Development of creativity and initiative approach to arising management problems as people and process management at this organisation is a special form of art – it is creativity based on fundamental science and work experience.
- Deeper study of domestic scientific and practical management experience as, for example, long before Taylor’s studies the schol-

ars of Moscow higher technical college have designed the model of work operations rationalisation and were granted the “Medal of success” at the World trade exhibition in Vienna in 1873, though the British manufacturers started using this method first.

As any theoretical and practical discipline “Management” develops towards deeper investigation of different angles of the management process. Such areas as production management, human resources management, innovation management, information management, financial management and others have stood out. However without development of the fundamental theory there will be no room for its application. Students who get single-sided view of organisation management can, for example, focus on financial management, omitting production management, supply chain management and innovation management.

Current economic situation in the country and the world makes managers of all levels apply not only basic management principles, but also their new interpretation and constantly specify them, discover regularity of the organisation development life cycle, look for better combination of macroeconomic processes regulation and management at the level of separate financial, production, intermediary and diversified organisations. It again requires synthesis of management ideas to avoid exposure of the economies of separate countries and the world economy to systemic and long-term crises.

The issue of corporate social responsibility becomes topical. During the work people do continuously correlate expended efforts with the received remuneration and compare this correlation with the appraisal of other employees including top and line managers. The organisational behavior of employees can be built on the basis of this appraisal. If this comparison reveals unjustified imbalance it may cause frustration, psychological tension, and lower motivation. Each employee should have adequate self-awareness and have insight into phased achievement of personal and professional goals. They should also be taught to be realistic and pragmatic.

The paramount task of the contemporary management is adequate reaction to fast legislation changes, competitors’ and consumers’ interests, conditions of the market of the factors of production, owners, personnel, business partners, local authorities, and so on.

Economic practice requires integration and co-ordination of all functions and activities of any organisation. The holistic view of organisation management and better combination of its functions and processes are the main strategic areas of development of the management science.

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## **Corporate culture as a management tool: the case of Russian telecom companies**

### **Abstract**

Knowledge economy placed high demand on companies for new management practices as knowledge has become the most important organizational resource and a source of innovation. Apparently companies need to manage not only employees, but also their knowledge. In order to maintain knowledge management practices efficiently top management have to provide a favourable environment to create and share knowledge within companies in a more proficient way.

Corporate culture has become a key management tool for the knowledge-based companies on their way to adaptation to the current economic paradigm. Corporate culture is no longer perceived as just a set of internal artefacts, i.e. symbols, dress code, rituals, etc. aimed at highlighting company's identity. It has become a way to foster efficient relationships with the companies' main stakeholders: employees, customers, and suppliers.

The aim of this paper is to take a look at the corporate culture of the Russian telecommunications companies to define how it supplements successful management practices at the companies. The companies investigated in the course of the research are Vimpelcom, Mobile Telesystems, Megafon, Millicom Russia and CIS, and Orange.

### **Introduction**

The myth that employees are ready to fulfill the interests of organizations like their personal interests does not work anymore. The reality is that employees aim to accomplish their private goals such as: professional development, career growth, and enhancement of their living standards. Thus the main management issue is to align personal and organisational interests through efficient corporate culture.

In the opinion of specialists, so far corporate culture has become the centre of attention of only a few companies based in Russia. According to the statistics the ratio of consciously and unconsciously shaped corporate culture at Russian companies is 20% vs. 80%, at western companies – 70% vs. 30% and at eastern companies -90% vs. 10% [10].

In addition, the research on corporate culture audit and monitoring conducted by the agency “Contact” among 42 Russian companies has revealed that only 27% of the interviewed HR-managers had admitted the absence of corporate culture monitoring activities at their companies, 23% of the companies had shared they do conduct corporate culture monitoring 2-3 times a year and 20% - only once a *year* [6].

Despite statistics, Russian telecommunications companies keep emphasizing the role of the corporate culture in their management practices. In fact, in 2010 some Russia-based telecom companies joined the rating of the Russian leading companies (Mobile Telesystems, Sistema) [9].

In the course of the research we have tried to identify the way efficient corporate culture directs companies to its accomplishment of their goals.

## Theoretical framework

In order to assess the role of the corporate culture in management practices of the aforementioned Russian telecom companies it is suggested that we use the corporate culture framework offered by G. O'Donovan [2]. The scholar suggests a systemic approach to the corporate culture according to which corporate culture is a system, containing four main elements of an individual: spiritual intelligence, intellectual quotient, emotional intelligence, physical intelligence.

**Spiritual intelligence** suggests that organisations are economic and social entities fulfilling their mission in a socially responsible way, i.e. based on particular ethical norms built in their image of an employer and a company.

**Intellectual quotient** defines the ability of a company to create a learning environment for the employees in order to encourage innovations, training, learning on trial and errors.

**Emotional intelligence** defines the ability of a company to create for its staff an organisational environment based on integrity, trust, efficient communications to develop emotional intelligence and ability to manage own emotions. It also embodies employees individual approach to employees.

**Physical intelligence** defines the ability to provide employees with high living standards: health and safety conditions at the workplace, conditions for work and life balance, sporty lifestyle, and medical benefits.



These four elements identify development of the following corporate culture components: service culture, culture of innovation, and culture of ethics.

**Service culture** is aimed at provision of high quality services and is focused on market share growth through increase in sales and revenue.

**Culture of innovation** is aimed at continuous training of personnel in order to reach market leadership through innovations, flexibility and adaptability of companies to meet market requirements.

**Culture of ethics** is aimed at ethical approach to business and enhancement of the company brand and image.

## Analysis

### VIMPELCOM

**Spiritual intelligence.** The company has been practicing awarding programmes for outstanding employees, based on their performance and service delivery. The most popular programme is “Diamond bee” award.

**Intellectual quotient** of the company embodies technical training focused on enhancing qualification level as well as intensive adaptation training aimed at familiarising the new-comers with the company history, structure, mission, goals, peculiarities and internal communications. Much more attention is paid to team training, like “Bee Line University” that is designated to improve communications within groups [6].

**Emotional intelligence.** The company encourages teambuilding activities for the employees.

**Physical intelligence.** The company provides best health and safety conditions to its employees to ensure there are no obstacles to productivity. It designs medical programmes tied to employees’ age and covers insurance payments. The company has its own doctor, who investigates the employees systematically.

Another aspect worth mentioning is pastime opportunities and services for employees: gym, carting club, travel office, laundry, real-estate counseling, and theatre ticket office located at the company, corporate activities like corporate cruises, celebration of company’s veteran’s day [6].

### MOBILE TELESYSTEMS

**Spiritual intelligence.** Corporate culture of the company is based on such values as professionalism, client-orientation and result-orientation.

**Intellectual quotient.** Corporate culture is based on innovation. It runs such projects as “Ideas factory” to assess innovative ideas of the employees regarding different organisational issues: from alleviating corporate processes to improving the service quality. New ideas are screened by a special project department.

**Emotional intelligence.** The company provides a Welcome pack for newcomers, including such manuals as “Welcome to MTS” and “Code of corporate culture” which help the new employees to find their way at the company. It also applies coaching for the new-comers at the front-office to help them easier socialise at the company.

MTS also exercises monitoring of the employee engagement in various organisational processes with the help of an expert company - [Hay Group](#) [5].

**Physical intelligence.** The company conducts various sports and fitness activities, “Health days”, Football days, Chess, ski and snowboard championship, adventurous game “MTS-Trofi”, contests for the best video about the company, etc. [13].

## MEGAFON

**Spiritual intelligence.** Client-orientation and employee-orientation is the part of the company’s philosophy. It has successfully conducted a project called “Point of destination – client” which was aimed at engaging more than 80% of the company employees in the work at front-offices. The company managed to build a remuneration system which is tied to the client feedback.

The company brand reflects the values of the employees working in different regions. The recruitment process is based on the corporate values, too. The company has an outstanding social responsibility record [7].

**Intellectual quotient.** The company is focused on development of employee leadership at any level. It provides different training opportunities for its employees to achieve its strategic goals. For example, mini-MBA programme, designed and delivered together with a Harvard Business School professor – Anthony Hourrihan; Executives development centre – a joint programme with HAY Group;

**Physical intelligence.** The company encourages the ‘megafon lifestyle’, which provides great work conditions and enables the employees identify themselves with the company brand.

## MILLICOM RUSSIA AND CIS

**Spiritual intelligence.** Internal climate of the company has been given a great attention as it creates the right environment for productive work. Once employees are treated properly they aspire to do their best to get corporate

goals accomplished. The company usually takes into consideration employees' values and needs.

**Intellectual quotient.** Apart from traditional training, the company encourages on-the-job learning and rotation of employees into different departments and regional branches.

**Emotional intelligence.** The company promotes individual approach to employees. It helps to better understand their source of motivation and provide individualised incentives to enhance productivity [6].

**Physical intelligence.** The company aspires to provide high living standards to its employees.

**ORANGE**

**Spiritual intelligence.** The company is based on such values as loyalty, integrity, diversity, initiative and commitment. It managed to save its image of the best employer even during the economic downturn, helping its employees to weather out "the economic storm".

**Intellectual quotient.** As the employees are acknowledged to be the main resource, the company provides all the conditions for the professional development of its staff and encourages innovative ideas [8].

**Emotional intelligence.** The company promotes experience and knowledge exchange between the employees as well as mutual assistance on the way to corporate goals.

**Physical intelligence.** The company emphasises a brand-building programme called "Work-life Balance at Orange". It also made its employees work more comfortable by providing safety and health conditions.

According to the HR practices of the company we can create the picture of the corporate culture.

Culture elements Company	Service culture	Culture of innovations	Culture of ethics
Vimpelkom	YES	YES	YES
mobile telesystems	YES	YES	YES
megafon	YES	YES	YES
Millicom russia and cis	YES	YES	YES
Orange	YES	YES	YES

According to the analysis all investigated companies experience all the three components of the learning corporate culture: service culture, culture of innovations and culture of ethics. Obviously corporate culture has become a bridge between the corporate and its employees, through which top man-

agement convey they values, philosophy and goals of the company to its employees. In the ear of knowledge economy corporate culture turned out a key tool for the telecom companies to reach competitive edge and a leading position in the market.

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## **International Food & Activity Tourism (InFACto) – The value of collaboration**

**Summary:** The InFACto project looks to undertake marketing research to discover the diverse needs of food and activity providers across Finland and Estonia. The value of collaboration through best practice case studies is highlighted through initiatives bringing together business across regions to strengthen communication and increase promotion and the capacity to develop business. Responses from businesses indicate a need for greater local food and drink provision and improved links and promotion. Tourism and travel agency responses show a need for greater cooperation and market demand for a wide range of services including the provision of local food and drink.

### **Introduction**

‘Food Tourism’ is a growth sector of the overall tourism market. For many tourists, sampling food and drink is one of the main reasons to visit new locations. Local food is a manifestation of a nation’s culture and in a global tourism market. Culinary tourism, activity tourism and local food are recognised as important elements of the cultural and tourism experience of an area with regional food having the potential to reinforce a nation’s identity.

Many rural areas across Europe have recognised the value and importance of the relationship between local food and tourism. The growth in activity and green tourism has similarly linked sports, corporate entertainment and relaxation with traditional food and accommodation provision, and links with culture have been recognised with the consideration of initiative such as Destination Management.

The marketing research component of the International Food & Activity (InFACto) project has sought to identify and analyse the potential for new markets in international food & activity tourism for food and tourism micro businesses in the Häme region of Finland, the south east of Estonia and Saaremaa island in Estonia.

This paper looks to summarise the findings of the research process, including entrepreneur feedback in Finland, the responses from interviews with inter-

mediaries (tourism and travel agencies) and using examples of collaboration from case studies in international best practice.

## Materials and methods

Much of the material collected has been collated through market research initiatives conducted by the Scottish Agricultural College (SAC) Food & Drink Team, assisted by project partners of the InFACTo project.

The collated results of the entrepreneur study include visits to businesses across Finland and Estonia, and the responses of 47 questionnaires distributed to 180 businesses in the Häme region (26.1%). The responses of intermediaries are collated from individual interviews conducted by the project delivery team. Case study material is collected from online published data, supported by face to face interviews.

## Results

The first component analysed is the type of activity tourism engaged in by businesses in the Häme region. Businesses were able to provide a response to the question on which type of activity tourism they engaged in. Businesses could select more than one option, and results are indicated in figure 1. The most common option, by more than half the 28 businesses who selected an option was in corporate activities, while one third indicated that sauna, culinary tourism or guided tours were part of the offering. The overall indicated range of options suggested that a wide variety of options are available to be offered as potential tourism activities for visitors to the region.

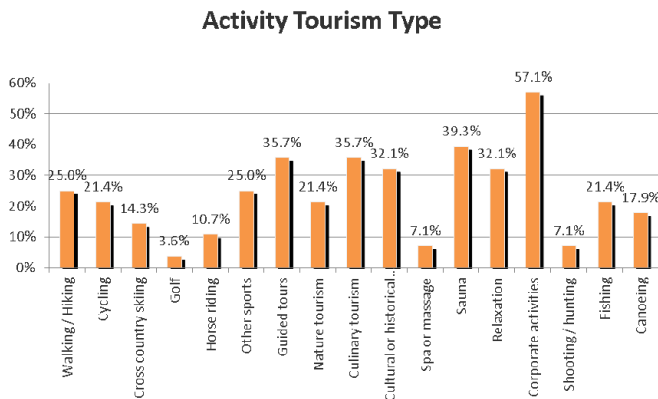


Figure 1: Which type of tourism activity are you engaged in? (28 responses)

Not all businesses answered the question relating to activity, as their focus was on provision of food and drink rather than activities. A wide range of food and drink was similarly demonstrated by the 28 businesses that elected to respond to the question over which category of food and drink they provided, as shown in figure 2. The total number of responses and business response types indicated that some entrepreneurs were engaged in both business and activity provision. A total of 40 responses were recorded in the meat categories (red meat, poultry, game and fish), although businesses were once again able to respond in more than one category area. Non-alcoholic drinks and confectionery gave the highest number of responses (14 and 12 companies respectively).

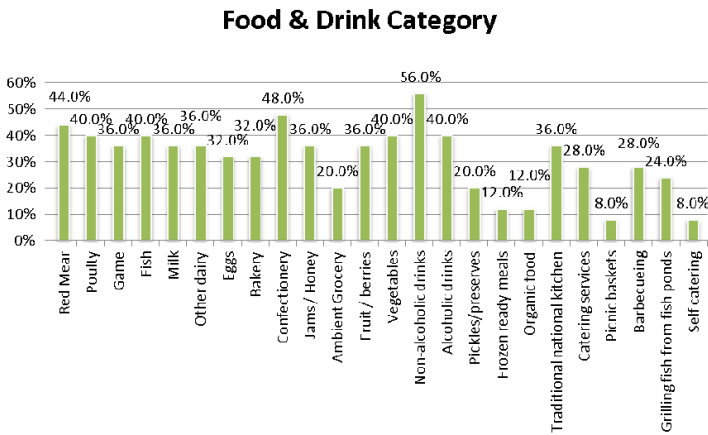


Figure 2: Which category of food and drink do you supply or sell? (28 responses)

### Importance of local produce to your business?

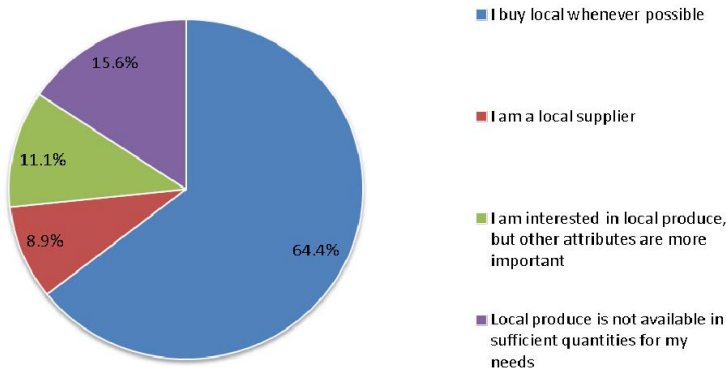


Figure 3: How important is local food & drink to your business? (45 responses)

The 45 companies which gave a response to the question relating to the importance of local food and drink gave the highest ranking to the option “I buy local wherever possible”, with 29 responses. Four companies answered that they were local suppliers, while five respondents indicated that other attributes were more important. Seven companies indicated that they felt local food was not available in sufficient quantities. Responses are indicated in figure 3.

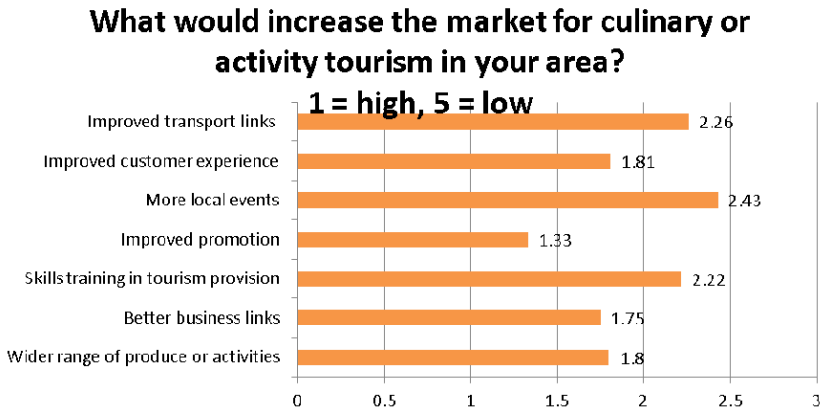


Figure 4: What would increase the market for culinary or activity tourism? (47 responses)

The lowest average score, as indicated in figure 4, was for ‘improved promotion’, while lower scoring choices also indicating that businesses ranked the highly were ‘better business links’, ‘wider range of produce or activities’ and ‘improved customer experience’. Fewer business ranked ‘more local events’ as important, and in individual scoring, this was the only category where businesses felt this would have a very low impact.

It is worth considering the responses from travel companies and tourism agencies to evaluate the impact of any of the impact of any of the measures as suggested. Many of the target markets for business to Finland and Estonia are closer markets such as Russia, Germany, Sweden, although areas such as emerging markets from Japan, the US, the rest of Asia and Western and Southern Europe are also important.

Common themes encountered are the difficulty in persuading visitors beyond the main cities of Helsinki and Tallinn. A key need for travel agencies was for businesses to collaborate and communicate more effectively, to make them aware of their services, and to enable or to assist these agencies to put tour packages together. While agencies would be happy to put the packages together, they were looking for a greater degree of communication on availability of services, and on support.

Food was highlighted as a key point, with the agencies indicating that local food was often requested. Entrepreneurs themselves, particularly in Estonia,



cited that there were few examples of hotels restaurants and cafés using local food or requesting it, but the tourism agencies felt there was demand for local food, with certain barriers to accessing it, such as language and availability of certain products. Several agencies indicated that Russian visitors often looked for fish on the menu, and would bring their own food on holiday, mostly due to a lack of translation on menus. There was seen to be some effort at providing translation for visitors, but often not enough Russian language.

There was an indication made by some of the agencies that a key feature which interested visitors was nature, and not to ignore the value of corporate facilities and entertainment. Many visitors to rural areas will be visitors from city areas. The areas where improvements could be made were estimated to be in provision of information relating to both food and activity, and in better links between businesses, and improved customer service.

## Discussion

It is important to consider all responses, and consumer research is currently being undertaken through the project to validate the responses from intermediaries, but there have been consistent responses from both intermediaries and from entrepreneurs.

A number of key aspects can improve the overall visitor experience, and these can be summarised as follows:

- Improved customer service
- Greater communication links
- Language skills
- Improved promotion
- Collaboration

The ability to promote may be improved by businesses collaborating, as they themselves indicated in their responses. Coordination of business information will help tourism agencies, both public and private, to offer a wide range of services and culinary provision. Indications from the responses from the Häme region show the breadth of provision of food and drink and activities, but that these may not be communicated to visitors to the region, or to potential visitors. Differentiation will have to be considered, to ensure that any offering is competitive, but communicating the range of provision will be key. There is some evidence of collaboration, such as the Aulanko Tourism Association's collaboration of 25 businesses.

The value of collaboration is to make communication of key messages more cost effective, and in enabling the 'packaging' of services to provide directly to visitors, or to intermediaries selling services to a wider audience. This value has also been shown where businesses can 'signpost' the services of others. This reciprocal form of marketing has been shown in best practice to increase visitor trade, and also improves the overall customer service.

Case studies of best practice developed for the project highlight these benefits. This includes examples from Scotland, where collaboration has enabled development in both food and activity tourism.

In Aviemore, a cluster based tourism approach has enabled business growth. Although much of the current development was originally based on winter ski development, tourism in the area has expanded to offer quality activities to people of all ages throughout the year. The main factors in the development include: enthusiastic and imaginative entrepreneurs, a sufficient core of businesses to have an active Chamber of Congress and Business Partnership Association, a brand linked to the National Park and a clear identify as a destination. Providing something for everyone is the major selling point of the Aviemore and Speyside area. Specialist areas for activities are easy to find, but finding an area for a good all ages family holiday is not. In addition the area provides accommodation at all standards from rough camping to five star hotels.

Many of the businesses have been developed by entrepreneurs, although the area comes together as a whole through cooperation between businesses through the Cairngorm Chamber of Congress, the Cairngorm Business Partnership and most importantly under the umbrella of the National Park. It has been moving progressively forward since the early ski developments and the designation as a National Park in 2001 has added to its success. The has helped to expand business networks within the park, clearly identify the area and serve as a marketing tool not only via its web site, but as a selling point capitalising on the kudos of the park designation.

The Ayrshire Food Network to illustrates the development of a grass roots, regional entrepreneurial Food, Drink and Tourism-related initiative, drawing on synergies that can be achieved through a dovetailing of small firm, regional, national and EU strategies. It demonstrates how a network of small firm members can operate through multiple networks, maintain flexibility and be inclusive. The network has been collaborating for nine years, growing out of farmers' markets supply side provision. Networked and operating "virtually", it has a very light touch and operates on very low budgets bringing together 50 + businesses, local authority and other organisational supporters. It runs as an affinity group within the local chamber of commerce facilitated regional tourism forum.

For both groups, a key has been in identifying common areas and promotional opportunities. For the Ayrshire Food Network, this is ensuring promotional material advertises all network members, and is available at Prestwick Airport, the main access point for visitors to the area. The network also capitalises on the understanding that over 60% of tourists to the region are in fact day visitors from the central belt of Scotland and ensure that provision is there to take advantage of the opportunity to increase food and drink spend by the provision of authentic local food experience at all levels.

## **Acknowledgements**

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## **Marketing discourses of national and multinational health care companies**

### **Abstract**

Finland is divided into hundreds of municipalities, which are responsible for arranging health care for their inhabitants, who can also buy services from the private sector. The available health centre services offer medical consultations and vary greatly in size. The largest ones employ thousands of doctors and provide highly specialized services. More than 10% of Finnish doctors earn their living solely as private practitioners. About one third of doctors run a private practice in addition to working in a hospital or health centre. Most private practitioners work in group practices.

The thought that health care services should be publicly financed, owned and produced, has traditionally been deep rooted in Finland, but in recent years Finland has seen a massive invasion of private, multi-national health care companies. The current top three private health care companies, Atten-do MedOne, Terveystalo and Mehiläinen, are all owned by global investors.

From the marketing perspective, the changing business structure in the health care business offers an interesting potential to study and develop the marketing practices in this sector. In this paper, the consumption of health care services is seen as part of social reality. It is an important part of the system, where social reality is produced, negotiated and changed. Therefore, we should be concerned with the definitions that are used in a social context, which in this research means studying the web pages of health care service providers.

**Keywords:** Marketing, Health care, Private and public, National and multinational, Discourses

### **I. Introduction**

The consumption is often seen as deterministic, something that comes from outside and what people adapt to (Rogers, 1995). It can also be approached through interpretation (Grint & Woolgar, 1997). According to Arndt's (1985)

orientations, this research is positioned into the paradigm of the subjective world. It makes the assumption that individuals construct their social reality. Interpretation is defined here as “the critical analysis of text for the purpose of determining its single or multiple meanings” (Holbrook & O’Shaughnessy, 1988, p. 400). The interpretative approach can bring marketing managers closer to the consumers and provide useful insights (Fournier & Yao, 1997).

The era of industrialism not only produces machines into the markets, but it also constructs human body as a machine. Metaphorically, the health and sickness in the human body can be treated and healed as any broken or malfunctioning part of a machine (Weiss 1997). It has been proposed that the research of health care communications would be done by not only using quantitative, but also qualitative methods like discourse analysis (Lupton 1995, 147). In this paper we propose that health care marketing can be approached through the different meanings it produces. The marketing discourses in the health care business can be seen as a catalyst for changing conceptions of the nature of a “healthy” consumer, because the coexistence of both health (e.g. not feeling sick or not having diseases) and sickness (e.g. broken bones or infections) issues can become the object of study.

Marketing of health care services can increase the awareness of consumers about their possibilities to use private health care services. Media intervention can help consumers to treat their sicknesses better, saving the resources of the society, when, for example, consumers react to heart problems early enough (Lampi 2005). Marketing can also activate wrong target audiences, like happened in Australia in 1980’s; the aids-campaign was claimed to mark the infected patients, making them to as the warning signs of this disease, although the target of the campaign was originally to activate the citizens in the risk groups to sign into hiv-tests (Tulloch & Lupton 1997, 136). In the extreme case, the marketing of health care services can even be a kind of “health terrorism” and blame individuals for being sick (Torkkola 2008, 55).

The Finnish research about marketing in health care services has concentrated on the public information sharing of health-related information (Aarva 1991), use of media to distribute health care news (Piispa 1997), styles of discussing about diabetes in the public media (Paju 2006) and the contradiction of being health or sick in the media (Torkkola 2008).

## **2. Health and sickness in marketing discourses**

The medically determined diseases are often the basis of health care research in marketing. This way, the marketing of health care services is seen as a vessel to inform consumers about their options to use these services. Consumers are seen as users, not as producers of the services. (Lupton 1995, 108-114; Tulloch & Lupton 1997, 216-223)

When a health care service is approached through the process of interpretation, it can be studied as a cultural artefact. The consumption of health care services in different cultural contexts offers an interesting research area for

marketing. In this research health and sickness and the services provided in this business sector are seen as discursive constructions. The research question is: What kind of marketing discourses do health care companies produce to allure consumers to use their services?

## **2.1 Diffusion of health care services**

In the field of marketing, the research on innovation diffusion has focused on the adoption perspective. This can be called the adoption–diffusion paradigm. It examines the process through which an innovation reaches a critical mass of adopters, the diffusion is accelerated, and innovation is considered to be successful (Mahajan, Muller, & Bass, 1990). Diffusion is a process by which an innovation is communicated through certain channels over time, among the members of a social system (Rogers, 1995).

The diffusion theory is used here as the theoretical framework to explain to potential success or failure of marketing campaigns in the private health care sector in Finland. In the adoption–diffusion paradigm, the consumption of new technology is seen as deterministic, as something that comes from outside and what people adapt to. However, the initial adoption of private health care services is only one part in the life cycle of these services. Hence, instead of predicting the formation of adopter and user segments, it could be studied how the markets and marketers of private health care define the need for their services. This means that the interest would be to follow a situation where dynamic and social interactions influence the opinions of the consumers. In this research, we focus on the marketing discourses as they appear in the public web pages of selected national and multi-national health care companies in Finland.

## **2.2 Consuming health care services: An interpretative approach**

From the post-modern perspective, consumption and production are not considered juxtapositions of opposites, but rather as something that occurs interchangeably (Firat & Venkatesh, 1995). The post-modern perspective requires willingness to undertake research that does not assume that there is a single solution, but approaches consumer culture expecting to find multiple meanings and a rich construction of reality (Firat, 1992).

Private health care services can be seen as designed, built and standardized for certain, assumed users and usage practices. But as in any consumption practice, the user makes the final interpretation (Grint & Woolgar, 1997). An approach based on the interpretative approach would see that the negotiations of meanings about the consumption of health care services are ongoing and dynamic and do not reach a stable state. According to the interpretative approach, a consumer can be seen to create and alter the meanings (Dant, 1999, p. 14). Hence, the consumption can be assumed to be formed during an individual's exploration of provided services within a particular social context (du Gay 1997, p. 103; Mackay, 1997).

The earlier marketing research has focused on the decision-making process and emphasises the singular buyer or decision maker (Ritson & Elliot, 1999, p. 261). These theories concentrate the individual as locus of the meaning (McCracken, 1988) and tend to de-emphasise the role of social context (Holbrook, 1995, p. 93). As a result, inherently individualistic models have been developed. Unfortunately, the research approaches based on an individualistic user concept are narrow. Although they share the understanding that social constrains and social context are important, they rarely focus on the importance of socially shared discursive practices that create social, interpersonal reality. The potential contribution of this research lays on the argument that socially shared discursive practices construct the marketing potential for private health care services.

### **3. National and multi-national health care marketing discourses**

Discourse analysis is a useful method for data analysis, when the research approach is based on social constructionism. Discourse analysis can be viewed as an advance on hermeneutics and social semiotics (Arnold & Fisher, 1994; Elliott, 1996, p. 65). The fundamental assumption of discourse analysis is that language is a medium oriented towards action and function (Heritage, 1984). People use language to construct versions of the social world and the variation of language shows the active process of this construction (Elliott, 1996, p. 65). The concept of variability is essential for the analysis, because discourses vary depending on their functions (Potter, Wetherell, Gill, & Edwards, 1990).

#### **3.1 Analysing the discourses**

A discourse is a collection of claims about the reality and discourses influence meanings and can refer to other discourses. Discourse analysis is focused on text and the discourses in it, not on the individuals who have written or spoken the texts (Deleuze, 1986). Thus, the researcher is not focused on the speaker or the personal history of the speaker. It is more important to focus on the discursive practices. This makes discourse analysis different from most other interpretative methodologies in marketing (cf. Mick, 1986; Thompson, Locander, & Pollio, 1989).

Talk is constructed of existing resources. These resources are repertoires, which we borrow and refashion for our own purposes (Marshall & Raabe, 1993, p. 4). These different ways of talking are called interpretative repertoires. Interpretative repertoires were developed for researching people's own understandings (Gilbert & Mulkay, 1984). Interpretative repertoires construct the studied phenomenon in different ways and discourse analysis focuses upon these constructions. Conversations are made up from various interpretative repertoires, of which flexible and creative use is sometimes compared to the improvisation of dance (Edley, 2001).

Interpretative repertoire is used as an analytical tool in this research. An interpretative repertoire is defined here as “the register of terms and metaphors drawn upon to characterise and evaluate actions and events” (Potter & Wetherell, 1987, p. 138). They can be seen as a kind of a tool kit of discursive resources that people use. They represent a consistency that is not located at the level of an individual speaker (or a company), but that is culturally shared (Burr, 1995, p. 117). Hence, interpretative repertoires regard use of language as form of social practice rather than purely individual activity (Fairclough, 1992, p. 4).

In the analysis of interpretative repertoires the idea is to see the varieties and controversies of an interpretation of a single issue (Potter & Wetherell, 1988). Variability is important because it shows the different ways of constructing reality. The aim is to show the whole picture with the different versions of the subject (Gilbert & Mulkay, 1984, p. 15; Potter & Wetherell, 1987, p. 162). Hence, variability is often one of the most interesting findings in the research using discourse analysis, because it makes the similarity more nuanced.

### **3.2 The health care marketing in Finland**

The empirical data of this research consists of the web pages of both national and multi-national health care companies in Finland. Their public web pages are treated here as the place to share the marketing messages with customers and potential customers. Patterns of variation and consistency in the form and content of the marketing discourses make it possible to analyse the discursive constructions.

It was natural to start the data analysis with the search for both variety and consistency. The analytic objective was not merely to describe the production of interpretative repertoires, but to “show how what is being said” (Holstein & Gubrium, 1997, p. 127). The process of data analysis started so that the researcher read through web pages and made preliminary notions. Identification of the themes was challenging, because the analysis was not based on fixed constructs that the researcher had, but on the differences and varieties that the pages used. It should be noted that the themes do not automatically appear from the text, but the researcher has actively selected the themes.

After inventorying the themes, interpretative repertoires became more visible. Rising above the themes to understand what was done with language was an intuitive but systematic process, in which the researcher made choices. The analysis involved the development of tentative interpretations that were revised several times. When reading the web pages over and over again, it was visible that some issues kept repeating themselves. It is typical of discourse analysis that the analysis involves a progression from interpretation to description and back to interpretation (Fairclough, 1992, p. 231).

The study is limited to consumers, B2B customers are excluded. The studied companies are:



1. The Hospital District of Helsinki and Uusimaa (governmental, national)
2. The Pirkanmaa Hospital District (governmental, national)
3. Attendo MedOne (private, multi-national)
4. Terveystalo (private, multi-national)
5. Mehiläinen (private, multi-national)
6. Pihlajalinna (private, national)
7. Eira (private, national)

### **The Hospital District of Helsinki and Uusimaa**

For the organisation of specialised medical care, Finland is divided into 20 hospital districts. Five of them are university hospital districts. The Hospital District of Helsinki and Uusimaa (HUS) is the largest of these. HUS serves patients by providing specialised medical care for the residents of its 26 member municipalities.

HUS offers specialist medical care in all 20 of its hospitals throughout the province of Uusimaa. All of the major medical specialties are represented at HUS: surgery, medicine, anaesthesiology, phoniatics, psychiatrics, obstetrics and gynaecology, illnesses of children and adolescents, neurology, neurosurgery, ophthalmology, otorhinolaryngology, imaging, laboratory specialties, psychiatry, oncology, dermatology and allergology, and venereal diseases and their sub-specialties. (HUS 2011)

### **The Pirkanmaa Hospital District**

The Pirkanmaa Hospital District is a joint municipal authority of 22 municipalities with a total of approximately 470,000 residents. Approximately 75,000 patients are given treatment in wards and about 370,000 in outpatient clinics every year.

The service contracts concluded with municipalities and hospital districts specify the amount and variety of the services to be provided. These contracts are based on the need for services among the population. In addition, the University Hospital provides services to the hospital districts within its special responsibility area. These hospital districts include the Hospital Districts of Kanta-Häme, Southern Ostrobothnia and Vaasa, and the Joint Municipal Authority for Social and Health Services in Päijät-Häme. This means that Tays provides more than one million Finns with specialised care services. (TAYS 2011)

### **Attendo**

Attendo provides publicly funded care and social care on behalf of municipalities in the Nordic countries. In recent years, Attendo Care also experienced strong organic growth and today the company operates in 83 locations in Sweden, Denmark and Norway. In 2007 Attendo acquired the Finnish company MedOne, who is the leading provider of care and health care services in Finland. MedOne is currently one of Attendo Group's two business areas.

Attendo MedOne is the leading provider of healthcare services in Finland. The company offers services in primary care, specialist care and dental care and care for elderly. Attendo MedOne has a customer base of over 250 municipalities out of 342 and 15 of 20 hospital districts. 2009, over 3 500 doctors, dentists and nurses worked within Attendo MedOne. (Attendo 2011)

### **Terveystalo**

Terveystalo offers a care package comprising occupational health, primary healthcare through to diagnostics and surgical treatment through its network of private hospitals. In 2009 Bridgepoint launched a recommended cash tender offer for the business of €2 per share which will subsequently lead to its de-listing. Terveystalo operates in over 60 locations in Finland, employs over 25000 workers and over 2000 private doctors. (Terveystalo 2011)

### **Mehiläinen**

The Mehiläinen Group is a provider of private health care and social services in Finland. The Mehiläinen group is active in various sectors of the market for privately funded health care services and publicly funded health care and social services. Currently, Mehiläinen's nationwide service network of privately funded health services consists of a total of 23 medical centres, occupational health centres which augment the service network, and 9 hospitals. On the publicly funded markets the Mehiläinen group consists of 8 elderly care centres, 12 child welfare units, 21 mental health rehabilitation units. Mehiläinen is a part of the Ambea Group, which is the largest private healthcare and nursing services provider in the Nordic countries. (Mehiläinen 2011)

### **Pihlajalinna**

Pihlajalinna Ltd. is a healthcare service company located in Tampere. It was established in 2001 and at the moment it is the biggest fully Finnish owned healthcare service company in Finland. Pihlajalinna offers general and specialist healthcare, occupational healthcare and hospital services to private individuals, companies, insurance companies and public sector. Pihlajalinna has seven units in seven locations at Pirkanmaa. Company has also cooperation with several municipalities to take care of their public healthcare services. Pihlajalinna has nearly 300 healthcare professionals working in various areas. Turnover of the company in 2008 was 20 M€. Pihlajalinna is owned by personnel and private equity investor Sentica Partners. (Pihlajalinna 2011)

### **Eira**

Eira medical center and private hospital is located in southern Helsinki. It offers general practitioners and specialist doctors, laboratory and X-Ray, also ultrashape, nutritional therapy, physiotherapy and acupuncture. Their private hospital includes surgical department and bed department. In surgery Eira is specialized in orthopedics, eye surgery, plastic surgery, cataract surgery, gynecology, otolaryngology, and general surgical operations. (Eira 2011)

### 3.8 The health care marketing discourses

The national, government owned health care companies had basic web pages, where the main emphasis was on providing facts and contacts details. There were no stories of patients being treated in their hospitals not personalized pages for individual doctors. In comparison to this, the multinational private health care companies provided the richest content from the marketing perspective. Their pages had variety of viewpoints from providing the basic information into telling the history, strategy and vision of the company. Different kind of treatments and health care possibilities were described broadly, although clearly. The focus was on providing information for the individual patients, consumer. The customer-focus was not so clear in the web pages of public hospitals, which mainly settled in telling about themselves, not about their customers.

The studied marketing discourses usually were presented in a list of medical facts or in a form of a story-telling (e.g. reference cases of treated patients). The stories were success stories about returning a patient into the state he or she was before getting sick (e.g. fighting against cancer). The main actor of the discourse is typically the doctor or a team led by a doctors, who rescues the patient. The patient him/herself remains as relative passive figure in the story, maybe just giving few shorts comments about being happy and satisfied after the treatment. Alternative paths in marketing would be to share the longer version of patient's story (the rise from the ashes as a fenix bird), placing the patient in a more the active role.

Another popular discourse is the surgeries performed by the private hospital or service provider. This might be explained by the medical machinery that is often state-of-art and expensive in this business. The complex, expensive machinery can be seen as a metaphor of the fight against disease (Torkkola 2008, 143). Describing a surgery also offers the needed drama and tension into the marketing discourse.

Third popular marketing discourse is the presentation of child patients. A child needing medical attention is a strong symbol in marketing. Rescuing the poor child from the evil hands of sickness (flu, ear infection, broken bones) crystallizes the medical company's fight for better life and brighter future.

There were no discourses about the lack of resources, although these news we can often read about the public health care providers (e.g. university hospitals) in the local media (see Torkkola 2008, 146). On the contrary the discourses constructed an image that the studied companies work towards taking care of everyone and that they are not only reliable, but also provide the relief fast. There were no mentions about queuing times for the treatments.

In the public media there are arguments which sicknesses are more important than the others and how much resources there should be to treat certain sicknesses (Clarke 1999). In the studied web pages all the diseases and symptoms were portrayed as equals. There were not arguments about preferring young

patients over elderly ones or treating accident-caused problems more seriously than the sickness caused by individuals own actions.

In the marketing discourses, the companies tell what kinds of diseases are possible and how they'll treat them in the best possible way. Sometimes science is incorporated, showing how the latest medical research findings are taken into action at this certain hospital or service provider. Advances in the medical science are presented as promises to succeed well in the provided health services.

#### **4. Conclusions**

Marketing of health care services is gentle towards the modern medicine. The medical services are seen as the method to prevent the medical dangers or cure the sicknesses of consumers. The doctors and the provided treatments are seen as heroes. The marketing language is mainly based on facts, but also thoroughly colored with positive words about the skills and competencies of doctors and hospitals. It must be noted, however, that the primary marketing discourse is fact-based and aimed to share information. Only after this and within this follows the discourse of placing doctors and their skill into higher level of the society, as some kind of heroes rescuing the consumers from evil diseases and uncomfortableness of health-related everyday life. There were no public demonstrations of, for example, doctor-patient conflict or reports of failed medical treatments.

Interestingly, there were not significant differences between the national and multi-national health care companies in their main marketing discourses. The almost unequivocal way to present health services can be seen to rise from the historical discourses of medicine and medical research, as they traditionally approach the subject by listing diseases and treatments from the fact-based perspective (Torkkola 2008, 76). This way, marketing can be seen as a way to strengthen the power of health care service provides and the supporting the tradition of placing medicine and its professionals into the higher pedestal in the society. Another interesting finding was that the heroes of the health care companies were always doctors, not nurses or other specialists. Why exactly just the doctors are presented this way, remains the question for future research.

Marketing done by the health care companies support the authority of doctors and does not questions the "truths" in modern medicine or the treatments and the needs for the treatments it provides. This is relatively easily done through the marketing discourses as the medical news and campaigns are easily perceived as pure and correct information by the consumer audience. Marketing that combines both sharing information and personal consultation are proven to be the most efficient (Torkkola 2008, 54). But it is probably too much to expect that few health-related marketing campaigns can change permanently change the consumer behavior (see the research by Scherer & Juanillo 1992).

We have seen the raise of health-related TV shows also in Finland. Fictional TV series of hospitals and doctors are demonstrated to influence the opinions of consumers (Turow 1996). It can even be more influential than the traditional, government guided health communication (Torkkola 2008, 61). In this research there was no sign about the use of commercial hospital or doctor series in the format of, for example, private hospital TV shows to promote the marketing offerings of the studies companies. On the contrary, the discourses of the studied health service providers can be considered to be quite sensitive and carefully planned, therefore presenting the conservative side of health care marketing. We can only wait and see if either local or multi-national health service provider sees that the competition and need for differentiation of the services will drive them to use more aggressive marketing discourses to attract more consumers.

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## **Virtual engagement platform in tourism businesses**

### **Abstract**

This paper focuses on engagement platforms in value creation. Engagement platforms are seen as virtual platforms, and platforms are approached from a value co-creation perspective. Drawing on the literature on value creation in strategic management and testing empirically in the tourist industry, we propose a framework for analyzing virtual engagement platforms. We suggest that various value co-creation processes between businesses and customers require different types of engagement platforms, and that there are four varieties of engagement platforms: customer-centric, customer community –centric, business network –centric and business centric. This paper is preliminary in nature and shall be developed further, both conceptually and empirically, by using more intensive data-gathering methods in the cases selected. The paper contributes to the literature on value creation in strategic management by proposing a framework of virtual engagement platforms which integrates the ideas on value creation and dialogues.

**Keywords:** engagement platform, Internet-based platform, virtual environments, value co-creation, eTourism

### **1. Introduction**

Creating value jointly with customers is an area that is debated amongst academics and practitioners alike. In a turbulent market environment, businesses face overwhelming pressure to create value with customers. Companies such as Lappset, Tapiola, Tallink Silja and Rapola are increasingly collaborating with customers in creating value and thus taking a path leading businesses toward sustainable value and growth.

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Simultaneously, marketing and strategic management scholars are praising joint value creation as a new paradigm. For example, Lusch and Vargo (2006, 181) have underlined the importance of the value-creating processes that involve the customer as a co-creator of value; in turn, Payne et al. (2008) have highlighted the role of customer in engaging in co-creation and thus as a co-creator of value; and Ramaswamy and Gouillart (2010) have pointed out that the co-creation of value approach is an expanded paradigm of value creation.

This paper focuses on the virtual environments in value creation. The virtual environments in terms of Internet-based mechanisms are assumed to offer many advantages over traditional means (see Sawhney et al. 2005). Firstly, the medium allows unprecedented reach of a large number of customers, contributing to a reduction in the constraints of geography and distance. Furthermore, the Internet potentially enables firms to overcome the trade-off between richness (i.e. a rich dialogue with customers) and reach (vis-à-vis the total number of customers), because it is interactive in nature. Virtual environments also increase speed and the persistence of customer engagement, which means that customer interactions can happen in real-time with much higher frequency. Finally, the Internet increases the flexibility of customer interactions: customers can vary their level of involvement over time and across sessions. It can also drive costs down and reduce risks by enabling industrialization of the scale and scope of platforms (Ramaswamy and Gouillart 2010, 36).

Therefore, it is not a surprise that virtual environments in value creation have attracted growing interest amongst marketing and management scholars. The extant literature on the issue has primarily focused on identifying the impacts of the Internet on the process of collaborative innovation (Sawhney et al. 2005, 4), mapping the web-based mechanisms supporting product innovation (Prandelli et al. 2006), value co-creation through engagement platforms (Ramaswamy and Gouillart 2010) and examination of the design of virtual customer environments (Nambisan 2002).

In all this literature, the virtual environment, Internet-based mechanism or engagement platform has been viewed as being influential to value creation. Yet though this is the case, conceptually the terms per se have received only limited attention. Therefore, we focus on the term *engagement platform*, which is the cornerstone of a value creation paradigm (Ramaswamy and Gouillart 2010, 38) and which we feel is a particularly relevant concept in shifting the focus from pure technological capabilities into the value creation mindset that is a key prerequisite in determining the establishment of value co-creation.

In order to fill the existing gap, the purpose of this paper is to clarify the nature of the engagement platform in value creation, particularly within the context of virtual environments. By adopting the value co-creation approach to the engagement platform, three key issues are discussed in detail: the role of engagement platform, nature of the engagement platform, and the enablers embedded within the engagement platform facilitating value co-creation in practice. In addition to the conceptual discussion, we explore the issues empirically within the tourist industry setting. By building on this knowledge,

we aim at providing a framework for analyzing the engagement platform as an enabler of value co-creation, simultaneously increasing the understanding of the phenomenon amongst practitioners.

## 2. The nature of engagement platform

The role of the engagement platform has primary importance both for businesses and the customers alike. Generally, the engagement platform facilitates the interaction between parties (Ramaswamy and Gouillart 2010, 29). For businesses, it is a device that allows them to establish co-creation processes and enrich company-customer interactions (Ramaswamy 2009, 29). For the customers involved, it is a fertile ground for enabling them to engage in value creation as co-creators of value (Ramaswamy 2009) and to thereby generate new types of value in terms of value in use (Ramaswamy and Gouillart 2010, 38). The potentiality of the engagement platform to enhance value for the customers lies in its ability to allow customers to use it as a tool at a level best suited to his/her needs (Ramaswamy 2009). On this basis, the engagement platform can be referred to as a co-creative engagement platform.

### 2.1 Definition of engagement platform

The term 'engagement platform' has been used amongst strategic management and marketing scholars. Yet, despite the common use of the term, the definition of the concept has remained vague. Sawhney et al. (2005) have explicitly used the concept, but rather than providing a clear definition, they have implicitly referred to the Internet in discussing on the platform. In this sense, the engagement platform in their conceptualization refers to the Internet. According to Prahalad and Ramaswamy (2004, 80) the engagement platform is an interaction environment that enables a variety of individualized experiences.

By adopting a broader perspective, the term has also been conceptualized in terms of the experience environment, which refers to a framework that includes a networked combination of company capabilities and consumer interaction channels (Pralhad and Ramaswamy 2004, 54-55). The thinking underlying the experience environment assumes that an individual is the 'soul' of the interaction and represents the ways of how an individual changes in relationship to space, time and events (Pralhad and Ramaswamy 2004, 77). In this sense, the experience environment can be viewed as a context of space and time, also entailing the situational circumstances associated with an event in context (Pralhad and Ramaswamy 2004, 79-80).

Drawing on Prahalad and Ramaswamy (2004), we define the engagement platform as an interaction environment that enables value co-creation between the businesses and the customers. It is a context in time and space within which the players interact with each other. Inside the engagement platform, the company capabilities and the consumer interaction channels become connected.

## 2.2 Types of engagement platforms

Scholars have identified several types of engagement platforms. Ramaswamy and Gouillart (2010) have grouped the engagement platforms into live meetings, websites, physical stores, physical and digital products, mobile devices, call centres and private as well as public community spaces, mainly on practical grounds. According to these researchers, the engagement platforms can be integral to the offerings themselves and/or they may support and augment product and service offerings. In a broader sense, the engagement platform is classified in terms of the nature environments: some devices represent physical environments or “offline” engagement platforms that are characterized by face-to-face interactions – live meetings, physical stores, and physical products; while others are virtual environments or “online” engagement platforms – websites, digital products, mobile devices, call centres, and private as well as public community spaces (*ibid.*, 20, 38.).

Prandelli et al. (2008) have in turn identified four differing types of Internet platforms they refer to as “collaboration mechanisms” but which we feel are synonymous with the meaning of engagement platform. This is supported by the notion by which the taxonomy represents “a description of unique characteristics of the Internet that enhance customer involvement”. The identified platforms are an interactive dialogue, mediated dialogue, imported knowledge and social dialogue. A key idea underlying this taxonomy is that the nature of the collaboration between the customer and firm is determined by the dialogue. In other words, it is the dialogue that enables value co-creation and therefore deserves the primary importance in the debate on engagement platforms. In their taxonomy, the types of engagement platforms are framed as a two-dimensional concept composed of a governance dimension and a collaboration dimension (*ibid.*, 20, 66.).

Both classifications of engagement platforms are relevant to this study. Nevertheless, the former dichotomy, which is unilateral in its nature, provides only a limited perspective to the nature of engagement platform in value co-creation. Furthermore, it suffers from the lack of ability to clarify, in particular, the virtual environments that represent the core interest in this research.

For this reason, we are primarily building on the taxonomy proposed by Prandelli et al. (2008). There are several reasons for believing that the taxonomy based on dialogue provides a fruitful starting point for an appropriate conceptualization to describe engagement platforms. Firstly, the literature on marketing has underlined the dialogue as being an essential aspect in supporting co-creation of value (Ballantyne and Varey 2006). Secondly, the dialogue is one of the key building blocks in a model framed by Prahalad and Ramaswamy (2004, 23); the model, which is viewed as being an exceptional work directed at providing frameworks to help organizations manage the co-creation process (Payne et al. 2008). In this model, the dialogue is required to construct a co-creative engagement platform in order to enable the interaction between businesses and customers as well as the engagement of the customer, which is the essence of co-creation (Prahalad and Ramaswamy 2004, 24). Through nurturing active and ongoing dialogue, customers receive op-

portunities to engage when and at the level they want, in addition to co-constructing value on their terms in order to suit their own context (Ramaswamy 2009, 32).

Thirdly, the taxonomy of engagement platforms is particularly pertinent for exploring virtual environments. Finally, the dialogue as an expression of the engagement platform is a two-dimensional construct, allowing deeper level examination.

Although the taxonomy is an interesting starting point for framing the concept of engagement platform, the approach faces a few problems. Firstly, though the framework highlights the collaboration in engagement platform, interaction in terms of value creation between the businesses and the customers is underestimated within the framework. In other words, the peculiar features of value creation are neglected. Secondly, despite the emphasis put on firms and customers in collaboration, the focus has remained on “enhancing customer involvement in the firm’s activities” rather than allowing consumers to create experiences jointly that have value for them. In this sense and in their conceptualization, the players involved in value co-creation are not regarded as equal players. Finally, though the taxonomy has identified a community as an important component of engagement platform, we believe that it is not only the customer community that is essential but also the “community of firms” or network of firms (Prahalad and Ramaswamy 2004, 90) – which we refer to as the ‘business network’ in this paper.

Therefore, in order to overcome the shortcomings of the conceptualization by Prandelli et al. (2008), we complement the typology with the patterns of value co-creation proposed by Prahalad and Ramaswamy (2004). According to the researchers, the increasing complex pattern of value co-creation between the consumer and the firm can be classified into three groups: a co-creation value, a variety of co-creation value, and a personalization of the co-creation value (ibid., 11). Integrating the typology based on dialogue proposed by Prandelli et al. (2008) and the classification on value co-creation suggested by Prahalad and Ramaswamy (2004), we reframe the categorization of engagement platforms based on these two dimensions: the scale of customer and the scale of business; the dimensions that are also underlying the classification on value co-creation. On this basis, four different types of engagement platforms can be identified: customer-centric, customer community -centric, business network -centric and business-centric. The basic idea is that various value co-creation processes between businesses and customers require different types of engagement platforms. A description of the characteristics of the engagement platforms is shown in Figure 1.

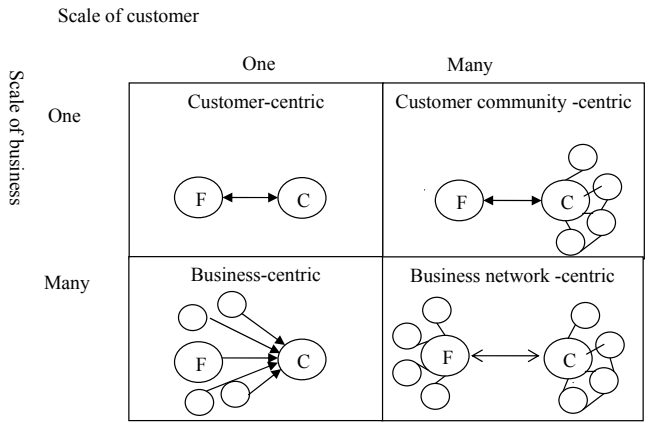


Fig. 1 A framework for classifying engagement platforms (adopted from Prandelli et al. 2008, 20 and Prahalad and Ramaswamy 2004, 90)

The customer-centric engagement platform refers to an interaction environment enabling value co-creation between the firm and the customer (one-to-one). In this type of value creation, the customer is also an active stakeholder in defining the interaction, context of the event, and what is meaningful to him/her (Prahalad and Ramaswamy 2004, 169). This type of value co-creation is assumed to require an interactive dialogue.

In the customer community -centric engagement platform, the key players within the platform are the firm and the customer community, including several customers communicating with each other (one-to-many). The basic assumption underlying this type of engagement platform is that the consumer wants to co-create value, not just with one firm but with entire communities of other customers (Prahalad & Ramaswamy 2004, 14). A variety of co-creation value requires a social dialogue in terms of Prandelli et al. (2008).

The business network -centric engagement platform can be regarded as the highest form of value co-creation, because it provides opportunities for the personalization of value co-creation. The personalization of value is enabled by the business network and community of customers, which represent the key players within the platform (many-to-many). This type of platform is assumed to require a mediated dialogue, which refers to the role of the lead company within the business network.

The business-centric engagement platform refers to the traditional way of creation value, wherein the notion of value is based on what businesses create and offer for all customers. In this sense, the value is created inside the companies, with a limited cooperation with others only from the business standpoints. Actually, this kind of engagement platform is beyond the value co-creation discussion, as it ignores the customer as a co-creator and is based only on one-way communication from business to customer. It is, however, included in the framework, as it is one option of value creation; the choice that the firm must make for this is to follow this kind of value creation logic, or select other options.

### 3. Methodology

This study was conducted by using the comparative multiple-case research strategy. We feel that the case research strategy is an appropriate research strategy for this study purpose, because the strategy has been deemed particularly relevant in enabling understanding of the phenomenon under investigation within its rich real-life context, and when only little is known about the phenomenon, as in this research (Yin 2003, 14).

Acknowledging that the case research, in general, can be defined in a variety of ways, in this research the case research strategy refers to the empirical inquiry, in which the cases in their real-life context are selected and scores obtained from these cases are selected in a qualitative manner (Dul and Hak 2008, 4). It should be noted that the case study has been regarded as a strategy, which suggests the way of collecting the cases and drawing conclusions, rather than as a mere method covering the data gathering instruments (Dul and Hak 2008, 4).

Consistent with a multiple-case research strategy, a small number of cases instead of one were selected for further analysis (Yin 2003, 23). The strength of the multiple-case comparative approach, in which the cases are compared to each other, is the robustness of the findings (Pettigrew 1997). The empirical evidence derives from documentation such as publications, seminar presentations and websites (see Appendix).

The cases were selected from the tourist industry. The tourist industry is, we believe, an appropriate research setting because, on the one hand, the connectivity between customers and businesses within it has traditionally been rich (see also Meriläinen forthcoming) and, on the other hand, the tourist industry has been a leading one in leveraging Internet-based mechanisms, particularly in selling tourism services to customers. On this basis, it can be assumed that the discovery of the engagement platforms in facilitating the value co-creation between the businesses and the consumers has been enhanced.

We believe that the cases selected for exploration are superior to date in implementing the virtual engagement platforms in practice to enable value creation with customers, and thus are the leading-edge cases within the industry. The cases that were selected for further analysis are: Smart-Grasse (France), VisitBritain.com (Great Britain) and Mobiquitous Ferrara region (Italy).

#### 3.1 Case descriptions

##### Smart-Grasse

Grasse is a commune in Alpes-Maritimes region on the French Riviera ([www.grasse.fr](http://www.grasse.fr)). It is known as the world's perfume capital and attracts 1 million visitors annually. In the University of Nice, Sophia Antipolis, innovative NFC services have been developed since 2004, and in 2010 augmented reality applications were developed for the android operating system. The very first application is now a reality in Grasse.

The Grasse case is all about innovative content and services, with NCF service engineering being in the middle. The agents in this case are “tags” (NCF, QR) and “augmented reality” (with smartphones). The tags provide access or allow the generating of new information with the mobile phone by photographing the tag or “touching” it. In terms of content and services, mobile phones are used in a way where physical spaces becomes “smart” and objects are “tagged”, providing services for smart phone holders. Broadening the idea, the NCF tags are also able to interface with Facebook and twitter.

In Grasse, the idea is to transform the cultural places and city into an interactive open-space museum by “creating and managing multi-lingual invisible paths (cultural, thematic, family and historic paths) by using one’s own cell phone as a personal guide in the pocket” (Miranda and Pastorelly, 2011).

The augmented reality in Grasse replaces the present with a simulated reality including scenes from the beginning of the 20th century. The mobile phone application applies the combination of the real world with computer-generated data. Visitors’ mobile phone transfers QR codes to information providing visitors with old postcards and 30-second videos, in addition to linkage to a map of the route. The visitor is also able to comment on the scenes.

### **VisitBritain.com**

VisitBritain.com site is the official site for marketing Britain by Britain’s national tourism agency (<http://www.visitbritain.com/en/FI/>). The goal of the site is to ensure that Britain is marketed in an inspirational and effective manner, both in Britain and abroad. The site is built to deliver the Britain-brand. The brand is defined in three words: “timeless, dynamic and genuine” – in turn, they describe the place, culture and people of Britain. People are at the heart of Britain’s brand and marketing. By using recognizable celebrities in brand-building and marketing, the feeling of invitation is created. As the slogan says – “you’re invited”.

To achieve competitive advantage, VisitBritain.com has maximized the conversion of consumers from interest to booking by ensuring access to the excellent information and creating efficient routes for booking. The VisitBritain.com site provides visitors with the feeling of a warm welcome, by maximizing the customer’s enjoyment.

The site has it all: excellent information, points of interests, recommendations, shared content, the possibility to buy, opportunities to acquire books, discounts and deals, VisitBritain-tv, itineraries, event guides, destinations and maps, blogs, linkage with twitter, Flickr and Facebook, as well as many other tools.

The emphasis of the site is on idea creation. “Top 50”, “Top 10”, and “We love...” –lists in addition to “Discounts and Deals” and “Invites from the Stars” provide instant inspiration and add personality to the site. Customers



are able to generate ideas based on user-based personal criteria, and a Bing map shows the customer the location for the destination.

Booking is easily handled on partner sites, and for buying, e.g. tickets and visitor cards, the customer can turn to the VisitBritain-shop.

Social media is used considerably. VisitBritain's idea of customers' having a "happy time" while spending their time on the Internet and being connected with social media sites lead to the conclusion that the content must be inspiring. The segmentation is made by differentiating YouTube materials, a multilingual Facebook site (local language postings), and targeted campaigns. Buying through the Facebook page is also ensured. The idea of engagement is the key, and sharing as well as commenting on the content is the answer.

Mobile service applications are linked with regional services. For example, VisitEngland launched the official EnjoyEngland mobile application on May 2011. This mobile planning tool offers over 1000 ideas and information on places and attractions to visit in England.

By using the mobile services, customers are able to personalize their search in accordance with their interests: indoor/outdoor activities or *must see* things and for those who wish to stick to a budget. Each search emerges with a Google maps location. While the customer makes his own travel plan beforehand, the application can also be used as an offline tool – on-site data transfer is not required.

Customers can share their on-site experiences and upload suggestions to an interactive map. When uploading suggestions, users can also share the content directly with Facebook or Twitter in order to share visitors' whereabouts with friends, family, fans and followers. The EnjoyEngland application also includes free access to travel content and reader's tips from the Guardian newspaper.

The content of mobile services is also freely available with immediate effect for industry partners and can be branded in line with entrepreneurs' own websites.

Mobile phones can also be used as QR readers. The codes can be scanned or photographed, as in the case of Smart Grasse. A mobile phone transfers the QR codes to information that provides visitors with short video clips and sound bites describing lesser known facts and hidden gems within the vicinity where there is little or no information available.

### **Mobiquitous Ferrara region (Provincia di Ferrara)**

The Ferrara region is bordered by the Po River in the north, Reno River in the south and the eastern Adriatic Sea. The city of Ferrara has been designated by UNESCO as a World Heritage site ([www.ferrarainfo.com](http://www.ferrarainfo.com)). The Ferra-

ra region trusts in the theorem “live a place – feel an emotion”. The feelings used in marketing are amazement (art), smile (sea), serenity (nature), pleasure (food), enthusiasm (events), and passion (bike&outdoor). These feelings evolve from the complexity of the region and cover the various aspects of the Ferrara region’s specific identity.

The Ferrara region utilizes both website and mobile applications. The ground is basically the same as in the case of VisitBritain.com, but the difference lies on regionality and in ways of using the website in marketing. While VisitBritain.com-site is based on visual and brand-building elements, the Ferrara region uses the website as a part of multi-channel marketing campaigns.

When planning a trip to the Ferrara region, PDF brochures can be ordered beforehand by using a brochure request form. Before the customer can order a free copy of a brochure, s/he must leave personal information. The idea is to collect leads for further use and serves as a way to gather information about customers.

The Ferrara region website also provides podcasts – “Podguides” – which can be loaded on a PC and then uploaded onto an mp3 player. The podcast content includes four varying routes: Ferrara – City of the Renaissance, Ferrara – the Medieval City, Comacchio – Capital of the Po Delta Park, and the Po Delta Park. These podcasts can be used as on-site audioguides and for walking through the various routes. The tourist can pick up any route s/he is interested in, or limit it to parts for loading and leave the rest unloaded.

The Ferrara region has a TV Channel on YouTube. The clips are all in Italian and foreign visitors are not given special attention. YouTube channel is mostly used for event-related marketing. For Italian customers, there is also a blog (maintained by the President of the Ferrara region) as well as webcams.

Last-minute offers can be used very efficiently. The visitor can check the offers by categorizing the type of accommodation s/he is interested in. The search allows the visitor to consult the list of hotels in Ferrara which have last-minute rooms available. The visitor may obtain information and personally book a room from the hotel, using the website databank.

In the future, the web pages for the Ferrara region will be more personalized, in accordance with the interests of consumers (varying themes). For example, at the present moment the needs of bikers have been taken care of very well. On the ferrarabike.com site, customers will find interesting itineraries complete with maps, detailed road books, GPS data and Google Earth place-marks ready to be downloaded on a computer.

The linkage to social media is strong. Facebook and Twitter are used for giving tips about events and suggestions as to where to stay the night and what to see. Foursquare is used for check-in services.

Mobiquitos services in the Ferrara region are based on augmented reality. The application has been released on August 2011 and QR tags are used. The content provides information with sites, geo-located points, sound, video, graphics and the kind of interest points there are within a range of 25 kilometres.

### 3.2 Case analysis

The case descriptions indicate that the various types of engagement platforms are manifested in the tourist industry. Whereas the customer community -centric platform is manifested in Smart Grasse, VisitBritain.com applies the business network -centric platform. Likewise, the Mobiquitous Ferrara region requires the business network -centric way to create value. The best practices representing the various platform types are described in Figure 2 below.

		Scale of customer	
		One	Many
Scale of business	One	Customer-centric	Customer community -centric  Smart Grasse
	Many	Business-centric	Business network -centric  VisitBritain.com Mobiquitous Ferrara region

Fig. 2 Application of the engagement platforms in practice

In the *Smart Grasse* case, the mobile phone application enables the virtual customer environment, and value is co-created through excellent information. In Grasse, the customer has no power over content, but s/he is able to provide comments and share the experience. The customer’s onsite experience is covered, but interaction between the business and customer is not enabled. The customer plays a largely passive role in developing content while the information is being given.

The *VisitBritain.com* site focuses on the outset of the journey, but also covers the customer’s relationship from the beginning to the end, and the desirable customer experience is confirmed. The page ensures the availability of excellent information, and the personalized aspects and tailored needs of individual customers is addressed. The customer will find the information needed when, where and how it is most useful.

The Internet and mobile applications allow rich and continuous dialogue with large numbers of customers easily. The interaction between businesses and customers enables the co-creation of value in many different levels. The excellent information provides customer satisfaction and generates loyalty towards the businesses. By creating virtual communities, businesses become capable of collecting and analyzing knowledge that develops through the interaction with customers. The information gathered can be used as a foundation for ongoing dialogue.

The similarities in value co-creation processes between the Ferrara region site and Visitbritain.com site are significant. The difference lies in the possibilities to engage and volume of interaction. The innovative, new methods of interaction are used more widely on the Visitbritain.com site. Both sites are still very good examples of incorporating Internet-based platforms, in which the value is co-created.

Both latter cases get the very best from customer dialogue by using the Internet and ubiquitous services in order to create value together with the consumer communities and business networks to achieve competitive advantage. The access to excellent information and the usage of multi-channel platforms are obvious. Maximizing customer enjoyment creates loyalty, and customers are more willing to share the content and create recommendations. The ease of use and presenting the information as attractive offers in addition to personalizing the content, added to marketing campaigns, also create customer loyalty and the feeling of value creation. By analyzing consumer behaviour and usage as well as monitoring visitor information, businesses can identify opportunities in collaboration with partners and the means to create value together with customers.

The data indicates that the engagement platforms are connected with marketing and sales in tourist businesses. Whereas VisitBritain.com and the Ubiquitous Ferrara region apply these platforms in marketing and selling and the destination before the customer has arrived at the destination and after s/he has left it, Smart Grasse focuses mainly on marketing the attractions when the customer is already on-site and thereafter. On the broader level, this shows that the engagement platforms are connected not only with business activities but with customer activities as well. Furthermore, rather than focusing on value co-creation in general, the business activities appear to relate to specific value-creation activities. On this basis, we initially propose that the framework presented in this paper needs to specify more detail related to both business operations and customer activities.

Finally, the cases show a wide array of tools that are actually used in tourism engagement platforms in practice. These are what we call enablers embedded within the engagement platforms. It is notable that the broad engagement platforms (i.e. cases) are constituted by several enablers and slimmer engagement platforms, which means that rather than regarding engagement platforms as one single platform, it seems to be a configuration of engagement platforms that are linked together in order to form one embracing platform. In this sense, the engagement platforms can be viewed as a configuration of

engagement platforms. Interestingly, this idea is supported by Ramaswamy and Gouillart (2010, 37-38), who have emphasized the gradual expansion of engagement platform involving several players and linkages between many engagement platforms.

#### 4. Discussion

We started by stating that the concept of engagement platform has suffered from limited understanding. Adopting the value co-creation viewpoint, we created and empirically tested a conceptual framework in terms of four different types of engagement platforms: customer-centric, customer community-centric, business network-centric and business-centric emphasizing the scale of player within the platform. Furthermore, we complemented the framework with the business and customer activities and identified the engagement platforms as a configuration of engagement platforms. In addition to the conceptual contribution, we also shed light on the actual usage of the engagement platforms in the tourist industry.

This renewed framework contributes to the literature on value creation in strategic management. The prevailing view emphasizes the Internet-based mechanisms in value creation that draw on dialogue. This is definitely inadequate in analyzing value co-creation between businesses and customers. Thus, we propose various types of engagement platforms, each of them possessing unique characteristics in terms of value co-creation and dialogue between the players. We believe that the framework serves as a more relevant tool for analyzing such a virtual environments, and thus, for capturing the essence of the phenomenon.

The framework proposed in this paper is only tentative in its nature because it was tested only in the tourist industry, and therefore the results are not transferrable to other industrial fields. Furthermore, the data gathering method is based only on the documentation and therefore limits the usage of study. In order to increase understanding of the phenomenon, more empirical data sources will be needed. Based on these ideas, this initial framework will be developed further in the near future.

Even in its preliminary form, however, the framework could stimulate practitioners – i.e. the designers of engagement platforms, new technology groups that design interactive devices or IT departments that promote interactive technologies with business owners and, most notably, the managers in their thinking. For marketing managers, the framework offers a conceptual tool which can enlarge the current mindsets on value creation. At the more practical level, the framework can be used in designing, building and cultivating the co-creative engagement platforms, particularly in tourist field businesses.

Several avenues for further research arise from the discussion. Firstly, as the personalization of value co-creation requires the business networks to enable such a process, an interesting research area would be the operations of the business network in establishing and implementing such an engagement plat-

form as well as the management of the platform, including several business players and linkages between them. Secondly, the increasing role of the customer in the value creation process acts as inspiration for further studies to be conducted on the engagement platforms from the customer's viewpoint. Finally, the characteristics of the enablers embedded within the engagement platforms in practice deserve more attention.

## Appendix

### Smart-Grasse:

Miranda S. & Pastorelly N. (2011). NFC mobiquitous information service prototyping at the University on Nice Sophia Antropolis and multi-mode NFC application proposal.)

<http://www.grasse.fr/spip.php?rubrique579>

[http://www.grasse.fr/spip.php?page=news&cid\\_rubrique=31&cid\\_article=1312](http://www.grasse.fr/spip.php?page=news&cid_rubrique=31&cid_article=1312)

[http://www.grasse.fr/spip.php?page=espace\\_pro\\_acc&cid\\_rubrique=24](http://www.grasse.fr/spip.php?page=espace_pro_acc&cid_rubrique=24)

### Visit Britain:

<http://www.visitbritain.com/en/FI/>

<http://www.visitbritain.org/abouts/ourstrategy/index.aspx>

<http://www.visitengland.org/marketing/visitorinfo/qrpilot/qrpilot.aspx>

Seminar "Sosiaalisen median kauppa ja matkailijan mobiilipalvelut" in Savonlinna 25-26.8.2011, Case VisitBritain, Adrianan Conte, VisitBritain

### Mobiquitous Ferrara Region

[www.ferrarainfo.com](http://www.ferrarainfo.com)

<http://www.ferraterraeacqua.it>

<http://www.ferraterraeacqua.it/sito?lang=EN>

<http://www.ferraterraeacqua.it/html/audioguide/indexEN.htm>

[www.ferrarabike.com](http://www.ferrarabike.com)

Seminar "Sosiaalisen median kauppa ja matkailijan mobiilipalvelut" in Savonlinna 25-26.8.2011, Case To promote a destination using innovative tools: layar, mobile apps and other experiences, Tommaso Gavioli, Provincia di Ferrara

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## **Internationalization of Small Innovative Enterprises: Social and Cultural Barriers**

**Cases from Finnish and Russian companies entering foreign market**

### **Abstract**

**The paper is based on the results of empirical researches conducted in 2008–2010. They concern two issues: 1) challenges that small innovative enterprises face trying to be international; 2) social and cultural barriers for entering Russian market (cases from Finnish companies).**

**The author tries to generalize social and cultural factors which influence a process of internationalization of small innovative enterprises (SIEs).**

**Research findings can be useful for businessmen and managers who aim to enter Russian market or to develop the existing business in Russia.**

**Key words:** small innovative enterprises, social and cultural differences, internationalization barriers.

### **Introduction**

Innovation has a strong influence on the growth of the national economy and on the business success of the company. Small enterprises are capable to influence the innovation processes in different market sectors because they can be potential consumers of technological innovations, also they can create and disseminate scientific and technical innovations according to consumer's demands (Vilenskiy, 2004:246). Although small enterprises have a high capacity for entrepreneurship, they are often lack of means to support their innovative activities (Phillips et al, 2000:194) as well as opportunities for internationalization.

Internationalization is regarded as an effective strategy of small innovative enterprises (SIEs) development. Studies show relationship between internationalization and growth of financial indicators in small enterprises as well as a positive correlation between innovation and internationalization (Basile, 2001; Wakelin, 1998; Lopez and García, 2005).



While engaging in the process of internationalization small innovative enterprises face some challenges, that can be considered as social and cultural barriers. So it is important to study and understand socio-cultural context of international small innovative business. There are a lot of evidences that cultural factors play significant role for understanding entrepreneurs' and employees' behavior in a process of mergers and acquisitions as well as in the process of joint ventures creation. But there is not enough studies focused on socio-cultural factors impact on internationalization of SIEs.

This paper is aimed to discuss socio-cultural barriers on the way to successful internationalization of small innovative enterprises operating or intending to work abroad. Our findings are based on four research projects conducted by two project teams in 2008-2010. Two research projects were carried out by Vera Minina and Elena Dmitrienko, another two ones were accomplished by Fintra Russia team, and Elena Eibshitz was a leader of the projects.<sup>1</sup>

## Research methodology

The first project conducted by V. Minina and E. Dmitrienko was devoted to investigation of internationalization issues in the development of small innovative enterprises in Russia. Case study approach was applied. To understand the main characteristics of the Russian SIEs and to see what factors influence their development and what barriers prevent their internationalization, researchers focused on in-depth and longitudinal study of a small Russian innovative company (AMA Co. Ltd.) involved in producing medical test-systems. The case was based on 4 in-depth interviews with top-managers, 7 years of direct participant and observation by E. Dmitrienko, and in-depth examination of company documents. Semi-structured interview was conducted with CEO, Commercial Director, Development Director and the Financial Director of the company. Also one Finnish innovative company operated on medical equipment market (Reagen Oy) was studied. Reagen Oy has been a partner of AMA Co. Ltd. for a few years.

The second study was carried out in frame of the international research project STROI Business Network, 2008–2009 ([www.hamk.fi/stroi/publications](http://www.hamk.fi/stroi/publications)). It dealt with the investigation of cultural differences between employees from the Finnish mother's companies and from the Russian subsidiaries operated on the construction market. 12 Finnish companies (4 of them were SMEs and the rest of them were large ones) were observed. Semi-structured interview with top and middle management was used for data collection

The first project conducted by Fintra Russia team was focused on competence assessment of the Finnish companies in Russia (2009). The goals of this study were to provide useful and comprehensive overview of the competence strengths and weaknesses of the Finnish companies in Russia, a detailed list of the challenges experienced by the Finnish companies, and practical rec-

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<sup>1</sup> I am very grateful to Elena Eibshitz, the director of Fintra Russia, for an opportunity to use results of their research (2009-2010) in my paper.

ommendations (with an SME focus) for operating successfully in Russia. The Competence Assessment Model and the Training Practices Questionnaire were used for data collection. The Finnish and Russian respondents held a range of management positions in SMEs, big companies, and development organizations. The Competence Assessment Model was completed by 81 respondents, and the Training Practices Questionnaire by 51 respondents. Also structured interview with the Finnish and Russian managers was used. In total, 28 interviews were conducted.

The second project of Fintra Russia team was titled “Managing Post-Acquisition Integration of Russian Company Acquired by Finnish Company”. It was accomplished in 2010. It aimed to explore what was happening after acquisition itself and analyze the human factor impact on an integration process of acquired company. Interview with key persons involved in acquisition process was used. In total, 15 persons have been interviewed, 8 Russians and 7 Finns, 12 of them were top managers (including such positions as vice president, country director, financial director, HR director, managing partner), and 3 middle managers.

## Research findings

***The concept of small innovative enterprise.*** Literature review shows that there is no precise concept of SIE. So Lazonick (2000) defines innovative enterprise as those involved in the exploration of how a particular enterprise can become dominant in its industry. He distinguishes innovative enterprise from the adaptive or optimizing firm and describes an innovative enterprise as “a firm that optimizes subject to technological and market constraints rather than seeking to transform them” (Lazonick, 2000, p.1). Small innovative enterprises have some features that differentiate them from the other innovative companies (Shkuratov, 2006; Dezhina and Saltykov, 2005):

- They usually focus on the one product or several close products, as well as on very particular customers’ group. Thus they take a risk of losing everything in case of falling at this particular market segment.
- They try to operate on the markets which are not interesting or profitable for big enterprises. Therefore they fully concentrate on this market to be successful.
- Very often the innovator and the chief of the company is the same person. Consequently he or she needs to be both good manager and executor.
- The most SIEs deal with the products in their earliest stage of life as they put new products on the market. On the one hand, they should be very flexible and open-minded to see the market situation and they need to be able to change their strategy rapidly if something goes wrong. On the other hand, they have the competitive advantage of being first, thus they can establish the

new product niche with preferable prices, services, sales conditions, etc.

It is possible to set a few criteria which can help us to identify SIEs. Such criteria include: a) expenditures on R&D; b) the official status of scientific or technology developing company; c) offering new or improved goods or services to consumers/users; d) introducing new or improved supply or production processes; e) making significant improvement in organizational structure or routines (Gellatly, 1999: 2).

Shkuratov (Shkuratov, 2006 (2): 6) defines SIE as an enterprise with the staff up to 100 persons, that makes business on the basis of particular confidential data (technical, economical, financial, administrative, etc) and generates a profit on the manufacture and sales of innovative products.

Minina and Dmitrienko define *small innovative enterprise* as an enterprise with a compact staff that rapidly uses the opportunities to turn the new idea into innovation through risk-taking and proactiveness.

Many innovative companies operated on the Russian and other markets have done that because they have had foreign partners or have had some useful international contacts. Due to international collaboration they could evaluate their business idea in the international markets and then found a new SIE.

Internationalization is an important issue for firms that are vital to growth, valuable learning and superior financial performance (Prashantham, 2005). Following Calof and Beamish (Calof and Beamish, 1995: 116) the author defines internationalization as “the process of adapting firms operations (strategy, structure, resource, etc.) to international environments”.

Internationalization of SIEs is a complicated and uncertain process, and it is insufficiently investigated. Particularly, it concerns social factors which influence this process.

***Social barriers for SIEs internationalization.*** Various theories of internationalization suggest that certain types of SMEs internationalize by following the ‘stage model’, expressing a cautious and progressive behavior; whereas the other types of SMEs are considered as born global, and tend to internationalize at an early stage of their foundation (McDougall, P.P., & Oviatt, B.M., 1994). Innovative companies are constantly involved in cumulative, collective and uncertain process (Lazonick and O’Sullivan, 2000); they are open to new opportunities that can be found on the foreign markets. In the same time SIEs that try to enter international market usually face some challenges. As Dmitrienko *et al* mention (Dmitrienko, Markov, and Minina, 2010) Russian SIEs which try to implement internationalization strategy often meet the high risk of [initial investment](#) loss, due to the unpredictable business development of new products and new markets. Also SIEs’ managers make some mistakes in conducting business in the foreign market, because of their lack of knowledge about the rules and norms of the other countries, misunderstanding of cultural differences, etc. Besides, there are some cultural barriers that

hinder international activity. Thus, there are additional obstacles related to the creation of new procedure for innovative products, and the legal requirement to prove that the particular product cannot be used for military purposes, etc.

The main social barriers for the internationalization of Russian SIEs can be described as the following:

- *The barriers for import-export operations.* If a Russian company wants to buy something from abroad or to sell its own products in the international markets, it should be ready to pass through the difficult and expensive procedures. For example, in light of import taxes and custom services, AMA Co. Ltd. has to pay double price for some German components for its HELIC®-device. So the company is trying to find the optimal ways for selling its products abroad – to find representatives in other countries and share the custom expenses with them, or to reduce payment for custom services concerning the imported components.
- *Discordance of the Russian and the others countries laws and other business regulations standards.* The Russian Certificates of Conformity can not be used in any other country. As a result, all Russian SIEs should pass through the registration procedure in Europe and in the others countries to sell the products there.
- *High costs of obtaining the patent pending and for registration of trade marks.* There are very high rates for the protecting intellectual property with patent and trade marks. Usually, it is impossible to protect the novelty and the brand for the Russian SIE without the additional financial support.
- *The high risk of initial investment loss.* The companies are really afraid of that kind of losses, and that is the barrier to the rapid international partnerships development. To be able to predict the possible risks, the company needs a consultant or the reliable partners abroad. In fact, it is very difficult to overcome this uncertainty and to decide to spend money for the foreign market entrance.
- *Mistakes in business administration in foreign markets.* The company spends a lot of time to be confident of the procedures, and informed about the cultural peculiarities of other countries. The fear of mistake slows down the pace of its internationalization.

As Reagen Oy case and interviews with top-managers of Finnish SIEs in frame of on-going ROCKET research project<sup>2</sup> show the main social barriers for foreign SIEs entering Russian market can be described as the following:

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<sup>2</sup> ROCKET research project is aimed at studying the entrance process of Finnish SMEs from the metal and machinery related industries to the Russian market place and success factors at the stages of market entrance and further development. My group focuses on social factors within the internationalization process of small innovative enterprises.

- *Expensive and long certification of production* according to the Russian norms (in comparison with the European countries where an initial set of available certificates is enough and the Asian countries where these documents are not so expensive and are easier to make out) that means *the protectionism* expressed in documents.
- *In fact closed procedure of state procurements*, particularly for the public medical organizations: it is very hard and some times impossible to take part in tenders or to get standards of diagnostics beyond of private contacts on the places, corruption.
- *Customs restrictions*: high duties on import of the goods to the Russian Federation, necessity of additional certificates which are long made out, corruption in customs bodies.
- *Changeable administrative system*; for example, administrative reform in 2004 resulted in many changes in decision making procedure, in public procurement system for medicines, etc; also there are many changes in customs procedures as well as in the taxation, so foreign company has spend a lot of efforts for observation of the given changes, instead of work with clients.
- *The big problems with protection of the intellectual property* (some times the lack of protection in fact): SIEs are afraid of losing the intellectual property in the Russian Federation because there are no precise protection procedures in the Russian system of Public Administration; as the results of our case study show it is difficult to bring to trial the originator of infringement of the property rights, and even if the procedure of prosecution of the infringer has been started there are no guarantees that losses of the affected party will be compensated, and counterfeit production will be withdrawn from the market; actually, the infringer company does not leave the market, more often it is closed and then founded again but with the new name.
- *Low demand for innovations*: the companies with a really new products have to make big investments in the development of the market that is quite often impossible for SIEs.
- *Difficulties with promotion of large-sized products at exhibitions* because of each exhibition sample should have official custom's documents, so for SIEs it is quit expensive to bring these products to the exhibition, and their opportunities for demonstration of the novelties are limited.

Summing up, it should be noted that for the SIEs a good way for overcoming social barriers mentioned above can be development of already existing and formation of new social networks. Building small project teams (including mixed) oriented to the task of entering foreign market can be another way for achieving success on international markets.

**Cultural barriers for entering Russian market.** Well-known that the differences in national cultures create some obstacles for success in foreign partner's cooperation, and our research gives additional evidence for that. We re-

gard that these differences play significant role not only for big multinational corporations (MNC), but also for SMEs operated on international markets. Therefore we think that SIEs should give more attention to the analysis of national cultural context of their business. In the research conducted by two research teams mentioned above we found some cultural barriers for successful cooperation between Finns and Russians which can be taken into consideration when management of SIE decides to enter Russian market. We will consider these barriers below.

As Hofstede and his followers found power distance index in Russia higher than in Finland (Hofstede, 1981, 2007; Elenkov, 1997). From the Russian point of view good boss should be quite authoritarian, so called “strong man”, sometimes “strong woman”. This person should have courage to make decision, to punish and reward, to move away or bring closer. So Russians expect more direct authority from key managers *while the Finnish top managers expect more democracy, initiative and responsibility from below*. As a result Russians can perceive the Finnish top manager as a weak person willing to take away all responsibility and put it on subordinates. In the same time Finnish top manager think that Russians are passive, without initiative, not willing to take responsibility.

On the question: *What is most amazing for you in Russia?* - one of our respondents answered: *“For me it is amount of bureaucracy, position of general manager having responsible of everything and amount of paper work needed for everything. It is also challenging to manage within matrix organization as it is not understood and adopted in Russia. Difference to traditional authorial system is so vast and it reflects to day to day operations and also on implementation of common company practices very much”*.

In Russia it's considered impossible to come directly to the boss and tell him/her about some negative things. So there is great risk that boss will get negative information too late. Also it is very untraditionally for Russia if the boss comes to ordinary employee and discusses some business issues with him/her.

Representative of Finnish company told us: *“Difference of culture between Russia and Finland was obvious, when one HAMK Russian trainee was here in Tampere: we went to talk in usual way to one of our workers together with trainee. Later one Russian trainee told me, that worker must have terrified as main director came to talk to him. In Russia this means usually, that a worker will get redundant right away...”*

Importance of power in Russia is displayed through nicely named job position at business card. “General Director”, “Development director”, “HR Director” and so on. In Finland status and titles are not so important. That's why it happens that responsible person from head office comes to Russia with very modest title at business card. Usual reaction of Russians: they do not understand why they should report to the person with lower status.

Power distance plays important role at the meeting in the company (management meeting and other types of meeting). Typical behavior of Russians

is to hide their opinion and remain silent even if they don't agree. They consider that more probably decision will be done by boss (at least management team) so there is no sense to discuss actively and express their opinion at the meeting. Still after the meeting they will express their opinion very actively behind boss's back.

In typical Russian company all decisions are made through general director. If the Finnish manager comes to the Russian middle manager and says: let's do it in the following way, -- the Russian manager nods, and promise to do it. After some time the Finnish manager asks about implementation and it becomes clear that nothing have been done. Why? It was because the Russian middle manager was waiting the instruction from the general director. Usually the Russian director tends to keep all things under control while Finns prefer active horizontal links.

### **Case "Information request"**

Finnish colleague Matti asks Russian colleague Nina to provide necessary information about customer relationship. Nina comes to her boss, Alexander and asks: Why I should give information to this guy? Who is he?" Alexander contacts to director of parent company and tells him/her: "Look, we have some cultural specifics. Our people prefer to understand who is the boss and to whom they should report. They will be very confused if your people will ask information or reports directly. It would be better if your people send their request to me and I will manage it". Finally all horizontal links are blocked. Only communication channel with Russian subsidiary is director.

Finnish managers and average executives are more flexible in their organizational behavior compare to the Russian employees. Representative of the Finnish company said: *these are very cultural issues: in Sweden and Finland we are very independent. We are given very much freedom, but we are given targets, but how we spent our time is our business, we are measured by our results and targets. We need to discuss, we are not isolated, but we are not given details.*

Very often differences in the meaning of the words inherent in diverse cultures provoke situations of misunderstanding. So for Finns and Russians there is different understanding of what is truth/honesty/trust. For Finns concept of truth is the same for person, company, country. Rules and regulation are followed very carefully in every situation. Giving incomplete information can be considered as dishonesty because "truth is transparency".

For Russians concept of truth varies significantly for person, company, and country. To lie to the friend is considered as a very bad thing while it's possible to lie to the government (for example getting some benefits).

There is a big difference between Finns and Russians concerned following rules. Attitude of Russians: "there is a solution for everything" frustrate Finns who in general try to follow rules practically whatever it takes. Still Russians solve problems very quickly while Finns prefer to solve it in the right way.

### Case “Fire safety”

Director of parent company (Mikko) got information that the director of Daughter Company in Russia (Sergey) didn't implement all necessary requirements of fire inspection (special training, certificate, and necessary documentation, so on). During nearest management meeting Mikko asked Sergey why it hasn't been done. Sergey looked very surprised and answered: “Oh, there is no problem! Even if fire inspection will decide to come the penalty will be very low, approximately 50 euros. Let's talk about business”. Mikko told to Sergey: “It's very important. We have to follow the rules”. Sergey argued: “No problem, we will do it but without any hurry, it's very small issue. Let's discuss about clients and sales”. Mikko was completely frustrated. Sergey was frustrated too because he was not able to understand why Finns spend so much time to discuss so unimportant issue.

Universalism cultures in *Trompenaars* sense (Finland case) try to set rules and standards that reflect the values of that society. Particularistic cultures (Russia case) do not have many rules, and give more space for the specific circumstances of the members of society. Unfortunately it doesn't mean that Finnish companies in Russia can forget about rules. All foreign companies are controlled very well by administrative bodies and even small violation can cause huge problems. The same violation can be forgiven to the Russian company, but not to the foreign one. So in Russia foreign companies should follow enormous amount of rules.

Russians are very flexible in their attitude to time. Deadlines are more important than in-between tasks. It creates a lot of problems particularly in project organizations. Russians consider impossible to foresee all details. They tend to follow the famous sentence “Let's engage in battle, and then will see”. As a result, their plans are very approximate. While Finns try to discuss in advance each detail, Russians tell: “Let's start after all!” They are bursting to go into action, then after some time they stop and correct their preliminary plans. Finns become very surprised, even insulted. They ask: “Why do you change our nice and realistic plan? We agreed about it before to act!” Russians shrug their shoulders: “Oh, it was preliminary plan, now we see how to act”.

### Case “Potential project”

One day the Russian manager Ivan who is working in the international department of one of Academies in Moscow calls to the Finnish company and tells: “Hello, we need to organize business trip for two groups of the Russian managers, one week for each group, nice accommodation, group and individual business meetings, so on. We can get budget for it – approx. 75000 euro. Can you provide such services for us?”

Manager Tiina from the Finnish company answers in great anxiety: “I'm not able to confirm because we need to prepare budget at first”.



Ivan tells her: “Tiina, we don’t need very detailed budget right now, but we need your confirmation because we are not able to get this money from government until we have confirmation from foreign partner”.

Tiina write: “I understand your point. Still we need to send request to hotels because they have different pricing for different months”.

Ivan (in impatience): “Dear Tiina! We don’t need detailed budget right now! All we need is to get your confirmation in general. Later on, when we will get this financing, we will prepare exact budget”.

Tiina: “I’m afraid that we are not able to confirm something without thorough calculations”

*Finita!*

Russians expect Finns to be ready for a Plan B, Plan C and to act with flexibility, while Finns are not too flexible. Plans, strategies, and budgets should include room for the unexpected events (natural difficulty for Finns, coming from a more stable environment).

Cultural differences between Finns and Russians impact on communication between business partners and employees. In our study respondents indicated: “*The main problems are cultural differences that is why those people who communicate with partners from different countries should live in these countries for some time to learn and understand the culture. Staff circulation is the way of dealing with this problem*”.

In Russia face-to-face communication plays a huge role in business relations. Very often only face-to-face communication get results needed for the company performance. On the Russian respondents view, the Finnish management is based on reporting too much: reports are ineffective for getting things done in Russia (considered as “another formality”). Formal communications (meeting, mail, and phone) are not enough. Even now some Russian bosses do not like to use e-mail and prefer mobile and face-to-face meetings.

### **Case “Finnish director of the Russian company”**

It’s story about one Finn, who is general director of the Russian subsidiary.

He comes to the the Russian office once per month for two days, lives in the fashionable “Nevsky Palace” or Novotel and goes to the office by taxi.

He studies reports very carefully.

He meets only with Russian top managers (1—3 persons) and jump aside from other employees; informal communications mean dinner in restaurant.

Other time he communicates with his Russian subordinates mostly by e-mail.

Such management style in Russia can cause to completely wrong picture of what is going on in Russian subsidiary. Still this is real situation.

In Russia emotions are expressed and expected. A lot of humor and jokes and ironical attitude to the life can even insult.

There are differences between the Russian and Finnish employees understanding the discipline meaning. The Finnish employees never use work time for private purposes. In opposite Russians are used to private communication during work-time. Also Finns get into the way of following project schedule and do the parts of the job just in time. In the same time the schedule is not so important for the Russian employees. They are often oriented on final deadline.

The Russian employees are expecting that company will care about him/her. They want that company/boss to be interested not only with their performance but also with their family, mood, feelings and so on. Talking about private life as well as celebration of everybody's birthday are the common places. Good boss, according perception of Russians, should be rather people-oriented than task-oriented. For the Finnish manager it creates some challenges: he/she should somehow maintain such communications. It might be difficult, with the Finnish attitude to privacy. Normally the Finnish managers are not very active in it.

In general together working people have to develop social and communicative skills such as open-mind, easy-going and emotional intellect. For communicative skills the crucial issues are language and presentation skills.

Summing up we can give a few practical recommendations for SIEs entering foreign market. As our respondents mentioned short visits to the partner or subsidiary don't provide necessary result: *"They come as tourists"*. Therefore it is important to spend more time for developing friendly relations between partners and employees.

It is very important to create common language and to train language skills of employees if the company decides to build mixed teams. As our study indicated, lack of language skills is a great obstacle for mutual understanding and using all advantages of international business.

Building mixed teams or working group is a good way for achieving mutual success, because team mates cooperate in the constructive way, they can express their opinion more openly and their results are considered as reliable and trustworthy by both sides.

Sharing knowledge particularly in cultural field is also very important for international business cooperation. For SIEs it creates additional opportunities to enter foreign market.

## Discussion and research limitations

In our cases concerning social barriers for entering foreign market we studied mainly SIEs working in medical industry. To get more relevant data companies from other market segments should be observed. We consider the research finding of our company in medical equipment industry to be very revealing and interesting for that particular industry, and they can be used for other SIEs as an example of the real practice of a successful SIE; but they are not generalizable. Obviously, there is a wide field for further research on the internationalization problems of the SIEs. We should emphasize the need for deeper investigation of the internationalized SIEs from the IT-industry, chemical industry, bioscience and nanotechnologies.

We clearly understand that our research project concerned cultural issues were not directly addressed to small innovative enterprises and their international activity. Nevertheless, we regard that there are some cultural barriers that are common for all companies operated on the international market, and we tried to reveal them. In on-going ROCKET project we will focus more precisely on cultural issues of SIEs internationalization.

Also we understand that we can not generalize our findings based only on the cases from Russian and Finnish companies. In further research it will be necessary to study other cultural contexts of small innovative business with focus on values, uncertainty avoidance, etc.

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## **“Feasibility and usage of RFID in small and medium-sized companies in Germany and the Netherlands”**

### **Abstract**

This article describes results of an analysis of RFID projects carried out in cooperation of Small and medium sized Enterprises (SME) and Niederrhein University of Applied Sciences, Moenchengladbach, Germany. Main content and questions are:

**Who can be driver and main beneficiaries of the potential of RFID for SME?**

**What are main objectives to use RFID?**

**Which RFID applications are suitable?**

**Which RFID technologies are used in SME?**

**Keywords:** Radio Frequency Identification, Case studies in SME, RFID applications, asset management, Identification of objects, UHF, HF, RFID, RFID Hardware, Cost-Benefit Analysis

### Contents

- 1 Introduction
  - 1.1 What is RFID?
  - 1.2 Benefits of RFID
  - 1.3 RFID in Germany and the Netherlands
  - 1.4 RFID in SME
- 2 Analysis RFID in SME
  - 2.1 Research method
  - 2.2 Analysis of RFID-case studies
    - 2.2.1 Impulse and driver for RFID
    - 2.2.2 Suitable RFID applications for SME
- 3 RFID Technologies used by SME
- 4 Resumee

## I Introduction

Small and medium-sized enterprises (SME) make up the majority of companies in Germany and the Netherlands (99.5% in Germany and 99.7% in the Netherlands (Eurostat 2010)). Although these companies are mostly owner-managed, with few levels of hierarchy and mainly with its specialized range on the global market, SMEs are often restrained and carefully regarding the introduction of new information and communication technologies (Strüker et al. 2008, p. 11). As reasons for this lack of know-how, integration costs in existing systems or lack of technology maturity can be seen. (Rhensius, Deindl 2008, p. 49f.; Strüker et al 2008, p. 26f..)

From the idea and the need to support small and medium-sized enterprises in the implementation and application of RFID technology, a 3-year lasting INTERREG IVA project started in 2010 in cooperation with Dutch and German partners, placed in the area of the Euregios at the border of Germany and Netherlands.

Previously, a RFID master plan was designed for the region (Braun 2008). On basis of preliminary investigations the needs of SMEs were staked. The following industries are determined as appropriate targets:

- Textile industry
- Food industry
- Agricultural industry
- Health care
- Logistics/production

Above mentioned master plan was the basis for the current project “RFID application and support” (RAAS). It aims to make the innovation potential of RFID more accessible to SMEs and thereby to strengthen the competitiveness of local companies in the German/Dutch border region.

The main questions of research activities are:

- Which factors favour the introduction of RFID for SME?
- Which processes are suitable for SME for an optimization using RFID?
- Will RFID replace previous technologies or is RFID a tool for supporting new business processes”?
- Which RFID technologies are successfully used in SME?

To answer the research questions, a qualitative comparative analysis was carried out in 23 small or medium-sized companies based in Germany and the Netherlands.

## 1.1 What is RFID?

Radio Frequency IDentification (RFID) enables non-contact automatic data collection of objects by radio transmission. Each RFID System can be characterized according to the following characteristics:

- Unique identification of objects using electronic identification number and stored data;
- non contact and wireless data transmission on a radio frequency channel without need of visual contact;
- Sending process is done on demand, thus data of one object are only sent if an authorized reader initiates this process (AbMue 2011, p. 185, BSI05, p. 13).

Due to the technical characteristics (visible and contactless electronic data exchange, storage capacities, to re-writeability and further functionalities, such as e.g. sensors), this technology brings a significant high added value compared to established identification technologies such as bar code, 2D matrix code or magnetic stripe.

Various radio frequencies, the necessary hardware designs and their energy supply as well as provided interfaces and software applications - in addition to carried out standardisation – enable the use of RFID technology in all kinds of applications and under varying environmental conditions. Former physical challenges such as the absorption of liquids, the reflection of metal, heat or chemicals are largely been overcome.

## 1.2 Benefits of RFID

Saving time and money plays a central role in this technology. Inventory in real time, completeness check of and origin are further established areas of application for RFID. In addition, also using quality improvements and increasing safety, for example in maintenance, access, or compliance with hygiene in health care. The implementation of RFID can also improve exchange of data and collaboration of companies within a supply chain. Because of that global trading groups or automobile manufacturer using RFID already and expect their suppliers to implement this technology as well, for example by using RFID tags on pallets, cartons or the individual products.

The use of RFID is not limited by individual industries or applications. Due to its various possibilities it can be used everywhere where products or objects have to be identified and managed. RFID is therefore a cross-cutting technology.

The technology has proven its advantages within the last years and is standardized in the most relevant areas worldwide.

### **1.3 RFID in Germany and the Netherlands**

On a worldwide comparison Germany and the Netherlands are among the countries with a widespread use of RFID (UEAPME 2011).

Companies already taking advantage on RFID applications for years are in particular wholesalers such as the Metro, a strong driver in Germany for RFID technology, REWE (D), Albert Heijn (NL), logistics providers and parcel services such as DHL, UPS. Textile manufacturers (Gerry Weber, Mexx, ESPRIT) and textile service providers (laundries and working clothes rentals), automobile manufacturer in Germany, are also been going on for years with RFID as well as service sectors like security services, libraries, or recreational facilities (swimming pools).

Falls on closer look, in the past and today the driver and the main beneficiaries of the potential of RFID can be found within large companies.

Smaller suppliers of large business groups or car manufacturers mark their outgoing goods by RFID; of it in the long run only the customer profits by simplification of his incoming goods and for further logistic completion (Slap & Ship). The internal processes of the suppliers remain untouched by the marking of the own products.

### **1.4 RFID in SME**

After EU definition small and medium sized enterprises (SME) have up to maximally 50 millions € annual turnover and/or a balance sheet total of under 43 millions € and have less than 250 full time employees. SME not exclusively differ of large-scale enterprises by turnover figures, number of co-workers or balance sheet total.

Regarding the application type of RFID, SME differ from larger enterprises through

- smaller degree at automation
- smaller number of necessary identification points (read-in units)
- less identification objects.

For these reasons - after our thesis - the advantages sink in the context of a view of cost use with SME. Our goal is it to find out whether these criteria are actually a cause for the small spreading of RFID with SME and which further factors can positively affect the spreading degree of the RFID of employment with SME.

In the context of our investigations and experiences in co-operation with SME many „soft factors“ play a role with the use of RFID. From organizational view smaller enterprises are missing personnel capacities, e.g. over headquarters to procure a comprehensive information status and thus know-



how about RFID. Due to RFID suppliers assume smaller turnover potentials at smaller enterprises, SME fall out of supplier's sales target group. SME are addressed and confronted with RFID directly thereby more rarely. Apart from the lower information status about RFID drivers of RFID innovation play an important role. If the owner/managing director of a SME is not open for innovations, an important driver is missing. On one hand this causes direct consequences on acceptance behavior towards innovations of the SME employees, on the other hand internal innovative impacts are disturbed. RFID projects often are person driven. Employee change can endanger a progressing of RFID projects.

## 2 Analysis RFID in SME

In the following analysis, the previous discussions and projects within the context of the INTERREG project RAAS were analysed qualitatively. The analysis is based on 43 first meetings and 23 projects.

### 2.1 Research method

Within our research the method of approach to companies is shown in figure 1.

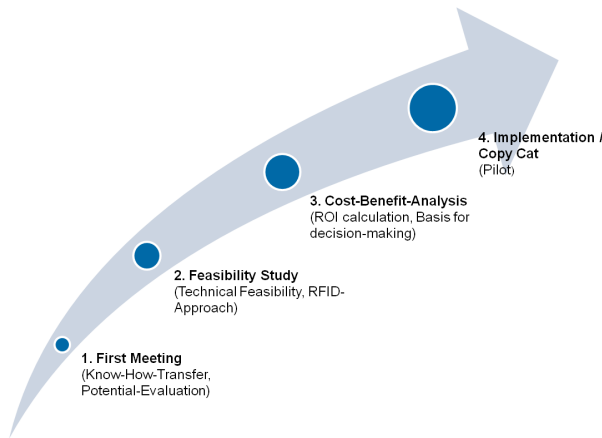


Figure 1. Method of approach

Methodically the projects are accomplished within the research project RAAS in 4 stages (cp. Fig. 1). In „first meeting“ takes place a first clearing-up and analysis discussion, ideal-proves combined with a site inspection, often with a representative of management and logistics and/or IT concerning RFID and deployment in the enterprise. A „feasibility study“ is the examination of technical feasibility in a planned RFID field of deployment. A „cost benefit analysis“ determines economy and a concluding „RFID implementation/Copy Cat phase“ accompanies RFID implementation processes.

During step 1 to 3 a recommendation stopping to continue the RFID project can be the result.

More scientific knowledge which will review the ideas laid down at the beginning and answer open questions derive from the project results.

## 2.2 Analysis of RFID-case studies

### 2.2.1 Impulse and driver for RFID

#### **Thesis 1: RFID suitable and interested enterprises look actively for solutions.**

So far in project's context 105 enterprises were contacted. Five types of establishing contacts can be differentiated here:

- Enterprises contact us
- Enterprises were addressed by us (Cold call)
- Enterprises originate from our existing network from innovation oriented enterprises
- Enterprises participated on meetings/conferences.

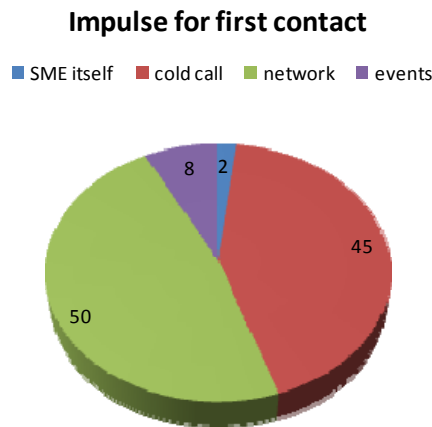


Figure 2. Impulse for RFID

Figure 2 shows clearly that SME are almost completely unresourceful in terms of acquiring support for RFID projects. Often – especially in Germany – it is required to approach SME via Cold Calls. In the Netherlands the impulse for taking RFID into account is triggered as result of networking activities. Within this context participating members of this network make contact with RFID as a tool while searching for problem solving solutions.

**Thesis 2: RFID projects are driven by the management in most cases.**

Counterparts at enterprises were derived as result of 105 contacts on the subject of RFID and 43 first meetings with know-how transfer and initial potential estimation subjects. They can be distinguished between division relation and process owner.

Table 1: Department's first contact person (n=43)

Department  . contact person	First Meeting
Managing director	49 %
Logistics	28 %
Production	9 %
Quality management	7 %
Procurement	3 %
Sales	2 %
IT	2 %

Factor of success for RFID projects is a driving forth commitment by the management. On the second place are the logistics divisions which initiate RFID projects by far before other divisions do. This is proven by the following table. It displays project managers of 23 RFID projects that have been started directly after first meetings.

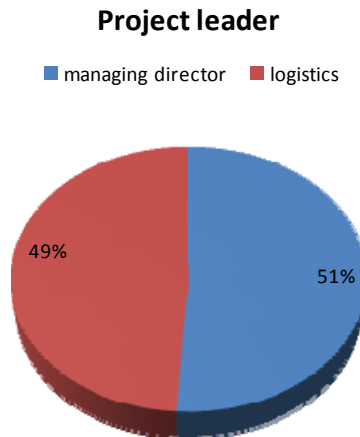


Figure 3: Project leader RFID

Crucial for the start of an RFID project is the management's support followed by logistics divisions that are especially interested in solutions in the scope of identification.

In the following 23 completed and current RFID projects will be analyzed in more detail.

**Thesis 3: RFID know-how among SME is small scaled.**

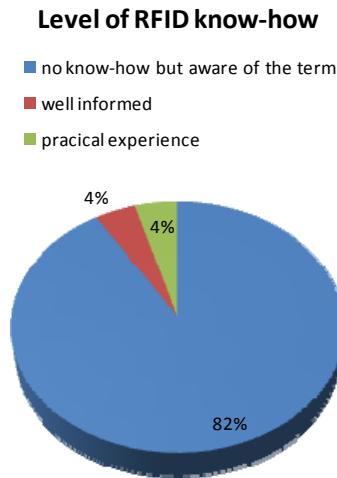


Figure 4: Level of RFID know-how (n=23)

Only a minor part of examined enterprises is well informed about RFID technology. In context of starting a project with objective to improve identification and controlling of objects via RFID it is important to know that there are alternatives to common technologies. Therefore existing RFID know-how at enterprises is a crucial factor of success. Enterprises with little expertise shall be clarified about RFID potentials to generate usage scenarios.

**Thesis 4: RFID projects get initiated forcedly by customer demands.**

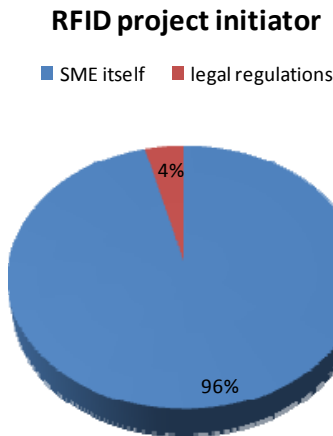


Figure 5: RFID project initiator

The previously mentioned thesis – RFID projects by SME get started because of third party demands – cannot be confirmed by this analysis. Over 95 percent of the SME start such projects to meet their own demands. This circumstance indicates that those enterprises perceived RFID benefits for themselves. Thus own benefit is factor of success.

**Thesis 5: Cost-benefit ratio of RFID applications in SME is adverse.**

Payback Period (PBP)	In %
No ratio	17 %
PBP after 3-5 years	5 %
PBP after 0-3 years	22 %
PBP not relevant (safety issues/de jure)	8 %
Unknown	48 %

Table 2: PBP of RFID projects (n=23)

RFID projects, with which Payback period (PBP) is already known, largest part PBP is shorter than expected life span of their RFID of system. For some SME this computation is not relevant, since legal regulations or the safety aspect fade out the costs/use considerations. The number of SME with which a long PBP is to be expected, is not negligible. Here is to find out, which qualitative factors can justify the RFID application not considered yet in cost-benefit analysis. In general a short Payback period favours the employment of RFID.

**Thesis 6: RFID is implemented mainly to new business processes and not as replacement for existing identification technologies**

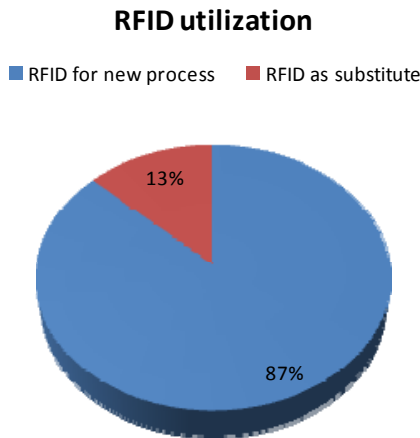


Figure 6: RFID utilization

RFID supported processes have to be differentiated into new processes and processes already existing. Only in few cases RFID is introduced as replacement for existing technologies (for example bar code or manual recordings). New processes, which cannot be supported by conventional technology, form a majority of RFID projects.

### 2.2.2 Suitable RFID applications for SME

Based on analysis of projects accomplished so far SME plans to implement RFID for the following applications:

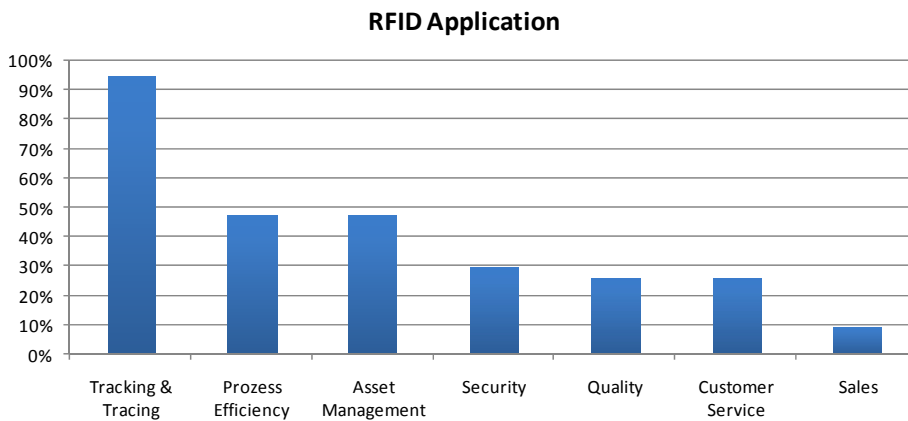


Figure 7: Usage for RFID technology

Here it shows up clearly that optimization of traceability of objects forms the most important motivation for employment of RFID technology. In second place stand increase of process efficiency and improvement of the Asset management. Security seems to have no importance, but regarding industry branches as Health Care and Food, security and safety possess high relevance.

## 3 RFID Technologies used by SME

An analysis of used RFID technologies is to answer the question whether for SME a certain kind of technology is used frequently and thus appears suitable.

### Assigned designs of transponders

Transponders are offered in different designs. As a function of environmental influences, kind of object, material and size as well as type of mounting suitable designs for a RFID system are to be selected.

### Used construction form

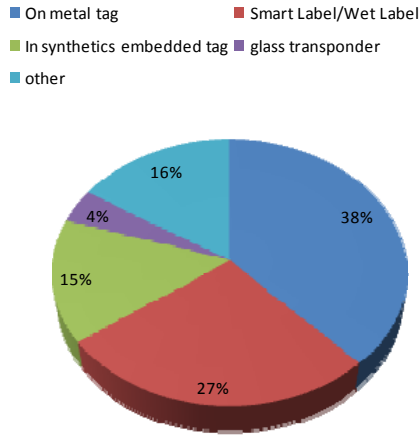


Figure 8: Used construction form

In context of projects accomplished transponders for metal environments and Smart labels result particularly frequently. Metal environments mean hard environmental conditions regarding water/cleaning, temperature and chemical treatment. Here RFID is more durable than e.g. bar code markings as identification technology. From this it can be derived that RFID is well suitable for harsh environments actual in particular in combination with metal. The employment environment of Smart label or Wet label usually hardly differs of that of bar codes. Smart labels apply frequently, where the deposited information is also optically selectable. This design is therefore particularly suitable with objects, which go through a Supply chain, with which not all members are using RFID systems.

### Energy supply for RFID transponders

#### Energy supply for transponders

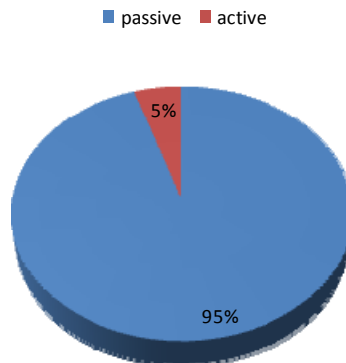


Figure 9: Energy supply for transponders

With nearly all projects passive transponders will be used. As reasons for it costs and maintenance costs called by battery changes can be assumed. On the other hand only short range readers are required, which make an employment of active transponders redundant. Active transponders are used only rarely, semi active transponders not at all.

### Rewriteability of transponders

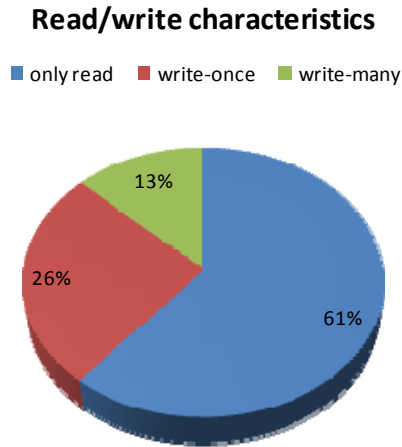


Figure 10: Read/write characteristics

SME's desire to store own identification numbers on the transponders is rarely. Half of SME would like to get given ID numbers and are not dependent on own sets of numbers. The necessity to use stored numbers several times or to be able to rewrite own sets of numbers, occurs only with few SME. The conclusion thus:

- majority of once marked objects remains married with a transponder
- traceability is sure by constant ID marking of the object
- high reading speed should be ensured by the avoidance of re-recording procedure
- volume of necessary data exchange is kept smaller with the read/write process.

### Used frequencies

Most of SME use UHF systems for data transmission. Important reasons are a larger range, lower costs of hardware, higher standardisation of UHF technology and thus exchangeability of the RFID hardware. Some SME use LF transponder, HF technology (125 kHz) or Microwave frequency (2.45 GHz) are not used at all.



### Used frequencies

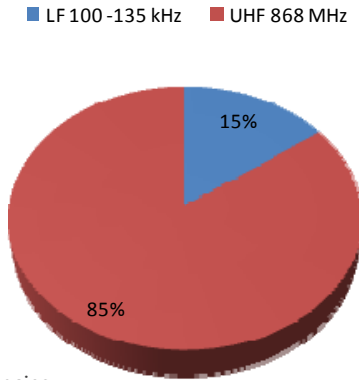


Figure 11: Used frequencies

### Used Readers

#### Used type of read-write device

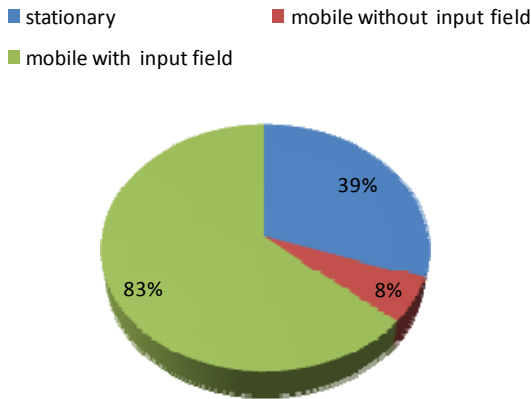


Figure 12: Used type of read-write device

As clear trend showed up the use of mobile RFID readers with enter option for adding information/data to identification objects. For example for accomplished activities on objects in context of Asset management or process transactions.

Thus within this it shows that flexible employment of the devices is desired. That can be interpreted as proof of fact that mainly new processes are supported by RFID technology. Stationary applications point to a higher degree of automation, which can be supported by every other identification technology.

## 4 Resumee

As result of our researches it became obvious that RFID technology in many cases is a well suitable technology to support new processes by this kind of identification method. Giving SME a strong idea of benefits of RFID support in relation to other identification technologies motivation to work on RFID projects increase enormously.

Viewing at results of cost-benefit analysis the numbers of positive ones face a large number of negative results. Causally for it SME can earn smaller absolute savings in contrary to larger enterprises.

Therefore flexible employment of RFID hardware and employment of mobile devices are substantial success factors. In addition application of low cost and highly standardised UHF technologies and reduction on few data exchanges may deliver many promising RFID applications also for SME.

In addition we found most of the realized RFID-systems in the context of logistics, to control the material flow. So it would be interesting to determine the extent of RFID use by logistics service providers. Therefore we accomplished a market research study with 109 logistics service providers. In result we found, that most of them have engaged with the RFID-technology. Most of them have a deep knowledge about the RFID systems and have a clear understanding about the challenges and threats. Most of the logistics service providers are positive about the strategic and operative benefit of RFID. On the other hand only 9 of them use the RFID-technology in practice. Is that a surprise?

On the first view it seems so, but on the second not, because most of the logistics service providers deal with a lot of customers with often very different requirements. So it is difficult for them, to serve all of the customers with one system. The users of RFID are focused on a few customers, with a constant demand in a long-term partnership. Figure 13 demonstrates the distribution of the fields of application.

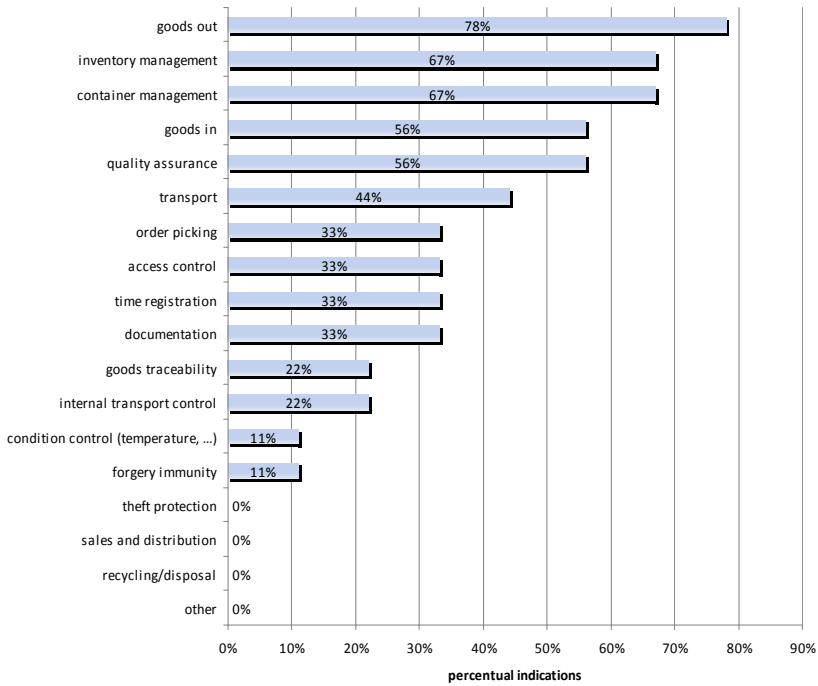


Figure 13: Indications of RFID applications

On the first position of use we found RFID in the outgoing goods. We suppose that most of the logistics service providers use RFID for the slip and ship approach.

Figure 14 points out, that the quality of the process, the reduction of defects and the reduction of lead times are in the foreground.

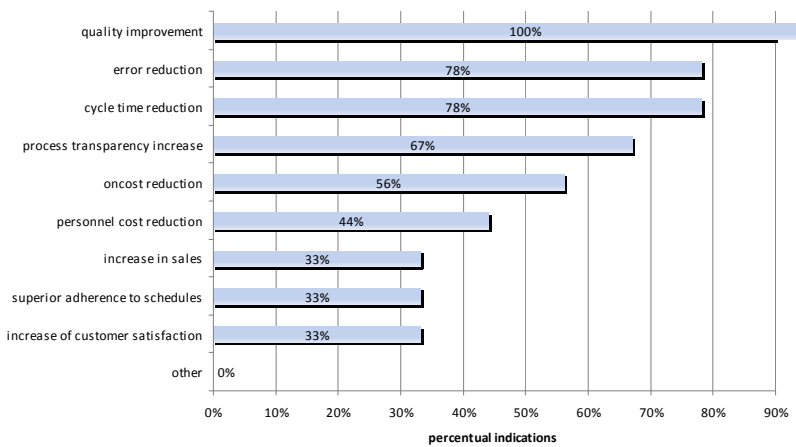


Figure 14: Success motive for RFID

Conclusion: The study reinforces the result in our projects mentioned before, that till now RFID is a niche application for SME.

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## **Innovation brokerage and innovation capability**

### **Abstract**

Though open and practice-based innovation has been the topic in academics' and practitioners' discussions for a while its implementation into the practices of innovation systems is not that obvious. This paper represents a description of a process how a new way of thinking – a change in the mindset – is strived to plant and foster among the regional innovation actors. The means to achieve the aim are training, open lectures, seminars and meet ups for representatives of local SMEs, educational personnel and students of educational institutions (EIs). As a result by the end of August 2013, the innovation capability of the regional innovation system will be notably enhanced.

**Keywords:** Innovation, Brokerage, Regional Innovation System, SME and EI Collaboration

### **1. Introduction**

The fact that great majority of new innovations spring from hands-on approach must be taken into serious consideration. The competitiveness of small and medium-sized enterprises (SMEs) is based on the speed of their innovation processes and their ability to respond to user needs in constantly changing operational environment. In order to participate and support the regional innovation system and provide proper education for future professionals and experts, the educational institutions (EIs) must develop their own innovation capabilities from congruent point views (cf. e.g. Cooke, 1992; Dolorieux, 2002; Melkas & Harmaakorpi, 2008). Currently, the mutual needs and supplies of both sectors do not meet in a systemic and continuous way. This presumes further networking between the actors in the innovation processes and the developing organizations of the innovations systems by inventing an ecosystem for the cooperation. New forms of collaboration, which are neither self-evident nor prevailing in any organizational culture, are required.

InnoBrokers-project is an ESF-funded project administrated by LUAS that strives to enhance regional innovation system and innovation capability by

developing an innovation brokerage network. The essential building blocks in the process are a broker training for teachers, students and business representatives, and business pilots that are run in intensive cooperation with the training. The training and the pilot projects are implemented in the spirit of practice-based innovation thinking. As an outcome, a network of innovation experts, i.e. Innobrokers, will be established. Innobrokers are contributors, executors and brokers of innovation activities, who know the needs of SME sector as well as the possibilities of the EIs. They have a central role as creative actors and sculptors of organizations as well as transcendents of borders.

By combining the resources of SMEs, teachers and students for the sake of the developing the innovation capability, an actual environment reflecting reality is attained and innovation development platforms are formulated. A genuine win-win-win -situation will be achieved by providing an opportunity for all three stakeholder groups to participate into the development process of innovation system. All three of them will have a comprehensive and holistic understanding of the innovation system as a whole and particularly the importance of networking and the cooperation within the network. They all will also acquire vis-à-vis benefits. The SMEs will have a chance to get an outsider's view on their own processes; teachers can update their practical know-how in substantial field; and the students will have a valuable work life experience. The seamless connection to entrepreneurship also supports the student entrepreneurship.

## 2. Literature review

Lall (1992) defined innovation capability as the skills and knowledge needed to effectively absorb, master, and improve existing technologies, and to create new ones. When this definition is adapted for the purposes of Innobrokers-project, the word "technology" is complemented with words like "products", "services", "processes" and "organizations", even "organizational culture". This way a lot broader picture can be drawn. As the innovation capabilities are essentially determined by organizational learning processes (Weerawardena, 2003), the aspect of organizational learning becomes crucial. Actually, the learning approach to innovation suggests that the degree of innovation mirrors the amount of new knowledge embedded in an innovation (Dewar and Dutton, 1986; Ettlie, 1983). Currently, EIs have to struggle their way according the same conditions as businesses in general, and thus, learning from markets is a key source of innovation. By nurturing distinctive market-focused learning capabilities, EIs are able to outperform their competitors by creating superior value to their customers (e.g. students, local business life and other stakeholders). (cf. Weerawardena, 2003) The organizational learning as conceptualized in the literature (Huber, 1991; Sinkula, 1994; Slater and Narver, 1995; Schein, 1990) comprises four learning activities constituting the overall organizational learning process of the organization. These activities are knowledge acquisition (the development or creation of skills, insights, relationships), knowledge sharing (the dissemination to others of what has been acquired), knowledge utilization (integration of the learning so that it is assimilated, broadly available, and can also be generalized to new situations)

and unlearning (the review and renewal of existing knowledge and communication of changes within the firm). Unlearning must be considered as a vital aspect in the organizational learning process (Slater and Narver, 1995; Schein, 1990).

According to Melkas and Harmaakorpi (2008), learning and knowledge creation are important questions that must be managed. It has been shown that actors from different parts of innovation system might be unable to start mutual innovation process, due to the absence of shared rules of communication (cf. Uotila et al., 2006). Even in the same field, for example the lack of shared language hinders the beginning of an innovation process in the first place, although the innovation potential in the structural hole could be apparent. There emerges the chance for a broker. Burt (1997) has noted that such a structural hole is a place where a broker is needed to broker the flow of information between people bringing them together despite the distance between them. Melkas and Harmaakorpi (2008) have also delineated the practical tasks for a broker: understanding the needs of the innovation network regarding to different forms of data, information and knowledge (i.e. tacit, self-transcending, explicit); identifying the necessary flows of these different forms, as well as potential bottlenecks in these flows; recognizing the roles of actors in the innovation network as well as their specific needs regarding data, information and knowledge; and identifying of the necessary data, information and knowledge quality for different purposes. In accordance with this background innobroker's qualifications (needed skills) are defined in this project as follows: innobroker makes actors aware of interests of other groups of actors within the innovation system and brings them together; transfers the best practices; sees correspondences between groups of actors apparently irrelevant to one another; and combines by synthesizing these knowledge interests (cf. Burt, 2004; Melkas & Harmaakorpi, 2008). In other words, innobroker's job is to create environments and possibilities for fertile collisions in order to produce innovative thinking, i.e. make the sparks fly in a good way

### 3. Purpose of the research

Innovations are crucial in building and sustaining the competitive advantage for SMEs and the same is valid with the EIs as well. Indeed, the survival in the harsh competitive environment depends mostly on organizations ability to develop and renew their operations, to be innovative in other words. Innovativeness has become increasingly complex, costly and risky because of changing preferences, extensive pressure, rapid and radical changes in operational environment (e.g. Cavusgil, Calantone & Zhao, 2003). Here, the innovation capabilities become crucial. The purpose of Innobrokers-project is to enhance local innovation capabilities, particularly brokering skills related to brokerage functions, and to strengthen regional innovation system by building and developing a brokerage network. Disseminating the knowledge and know-how of innovation brokering and spreading the brokering mindset are the broad resources to respond to the challenge. The practical tools to achieve these aims are presented in the following chapter. Accordingly, the research ques-

tion is formulated as follows: *How a new way of thinking, i.e. innovation brokerage mind-set, can be planted and fostered among the regional innovation actors?*

#### 4. Methodology

The phenomenon under study is a change in a social system, i.e. regional innovation system, where the aims of planned actions is strived to accomplish in order to develop the innovation capabilities, i.e. brokering functions. The planned actions, as the project as such, are manifold. Thus, the available data will be mostly in qualitative format and in several various formats: group and personal interviews, diaries, blogs, web discussions and web rehearsals, etc. Probably, some questionnaires and feedback inquiries will be used in order to produce quantitative data. In other words, qualitative approach must be adopted, but the question is, which of them.

While taking these initial steps on this shaky and chancy ground of qualitative research, there is a temptation to lean on the action research tradition and more specifically on participatory action research (PAR). This temptation is based mainly on Ozeanne and Saatcioglu's (2008) article on PAR, where they present the history and evolution of the methodology. There Reason and Bradbury (2001) define participatory action research (PAR) as "a participatory, democratic process concerned with developing practical knowing in the pursuit of worthwhile human purposes." Simply stated, this is a systematic approach that seeks knowledge for social action (Fals-Borda and Rahman1991). Accordingly, Reason and Bradbury (2007) continue by defining Action research as "an interactive inquiry process that balances problem solving actions implemented in a collaborative context with data-driven collaborative analysis or research to understand underlying causes enabling future predictions about personal and organizational change". It is reasonable to argue that somewhere there are the premises of this research.

#### 5. Application to practice

The essential building blocks in the process of improving the individuals' innovation capabilities, enhancing the innovation brokerage functions and building the innobroker network consist of three main activities: innobroker training, business pilots and open lectures for wider audience. The innobroker training is directed to business representatives, lecturers and educational personnel as well as students. By combining these three groups, an eclectic interaction and cooperation with multiple voices and various views to innovating and supporting activities (e.g. innovation brokerage) is strived to achieve. The training will be executed from very practical premises where actual doing is emphasized in comparison to traditional lecturing and listening. It will consist of three two-day periods in September, October and November and all of them will have a specific main theme: the first two days will concentrate on individual's innovation capabilities from personal baseline; the second theme is innovation process and its dynamics, while the third period focuses on leadership/management of innovation process and organizational culture.



All these three themes will be approached with an “innobroker sight” meaning that the themes will be considered from broker’s point of view, i.e. what kind skills are especially important for brokerage functions. As the significance of communication is evident in brokering functions, innovation communication is embedded in the training along the main themes as well.

To support the practical emphasis in the training, business pilots are run in intensive cooperation with the training. Business pilots are actual innovation projects in SMEs that aim to improve products or services produced by the firm, or then to develop the organizational culture or organization as such to more innovation friendly direction. They will provide inputs to the content of training days, which then again, give guidance and advises proceeding with the pilot between the training days. The training and the pilot projects are implemented in the spirit of practice-based innovation thinking, which means that the purpose for pilot projects and the training emerges from a specific practical need, and then at the end of training, some concrete benefit will be realized, and along, more abstract intangible benefit, innovation capability in a form of innovation brokerage skills, is also achieved.

In order to spread the word of open and practice-based innovations as well as the importance of innovation brokerage, a series of open lectures will be carried out. The themes will follow the training so that the best practices learned during the training will be disseminated to the wider audience. Especially, stakeholders of the trainees are encouraged to participate to the open lectures. By sharing the kindred information with the trainees, the stakeholders can then support the trainees in their actions as change agents in the various organizations. Two persons are a stronger change muscle than one person alone, they can start the change. These three building blocks, i.e. training, business pilots and open lectures, will be endorsed with seminars. The seminars have an important task in creating the sense of community among the trainees, which will endorse commitment within the network. Because the training sets will be carried out altogether four times, one per each four following semesters, the seminars will be rendezvous or meet ups for the trainees. In the seminars, the trainees of past training season will meet the trainees of coming season and the experiences and expectations can be shared. These seminars will be significant regarding the necessary publicity, too. As an outcome from the training, business pilots and the open lectures and the seminars, a network of innovation experts, i.e. innobrokers, will be established. Innobrokers are contributors, executors and brokers of innovation activities, who know the needs of SME sector as well as the possibilities of the EIs. They have a central role as creative actors and sculptors of organizations as well as transcendents of borders.

## 6. Discussion and conclusions

Unfortunately, only assumptions of the project and its results can be made. It can be presumed that by combining the resources of SMEs, educational personnel and students for the sake of the developing the innovation capability, an actual environment reflecting reality is attained and innovation devel-

opment platforms can be formulated. A genuine win-win-win -situation will be achieved by providing an opportunity for all stakeholder groups to participate into the development process of innovation system. All participants and their stakeholders will get and share a comprehensive and holistic understanding of the innovation system as a whole and particularly the importance of networking and the cooperation within the network. They all will also acquire vis-à-vis benefits. The SMEs will have a chance to get an outsider's view on their own processes; lectures and educational personnel can update their practical know-how in substantial field; and the students will have a valuable work life experience. The seamless connection to entrepreneurship also supports the student entrepreneurship. The main goal of the project is to enhance the innovation capabilities, especially brokerage functions, and build a systemic and sustainable network of skilled innobrokers contributing continuously and through cooperation to the regional innovation system where all would be winners.

Due to the preliminary phase of the project, it is too early to either make any stronger statements or to comment its results or achievements more thoroughly. However, it can be said that the earlier the project planning process is opened to wider discussion and exposed to different views and opinions, the better. According to the principles of open and practice-based innovation thinking, the multiple voices in every phase of the development or planning process can provide guidance and lead to an improved outcome.

Overall, the theme of practice-based innovation is so extensive and abstract that it can be implemented in spite of the industry, sector (public/private), type of organization or field of substance area. This argument will be tested as the project proceeds. The training groups come from various backgrounds with diverse premises challenging the capabilities and expertise of the trainers as well as the participants. The multidisciplinary will provide the most fertile base for innovative collisions and also intensify the dissemination of the outcomes. The pre-default and main argument is that the procedure for disseminating the new way of thinking (i.e. open practice-based innovation thinking) developed and tested in Innobrokers-project will be widely adaptable to various contexts.

Further, all procedures carried out during the project will be documented and reported in suitable formats in order to ensure the transparency, repeatability and adaptability of actions and activities. This means descriptions of the business pilots, contents of the training periods and open lectures as well as capturing and transmitting the seminars and meet ups for wider audiences. Such documentation facilitates easier access to the knowledge created in the project and furthers the duplication of the good practices developed on the way. Also, a proper evaluation system will be running along the project as it proceeds. This will support the flexibility to react to the coming feedback and take revising action when needed.

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## **Blended learning environments in master's degree studies**

### **Abstract**

The aim of this paper is to study how master's degree students see elearning and blended learning environments supporting their learning and studies. This paper is based on the analysis of quantitative data from 61 respondents and secondary sources have also been used. The paper shows the students' preferences and current status of elearning in master's degree studies, and provides valuable information for further planning and development of curricula and implementation of master's degree studies.

**Keywords:** blended learning, e-learning, PLE and social media, adult education

### **1. Introduction**

This article focuses on analysing how master's degree students see blended learning environments supporting their learning outcomes and studies. The study builds on and aims to expand the existing knowledge of adopting blended learning approach. Blended learning environment is a learning environment that combines face-to-face instruction with technology-mediated instruction (Graham and Dziuban 2008). According to Graham (2008), the primary reasons for adopting a blended approach to instruction are improved learning effectiveness, increased access and convenience, and greater cost effectiveness. To students the benefits include acquiring the life skills of independent learning, studying in an engaging environment, receiving support from other students in an online community and getting individualized feedback from both the computer and the teacher.

Furthermore, the growth in social networks and other forms of communication encourage students to take responsibility for their own learning. Development of personal learning environments (PLE) requires development of personal evaluation skills through which learners decide what resources to use to meet their learning goals. (Williams and Graham 2010)

The objective of this research is to increase the understanding of blended learning methods in order to identify potential means to develop web-based learning among master's degree studies. The study addresses three research questions:

1. *What is the current status and preferences of e-learning among students belonging to the target group of this study?* More specifically, how adult students are utilising ICT and networking for learning and what opportunities and challenges they identify?
2. *What are the benefits of blended learning?* This research question aims at identifying what adult students' preferences are while choosing web-based or e-learning supported courses. Furthermore, it aims at identifying in which kind of learning related situations and interactions they prefer traditional face-to-face interactions.
3. *How master's students see the future of e-learning and how it should be developed?*

The article is organised as follows: First, the key concepts and the theoretical framework is introduced. The theoretical framework consists of the blended learning approach, e-learning tools as well as personal learning environments (PLE) and social media. Second, the data collection and data analysis are described. Finally, the main findings of the study are discussed and evaluated.

## 2. Blended learning and information technology

Blended learning is a coherent design approach that openly assesses and integrates the strengths of the face-to-face and online learning. Others might blend to combine synchronous and asynchronous technologies to best meet student needs (Bonk and Graham 2006). In addition teaching techniques and methods/pedagogic solutions can be blended. Online learning need different pedagogical techniques like group problem-solving and collaborative tasks, problem-based learning, discussions, authentic cases and scenario learning, simulations and role play, coaching and mentoring (Garrison and Vaughan 2008).

Bonk et al has collected trends related to blended learning (Bonk et al 2006, 549 - 567). According to them, high-quality multiform learning environment :

- promotes the building of learning communities
- produces situations in which the own learning can be followed and can be evaluated
- offers a place for expert meeting
- offers a just-in-time mentoring and training
- offers simulations and practice laboratories
- offers learning materials just-in-time

Information technology has become commonplace in higher education and in adult learning. The teachers and students in higher education know there has to be change in how to design educational experiences. Tapscott (2009) wrote *“The old-style lecture, with the professor standing at the podium in front of a large group of students, is still common. It’s part of a model that is teacher-focused, one-way, one-size-fits-all and the student is isolated in the learning process. Yet the students, who have grown up in an interactive digital world, learn differently. Schooled on Google and Wikipedia, they want to inquire, not rely on the professor for a detailed roadmap. They want an animated conversation, not a lecture. They want an interactive education.”* Adult students are not dinosaurs, but they need the new skills of information society. That’s why the higher education ought to support current best practices and invigorate innovation towards new models and practices for the uses of information technology to support learning and teaching and so promote the highest standards of learning. The aim is to create learning environments that respect and leverage a broad range of individual experiences and needs.

According to Attwell (2007), the idea of Personal Learning Environment (PLE) recognises that learning is continuing and seeks to provide tools to support that learning. It also recognises the role of the individual in organising their own learning. Furthermore, the pressures for a PLE are based on the idea that learning will take place in different contexts and situations and will not be provided by a single learning provider. Attwell (2007) also emphasises that personal learning environments provide more responsibility and more independence for learners. Social media in general exhibit a rich variety of information sources; popular user-generated domains include blogs, web forums, social bookmarking sites, photo and video sharing communities as well as social networking platforms (Agichtein et al. 2008).

The educational elements require strong pedagogic know-how. The learners of the future look for those educational institutions in which the different elements of the learning have been connected so that the own learning paths best will produce results. The learning community, in other words the social presence consists of an open discussion, cohesion between the individuals and the groups and personal experiences. The social relations create the feeling of the solidarity, support the free expression and maintain cohesion but this is not enough for the professional development. Furthermore, the high-quality learning needs the reflection and expert support and the adapting of the information through the problem solving. The different paths of the learning and possibilities to test information in genuine problem situations are needed. The social interaction should be connected to the problem solving situations by utilising the blended learning technology, multiform solutions. The educational structures bind all the elements of the learning state together and make sure that the results of the learning are impressive. (Garrison and Vaughan 2008).

The building of learning state that has been presented above is challenging especially in the blended learning environments in which the different forms of teaching and the teaching technology are connected. The web-based learning

environments require a strong didactical view and the learning process must be well designed and structured, especially for adult learners.

Further, the concept of connectivist pedagogy of distance education emerged recently (Andersson and Dron 2011). Connectivism is built on an assumption of a constructivist model of learning, with the learner at the centre, connecting and constructing knowledge in a context that includes not only external networks and groups but also his or her own histories and predilections. This pedagogical approach sees learning as a process of building networks of information, contact and resources that are applied to real problems. Connectivist cognitive presence begins with the assumption that learners have access to powerful networks, and are literate and confident enough to exploit these networks in completing learning tasks. Connectivism starts from an assumption that information is plentiful and the student's role is not to memorize or even understand everything, but to have capacity to find and apply knowledge when and where it is needed. (Andersson and Dron 2011).

### 3. Data Collection and Research Findings

The data was collected with an Internet survey, by using Questback service, during spring 2011. The target group of this research consists of master's degree students in HAMK University of Applied Sciences. A link to the survey was delivered with email message to the students. All together the amount of respondents was 61. The response rate represents about 21 % of the population. Even though the response rate could have been higher it is considered that the collected data represents the population quite well.

#### Preferences of e-learning

Preferences of e-learning were questioned by using scale 1 to 4. In which 1 means very important and 4 means not at all important. The key findings for preferences of e-learning are in table 1.

Table 1. Preferences of e-learning

Variable	Average	SD	N
I can decide myself how much I will study at certain times	1,69	0,69	61
Flexibility allows me to meet my learning objectives	1,64	0,75	59
My teachers can be easily reached electronically	1,67	0,70	60
My fellow students can be easily reached electronically	1,87	0,69	60
Sense of community works well in digital learning environment	2,05	0,80	61



While almost all master’s students are working during their studies it was asked that if e-learning lessons would be implemented during regular work-days, what would be the most convenient days? While multiple responses were possible the distribution between days is as follows in table 2.

Table 2. Most preferred workdays for e-learning sessions

<b>Weekday</b>	<b>%</b>
Monday	27 %
Tuesday	45 %
Wednesday	54 %
Thursday	45 %
Friday	21 %

As can be notified from the students perspective Wednesday seems to be the most preferred day and Tuesday and Thursday seem to be also preferred among students.

### Benefits of e-learning

The perceived benefits from e-learning type of an implementation were questioned by using scale 1 to 4, in which 1 means very important and 4 means not at all important.

Table 3. Perceived benefits of e-learning

<b>variable</b>	<b>Average</b>	<b>SD</b>	<b>N</b>
I can utilise digital learning materials at the times most suitable for me	1,28	0,49	60
e-learning could decrease total time allocated for studies (including travel time)	1,77	0,91	60
e-learning makes it possible to work with my studies at the times most suitable for me	1,52	0,67	60

When it comes to future of e-learning respondents were asked on scale 1 to 5, in which 1 means always and 5 means never, how their see their own behaviour in the future regarding e-learning.

Table 4. Future of e-learning

<b>variable</b>	<b>Average</b>	<b>SD</b>	<b>N</b>
e-learning can replace contact lessons	2,97	1,07	61
I would choose e-learning alternative from traditional contact lessons if at all possible	3,02	1,02	61

The above results do not clearly indicate that master's level students have such a preference that e-learning could replace contact lessons. Neither do they indicate clearly that they would choose e-learning alternative from traditional contact lessons it at all possible.

#### 4. Conclusions

Due to the technological advances and widespread access to information and communication technologies, the blended learning methods have grown rapidly in higher education and corporate training contexts (Graham 2009). Distant education has evolved through many technologies; e-learning methods and development of personal learning environments (PLE) are a new approach to the use of new technologies for learning. PLEs can provide a more holistic learning environment, bringing together sources and contexts for learning that have earlier been separate (Attwell 2007). From the pedagogical point of view, connectivism represents a pedagogical approach that relies on the ubiquity of networked connections between people, digital artifacts, and content (Andersson and Dron 2011).

The aim of this study was to increase the understanding of blended learning methods in order to identify potential means to develop web-based learning among Master's Degree studies.

This study addressed three research questions: 1) What is the current status and preferences of e-learning among students belonging to the target group of this study? 2) What are the benefits of blended learning? and 3) How Masters' students see the future of e-learning and how it should be developed?

The findings of the empirical study show that master's degree students value the possibilities offered by blended learning methods. The preferences of e-learning include freedom, flexibility, easy access to the data, easy to contact both teachers and fellow students and strong feeling of community. Flexibility refers to the freedom of choosing how much one studies at certain times. Furthermore, it also helps the student to meet the learning objectives and at the same time has an impact on the learning outcomes. Importantly, the feeling of community can even increase through e-learning, especially through the development of the personal learning environments offered by the social media. Also, this study shows that the contact lessons delivered through e-learning methods should preferably take place from Tuesday to Thursday - Wednesdays, however, being the most popular weekday for web-based contact learning.

The main benefits of blended learning include the freedom of carrying out of studies and saving of time. Consequently, the e-learning is not bound to a certain location or timetable. Also, the respondents appreciated the plentyfulness and access to the digital materials. Saving of time allocated to studies proved important - especially the travel time - was considered valuable. E-learning gave the freedom to work with the studies at the time most suitable for the student.

The future of e-learning according to this research is twofold: The e-learning methods are highly appreciated and valued among the master's students. Still, according to this study, it can be interpreted that the adult learners also want a certain amount of face-to-face -contact both with the teachers and the study group.

Thus, the findings of the study clearly indicate that combined blended learning methods - including e-learning, access to digital material, web-based contact learning and face-to-face-learning - are the most preferable learning methods for adult learners. Online learning requires different pedagogical techniques like group based problem solving and collaborative tasks. In adult education the social media and the development of the Personal Learning Environments (PLE) can offer interesting new visions for the blended learning methods.

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## **Critical success factors for ERP adoption process: the case of a vietnamese dairy manufacturer**

### **Abstract**

**This paper examines the critical success factors (CSF) for adopting an ERP system in Vietnam. The study is conducted as a case study of ERP adoption in a leading Vietnamese dairy manufacturer company. The research data is collected by interviews of different stakeholders in the case's project; project's documentation and a small-scale survey. The literature review showed eight success factors, which are confirmed to contribute in our case as well: visioning and planning, top management support and commitment, change management, IT infrastructure, ERP teamwork and composition, BPR and minimal customization, external competence and the involvement, education and training of end-users. This research may help the managers, novice consultants and other researchers who understand the ERP adoption process in Vietnamese enterprises.**

**Keywords:** critical success factors, ERP adoption process, senior managers, consultants, Vietnam.

### **1. Introduction**

In a fiercely competitive business environment as today, business strategy plays a crucial role in both determining success and governing business survival. An effective business strategy should focus on intensive and efficient use of information technology, such as Enterprise Resource Planning (ERP) systems. By integrating data and business processes from different departments into one single information system, ERP helps to improve business processes and reduce costs. Furthermore, ERP system connects suppliers, distributors, and customers, facilitating the flow of product and information. Therefore, the ERP system is the very infrastructure of how business operates and it is also the platform for future business expansion (Dave Caruso 2003, 1).

However, those benefits can only be obtained through successful ERP adoption process, which is costly, time-consuming and complex. In reality, high

failure rate in adopting ERP systems have been recorded worldwide. Especially, the rate of ERP adoption in Asian developing countries was very low and several years behind advanced countries (Rajapakse & Seddon 2005, 1; Ngai et al. 2008, 12). Vietnamese companies started to look for suitable ERP packages to improve their competitive edges before Vietnam joined the World Trade Organization (WTO) in 2007. Until February 2010, there were about 100 Vietnamese companies that already adopted ERP systems, and the number was anticipated to increase significantly. This result came from a report of EAC on March 2010. The modest number above derived from the high failure rate of 70% - 80% of previous ERP projects based on statistic in 2006 (ERP implementation projects: how to avoid failure, 2006).

Up to now, many researchers have been widely attracted to discover critical success factors for ERP adoption process. Holland and Light (1999) were among the first authors to discuss the issue (Holland & Light 1999, 31). Through comprehensive literature review, Ngai et al. (2008, 14) indicated that much of the research focused on Western nations while there has been lack of research on the success or failure of ERP adoption in developing regions/countries. Even though there have been many failed ERP projects in Vietnam, formal efforts to determine their successes and underlying causes have been very limited. This research aims to reduce the gap in literature about CSFs in ERP adoption worldwide and more importantly; it aims to be the first academic research study on CSFs in ERP adoption in Vietnam.

This research examines critical success factors for the ERP adoption process of a leading Vietnamese dairy manufacturer by interviewing fifteen participants in the project. One of those interviewees comes from the ERP implementer, who has long-term experience in adopting ERP system in Vietnam. Therefore, this single case study can reflect the ERP adoption in Vietnam generally.

## 2. Methodology

This research is designed as a case study because its purpose is to find information relating to *what* question. A case study uses an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence, and provided an opportunity for the intensive analysis of many specific details often overlooked by other methods (Robson 2002, 178; Kumar 2005, 113). According to Yin (2003, 15), there are at least five different applications of case studies: explanation, description, illustration, exploration and meta-evaluation (a study of an evaluation study). This research is mainly explanatory because it explains how CSFs influence on the success of the ERP adoption process. It is partly descriptive because it is necessary to describe how the ERP system was implemented to have a clear picture of the problem. Besides, this research is somewhat exploratory because the authors wish to find out what was happening in the real ERP project in light of critical success factors.

According to Yin (2003, 99), multiple sources of evidence and triangulation are necessary for analyzing a case study. They can improve reliability and validity of the case evidence. He also highlights that “those case studies using multiple sources of evidence are rated more highly, in terms of their overall quality, than those that rely on only single source of information”. In addition to theoretical data from published sources, the empirical data consists of the following sources: project documentation, company report, open-ended interviews and small-scale survey.

In this case study, the interviews were conducted with several different participants within the company as well as the ERP implementer. An email interview with top managers and representative of the ERP implementer was importantly defined as a series of emails; each contains a small number of questions. The participants, based on the questions, expressed their thoughts and opinions. However, there were some difficulties in approaching intended interviewees. Therefore, telephone interviews were sometimes replaced for email interviews. The data then was stored as notes for further analysis.

The sample was selected based on the fact that the company was one of the first companies in Vietnam implemented ERP successfully and the benefits of ERP had been perceived. Moreover, the company reflected the common structure of other large enterprises in Vietnam. Ultimately, the company could be easily assessed to collect the empirical data.

The analysis contained qualitative data analysis and quantitative analysis. The qualitative evidences were analyzed by data reduction, data display and conclusion (Miles & Huberman 1994, 11). The quantitative data collected was then synthesized to find the frequency of CSFs cited from small-scale survey.

### **3. ERP adoption process**

There is no common viewpoint regarding the stages of adoption process. According to Placide et al. (2008, 533) the ERP adoption process has been identified between three and thirteen stages in literature. According to them, the ERP adoption process contains seven stages: decision, planning, search for information, selection, evaluation, choice and negotiation. Pastor and Esteves (1999, 3) propose six phases for the lifecycle of adopting an ERP system: decision planning, acquisition, implementation, use & maintenance, evolution and retirement.

In this research, the authors propose that ERP adoption in a company is a process from realizing the needs for the new ERP system, replacing old system(s) by that new system and obtaining intended benefits through using it in normal operations. Accordingly, the new model consists of four phases adapted from Pastor and Esteves (1999): decision planning, acquisition, implementation and use & maintenance. Figure 4 illustrates the ERP adoption process used in this study.

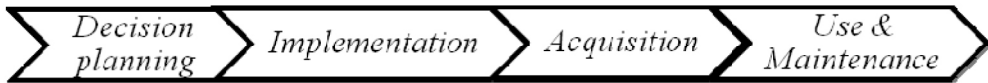


Fig. 1 An ERP adoption process (adapted from Pastor & Esteves 1999, 3).

*Decision planning* stage presents the business vision and planning of organization. Top managers have to fulfill the following activities. Firstly, they must analyze the needs and requirements for adopting an ERP system. Secondly, they should analyze the costs and expected benefits from ERP adoption. Lastly, feasibility study is needed to determine tentative impacts on the organization (Pastor & Esteves 1999, 4).

The *acquisition* team is formed to choose the ERP package that best fits the requirements of the organization so that customization would be minimized. An ERP implementer is also selected. Terms and conditions in implementing contract are defined. It is also important to make an analysis of the return on investment (ROI) of the selected ERP package. Another important task is to investigate and evaluate the current IT infrastructure of company to consider whether it satisfies the requirements of the new ERP system or not (Pastor & Esteves 1999, 4; Pastor & Bibiano 2006, 3).

*Implementation* is the most important phase in the ERP adoption process where the ERP system and business processes of the organization match each other. The role of consultants is so crucial in this stage because they provide implementation methodologies, know-how knowledge and training (Pastor & Esteves 1999, 5).

*Use and maintenance* contains continuous user training, implementation evaluation, user satisfaction and usage intention. In this stage, benefits of the system are perceived. It also covers the report to analyze the expected ROI. Once a system is implemented, it must be maintained because of malfunctions, special optimization requests, and general systems improvements (Pastor & Esteves 1999, 5; Pastor & Bibiano 2006, 5).

## 4. Review on critical success factors for erp adoption

### 4.1. CSFs for ERP Adoption

Most of previous research studies have investigated critical success factors for *ERP implementation*, instead of ERP adoption. Basically, two terms refer similar success because implementation is the key stage of ERP adoption. Once implementation is completed successfully, the success of ERP adoption is mostly obtained as well. For certain reasons, company implements ERP system successfully, but there are some troubles in using and the company cannot obtain intended benefits from the new system. Furthermore, there are some factors affecting on the implementation stage but they belong to pre-

vious stages such as decision planning and acquisition. Therefore, this paper wishes to provide a clearer understanding of ERP adoption in the light of critical success factors.

Based on the extensive literature review by Nah et al. (2001, 288) we propose eight factors contributing the adoption process of ERP : visioning and planning, top management support and commitment, change management, IT infrastructure, ERP teamwork and composition, BPR and minimal customization, external competence and partnership, and end-users: involvement, education and training. Some of them are the combinations of two or more factors available in literature. Table 1 presents eight CSFs and their key authors in literature that we adapt from Nah et al. (2001) and develops it based on his proposal.

Table 1 Review on CSFs for ERP adoption (adapted from Nah et al. 2001, 288).

AUTHORS \ CSFs	Visioning and planning	Top management support and commitment	Change management	IT infrastructure	ERP teamwork and composition	BPR and minimal customization	External competence and partnership	End-users: involvement, education and training
Bingi et al. (1999)	X	X	X		X			X
Holland and Light (1999, 31)	X	X	X	X	X	X	X	
Somers and Nelson (2001, 7)	X	X	X		X	X	X	X
Nah et al. (2001, 289)	X	X	X	X	X	X		
Shanks and Parr (2000, 299)	X	X	X		X	X	X	X
Rosario 2000	X		X		X	X		
Remus (2007, 541-549)	X	X	X		X	X	X	X
Woo (2007, 439)		X	X		X		X	X
Francoise (2009, 381)	X	X	X		X		X	X

Note: BPR = Business Process Reengineering, IT = Information Technology

As different factors are important in different phases, it is necessary to classify the eight CSFs identified into the ERP adoption process. Figure 9 shows the classification of these factors into an ERP adoption process, which is adapted from Markus & Tanis's (2000) model.



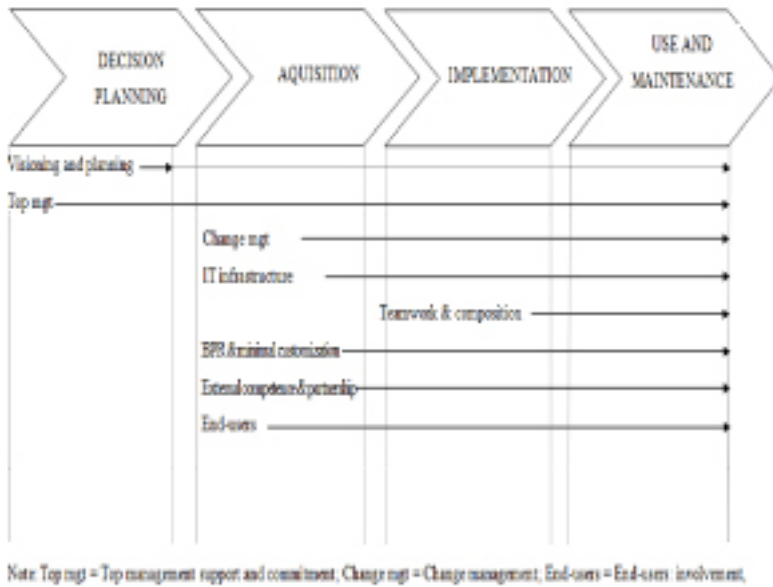


Fig.2 Classification of CSFs in the ERP adoption process (adapted from Markus & Tanis's model 2000, according to Nah et al. 2001, 290).

Thong et al. (1996) developed a conceptual model to investigate the effects of top management support and external IS expertise on IS success. The conceptual model of this research extends the Thong et al.'s (1996) model. This model reveals the main idea of this paper which examines the importance of eight CSFs to the ERP adoption success of the case company. The model is illustrated as follows:

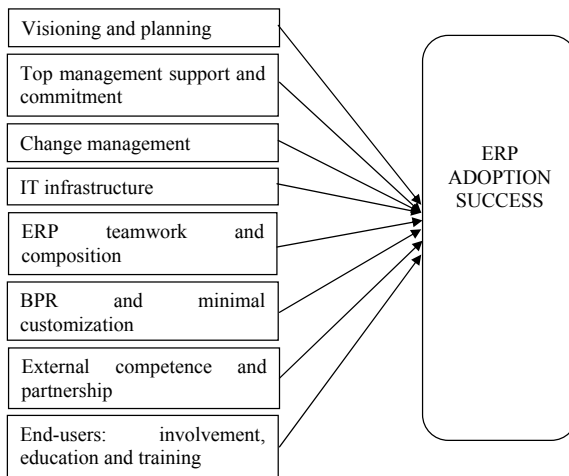


Fig. 3 The conceptual framework (adapted from Thong et al. 1996, according to Ifinedo 2008, 554).

## 4.2. Visioning and planning

Visioning and planning is needed throughout the ERP adoption process. It is important to have a clear business plan and vision to steer the direction of the project. This plan should state strategic and tangible benefits, resources, costs, risks, and timeline. Besides, it is needed to have a clear business model describing how the company will operate after the implementation stage (Buckhout et al. 1999, Holland et al. 1999, Wee 2000, according to Nah et al. 2001, 291.)

Additionally, business plan and long-term vision should determine goals and company's feasibility of the project. Furthermore, it must be defined as the company's most important project and all decisions made regarding it must be achieved consensus in advance from the whole management team (Collins 2001, according to Remus 2007, 542). Next, objectives must be specific to the scope of the project, the end-users need to be affected and the time line should be practical and formulated (Francoise 2009, 383).

## 4.3. Top management support and commitment

Top management support and commitment is one of the two most widely accepted CSFs. This factor emphasizes the importance of support and commitment from top managers and senior managers who involve in the strategic planning and are also technically oriented. (Yusuf et al. 2004, according to Finney & Corbett 2007, 335.).

Top management support and commitment is needed throughout the ERP adoption process because the project must receive approval and align with strategic business goals. Top managers must commit themselves to involve in the project for allocating the required personnel resource for implementation and giving appropriate time to finish the job. A share vision of the company and the role of the new system and structures should be communicated between managers and employees. Moreover, top managers should be the persons to harmonize any conflicts between internal and external parties (Bingi 1999, Buckhout 1999, Sumner 1999, Roberts & Barrar 1992, according to Nah et al. 2001, 291.)

Top management should not entrust their duties of ERP implementation to their technological departments because it is more than a technological challenge. Project planning, forming the project team, choosing the ERP package and the ERP implementer, the project sponsor and supervisor are among the duties that can only be done by top managers (Woo 2007, 435.).

## 4.4. Change management

Change management is the other most widely accepted CSF. Implementing an ERP system also means there will some changes in company. Change management is a method or procedure to manage the transition from using

old systems to adopting new ones effectively. In ERP adoption, this factor refers the need for a company and its employees ready for changes. Specifically, a company should formally prepare as soon as possible a change management program to deal with the complex organizational problems of employees' resistance, confusion and redundancies, and errors regarding to the new system. Top managers can inform employees about the new project in early stages or build user acceptance through education about the benefits and need for an ERP system in order to get positive attitudes towards it. Change program should cover end-users involvement and training in the implementation stage and they must be regularly supported from top management or implementation team. The project planning must be looked upon as a change management initiative not an IT initiative. (Aladwani 2001, 269; Remus 2007, 541; Nah et al. 2001, Abdinnour-Helm et al. 2003, Ross & Vitale 2000, Kumar et al. 2002, Wood & Caldas 2001, according to Finney & Corbet 2007, 336; Francoise 2009, 382.)

Moreover, managing cultural change is considered a subcategory of change management. It is critical to pay attention to the cultural differences and preferences in each company and its country such as language & culture, government regulations, management style, time zone and labor skills. Management commitment and support is the crucial factor to ensure the necessary conditions for effective change brought by the ERP project into the company. (Aladwani 2001, 272; Sheu et al. 2003, according to Sheu et al. 2005, 2; Finney & Corbet 2007, 336).

#### **4.5 IT infrastructure**

The issue of IT infrastructure is one of the reasons for high failure rate of ERP adoption. Therefore, it is critical to evaluate company's current IT readiness, including architecture and skills, before implementation. Since ERP implementation involves a complex transition from legacy systems and business processes to an integrated infrastructure and common business process throughout a company, it is necessary to upgrade or revamp the poorly current IT infrastructure. (Huang et al. 2004, according to Woo 2007, 432; Siriginidi 2000a, b, Somers & Nelson 2001, Tarafdar & Roy 2003, Somers & Nelson 2004, Bajwa et al. 2004, according to Finney & Corbet 2007, 338.)

#### **4.6. ERP teamwork and composition**

This is another widely cited CSF in literature review since ERP project is a big project in a company and it may involve all functional departments in that company. The project team must contain a mix of internal and external staffs so that internal staffs can develop technical skills for design, implementation and later usage. The internal staffs should be a mix of technical, business experts and end-users from different business units in company. Moreover, they should be balanced and key staffs in the company. Further, the project team should be empowered in decision making for continuous implementation progress. External staffs should contain well-known ERP implementers,

vendors and consultants (Falkowski et al. 1998, Bingi et al. 1999, Buckhout et al. 1999, Rosario 2000, Shanks et al. 2000, Wee 2000, according to Nah & Lau 2003, 12; Finney & Corbet 2007, 337; Woo 2007, 436.).

Besides, the project team must be dedicated to work full time on the project. Therefore, they need to be supported, encouraged, and rewarded to maintain high enthusiasm during implementation. Communication among various parties is also vital and need to be managed by regular meetings or seminars (Nah & Lau 2003, 12; Alexis Leon 2008, 542.).

Additionally, project manager appointed should be experienced, mix of business and IT knowledge, strong leadership skills and have adequate authority to manage all aspects of the project. Besides, the project manager must be mix of technical, business and change management requirements. It is also important that he must understand the company's business process. A competent project manager has crucial role in ERP implementations (Nah & Lau 2003, 18; Remus 2007, 544; Woo 2007, 436; Francoise 2009, 381.)

#### 4.7. BPR and minimal customization

A business process is "comprised of the people who conduct it, the tools they use to assist them, the procedures they follow and the flows of material and information between the various people, groups and sub-activities". Business process includes operational and infrastructure process. Operational process refers to business functions such as product development, order management, and customer support whereas infrastructure process is more administrative including establishing and implementing strategy and managing human resources or physical assets (Earl 1994, 13; Tjaden et al. 1996, according to Pastor et al. 2002, 2; Olson 2004, according to Yingjie 2005, 27.).

According to Hammer & Champy (1993), BPR is "the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performance, such as cost, quality, service and speed" (Hammer & Champy 1993, 32). The importance of BPR is to create the best way of doing business, so it changes the way of working of a company. Kale (2000) emphasizes "the most important outcome of BPR has been viewing business activities as more than a collection of individual or even functional tasks; it has engendered the process-oriented view of business" (Kale 2000, 132). To be clear, the company's business strategy indicates *what* it wants to do, BPR indicates *how* to do it and the ERP system answers the question *with what*. There are several modeling techniques used in BPR process: data flow oriented methods, object oriented methods and control flow oriented methods (Weske 2007, 347).

ERP systems provide best practices in doing business for industry domains, not for a specific company. Therefore, many companies consider customizing the ERP software to fit its business characteristics or even to its business processes. BPR and minimal customization is the third most commonly cited CSF. In order to obtain full benefits of ERP implementation, it is advised

to reengineer the existing business processes to best practices integrated on the system. Firstly, the ERP system itself can not improve the company's performance without reengineering the current business process. Another reason is that modification of the software will cause some problems including software license cost, code errors, maintenance and difficulty in upgrading to newer versions and releases. Once the ERP system is in use, BPR should be continued with new ideas and updates to get full benefits of the system. All in all, company should be willing to change its business processes to fit the software in order to minimize the degree of customization needed. (Bingi et al. 1999, Holland et al. 1999, Murray & Coffin 2001, Roberts & Barrar 1992, Shanks et al. 2000, according to Nah & Lau 2003, 11; Finney & Corbet 2007, 338; Françoise 2009, 384.)

#### **4.8. External competence and partnership**

Due to the complexity of implementing an ERP system, it is necessary for company cooperate with the ERP consultant except the ERP implementer and the ERP vendor. The ERP consultant or advisory firm should be involved as soon as company realizes its needs for ERP project. The role of ERP consultants is to consult company in defining new business process and choosing the suitable ERP package. Therefore, the consultant should have multiple skills covering functional, technical issues and in-depth knowledge of the software. Three external parties above should be professional, experienced to provide know-how knowledge and training for internal staffs. The most important thing is to ensure external parties to involve in different stages of the ERP project. Further, it is essential for company to manage its partnership well. Many researchers emphasize the importance of external competence and partnership (Guang-hui et al. 2006, 558; Trimmer et al. 2002, Bajwa et al. 2004, Kraemmergaard & Rose 2002, Al-Mudimigh et al. 2001, Bingi et al. 1999, Skok & Legge 2002, Kalling 2003, Willcocks & Stykes 2000, Motwani et al. 2002, according to Finney & Corbet 2007, 338; Françoise 2009, 387.).

#### **4.9. End-users: involvement, education and training**

It is definitely essential for the success of ERP adoption. End-users should be involved in early stage of design and implementation to improve user requirements and understand the new system as well as give feedback from their own point of views to enhance system quality. Since the end-users understand the ideas of new system sooner, they will have positive attitude; their resistance to the new system will be reduced; and training is more easily accepted. Moreover, end-users involvement is helpful in the ERP configuration analysis and in data conversion as well as in system testing (Esteves et al. 2004, 131; Yingjie 2005, 37; Finney & Corbet 2007, 342; Françoise 2009, 387.).

The aim of education and training for end-users is to help them they gradually get used to new working habits behind the new system. In other words, they should be educated new business processes and know how to use the system properly. Hence, there should have an appropriate plan for training facilities and budget to ensure effective and continuous training for existing end-users and newcomers. Internal IT department and external staffs should play the main role in education and training. Education and training should be a carried out seriously and end-users are supported during training program. Further, management needs to consider how to allocate end-users after the ERP implementation stage (Yingjie 2005, 34, Finney & Corbet 2007, 339).

According to Yingjie (2005, 35), some difficulties in users training are the diversity of the users (IT skills, age), the complexity of the new systems (interfaces, functions) and different available training methods (web-based virtual training, computer-based training, and video courses).

## 5. Case study

### 5.1. Background of the company

According to Euromonitor, a global market research company specializing in industries, countries and consumers, the case company is the leading manufacturer of dairy products in Vietnam. In 2010, its products had 39% of market share, ranging from core dairy products such as liquid and powdered milk, to value-added dairy products such as condensed milk, drinking and spoon yoghurt, ice cream, and cheese. Since commencing operation in 1976, the case company has grown strongly with compound annual growth rate of 7% and now it is producing 570,406 tons annually with more than 4000 employees.

### 5.2. Decision planning phase

In the late 1990s and early 2000s, the company experienced a high growth period (25% growth rate during 1998 - 2004.). The top management begun *to visioning and planning* recognizing that the old systems were not able to deal with the rapidly increasing production. Accordingly, on January 2004 the company also *used external competence* by requiring assistance of KPMG, a global network specializing in providing Audit, Tax and Advisory services, to consult the company in implementing the new ERP system. A feasibility analysis and initial *BPR* was made. The feasibility analysis investigated the requirements of the new system including technology, costs, personnel resource and anticipated some impacts in work processes throughout the company. The aim of BPR was to define new business processes that the company would comply with. An initial expectation of benefits was also made clear. The top management hoped to obtain benefits such as standardizing IT infrastructure, information integration, reducing manufacturing costs, real time management, increasing efficiency and effectiveness in operations, improving competitiveness.

### 5.3. Acquisition phase

Through investigating current *IT infrastructure*, the company found that the infrastructure could not meet the requirements of the new ERP system. On March 2004, a huge investment of 2.5 million US dollar was put on upgrading IT infrastructure. The company selected IBM to provide solutions for data centers, host computer system, storing system, recovering system and software of application management. In the middle of 2004, Vietnam was in the last negotiations to join WTO. The company's managers realized that it was appropriate time to initiate the project and in addition, the preparations were ready.

In first step, the company formed an acquisition team and named it "ERP2004". Ms. Ngo was put in charge of the project effort. Other members consisted of managers of different departments in the company: IT, finance, accounting, logistics, manufacturing, sales and research & development and the representatives of KPMG. The task was to investigate, evaluate and choose the ERP package that most suitable with company's IT infrastructure and needs. An ERP implementer was selected based on experience in implementing ERP systems, its partners, and its quantitative, qualitative resources.

A short list of ERP implementers were chosen, contacted, and asked to prepare a demo for the "ERP2004" team. In final results, the acquisition team chose to implement 4 application modules of Oracle E Business Suite 11i with the support of Z Ltd. – the ERP implementer (implementing tasks, consulting, training, etc), Oracle – the ERP vendor (technical issues.) On 15<sup>th</sup> of March 2005, an official contract for implementing the Oracle EBS system was signed by the company and Z Ltd.

### 5.4. Implementation phase

The project was officially initiated on 15<sup>th</sup> of March 2005. A clear *project plan* was developed based on clear project goals, scope, timeline, budget and personnel. It was planned to take 22 months to implement the system completely. Initial investment excluding IT infrastructure upgrade was nearly one million US dollar. All risk factors and contingency plan were also defined. The plan also stated incentive policies for the project team. There were four modules to be implemented: financial and accounting management, manufacturing management, supply chain management and BI. The scope was to implement the system in thirteen different locations: the headquarters of the company, inventories and its factories throughout the country.

On 1<sup>st</sup> of January 2007, the company claimed that the Oracle EBS system went 'live' and functioned smoothly. The project had 150 members and took 21.5 months, spending \$ 1.1 M for the four modules in 13 locations.

**5.5. Use and maintenance**

From the company’s documentation, the Oracle EBS system was fully functioned on 1<sup>st</sup> of January 2007. The system has been maintained regularly in three months. Due to careful *education and training*, the end-users did not find many troubles in adapting the new system. In case of troubleshooting and support, there were competent *ERP team members* who had already accumulated valuable experience and knowledge from *external competence and partnership*. Moreover, the *end-users* including former and novice were continuously participated in intensive training courses, which were committed and supported by *top managers*.

**5.6. Summary**

The CSFs were addressed quite widely in all phases (Table 2). Especially, *visioning and planning*, *top management support and commitment* combined with the use of *external competence* contributed to the success of ERP adoption. Next, *change management* was indispensable for adopting an ERP system. Table 2 also indicated that *IT infrastructure* was the least contribution to the success of ERP adoption of the case company.

Table 2: The Critical Success Factors addressed in ERP adoption

CSFs \ PHASES	Visioning and planning	Top management support and commitment	Change management	IT infrastructure	ERP teamwork and composition	BPR and minimal customization	External competence and partnership	End-users: involvement, education and training
Decision planning phase	x	x					x	
Acquisition phase	x	x		x	x	x	x	x
Implementation phase	x	x	x	x	x	x	x	x
Use and maintenance	x	x	x	x	x	x	x	x

After five months in using new systems, benefits were realized and the ERP adoption can be regarded very successful. Some main benefits below were summarized from interviews and the company’s documentation:

- Improving productivity of manufacturing, sales, finance, purchasing, accounting and ordering by 20%.
- Reducing work in process by 40%.



- Operational reports were processed much faster. After implementing the Oracle EBS system, monthly statement preparation was reduced from 30 days to 3 days.
- Real-time management and data accuracy were realized
- Improving gross margin by 10% of total sales
- IT staffs obtained a lot of knowledge and experience.
- In accounting, the system helped to minimize risks. With obvious decentralization, operations in accounting and finance were more smoothly than previous.
- IT infrastructure was synchronized, standardized and strengthened.

## 6. Conclusions

Through collecting and analyzing empirical data from the leading Vietnamese dairy manufacturer, this research confirms the contribution of the eight critical success factors for the case company. Those are visioning and planning, top management support and commitment, change management, IT infrastructure, ERP teamwork and composition, BPR and minimal customization, external competence and end-users: involvement, education and training. The company addressed all the eight CSFs in ERP adoption and the adoption showed to be successful. In addition, the study found that maintaining initial scope of the project was important to the success of the project. In particular, there was no change in the initial choice of thirteen locations to be implemented and the phased approach which was used to implement the Oracle EBS system, etc.

This single case study seems to be the most effective choice because the empirical data could be obtained more sufficiently, then the analysis would be done more deeply. The authors also had a chance to get a deeper understanding of the problem that he wanted to investigate. Moreover, the interviews included the representative of the ERP implementer who had been experienced in ERP adoption in Vietnam, so other case studies were also reflected. Hence, it was not necessary to use multiple cases.

Since the case is a large manufacturing organization in Vietnam, this study would be most beneficial to other large Vietnamese companies in manufacturing industry. However, the findings can also be helpful to SMEs since they have fewer obstacles in adopting ERP systems than large ones. Moreover, this research is helpful to other companies operating in other industries.

This study is limited to investigating the importance of the proposed CSFs to the ERP adoption success of the Vietnamese case. Therefore, the research findings do not reflect truly the state of ERP adoption in Vietnam. Hence, there are still a lot of areas for further research studies.

- First of all, large-scale quantitative surveys or multiple case studies can be conducted to confirm the results.
- Next, it would be helpful to find out the common challenges of Vietnamese companies before implementing ERP systems.
- Another interesting issue would be how identified CSFs impact on each other during the ERP adoption process.
- Besides, it is necessary to focus on how cultural issues impact on ERP adoption in Vietnam.
- Finally, further research can discover or examine CSFs in ERP adoption in Vietnamese SMEs. Likewise, it is possible to compare ERP adoption in large companies with that of in SMEs.

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## **Managing and measuring business networks in Russia**

### **Abstract**

**Finnish SME's working in the metal sector are working together with Finnish construction companies. In Russia both management and leadership models and company performance measurement indicators should be adjusted to Russian traditions and business culture. Networked companies seem to have extreme difficulties in applying matrix type organizations in Russia, as Russian management practices are based traditionally on strong and authoritarian leadership. However, clear and specific targets should be set for projects as well as strategic business areas. Targets and bonuses should be agreed with managers and staff throughout the company and the business network. In Russia, leadership and personal networks, within project stakeholders, have more emphasis than in Finland, because personal relations to authorities' and organizations are needed at every stage of the construction project. Therefore, managing SME's working in construction business is extremely challenging in Russia. A trial method for setting and implementing strategic targets for a business networked company will be presented. Understanding performance measurement indicators for each partner will enable successful business for all partners in the long term.**

**Keywords:** Managing, Measuring Performance, Business Networks, Russia

### **Special Character of Russian Business Environment**

The results presented in this paper have been produced by three successive research projects, KV-Profilili and STROI-Network and ROCKET during the years 2006-2012. The projects have been accomplished predominantly by HAMK, having also VTT and TUT as domestic partners in the projects. Many of the results of this paper have been produced together with the Russian experts from The Higher School of Economics in Moscow and the Graduate School of Management in St. Petersburg.

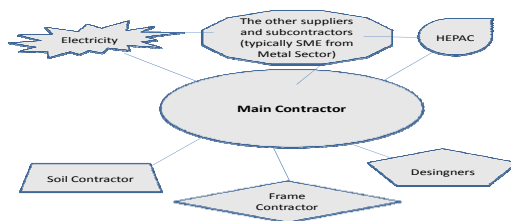
Networked companies seem to have extreme difficulties in applying matrix type organizations in Russia, as Russian management practices are based traditionally on strong and authoritarian leadership.

According to the interviews, clear and specific targets should be set to any intended activity like projects, as well as strategic business areas. The targets and bonuses should be agreed with managers and staff throughout the company. The results suggest that the targets need to be set to the business network as well (Figure 1). In Russia, both leadership and personal networks within project stakeholders have more emphasis than in Finland.

Especially in versatile activities like a construction project, personal relations to authorities' organizations are needed at every stage.

All the facts above mean that in Russian projects, business management and leadership models should be adjusted to the Russian tradition and business culture. This yields to company performance measurement indicators as well.

### Typical Network in Construction



26.8.2011

Combi\_ROCKET\_Sepo Niittymäki &amp; Lauri Tenhunen

Figure 1. Typical Network in Construction Business (Niittymäki 2010)

Traditionally strategic planning and strategy implementation may be carried out with numerical models (described below), by setting measurable targets for each dimension. Many issues will affect target setting: results from the previous years, the country in question, and the political, economic, sociological, technological and environmental situation (PESTE) and the development of these factors in the future.

The Russian situation is more complicated: The political, economic, sociological, technological and environmental situation is different compared to western models and partly unpredictable as well. Also, the business culture is totally different: the power (and the responsibility) is strongly concentrated to the main director of a company even according to Russian law. The tradition in Russia supports strong and authoritarian leadership. In Russia former acquaintances are highly appreciated as a part of business culture as well as in common life (Salmi 2006). According to the author's experience and results of interviews among SMEs and Multinational Companies (MNC), Finnish and Russian Management and Leadership styles differ quite much: Finnish

managers emphasize task orientation and Russians concentrate on people and relations within networks (Figure 2).

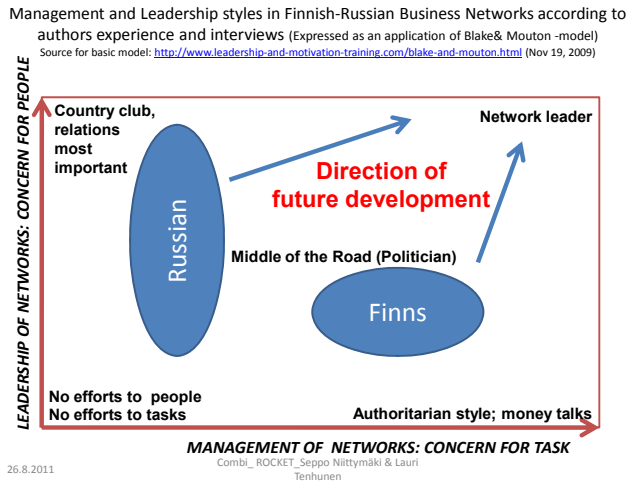


Figure 2. Development needs of management and leadership in Finnish Russian business networks (Based on the authors` experience and discussions during interviews as well as the Blake & Mouton model for task and people orientation).

### From Balanced Score Card to Network Score Card

The importance of the network culture and resources in the planning strategy were also indicated in the interviews (Figure 3).

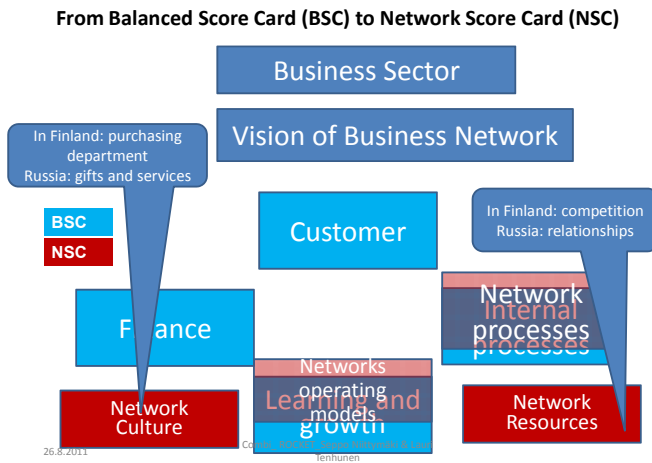


Figure 3. From company Balanced Score Card (BSC) to Network Score Card (NSC).

## A Model for Strategic Planning and Strategy Implementation

The planning strategy in project based businesses depends on various perspectives considered and the expectations about their future development. Perspectives (P1-P6) and factors of business environment are described below (Figure 4). PESTE is an acronym of the words Political, Economical, Sociological, Technological and Environmental factors.

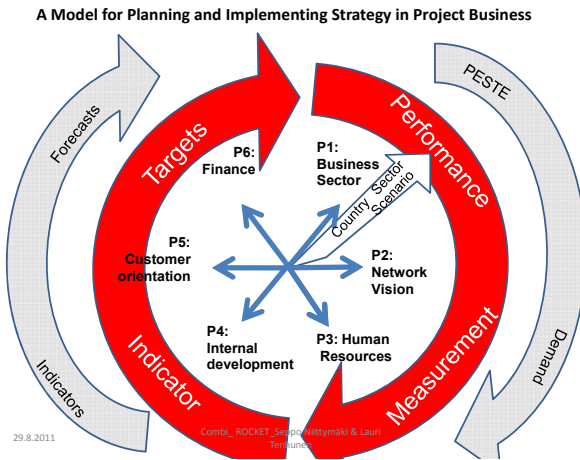


Figure 4. A model for planning and Implementing Strategy in business networked companies. In the SME metal sector, project business is the prevailing way of business.

The most important perspectives are

- The business sector and country,
- A successful vision for a company and business network,
- The ways of managing human resources within companies and the business network,
- Internal development and learning within the network,
- Keeping up customer orientation and also
- Setting measurable financial and other targets within companies and the business network.

The implementation of the strategy will be possible, if the targets are set and agreed upon in an understandable way (for everybody in the network) and people understand their objectives and responsibilities within the project business in question. Performance measurement indicators for each perspective should point towards network common targets of the network in order to implement the necessary change on the ways of action as soon as possible (Figure 4).



## Performance Measurement in Business Networks in Russia and Finland

Multinational companies (MNC) in construction have developed their strategy implementation and performance measurement successfully, as many of these have rewarded their owners with excellent dividends and many of these companies belong to preferred employers among young graduates. Actually, these companies are working like huge networks, as from 50–70% of their turnover consists of purchases from other companies or SMEs. The model described below has been derived from practices of several MNCs also working in Russia (Figure 5). The model is a base to develop performance measurement indicators (PMI) and strategy implementation tools for metal sector SME companies working in construction business. SMEs as suppliers and subcontractors view are taken into account in dimensions 6, 7, 8 and 9.

### Common Dimensions of Performance Measurement

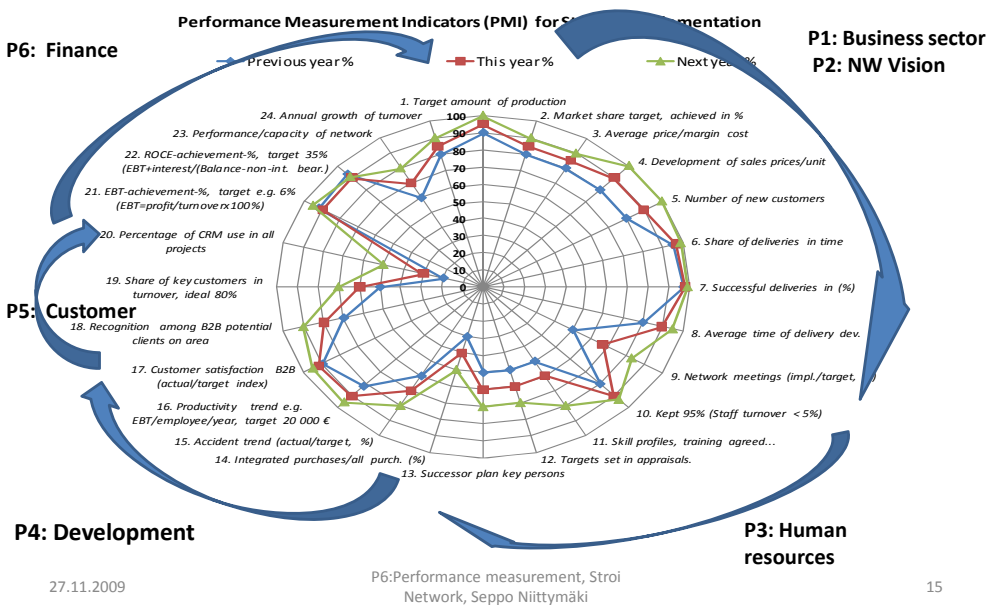


Figure 5. Performance Measurement Indicators (PMI) of a Business Networked Company or SMEs for Strategy Implementation. The description comes from combining dimensions used in Finnish companies (Niittymäki et al 2009). The Model is available on the web-site <http://www.hamk.fi/stroi>.

Even MNC directors feel that these models have too many dimensions to follow up and therefore they have asked to find out the most relevant dimensions to set targets and to follow them up. A survey (8 management level answers) and a series of interviews (9 management level answers) were carried out to find out the most important dimensions to follow up (Figure 6).

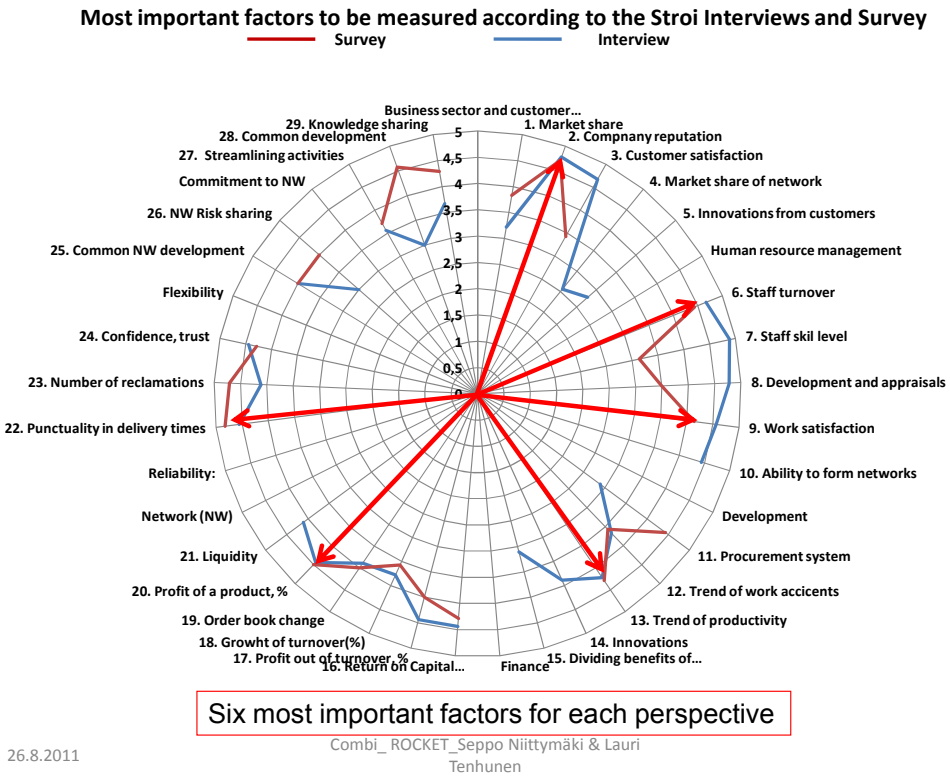


Figure 6. The six most important factors (PMI, Performance Measuring Indicators) within SME business networks. In this figure the importance of measuring innovations is underestimated, as a tradition to measure innovation does not exist. At least one performance measurement indicator (PMI) should be selected for the following perspectives: 1) Business sector and 2) Customer, 3) Human Resources, 4) Development and productivity, 5) Finance and as well 6) Network confidence and Flexibility.

In addition to the mentioned six indicators, we also found 9 indicators, which are almost as important as the mentioned six above (Figure 7). The importance of work safety has increased significance on SME metal sector companies.

**Most important factors to be measured according to the Stroi Interviews and Survey**

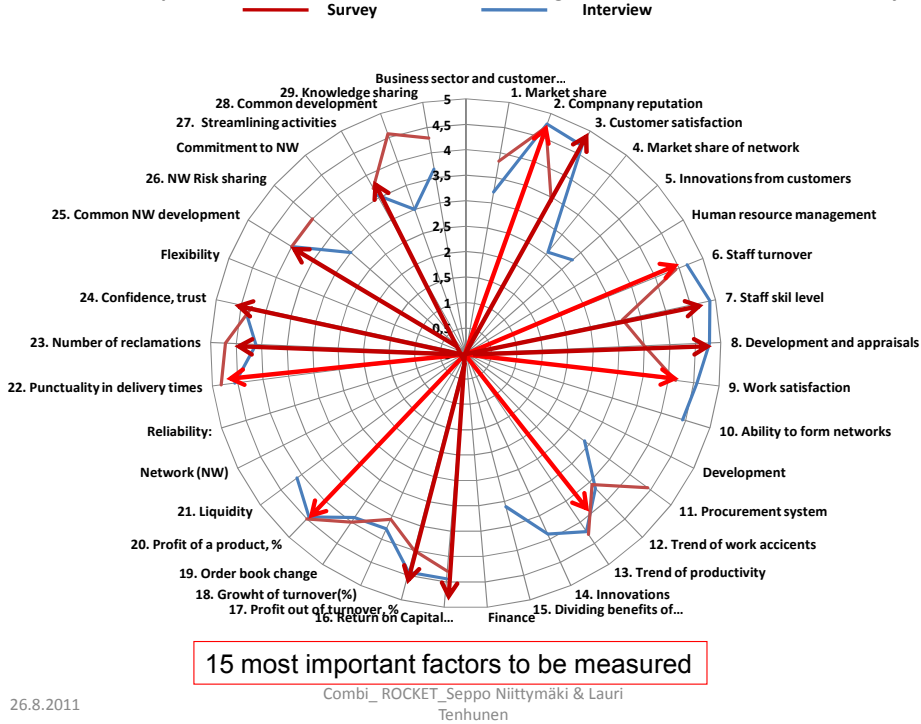


Figure 7. The most important factors to be measured within business networks. Items 25. Common development and 27. streamlining activities are combined later on.

The list of the most important perspectives (P1-P6) and factors to be measured and followed in business networks are presented in Table 1.

**Table 1. The Most Important 15 Factors to be Measured in Different Perspectives (P1-P6) . Emphasis of answers are based on SME metal sector.**

<p><b>P1: Business Sector,</b></p> <ul style="list-style-type: none"> <li>• 1 company reputation</li> </ul> <p><b>P2: Network Aspects</b></p> <ul style="list-style-type: none"> <li>• 2 punctuality of delivery times</li> <li>• 3 number of reclamations</li> <li>• 4 confidence within network</li> <li>• 5 common development and streamlining activities</li> </ul> <p><b>P3: Human Resources</b></p> <ul style="list-style-type: none"> <li>• 6 staff turnover</li> <li>• 7 work satisfaction</li> </ul>	<p><b>P4: Internal Development</b></p> <ul style="list-style-type: none"> <li>• 9 trend of productivity</li> <li>• 10 work safety</li> </ul> <p><b>P5 Customer Orientation</b></p> <ul style="list-style-type: none"> <li>• 11 growth of turnover and</li> <li>• 12 order book change</li> <li>• 13 profit of a product</li> </ul> <p><b>P6: Finance</b></p> <ul style="list-style-type: none"> <li>• 14 return on capital employed</li> <li>• 15 profit</li> </ul>
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## Application in Finland and Russia

The application of performance measurement indicators in Finland and Russia should be different. In Russia the position of the main director is different compared to Finland. For the main Russian director there should be adequate resources in order to carry out all duties for Russian authorities and Finnish headquarters. An implementation of applied management systems will therefore imply remarkable training efforts for Finnish and Russian staff members.

Measuring only key financial indicators is no longer adequate, but also measuring indicators for other perspectives should be created.

Improving staff innovation abilities and initiatives will be challenging in Russia, as this has not been appreciated within local companies earlier. The starting point for adopting the learning organization concept could be development discussions (appraisals). During appraisals, development and learning targets as well as possible bonuses can then be agreed upon.

## Conclusions and Future Objectives

Finnish companies and business networks seem to rely on matrix type organizations. The learning organization is quite well known in Finnish organizations at management level. Finnish companies and business networks have some difficulties in planning and implementing their strategies in Russia, not only due to the present financial crisis. In Russia, management tradition and practice are different compared to Finland: authoritarian management and leadership style is prevailing; staff development discussions (appraisals) are not well understood and applied.

Clear and specific targets should be set for projects as well as to the strategic business areas. The targets and bonuses should be agreed with managers and staff throughout the company, and the business network. In Russia, both leadership and personal networks within project stakeholders have more emphasis than in Finland, because personal relations to authorities' organizations, for example, are needed at every stage of the construction project. The most important perspectives (P1-P6) and factors to be measured within business networks, which should have target values for the next two years, are the following:

P1: Business Sector:

- 1 company reputation

P2: Network Aspects:

- 2 punctuality of delivery times
- 3 number of reclamations
- 4 confidence within network
- 5 common development and streamlining activities

- P3: Human Resources:
  - 6 staff turnover
  - 7 work satisfaction
  
- P4: Internal Development:
  - 9 trend of productivity
  - 10 work safety
  
- P5 Customer Orientation:
  - 11 growth of turnover and
  - 12 order book change
  - 13 profit of a product
  
- P6: Finance:
  - 14 return on capital employed
  - 15 profit

However, the method of application in Finland and Russia should be different. In Russia the position of the general director is strong compared to Finland where visions and such soft methods are used more frequently. For the main Russian director there should be adequate resources in order to carry out all duties for Russian authorities and Finnish headquarters. An implementation of applied management systems will entail remarkable training efforts for Finnish and Russian staff members.

Improving staff innovation abilities and initiatives will be challenging in Russia, as this has not been appreciated within the local companies earlier. The starting point for adopting a learning organization concept could be usable in development discussions (i.e. appraisals). During appraisals development and learning targets as well as possible bonuses should be agreed upon.

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## **Experiences of integrating R& D&I in professional Master Degree Programme: The case of competence-development based learning**

### **Abstract**

**Our experiences and feedback data gathered throughout the Masters studies at Kemi-Tornio University of Applied Sciences proved the effectiveness of competence development based learning approach in the successful integration of research and development and innovation activities and the production of competence-ready graduates. Therefore, the structure of the Master Degree Programme has shown to meet the needs of genuine work life orientations and also support the employees' professional competence development. As work-life orientation has been problematic at the Master level at the Finnish University of Applied Sciences and due to the absence of a well-defined delivery processes, this paper aims at shedding light on the problematic issues by presenting the core experiences of integrating research, development and innovation activities into the professional Master Degree Programmes at University of Applied Sciences.**

**Keywords:** Competence development based learning, professional master's degree programme, work-life orientation, competence-ready graduates.

### **Introduction**

The priorities of the Finnish professional Master Degree Programmes offered by the Finnish Universities of Applied Sciences highlight, as strictly defined, a strong orientation to working life and integration of theory to practice. The integration of theory and practical issues lead to learning in which development tasks are performed in the students' work places in such a way that research, development and innovation activities are integrated into an individual student's learning processes. Thus, orientation to innovations provides unique grounds for knowledge development and acts as an innovation driver in the organisations of the students. This kind of an implementation structure has far-reaching impacts not only for the success of the organisations but also on the competitiveness of the entire region. It is true that professional Master Programmes have existed with a well-defined orientation for

years; however, what should have been redefined, is how these orientations or educational models could be delivered at the Master level (i.e. level seven of EQF). The absence of the definition means that delivery references are drawn from the experiences of Bachelor level competencies (EQF level six). The problem with this is that work life orientations delivered at the Bachelor level are different from those of Master level and thus too limited to the professional Master level.

## 2. R&D&I in Learning Processes

Globalisation and societal changes have forced training institutions to review their working methods and practices. Networking, collaboration and multi-disciplinary approaches have become important success factors for innovations and competitive entrepreneurial activities. All the tertiary institutions have wide responsibilities for the region; research, development and innovative activities have to promote the wellbeing of the region. Accountability for the region brings more stakeholders into the operations and the management has to find channels for the dialogue between all the parties. For the Universities of Applied Sciences (UAS) the enterprise sector is an important partner whose voice has to be heard in the decision making; especially when determining what kind of competences are required in today's working life. The changes are rapid and lead to a situation in which once-acquired university degrees are no longer competent for innovative work culture, therefore even the enterprise staff has to look for training options in order to be able to update their competences.

Attending traditionally organised on-campus courses is difficult for the working learners, and the need for more flexible training options has become obvious and increased the demand for distant studies. Information networks have made learning possible regardless of the location and life situation of the learners and the off-campus studies organised online have become popular especially among working adult learners. This kind of technology-enhanced education does not only make education available for all the learners, it also offers possibilities for team work and virtual collaboration – the services utilised by the society and our organisations on a daily basis. Embedding technological tools in the core study and working processes provides students with important digital literacy skills and prepares students for the networked society. Because of the ubiquitous use of technology in our society, it is often assumed that all the students are digitally literate, however, it is becoming clear that this is not the case in real life. Both students and teachers have varying ICT skills (Voog & Dede, & Erstad 2011) and the differences should be addressed if we want to succeed with the programmes. With the distant online study options becoming more common, we should keep in mind that even the current Internet era is at a point of substantial change. Siemens (2006) postulates that the long-established fault lines of philosophical debate are being reshaped as our means of interpreting life and learning. Technology, especially Web 2.0, has had a huge impact on our communication patterns and corporate dialogue and it has also made collaboration possible both in our private and working lives. When designing the training programmes to meet



the challenges of the 21<sup>st</sup> century, professional core competence areas and the technological tools have to be given priority. Research, development and innovation activities have to be targeted at specific organisational needs; all-for-one studies no longer produce the required learning goals.

## 2.1 Work-Related Authentic Context – Pedagogical Implications

All the above-mentioned societal issues have had an impact on the competence requirements of the employees and have acted as catapults for transformational needs in education. Several developers criticise the power of traditional learning theories and claim that they are not able to deliver what we require of tomorrow's learning. Siemens (2004) wrote in an article in 2004: "The pipe is more important than the content within the pipe. Our ability to learn what we need for tomorrow is more important than what we know today". After the comment, supported by the employers, efforts have been made to transform education to better meet the demands of the changing world. The pedagogical approaches currently emphasise the active, critical role of the learner and stress active participation in work-related issues. Socio-constructivist theories are commonly applied by the universities and in working life contexts *problem-based learning* (PBL) has gained strong foothold. Authentic learning and connectivism (Siemens 2006) have recently been perceived as producers of the 21<sup>st</sup> century learning goals, especially in work-related and technological skills. Connectivism emphasises learning as a network phenomenon, influenced by socialisation and technology; authentic learning stresses the importance of an authentic learning setting – both elements are equally important for professional competences. In today's environment, several educational structures exist with the primary intent of preparing individuals for the organisations' workforce. Especially the adult learners may engage in formal learning activities in order to increase their career prospects, but for many the bulk of learning occurs as a desire to make sense, to understand, to develop personally or become contributors to making a better world (Siemens 2006). In other words, the reasons for attending education are various and the training institutions should be more aware of the reasons since they influence student motivation. The absence of a clear pedagogy or vision of the learning goals or methods further complicates the potential for meeting these educational goals.

## 2.2 Authentic Learning

Authentic learning appears to be a popular educational trend especially in work-related study contexts. During recent years in work-related education, authentic learning seems to have gained interest among educators because it stresses the elements that are considered crucial for education in working life, i.e. authenticity of the learning setting. Authentic learning also allows the application of several pedagogical models, the feature which is appreciated by teaching staff since the learning process often requires various pedagogical approaches. Team-teaching is becoming more common and the teaching staff should share the goals and in order for it to be possible, the staff should

have insight into the major pedagogical approaches. In work-related contexts pedagogical foundations are often neglected because the idea of “learning-by-doing” being sufficient for learning lives hard. Regardless of how widely a certain area has been looked into, the teaching staff should agree on the used concepts and principles. The actual meaning of the word “authentic” implies different meanings for different users; authentic may refer to the context where the learner learns, or it may be used to refer to the simulations that help the actual learning process. Often authentic contexts are used in connection with informal learning settings, which in turn are seen to be closely related to work-related issues. Both informal learning and work-related learning stress the importance of educational systems that are adaptable to the needs of the complicated and networked society (EduSumMIT 2011).

With the Competence Based Learning model applied at Kemi-Tornio UAS in the Master Degree Programmes, authenticity is understood to refer to any learning processes that have integration to the development of students’ work places. Work-related learning focuses on student-centered methods where students are actively engaged and responsible for reaching their learning goals.

However, authentic learning is a complex issue since integration may contain several sub- elements, as can be seen in the criteria developed by Herrington and Oliver (2000). Herrington and Oliver propose that learning is best facilitated in learning environments that:

1. Provide an authentic context that reflects the way knowledge will be used in real-life
2. Provide authentic activities and tasks
3. Provide access to expert performances and the modeling of processes
4. Provide multiple roles and perspectives
5. Support the collaborative construction of knowledge
6. Promote reflections
7. Promote articulations
8. Provide coaching and scaffolding
9. Provide for authentic assessment of learning within the tasks

Feedback and experiences of the online Master Programme proved that the new setting and way of working was a demanding process and required plenty of efforts not only from the students but even from the staff. Study results from other training organisations and universities proved similar results. The Virtual Benchmarking Project conducted at the Finnish Virtual University of Applied Sciences in 2008 used the elements of authentic learning to evaluate authenticity. The study results were interesting and quite obvious. Strongly accomplished authentic elements were authentic context and tasks, while collaborative construction of knowledge, reflection, articulation and authentic assessment were implemented more weakly. Some development challeng-

es identified were related to working life contacts and peer guidance, and the need for cross-collaboration of learners at various levels of expertise. (Lepisaari, Vainio & Herrington 2009). The results prove how easy it is to make changes in the educational structures by including the main authentic elements in the programme, i.e. the organisational context, but ignore the deeper level transformations in the study and working practices. When the other elements are forgotten, real competence-based- development is difficult to achieve.

### **2.3 Competence Based Learning Model as a Starting Point**

As stated earlier, the need for transformations in the Master Degree Programme contents and structures was urgent. The main stakeholders of the programme also supported this need. In the academic world new pedagogical approaches raise questions about the actual usability of the approaches and the teaching staff rarely welcome the new suggested modes of learning. Few approaches have shown real transformative power and teachers have become tired of testing new systems with no real value to the process. Collaboration with the enterprise sector seems to be widespread and teachers often are satisfied with the recent efforts, but often the quality of the integration measures taken is missing. Therefore, if the goals of competence-based learning are to be reached, methods and assessment systems need to be revised.

There have been strong efforts to increase global awareness of the competence areas of the 21<sup>st</sup> century learning. An analysis of different frameworks for 21<sup>st</sup> century learning show consensus of the learning goals: collaboration, communication, digital literacy, citizenship, problem solving skills, critical thinking, creativity and productivity are features that education should help learners to achieve. (Voog & Dede, & Erstad, 2011) How these skills are acquired is not clear, but it is acknowledged that many of the skills are not learnt at school but rather outside formal educational settings. The society should therefore begin recognising informal learning alongside formal learning. For the working students learning at work is an essential part of the learning process. The student, however, cannot include the elements related to the professional competence development to formal studies; that is an area the teaching staff have to address. Previous studies show that deep integration of work-related issues is not easy to accomplish for a variety of reasons (Jäminki 2008). In online programmes the assessment systems have been reviewed because of the students' distant location from the campus area. Participation in supervised exams was not possible and digitally-embedded assessment structures replaced standardised exams. The new systems stress student-involvement, collaboration with the co-learners and enterprises and coaching students towards self-assessment.

Current studies on the development of competences as part of students' professional growth at level six (=Bachelor level of EQF) indicate that underlying principles of competence development are by no means understood by all the students. The main outcome of the analysis shows that although all business students were able to achieve a basic level of generic competences during

their first year of study, they did not connect competences with the curriculum and did not see the relationship between competences and their professional growth. More time should be devoted at the beginning of the studies to explaining to the students the meaning and importance of competences and its connection to their professional growth; and other methods of facilitating students' development process besides tutoring are needed (Nevmerzhitskaya 2007). Widespread studies on competence-development at the level seven of EQF have not been carried out, but the results are expected to be the same as for level six.

The priorities of the Master Degree Programmes of the Kemi-Tornio UAS stress the orientation to working life by integrating theoretical studies to practice and efforts are made to maximise the potential of joint-learning and development between the students, university and students' work organisations. The university revised its competence-based curriculum in 2010 and included the core competencies following the European Competence Framework in the curriculum. The Master Programme is designed to strengthen the participants' personal and organisational development; therefore the focus is placed on subject specific competences and generic competences. Development tasks are grounded on the students' professional carrier development paths. Orientation to Research & Development & Innovation provides unique grounds for knowledge development, thus acting as change and competitive drivers in the students' enterprises. In addition, the grounds have far reaching impacts on the competitiveness of the region as a whole.

The Competence-Based Learning model requires deep transformations in the programme; changes on the contents, structure and implementation of the programme are needed. When learning and competence development is transferred to the students' workplaces, learning tasks become complex, sustained activities that draw on realistic situations to produce high-order competence development. In order to reach the goals, the main principles of authentic learning have to be applied throughout the programme.

### **3. Why the Need for Competence Development Based Education**

Rapid and permanent changes in the society call for the delivery of more competence ready employees in all walks of life, as stated before in this paper. An appropriate answer to this challenge requires more genuine closeness to working life.

Competent and motivated employees are key resources – intellectual capital – for enterprises. To sustain intellectual capital it is necessary to continuously develop generic knowledge alongside with the development of professional skills. The real difference is created when an appropriate set of professional attitudes can be developed simultaneously. Integrated curricula which can be delivered by the Universities of Applied Sciences project a deeper cooperation in employee competence development. Therefore, additional benefits for companies come from accelerated knowledge transfer from the universi-

ty to enterprises and vice-versa; the process can be made even more effective. In that way an effective contribution can be delivered to the development of the company. In the aggregate form these benefits contribute to the regional competitiveness at large.

In summary: competence based learning is learning that is based on developing competences. The development is directly related to competences required for effective performance in business life (competence ready). Students are motivated to achieve specific objectives and the drive towards self actualisation leads in turn to more motivated and committed employees. The enterprises will benefit from their intellectual capital resources which in turn will create wealth and prosperity to the region, i.e. in terms of higher R(-egional) G(-ross)P(-roduct), higher employment and regional attractiveness in terms of people influx.

### 3.1 Benefits of Competence Development Based Education

#### 3.1.1 Benefits of Competence Development Based Education for the Students

- Development of a more holistic picture of company's/organisational operations.
- Possibility to showcase competence to employer
- Enhancement of student's beliefs in her/himself and the readiness to face bigger challenges in professional life
- Developing a broader picture or perspective
- Developing the ability to foresight company's development needs

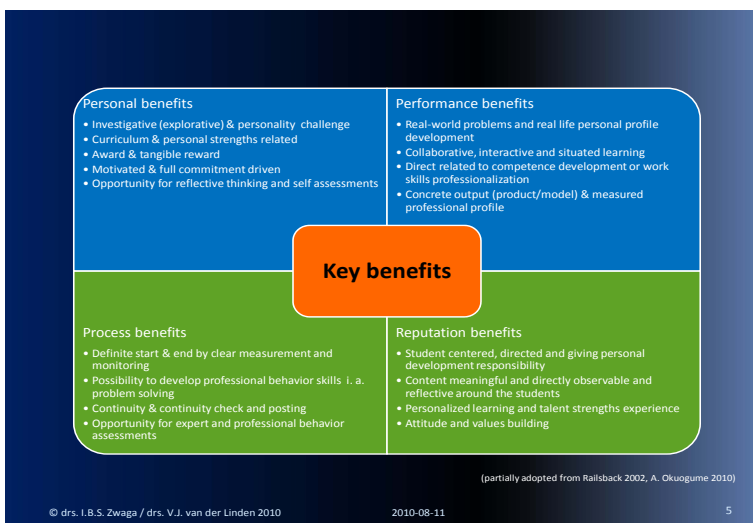


Fig. 1: Key benefits

Companies/Organisations	School
Insight in the ideas of the employee and her/his thinking about the company	Production of competence ready graduates allows UAS to fulfill a more genuine closeness to work life
Possibility to showcase competence	
Understanding of their needs	Improved motivation commits students to their studies
Understanding of their grievances	Development of generic knowledge is made alongside the development professional skills
Employees' motivation boost	
Enhancement of employees' beliefs in themselves	Possibility for UAS to get more involved in employee competence development
Growth of the readiness to face bigger challenges	Knowledge transfer from university to enterprises and vice-versa can be made more effectively and thereby contribute effectively to the development of the company and the regional competitiveness as a whole
Employees develop a broader picture or perspective on the company's operation	
Sources of new and current information	Students are motivated to achieve specific objective and self actualisation leading to more motivated and committed employee
Revitalisation of human –intellectual capital – resources	
Employee competence development	Satisfied customers
Students' investment in the development processes	Better study experience
Meeting of quality objectives	Student retention is higher
Dual track and triple heritage	Number of graduating students is higher
Possibility to externalise some aspects of employee development costs	Relationships with companies are stronger
Foresighting company's development needs	Better insight on company's activities and needs
	Network
	Reputation

Table 1. Benefits of Competence Development Education to Companies/Organisations and to the school

### 3.2 Competence Development Based Education

- Education that serves the student and the student's employer
- Dual track approach
- Human development on one side, company development on the other track
- Competence development based education

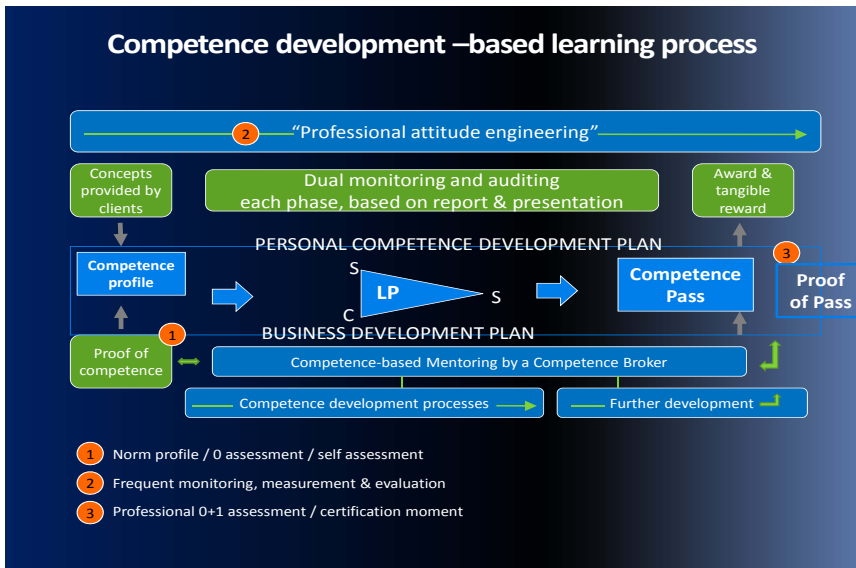


Fig. 2: Competence development learning process

### 3.3 Implementation of the Competence Development Based Education Process

The learning process of competence development based education is described on page 13. The process will be described in detail to give the reader a better insight to how it was implemented in KTUAS’s own Master Degree Programme.

#### 3.3.1 Assessment

Assessment is a key factor in competence development based education. In fact, the process begins and ends with assessment. Further, as the process is student driven, all assessments are also student driven. In the competence development based learning approach, assessment is therefore a professional check-up and the starting point for further progress. In addition, a condition for any possible change is that a student becomes aware of his or her own potentials and gaps in the student’s professional development and that of the company. According to Bancheva, (2005) <sup>3</sup>, “assessment activity must be considered useful not only as vocational guidance, but also in view of further life-long training activities”. In this case, the student’s life-long professional and career developments. When students have drawn up a “map” of themselves, i.e. a definition of themselves based on specific personal characteristics, Ac-

<sup>3</sup>Bancheva, (2005) Read 20.6.2011 [www.cedefop.europa.eu/etv/upload/project\\_networks/paper-Base/RT\\_Bancheva\\_BG\\_HR\\_rep.doc](http://www.cedefop.europa.eu/etv/upload/project_networks/paper-Base/RT_Bancheva_BG_HR_rep.doc)

quired Pre-Learning (APL), competency potentials and gaps, professional and career development (sector of interests, etc.). The assessment is defined along the following variables by Bancheva (2005)<sup>4</sup> :

- What you are (self-assessment).
- What you can do (personal and professional attitudes)
- What you may be able to do (potential)
- What you wish to do (aims).

The next step involves drawing up a map of the student's employer company. This includes in-depth understanding of the general characteristics of the company including its competitive position, competences and gaps and development needs (sector of interests) and most especially, the student's position in that map. With this information, a personal development plan can be designed for the student.

### **1. Proof of Competence (What you are; self-assessment)**

Competence development based learning begins with a "proof of competence" assessment. The assessment takes place immediately when the students commence their studies and may continue throughout the whole autumn semester. The assessment progresses on a case-by-case basis. The assessment is made at four levels against a set of identified generic competences, what we call competence passport. This is made through self-assessment in digital format. Later, a peer-to-peer assessment is made following the same competence passport. A reflective session is organised to evaluate the outcomes with the student. The second assessment is about 'Acquired Pre-Learning (APL)'. This is an important assessment as many of the students come from different academic and professional backgrounds. Several may not have any business studies or hold business related positions. On the other hand, some have a business degree, plenty of further education studies, several years of corporate management experience, in some cases, in an international setting. The assessment is carried out with the help of the documentation provided by the students and further discussions with the academic staff. This information allows us to understand the student's departure level. Moreover, students are not exempted from any courses, which means that we are still far away from fully utilising APL to make the study more interesting for the students.

### **2. Assessment to Know the Student and for the Student to Know Him/ Herself (Self Awareness)**

#### **Self Awareness: Knowing Oneself**

Proof of competence at this level measures the students' conative competences:

*"Ability of self-observation, i.e. monitoring our own activity self-assessment, i.e. comparing the results of our own activities with the standard norm, or with the results achieved by other individuals in the environment positive*

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<sup>4</sup> Read 20.6.2011 [www.cedefop.europa.eu/etv/upload/project\\_networks/paperBase/RT\\_Bancheva\\_BG\\_HR\\_rep.doc](http://www.cedefop.europa.eu/etv/upload/project_networks/paperBase/RT_Bancheva_BG_HR_rep.doc)



*self-reaction, i.e. reacting to the results of our activities and, if the results happen to be negative, to still kept stimulus for continuing activities to attain the goal.” (Biloslavo & Cagri, 2010)*

The assessment of conotary competences aims at facilitating the student’s self-discovery and the possibility for the teacher to better get to know the students and their starting point. Positive perception of the self is very important for achieving self-observation, self-assessment or achieving a positive self-reaction. This competence is highly important because of the student directed nature of this form of education and because motivation is required to achieve specific objectives. Further, it is based on applied real-life development projects that are challenging. In addition, discussions, debates and guided question sessions are used in the learning process and connotative competences are important for learning in the study programme.

The next level is about assessing the student’s affective competences, which provides proof of competence.

Affective competencies as noted by Biloslavo & Cagri (2010) are:

- Recognising one’s own feelings and those of others, expressing one’s own feelings and distinguishing between the emotions expressed by others.
- The use of feelings for alleviation and for the priority ordering of various ways of thinking.
- Characterising and distinguishing emotions, understanding the inter-linkage between various feelings, and devising the rules relating to them.
- Controlling and directing emotions within the context of personal objectives, self-knowledge and social awareness.

Affective competences are important in professional masters education because of the followings; case study learning methods involves “cultural value systems and expectations” (Biloslavo & Cagri, 2010), problem-based learning and applied real-life-development projects are quite challenging. Therefore, what it requires is “not only the willpower necessary for fulfilling set objectives, but also the perseverance required for achieving the ultimate goal” (Corno, 1993)<sup>5</sup>. Also, the form of learning includes discussions, debates, “guided questionings” and a multicultural environment that tests students’ value systems and emotions. It is important for the teachers and the student to recognise the gaps in these competences, so that the gaps can be closed or the students guided through problems.

Kemi-Tornio UAS has not designed or used any standard tool for measuring connotative and affective competences: reflective discussions take place with the students on several occasions. What is important is the teachers’ aware-

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<sup>5</sup> cited in Biloslavo & Cagri, 2010.

ness of these competences and how to evaluate them. In most cases we have relied on the student's self-assessment and the teachers own observations.

### 3.3.2 Defining and Establishing Competence and Professional Development Objective/s

The definition and establishment of Competence and Professional Development Objective/s is the most challenging and difficult task: knowing what the students want in terms of their reasons for joining the Master Programme. It is difficult because the reasons are many and sometimes not even clear to the students. Another, even more important, goal is to be able to set the right learning goals in regards of the future competitiveness of the student's work organisation. It is challenging because the educators' task is to help the students discover and establish their long-term development objectives and fulfill the requirements of our curriculum.

However, defining and establishing the long-term development goals of the student is a process that may last until the thesis work stages. Each student case is approached on a case-by-case basis. In any case, what is true is that each student entering the programme does so because of a need for change in either:

- Professional / competence
- Personal / job mobility
- Academic degree
- Knowing the student's organization: Identifying the development needs

After the proof of competence assessments, a dialogue is established with the students with the aim of discussing assessment outcomes and learning about the students' needs and, most especially, their competence and personal development goals. Several discussions take place and the students are asked questions about their career goals within the current company, satisfaction with their current job or workplace. Establishing competence and professional development targets is a discovery journey for the students and similarly for the school. Some students come with a well-defined goal; some do have goals but they need refining, while, on the other hand, some students may not have any defined goals. So the assessment may be a long-term process. However, an ideal situation is that the goals are defined as soon as possible so that a personal development or study plan can be designed for the student and learning contract established in an early stage.

Kemi-Tornio UAS uses a simple approach to determine competence development targets. Competence development goals are matched against the student's long-term professional development goals. This is because the competences to be developed are key to achieving the student's long-term professional or career plans. Once this is established, a personal study plan can be made for the students. Designing the study plan also requires a visit and a dialogue with the student's employer. The purpose of the visit is not to discuss the student's career development in the work place but to discuss devel-

opment tasks that can support the student’s competence development goals. In the next section this process is described in more detail.

### 3.3.3. Defining and Selecting the Development Task

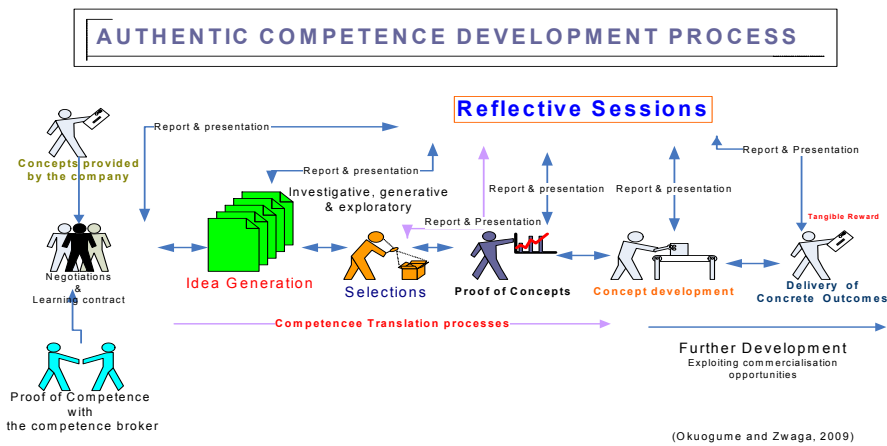


Fig. 3: Process for working with authentic development Tasks Establishing the authentic development task: Defining development need in company

A development need has been recognised and an agreement has been reached prior to commencing studies:

- In the next stage the need/s are to be crystallised and the business justifications established
- Development goal established
- Development and personal study plan established
- Learning contract agreed upon

Student does not know his/her goals but has an assumption:

- The stage to define the development task is set
- Company analysis is the focus of theme one and also in theme two if needed
- Identifying development needs in company
- Development task is established after intense marketing and selling of the idea to the student’s employer. This also involves negotiations for company’s commitment.

Most importantly, the development tasks include a consensus between the company, the student’s long-term development goals and the curriculum of the programme. The role of the competence broker is critical. S/he makes sure that the development tasks support the student’s long-term professional

development goals, that the tasks have sufficient business relevance and also, that the development tasks fulfill the objective of the curriculum. In addition, the competence broker helps the commitment of the brokerage company, explained in the following chapter, and also directs the design process of the student's personal study plan.

What is an authentic learning task? It is real:

- to the students functional context
- in terms of the students competence development needs
- in terms of company development needs
- in terms of fulfilling the requirements of our curriculum.

The idea for development tasks can be suggested by the student's employer or by any other company. However, over 90 percent of all development tasks come from the student's employer and in most cases are made by the students themselves. In figure 3, authentic competence development is the process of defining, selecting and developing or working with the development task.

### **3.4 Process II: Mentoring. Competence Brokerage (In-school or out-of-school mentors)**

What is brokering? A broker is a party that mediates between two parties. In a partnership situation, a broker may be hired by either of the two partners in order to link each development or partnership agendas in order to create successful relationship.

Competence brokerage mentor is actively involved in all of the below mentioned phases and processes:

- In the proof of competence phase
- In the self-awareness stage
- In talking to the company about the students' need for professional and personal professional development through dual track (marketing competence phase)
- In identifying the company's development needs (defining need and target setting)
- In company's competence development awareness stage
- In the process of introducing and selling the dual track for employee competence development to the employer
- At the stage of developing knowledge of employer's business areas
- In the definition of the business justification of competence development based learning approach

- At the stage of designing student’s personal study or development plan
- In study and development contract making phase
- In the learning process
- In the research school process
- At the thesis work phases
- In the management of quality issues: safeguarding the interests of the students and the company
- In engaging learners with authentic tasks in an online setting
- In motivating the student’s company to invest in the student’s education
- In helping develop and communicate justification
- In the readiness to act as a consultant
- In managing relations with mentor at the student’s workplace

### 3.4.1 Benefits of Competence Brokerage Mentoring

- Closeness to work life
- Out-of-school mentors
- The role of company representative in dual-track process for competence development
- Leadership of emotional capital: crucial role in the development of the student’s conotary competences
- Leadership of affective competence (emotional competence): crucial role in the development of the student’s affective competences
- The role of the competence broker in the thesis process is crucial to any progress

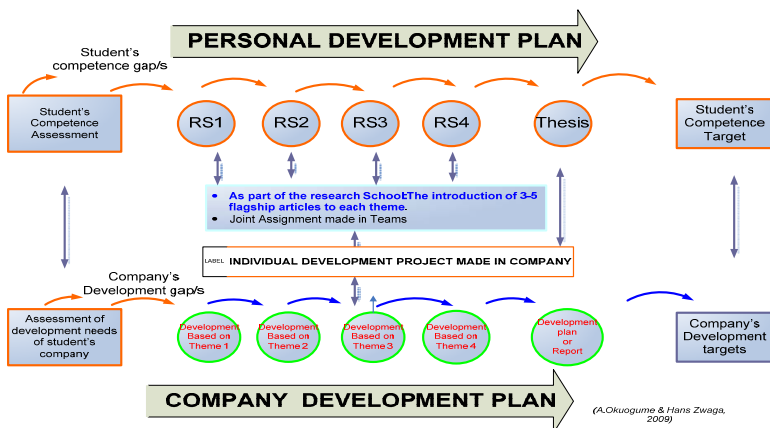


Fig. 4: Implementing the Dual-track

### 3.5 Process III: Research Perspective

#### THE RESEARCH SCHOOL

##### Competence-development at Kemi-Tornio UAS: student perception

Present day working life requires complex and demanding competences and the working students are aware of the increasing demands. Some of the students were encouraged to study by the employer; the majority of them was interested in the studies themselves, especially after hearing about the flexible online study option. Expectations of the possibilities to integrate learning and competence development were high, regardless of the reluctance of some students to tell the employer of their studies. Furthermore, the collected feedback shows that most students see the integration as merely integration of tasks and company-related issues.

Requirements for vocational education present similar elements. Skills and competences should contain elements from all domains, not mere information. Modern approaches are based more on designing learning in its full social, cognitive and skills based context. (Gram 2008) This implies a more holistic approach, rather than the deconstructive approaches of the past. In vocational education there is a long history of integrating learning tasks to work-based learning. Researches on contextualised and authentic learning prove that context has a positive impact on learning. In higher education, evidence is required about several areas of authentic learning and competence development, assessment being one important area because of its direct influence on student work and efforts.

For the working adult students, the level of authenticity is taken for granted; all the learning tasks should support competence development and mirror work-related contexts. When this criteria is met, the study context opens its relevancy through learning tasks and assessment.

The criteria for authentic learning comprise elements at different levels, some of which function as a condition for the previous one, for instance the concept of "authentic context". If the learning context is not authentic, tasks and their evaluation cannot be authentic either. In the case where the students represent their organisations, the context is automatically authentic, but there might still be challenges in integrating the learning processes into the organisational settings. In some cases the student does not want to tell the employer about the studies because (s)he believes that "it is my development issue that I need to do on my own terms" (Student feedback 2008). In some cases integration was not real; the student's position in the organisation did not make it possible for her/him either to retrieve the company-specific information needed or use the required competencies at work. Below are listed some of the students' perceptions of authentic learning and competence development as collected during the Learning Café sessions (collective feedback 2011):

- The MBA studies have widened the professional and personal perspectives of the students.

- Ideally, the degree offers possibilities to spread authentic knowledge at several levels.
- Student learns something professionally new
- New acquired knowledge is utilised at work
- Methods utilised for acquiring new knowledge and competence are shared with the colleagues at work
- Colleagues and students implement the knowledge in their future career or studies
- After completing the Research School theme, the core results of the accomplished work could be presented to fellow students and teachers.
- Experiences are shared in the form of presentations and discussions.
- Key issues and possible solutions are raised in the discussions
- New ideas and points of view are brought into an individual student's research processes.
- Improved problem-solving skills and updated research methods are applied to the students' research cases.

#### **4. Challenges for Implementing Competence Development Based Education**

Despite of the functioning and solid foundation of competence based education, there are numerous challenges and even obstacles that prevent the successful implementation of the programme and even the achievement of core competence development goals. The obstacles can be divided into four main categories: issues related to students and their work places, teachers and the programme or University.

##### **Students**

The biggest challenges can be seen in the attitudes and motivational factors. It is difficult to relearn new ways to study and the students are accustomed to different types of learning, i.e. knowledge transfer. When the students took their previous diploma, it was, according to the students, enough if they could memorise the facts and course contents. Developing their organisations was not required and learning to do so, no matter how enthusiastic the students were to do that, was difficult and time consuming. In some cases their position in the organisation did not support the learning goals and the organisation was not committed enough to give support for the learning process. Another problem was caused by the fact that some students did not want to share the learning goals with the organisation. Education was in those cases seen as a path for career advancement and it was really difficult for the teachers to change the situation. Some of the challenges may be explained by the reasons for joining the training programme. For some students the goal was in

line with the main goal of the programme and they were happy with standard assignments. Especially with the online students, their expectations do not meet collaborative and development goals of the Master Programme. For some reason, online students in many cases expect online learning to support individual studies: reading books and other sources which are assessed by exams. Luckily the attitudes change in most cases when the students see the benefits of collaboration and integration of learning to their organisation and they are helped to see the benefits of competence development-based education. The biggest challenges are caused by the personal life situation of the students. It is difficult to manage time and life challenges together with work and family. It has become obvious that the students should be given more information on the learning goals and methods so that they have realistic views of the studies. According to student feedback, peer and teacher support and tutoring options seem to help in confronting the demanding moments in studies. The challenges are:

- Attitude
- Readiness to learn in a new way
- Needs and reasons for coming to the programme
- Self-awareness
- Readiness to invest in their studies
- Patience
- Ability to undertake challenging tasks

## **Teachers**

On the teachers' side, the challenges were bigger when the programme was organised for the first time, and the teacher team had to use a lot of time for developing the concept together. The starting point was even more challenging than in the traditional courses because the teacher team consisted of individuals with a multicultural background. In an international study programme this has naturally a collaborative benefit because the generic competences are acquired in a natural setting. However, pedagogical approaches and tutoring practices differ from country to country and the students expect to have course implementation plans that are similar and follow a certain pattern. The teachers coming from science universities and secondary level colleges have different views of the support and level of individual versus collaborative studies. In addition to these challenges, the use of the virtual learning platforms in some cases is problematic and according to the student feedback there is not consensus to the usage or the terminology related to the use of ICT. So it can be concluded that even teachers are learners in the new study programme and the same challenge the students have with relearning new practices plays an important role in the delivery of the programme. Accepting changes are the main obstacles for adopting the competence development-based learning issues. The main obstacles related to attitudes are listed below:



- inertia
- attitudes
- readiness to adopt the learning approach
- readiness to relearn
- as the approach needs a new mindset and pedagogical orientation
- skills (salesmanship, team, consulting, social skills, mentoring skills)

### **University role and the structure of the Programme**

Some of the challenges can be explained by the measures taken by the training organisation. The size of the group, practical issues, skills and the overall workload of the teachers have an impact on the success of the programme. Some of the challenges depend on the resources allocated to the teachers. Developing new programmes is always time-consuming, especially when team-teaching is involved because decisions should be made together. The fact that the student's work organisation has to be consulted makes the process even more time-consuming. Therefore, the programme requires more resource investments. The main issues related to the programme are:

- Harmonising process
- Novelty of the approach
- Costs involved
- Leadership support and investments
- Managing teachers commitment to the process
- Matching curriculum with the learning model
- Maintaining sufficient resources for the process
- Harmonising communication to students

A further challenge that has huge impact on the delivery of the courses and the overall student happiness is related to course implementation plans. The students, as well as the management, expect teachers to be able to produce detailed, clear descriptions of the course contents before the initiation of the course. Providing the implementation plans for all the tasks and assessment plans is an advantage since the students know what to expect from the workload. However, there are certain risks involved. If the implementation plans are too detailed, there is not room for all the activities needed for competence development-based learning. Quite often the teachers do not have knowledge of the conditions of the participating organisations and it is therefore difficult to plan the development tasks in advance. Defining the learning goals is difficult even for the students and the employer and just engaging in reflection and interaction with peers from other organisations can help them see the crucial development areas. Becoming aware of the overall situation of the organisation thus requires more time than is traditionally reserved for the courses.

Planning a well-structured course implementation plans that are flexible and leave room for authentic activities is extremely difficult and sometimes contradict the standard procedures of the universities. This may be one of the reasons why the traditional courses often rely on knowledge transfer.

## 5. Conclusions

It is a well-known fact that the implementation of the cognitive professional competence development requires a new type of learning and the restructuring of the curriculum. It is not only a matter of trading the content and goals of the programmes, but a matter of redefining what has to be considered as core in the 21<sup>st</sup> century competences and defining concrete ways to achieve them. It is often assumed that learning only happens in formal educational settings, but there is plenty of potential to learn in informal, authentic learning settings, as in the case, students' organisations. Integrating learning into organisational competences means that we conceptualise and implement learning and assessment in a more flexible way.

Experiences of the Master Programme at Kemi-Tornio UAS clearly show that work-related, authentic learning should not be over-simplified. The organisations are different; therefore the needs for competence development in the students' organisation are different. In order to match the needs of the students and their workplaces, teachers and students should learn new, innovative ways to work and learn. When students are assisted in becoming aware of the new type of learning process, they become aware of the need for competence development. As for teachers, they should be offered chances to learn about the conditions at workplaces and find ways to integrate the elements into the curriculum. The students, employers and teaching staff should together try to find the goals for learning tasks. Being aware of the goals is easier than being capable of implementing them through educational programmes, because the students often expect to have pre-set and defined easy implementation plans for the credit units.

Providing models and best-practice cases help the development process more visible and make the need for collaboration between the universities and student organisations more open and successful.

In summary, our experience has shown that delivering competence ready graduates/ employees was possible through the competence development based education process and thereby, fulfilling a more work life oriented education. The process also allowed the development of competent ready graduates and more motivated employees who became drivers of innovation in their respective companies/organisations. The learning process was facilitated by the use of ICT. Especially collaborative technology provided better opportunities in addressing the organisational and personal development needs. However, this was possible due to an educational process that focused on developing generic knowledge alongside the development of professional skills and meeting the career goals of the students and also, the development needs of their home organisations. In addition, success in implementing the com-

petence development based education depended strongly on a deeper cooperation between the student's employers and the university.

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## **Improving customer loyalty through customer value creation**

### **Abstract**

**The aim of this paper is to study whether experienced value creation affects customer loyalty from the business-to-business customers' perspective. This paper is based on the analysis of quantitative data from 1.682 respondents and secondary sources have also been used. The paper shows that value creation improves customer loyalty among business-to-business customers.**

**Keywords:** customer relationship, value creation, customer loyalty

### **1. Introduction**

It is often difficult to differentiate software products on the market. Therefore it is a major challenge to get customers remain satisfied, committed and loyal to the firms providing products and services for them. However, the challenge remains how customers will commit to the firm so that the customer relationships will strengthen and their life-time will lengthen.

The objective of this paper is to study whether customer's perceived value affects customer loyalty positively.

### **2. Theoretical framework**

Customer relationships are critical from the continuity of business operations. Without customers no firm can sustain for a longer period of time. It is often the case that small portion of customers bring major contribution from the perspective of sales and profitability margins (Storbacka et al. 2000, p. 9). Longer customer relationships are often more profitable as profitability often increases during the lifespan of customer relationship (Hellman and Värilä 2009, 181, 185; Grönroos 2009, 205; Mäntyneva 2001, 46).

The concept of value creation can be simplified to describe the benefits the customer receives while utilizing firm's products or services. In services business customers can also act as value co-creators while they participate value creation process with a firm (Prahalad and Ramaswamy 2004, 5–6). According to Grönroos (2009) value creation is the experienced benefit the customer receives while using supplying firm's products and /or services.

Being able to generate real value for customers is crucial from the perspective of firm's overall success. In business-to-business customer relationships, where a reseller is involved, it is important that the customer's expectations are met when it comes to the product and/or service under consideration. A reseller of software products is responsible for being able to create value for itself but also for the end-users. Therefore the product and/or service should match customer's value creation processes and as such support creation of value in various functions and processes. In order to be able to understand customer firm's needs a reseller has to have working relationships and constant communication with their customer in order to be able to offer and deliver right products and services. Additionally the reseller has to have good relationships with its principals, firms providing the products and service, supporting training and different kinds of support materials.

From the perspective of supplier it is very important to be seen as the preferred supplier in the eyes of the reseller. In this way the supplier is able to receive more attention for its products to be sold by the reseller to end-users. Also brand preference on a business-to-business setting is important. According to Ojasalo and Ojasalo (2010), a firm with a strong brand is able to collect price premium for its products and services. Reicheld and Sasser (1990) indicate that even minor improvements in customer retention are about to have major increases in profitability.

Storbacka et al (1994) argue that customer loyalty is affected by customer satisfaction which is based on recent on recent experience on product or service. It is hypothesized that there is a positive relationship between experiencing value creation and probability on continuity of customer relationship.

### **3. Data collection and empirical results**

The data for this paper was collected by an internet survey. The population of the survey was based on a company's customer records, and a link to the internet survey questionnaires were sent by email to approximately 8.000 end-users' representatives. This paper is based on the analysis of quantitative data from 1.682 respondents. The response rate was about 19 %, which is considered to be on a satisfactory level as far as the total amount of responses is taken into account.

While the customers were asked how they experienced value creation the distribution is described in Figure 1. If we combine the results of values 4 to 6 by summing the responses the total is 84 % experienced at least some value creation.

### Perceived value by customer

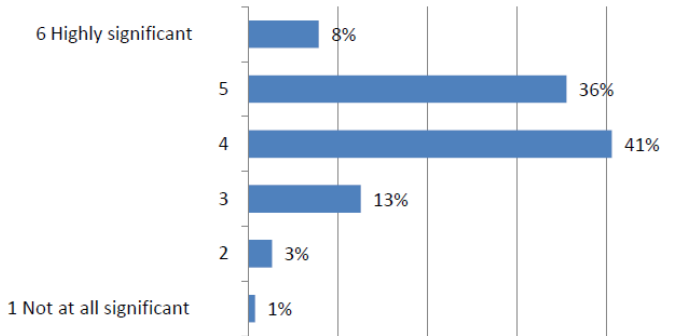


Figure 1 Customers' experience on value creation (N=1.433)

Based on Figure 2 there does not seem to be a major difference whether a lifespan of a customer relationship is longer or shorter in years as far as different levels of ability to create value to customers is considered. However, it should be emphasized that it is important that customers perceive at least some level of value creation (alternatives 4,5 or 6 on scale 1-6) in order the customer relationship to exist at all.

### Experienced value creation in relation to length of customer relationship

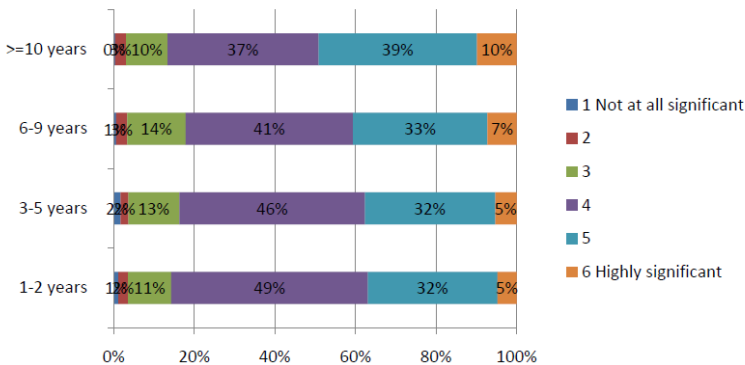


Figure 2 Experienced value creation in relation to length of customer relationship (N=1.449)

From the perspective of the main research objective of the distributions described in Figure 3 are very interesting. It has been assumed that in case customers are able to experience value creation for them they are about to be more loyal to the firm which improves the level of customer loyalty. As de-

scribed in Figure 3 it seems to be the case that the more value creation is experienced the higher the probability that the customer will make a repurchase decision i.e. renew the license contract for the software.

Also, it could be considered that the less value creation is experienced the more dispersed the probability to renew a license contract. This means that in case customers are not able to experience value creation for them their level of customer loyalty is about to be low. However, it is a matter of how customers see the availability of real alternatives for the current software product / service whether they terminate their customer relationship or not. It is common phenomenon that choosing a certain software product and vendor a customer actually creates certain structural bonds with the vendor. Even if experienced customer value creation would be seen on a low level it does not necessarily affect directly so that a customer would change the vendor. To some extent this can be seen to be the case that a software vendor is able to lock the customer relationship and keep a customer as a captive. However, it is supposed that customers still have to take care of these data related needs in somehow; it is not necessarily a bad thing for them either.

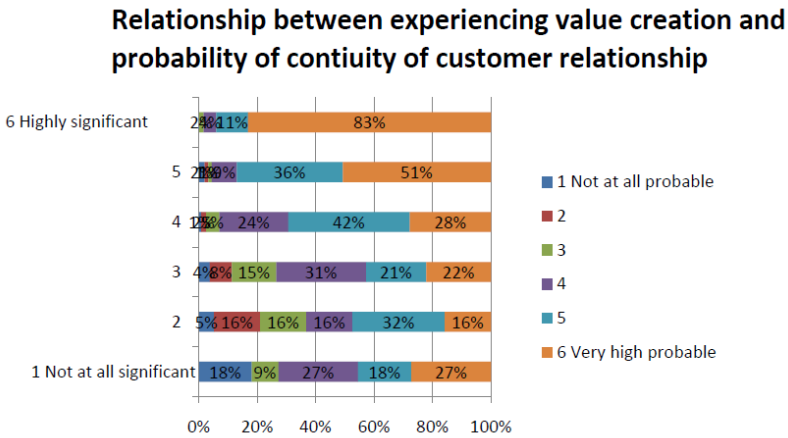


Figure 3 Relationship between experiencing value creation and probability on continuity of customer relationship (N=1.465)

While considering the relationship on how customers experience value creation and what is the probability they remain as customers there seems to be a causal relationship between these variables. If we consider those customers who have experienced highly significant value creation the summed probability of continuity of customer relationship is 94 % (83 % very highly probable + 11 % highly probable). The correlation between these two variables is 0,377 which is statistically highly significant (t=15,57; df 1463). Therefore the hypothesis regarding that there is a positive relationship between experiencing value creation and probability on continuity of customer relationship is accepted.



## 4. Conclusions

This paper has examined the impact of customers experience on value creation based the research setting on customer relationships related theory.

Research results show that being able to create value to business-to-business customers leads to such a behavior that more customers are willing to continue using the software products and services.

Based on the research results it seems to be clear that customer satisfaction with products and services offered and their quality is of great importance how business-to-business customers experience the value added.

According to the collected data used in this article it is considered that that value creation improves customer loyalty among business-to-business customers.

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## **Modes of entry of finnish manufacturing smes into the Russian market (as part of Rocket project)**

### **Abstract**

**With increasing globalization and an interest in SMEs, the question of entering foreign markets is becoming more important. Considering Finland's closeness to Russia and Russian market capacity and attractiveness, many Finnish SMEs try to enter this market. The essential question, then, is the mode of entry.**

**This research is a part of the ROCKET project held by HAMK University, and is currently in progress. The research focuses on the market entry mode decisions and measures of success of Finnish manufacturing SMEs entering the Russian market.**

**The research objective is to examine the strategy transition from export to a joint venture, alliance, acquisition or Greenfield investment. The project addresses the following research questions: *What are the common market entry strategies for Finnish manufacturing firms? Are these entry modes different from those of firms in other industries? Does the length of operations in Russia affect current market mode?***

**Research method is case study. Researchers have collected five rich case studies based on background information, company reports, and financial data; pre-interview written survey and open-ended personal interviews with company management; collection of company data available publicly and collection of financial data through the database Amadeus.**

**Theoretical foundation is anchored by 'Eclectic paradigm' and Uppsala model of gradual expansion through stages of investment and cultural or geographic distance model of investment.**

**This research is proceeding as follows: first, gather and analyze qualitative data on entry mode of Finnish SMEs into the Russian market. Next, based on the outcome of qualitative research, develop a survey instrument for further distribution in manufacturing companies of Finland and other countries of European Union. Finally, based on existing theoretical**

**foundation, develop and test various research propositions that can help establish the relationships between the Russian market entry modes and other variables of interest. The ultimate goal of this research is to outline practical implications and strategy implementation considerations for managers of foreign firms planning to enter the Russian market.**

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## **Russian market entry and a value chain positioning factor (as part of Rocket project)**

### **Abstract**

**Global market entry supposes understanding of a value chain functioning principles in order to reach sustainable growth and receive advantages from globalization processes. *Value chain* include all kinds of business activities that are necessary for products full lifecycle from the moment of its development and production (including intermediary stages and impacted by different entities and institutions) to its delivery to final consumer and its further recycling.**

**It is obvious that single entities cannot operate adequately without interacting with partners on a new market. Therefore, the positioning in global value chains is critical for the company in order to succeed. When entering new market company can proceed with a few alternative ways: to join the existing value chain on that market, to bring global value chain to this market or to create a new one. Different positions within a value chain provide companies with different levels of financial margin. Usually the core company of a chain receives significant share of this margin. Hence, the major goal of market newcomer is to occupy beneficial position in a chain or to create a new chain under its control.**

**This research (as a part of ROCKET project held by HAMK University), which is a work-in-progress, aims at collecting primary data from Finnish non-natural resource based companies in the form of (a) survey data and (b) detailed qualitative case studies. These case studies are going to address the following questions: (1) to analyze possible variants and stages of Russian market entrance process from the viewpoint of value chains creation; and (2) to study the influence of internal relationships quality within a value chain on a companies' success at the stages of market entrance and further development. Case studies suppose providing distinctive recommendations on necessity of Russian market entry, in dependence on company's position in a value chain.**

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## **Template from generating ideas to creating business ideas – a teaching experiment in virtual mass collaboration**

### **Abstract**

Every spring a class of first year business students focus their studies into the characteristics and importance of a business plan. By the end of the term the students will represent a business plan in groups of four. The business idea is based on their own business idea, an idea which has been generated during the learning process. With this business idea, they also have an option to participate in business idea competitions.

This paper focuses on an experiment in which new e-tools have been used to enable networking amongst the students of a single class and which has been scaled to work between students from different classes with the availability of e-tools i.e. inter-class networks has been enabled with the use of virtual tools.

Innovation is a process (Van de Ven 1999) and it was therefore important to design the process ex-ante. The use of e-tools enabled the step by step documentation of the process as the process progressed and hence a set of data was generated that can be analyzed post hoc and is used in this paper. E tools were used in particular to enable networking within the class outside of study hours and also to encourage networking between students from different disciplines. Thus the class was made virtual and scalable.

In our paper we wish to show how our experiment reflects the teachings of literature i.e. how we have put into practice some teachings of innovation literature. At the same time some of our choices, in particular relating to the e-tools we have used, have been driven by what is readily available and an opportunistic approach has been used. In our paper we would also like to look slightly more systematically at what tools would have been available, had we been more systematic in the search for tools.

This paper discusses the teaching experiment and what can be learned from the teaching experiment. Among the most interesting findings is the fact that although the young generation as Internet natives (Tapscott

2010) are fluent users of e-tools, they are not at all comfortable in sharing new, novel and sometimes crazy ideas with their peers. In other words the key principles of innovation together with facilitating tools need to be taught to the younger generation. A second key observation is that e-tools allow for a connection to the external corporate and innovation environment to be brought into the classroom and thirdly allows for leveraging from the scalability of ideas (the wisdom of the crowds). Finally the fourth key observation was that the use of e-tools makes the documentation of ideas a natural part of the process. These documented ideas are part of the resources that are needed for the renewing of the innovation cycle i.e. for future innovation exercises. E-tools document the process automatically i.e. documentation is part of the process and hence this facilitates the emergence of new ideas and makes the innovation process more efficient, because resources i.e. ideas for future innovations already exist in the documentation.

**Keywords:** Virtual collaboration, e-teaching, idea generation

## 1. Introduction

Innovation emerges from observing everyday practical problems and finding solutions to these problems. In particular innovations emerge from a cross disciplinary approach (Hargadon 1996, Johanssen 2003) by combining ideas and problems from e.g. different industries and different disciplines. Before the existence of the Internet and the availability of e-tools for innovation, the class has generally been limited to students of the same discipline. The availability of e-tools allowed for ideas to be shared among students from different disciplines.

Four different groups from three different disciplines participated in this teaching experiment. Using e-tools to share ideas over the Internet was also a very practical way to discuss the need to be open i.e. the logic of open innovation (Chesbrough) combined with the seemingly conflicting need to protect ones intellectual assets. Ideas can be generated and a set of tools was used to facilitate the generation of new ideas and the transformation of these ideas to business ideas with a business plan.

## 2. The experiment

### 2.1 The experimental groups

The students consisted of a total of 139 students coming from three different disciplines (tourism, business administration and information technology). The tourism students were in total 38 out of which 11 were non Finnish. The classes were conducted in English. This group is referred to as the “English speaking tourism” group.

One class consisted of 17 adult students studying a bachelor of business administration degree. Their age ranged from above 30 to below 50. The classes were conducted in Finnish and in the evenings, because most of the adults had a day time job. This group is referred to as the “adult evening business” class.

Two classes one consisting of 41 students and the other of 45 students was conducted each Friday. Each class was a mixed discipline class consisting of students studying information technology and students studying business administration. The students in these two groups were below 30 years old, with almost no experience in working life. This group is referred to as the Friday class.

## 2.2 The experiment

The same teacher worked with all the classes and was able to experiment with the flow of ideas (1) within a class, (2) between different disciplines in a class i.e. the Friday class consisting of business administration and information technology students, (3) the flow of ideas between different classes (the English speaking tourism group, the adult evening business class and the Friday class) using an Internal elearning platform and (4) finally the open sharing of ideas with the outside world using an open idea creation platform ([www.mas-sidea.com](http://www.mas-sidea.com)) and an experiment to co-operate with a class in India.

In the first category sharing ideas within a class the “adult evening class”, the innovation process worked out really well and new potential business ideas emerged. The process consisted of four steps: 1) in a group forming exercise each person introduced themselves through three distinct characteristics.. Then everyone voted for the most interesting characters and the most interesting characters were chosen to be the group leaders and a group of four (including the leader) was formed around each leader. In these groups of four, each member – once again introduced themselves – and then the border crossing technique was used to find business ideas which connect the characteristics of two, three or even four of the members. For example if the hobby of one member is dogs, the hobby of a second member is swimming a creative combinatory idea would be to establish a swimming pool for dogs. The cross border technique proved very effective in all the groups (the 139 persons) as a method for finding new business ideas. After several business ideas were established the group of four then used the method of six thinking hats to refine and deepen their business idea. This process produced several good business ideas in the 139 students.

In the second category sharing ideas between different disciplines within a class, the students in the Friday class had the opportunity and were also encouraged to form mixed groups containing both it students and business administration students. They were then explained the above innovation process including the six thinking hats. Despite the encouragement students preferred to form and stay in groups, that were familiar to them from earlier exercises and they did not form cross disciplinary groups. Thus cross fertiliza-

tion, i.e. exchanging of ideas between disciplines needs an active role from the teacher. In practice the teacher needs to intervene in the group forming process and take action to make sure that new cross disciplinary groups are truly formed.

The business idea creation process performed truly well within a physical class environment. A future step would be to experiment the same process in a virtual environment using virtual tools.

To experiment with the flow of ideas (problems and ideas) between classes, the third experiment, an internal blog was established using the universities e-learning platform. The students were encouraged to describe a practical everyday problem and share this with all the 139 on the platform. They were also encouraged to comment on each other's "problems". A well described problem is the first step in finding a solution to that problem and hence a potential product, service or business idea. The first finding was that in general the younger participants (the age group of 20+) were uncomfortable in being unique i.e. different to their peers. They need to be taught and emphasized the value of being different. A second observation was that the participants were biased to commenting ideas/problems of their friends, not ideas/problems that they perceived as such the most interesting. A way round this problem would be to make the presenter of the idea anonymous, but we did not experiment with this. A third observation was that a small percentage - below 10% - found the exercise simple and they were quick to come up with several ideas/problems. This is in line with literature and the e.g. the classification of people into innovators and early adopters (Rogers, 281).

In the fourth experiment students were encouraged to express their practical every day problem or an idea on an open innovation platform, in practice on [massidea.org](http://massidea.org). The platform guides you through how to express your idea or problem clearly. On the platform all the 139 students could see and identify each other as a member of the innovation class. One observation was that the students chose to express their ideas/problems under an alias. Perhaps with more familiarity they would learn to use and would be encouraged into using also their own name. An experiment was also conducted in which two parallel classes, the English tourism class and an a class in India worked together on a common issue "a waste management issue" in sharing problems and ideas and then connecting through Skype to talk between the two classes. The observation was that the cultural distance between the two classes was big and that the two classes could not really find common issues to share. Thus although virtual tools enable sharing between great distances (physical), the cultural difference can become too much. In practice, on the Skype video call, the classes talked about the weather: -20C and midday in Finland and a lot of snow and +30 and humid and evening in India. Nevertheless the [www.massidea.org](http://www.massidea.org) made it visible that several classes within Finland were experimenting with sharing ideas and working with innovation processes. Thus there clearly exists a potential of sharing ideas and building a combined innovation process with classes from different universities and different disciplines within e.g. the national context of Finland using these Internet based innovation process tools.



### 3. Discussion

We live in a world of constantly emerging new technologies that challenge the field of education while at the same time present exciting opportunities. Strategic use of new educational technologies can enhance learning and teaching. However, to be effective, new educational technologies need to be supported by innovative pedagogical approaches which in turn enable collaboration, communication and mobility. Such emerging educational technologies include virtual worlds, wireless technology and the spiraling use of mobile devices (Webster& Murphy,2008 . The exploratory and action research oriented experimentation with the virtual learning for idea generation brought up the following points for learning and improvising teaching and learning process using e-tools;

#### i. The role of virtual tools for collaboration

According to Srijbos et.al (2004), online environments are considered to promote collaborative learning in higher education by providing shared work spaces where learners can work together on authentic problems. Three different virtual learning tools namely Optima (Moodle like e-learning workspace), Adobe Connect video conferencing and Massidea ([www.massidea.org](http://www.massidea.org)) were offered for the students to collaborate for posting and reviewing one another's ideas. It was observed that though the e-tools were efficiently used for posting ideas, the students were a little conservative in openly commenting others ideas and the interactive collaboration was only to a small extent. This observation correlates with Kreijins et.al (2003) as they state that the online learning environments do not, as such guarantee that learners will in fact interact with each other.

#### ii. The role of educators in enhancing collaboration

The little interaction among the students in the virtual experiment raises the question of the role of the educators in enhancing the collaboration and interaction activities in the learning process. The educators involved in this experiment played an active role in designing the learning experiments, guiding the students in using the e-tools, assigning student groups and in following up the interaction by the students. However they opted to play a more passive role in participating in the interactions among the students. Mazzoni et.al (2008) observed that social interaction does not take place automatically just because an environment makes it possible from the technological point of view and also that just placing the students in groups does not guarantee collaboration. Kanuka (2005) state that students are unfamiliar with testing syntheses, summarizing agreements, opinions and ideas and applying newly constructed knowledge, while Mäkitalo (2006) observes that even well-designed tools might not reach the goals set by the designers and by the educators and the learners may not be able to put such tools to appropriate and successful uses if they are unclear about the basic rules of collaborative activities. It is a good point for emphasis in the future e-learning activities that the educa-

tors take the role of an active moderator in the virtual discussion posting scenarios for the learners to work on, starting discussion threads, bringing focus to conversations, adding useful tips and study materials and offering feedback in each stage of collaboration, timely and frequently.

### iii. Modes of preparing the students for virtual collaboration

Mäkitalo (2006) observed from her studies on online interactions that successful interaction and collaboration require participants to enter into collaborative activities, make an equal contribution and share their prior knowledge, beliefs, assumptions and feelings freely with each other. She notes that the grounding process brings learners in online learning environment face to face with a dual-problem space (cognitive & socio emotional) as they work to build and maintain common ground. The authors observe that from their learning after the experimentation that perhaps the idea generation process could be made more efficient by setting up conditions for the students in selecting their working partners, peer reviewing, participating in discussions etc., It would also be effective if a few games for team forming are organized as ice-breakers before they start with the ideation process. More importantly a number of online lectures related to the content of the challenge to be posed for the students, a clear set of expected outcomes of the learning process and the expected roles and responsibilities could be organized. It is also equally important to plan for interim follow-up and feedback sessions in order to assess the progress of the idea generation and business planning process and to take it forward.

## 4. Recommendation & conclusion

### 4.1 Recommendations for further experiments

The key learning from the experiment leads to the following questions which could form the basis for further experiments in virtual learning and collaboration;

- i. What are the factors in the e-learning methodologies that could leverage the e-learning tools to a greater extent for fruitful collaborations among a diverse set of students?
- ii. Will the combination or exclusive use of other social networking tools such as Facebook, Myspace and blogs make the intended collaborative learning activities much more efficient?
- iii. Is it possible to set up a clear methodology for the role of the educators, particularly if the e-learning process is combined with the use of students' personal social networking tools? To what extent the educators will be able to carry out dialogue and discussion in a social networking environment?

During the process of experimentation the authors identified the following value propositions for the higher educational institutions interested in innovative pedagogy;

- i. Networking with other organizations to create an environment of collaborative learning (crowd sourcing)
- ii. E-tools for collaborative learning provide numerous and efficient technical platforms/spaces for trans-cultural activities. The true value of these platforms is in creating an environment where cultural differences can be observed, studied and experimented with.
- iii. Curriculums are in many cases focused on a certain discipline. E-tools allow for interdisciplinary e-learning experiments creating value through collaboration

An essential part of any educational practice is innovation; it can enhance the way in which teachers engage with students. This applies to all modes of learning and teaching, including technology-assisted learning and teaching. Due to the constantly changing and increasing demands of current modern ways of work, life and also education on teaching and learning, there is a greater need for a progressive change and redesign of teaching and learning environments and spaces (Webster & Murphy, 2008). Iterative and continuous teaching experiments such as the ones discussed in this paper thus become inevitable in creating and improving innovative e-learning methodologies in higher education. However it is important to be aware of the observation by Derntl & Motschnig-Pitrik (2005) that though the redesigning a course exploiting the benefits of novel learning technologies is essential but requires much thought, time, experience, and both didactical and technical skills to implement the design .

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## **The vitality of enterprises: Content and influences**

### **Abstract**

**Growth, competitiveness and success are not obvious, and moreover, enterprises similar in field, location, and size may differ from each other. An important question is, which element cause these differences. In fact, vitality is a force which enables enterprises to grow, compete and succeed. Nevertheless, many studies have endeavored to identify success factors, but vitality has not been a focus of these examinations. Vitality factors should also be studied, and further, these studies could serve as a guide to improving an enterprise's performance and processes. This study introduces the context of vitality of enterprises in light of the existing literature. The paper also addresses the phenomenon of vitality, whether indeed it exists at all. The results of this study moreover define the context and further studies could later analyze vitality in practice. It would be difficult to determine the vitality elements of an enterprise if the context is totally undefined.**

**The method of this study is a deep content analysis of the literature. The theme vitality has been analyzed, for example, in the following fields of business research: theory of organizations and enterprises; knowledge, change and strategic management, and organizational culture and identity studies. This study endeavors to determine the phenomenon of vitality, which has not been earlier defined.**

**In addition, according to the literature, for example, the following themes were an important part of vitality: knowledge creation, management and sharing processes; change management and competition; trust, strong sense of purpose and direction of organization, and rules and standards. Moreover, the capacity to innovate and create has been deemed essential to the survival of enterprise. Whether enterprises could operate more efficiently and achieve greater success if the phenomenon of vitality were better understood is an interesting question.**

**Keywords:** Organizational vitality, Enterprise, Entrepreneurship, Content analysis

## 1. Introduction

This paper enhances the understanding of the phenomenon “organizational vitality”. First, the findings from the literature according to the phrases “organizational vitality”, “vitality of organization” or “vital organization” and their synonyms are introduced. Second, these results are considered more comprehensively. In the following sections the theoretical framework is first evaluated and then the method is introduced. Finally, conclusions, limitations and recommendations for further studies are presented.

The purpose of this paper is to introduce the phenomenon “organizational vitality” as it appears in the literature and especially in the field of micro- and small enterprises. Consequently, the paper seeks to identify those elements on which vitality is based.

## 2. Method

This paper reviews organizational vitality mainly in the light of the contributions to the entrepreneurship and organization theory literature. In fact, organizational vitality has so far been little studied, but a few studies are available. The academic articles studied were identified using electronic databases, such as academic journal databases: Business Source Elite (EBSCO), Emerald Journals, JSTOR, ScienceDirect (Elsevier), and Wiley InterScience. A search was carried out using AND and OR operators in the categories titles, keywords and abstracts. Criteria included terms, for example, “organizational vitality” OR “vital organization”. Moreover, the opposite of vitality, the failure of the organization, was observed. Publication date or journal subject were not limited. In total 104 articles mentioning vitality were found and over 300 articles addressing organizational failure. However, several articles had to be excluded since they did not in fact research this area, but addressed topics such as those dealing with public or nonprofit organizations, political parties, or health care organizations or systems. Mainly the articles found addressed some aspect of vitality rather than making a comprehensive study of vitality elements.

Firstly, the articles studied were analyzed through content analysis and categorized into suitable themes. A totally of nine themes were found. This analysis is introduced at the beginning of Section 3, and Table 1 includes a summary of themes. Second, these themes are separately discussed more comprehensively in Section 3. The theoretical framework of these separately discussed themes was constructed using the same electronic databases as earlier mentioned. The search criteria for deeper analysis included the term “firm performance” and one by one every term of the nine themes, for example “firm performance” AND “knowledge management”. Organizational vitality was not included in the search criteria due the lack of articles, but the value of these separate themes to firm performance is analyzed as a maintaining factor of vitality.

### 3. Theoretical framework

Vitality is a basis enabling the constant and effective operations of organizations (Krugman 1994, 31). Furthermore, the vitality can also be considered an opposite to failures (e.g. Probst and Raisch 2005). Also, the definition “a healthy organization” is a part of the context of vitality (De Smet, Loch, and Schaninger 2007). The competitiveness, growth and success of organizations are part of vitality, but it is possible to operate for years without significant growth or success. Besides, exclusively financial factors are not able to specify the success of micro-enterprises (Cheng, Stough, and Jackson 2009; Kuratko, Hornsby, and Naffziger 1997). Entrepreneurial thinking, which includes flexibility, creative and problem solving orientation, has also been deemed vital, especially for larger organizations (Chittipeddi and Wallet 1991). Moreover, entrepreneurial controlling of the enterprise versus professional management has an influence on the performance of the firm; entrepreneurial management seems to be more efficient (McConaughy, Matthews, and Fialko 2001).

In the next section the findings on organizational vitality in the literature are discussed in more detail. According to the findings the organizational vitality can be categorized into nine types (Table 1): (1) knowledge creation, management and sharing (Lancioni and Chandran 2009; Pillania 2009; Cannon and Edmondson 2005; Pidgeon and O’Leary 2000), (2) change management and competition (Xie and Wang 2003; Vicenzi and Adkins 2000), (3) creativeness and innovativeness (Liao, Kickul, and Ma 2009; Hage 1999; Hardy and Dougherty 1997), (4) leadership (Renzl 2008; Probst and Raisch 2005; Daily and Johnson 1997), (5) strong purpose and direction of organization (Ortega 2010; Vicenzi and Adkins 2000), (6) rules and standards (Ortmann 2010), (7) intellectual capital (Chua and Iyengar 2006), (8) organizational culture and atmosphere (Kovoor-Misra 2009; Gioia, Schultz, and Coiley 2000), and (9) trust (Renzl 2008; Ferrin and Dirks 2003). In the following section themes (5) strong purpose and direction of organization, and (6) rules and standards are considered along with a connecting theme “Strategic management: the direction, rules and standards of organization”.

Table 1 Vitality Themes in the Literature

Knowledge creation, management and sharing	Lancioni and Chandran 2009; Pillania 2009; Cannon and Edmondson 2005; Pidgeon and O’Leary 2000
Change management, competition	Xie and Wang 2003; Vicenzi and Adkins 2000
Creativeness and innovativeness	Liao, Kickul, and Ma 2009; Hage 1999; Hardy and Dougherty 1997
Leadership	Renzl 2008; Probst and Raisch 2005; Daily and Johnson 1997
Strong purpose and direction	Ortega 2010; Vicenzi and Adkins 2000
Personnel	Chua and Iyengar 2006
Rules and standards	Ortmann 2010
Organizational culture and atmosphere	Kovoor-Misra 2009; Gioia, Schultz, and Coiley 2000
Trust	Renzl 2008; Ferrin and Dirks 2003

### 3.1 Knowledge creation, management, and sharing processes

Knowledge management and its creating, maintenance, and sharing processes are crucial to the performance of an enterprise. Understanding the importance of knowledge management is likewise crucial (e.g. Ndlela and du Toit 2001). It should be noted that these processes require more than mere information systems, and information systems should pay attention to the context of the industry, organizational conditions, key businesses, and the linkage of, for example, common development tools and quality systems or efficiency management (Kalpic and Bernus 2002). Moreover, an important element for knowledge management is the synthesis of knowledge in an enterprise (Raghu and Vince 2007).

Knowledge can be divided into two parts; tacit and explicit knowledge (Nonaka 1994). Nonaka (1994) continues that knowledge management is a continuous process. Further, knowledge management should be perceived as a planned part of workflow processes (Raghu and Vince 2007) and also as a part of strategy management (e.g. Yang 2010). Employees also have a great influence on knowledge management processes and their success (Tabrizi, Ebrahimi, and Delpisheh 2011). Liu, Chen and Tsai (2004) established the importance of knowledge management for the competitiveness of an enterprise.

### 3.2 Change management and competition

It may be difficult to generalize organizational change, since several causes contribute to the dynamics of change (e.g. Starke, Sharma, Mauws, Dyck, and Dass 2011). However, change processes do have some similarities. First, there are certain main external and internal triggers of organizational change (Dawson 2003). Dawson (2003, p. 15) mentioned external factors such as, “laws and regulation, globalization, political and social events, advances in technology, organizational grow and expansion, and fluctuations in business cycles”. Moreover, the main reason for internal change triggers is organizational development (e.g. Dawson 2003). Organizations could utilize dissimilar change models and all could be successful (e.g. Lönnqvist, Kianto, and Sillanpää 2009). However, there are some iterative change factors to observe. For example, successful communication plays a major role in changing situations and both official and informal communication must be similar (Azzone and Palermo 2011), and goals, for example, should be clear (Starke et al. 2011). The research so far has highlighted the meaning of planning and analyzing the need for change and also the whole change process before action (e.g. Stoltzfus, Stohl and Seibold 2011; Chrusciel and Field 2006).

Managers should plan and foster changes in high-impact elements (such as decision-making structure), even in the face of strong resistance (Amis, Slack and Hinings 2004). Smith, Sohal and D’Netto (1995) point out that managers’ commitment to change and employees’ involvement therein are crucial for successful change management. Managers’ commitment should be visible, since they serve as role models to employees during the change process (Badham, Garrety, Morrigan, Zanko and Dawson 2003). Amis et al. (2004) note



the importance of trust, for example, between managers and subordinates during transition. Successful operations, including, for example, networking and dealing with information, require competences in continuous learning (Maurer and Weiss 2010), and an ability for renewal (e.g. Mastenbroek 1988). The ability to learn and innovate also requires mental well-being (Ho 2011).

### 3.3 Creativeness and innovativeness

Creativity and innovations are important to an organization's operations (Pathak 2008) and the market environment may actually demand creativity (Katila and Shane 2005), especially in times of depression or highly competitive markets (Geroski and Machin 1992). The meaning of creativity could be to improve innovations (Heunks 1998); productivity is not the main purpose of creativity. Moreover, the purpose could be the further development of operations or services aiming to operate more efficiently and be customer-oriented (Amabile 1997; Heunks 1998; McAdam, Reid, Harris and Mitchell 2008). Measuring innovativeness is not a simple operation and indicators or instruments to analyze innovativeness vary depending on the size or business field of the enterprise (Carayannis and Provan 2008). According to Freel (2000), it is not relevant to classify enterprises into innovative and non-innovative in the sense of productivity or growth. Freel (2000) proposed a classification of three levels; (1) successful innovative actions, (2) failed innovative actions, and (3) non-innovative actions. Naturally, failed innovative actions could impair the performance of an enterprise at several levels in contrast to non-innovative enterprises.

In Amabile's (1998) model creativity contains three elements: expertise, creative thinking skills and motivation. Successful creativity may be domain-specific (Baer 1998) or domain-general or both (Hong and Milgram 2010) depending on the requirements of the business line. Motivation by rewards may also be complicated and does not support creativity in every case. In fact, it may even inhibit creative actions (Amabile 1998), and impair the trust and cooperation of personnel (Ferrin and Dirks 2003). Evidence from a number of studies supports the assumption that the intrinsic motivation is the key element to create and be creative (e.g. Amabile 1997; Ruscio, Whitney and Amabile 1998). Naturally, the atmosphere in the enterprise may be conducive or deleterious to innovativeness (Naranjo-Valencia, Jiménez-Jiménez and Sanz-Valle 2011). A creative atmosphere requires, for example, "freedom, positive challenge, supervisory encouragement, work group supports, organizational encouragement, and sufficient resources" (Amabile 1997; e.g. Carmeli, Reiter-Palmon, and Ziv 2010).

### 3.4 Leadership

Some difference exist between leadership and management and Darling (1999) summarized the difference such that managers master routines and leaders master more vision and judgment. Leadership and its research have evolved from improving organizational effectiveness by management towards

more participative management (Horner 1997). Rowold and Laukamp (2009) in their research have found that charismatic leadership is related to organizational performance and profit. They also note that a charismatic leader often behaves like an entrepreneur. Female and male leadership may likewise evince differences, whereas male leadership is perceived more successful in more bureaucratic organizations (Irby, Brown, Duffy and Trautman 2002).

Leadership, and especially transformational leadership, can make a positive contribution to employees' commitment and job satisfaction (Erkutlu 2008; Rad and Yarmohammadian 2006), and moreover "Leadership is at the heart of effective management" (Erkutlu 2008, p. 721). Justice and fair management also improve the organizational commitment of employees (Farndale, Hope-Hailey, and Kelliher 2011). Participative decision-making and trust between personnel and entrepreneur contribute to the health of organizational culture (Isaac, Herremans, and Kline 2009). However, participative management is not suitable for all organizations and for all employees (Rad and Yarmohammadian 2006), for example, gender and the level of employees' work position affect perceptions of effective management (Muchiri, Cooksey, Di Milia, and Walumbwa 2011). Managers should be aware of their leadership style and aspire to a transformational style of leadership to increase organizational effectiveness (Erkutlu 2008).

### **3.5 Strategic management: the direction, rules and standards of organization**

Strategic management is an important part of organizational vitality, especially among young enterprises (Li and Atuahene-Gima 2001), since enterprises without a strategy are more likely to fail than those with a strategy (Lussier 1995). Even small enterprises should carry out a strategy planning process due to the benefits, even if the process may be complex (Burton and Pennotti 2003). However, small enterprises rarely have a written strategy (Miller, McLeod, and Oh 2001), but they implement a strategy, whether written or not (McCann III, Leon-Guerrero, and Haley 2001). Moreover, rules and standards can be a part of strategy, or daily routines management (e.g. Hornsby, Kuratko, Naffziger, LaFollette, and Hodgetts 1994). Several systems and guidelines may facilitate the decision-making process and make the organization's operations more effective (Starke et al. 2011; Beheshiti 2010; Fernandes, Mills, and Fleury 2005). Moreover, the strategy may also distinguish enterprises in the same market, where one enterprise achieves success and another does not (Leavy 2003). The enterprise's strategy type and market position are closely connected (McCann et al. 2001).

McCann et al. (2001) divided strategy types in four categories: prospector, defender, analyzer and reactor. Prospectors have the most aggressive operating style in the market while reactors have the least aggressive style (McCann et al. 2001). Leavy (2003) stress the importance of strategic renewal, which may create a unique market position. Another important element for performance and strategic management is the foresight of the leader (Am-

steus 2011) and the leader's clear vision of the organization's future (Sarros, Cooper, and Santora 2011).

### 3.6 Personnel

Enterprises should concentrate on choosing the right person for the right position, which in turn, could lead to high-quality outputs and higher job satisfaction (Kleymann and Malloch 2010). The skills of personnel can create organizational market value and make distinctions between organizations (Robinson and Kleiner 1996). In fact, human resource practices contribute to firm performance (Osman, Ho, and Galang 2011; Chew and Sharma 2005). Osman et al. (2011, p. 46) mentioned three human resource management elements having the greatest influence on performance: "employee relationship and communication, career planning and job/work design".

Furthermore, the values of an individual employee affect organizational operations (Westover, Westover, and Westover 2010). An important factor for the welfare and job satisfaction of employees is also the passion for work (Forest, Mageau, Sarrazin, and Morin 2011; Westover et al. 2010), whereas intrinsic motivation is also the main reason for entrepreneurship (Carsrud and Brännback 2011). Personnel's motivation and commitment to work also influence the efficiency of the organization (Cohen and Veled-Hecht 2010; Westover et al. 2010). Klijin and Tomic (2010) state that younger people are more motivated than older ones and that intrinsic motivation consequently depends on an individual's age. However, people can be motivated by various levels of autonomy or social needs (e.g. support from others) and leaders should recognize both these approaches to achieve an effective motivational strategy (Mumford et al. 2000; Dew 2009).

However, in the research by Yiing and Ahmad (2009) organizational commitment does not automatically ensure job satisfaction and employee performance, whereas Westover et al. (2010) found a positive correlation between job satisfaction, organizational commitment and general organizational success. Moreover, the job satisfaction of employees requires respect from management, and recognition of good performance can enhance employee motivation (Rad and Yarmohammadian 2006). Westover et al. (2010) call for recognition of the skills of personnel and encouragement to utilize their skills and talents. Personnel's career path should also be supported since it could also improve the productivity and performance of the firm (Osman et al. 2011).

### 3.7 Organizational culture and atmosphere

A good organizational atmosphere is essential for innovativeness (Carmeli et al. 2010; Amabile 1997), and for the vitality of the organization (Frost 2004). The very performance of an organization may depend on organizational culture (Klein 2011; Chew and Sharma 2005), and more specifically on the organizational culture of learning (Hung, Yang, Lien, McLean, and Kuo 2010).

However, successful performance can also reinforce success-oriented culture and not always as vice versa (Burt, Gabbay, Holt, and Moran 1994). The personnel has a major role in creating atmosphere and their welfare supports organizational viability (Kark and Carmeli 2009; Quick and Quick 2004). Hence human resource management should take the organizational culture into consideration and endeavor to develop organizational culture to be more open and supportive (Baird, Hu, and Reeve 2011; Nazari, Herremans, Isaac, Manassian, and Kline 2011).

The research findings of Roh, Hong, and Park (2008) demonstrated the importance of information flow both for the functional culture and the strategic movements of the organization. Organizational culture can encourage or discourage strategic types and management should motivate suitable culture development (Klein 2011; Rad 2006). Moreover, leaders have a key role in creating innovative and vision supporting culture, especially in problematic times (Sarros et al. 2011).

### 3.8. Trust

Environmental elements, such as national policy, culture or traditions, contribute to trust levels (Pučėtaitė and Lämssä 2008; Huang and Dastmalchian 2006; Wicks, Berman, and Jones 1999). Interpersonal trust can develop through the intercourse of individuals, meaning that original beliefs regarding others can change (Williams 2001). Nevertheless, trust in managers and management influence the performance and motivation of individual, which in turn, can improve organizational performance (Connell, Ferres, and Travaglione 2003). Fair human resource management policy in organizations could provide special support in maintaining and developing an atmosphere of trust (Farndale et al. 2011; Pučėtaitė, Lämssä, and Novelskaitė 2010). Moreover, Pučėtaitė et al. (2010) and Ruppel and Harrington (2000) highlighted the major role of frank communication in building and sustaining trust. Trust building also requires psychological comfort (Sheng, Tian, and Chen 2010). A trusting relationship between managers and subordinates promotes organizational citizenship behavior and increases positive attitudes towards the work as meaningful (Wat and Shaffer 2005) and commitment (Ruppel and Harrington 2000). However, the control of management is also important and trust and control should be in balance (Jagd 2010). Moreover, trust should not be over- or undervalued (Wicks et al. 1999).

Organizations can also be understood as networks (Fuller and Moran 2001) and network activities contribute to firm performance (Trapido 2007; Chell and Baines 2000). Trust and commitment to trust among actors has a key role while building a successful network (Rampersad, Quester, and Troshani 2010; Ahlström-Söderling 2003; Wicks et al. 1999). Trust also has a significant effect on the cooperation of the parties in a network and in enhancing efficiency (Ha, Park, and Cho 2011). Societal trust also contributes to the customer orientation of employees (Huang and Dastmalchian 2006). Establishing trust can benefit both the organization's internal and external stakeholders, such as employees and stockholders (Ruppel and Harrington 2000).

An important element for organizational continuity is also “entrepreneurial trust in the future”, which means entrepreneur’s faith in own enterprise’s future (Tarvainen 2011).

## 5. Conclusions

The aim of this paper was to introduce and promote discussion of organizational vitality. It was also intended to fill the research gap by introducing a tentative explanation of this phenomenon. The explanation is crucial for organizational continuity and development and both to theory and practice. Thus, firstly the tentative explanation is introduced and secondly the implications and influences for theory and practice are discussed. Finally, the limitations of this study are conceded and suggestion for further studies presented.

The main themes appearing in the literature are introduced in Table 1. However, these nine themes highlighted some similarities. Firstly, several articles evincing these nine different themes have counterpointed the meanings of recognition and planning. For example, the creativeness of an organization or the leadership styles of managers should be recognized and these activities should be planned. Given the importance of knowledge management, the goals of change processes, strategies, personnel, organizational culture, and trust should be identified. Furthermore, firm performance and organizational vitality require continuity; sustained commitment to each of these nine themes and the ability for renewal. Similarly, the passion for work and intrinsic motivation is an important characteristic in employees, managers and entrepreneurs, and not merely in a particular work performance, but as a whole, such as for creativeness, development, and renewal. The findings highlighted the importance of understanding the value of these nine themes. In conclusion, vitality is a comprehensive phenomenon and understanding its elements is crucial.

The main implications for theory are to generate discussion and introduce the theoretical framework of the phenomenon. Moreover, this paper reviewed literature and presented proposals for further studies. The paper will assist entrepreneurs and managers to observe the basic vitality elements for developing their organizations. This paper also introduced the elements of vitality, and the main points of each element. Entrepreneurs and managers can rationalize management and make it more effective by concentrating on essentials. However, this study has limitations. The main limitation is the theoretical approach without empirical findings. Further studies should analyze organizational vitality in practice.

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## **Information System Adoption in Vietnamese SMEs reasons, process and factors**

### **Abstract**

**Background.** Small and medium enterprises (SMEs) play an important role in economies, including Vietnam's. The need for information systems (ISs) is now necessary in every enterprise. Most of published studies on ISs have been conducted in developed countries, with little in developing or less developed countries. From those few, there was no founded focusing in Vietnam.

**Aims.** This paper examines the experiences of Vietnamese SMEs when adopting ISs. The authors investigated the reasons for, the process of, and the factors influencing IS adoption.

**Methods.** A semi-structured interview was conducted to explore participants' experiences in seven Vietnamese SMEs. The interviews were transcribed and analyzed to identify themes that emerged from the data.

**Results.** The results confirmed the following factors and reasons of the adoption of ISs: top managers/owner-managers, employees, financial resource, customers, competitors and vendors/external consultants. Additionally, the results brought up the importance of government role lack of finance resources in IS adoption.

**Conclusions.** As general conclusions, the findings relieve the importance of involving the staff in the adoption process. To fit the business requirements, it is also extremely important to pay attention to the selection of proper software packages. The management should also not allow the use of pirated software under any form in the business.

**Keywords:** adoption, information system adoption, small and medium size enterprises

## I. Introduction

Small and medium enterprise (SMEs) account for a significant share in economies, especially in emerging ones. They have special characteristics that determine business workflow in general, and the information system (IS) adoption process in particular. (Clapham, 1985, pp. 12-14; Lewis & Cockrill, 2002, p. 196; Drew, 2003, p. 79; Levy & Powell, 2004, pp. 19-22; O'Regan & Ghobadian, 2004, p. 406)

In Vietnam, SMEs gradually increase their contribution to the national economy (Sakai & Takada, 2000, p. 2; Harvie, 2004, p. 1). So far, SMEs have accounted for more than 97 percent of Vietnamese business, using over one-third of total investments, employing over a half of laborers, and producing two-fifths of consumer goods and exports. They play an important role in the national socio-economic development, contributing around 47 percent of gross domestic product (GDP) and 40 percent of the state budget. (Le, 2011)

Information and communication technology (ICT) per se is no longer a strategic resource of an organization, but the active and effective usage of it. The need of an IS in particular, and ICT in general, is now no longer a plus, but a must, and accounts for a large portion of the investment portfolio in every enterprise (Willcocks & Lester, 1996, p. 282; Carr, 2003, pp. 41-49). Before an IS, just like any ideas, can be put into use, it is vital that the adoption process is conducted appropriately; otherwise, there might be protest, or even resistance against the new one (Keen, 1981, pp. 24-31; Kim & Mauborgne, 2005, pp. 119, 137; Garrett, 2006, pp. 202-224). At the time of writing, there are only few papers on IS adoption in SMEs, yet none has focused on those in Vietnamese SMEs so far.

The rest of the paper is organized as follows: in the next chapter we review the earlier findings about the processes, reasons and other issues influencing IS adoption. In chapter three, we describe, analyze and explain the reasons, process, and factors influencing the IS adoption in our case companies in Vietnam. Finally, we wrap up the results chapter four and discuss them in chapter five.

## 2. Literature review

### 2.1 SMEs and SMEs in Vietnam

The definitions of SMEs are based on multiple criteria such as maximum number of employees, the annual sales, and total assets depending on the industry (Levy & Powell, 2004, pp. 19-20). In this paper, we adopt Vietnamese SMEs definition from the Decree on Assistance to the Development of Small- and Medium-sized Enterprises (56/2009/ND-CP), i.e. enterprises in trade and service section with assets less than VND50 Billion (about EUR1.7 Million) and employees less than 50, or enterprises in other sections with assets less than VND100 Billion (about EUR3.4 Million) and employees less than 300.

There are four main characteristics of SMEs: limited resources, flexibility, innovation and personal influences (Welsh & White, 1981, pp. 2-12; Levy & Powell, 2004, p. 20). Due to this *resource poverty* (Welsh & White, 1981) the SMEs must focus on their core business and expertise and be careful with their investment and spending. Many SMEs have even outsourced their information technology (IT) as non-core business activities to third parties (McNurlin, Ralph, & Bui, 2009, p. 3).

Despite their limited resources, SMEs are thought to be flexible and innovative organizations that are able to adapt quickly to new challenges and pressures. The SMEs' organizational structure is often flat and allows direct communication between managers and staffs. SMEs' innovative feature mainly thanks to fierce competition with large companies or even other SMEs that require SMEs to change their service or products to survive within their niche market. While SMEs tend not to spend much in research and development (R&D), they can be more innovative than larger firms (Levy & Powell, 2004, p. 22).

As a socialist country, Vietnam has made state-owned enterprises the mainstay of its industrial system. However, at its Sixth Congress in 1986 the Communist Party of Vietnam adopted its Renovation<sup>1</sup> policy of allowing the market mechanism to operate and permitting private and individual ownership of businesses (Murray, 1997, pp. 24-26; Sakai & Takada, 2000, p. 2; Phạm & Vương, 2009, pp. 96-97; Vương, 2010, pp. 31-32). Since then, small and medium-sized enterprises have emerged as a dynamic force in the development of the Vietnamese economy (Sakai & Takada, 2000; Vương & Trần, 2009, pp. 3-4). Over the past years, the number of Vietnamese SMEs has increased rapidly in both rural and urban areas, operating in almost all of economic sectors and filling the gap and shortage that have not yet been covered by large firms. The SMEs have been exploiting and mobilizing social resources at localities, creating jobs for a majority of laborers and contributing to set up a sound competition market. So far, Vietnam has had over 500,000 SMEs, accounting for more than 97 percent of total businesses, using over 30 percent of total investments, employing over 50 percent of laborers and producing over 40 percent of consumer goods and exports. SMEs have continuously increased their contribution to the growth of the GDP. In 2010, the SMEs contributed 47 percent GDP and nearly 40 percent of the state budget, playing an important role in the country's socio-economic development (Vương & Trần, 2009, pp. 3-4; Le, 2011).

Vietnamese government has been continuously providing favorable conditions for small and medium sized enterprises. There has been a great variety of programs aiming at assisting SMEs to raise the quality of products and services, develop trademark, improve competitive capability and enhance international integration. The usage of IS in SMEs' business processes is extremely encouraged by the state to improve their administrative and productivity as well as push up international integration process. (Le, 2011)

<sup>1</sup> Renovation (Vietnamese: *Đổi Mới*) is the name given to the economic reforms initiated in Vietnam in 1986, with the goal of creating a "socialist-oriented market economy" (Đào, 2003; Hoàng, 2007).



## 2.2 Reasons for IS adoption in SMEs

For many firms, the most common reasons for IS adoption is to provide a means to enhance survival, growth, competitive and innovation abilities (Bridge & Peel, 1999, p. 82; Levy & Powell, 2004, p. 196). SMEs adopt ISs for different reasons, because the functions of firms vary in different environments and they do not necessarily operate in the same way or have the same impact (Macpherson, Jones, Zhang, & Wilson, 2003, p. 259; Nguyen, 2009, pp. 163-165). Some authors argue that IS adoption is in response to flexible and dynamic markets, or reaction to an event, while others suggest that the change results from the pressure from customers and an emphasis on improving efficiency (Winter, 2003, p. 993; Corso, Martini, Pellegrini, & Paolucci, 2004, pp. 398-401; Levy & Powell, 2004, p. 201).

The change is also a response to the pressures from the internal and external environment (Andries & Debackere, 2006). Internal changes include the life cycle or maturity of the firm and external changes are survival or stability in the market. As firms go through different stages and respond to them they need to satisfy certain requirements or to respond or adapt to a required improvement. External changes refer to causes such as technology-push and market-pull. Here, technology-push implies an innovation that is well developed and the market, under the pressure of this advanced technology, is required to absorb it. On the other hand, market-pull refers to a social need where IT is developed to satisfy this need (Nguyen, 2009, pp. 165-166).

Earlier studies show that the owner/managers also base their decisions on for competitive purposes (Harrison, Peter P. Mykytyn, & Riemenschneider, 1997) and are also able to create competitive advantage for their firms and differentiate themselves from their competitors (Aragon-Sanchez & Sanchez-Marin, 2005, p. 297; Nguyen, 2009, pp. 165-166).

## 2.3 IS adoption process, success and failure

Definitions of adoption of innovation stress three different things in the process. Rogers (2003, p. 200) stresses the *commitment to implement* the innovation with the emphasis on the *decision to adopt*. According to Bøving and Bødker (2003, p. 40) only a *full use of innovation* as intended by the designer and without any modification can be called an adoption. Finally, Thong and Yap (1996, p. 162) do not differentiate the full use and modified use of innovation. The adoption is defined as *using innovation* to support business.

To some extent, the adoption process of IS is also considered as a process of organizational learning. Rantapuska and Ihanainen (2008, pp. 366-369), suggested by Lynne (2004), view the IT acquisition process through four stages of organizational learning. The process starts with externalization phase in which the organization prepares itself for the change. In this phase, SMEs should encourage practice that enables the participation of various people in the decision-making. Next is combination phase in which the candidate vendors/software products are selected. Then in internalization phase,

the IS is implemented in the company. The actual tests of the IS should be implemented in-house and with real users and data. The final phase, socialization, is not only about educating the personnel to use the system, but also about supporting the software usage to spread throughout the organization.

In this paper, we believe that the adoption of innovation is not only an acceptance of a new idea, but also putting the idea to work. In case of ISs, the adoption should include initiation, development and implementation phase. We define the adoption of IS as using computer hardware and software to support operations, management, and decision-making in the organizations. Our model of IS adoption process, which is adapted from literature, is presented as following: the IS adoption process starts with decision-making phase, next is selection phase, then development phase and ends with implementation phase, which includes the staff training to use the system. We illustrate and summarize the adoption process in figure 1.

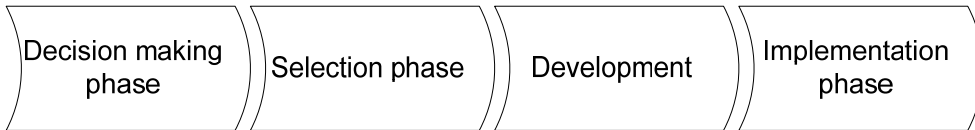


Figure 1 – Model of IS adoption process

Poon and Wagner (2001, pp. 394-95) choose five factors to evaluate the success of the adoption of IS as following:

- Access: the IS is made available and users are given access to the system. Even if a system is available, complicated login procedures may prevent users from accessing it.
- Use: the IS is used by the target users. The system should also provide benefits to the users, so it is not abandoned by them. The frequency of using the system is also one of the factors that reflect the success of IS adoption.
- Satisfaction: users are satisfied with the IS, specifically the information produced by the system.
- Positive impact: the IS has positive impact on decision-making, management and the organization.
- Diffusion: the numbers of people using the system increase after the initial users have adopted the system.

DeLone and McLean (1992, p. 62) add two more dimensions of a successful IS adoption. They are quality of the IS, and quality of the information produced by the system (accuracy, meaningfulness, and timeliness).

Bussen and Myers (1997, pp. 145-146) mentions about the study of Watson and Glover (1989) in which they identify the following factors that evaluate to the failure of the IS adoption, “inadequate or inappropriate technology, the

failure of the system to meet user needs, a lack of executive commitment, and executive resistance to technology". User resistance is also a symptom of system failure as suggested by Senn (1978). For example, users may aggressively attack the system, rendering it unusable or ineffective, or they may simply avoid using the system. Davis et al. (1992) suggest "a sufficient condition for indicating the occurrence of a failure is that the organizational participants who have a stake in the IS (something to gain from the success of the IS or something to lose as a result of its failure) agree that the system is a failure".

According to Ewusi-Mensah and Przasnyski (1994), IS failure is better defined as failure in usage or operation, whereas failure in the development of IS should be called project abandonment. There are three different types of project abandonment: total abandonment (all project activities are terminated before implementation), substantial abandonment (major modifications occur to the project before implementation), and partial abandonment (original specification is reduced without resulting in major changes before implementation).

A list of factors that cause the failure of IS adoption is identified by Watson, Rainer & Houdeshel (1992, pp. 92-98). They conclude that IS failure is more likely to occur if there were a lack of executive support, undefined system objectives, poorly defined information requirements, inadequate support staff, and poorly planned evolution. Another cause of systems failure is the misspecification of the design referent group of user. Bostrom and Heinen (1977, pp. 27-28) provided an example of the system being designed for the top-level manager, leaving the secondary users with a system that does not meet their needs.

## 2.4 Factors influencing IS adoption

The factors influencing the IS adoption process can be categorized into internal and external ones. Internal factors consist of organizational culture, management, and employees. Internal factors are usually controllable while the external factors are less controllable or even uncontrollable by the SME's management.

Corporate culture, which includes the characteristics of human resources and the degree of openness to change, may influence the process of adoption of innovation (Minguzzi & Passaro, 2001, p. 182). The IS adoption process is a change within the organization that affects the culture of that organization and vice versa. Companies, which are open to accept new, challenging activities and encourage learning, are ready to support innovation and gain advantage over their competitors. Those with inflexible or holding-back culture, which are not likely to accept change, may limit their competitiveness. (Nguyen, 2009, p. 167).

In SMEs, the role of the top manager or the owner-manager is crucial to the firm since they make all decisions from daily operations to future investment (Reid, 1981; Smith, 2007). This applies also to the decision to adopt ISs (Rie-

menschneider & McKinney, 2001; Bruque & Moyano, 2007). The managers want to make sure that the IS meets the requirements set by the firm and satisfies the organizational (Nguyen, 2009, p. 168). The greater the managers understand ISs, the more likely they will adopt some IS for their business and the more successful the adoption is (Bassellier, Benbasat, & Reich, 2003, p. 317; DeLone, 1988, p. 50). Benefits, costs and risks are always in top management consideration before decision to adopt an IS.

Employees are also an important asset on the rise or fall of the business. When employees are part of the process, they can provide helpful input for their daily activities in which the managers are not involved. Management should make sure that employees are fully aware and understand the impact of changes (Anderson & Huang, 2006). The IS adoption process requires teamwork and acceptance across all departments within a firm. In other words, it requires top management support, clear communication to the employees, and the employees' acceptance of the changes.

The external factors of IS adoption consist of stakeholders, competitors, and IS vendors/external consultants. SMEs exist through the many interactions with their network of business partners, suppliers and customers. Through this network, firms can exchange, collaborate and share knowledge (Taylor & Pandza, 2003, p. 158). IS adoption is not merely for the sake of company itself, but also for their stakeholders. The adoption of IS should provide a means of communication and must be compatible between stakeholders, for example the adoption of Microsoft Office (Levy & Powell, 2004, p. 169). In some cases, customers can initiate IS adoption by applying pressure to the company (Drew, 2003, pp. 83-84; Sarosa, 2007, p. 156). Competitive pressure may also force SMEs to adopt IS, especially when a certain IS has shown positive results for many other competitors (Drew, 2003, pp. 83-84; Sarosa, 2007, p. 50).

The assistance of external experts, consultants or IS vendors are important to the adoption process of IS, not only for their support but also for the source of information. Their professional skills are needed because, as indicated by different studies, there is a lack of IT expertise and skills in most SMEs. Quality advice from professional consultants when it comes to IS adoption is always useful for management or owner-managers since many of them do not have sufficient experience or understanding of IT. However, owner-managers should also take into consideration that not all suggestions or software packages fit with the needs of an individual business. Therefore, a clear definition or purpose behind pursuing the new IS is essential. (Levy & Powell, 2004, p. 22; Thong & Yap, 1996; Sarosa, 2007, p. 157).

### **3. Research design**

#### **3.1 Research approach**

The research purposes of this paper are explanatory, descriptive and exploratory. The combination of the three allows the author not only to describe a phenomenon but also to explain why it happens, and to explore factors that

influence and interact with it. From those purposes, the author define the three main research questions (RQ) in this paper as:

RQ1: Why do Vietnamese SMEs adopt IS?

RQ2: How are ISs adopted in Vietnamese SMEs?

RQ3: What are factors that influence IS adoption process in Vietnamese SMEs?

IS adoption within SMEs is a complex socio-technical phenomenon (McMaster, 2001, pp. 1-2) which should be explored and understood as a whole picture. Crotty (1998) and Leedy & Ormrod (2005) stated that any effort to reduce such complexity into mere numbers and figures could obscure the real picture (Sarosa, 2007, pp. 6-7). Therefore, this study employs the qualitative method, which enables us to study individual/organizational behaviors, the phenomena within their environments and reveal rich and complex processes. Case study is adopted as main strategy in this paper, following the suggestion of Slappendel (1996) to approach the adoption as an interactive process of innovation by using a case research and case histories (Sarosa, 2007, p. 23).

Based on literature review, we first developed the initial model of IS adoption process which comprised factors influencing the process. Secondly, we designed the questions for the interview based on that model. Thirdly, we analyzed the data and compared our findings with the model of IS adoption. Finally, we deduced the conclusions and discussed the findings.

We used semi-structured interviews with open-ended questions to explore participants' experiences about the process of IS adoption in their companies. The participants' selection was purposive; they were selected on the basis that they had been exposed to the usage of IS in their business. Potential participants were invited to participate in a one-to-one interview by phone. They were asked whether the interview could be conducted via phone or instant chat messenger, both at their convenience. All the interviews in this research were conducted and transcribed in Vietnamese, then analyzed in English. This had to be done to avoid losing contextual meaning of the data, which might be lost if the data were translated to English beforehand (Sarosa, 2007, p. 80).

We used open coding technique, which is a process to generate categories that contain pointers to the actual data, to analyze the interviews by reading individual transcripts. We highlighted phrases, sentences, and words that we believed being the answers for the questions we asked, and then compared the answers to a particular question with the other respondents' interview transcripts. We also identified the answers to follow up questions, after which we looked at the transcripts again to see if there was anything left that might be a new theme emerging from the data.

### 3.2 Research cases

The research cases consist of seven SMEs in Vietnam. Cinema Company T is a Vietnamese joint-stock company producing films and managing movie theaters. Penetrating into premium film section in May 2005, Company T has been meeting the increasing entertainment demands of the Vietnamese audience. At the time being, Company T is serving client at three Hollywood standards cineplexes locating at central Ho Chi Minh City. The company has many departments, among which are Cinema Department and Marketing Department. In 2007, Marketing Department hired a software company to design the website and online booking system. Three years later, a new Marketing Manager came and immediately requested improvement to the website. Cinema Department purchased a new system, which cost tens of thousands US dollars.

Bottled Water Manufacturer U runs its business as business-to-business (B2B), providing bottled water to inter-state transportation companies in the Mekong River Delta. The idea of adopting an inventory control system came from U's competitor in an informal meal<sup>2</sup>. From the consultancy of both his friend (also his competitor) and the developer who had built the system for that friend, U's owner/manager (Mr. A) decided to adopt it.

Company V, established in 2004, specialized in interior design for houses, hostels, bars, restaurants, cafés, showrooms, offices. The accounting system was adopted in the same time with the foundation of the company. The owner-manager purchased the software from his friend who owned a software development company. When the new chief accountant came, she abandoned the software because she did not know how to use it and preferred using Microsoft Excel. After that, the accounting system was left aside, still in the computers but it was not updated any more.

Credit Rating Agency W specialized in providing corporate credit reports on businesses in Vietnam. Their products and services are extremely useful for foreign companies who are in need of information about Vietnamese companies. The owner/manager nurtured the idea of a system to facilitate those processes for a long time. Eventually, in 2009, the idea was realized. Three internal developers in Hanoi office developed the system.

Company X specialized in exterior and interior design for hotels, bars, restaurants, cafés, showrooms, offices, houses and projects. X had used Microsoft Windows Server 2008 for years; but it was, surprisingly, unlicensed. It was only after recently that an "inspection team" of the government discovered the usage of illegal Microsoft Windows Server 2008 and forced the company to purchase a licensed one.

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<sup>2</sup> *Informal meal (Vietnamese: nhậu) is a cultural identity of Vietnamese in business particularly and daily life generally. In an informal meal, people gather, drink wine and eat specially food in turn, and have a chat of common interest. A large amount of contracts are negotiated and signed in informal meals. It is somehow analogous to the golf and tennis business culture in the West.*

Company Y is a state-owned company specializing in manufacturing of rubber products, for example automobile, motorcycle tires and tubes. The adoption here is from unlicensed Microsoft Office 2003 to OpenOffice.org in which government played an important role.

Z started up as a state-owned company in 1976. The company later promoted expanding activities throughout the country with two factories established in Hanoi and Hue. Until the mid-1990s, all the business workflow of Z had been in paper. Acknowledging the need of computerizing a part of this labor-intensive work, the top executives decided to invest in an accounting system. After meetings, the Board of directors decided to outsource the accounting system to an independent developer, which is, actually, a relative of the current Chief Financial Officer (CFO). In 2006, from a state-owned company, Z equitized into a joint stock company, but the state still held 51% of the share. In 2010, seeing the need of better control and more competitive edges, the top managers decided to conduct an ERP (enterprise resource planning) pre-feasibility study. A lot of difficulties arose, among which is the over-flexibility in the business work-flow of partners, the responsibility of a 51%-state-owned company, and the use of dualistic accounts<sup>3</sup> in Vietnamese Accounting System (VAS).

## 4. Results

### 4.1.1 RQ1: Why do Vietnamese SMEs adopt ISs?

From our studying of eight IS adoptions in seven companies, we found a variety of reasons that lead to the decision to adopt the IS in Vietnamese SMEs.

Mainly, Vietnamese SMEs adopted ISs to support business, improve productivity and advance decision making of top management. This statement was demonstrated by the cases of inventory control system in U, Credit Rating Information system (CRIS, a self-developed system) in V, accounting software in V and Z, and ERP system in Z. In addition, the need for a system might arise when firms went through different stages in their development process. That was the case of W in which the increase of their database required a sufficient system to facilitate searching and management of the database. Pressure from customers and competitors are considered among the main reasons that lead to the adoption of a new website in T. Also, a competitor had a role in the adoption of inventory control system in U. However, we evaluated that the pressure from customers and competitors in those two cases were not clear enough. There should be more studies about the impact of customers and competitors on the decision to adopt IS in Vietnamese SMEs.

The above reasons were mentioned already in the literature. However, there was a reason that could not be found in any literature that had been developed in Western countries: pressure from government, which was the main

<sup>3</sup> Dualistic accounts are, in VAS, those that have both credit and debit side after balancing.

reason for the adoption of licensed Windows Sever 2008 in X and OpenOffice.org in Y.

#### **4.1.2 RQ2: How are ISs adopted in Vietnamese SMEs?**

As we presented, the IS adoption process started with the decision-making phase, next is the selection phase, and ended with implementation phase, which included the staff training to use the system.

In the decision making phase, there could be either participation of staff in decision making or not. In the case of T, W and Y, top managers discussed with staff about their intention to adopt the IS. In the case of U and V, top managers solely made decision after the consultancy of external factors. It is safe to say that the participant of staff in the decision making phase depended on two factors: their IT knowledge and the top managers' knowledge about the IS. For example, U's owner manager already gained knowledge about the inventory control system via external consultancy, thus he had no need of advice from employees who only used computers at the basic level. However, Y's Chief Executive Officer (CEO) did not know anything about OpenOffice.org, thus he needed consultancy of the IT manager before he could decide to adopt it or not.

The selection of IS vendor or the software suited to business requirements were mostly included in the decision making phase. In the case of U, V, W and Y, the top managers had selected the IS vendor or the software before the decision to adopt was made. However, in the case of T and Z, the selection of IS vendor came after the decision to adopt an IS. The IS vendors might increase their chance of receiving the contract if they provided great offers or actively proposed a partner relationship with the companies.

In the development phase, it depended on the requirement of the companies that the IS was a commercial-off-the-shelf (COTS) product or was developed from scratch. Whatever it was, the IS was required to handle business processes with minimal change to the business processes themselves. If the software could fulfill that mission, it would be abandoned sooner or later.

In the implementation phase, it depended on the type of IS that required participation of a member of staff, or many staff, or the entire company. For example, the implementation of the website in T only needed supervision of a member of staff who had advanced knowledge of IT whereas the whole staffs of W (including supervisors and managers) were encouraged to use, test and provide ideas to improve the CRIS.

We defined the adoption of IS as using computer hardware and software to support operations, management, and decision-making in the organizations. We would like to add one more element to that statement: *to respond to an external pressure (for example, government).*



#### 4.1.3 RQ3: What are factors that influence IS adoption process in Vietnamese SMEs?

In our analysis, both internal and external factors influenced to the adoption of IS in our data. Besides top managers/owner-managers, employees, financial resource, customers, competitors and IS vendors/external consultants, government also influenced to the adoption of IS.

**Top manager/owner-manager.** It seemed that solely top managers/owner-managers made all the decisions with little or no input from the staff. They might ask what their staffs think, but it seemed that it did not affect their decision. U and V are examples for that. This might be due to the centralistic style of management common in Asian countries as well as being a common feature of SMEs, especially family ones. This decision making style might make the IS adoption easier, because all the decisions were made and enforced on the staff. However, there were also cases in which top managers were in need of consultancy from employees before making decisions. T, W and Y are examples for that.

Literature suggested that managers often considered benefit, costs and risks before adoption of any IS. From our studying, system benefits and costs are two factors that receive the most consideration of Vietnamese SMEs managers in decision making process. The owner-manager had a sufficient understanding of what the system can do for their business and what their business required from the system. In the case of Credit Rating Agency W, cost of the system was not mentioned to the interviewer (the author) but we knew that the owner-manager was ready to spend for the system because of its great benefit to the company.

It seemed unusual for the SMEs to adjust their business processes to accommodate an IS. Top managers demanded IS to handle their business processes with minimal change to the business processes themselves. That was the cases of Z with the ERP system and U with the inventory control system. The top managers required the systems to be customized to match with their business processes.

**Financial resource.** Lacking of financial resource was one of the barriers to IS adoption in Vietnamese SMEs. With the usage of unlicensed software in some companies, although the managers had adequate awareness of all the risks involved, they still allowed its use because it would be costly to purchase a licensed one. A sudden increase in cost could prevent the IS implemented in the company.

However, most participants were able to allocate some of their capital for the needed system. With companies using pirated software, they often blamed for the shortage of financial resource but that was only one side of the story. If needed, the company could afford the IS. The usage of unlicensed software came from the habit of some top managers or from their perception about the importance of the software. For example, to some companies, accounting system is important, HRM (human resource management) system is im-

portant, Inventory Management System is important but Microsoft Office, although it is the most popular software in Vietnamese companies, was not worth the money.

**Employees.** Employees' rejection of IS adoption can be a problem as suggested in the literature. From our studying, top managers often decided to adopt the system and the employees would usually comply. There is one case in which a new recruited staff refused to use existing software; however, that had been already four years since the adoption of that software. Employees had no objection to the adoption of IS because they knew that the use of the system would assist them in their daily working. Employees' readiness was also not a problem. Most of the participants' employees were university graduates or at least college graduates. Although the types of IS in companies were far different with those practiced in Universities, they could easily learn to get used to the company's systems.

Employees had important roles in the decision-making process as well as implementation process. In many cases, their knowledge about IT was much better than top managers, thus they could provide helpful advice for top managers in decisions to adopt an IS. Even in the case of W, internal IT employees were responsible for building the system for the company. Or in the case of T, a member of staff who had advanced knowledge in IT supervised the development and implementation of the new website for the company.

**Customers.** The literature suggested that customers could initiate IS adoption by applying pressure to the companies. There was a case in which customers' complaint were among the reasons for the adoption of an IS. However, the pressure was not clear enough. Customers' comments should be considered as one of the references for the decision making of top managers.

**Competitors.** Competitive pressure may force SMEs to adopt an IS, especially when a certain IS has shown positive results for other competitors. To some extent, that was true, as in the case of U. The inventory control system had been adopted successfully in U's competitor, thus the owner-manager of U desired to have the same system in his business.

**IS vendors/ External consultants.** IS vendors and external consultants were perceived as a necessary element of IS adoption by the companies, not only for their support but also as a source of information on the availability of IS solutions that fitted their needs. From our studying, there was only one company in which the system was developed by internal IT persons. The other companies had their systems outsourced. IS vendors may affect the decision making phase via their marketing programs, providing advice or even personal relationship.

**Government.** Government is expected to provide a good infrastructure and communication network to facilitate the process of IS adoption in businesses. In Vietnam, the electricity network is managed by EVN (Electricity Vietnam), a monopoly state-owned company. In many areas, not only in rural areas, but also in municipalities like Hanoi and Ho Chi Minh City, cutting off

power often happens without prior notice. That causes many problems to entrepreneurs. One of those problems could be found in the case of W.

The use of unlicensed software is quite popular in Vietnamese companies, not only SMEs. According to Business Software Alliance (Dao, 2010), Vietnam has a high rate of enterprises using pirated software. Many Vietnamese companies still think that they only need to buy licenses for existing pirated software in case they are discovered by the government. However, the punishment is much tougher than that. According to Vietnamese Criminal Law, beside penalty in money, the owner of a company using illegal software may spend up to 3 years in prison. In the case of X and Y, there was strong impact from government to the decision to adopt licensed Windows Server 2008 and OpenOffice.org.

## 5. Discussions and Conclusions

This paper has two limitations. Firstly, there were only seven SMEs from the Southern of Vietnam involved in the study, thus the findings might not be appropriate for the whole Vietnam. Secondly, with cases from seven companies, our study could not be considered as truly representative of all Vietnamese SMEs. However, this paper is considered valid and reliable. The analysis of reasons for IS adoption and factors influencing the adoption within seven Vietnamese SMEs have shown similarity with and confirm previous studies mentioned in the literature.

From our studying, we have some suggestions for top managers in Vietnamese SMEs in dealing with IS adoption. Firstly, staff involvement in the adoption process is important. After all, the staff is usually the ones who have to deal with the system on a daily basis. This corresponds closely with the conventional wisdom of 'user involvement' in a software development project being an essential contributor to successful software products.

Secondly, selection of proper software packages to fit the business requirement is extremely important. A firm should evaluate IS using different techniques before implementation. This is particularly important for SMEs because of the lack of financial support as well as lack of IT knowledge. When and how to change are also important.

Finally, the top managers should not allow the use of pirated software under any form in the business. If cost is their main concern, they should think of Open Source software instead of purchasing pirated software or illegal licensed software. Many open source software are well engineered being able to replace for expensive licensed software.

Our study of IS adoption process within Vietnamese SMEs has provided some basis for further studies, which may involve more participants, for example the developers from IS vendors to give a more complete picture of IS adoption phenomena within Vietnamese SMEs. Besides, we also suggest further studies on phases being in or related to IS adoption, such as initiative,

decision-making, negotiation, development, implementation, and usage. Finally yet importantly, further studies may focus on the impacts of customers and competitors on IS adoption of companies.

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## **Marketing through the value chain: a new conceptual approach for turbulent times**

### **Abstract**

**This paper proposes a conceptual approach to take into account both short-and long-term effects of marketing activities in enterprises across the value chain and developed a set if new indicators that allow for the analysis of the contribution of companies involved in creating value for customers in the aggregate terms across the value chain. This paper integrates the concepts of network relations, value chain management and inter-firm marketing effort that focus on customer orientation. Based on this conceptual basis we propose a sequence of actions that can translate these concepts into measures and indicators that allow a firm to understand their role in creating sustainable value. These measures are then validated through the analysis of customer orientation marketing approach.**

**Keywords:** value chain, long-term effects of marketing activities, evaluation indicators, client orientation

### **I. Introduction**

*From the transaction based marketing to value chain marketing – a change in approach.*

In contemporary marketing the focus in research has been shifting for already three decades from a single transaction between two firms to relationships in a value chain. At the same time, companies perceived increasing need to measure performance at all levels. This fact is especially essential for results of inter-firm relationships. Marketing experts are involved in an active search for a conceptual basis for the development of the framework for marketing management that also for the long range sustainability of the firm. This paper attempts to integrate various theoretical streams of thought that integrates theory with practical experience to build a clear approach to sustainable market through the approach of customer orientation and value chain management. There has been a considerable consolidation of views between practi-

tioners and researchers The foundation of modern marketing has moved beyond a simple transaction basis for analysis and moved towards a framework that incorporates the analysis of the value chain of creating and delivering value to customers and consumers (Webster 1997, Vargo & Lusch, 2004) . Therefore, the search for new tools and technologies of marketing management has clearly shifted into the mainstream of customer focus, the creation and distribution of value along the chain of interacting agents on the market, and a special emphasis is given to forms of direct inclusion of consumers in these processes (Piercy, 2009, Jüttner, Christopher and Baker, 2007). The creation of value in turbulent times has increased the demand from practitioners for new conceptual models and indicators to determine successful marketing measures. The recognition that lies at the heart of value chain marketing that first the emphasis on sharing across a number of firms in the creation of value. Secondly, this concept reinforces the concept that modern marketing is not simply a function of the individual firm and that the mechanism for coordination and joint management of interacting market agents resulting in the co-creating and delivering value to the customer.

Moreover, traditional valuation models offer us to start our assessments by forecasting earnings or cash flows and then discount these cash-flows back at some market discount rate to receive the value of a firm or asset. This general statement can be applied to any kind of firm we look at, but the ease of initial earnings or cash-flows forecasting can vary significantly across the firms. This fact is critical for the firms dependent on or investing heavily in intangible assets, particularly marketing assets (Srivastava, Shervani & Fahey, 1998). Every significant marketing action should not only increase operating expenses of the company, but also influence its market value. Widespread valuation principles do not account for intangible and marketing-based effects as shareholder's value driver (Damodaran, 2002; Koller, Goedhart & Wessels, 2005). Except few methods like EVA (Antill & Lee, 2008) or option-based models (Black & Sholes, 1973; Dixit & Pindyck, 1995), that undergo dozens of adjustments in order to acquire rough forecasts of marketing spending (Weaver, 2001), there are no approaches based on long-term results of marketing actions or development of other intangibles.

Transforming the base of marketing - the transition from the transaction as a basis in transactional marketing to the value chain for the customer - actualizes posing the question of the legitimacy of evaluation of marketing activities of both short-and long-term same indicators. Transactional marketing typically links the results of marketing activity with the volume of transactions. Therefore, the results of marketing activity is directly measured by sales, market share, or some other firm specific variable that is based on the assumption that the firm operates independently of its network. But the question of determining the long-term results of marketing activity is not as straightforward, and raises numerous arguments between accounting, financial and marketing departments. The central questions resolve around how we can measure sustainable marketing efforts separate from specific transactional actions of a single firm. If we proceed from the framework of marketing across the value chain these raises questions not only about the possibility of assessing this value on the basis of specific indicators, but also on the contribution of

marketing activities in the more general results of the company including the analysis of the value chain of interacting firms in holistic manner. Attempts to better integrate marketing activities with the results of the individual firm have focus on short run financial indicators such as profit maximization, increase of market value, market share and others that may or may not be related to the long term sustainable development of the firm. These measures do not account for the intangible value that network relations have for a firm. In emerging markets such as Russia these intangibles have perhaps a greater impact on the long term results of the firm in comparison to short run financial indicators.

The main problem here consists in the fact that accounting results fit the results of firms involved in manufacturing and natural resources such as coal, oil, steel, automobile manufacturing and other “old economy” industries where the maximization of fixed assets and market share matter. In the “new economy” consisting of software, telecommunications industry, other high technology industries requires a revision in the structure parameters for the measurement of success. Why does there need to be a rethinking of these indicators? First, firm level financial results develop over long period of time which leads to certain degree of conservatism. As a result, statistical indicators are not a timely indicator of the contribution of new, rapidly growing sectors, and the adequate assessment of the situation in these sectors often requires the development and use of alternative indicators to capture the true contribution to the creation of value in the economy. This analysis applies not only to Russia and other emerging economies. In the 1980s and 1990s once personal computers became widespread in the US it became clear that measures of inflation, economic growth, productivity and innovation needed to be revised to reflect the unique character of the changes in the role of information technology on value creation. As a result of the revision of historical estimates produced revised lower rate of inflation and higher rate of economic growth, while it took years to find a clear impact on productivity.

Secondly, the reliable modern Russian statistics have a relatively short history of only two decades, where limited attention to the problem of measuring the “New Economy” has been expended by government or the private sector. After the collapse of the Soviet Union the main objective was to ensure the health of the Russian Official Statistical System (ROSSTAT) as a self-sustaining system of independent state statistics. After the start of market reforms there required a major reorganization of the Russian statistics to move towards the needs of the market economy. New statistics were needed in a market economy such as reliable price statistics and unemployment rates. The transition from the Soviet system of indicators of Balance of National Economy (BNH) to the international standard of the System of National Accounts (SNA) redefined the measurement of economic activity to meet the needs of market economy analysis.

Third, the transition period in Russia was characterized by extremely intense changes in the Russian Economy creating a turbulent market for the development of private enterprise. The Russian Economy has faced the unusual problem of hyper inflation, a deep recession and the lasting transformation of the

economy during the subsequent post-1998 recovery, followed by a collapse and recovery of the economy during the 2008 financial crisis. In this situation the attention of statisticians has been increasingly focused on solving problems at the current expense of longer-term issues, which include the development and introduction of measurement indicators for the “new economy.”

Thus, the attention of Russian statisticians during the transition period has been concentrated largely on the tasks of radical reform towards creating a market Economy and the support for information for *current* issues. In these circumstances concerning the creation of official statistics one could hardly expect a breakthrough in the direction of the methodology of measuring the “New Economy” and to develop appropriate (or relevant) of the measures. But current conditions are ripe for this breakthrough.

The imperfection of modern indicators focused on separate enterprise activities without a clear understanding of the interactions within in the value chain is not unique to Russian situation, but are exacerbated in Russia and other emerging market by the absence of indicators that are only beginning to be introduced into international practices of value chain analysis. The current situation indicates that there exist complications in analysis due to the imperfection and incompleteness of the statistical basis on individual firm level performance for the assessment of doing business and the impact of marketing for firms operating in the Russian market. In addition to the influence of the “New Economy” there exists a need to assess in terms of marketing impact on the results of the firm in comparison to other firms within the value chain and across the industry. The value chain perspective further complicates the assessment of the effects of marketing activity especially that which leads to sustainability. Therefore, the research problem can be formulated as a development approach to evaluating the long-term effects of marketing in the contemporary situation, which allows defining and validating the future direction of marketing activity.

The organization of the article is as follows. In the first section we examine the practical and theoretical framework for the analysis of the problem of long-term assessment of the results of marketing activities. Next we examine the existing approaches to the assessment of the long-term results of marketing activities in the literature. This analysis is conducted in the context of linking these results with the general firm objectives.

## 2. Literature review

Marketing activities have both short-and long-term effects. In this short-term effects are usually negative. Any marketing campaign, regardless of the timing develops in a certain patterns as reflected in the following

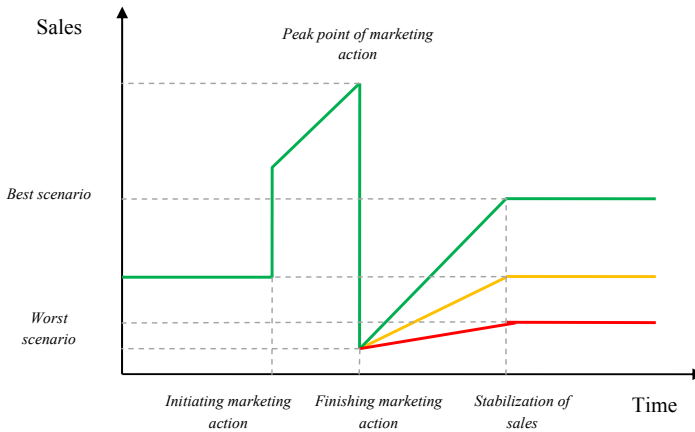


Fig. 1 Sales Dynamics Following Marketing Action. Adopted from (Rao & Thomas, 1973)

Today application of various valuation models, obstructed by their imperfection in irregular situations (Damodaran, 2009), faces the general problem of measuring short-term and long-term effects of marketing actions. In this case marketing productivity valuation should become a prior for academic and empirical researches (Morgan, Clark and Gooner, 2002). In Sheath and Sisodia (2002) it is suggested that in order to increase marketing effectiveness and efficiency marketers must focus on delivering greater value to customers at the lower cost.

As proposed in (Rust et al., 2004) the evaluation of marketing productivity ultimately involves projecting the differences in cash flows that will occur from implementation of a marketing action. In contrast, from an accounting standpoint, decomposition of marketing productivity into changes in financial assets and marketing assets of the firm as a result of marketing actions might be considered. The devotion of more attention to these marketing assets is likely to transform the way businesses are managed.

Marketing strategy plays key role in the processes of attracting and retaining customers, providing growth and renovation of business, developing solid competitive advantages and enhancing financial performance of the firm during its life cycle (Srivastava, Shervani and Fahey, 1999). Relationship between share price and net present value of expected cash flows from the client base expansion is shown in (Kim, Mahajan and Srivastava, 1995) on example of telecom industry. Similarly (Ailawadi, Borin and Farris, 1995) demonstrates marketing actions impact on EVA and MVA indices through customer value indicators, revealing a direct correlation between marketing strategy and changes in entity's financial welfare.

In spite of skepticism (Borgström, 2005; Möller and Törrönen, 2003), researchers both proposed new indicators and tools for measuring relationship results along value chain (Beamon, 1999; Bititci et al., 2005; Gunasekaran,

Patel and Tirtiroglu, 2001) and documented implementation of monitoring systems by large companies (Fawcett and Cooper, 1998; Gaiardelli, Sacani and Songini, 2007; Sawhney and Zabin, 2002). Often, significance of taking into account customers' heterogenic character and of targeting the most profitable customers, were emphasized. Large-sized businesses and consulting companies, in turn, were developing their proprietary technologies and upgrading them in search of new managerial value. Such technologies often included dynamics of customers, i.e. registration of various categories (acquisition, retention, activity, loyalty, repeat purchase and so on), and assessing their impact on marketing-related performance targets, such as increase in brand capitalization, customer equity, intangible asset value and contribution to entity's capitalization.

If business fails to satisfy its customer's needs and expectations, it will finally suffer reduction of investments. On the other hand, businesses, which are successful in that field, will likely be "rewarded with more business from buyers and with more capital from investors" (Anderson, Fornell and Mazvancheryl, 2004).

Venkatesan and Kumar (2004) underlines correlation between firm's profits and customer lifetime value (CLV). Managers can improve profits by designing marketing communications that maximize CLV.

Almost all research of this issue emphasize importance of positive client relationship. However, not a single research provides business practitioners with applied walkthrough approach to assessing company's performance results using this client loyalty factor.

In short-term period we can use many indicators in order to analyze results of marketing actions:

- Increase of revenue (of transaction materiality, of turnover, pQ maximization);
- Increase in client loyalty;
- Increase in brand capitalization, client-based equity;
- Increase of company's intangible assets;
- Marketing assets contribution into entity's capitalization, etc.

However, it is impossible to separate influence of firm's current operating activities and external factors from marketing effects. Moreover, single maximization of a customer value without understanding long-term results of present-time actions can lead to crucial misjudgments while forecasting future earnings or cash-flows. For example aggressive short-term marketing pressure on consumers can lead to a disaster in a long run. The downturn effect after marketing action can exceed or sufficiently cut positive results of short-term sales increase (see Figure 1).

As the theory does not give us an answer to our question, we suggest researchers borrow existing business model of remote trading industry. Due to their specific way of doing business, these companies are solely client-dependent. Thus, they present a distinctive level of customer relationship management. Using resources of Internet for gathering, monitoring and analyzing extensive personal data about customers, they treat them in different ways. Targeting the most profitable regular customers result in higher overall income and efficiency of marketing actions. In other words, maximizing the source of cash flow helps maximizing cash flow itself.

Thus, the major concern should be the following: how many “active” clients can the company attract and retain as a result of marketing action and is the company able to transform this inflow of active clients into stable increase of sales? We assume that a retention rate of active clients can be the best long-term marketing effects indicator and is a natural basis of financial indicators listed above.

### 3. Conceptual model

Since the telecommunications business is subject to seasonal fluctuations (in certain months of the volumes of services are reduced, some increase, as well as the observed bursts of volume of services provided during the holidays (e.g. New Year) must take into account the effect of these factors on the change in sales. It is therefore desirable to consider the dynamics of the various indicators, not only in the weekly (monthly) measurements, but also in comparison with similar periods in previous years (better than two years).

Therefore, development of indicators and consideration of their dynamics is one of the key ways of monitoring the effective development of business and as a consequence, the basis for evaluating the effectiveness of marketing campaigns, justify their conduct and evaluate their effectiveness. An example of dynamic tables can be a table with the following performance indicators (post-analysis) (including, depending on services rendered):

Table 1. Dynamic table of indicators for business development

Week (month)	1	2	...	51	52
Number of users					
The volume of services provided					
The volume of services provided within a particular marketing campaign					
Number of users emerged as a result of a marketing campaign					
Dynamics of change of number of users in%					
Dynamics of change of the services provided by one or another of the marketing campaign%					
The contribution of marketing campaign to increase the number of users					
The contribution of marketing campaign to increase revenue					

The contribution of marketing to increase the number of users can be calculated by considering the same period last year in which there was no marketing campaign. At the same time filling the spreadsheet allows comparisons of the week (e.g., the fourth week of the current and previous years) and months, expect the average change per year, calculated as nominal and real value of the contribution from the marketing efforts. Besides knowing the number of newly attracted customers and revenue, which brings one active client of the company for the year can be based on a marketing campaign to judge the increase in the average annual income for a certain amount. These calculations are needed to demonstrate the short-and long-term effects of marketing actions. In the first year of the client, as a rule, will be unprofitable and will not generate income during the reporting period.

Dynamic table clearly provides information not only about changing the declared figures for a year or a certain period, but is especially valuable, makes it possible to analyze the dynamics of a particular indicator over the same period a year ago, two years ago, etc. the accumulation of data. In practice, the use of this technology is that it is best to consider statements for three years, which includes data from previous tables. This allows us to identify a causal relationship and to assess quantitatively the results of marketing activities.

This table should always keep the possibility of adding new indicators, depending on the nature of the ongoing marketing campaign, and depending on what exactly it aims - to increase the number of clients to improve service quality, to increase average revenue per customer, and others. In addition to the list of indicators could include those that help keep track of the development of new services - such as traffic for Internet telephony, long distance connections, providing FTP-servers, clients, etc.). Besides the possibility of adjusting a set of indicators tables can respond appropriately to market changes and maintain the flexibility of customer feedback. In the future, this flexible customer interaction becomes the basis of increasing individualization of working with some of the most important for the company's customers. Therefore, the openness of the set of indicators, data tables, is crucial for implementation of a new system for collecting and processing information for analysis and decision-making.

Because the market is too dynamic, and marketing campaigns are usually transient, the results of marketing activities is analyzed using dynamic tables and graphs, examples of which are provided above in the theoretical part of work. Since the duration of the marketing campaign is typically less than a month, the effect of inflation on short-term results can be neglected.

Dynamic tables can also be extended to include data about the performance of staff. They will help determine the share of labor costs for marketing efforts and determine whether to continue to apply similar marketing efforts. The data on existing factors must also be dynamic performance and depending on the change of a marketing campaign rates vary. Also, these figures should be seen not simply as the total fertility, there should be partitioned into equity managers and executives, which can be specified for each marketing campaign.



#### 4. Validation of the model

According to Pareto principle 80% of the customer-oriented firm (network) profit comes from 20% of its clients. Rust et al. (2004) emphasize the significance of taking into account the client flow’s heterogenic character, of targeting the most profitable clients. Clients who have purchased firm’s goods or services more than twice can be attributed to this group of “qualitative” or regular clients (see Figure 2). Hence, the results of transformation from “first time buyers” to regular client must be more significant for marketers than information about initial client recruitment or number of clients who have purchased once. The more the retention of recruited clients is, the higher is marketing action productivity and consequently its financial outcome. Analyzing client retention rate in dynamics provides firm’s management with necessary indicators for marketing efficiency assessment and comparison.

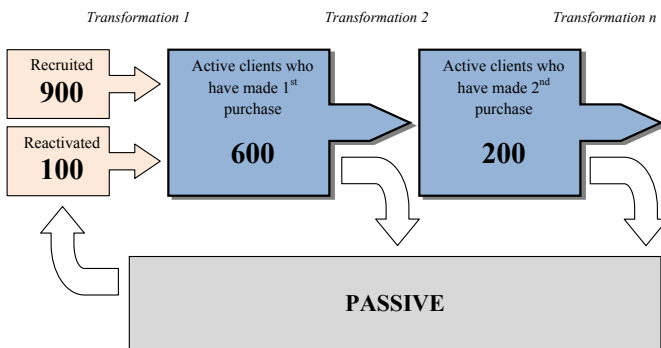


Fig. 2 Example of “Active” Customers Recruiting: Net Long-term Result of Marketing Action

Example of such comparative analysis, described at Figure 3, confirms this statement and reveals crucial difference of marketing strategies prevailing in Russia and Europe. On Russian unsaturated market it is not as necessary to take care of active-to-passive clients rate as on European one. Recruiting twice than in Europe, Russian branch of multinational holding loses larger percent of freshly attracted customers. Such strategy is reasonable in current market situation and in the short-term period. However, in the long-run it seems inefficient and even deadly. Losing the most profitable clients on a highly competitive market often means that company has lost them forever – no competitor would be so gracious to bring them back to you once more.

	Russia	Europe
Recruited	1,000,000	500,000
+		
Active	2,000,000	2,000,000
-		
Passive	950,000	450,000
=	1,050,000	1,050,000

Fig. 3 Problem of Recruiting Efficiency: Comparing Russian and European Cases

Tentative example based on internal data on customer retention process of European and Russian branches of multinational holding (actual numbers and company’s name cannot be disclosed in this study)

The problem of client recruiting process in Russia in comparison with Europe is inefficient in two ways. Firstly, Russian branch of the company has to spend more on short-term marketing actions in order to maintain stable level of income. Secondly, futile attitude to client retention cuts down their long-term benefits. Shortening long-term incomes accompanied with increasing short-term outcomes is equal to killing the goose that lays golden eggs. The market has already given a sign of future shift to regular customer orientation strategies: returning to example of telecom industry, client base growth rate of “Big 3” Russian cellular companies has diminished almost to zero during last 3 years. Moreover, since 2008 there have been noticed seasonal downturns of client base in these companies (Dzyadko, 2010).

First of all, it is assumed that *the source of well-being* as a separate company and a chain of interacting companies that create value, a *client relationship*. Under the client flow (or flow of customers), we mean time-varying set of customers who are served by the company or their interaction chain. Client thread is not submitted impersonal set of customers, and *differentiates* them in order of importance for the company. In other words, it can be characterized not only by the number of clients served by the company, but also their differentiation into different groups - active and passive, for example, more and less promising from the standpoint of their service during the life cycle of a client, a “potentially capacious and at least from the standpoint of their potential use. Dynamic client thread can be estimated as in the dynamics, as well as in the static slice of it at some point in time. Marketing activities are clearly differentiated, at least in two directions - are distinguished and differ essentially a *strategy to attract new customers* (recruiting strategies) and *retention strategies* (strategy) of existing customers. As a comprehensive evaluation of marketing activity it is crucial to assess the dynamics of client flow and structure of state at a certain time interval. Under the structure we understand the relation of

different client groups in the flow recorded at a particular time. Comparison of changes in total customer flow and its individual structural groups to evaluate the dynamics of customer capital attached to this value chain and purposefully control its development, to determine a set of marketing actions on certain customer segments. Total customer flow model shown in Figure 2.

The mechanisms accounting for and control the current and future effects of marketing activities in selected international companies operating in the market FMCG, we have found an analog technology management of the client flow in the practice of their activities. This applies to companies doing business with targeted customers. Moreover, participant observation of this mechanism and a number of in-depth interviews allowed reproducing the requirements for accounting and building a dynamic table, filling in that allows you to organize this record and evaluate the status and dynamics of the client flow where it does not exist yet. Moreover, these dynamic tables were tested for the possibility of a large corporation other industries, which also has targeted customers and related to the “new economy”. As a result, a detailed analysis of this case study in the telecommunications sector was confirmed by a real interest in implementing a new accounting system with the above features and a new system of KPI, which allows assessing the status and dynamics of client flow in the context of individual client groups.

In a situation where the mechanism accounting for the client thread was discovered, we at the same time recorded that he had not fully used in comparative analysis of the results of strategies to attract and retain customers for Russian and European markets by the same company. That is the theoretical possibility of analysis, which provides a model client flow, is not used in practice. A hypothetical example (Figure 3) indicates that more effective involvement of customers in the Russian market, which is understandable objective characteristics of this market is more active process of churn, the loss of customers. In other words, does not work strategy customer retention. Fine-tune exactly this strategy has great potential for further development of client flow and the favorable development of the company. In this example is well illustrated by the interaction of theoretical concepts, supported by practical counterparts, and technologies that work in the same vein, can lead to mutual enrichment and benefit of both practical solutions and to confirm the theoretical constructs.

## 5. Conclusions

In this research we have developed new performance metrics based on the flow of customers and its structural characteristics. This research aims to provide potential indicators of long-term marketing effects in order to assign directions for future studies. We survey the state of practical implementation of customer registration by large international companies in Russia, outline an analytical model of customer differentiation based on customer flow dynamics, present a case of how it is used, and propose a way to employ it for measuring long term results of marketing activity of the value chain based mar-

keting. We attempt to show the connections between different marketing activity and structural parameters of customers flow.

We developed the concept of the flow of customers to assess the long-term results of marketing activities and emphasize the difference in managing new/potential and existing/loyal customers. We suggest considering client retention rate dynamics as a result of long-term marketing activity. Monitoring of customer dynamics makes it possible to detect problems and reorganize current marketing activity when necessary. In this case, we should address to experience of remote trading companies, which provide adequate basis for empirical and statistical analysis. Due to rapid growth of this particular kind of trade, including on-line stores, mail-order catalogue, delivering services, etc., a field for practical implementation of this concept would also expand.

As a long-term result of marketing activities in the value chain, we propose to maintain a certain flow dynamics of the client. And that this dynamic growth is determined by the active part of the client flow generating significant cash flows and intangible assets. This value chain based analysis must be extend to include the tracking of these "value chain" dynamics wherein we can identify problems and if necessary, to reorient the direction of current and future marketing activity of the firm.

The validation of this conceptual model utilizing an analysis of inter-firm relationships across the value chain is crucial. In the case analysis it is clear to use that these value chain based measure begin augment traditional transactional measures. Our future research will examine the implementation of these tools in different industries examining the effects of customer acquisition/retention model and a way we can use it to evaluate long term marketing results of utilizing the customer orientation. We are also plan to examine the role and place of a firm in a value chain and its relative power to extract value as another modifier for measures of marketing success. The consideration of modifications of the model based role and place of the dominant link in the chain of value creation has significant practical application.

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## **Trust development in the context of Finnish-Russian business relationships**

**Work-in-Progress**

### **Abstract**

The importance of trust in establishing and sustaining long-term business relationships has been convincingly stressed in the academic literature. Trust is seen as even more critical in inter-cultural business relationships between firms across national borders as these relationships imply greater uncertainty and risks originated essentially from differences in business culture. It has also been acknowledged, that national culture has an impact on the behaviour of firms and individuals, who are the actors within business relationships.

In this study, the inter-cultural business relationship between two partner firms is considered as a result of the interaction process between individuals on behalf of their firms across national borders with the aim to achieve some competitive advantage. In this context, interaction process occurs between two groups of individuals that possess cultures of different societies. While trust is embedded in the development of business relationships, it also develops through the interpersonal interaction process. Significant cultural differences of the partner firms resulted from their cultural dissimilar backgrounds and behaviour norms held by their individuals may have a negative impact on trust development between them right at the beginning of their interactions. Being aware of these cultural differences is a prerequisite for the improving level of trust and quality of business relationships.

The purpose of this paper is to present theoretical reasoning and a conceptual framework of the study which aims to shed more light on cultural factors that facilitate trust development in the context of Finnish-Russian business relationships. The study employs the conceptual framework of trust development process generated within the "STROI Network" research project held by HAMK with the purpose to shed more light on cultural factors that facilitate the development of trust. The study applies a multiple case study strategy. Semi-structured interviews with relationship managers were the primary method of data gathering. The seven case companies were selected out of the subsidiaries of Finnish compa-



**nies representing construction and related service industries operating on the Russian market.**

**Keywords:** Trust Development Process, National Culture, Inter-Cultural Business Relationship

## Introduction

During last decades the increased globalisation led to a growth in cross-border economic activities and forced building business relationships with partners from other countries. Therefore, trust is seen even more critical for relationships between firms across national borders as these relationships imply greater uncertainty and risks. Central to these arguments is the fact that these business relationships are essentially determined by people with different cultural backgrounds participating in the interactions. Handling these business relationships *“will depend to a large extent on the ability of people who think differently to act together”* (Hofstede, 1980, p. 9). This quote from Hofstede (1980) reflects the idea that people in business relationships are surely different, and their actions, attitude towards each other, as well as trust, depends on their way of thinking, which in turn depends on their cultural background. As *“people’s behaviour is defined by their culture”* (Adler, 1991, p. 17), relationships are culturally embedded. It is therefore important to consider the cultural aspect in establishing and sustaining the development of business relationships across national borders, as significant cultural differences may have a negative impact on trust development between relationship partners.

While the critical role of trust for the success of business relationships has been repeatedly emphasised in the academic literature (e.g. Anderson & Narus, 1990; Doney & Cannon, 1997; Ganesan, 1994; Morgan & Hunt, 1994), the process of its development and functioning has received a little theoretical attention (McAllister, 1995; Sako, 1998). Insufficient academic research has also attempted to empirically document the factors affecting trust in marketing relationships (Anderson & Weitz, 1989; Dwyer et al., 1987; Dyer & Chu, 2000). As Child (2001) stated, *“trust remains an under-theorized, under-researched, and, therefore, poorly understood phenomenon”* (Child, 2001, p. 274). Nevertheless, it is acknowledged that trust is a socially constituted phenomenon (Lane and Bachmann, 1996), and it exists and develops between people whose behaviour defined dominantly by their societal norms and values. It can be conceived that the national culture influences on trust development between people, and therefore it has a great relevance for the current study of trust development within the inter-cultural business relationships.

Although several authors emphasised that trust depends on culture, and cultural influence on trust was regarded in terms of national culture (e.g. Doney, Cannon & Mullen, 1998; Zaheer & Zaheer 2006), a fundamental gap remains in studies focused on those societies where institutional frameworks supporting trust in business relationships are not well established. In the country like Russia, which now embraces liberal free-market principles, the market institutions and infrastructure are still underdeveloped. The challenge

for foreign firms operating in the turbulent Russian market is to understand the current market circumstances and to predict their future development. It will be only possible through close cooperation with reliable local partners. It means that foreign firms have to rely extensively on trust in building their business relationships with local partners, while trust is often considered as a substitute for underdeveloped market institutions (e.g. Peng & Heath, 1996). It is therefore important to study how trust can be developed in business relationships with Russian partner firms.

However, only few studies emphasizing the importance of cultural aspects were conducted in the context of Finnish-Russian business relationships (e.g. Vinokurova et al., 2009). Vinokurova et al. (2009) in their research on round wood trade between Russia and Finland found that along with language barrier, there have been some cultural based difficulties in interaction and communication, and misunderstanding between Finnish and Russian managers. Thus, culturally based misunderstandings in management of business relationships still seem to be a vital issue to consider. Existing cultural differences made the Russian business environment even more demanding.

Operating under planning system for a long time led Russian business to mainly use vertical integration (Tretyak & Sheresheva, 2004), which is slowly disappearing nowadays, but still an abundance of companies are not as horizontally integrated as are most companies in West. Managers in Russia are being opportunistic (Salmi, 1996), while on West they are entrepreneurial and the goal is improving market performance and profits and thus they actively seek for developing relationships in order to benefit from them (Huber & Wörgötter, 1998). Also it would be critical to note that dyadic relationships still prevail in Russia (Koutch & Afanasiev, 2004), while Western business is more network relationship oriented (Jansson, Johanson & Ramström, 2007).

Finnish construction industry has always had special connections with Russia since the Soviet Union time. However, the significant growth of business activities of Finnish construction firms in Russia was a result of the radical political and economic reforms there during last decades which have opened lots of opportunities for foreign firms. Even though Finnish construction firms have had a long history of cooperation with the Russian partners, building successful business relationships has often been problematic and still creates challenges. The aforementioned factors make the Finnish-Russian business relationships context of a particular interest to the study.

The study on trust development within inter-cultural business relationships, conducted as part of the “STROI Network” research project, has raised further questions. Therefore, **the overall aim of the current study is to shed more light on cultural factors that facilitate the trust development in the context of Finnish-Russian business relationships.** These questions are:

1. How trust develops within business relationships between Finnish and Russian construction firms operating in Russia?

2. What are the distinctive features of trust development process in the context of Russian national culture?
3. Does national culture matter for trust development in business relationships?

In this paper, the discussions on the inter-firm relationships within business networks will not go beyond the dyadic level, that is, beyond the Finnish general contractor's set of direct ties with Russian subcontractors operating on the Russian market. The focus will be places on Finnish contractors' perspective. Additionally, it must be emphasised, that in this study, terms such '*inter-organisational trust*', '*inter-firm trust*' and "*trust in business relationships*" are used interchangeably and denote trust in relationships between cooperative firms.

## 1. Theoretical background

The following literature review is dedicated to defining theoretical concepts in order to guide the empirical investigation, while the research aims at building a conceptual framework which exhibits the distinctive features of trust development process in the context of Russian national culture.

### 2.1 Conceptualising Trust in Business Relationships

A number of different conditions for the development of successful long-term relationships between co-operative partners has been identified by researchers, but "*virtually all scholars have agreed that one especially immediate antecedent is trust*" (Smith, Carroll & Ashford, 1995, p. 10). Alternatively, Smyth (2008) stresses the importance of relationship in the development of trust, saying that these concepts are not separable in reality. "*Trust is embedded and developed within relationships, so that while it is conceptually distinct as a conceptual category, hence relationships provide part of the context for development.*" (Smyth, 2008, p. 143) In reality, trust only makes sense and is mobilised within a relationship.

Considering what makes interactions between two actors in a market become a relationship, Håkansson and Snehota (1995), suggested, "*relationship is a result of an interaction process where connections have been developed between two parties that produce a mutual orientation and commitment*" (p. 26). Thus, business relationship between two organisations requires a process that "*form strong and extensive social, economic, service and technical ties over time, with the intent of lowering total costs and/or increasing value, thereby achieving mutual benefits*" (Anderson & Narus, 1991, p. 96).

The relationship exchanges between organisations are exchanges between individuals or small groups of individuals (Barney & Hansen 1994; Nooteboom, Berger & Noordhaven, 1997). Individuals provide the relationship mechanism across organisational boundaries, therefore relationships are interpersonal first and then inter-organisational. The increasing economic inte-

gration of the world leads to a growth in cross-border business activities and forces building relationships with partners from other countries. Thus, in this paper, business relationship between two partner firms across national borders is considered as a result of the interaction process between individuals on behalf of their firms with the aim to achieve some competitive advantage. In this context, interaction process occurs between two groups of individuals that possess cultures of different societies.

Business relationships can generally be considered as evolving gradually over time through certain phases from establishment to end (Ford 1980; Dwyer, Schurr & Oh, 1987). Dwyer et al. (1987) structuralised a relationship development into five main phases, which could be shortly characterised as follows:

1. 1. Awareness phase: *recognising a feasible relationship partner, no actual interaction,*
2. 2. Exploration phase: *beginning to consider benefits, burdens and obligations related to the possible relationship,*
3. 3. Expansion phase: *increase in benefits obtained by partners and their interdependence,*
4. 4. Commitment phase: *investing substantial resources in the relationship maintenance,*
5. 5. Dissolution phase: *evaluating of the dissatisfaction with the partner and concluding the costs of partnership continuation outweigh benefits.*

Business relationships do not develop through all these stages in a pre-determined way. Some relationships may fail after an initial contact, others may be long-lasting and deal with parties' varying aims and expectations at different times (Ford et al., 2004). Trust as an important coordination mechanism (Bradach & Eccles, 1989) supports the development of business relationships.

Edkins and Smyth (2006) proposed a framework for the understanding and analysis of trust in business relationships distinguishing trust related concepts. Adapting this framework Smyth (2008) introduced the components of trust dynamics, where '*expectations*' concern the outcomes that emerge from a relationship between parties working together. Further, author defines two types of believes that constitute expectations (Smyth, 2008):

1. '*faith*' in implicit performance capabilities of relationship partners with lacking evidence;
2. '*hope*' in visible capabilities of partners to perform with evidence derived from their achievements or opinions of experts.

The other component for trust, according to Smyth, is '*confidence*' in partners, which is defined as "*a probability statement of successful outcomes derived from evidence of recent performance based upon direct and indirect experience*" (Smyth, 2008, p. 148). Principally, in accordance with the Smyth' framework, relationships between parties can be characterised by the level of expectations or believes in outcomes and confidence. Trust is mediator between '*expectations*' and '*confidence*' which makes possible for confidence to grow and expectations

to reach a new level (Smyth, 2008). Correspondingly, trust is defined as *“the willingness to be vulnerable, acts as a mediator, giving time and space in order to convert expectations into confidence, thus reducing perceived risk and uncertainty.”* (Smyth, 2008, p. 148)

In essence, in the framework proposed by Smyth (2008), trust is considered in terms of confident expectations regarding relationship partners that mean a belief in capabilities of these partners to perform. However, it may be argued, that confident expectations concern also a belief in willingness of partners to act with positive intentions or goodwill, referring to Deutsch (1960) who regarded trust as a confidence of individual in the relationship partner's capabilities and intentions and the belief that a partner would behave as one hoped. In a relative manner, Blomqvist (1997) has proposed a two-dimensional definition of trust in business relationships: *“an actor's expectation of the other party's competence and goodwill”* (p. 282). In this definition, competence refers to technical and commercial capabilities, organizational and managerial skills and know-how, whereas goodwill implies moral responsibility and positive intentions towards the partner which imply the absence of opportunism. Additionally, Nooteboom (1996) conceives that *“trust may concern a partner's ability to perform according to agreement (competence trust), or his intentions to do so (goodwill trust)”* (p. 990).

Deducing from the discussion above, the confidence about a partner's behaviour originates from the knowledge of the partner's capabilities and intentions. This knowledge can only be obtained through interactions between the relationship partners. It means that trust development would not occur without bilateral interactions of the partners.

Further, considering trust in business relationships, Blois (1999) stated, due to the affective element of trust, an organisation itself cannot trust. It is possible to think of *‘organizations trusting each other’* only because organisations are established and managed by individuals (Aulakh, Kotabe & Sahay, 1996) as well as relationships between organisations. Thus, since trust existing in interactions between cooperative firms is performed by individuals, distinctive concepts of interpersonal and inter-firm trust are interrelated. *“This means that the more one trusts the supplier representative with whom one deals, the more one's organization trusts the supplier organization”* (Zaheer, McEvily & Perrone 1998, p. 153). Zaheer, McEvily and Perrone (1998) explored empirically distinctions between interpersonal and inter-organisational trust. According to authors inter-organisational trust can be seen as having two components or directions: (1) the trust of the trustor in a particular trustee in the partner organisation, and (2) the trust of the trustor in the partner organisation as a whole. Authors define interpersonal trust as *“the degree of a boundary-spanning agent's trust in her counterpart in the partner organization”* and inter-organisational trust as *“the extent of trust placed in the partner organization by the members of a focal organization”* (Zaheer et al., 1998, p. 142).

The view adopted in this study is conceptually consistent with a view of Zaheer et al. (1998). It is assumed that the subject of inter-organisational trust (i.e. the trustor) is an individual, whereas the object of trust (i.e. trustee) is

both an organisation as a whole and its individuals or organisational boundary spanners who are involved at different levels in the process of inter-organisational co-operation (Perrone et al., 2003). According to Zaheer, Loftrom, & George (2002) “*individuals at different organisational levels view their perspective worlds from different perspectives ... individuals at higher and lower hierarchical levels ... each see the world in qualitatively different ways*” (p. 348). These differences are particularly connected with the individuals’ perception of uncertainty level (Ireland et al., 1987), which is closely related to trust (e.g. Mayer et al., 1995; Morris & Moberg, 1994).

To sum up, in this study, **trust in business relationships refers to the perception of an individual or the aggregation of individuals representing one firm towards the trust of other firm has for and exhibits in the dyadic relationship under conditions of uncertainty and risks.** This statement encapsulates both the extent of the intentions of the other firm to be trustworthy and the evidence of trustworthiness. Behaviour and action provide the evidence to the parties, who will form their perceptions based upon their personal and organisational propensity to trust other parties based upon personal history and organisational reputation. These aspects in the dyadic relationship combine to form the extent of inter-firm trust.

It can be argued that while inter-organisational trust differs from interpersonal trust, trust preconditions at both individual and organisational level differ as well. It can be also considered that, in essence, trust preconditions are equivalent up to the trustor’s expectations of the trustee’s future positive behaviour within their relationship. Basically, the trustor has expectations about the characteristics of trustee and relationship with trustee at the organisational and individual level, which are preconditions for competence trust and goodwill trust respectively. Following Doney and Cannon (1997) the characteristics of trustee and relationship are the factors that invoke trust development.

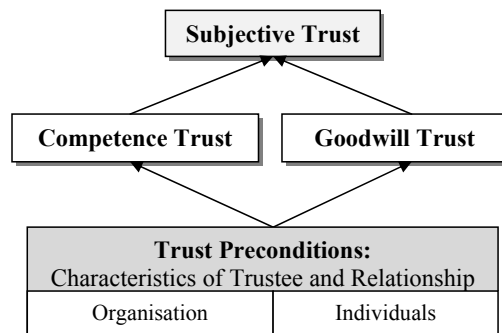


Fig. 1 A Conceptual Framework of Subjective Trust in Inter-Firm Relationships

Figure 1 depicts a framework of the concepts determining subjective trust in inter-firm relationships. Subjective trust in inter-firm relationships is seen as the aggregate of competence trust and goodwill trust at two organisational

levels, which refer to: (1) trust in the partner's organisation as a whole, and (2) trust in particular individuals from the partner's organisation. Therefore, trust preconditions are distinguished accordingly to these two organisational levels of trust.

## 2.2 Inter-Firm Trust Development

Given that trust development is embedded in the relationship development, trust may have different forms or dimensions in different stages of relationships deriving from the calculus of gains and losses to emotional reactions based on attachments and identifications between individuals (Rousseau et al., 1998). Furthermore, referring to considerations in the section above, the process of trust development relies on the trustor's expectations about trustee's characteristics, motives and behaviour within the relationship at both organisational and individual level. Thus, it could be deduced that both competence trust and goodwill trust develops in divergent ways dependent on the trustor's expectations at different stages of relationship. Moreover, these expectations may also vary dependent on the stages of relationship due to different types of aims and events that occur when interacting.

In the initial business relationship, at first, trust has to be achieved, then maintained and rebuild when changes occurs. To achieve trust at the beginning of relationship and then to develop it the general expectations of the trustor must be satisfied. To satisfy these expectations knowledge about the trustee is needed. At the exploration stage (Dwyer et al., 1987) of the initial relationship the trustor may be able to acquire necessary information on the trustee through third-party sources and observations (Mayer, Davis & Schoorman, 1995). Thus, at the beginning of relationships the development of trust grounds mainly on a reputation or as McKnight, Cummings & Chervany (1998) call it '*second-hand knowledge*' and first interactions and at the later stages – based on own experience or '*firsthand knowledge*'. According to Blois (1999) "*Trust evolves through the process of a growth of knowledge and understanding of the people with whom we interact plus the actual experience of working with them*" (p. 206).

Reputation is a '*second-hand knowledge*' (McKnight et al., 1998), which transfers very easily among firms in an industry through the words and actions (Doney & Cannon, 1997). Applying the definition of Doney and Cannon (1997) reputation is the extent to which organisations and people in the industry believe about partner's being honest and taking care of its customers. A firm's reputation can also be interpreted as a reputation for reliability (Weigelt & Camerer, 1988) and trustworthiness (Milgrom & Roberts, 1992; Ring & Van de Ven, 1992). Chiles and McMackin (1996) define a party's reputation for trustworthiness as an asset which is based on its prior history of trustworthy behaviour. For instance, participation of a firm in the prior successful cooperation is building up a reputation as a good cooperation partner. Thus, third parties can make assumptions about likely future behaviour of a firm by extrapolating a past record into the future (Parkhe, 1998). There is empiri-

cal evidence which supports the positive relationship between reputation and trust (Ganesan, 1994; Dollinger, Golden. and Saxton, 1997).

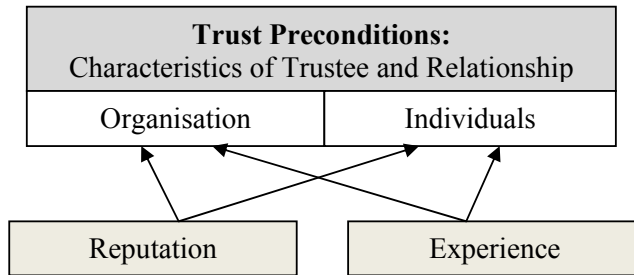


Fig. 2 The Conceptual Interconnection between Trust Preconditions, Reputation and Experience

To sum up, reputation is a concept with multiple dimensions. At the initial stage of relationship between parties, when prior history of working together is non-existent, reputation becomes a very valuable factor and has a clear role in determining trust between these parties. Moreover, in this case, reputation based on third-party experience is the only source of knowledge about the potential partner. However, information acquired needs to be critically evaluated in order to avoid the problem of false. Further, dimensions of reputation are directly related to the trust preconditions or the trustor’s expectations of trustee’s actions within their relationship, which for various trustor firms and relationships will be different. Dimensions of reputation are the types of knowledge required to satisfy trust preconditions. In other words, each relationship party will seek to obtain reliable knowledge concerning their own trust preconditions. Figure 2 shows the conceptual relationship between the trust preconditions, reputation and prior experience discussed below.

Ring and Van de Ven (1992) argue that reputation for trustworthiness is not enough, while interacting in reliance on trust is necessary. The authors claim that reliance on trust by organisations can be developed only when partner organisations have had successful interactions in the past accomplishing the norms of equity. In other words, partners have had own experience or *‘firsthand knowledge’*. Continuing to broaden their idea, Ring and Van de Ven explain further that,

Thus, the theoretical argument is that a prior experience is the most important source of trust (e.g. Dwyer et al., 1987; Anderson & Narus 1990; Crosby, Kenneth & Deborah, 1990). Many scholars have reached a conclusion that trust develops incrementally as parties repeatedly interact (e.g. Gulati, 1995; Lewicki & Bunker, 1996). *‘The more frequently the parties have successfully transacted, the more likely they will bring higher levels of trust to subsequent transactions’* (Ring & Van de Ven 1992, p. 489). Thus, trust is a history-dependent process, which changes in the course of cumulative interactions between co-operative parties (Rousseau et al., 1998). In essence, trust is based on the expe-



rience from prior interactions or in other words, outcome expectations perceived by partners from their interactions. According to Anvuur and Kumaraswamy (2008) transaction costs minimisation or efficiency is not the only one outcome expectation. The second outcome expectation is organisational justice representing procedural and transactional equity which "*emphasises proportionality between investments made and benefits received*" (Anvuur & Kumaraswamy 2008, p. 115). And, the prior interaction outcomes are dependent on the competencies and intentions of the parties. Perceived satisfaction with the interaction outcomes increase the willingness of parties to co-operate.

Apparently, interpersonal trust is a central to trust development between partner firms, whilst individuals play the primary role in establishing and developing trust. Through social interactions partners can acquire knowledge on each other and learn to trust. Nevertheless, as Dodgson (1993) emphasises trust based on the individual level is not enough due to possible problems in communication between individuals and labour turnover. Dodgson claims that trust should be developed on a broader basis, integrated into organisational routines, values, and norms. In addition, Inkpen and Currall (1997) pointed out, that "*alliance managers can foster trust by building one-to-one relationships with partner organisations and by developing a familiarity with the partner's strategy, organization, and culture*" (p. 311).

### 2.3 Does National Culture Matter for Trust Development?

The concept of culture is extremely complex and abstract which is reflected in a vast body of publications. Culture covers all aspects of people's life; therefore it is not an easy concept to define precisely. In inter-organisational research, Browaeys and Brice (2011) distinguished four main contexts of culture such as national, organisational, corporate, and professional. Exploring inter-cultural relationships between organisations, the relevance of national culture has been found to a great extent in the literature. It has been determined that national culture has a direct impact on the behaviour of individuals within relationships, as societal norms and values individuals embody reflect their national cultures. Principally, the concept of national culture is explicitly associated with society, and therefore it is a major of importance when studying inter-cultural business relationships which are social constructs and concern different social characteristics. Therefore, national culture is defined as a relevant concept for the scope of current study.

Numerous definitions of national culture are suggested in the literature. Among them Hofstede's (1980) definition is probably the most frequently cited interpreting national culture as "*the collective programming of the mind which distinguishes the members of one human group from another...the interactive aggregate of common characteristics that influences a group's response to its environment*" (p. 25). It could be inferred that individuals of the same culture will be alike in their preferences to view and react to the certain environment. The definition do not posit that all individuals within a nation possess common norms and values, but implies that people of a nation embrace enough homogeneous characteristics enabling the formation of a national culture. Hofstede is

strongly inclined to a view that national cultures remain unchanged and are territorially bound. As he put it: *"Cultures, especially national cultures, are extremely stable over time"* (Hofstede, 2001, p. 34).

In the contemporary global economy the organisations engaged in many business relationships are often from cultures that rely on different bases of personal and institutional trust (Friedberg, 2000; Pearce, 2001). Thus, these inter-cultural relationships may bring together people from the societies with culturally dissimilar backgrounds, norm, values and different levels of trust among their members. According to Fukuyama (1995) trust is cultural characteristic inherent to a particular society. Fukuyama (1995) claims that *"a nation's well-being, as well as its ability to compete, is conditioned by a single, pervasive cultural characteristic: the level of trust inherent in a society"*(p. 7). The higher trust societies enjoy relatively high levels of 'social capital' and 'spontaneous sociability', whereas people from the lower trust societies try to avoid persons who are not part of their immediate families (Fukuyama, 1995).

As it is discussed in the previous section, trust in the business relationships may develop through interactions in different ways. However, whether and how trust is established depend upon the societal norms and values that guide people's behavior and beliefs (Hofstede, 1980). Since each culture's 'collective programming' results in different norms and values (Hofstede, 1980), the process of trust development apparently is influenced by a society's culture. Given that trust is a socially constituted phenomenon (Lane & Bachmann, 1996), it is inclined to be strengthened by cultural affinity between people (Child, 1998). *"People are more likely to trust those who share the same values, because this establish a common cognitive frame and promotes a sense of common social identity which has a strong emotional element"* (Child, 1998, 248). Rousseau, Sitkin, Burt and Camerer (1998) argues that reliance on trust is a matter of the culture of shared worlds; persons who share cultural values are more likely to trust each other. This statement is consistent with the finding made by Morgan and Hunt (1994). Authors elicited that shared values are related positively to both commitment and trust. They defined shared values as *"the extent to which partners have beliefs in common about what behaviors, goals and policies are important or unimportant, appropriate or inappropriate and right or wrong"* (Morgan and Hunt, 1994, p. 25).

Summarising discussion above, trust is the fundamental bond in inter-cultural business relationships (Child, 2001); and it requires familiarity and mutual understanding (Nooteboom et al., 1997). Significant cultural differences of the partner firms resulted from their societal norms and values held by their individuals may bring challenges and problems for partners and may have a negative impact on trust development between these partners right at the beginning of their interactions. This may subsequently impedes their further relationship development. Handling these business relationships *"will depend to a large extent on the ability of people who think differently to act together"* (Hofstede, 1980, p. 9). Geert Hofstede argues that in order to be able to act together, people must understand the differences between cultures. To understand how management is affected by these differences he proposed five work-related dimensions of national culture: 'power distance', 'individualism / collec-

*tivism*, *'masculinity / femininity'*, *'uncertainty avoidance'* and *'long-term orientation'*, which were a result of extensive research.

Despite the criticism from theorist and practitioners, Hofstede (1980) conducted one of the most influential studies into cultural differences of nations, and his dimensions have been frequently applied in inter-cultural research with the purpose to provide a comparison between cultures (e.g. Rosenbloom & Larsen, 2003; Sornes et al., 2004; Delerue & Simon, 2009). Several other studies propose a number of dimensions, which detect differences in national character of individuals (e.g. Hall, 1960; Kluckhohn & Strodtbeck, 1961; Trompenaars, 1993). Nevertheless, Hofstede's (1980) emphasis on attitudes in management makes his findings most appropriate for this study exploring trust development process in the context of inter-cultural business relationships.

## 2. Proposed conceptual framework

The conceptual framework was constructed on the basis of the literature review and empirical data gathered within the STROI Network research project. Focusing on the particular concepts and excluding many others, the critical variables were singled out for the empirical analysis and the explanation of the phenomenon. This framework is therefore a simplification of the causal relationships between the main research concepts, which provided a basis for the assessment of knowledge available and its compliance with empirically gained data. It is divided into three parts reflecting three phases of relationship development (Dwyer et al., 1987): *'exploration'* (see Figure 3), *'expansion'* (see Figure 4) and *'commitment'* (see Figure 5), which were determined as relevant to the purpose of the study. The phases such *'awareness'* and *'dissolution'* were not considered in the study as they are not implying an interaction process between relationship partners supporting trust development. In accordance with the process of relationship development, the process of trust development was divided into the following three phases: initiation, growth, and maturity.

Analysing data obtained from the semi-structured interviews with Russian managers the formation of subjective trust at each phase of relationship was defined. Results indicate that, in the initial relationship, both competence trust and goodwill trust develop in different ways and are dependent on the stage of relationship development process. Thus,

- at the *'exploration'* phase trust grounds on a reputation (i.e. *'second-hand knowledge'*) and the experience from first interactions;
- at the later stages (*'expansion'* and *'commitment'*) based on experience from prior interactions (i.e. *'firsthand knowledge'*).

Figures 3, 4 and 5 introduce the trust development process bringing up a range of most significant trust preconditions determined at different phases of business relationships with the Russian firms.

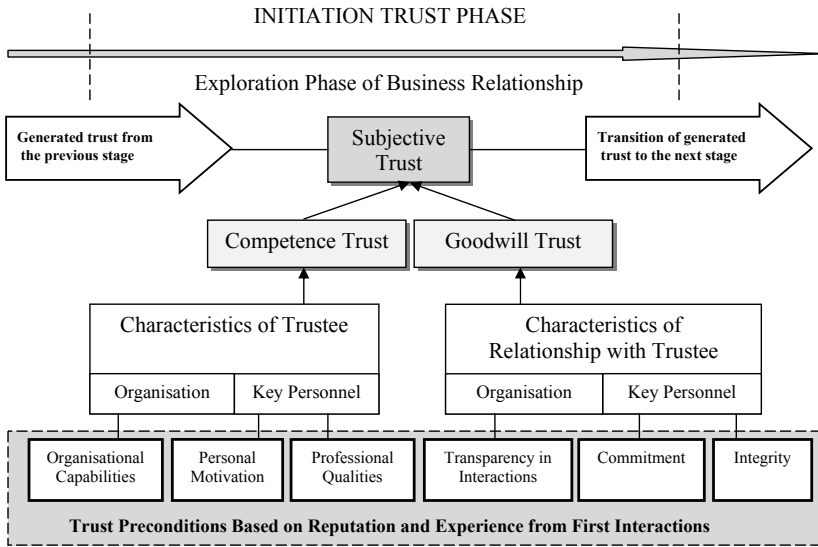


Fig. 3 Trust Development at the Exploration Phase of Business Relationships

Based on the analysis of empirical data the *initiation trust phase* (see Figure 3) proved to be critical to the chances for creating trust within initial relationships. The knowledge of a trustee’s reputation and the experience from first interactions enables a trustor to evaluate the characteristics of a trustee organisation and characteristics of relationship with the trustee. First impressions are of great importance for Russian managers. The behaviours of key personnel representing a potential partner organisation (trustee) are the subject to constant observation and explicit evaluation during first interactions. Characteristics of the trustee such as organisational capabilities and professional qualities of key personnel involved in the relationship development are identified as most significant preconditions determining subjective trust at the exploration phase.

The experience gained from prior interactions provides a basis for monitoring of both characteristics of a trustee and characteristics of the relationship with the trustee in subsequent phases of relationship development. The growth in trust is likely to depend on the degree to which these characteristics at both organisational and individual level exceed the expectations of the trustor. At the *expansion phase* of relationship development, integrity and orientation to problem-solving of a trustee’s key personnel as well as the quality of organisational performance are indicated as the most significant preconditions for trust development (see Figure 4). In this study, the integrity refers first of all to a fulfilment of contract and other obligations by the trustee’s key personnel.

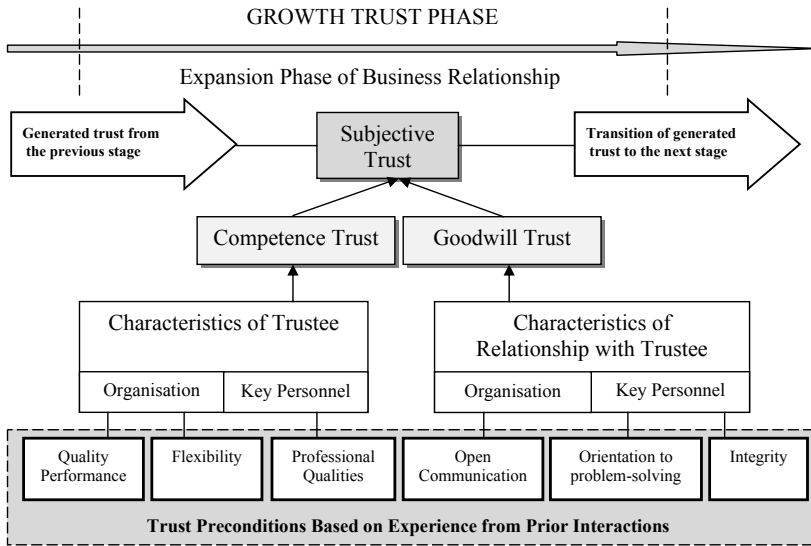


Fig. 4 Trust Development at the Expansion Phase of Business Relationships

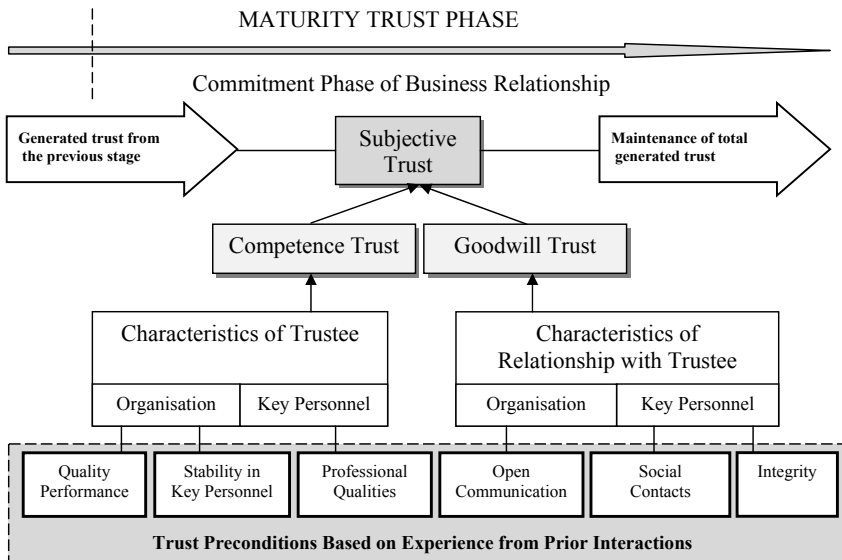


Fig. 5 Trust Development at the Commitment Phase of Business Relationships

The positive experience from the interactions with a trustee at the previous relationship phases helps a trustor to build a foundation for deeper trust at the commitment phase. Figure 5 introduces the *maturity trust phase* bringing up a range of most significant trust preconditions determined by Russian manag-

ers. Thus, along with the quality performance and the stability in key personnel, characteristics of relationship with trustee at individual level which consist of integrity and social contacts have appeared to play a key role in deepening and maintenance of generated trust.

### 3. Methodology

Foremost this study has an explorative character as it aims to explore the process of trust development within inter-cultural business relationships. It must be emphasised that the aim is not to achieve statistically generalisable results but to build a conceptual framework that is created through theoretical reasoning and the comparison of existing theoretical knowledge with the empirical evidence. Since the general aim is to explore complex process and provide more in-depth knowledge to the research questions, it may be argued that the qualitative approach is most applicable in the course of this study (Eisenhardt, 1989; Yin, 1989). The multiple-case study is chosen to provide empirical basis for the aim of the study: building an incorporated framework of trust development process relying on the existing theoretical concepts and pre-defined constructs.

The study population was defined as the subsidiaries of Finnish firms representing construction and related service industries operating on the Russian market with headquarters in Finland. The seven case firms were selected with the aim of identifying diverse cases, i.e. cases of both small and large firms with differences in the nature of services and the extent of experience on the Russian market. Semi-structured interviews were chosen as the primary source for data collection. The choice of respondents was made based on the representativeness of different tasks in management of business relationships. In total 35 face-to-face interviews were carried out over the course of nine months during the year 2009 at the premises of the case enterprises located in Moscow and Saint-Petersburg.

### 4. Conclusions

Final conclusions of the study cannot be introduced in this paper due to incompleteness of the analysis work. Nevertheless, one of the key findings of the study could be brought out, which concerns the effect of national culture on trust within business relationships. The following quotation from the interview with one Russian manager tells both how important and fragile trust is when handling business relationships with Russians: *"A chance you only get once. Hence, there is no possibility of being mistaken."*

As for theoretical implications, this study contributes to the body of knowledge in the area of trust in business relationships. There are only a few studies that offer an integrative view of relational constructs of trust development within business relationships. While the underlying processes of trust development were not exhibited in this paper, these processes were employed in order to understand how trust develops and to provide a theoretical basis for

the conceptual framework (see Figures 3, 4 and 5). The proposed conceptual framework gives new theoretical insight into trust development in the inter-cultural context.

This study has also managerial implications. Thus, the determined trust preconditions in the Russian cultural context provide business managers of Finnish companies with insights and a practical guide they can use to build trust with their Russian partners in the more efficient way. In particular, the scope of determined trust preconditions could be employed by Finnish managers in the measurement of trust to their subcontractors.

Interpreting results of the study, cautions should be made in making too broad of an interpretation due to several apparent limitations. First, it is widely admitted by researchers that qualitative research methods place certain constraints on the research findings. Although, the results reached from this study cannot be generalised statistically, the generalisation to theory or '*analytic generalisation*' by reflecting results with the theoretical base according to Yin (1989) is possible. Second, this study does not attempt to provide a comprehensive model of concepts related to the process of trust development. Instead, it aims to expand the scope of the research on trust within inter-cultural business relationships focusing only on specific questions addressed in this study. Third, the questions of the study were explored from only one perspective of the dyadic relationships - Finnish contractors' perspective. The most significant reason for that was unwillingness of respondents from Finnish general contractors to make possible for the researcher to interview their subcontractors referring to ethical issues and business confidentiality. Therefore, it is not possible to analyse differences in perceptions between the informants across dyads.

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