Management Innovation and Entrepreneurship

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A Global Perspective

Edited by

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CHAPTER ONE

CONDITIONS AND DRIVERS OF COMPETITION IN A REGION: SOME CASE HISTORIES OF BRAND-LAND SYNERGISM

AMEDEO MAIZZA, MONICA FAIT
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1. Introduction

The present competitive context highlights the synergistic and dyadic nature of the relationship between enterprises and their region: that is, an enterprise cannot generate wealth for itself without generating wealth for its region of origin and vice versa. Whether this relationship can establish and replicate itself depends on the structural and relational characteristics of the geographical context as well as on the ability to launch virtuous exchange processes with internal and external actors and with other regions.

Competitiveness is therefore no longer just between single enterprises but between regions (Ritchie and Crouch, 1999, 2003) and is manifested in the capacity of those regions to attract or generate conditions that favour the creation of the resources necessary for their development. In practice, this means identifying resources and competencies that are often already present and activating communicative strategies that transform the resources into distinctive elements that fuel local development (Knight, 1995; Anholt, 2010; Go and Govers, 2010).

This paper thus starts from the assumption that the region – understood as a spatial and environmental entity, and thus as an aggregate of natural and anthropological elements, both tangible and intangible – is characterised by the interaction of social relations, the creation and dissemination of knowledge, and the generation of specific skills and competencies that are not available elsewhere (Kotler et. al., 1993).

> "*The region holds the cultural memory of the generations that have passed through it, inhabited it and built it, even sometimes destroying it and rebuilding it, but always modifying it in some way. The region is a trove of histories, unique and unrepeatable. The region is like a safe full of valuables, knowledge, culture and art that are often invisible, because they are buried underneath a thick layer of dust, produced by the speed resulting from a "doing" that prevents us from "acting" and from facing the future with full self-awareness*". (Baccarani and Golinelli, 2013)

The region therefore cannot be considered as a mere container. Indeed, assuming harmony and consonance among the strategies of persons seeking to satisfy their various demands, it can play the role of facilitator or coordinator of the economic resources and activities present in it, in a way that is consistent with its cultural and natural traditions.

At the same time, the enterprise that adopts this perspective considers its economic development to be an objective that can only be fully achieved when it matches other objectives concerning the region in which it operates, including social growth, the quality of life, the conservation of natural beauty and the optimal use of the available resources. Thus conceived, the region is the place where the enterprise finds its justification, drawing on the available reserves of "social capital" as described by James Coleman (1990).

On the basis of these considerations, this paper assumes that reciprocal recognition (enterprise-region) generates local economies which, thanks to the interdependence and complementarity of their formulas, produce a general competitive advantage. In accordance with managerial studies that study the region and its competitiveness in a holistic key (Knight, 1995; Caroli, 1999; Golinelli, 2000; Ritchie and Crouch, 1999; 2003), it proposes a theoretical model in which region and enterprise merge into a single entity, transforming their relationship into a driver for the joint creation of competitiveness. Borrowing and adapting the brand identity approach (Aaker, 1997; Aaker, Joachimsthaler, 2000; Van Gelder, 2003), the model's outputs are thus interpreted as the dimensions of a single identity (*brand/land identity*).

The model was verified by adopting the case study approach (Malhotra, 1993; Yin, 1984; Gummesson, 2000), which enables access to a considerable quantity of information, mainly qualitative, and provides clues to the nature of a much broader range of phenomena than could be obtained with quantitative methods (Flyvbjerg, 2006; Dubois and Gibbert, 2010; Easton, 2010; Piekkari et al., 2010; Dubois and Gadde, 2013).

From the viewpoint of management practices, this paper follows a holistic approach (considering the relationship between enterprises and their region) that can be interesting for those enterprises that are strongly rooted in a region's economic traditions and customs, which can become a form of capital, yielding differentiation and hence competitiveness.

2. Background

The relationship between the competitiveness of enterprises and regions has been extensively studied. The Resource-Based approach (Penrose, 1960) highlighted the advantages that enterprises situated in a given region can draw from the physical resources and production factors present in it. In the early 1970s it began to be realised that the region was a source of relationships through which an enterprise could activate the necessary skills to enhance its competitiveness (Marshall, 1919; Beccatini, 1987, 2000; Camagni, 1991; Saxenian, 1994; Porter, 1998; Rullani, 2003). Particular attention was paid to the collective learning processes that the enterprises operating in a region activate, creating a source of competitive advantage (Lipparini and Lorenzoni, 1996; Lundvall, 1992; Maskell and Malmberg, 2007).

From a strategic viewpoint, the "context" in which enterprises operate was interpreted as a resource that conditioned their operations (Grant, 1994). Indeed, great emphasis was laid on the importance of the region in the process of obtaining and making use of the resources. The traditional concept of region thus evolved into the "local regional system", in which the region is seen as a catalyst of relations (Varaldo and Ferrucci, 1996, Golinelli, 2002). Aside from the purely geographical aspects, it is a place where given actors recognises their shared features, identify with each other and share responsibilities.

With its tangible and intangible elements – inhabitants, historical and environmental heritage, infrastructure, geographical location and culture – the region raises the overall value of the individual elements. Its formal and informal networks, its history and its identity generate that blend of knowledge, ideas and opportunities that make it a driver for the growth of enterprises. Depending on their focus, managerial studies credit the region with the following roles:

1. *Destination*; not simply a geographical place but a local system of goods and services made up of activities and factors with a certain power of attraction, situated in a given physical space and conferring a value on the resources and culture of the area (Ritchie and Ritchie, 1998; Kotler and Gertner, 2002; Elliot et al. 2011). This gives rise to a system of goods and services aimed at consumers beyond the region of origin, the fruit of a specific combination of natural and anthropic resources, of factors linked to the local community or the operators (Pechlaner and Weiermair; 2000). From this point of view, the destination becomes a unified product whose success depends on the organisational, planning and relational skills that the government of the region manages to construct (Buhalis, 2000), as well as on the ability to create synergism between principal, accessory and support elements, chosen on the basis of the demand that needs to be met (Dredge, 1999);
2. *Setting*; as the place of representation of a people's culture and history, it becomes the setting for coordinated and integrated experiences (Schmitt, 1999). In accordance with an experiential logic (Pine and Gilmore, 2000), the goods and services on offer are merely props to be used in the representation. It is therefore fundamental that the consumer actually *has* these experiences and is thus directly involved, since this is the only way to guarantee the uniqueness of the goods and services, which are necessarily personal and unreproducible in other contexts. Direct contact with the local population thus becomes fundamental since, thanks to the quality of the information and the local residents' hospitality and willingness to please, the experience is authentic and no longer contrived;
3. Relational system; i.e. a social organisation in which relations are created between actors, resources and activities that evolve over time, constantly redefining the specific talents, nature and identity of the community and the geographical space of reference (Golinelli, 2002). The relational system is manifested in the sharing of values and behaviours, and thus also through the creation of a climate of cooperation and dialogue. From a holistic viewpoint, the *operational structure of the region* is thus characterised by the coexistence of human, geographical, cultural, social and economic factors that confer on it a real, economic and cognitive dimension. Each of these macro-components is representative of factors and resources connected to sub-systems – be they culture and traditions,

the landscape and environment – as well as the local system of enterprises and tourism systems. All of these follow their own paths and in so doing contribute to the competitiveness of the region.

4. *Multidimensional system:* the region is the result of the continuous and integrated evolution of four fundamental and inseparable *dimensions* (Knight, 1995; Caroli, 1999; Golinelli, 2000; Ritchie and Crouch, 1999; 2003; LICLEI, 1994; UNESCO, 2001):
   i. *Environmental*, considering the environment to be a "distinctive element" of the region, which needs to be suitably promoted and exploited while guaranteeing the safeguard and renewal of its natural resources and its heritage value;
   ii. *Economic*, which corresponds to the ability to produce and maintain the highest possible added value by means of an effective and efficient combination of resources in order to fulfil the potential of the distinctive character of the regional products and services
   iii. *Social,* the ability of the actors in a region to operate in a coordinated way in accordance with a regional vision that is also shared on an institutional level;
   iv. *Cultural*, understood as a tool for the intellectual, emotional, moral and spiritual growth of an area (UNESCO, 2001), considering that cultural diversity is a moment of dialogue through which the local approaches the global.

In this holistic approach, the driver of a region's competitiveness becomes the coexistence of three dimensions: economic, environmental and "belonging" (Knight, 1995; Caroli, 1999; Ritchie and Crouch, 1999; 2003). The first of these is connected to the existence of specific production factors that guarantee an advantage in certain economic activities (Maizza, 2010; Vrontis et al., 2011); the second is linked to the recognition of the region not only as a geophysical space but also as possessing social, cultural and artistic heritage (Scorrano et al, 2013); the third (the sense of belonging) considers the region in terms of shared values, customs and traditions, the creation of a philosophy, both entrepreneurial and institutional, oriented to the endorsement of regional identity (Vescovi and Gazzola, 2007). Establishing a balance between these components generates competitiveness for region and enterprises alike. Indeed, while economic competitiveness is crucial for the enterprises belonging to a region, socio-environmental sustainability is a necessary condition for the competitiveness of the region itself, together with its enterprises, expressed in terms of *attractiveness*. In addition, the relational and participatory synergism between the various actors generates that sense of belonging which safeguards the social resources, enables the creation of knowledge and trust among operators, and disseminates awareness of the importance of the relational component among the various enterprises of a region.

The adoption of a holistic approach emphasises the function of the region as a *milieu innovateur* (Aydalot 1986; Aydalot and Keeble 1988; Camagni, 1999), i.e. a relational and innovatory space consisting of a local production system with various kinds of actors, and characterised by positive relations between those actors and a shared culture and learning process.

3. Hypotheses Development

In accordance with managerial studies that interpret the region and its competitiveness in a holistic key, this paper starts by considering the multidimensional aspects of the enterprise/region relationship cited in those studies, seeing it as a single systemic entity that can generate attractiveness and competitiveness and boost the value of the systems (enterprises and region) of which it is composed.

Hypothesis 1: the enterprise or enterprises can create a synergism with the region that leads to the creation of a single unified system encompassing only the actors, resources and relational activities of the systems of origin, which interact and generate a process of symmetrical and shared development.

Hypotheses 2: when this process adopts unambiguous strategies based on connotation and identity it generates value for both of the two entities participating in the system.

In order to verify the above-mentioned hypotheses, this study sought to: a) identify the drivers of the integration and unification of the enterprise/region system: b) propose a theoretical model of competitive co-evolution of the enterprise/region relationship, strategically oriented to achieving a single identity; c) verify the model by means of case studies.

4. The Drivers behind the Integration of Enterprise and Region

The establishment of a single system (region/enterprises) arises from recognition of the importance of certain resources for joint development oriented to the creation of an *identity,* thanks to which the context in question becomes an original entity that is hard to replicate. The process can be completed only if the multiple specific features of the two entities are transformed into *distinctive non-replicable competencies* (Porter, 2011).

On the basis of what was set out in the review of the literature (see Background above), the drivers are:

A. *The structural dimension*, arising from the selection of

- ✓ *the critical resources* of the region, including:
  - *the natural system*, including all environmental, morphological and landscape factors (landscapes and items of natural beauty, public buildings, energy and water resources, historic and cultural heritage);
  - *the anthropic system*, i.e. the complex of existing human activities (entrepreneurial system, research bodies, industrial areas, road network);
  - *The intangible system*, including the region's values, its flows of information and the system of relations between actors (culture and traditions, human capital, relational system, services for enterprises, etc.).
- ✓ *Relational activities.* A region's resources are not just those it happens to be naturally blessed with, which derive from its specific characteristics, but also include a variety of intangible and non-visible elements that arise from the actors' capacity for sharing. It is therefore the region's *social capital* that determines its relational abilities, turning these into distinctive intangible resources, hard to reproduce elsewhere (Lynn, 2001). This requires the existence of a traditional relational aptitude in the individual and in the region's socio-cultural context – its original *social capital* (Putnam, 1993). Sharing social capital generates trust and thereby enables evolution towards more open and inclusive forms (Corò and Rullani, 1998). In regions with a vocation for a specific economic activity, the emergence and/or survival of a single unified system is made possible by the evolution of the original social capital (Fait, 2008) towards:

- *productive social capital*, consisting of the range of relations that the enterprises of a given sector activate along the production chain in order to share process- and product-oriented objectives;
- *contextual social capital*, consisting of those relations that are established between enterprises operating in economic sectors, local institutions and non-profit organisations whose purpose in all cases is the promotion of their region;
- *market social capital*, consisting of relations activated with clients that are a source of information and knowledge of customer needs and help to create image, trust and reputation;
- *normative and behavioural social capital*, consisting of cultural, historical, political and social elements associated with rules of behaviour, sharing of values, learning, etc.

B. *Governance.* The genesis of governance (Cyert and March, 1967; Fazzi 1984) can be either a) *top-down*, activated by institutional supra-systems as part of their coordination of local actors in the process of improving the region's *value proposition*; or b) *bottom–up*, arising from the temporary cooperation between actors who share values, behaviours and objectives with regard to regional development. The nature of the governance model is linked to the degree of evolution of the regional system. That is to say, it depends on the ability of the systemic aggregations to direct and control the components that the region possesses to begin with. Governance must be able to stimulate the various components in a framework of sharing, directing them towards development of those activities in which the region naturally excels (its "vocation") and providing the region with its own unique image. The strategic planning process must be participatory, since it must involve the key players of the various supra- and sub-systems interested in the project. The criteria for participation, the intervention priorities, the lines of action to pursue and the collective benefits thus all need to be shared.

C. *Strategic. The basic strategic orientation is represented by the evolution of the region's vocation (i.e. those activities towards which it has a natural inclination, regarded as specific competencies) into an identity (distinctive competencies)*. The vocation is the combination of all the specific properties and features of the region that are representative of its structural potential and system of values (customs, habits, norms, coexistence and cooperation). If these factors can be harmonised via a common vision and the sharing of rules and values, they converge in a general sense of belonging among the actors, generating in turn the local *identity*.

5. A Possible Model of Co-Evolution

Whether the process by which the region-product relationship is established is bottom-up (created from below), top–down (driven by institutional supra-systems) or hybrid, its purpose is always the creation of an operational structure that is compatible with the region's unique features.

In operational terms, the process (Fig. 1) can begin with the *planning* phase, which involves setting out the guidelines and identifying the areas where action is needed in order to generate value for the enterprises-region relationship. These areas are associated with the four processes described below.

Propensity towards product and process quality

This process requires the following operational activities: a) communication along the production chain in question in order to ensure uniformity of behaviour, sharing of methods and proper awareness of the importance of quality; b) training activities designed to homogenise production techniques and highlight the value of autochthonous production; c) creation of quality control mechanisms for all phases, from production to marketing, in order to ensure traceability.

Regeneration and promotion of social capital

This process, which entails the regeneration of social capital, consists of developing the region's cognitive and relational dimensions and thus requires: a) the creation of systems for disseminating information and knowledge; b) the training of professional figures with competencies linked to the sector and local development themes; c) the organisation of events designed to disseminate the culture of local production; d) the activation of links with institutions, local actors and other actors operating in the same sector but in different geographical areas.

Orientation to sustainable development

The third area includes the participation in initiatives that help to bring about economic, social and environmental development, such as measures to even out incomes along the production chain, development plans, projects to safeguard the region's environment and historical and cultural heritage and professional training programmes. Obviously it will be necessary to assess the costs and benefits (including costs and opportunities) that such measures produce.

Consolidation of the enterprise-region dyad

The fourth process, aimed at ensuring *consistency* between region, firm and product, and thus the enhancement of the value of the enterprise-region dyad, involves a) creation of *product brands, umbrella brands and regional brands* that can identify the dyad; b) implementation of coordinated promotional activities; c) creation of itineraries that are the expression of an integrated range of goods and services; d) development of forms of tourism that are complementary to the economic sector in question; e) internationalisation by means of educational activities and the organisation of events and meetings with foreign operators.

The proposed pathway starts from the recognition of the region's place-personality (its "vocation"), resulting from the aggregate of traditions, culture, knowledge and customs, the enhancement of which transforms them into *distinctive competencies* for the firm or the product. The development of the cognitive and relational components strengthens the synergism between the actors, creating a sense of belonging and trust. This regenerates the social capital, creating a sense of sharing which, over time, can become a distinctive intangible resource that is hard to reproduce elsewhere (Lynn, 2001). At the same time, the orientation to socio-environmental sustainability is a necessary condition for the competitiveness of a region and its enterprises in terms of *attractiveness.* These distinctive competencies are then brought to bear in marketing initiatives designed to consolidate the dyad, strengthen the consistency of the relationship and ensure even and shared development over time.

In order to generate shared value, marketing strategies must operate in such a way that the differential effect of brand knowledge on the part of the consumer (Keller, 1993) does not depend on the value that the individual enterprises, product or region have for the consumer, but rather on the recognisability of the synonymy of *brand* and *land*, i.e. the strong

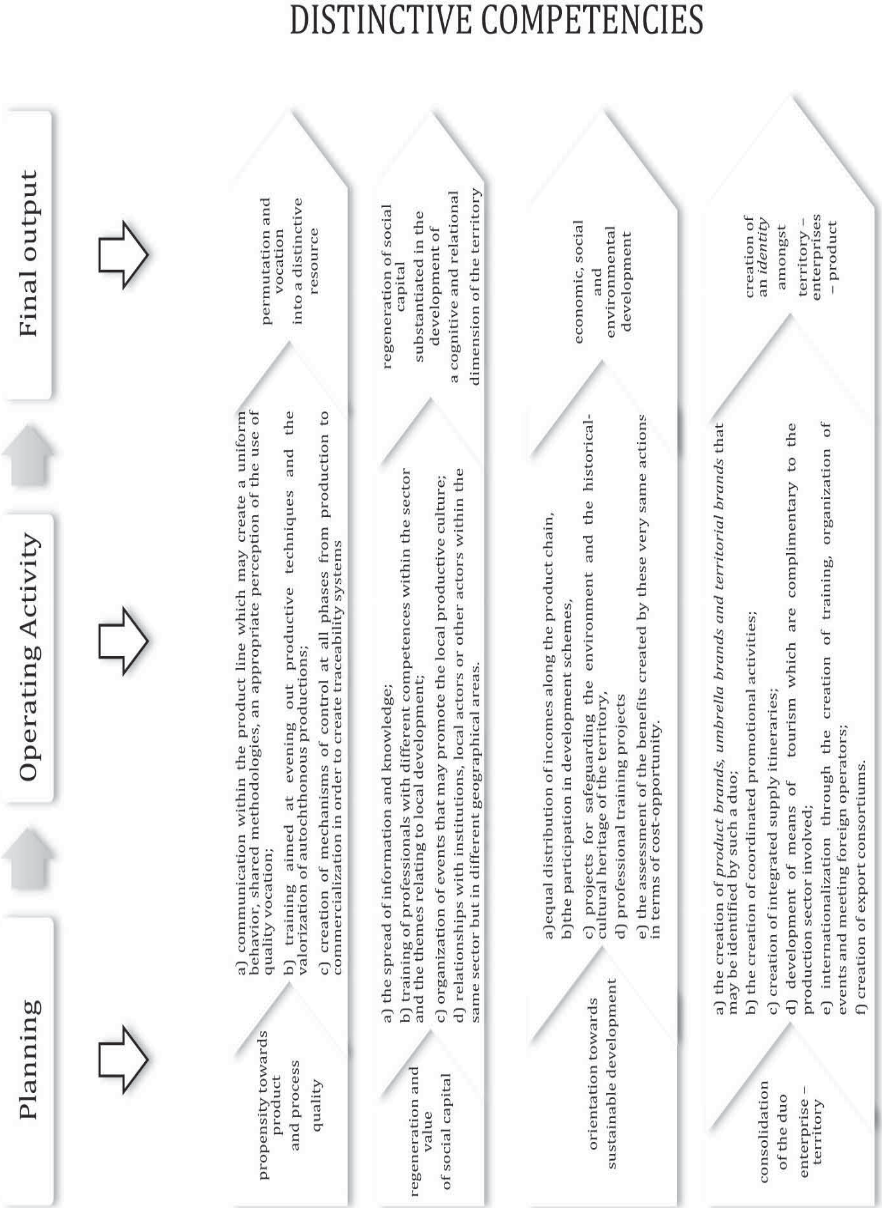

Fig. 1: Co-Evolution Framework

link that some products have with their place of production (Fait, 2010; Maizza and Iazzi, 2011; Maizza et. al., 2013).

The distinctive features by which they are known are not replicable or "exportable" beyond a specific context since the identity of a region (place-identity) is the direct consequence of its vocation (place-personality). For the consumer, the associative process includes both the distinctive features of the product (and thus the brand) and those of the product's region of provenance (i.e. the land). The latter becomes a primary productive resource that embodies "the production experience". It guarantees the authenticity of the products and (on achieving a sufficiently high profile) becomes synonymous with them. In this way, land becomes brand and so, via the loyalty of the consumer, creates value for a plurality of actors. From this perspective it can be argued that there is a conceptual consistency between the theory of "common pool resources" (Ostrom, 1990) and the intrinsic characteristics of brand-land products. They are both intangible assets that can disseminate the values and behavioural models of a socio-geographical area where the cultural traditions expressed by the products in question are firmly consolidated. Such products generate and transfer value (including economic value) to a plurality of actors who, in order to conserve and increase it, must be able to respect the essential conditions and underlying behavioural rules. In Italy for example, the consortia responsible for the safeguard of characteristic local products have managed to defend and promote a range of elements and traditions from a managerial perspective, even in the global context (Fait and Trio, 2011; Scorrano, 2013).

Here the "brand identity" approach, and specifically the multidimensional concept (Aaker, 1997; Aaker, Joachimsthaler, 2000; Van Gelder, 2003), is applied to the brand/land identity. The *core identity* of the brand/land dyad lies in the desire to present the shift from vocation to distinctive competency as the icon of a culture that is not reproducible elsewhere. The *brand essence* (its basic promise) is fleshed out with functional, symbolic, emotional and relational benefits derived from the shared socio-economic and relational development. The *extended identity*, i.e. the driver through which the enterprise wants the brand to be perceived (Kapferer, 2004) is founded on the consistency between region and products.

The differential effect of knowledge of the brand-land dyad can therefore be created by adopting strategies of:

- ***Connotation***, allowing the promotion of the area and its external recognisability. Its historical and cultural heritage becomes a key element in a narrative and experiential pathway; its environmental heritage and natural beauty become the backdrop against which the consumer acts directly, assessing availability, information and hospitality, while the goods and services on offer are props to use in the representation. Indeed, over time the *emotional-experiential* dimension of consumption has become fundamental, as a result of the ever stronger desire on the part of clients to be seen not just as the consumer of a product but as someone interested in its symbolic, aesthetic and communicative meaning. The consumer's experience and direct involvement guarantee the uniqueness of the goods and services on offer, which inevitably become personal and unreproducible elsewhere.

- ***Identity***, through which the different components of the region interact in a continuous process of development, sharing a mission, behaviours and values and disseminating knowledge in order to avoid undermining the authenticity of the characteristic local products. This sharing must be communicated via policies aimed at promoting the area that emphasise its specific properties, guaranteeing its recognisability over time.

6. Empirical Research Methodology

The starting hypothesis on which the proposed model is based is that the activation of shared values and consistency between enterprises and regions generates local economies, with the interdependence and complementarity of their formulas conferring a competitive advantage. This is the result of strategies based on connotation and the creation of a single enterprise-region identity, activated within a shared, co-evolutionary process.

In accordance with the principle of empirical falsifiability (Popper, 1959) the hypothesis was verified by means of case studies (Yin, 1984; Malhotra, 1993; Gummesson, 2000; Flyvbjerg, 2006). The cross-case criterion was chosen since it assumes similarities between cases (Eisenhardt, 1988; Siggelkow, 2007). Indeed, while recognising the limits of this method, which arise from the non-generalisable nature of the results, it should be considered adequate for our specific case because it is useful for acquiring information that extends the original knowledge base (Flyvbjerg, 2006).

The chosen unit of analysis is the region/enterprises meta-organisation, understood as a system of systems whose purpose is the search for consistency and a shared competitive advantage (Miglietta, 2010).

Respecting the holistic approach of the proposed model, the attributes required for the selection of cases were: a) a clearly defined vocation arising from a combination of tangible and intangible resources as well as social, environmental, anthropological and historical factors; b) autochthonous production, i.e. forms of production traditionally present in a geographical area that have a strong historical and cultural connection with it; c) relations between enterprises and other sub-systems belonging to macro-areas of the region that are essential for their functioning.

The selected cases – Franciacorta, Montalcino and Asti – meet the three criteria and are all characterised by a specific co-strategy designed to ensure the region functions as a single system. They are presented using a descriptive method (as stories from which to draw information useful for verifying the theoretical hypotheses) based on the processing of data retrieved from the websites of local consortia and *Strade del Vino* ("Wine Routes"), blogs and magazines relevant to the sector, news reports and research papers.

7. "Franciacorta-Unione di Passioni"

"Franciacorta Unione di Passioni" is an interesting cooperative project that emerged from the cooperation between the Franciacorta Consortium (105 firms, representing 98% of those present in the region) and the *Strada del Franciacorta* (a network set up in 2000 composed of 108 wineries, 2 distilleries, 23 hotels, 27 restaurants, 4 wine shops and wine bars, 16 artistic and cultural structures, 2 firms making characteristic local products, 7 firms involved in sport and leisure, 3 tour operators, 7 municipalities and associations for the promotion of the region). It was built on the following dimensions:

1. A shared mission: *to create a single unified system for the Franciacorta region that would be the expression of the tourism-oenology combination*. The consolidation of the product-region dyad is evident, considering that over the last 10 years, tourist presences have increased by 50% and now stand at more than 200,000 a year, making Franciacorta one of the favourite destinations of oeno-tourists from Italy and abroad, with 60% of both earnings and presences linked to wine;
2. Mechanisms of governance designed to create synergism and cooperation between all the actors of the region. The network is generated by a relational system founded on elements of the region's intellectual and social capital – including trust between

operators, dissemination of knowledge and sharing of its vision, mission and organisational principles – which are clearly perceived by the actors themselves. Fundamental drivers of this perception are:

- The presence of the Consortium, which guarantees the quality of the products by means of the Franciacorta method, set out in the production regulations and the zonation. The area of vineyards producing DOCG wines went from 2,283 hectares in 2008 to 2876 hectares in 2012. The promotion of Franciacorta wine led to an increase in exports in 2013 compared to 2012. 14 million bottles were sold, with about 1.3 million exported to foreign markets (up 14.3% on 2012);
- The creation of an integrated system of goods and services (of which the denomination – Franciacorta – is a clear expression), promoted and exploited via the creation of itineraries (which can also be personalised) of Franciacorta's wineries, guided visits and wine-tasting, weekend packages, corporate events, team-building and incentives to encourage cooperation with associated tour operators, together with networks encompassing monuments, handicraft, areas of natural beauty and events, and investment to improve the hospitality system, adopting the green economy model;

3. Shared basic objectives that have generated benefits in terms of performance, process, relations and brand-land identity. This is confirmed by a study conducted in 2012 (Fait, 2012) on firms participating in the network, who cite the importance of:
   - Performance benefits in terms of the visibility of the single brand, increased presences and higher sales in the region and greater quality control. The data indicate a positive assessment of the potential performance image that the strategy will produce;
   - Process benefits linked mainly to the validity of the promotional initiatives and the dissemination of information and knowledge;
   - Relational benefits in terms of the positive perception of the relational dimension within the aggregative strategy, given that elements such as the sharing of knowledge and values and the organisational efficiency of the *Strada del Franciacorta* network tend to have substantial impacts;
   - Brand-land identity benefits, considering that the participants greatly appreciate the promotion of the environmental and cultural heritage, the recognisability of the product-region

relationship, the combination of region and product in a single consumer experience and the improved perception by consumers of the characteristic local products and of the region itself. All this confirms the importance attributed by all participants to the creation of value that is shared between enterprises and region via the connotation-based strategies proposed by the *Strada del Vino*;

4. Propensity to sustainable development: a network – like that of the situation considered here – is often as representative of the economic system as it is of policy makers and can therefore become a powerful dynamo for the sustainable development of the region. In the case described here for example, the Franciacorta Consortium is a partner to the "Terra della Franciacorta" agreement that joins together the 18 municipalities of the wine-growing areas of Franciacorta with the aim of constructing a model of development for the region by means of a new form of supra-municipal aggregation designed to re-plan the region on a shared basis.

8. Castello Banfi – Montalcino Region

An interesting case of the bottom-up approach, i.e. of an entrepreneurial campaign from below that seeks to involve enterprises in a systemic project centred on their region of origin and its potential, is the Banfi-Montalcino project (Rivella, 2008).

In the 1960s there were less than 60 hectares of Sangiovese vineyards producing Brunello di Montalcino, and about 20 producers making no more than 150,000 bottles a year. The early 1970s saw the start of the Banfi project, which actually began with a series of shocking mistakes. With the approval of local administrations and growers' associations, many vineyards were converted to grow more mass-market varieties of grape. The Banfi winery realised its mistake and quickly changed the vineyards back again, focusing thereafter on the production of Brunello di Montalcino, creating a strong synergism with two of the region's historic wine-makers: *Biondi Santi* and *Colombini Fattoria dei Barbi*. This led to Banfi becoming the leading producer of Brunello di Montalcino and entering the American market – the most important in the world for high-profile and fine wines – where it succeeded in generating strong demand, with positive results for all the denomination's producers.

The image constructed by the firm is permeated with the values and traditions of the places where Montalcino is produced. *Castello Banfi* today brings to mind a castle immersed in the Tuscan hills surrounded by vineyards that have been there since Etruscan times. The castle houses one of the most modern and advanced wineries in the world. There is a direct relationship with consumers, which serves to show them the value of the product and make them feel part of the production process – opening the doors to the winery and the entire Banfi structure and giving life to what is now commonly called *oenotourism*. This approach has enabled the firm to launch a long-term process that allows wine-lovers and the simply curious to see how the firm works, enhancing the clients' appreciation of the commitment shown by the Banfi-Montalcino project.

The case of *Banfi-Montalcino* strongly conveys the importance of the region's relationship with wine. This is a partnership founded on tradition, history, architecture, culture, landscapes, cultivation and production methods, and wineries. Considering the fragmentary nature of the Italian wine-making sector, composed of a large number of small firms that find it difficult to make significant progress, the *terroir*, understood in its broadest sense of a link with the region, is probably the most effective publicity strategy and also enables immediate aggregation of local enterprises.

The drivers on which Banfi built its image and continues to maintain it are: a) quality and b) the continuous involvement of the region, from the existing structures to the final consumer. The emphasis on quality can be seen at every stage of the production process, starting with the care taken with the raw material, followed by the achievement of ISO quality standards and the commitment to environmental sustainability. It has contributed to development in the region in various ways: the recognition of the quality of Brunello has induced the other local wine firms to innovate and improve their product; Banfi's internationalisation policy, based on the signing of an exclusive contract with one buyer, has prompted competing foreign intermediaries to establish relations with other producers of Brunello in the Montalcino area; and the oenotourism initiatives, including visits to the wineries, showing wine-lovers and conventional tourists alike where the Sangiovese grape is grown and how it becomes Brunello di Montalcino, have been replicated by neighbouring firms.

9. "Il Popolo dei Moscatisti"

The *Tutela dell'Asti* Consortium is an interesting example of the involvement of a number of enterprises which, despite belonging to groups and communities who are keen to maintain their own characteristics, traditions and history, acknowledge a common goal of promoting their products and their region of origin. The history of the consortium and its operational decisions over time demonstrate its determination to pursue the four above-mentioned macro-objectives as well as the current clear perception that it is essential to activate a strategy for the joint promotion of the wine-region relationship.

Set up in 1932 and recognised in 1934, the consortium was formed with a precise objective, i.e. to join together under a single denomination ("Asti") the wine, the area of origin, the grape variety, the preparation technique and the final result. The decision to focus on a single denomination proved to be the right one and the ensuing publicity campaign resulted in the dissemination of the name and image not only of the product itself but also of the region of origin, at a time when economic activity in the area was struggling. The choice of the consortium's logo, which features the patron saint of Asti, was also prompted by the desire to identify the product with the region of origin and its traditions, thereby emphasising the authenticity and quality of its products.

Its mission consists of «*doing all that is necessary in order to safeguard and promote the image of Asti and Moscato d'Asti, and of the consortium, in Italy and the World*». Its operational remit is set out in article 1 of the Statute, which reads: «*the consortium is dedicated to improving production and promoting Asti docg and Moscato d'Asti docg and the region of origin, as well as monitoring the entire production chain in order to safeguard the companies it represents and the final consumer*».

This approach has enabled the consortium to sell almost 100 million of bottles a year from 9,700 hectares of vineyards, to coordinate about 4 thousand vine-growers, and to have 145 partners including vineyards and wineries sharing rules and values.

Confirmation of the constant drive for quality can be seen in:

1. The decision to expand the vineyards of the area of origin in the most suitable localities;
2. The improvement of the oenological practices necessary to guarantee consistency of quality;
3. The monitoring and supervision of production, which includes certification and delivering government seals;
4. The commitment to traceability (*Tutela dell'Asti* was the first in Italy to implement this principle), which ensures that the consumer can obtain information about the product at all phases of the production chain from the vine to the retailer, providing a total guarantee of quality;

5. The role of the research laboratory, which has a memory bank of more than 100 aromatic profiles and has accreditation for national certification and the certification necessary for export.

The role of the consortium in terms of safeguarding the growers, enforcing the agreed rules, providing guarantees to both internal and external stakeholders and promoting the region has thus become a fundamental element in the development of social capital in the area where it operates. This role is seen in the crucial task of coordinating the agricultural and industrial aspects, which has resulted in full-scale agro-industrial planning, thanks to which it is possible to optimise the incomes of the various bodies involved. The development of trust between actors has made it possible to achieve a model of *bridging social capital*, i.e. a synthesis of groups and communities who, while maintaining their own identity, traditions and history, acknowledge a common goal of promoting their region of origin.

The work of the consortium is also fundamental in socio-economic terms for the 52 municipalities in the provinces of Alessandria, Asti and Cuneo that belong to the area of origin identified in the regulations. The impact is immediately perceptible in the historic evolution of production, which, thanks to the coordination provided by the consortium, grew from around two million bottles in 1940 to forty million in 1970 and has more than doubled since then.

Despite the geographical and cultural differences between the municipalities of the area, the bond between wine and region propounded by the Consortium is perceived in the propensity of its members to call themselves the “popolo dei moscatisti” (literally, “the people of the Moscato growers”), emphasising the role played by the wine in socio-economic development via the link between *terroir*, human beings, tradition and product. This link is also highlighted by the four itineraries into which the Asti docg region is subdivided, all of which recall its history, landscape, traditions and oeno-gastronomy and enable direct contact with the wineries and vineyards via food-and-wine routes, wine tasting and B&B services.

The identification of Asti wines with the region is currently considered fundamental for the path to development chosen by the consortium, and is linked to the process of promotion that the consortium has launched by creating a brand that emphasises the regional component as the fundamental connection between the different types of product present.

10. Findings

The cases analysed exemplify both the concept of meta-organisations – systems that arise from the relationship between enterprises and region – and the idea of the region as a relational and innovatory space as described above (Aydalot, 1986; Aydalot and Keeble, 1988; Camagni, 1999). In terms of their achievement of the enterprise-region dyad, the three cases are characterised by differing degrees of success, but the phases of the process which generate this important synergism coincide with the model proposed in this paper. In all cases, the process starts with the sharing of strategies oriented towards the quality of the product and the process. The regulation of production, agronomic techniques and zonation enabled the application of the Franciacorta method that distinguishes the products of this area. The reconversion of the vineyards to autochthonous varieties and the shared agronomic and innovative production techniques guarantee the production quality of Brunello and its recognition on an international level. Today, Asti docg is one of the world's most famous sparkling wines thanks to improvements in the quality of the vineyards lying within the specific *terroir*, shared wine-making practices that ensure constant and uniform quality, and the role of the research laboratory in the selection and safeguard of autochthonous production.

Social capital is regenerated by means of a network of internal relations encompassing producers who share traditions, knowledge, information flows and innovation; and a network of external relations that includes organisations responsible for regional promotion, municipalities and enterprises (working in tourism, food-and-wine, events etc.) which, while not being part of the wine production chain, broaden the range of regional goods and services on offer.

The orientation towards environmentally sustainable development is seen in the shared agronomic rules, the recovery of autochthonous vineyards and the forms of zonation, which even include the creation of specific zone-based projects such as "Franciacorta Sostenibile". It also involves projects that are shared with other parts of the country (such as the participation of the Asti wine district in the "Prefer" project, which seeks to assess the "ecological footprint" of products and services). From a socio-economic point of view, the creation of itineraries with economic activities that do not belong to the wine production chain itself but are linked to it in terms of the sharing of resources (tourism, food-and-wine, museums, etc.) facilitates the economic development of an area. The coordination of agricultural and industrial sectors and the agro-industrial planning that characterises the cases described here also supports the *social* development of the area.

The creation of a regional brand (Franciacorta, Montalcino, Asti) that emphasises the regional component as the fundamental bond linking the various types of product and the brand itself entails the implementation of coordinated promotional activities; the creation of itineraries that express an integrated range of goods and services (tourism, food-and-wine, culture etc.); and joint internationalisation policies that enhance the global profile of local entities (enterprises and region).

Although the results cannot be generalised, the cases presented made it possible to verify that: a) the recognition of certain resources common to the region and its enterprises and the sharing of operational activities designed to transform them into distinctive competencies (such as those of the proposed model) constitute a dynamo for joint development, thereby confirming hypothesis H1; b) the sharing of connotation- and identity-based strategies enables the establishment of a unified and original system that is hard to replicate elsewhere, confirming hypothesis H2.

11. Conclusions

In the framework of management practices, this paper presents an innovative approach to the study of the relationships between enterprise and region, proposing a holistic vision in order to identify the drivers of their systemic competitiveness. Although the results cannot be generalised, dependent as they are on the contexts of reference (Leonard-Barton, 1990), the use of case studies highlights the strategic utility of the proposed co-evolutionary model and provides interesting reflections on its potential for generating competitive differential. In this perspective, enterprises play a role, in many cases a crucial one, arising from their ability to supply a broad and integrated range of goods and services that enhances the *identity component* on which the link between the product and its region of origin depends. The positive perception by the consumer of the product's intrinsic and intangible characteristics – derived from its link with the region – creates the *trust component*. The latter is manifested in the confidence of the consumer concerning the quality of the goods and services on offer, which prompts him or her to make repeated purchases over time. The high profile of the link then gradually generates the *evaluative component.* The coexistence of these three components is a marker of *brand-land equity*, which means that the competitive differential is no longer present only in the enterprises or in the regions but in the relationship between the two.

On the basis of the afore-going, the following points for reflection, interesting for both a region's enterprises and its policy makers, can be made:

1. The fusion of enterprises and region into a single identity should no longer be regarded as an instance of localism in opposition to the globalisation of markets, but as a vector for the promotion of distinctive competencies in a global context.
2. The sharing of competencies, stable relations between different actors, and the consistency between region, products and enterprises must be interpreted as "common pool resources" (Ostrom,1990) and adequately promoted in order to generate value for both parts of the dyad;
3. The brand/land equity of the synergistic relationship is generated when enterprises activate the capitalisation of resources, relations and knowledge and provide a broader and more complete range of goods and services that meets the experiential and emotional needs of the modern consumer.

Despite the qualitative nature of the reflections expressed here, they may be regarded as initial hypotheses for further studies in terms of both quantifying the benefits that enterprises and region can draw from such a process, and the consumer's perception of this single, unified brand/land identity. Indeed, in the sense used here it represents a unique and unrepeatable asset for the context that raises its profile, making it possible to implement forms of co-evolution that ensure growth and socio-economic well-being for both enterprises and their regions of reference.

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CHAPTER TWO

CORPORATE SOCIAL RESPONSIBILITY AND STAKEHOLDER NEEDS

ANGELO NICOLAIDES AND LEONIE DE WITT

1. Introduction

This chapter interrogates the popular concept of corporate social responsibility (CSR) which has obtained renewed interest since the mid to late 1990s. Questions arise as to how it should be implemented so that organisations align with what society expects from them while promoting an effective triple-bottom line approach that benefits principals, CEOs, shareholders and indeed all other stakeholders. Multinational companies in particular view developing nations as profitable business opportunities. The ones that are especially targeted, are those endowed with vast amounts of important natural resources, and offer cheap labour as well as large markets. The questions that come to mind are what do companies do to give back to society? What does CSR denote precisely?

1.1 Methodology

A literature review approach was used in the select analysis of existing research which is relevant to CSR. The researchers demonstrate throughout how the research is relevant to the investigation. They explain and justify how the research could assist in answering some of the questions or gaps in the area of research. The research was begun by identifying what was required to be known prior to the research. A careful investigation was made of research that has already been done on the topic and other relevant research was also investigated. They then group what they read into different topics or themes.

1.2 Background

As early as 1953, Howard Bowen in his book, *The Social Responsibilities of the Businessman,* offered the definition of CSR as "the obligations of business to pursue those policies, to make those decisions or to follow those lines of action which are desirable in terms of the objectives and values of our society" (1953) and yet despite the fact there has been talk about CSR for the last five decades, there is still no clear definition or agreement as to what CSR means (McWilliams and Siegel, 2001). Milton Friedman (1962) stated that there is one and only one social responsibility of business that is to utilise its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, that is, to engage in open and free competition without deception or fraud. He believed that it was contradiction in terms to view stakeholders as being equally important to shareholders since "there is only one responsibility of business, namely to use its resources and engage in activities designed to increase its profits" (Friedman, 1970).

By incorporating the Agency theory structure, Friedman states that the assumed social responsibilities of business people are nothing more than agents acting incongruously as 'civil servants' (1970). Thus when utilising any of the resources of the principals they work for, they should serve society but this is not always the case. Then in 1979, Carroll posited that the social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that society has of an organisation at any given point in time. He believed that simply operating legally is deficient and that companies are obliged to society to operate ethically as well. Jones gave CSR greater importance in 1980 by expressing the view that it is a notion that all corporations have a greater obligation to society in its entirety other than only stockholders and beyond what is generally prescribed by law and union contract. Sethi (1979) argues that CSR has been misused in a variety of contexts and it has thus lost its meaning. It is thus an elusive concept (Clarkson, 1995). Since the mid-1990s, a surge in corporate scandals gave new impetus to CSR and it is now a formal management strategy via which companies try to generate a positive impact on society while conducting business. The Earth Summit held in Rio de Janeiro in 1992 was an important moment in the growth of CSR since it, in a sense, took centre stage over the primary objective of finding ways in which to stop the destruction of irreplaceable natural resources and limit pollution (UN Earth Summit, 2005).

William Frederick states that, "The moral underpinnings of CSR are neither clear nor agreed upon" (Frederick, 2006), but despite this reality CSR was and has always been on the 'radar' of businesses since trade began. The advent of the industrial era and the impacts of business on society since at least the 1980s have intensified the desire for more effective CSR. The first company to officially launch CSR in a recognizable form was Shell in 1998 after the 1995 accusations launched against them for complicity in the execution of Ken SaroWiwa and eight other Nigerian activists and the sinking of the Brent Spar oil platform which made investors in Shell very jittery (Corporate Watch Report, 2006). CSR began to play a more prominent and greater societal role when companies such as KPMG and PricewaterhouseCoopers alluded to it and applied it in one form or other by their greater involvement, ethical conduct and partnering with NGOs and a host of stakeholders -CSR has to an extent thus become the ‘human face’ of capitalism (Corporate Watch Report, 2006). In fact CSR has since been aligned with a variety of related definitions and actions including Sustainable Development, Christian Ethics, Corporate Citizenship, Corporate Conscience, Corporate Social Performance, Shareholder Value, Stakeholder Inclusion, Corporate Governance, Corporate Accountability, Ethics in Business, gender and race discrimination. The many and varied definitions of CSR consequently vary in scope from highly conceptual to very ‘hands-on’ or professional assertions (Carroll, 1999). What is clear is that recent corporate financial performances and the measurement of CSR activities have led companies to appreciate the strategic value of CSR. There is now a far greater awareness that its application has an impact on a business and its operations.

Civil societal groups have promoted the renewed interest in CSR and place financial and other demands on companies since many governments are unable to support their citizens as they used to due to the severe global economic downturn which essentially began in 2008. In a broad sense, CSR is placed under greater scrutiny now than ever before (Cochran, 2007), and defined as the accommodation of corporate behaviour to the values of society and social expectations. CSR and the concept of a stakeholder approach are fundamental concepts when one critically evaluates the role of companies in society. Companies do however have diverse CSR objectives and their motive remains to make profits. It is evident that the literature is very critical of the concept of CSR and that no single accepted definition is accepted (Ougaard and Nielsen, 2002). CSR is thus about how companies manage their business processes so as to produce an overall positive impact on the society in which they operate and beyond.

2. Which activities are incorporated in CSR?

It is apparent that CSR has to an extent evolved in tandem with the growth of economies. CSR is not a requirement for organisations to act ethically since they operate with an economic intention, but is a mechanism which from time-to-time controls their actions. The social responsibilities of corporations stem from the fact that corporations have a critical function to perform for a variety of stakeholders as well as the fact these corporations have an influence on the lives of its stakeholders. Societies depend on corporations for job creation, financial services, insurance, entertainment, health care etc. Therefore it can be said that corporations are capable of having immense positive impacts on societies in terms of economic development and quality of life. Due to the role of corporations in society, two broad principles emerged as the foundation of CSR activities (Lawrence and Weber, 2008).

The first of these is the *charity* principle. Various organisations donate money to charities in what is termed corporate philanthropy but this is generally nothing more than a PR exercise for the organisation to score points in the eyes of the stakeholders. Some organisations involve themselves in sponsoring awards and thus position themselves as experts in a number of fields by virtue of money donated as prizes in a number of fields. There are companies which carry out cause-related marketing where for example they partner with a school and donate a number of computers. In return for this, they promote their brand as they associate themselves with the school. Another form of cause marketing includes promotions of which a portion of the purchase price is donated to non-profit organizations (Smith, 1994).

Although there is no shortage of self-serving philanthropists, a new paradigm which encourages companies to take a leadership role in solving social problems has emerged. In addition to making monetary donations, managerial advice, technical and communications support are also provided. Companies are forming strategic alliances with non-profit organizations and are becoming important role players in movements for social change, while advancing their business goals (Smith, 1994).

CSR activities furthermore encompass the *stewardship* principle, which holds the belief that although corporate managers have a responsibility towards the stockholders, they also have a responsibility to ensure that all stakeholders, especially those in need or at risk, benefit from the firm’s actions. Because corporate managers are in control of immense resources, which can impact hugely on societies, they are to manage those resources in such ways that are good for both stockholders and societies. It can consequently be argued that corporate managers are in a position of public trust and are stewards for society and the natural environment (Lawrence and Weber, 2008).

Since organisations' actions impact either directly or indirectly on individuals and society, stakeholder engagement is a critical activity. CSR seeks to define what responsibilities they should be addressing while the stakeholder approach addresses whom business is accountable to. The problem is that stakeholders very often have a different view of what CSR means and what is expected of an organisation in terms of CSR. It is difficult to align the ideological stances of stakeholders and organisations (Wood, 1991). There are also a number of researchers who maintain that only shareholders have any sort of legal claim on the purposes of a company that they own (Weiss, 2003). This is however unwise since managers need to consider many stakeholders and not only the shareholders if they wish to be successful in the long term and there must be visible effective stakeholder-oriented policies. These policies are often reflected in codes of conduct which are essentially explicit statement about the values and standards that are evidenced by an organisation's behaviour. Clearly, no two organisations will have the same codes and they will vary often considerably in terms of quality and content. Included in codes would be, inter alia, handling of employees, environmental impacts, health and safety, human rights issues, transparency and consumer reliability. There are organisations which report on their social and environmental performance in an effort to improve their corporate accountability but this is not usually effectively benchmarked and subject to allegations of spin. In many cases external monitors may audit an organisation (Corporate Watch Report, 2006). Organisations interested in improving their social and environmental performance have a number of tools available to guide in policymaking, one of which is The United Nations Global Compact. The just mentioned is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption (UNGC, 2008).

CSR is nowadays usually defined as a business system which allows the production and distribution of wealth for the betterment of all stakeholders via the implementation and incorporation of ethical systems and sustainable management practices which include the production and sharing of wealth by organisations, careful stakeholder management approaches, and the creation of ethical processes and management practices which are sustainable. If CSR is to be successful, a systems approach is required which will empower organisations to administer the many "…interrelationships rather than linear cause-effect chains and seeing processes of change rather than snapshots (Senge, 1990)".

By Corporate Social Responsibility (CSR), we thus mean the method by which companies facilitate the manufacture and sharing of wealth for the betterment of all their stakeholders via the implementation and incorporation of arrangements and management practices that are both ethical and sustainable. In essence this means that CSR refers to situations where companies exceed mere compliance and willingly engage in actions that advance societal needs in a manner which exceeds what is expected of them legally speaking (McWilliams *et al.*, 2006). Furthermore, companies and society are in synergy and in a sense intertwined rather than viewed as distinct entities. In the current global scenario, there are however, many companies that jump onto the CSR 'bandwagon' due to social and legal pressures exerted upon them rather than because they desire to do so. Nonetheless numerous companies are very positive and self-motivated to adopt meaningful CSR initiatives.

3. Why CSR?

The case for CSR can be made on moral, rational or purely economic arguments (Werther and Chandler, 2006). It makes business sense to be socially 'tuned-in' and so companies nowadays view CSR as an ethical ideology that morally obliges them to act to the benefit of society. It is evident from corporate behaviour that there is now an increased awareness of the necessity to be involved in CSR initiatives and it is viewed as an important link between good business and what is termed responsible business. According to various researchers such as Griffin and Mahon (1997) and Simpson and Kohers (2002), there is a distinctly positive link between CSR and an organisation's market value. Husted and Allen (2007) also argue that there is a good business case for CSR and that it links to improved financial performance. This has been echoed by Hillman and Keim (2001) who explain that Strategic CSR has a positive correlation with good financial performance and a very negative correlation with philanthropic CSR. Many organisations are now trading more on their reputations, intellectual capital and brand value, as opposed to products and services and so CSR is a way to ensure that their reputations are enhanced or stay intact. According to Turban and Greening (1997) and Keeble and Turner (2003) many employees would rather be associated with organisations involved in CSR activities. Customers are also happier to deal with CSR sensitive organisations and view them as having greater market value (Luo and Bhattacharya, 2006; Chadwick, 2005).

Research thus suggests that there is a strong business case for CSR and that it is also ultimately good for shareholders as well as other stakeholders and society in general (de la Cuesta, 2004). Porter and Van der Linde (1995) suggest that organisations should seek for example, to produce the same quantity of goods using fewer resources, since this would enable them to save much money and allow them to pass the saving on to the customers. Organisations would also make more profit from more sales due to the cheaper price of products and services. CSR is not just philanthropy but rather conducting business in a responsible fashion. Many companies with a strong ethical and moral compass feel the need to be socially responsible in that they seek to maintain the fine balance between the economy and the ecosystem in which they operate. Kotler and Lee (2005) attribute CSR to genuinely socially responsible business practices. The welfare of society cannot simply be disregarded for economic gain but there should rather be equilibrium between profits and societal welfare. CSR, if applied sincerely, is a great tool and competitive strategy which assists a company to secure a sustainable competitive advantage. It does this by integrating its business objectives with a wide range of social goals. It is thus as strategic systems approach that carefully scrutinizes and manipulates the behaviour of a company while maintaining its strategic competitive advantage. When people invest in any organisation, they are gambling and wish to see that they are making safe bets. When they invest in a business, they hope they are making a secure investment. About 86% of institutional investors are of the opinion that CSR makes a positive impact on the business in which they have invested (Keeble and Turner, 2003). Orlitzky and Benjamin (2001) and Moore (2001) explain that CSR results in a marked reduction in organizational risks and as such is non-negotiable.

Especially the millennial generation grasps the importance of CSR as actions which integrate societal apprehensions and good business strategy. CSR is a trust builder with the broader community and gives companies that apply it an edge over their competitors in that they are viewed as socially and environmentally friendly and concerned about the community. Organisations that are transparent and work with stakeholders are able to develop economically feasible and innovative products and services while striving to advance the protection of the environment and improve social conditions in society. CSR is generally viewed as a sustainable development opportunity (Hulm, 2006) and the current favoured approach for CSR that is now widely accepted is the community-based development approach. The International Standards Organization

(ISO) has fashioned an international standard for the social responsibility of both the private and public sectors. ISO 26000 has established seven hubs of social responsibility which encompass most CSR definitions. These are inter alia organisational governance, community involvement and development, human rights, fair labour practices, environmental protection, fair operating practices and consumer concerns. The significance of CSR is thus twofold. In the first instance, it exhibits the ethical behaviour that organisations exhibit towards their internal and external stakeholders. Secondly, it represents the responsibility that organisations have towards the environment and society in general.

There are various dimensions of CSR of which the environmental stewardship dimension is the most critical since this is the one which impacts most directly on business operations. The social relationship refers to the relationship between an organisation and society and the way in which the organisation enhances and improves society. The economic dimension is also critical since this seeks to develop the organisation financially and increase profits for the shareholders in a triple-bottom-line approach. Then there is the stakeholder dimension (explained further down), in which organisations seek to interact positively with all the stakeholders including employees, suppliers, customers, the community at large and civil society. Many organisations involve themselves in CSR activities due to their strong moral and ethical stances and do so entirely voluntarily (Dahlsrud, 2006), in what is termed a ‘volunteerism’ dimension. There are also many examples of organisations that position themselves as market leaders by investing in CSR and there is a belief that CSR ultimately saves money as energy saving and waste reduction measures ultimately help to limit operational costs.

ISO (International Organization for Standardization) is the world’s largest originator of voluntary International Standards each of which is numbered. ISO 26000 provides guidance on how businesses and organisations can function in a socially responsible manner. According to ISO, this means acting in an ethical and transparent way that contributes to the health and welfare of society in general. ISO thus seeks to clarify what social responsibility is, and thus helps businesses and organisations translate principles into effective actions and shares best practices relating to social responsibility. It is recommended for all types of organisations irrespective of their activity, size or location (ISO, 2010).The standard was launched in 2010 following five years of negotiations between many different stakeholders across the world. Representatives from government, NGOs, industry, consumer groups and labour organizations around the world were involved in its development, which means it represents an international consensus. If CSR is to grow globally, the ISO 26000 must incorporate the many management functions that most academic research and definitions consider to be critical. The strategy adopted by the organisation has been recognized as a CSR necessity, and despite this the proposed standard fails to a great extent to take cognisance of how the key management practices can be exploited to promote effective CSR initiatives. Consequently, the ISO guidelines are lacking in content and thus in a sense fail to enable CSR objectives to be achieved by organisations (ISO, 2010).

There are some arguments against CSR and a number of authors including Omran et al. (2002), Mc Williams and Siegel. (2000) and López et al. (2007) suggest that CSR is destructive in that the market share of an organisation decreases as a result thereof as finances are utilised elsewhere and shareholders lose out. There are additional problems such as, for example finances are required for organisations having to implement new measures to satisfy new legal requirements and so nothing can be spent on CSR. Many organisations state that they lack specific skills, knowledge and even experience to enable them to assist society to deal with the myriad of problems that it faces. Others believe that to be involved in CSR activities is in fact robbing the shareholders of what should be theirs since the profits are diluted by handouts to society. There is also an argument that CSR is undemocratic since organisations should not be obliged to 'dish out money' but rather focus on maximising profits. Governments should be held accountable for tackling societal woes and should modify regulations where required so that markets can be controlled in such a manner that society benefits.

However despite such negative arguments against CSR, behaving well leads to good business and so there is an increasingly improving attitude towards CSR activities as was demonstrated in a range of global surveys among 3500 business executives (McKinsey and Company, 2009). Many executives agreed that corporations must balance shareholder needs while making contributions that seek to benefit society. CSR can play a huge role in reducing poverty (Boyle and Boguslaw, 2007). There is an improvement in both the corporate image and reputation of an organisation when CSR is part of its operating plan (Maignan *et al.*, 1999). Businesses can obtain new sources of revenue by seeking to serve the poor as this will ultimately lead to cost reduction initiatives that will invariably increase the purchasing power of the marginalised masses (Prahalad and Hammond, 2004). CSR can also reduce risk and is a way to deal with complex socio-political issues such as health care and drastic climate variances that organisations may face providing that a systems thinking approach is adopted. This implies that CSR has one or more defining properties or functions and each of these is capable of impacting on the behaviour of the whole. In each environment, there are smaller constituent parts which are adequate to serve some aspects of CSR.The manner in which each part of the system affects its behaviour or properties depends on at the very least one other crucial part of the system (Ackoff, 1999). Organisations must thus manage the entire CSR initiative since if this is not done, important properties may be absent - we cannot thus think of the environment or employee welfare for example as distinct aspects. When employees act unethically, it thus affects the entire CSR initiative. Only once the concepts of systems thinking are applied to CSR can organisations hope to address the demands of their stakeholders and society in general. The seemingly unrelated aspects of the CSR system are evidently all interrelated in one way or another.

The systems approach requires that the wealth that is created by organisations must be disseminated to the stakeholders in an assortment of ways including wages, the acquisition of materials from the suppliers, a return on capital and the paying of taxes (Ackoff, 1999). The creation and dissemination of wealth is vital to CSR since without these, organisations cannot exist. Hence it is crucial to adopt sustainable management practices which enhance the triple bottom line and lead to a strategic competitive advantage. Stakeholders such as inter alia, shareholders, buyers, suppliers, local government, financial institutions and employees, all need to benefit in terms of CSR and as such their needs must be reasonably considered when decisions are made at the board room and operational levels. The CSR activities of any organisation are however beyond the formal economic motives and requirements of the law and any activity undertaken is voluntary and not necessarily motivated by economic needs. Organisations which do adopt CSR policies are however acting in terms of what Davis (1973) has termed the “Iron Law of Responsibility” which advocates that if organisations fail to act on CSR issues they will ultimately falter.

4. Ethical and Social Responsibilities of an Organisation

From a moral and ethical perspective, the *raison d’etre* for people and organizations should be the service of mankind. Prudence should go far beyond profit maximisation. Surely the entire point of business is to be of service to someone? The reward of service will be more service in which organizations must be induced to take a more holistic look at CSR. Organizational sustainability is impossible without considering the sustainability of society and environmental sustainability. If organizations wish to survive, they must be correct and responsible in society and invest socially and become true corporate citizens. There must be respect for the rights and legitimate interests of all stakeholders and the world financial crisis certainly demands that organizations become truly active and effective CSR role-players. Business ethics may well be an oxymoron to many, but stakeholders are living people and so organizations should think of the economic and social impacts of their products and seek out the intersection between their interests and those of stakeholders. While the stakeholder philosophy is common knowledge, it remains in many ways subordinate to the shareholder philosophy but new values and beliefs are surfacing in a wide stratum of society and these play a part in influencing how organizations operate.

The notions of business ethics and CSR are often used interchangeably even though each has a distinctive meaning. We speak about business ethics, but what is this precisely? Business organisation implies any organization whose objective is to provide goods or services for profit to willing buyers. Business corporations are open systems which are able to make profits and survive if they balance their micro-environmental needs with those of the broader society or macro-environment in which they operate. The word ‘ethics’ is derived from the Greek word ‘*ethos*’ denoting custom or character. Ferrell and Fraedrich (1997) have defined it as "inquiry into the nature and grounds of morality where the term morality is taken to mean moral judgments, standards and rules of conduct". Daft (2001) defines it as "the code of moral principles and values that governs the behaviours of a person or group with respect to what is right or wrong". Given that corporations are legally responsible for their actions, they are obliged to work within legal frameworks and should of course do so with a sense of moral responsibility to society. Business ethics refers to "the moral principles and standards that guide behaviour in the world of business" (Ferrell and Fraedrich, 1997). The same authors explain that corporate social responsibility is "an organization's obligation to maximize its positive impact, and minimize its negative impact, on society" (Ferrell and Fraedrich, 1997).

Organisations today face in a paradoxical sense, a number of strategies that are contradictory and yet interrelated. Some of the major paradoxes faced are between stability and agility, learning and organisational performance, ethical and unethical conduct, size of business and quality service provision, to be either values driven or profit driven and to be shareholder driven or CSR and stakeholder driven. The many tensions that exist thus make it vital that business models that are adopted should embrace both extremes simultaneously. If an organisational seeks to be successful it will need to align the business model's internal aspects with the external environment. CSR initiatives require dynamic decision making and the commitment of all employees and this will lead to long term success. The role of the leaders is critical in that they must communicate a universal vision as they support seemingly inconsistent ideas and think symbiotically as they mesh conflicting agendas in an agile manner. Once an organisation can make decisions, it is liable to be held ethically responsible for them. Consequently when ethics are breached in whatever manner, there are dire consequences for stakeholders, the financial growth of the organisation as well as the distribution of wealth and corporate sustainability. The responsibilities of an organisation are derived in part, from the norms that arise from the agreement between itself and stakeholders which allow it to exist. This is why it is essential to have ethical systems within organisations. An organisation's social responsibility includes ethical responsibilities to various entities besides employees, customers and shareholders. Where there are ethical breaches these invariably have a negative impact on society as was the case with the failure of Lehman Brothers for example. The ripple effects of the misdemeanours within the company were felt far and wide and to a large extent led to the global economic downswing from about 2008 which still plagues the world. It is clear that the norms from which an organisation's responsibilities derive must be based on a relationship other than what is legally required. Consequently, the ethics base of an organisation should take cognisance of various fundamental ethical stances based on the Ten Commandments, the Golden Rule and Kant's Categorical Imperative (Ackoff, 1999). One should of course also consider the ethics statements as espoused in Islam, Hinduism, Buddhism and the African philosophy of Ubuntu for example. These basic rules and regulations are however too daunting for many organisations which are happy to simply abide by the laws of the countries in which they operate and this is obviously a short-sighted view of what is required. Carefully considered ethical systems are required to guide an organisation's behaviour, whether local and international, big or small. Acting ethically and supporting CSR should not simply be window-dressing and checks and balances must be in place at various levels so that whatever an organisation does must be at least in part be based on collaboration between all stakeholders since this is the nature of corporate personhood (Mulligan, 1986). Whichever ethical system is in place in an organisation, it needs to consider the impacts on all stakeholders and seek sustainable management practices which will allow it to act in a socially responsible manner. Whichever economic activity is undertaken by an organisation must be consistent with the cultural, philosophical, or religious attitudes of each of the stakeholders (Donaldson and Dunfee, 2002).

CSR is thus based on ethical and moral stances of organisations and is concept whereby they resolve willingly to contribute to the betterment of society and promote the maintenance of cleaner environment. As such, they integrate social and environmental concerns in their business operations and in all of their interactions with stakeholders voluntarily. The management strategies, ecological and social practices, financial management and innovation aspects of an organisation should be based upon socially responsible goals that are also in the organisation's own interests to pursue and be part and parcel of an inclusive CSR strategy. Organisations and society are closely interrelated and when CSR practices are carefully considered in a business strategy, sustainability is enhanced. The average organisation has a lifespan of roughly 50 years and this necessitates that sustainable management practices be employed (Bragdon, 2006). This implies that CSR must be embedded in the corporate culture and sustainability necessitates that organisations consider the long-term impacts of their operations on society since they do not operate in a vacuum. Archie Carroll (1991), a management theorist, explained the responsibilities (Fig.1) of organisations in today's environment in a pyramidal model:

Fig. 1: Carroll's Pyramid. Source: Carroll (1996)

CSR includes the notion that organisations do not only have economic and legal obligations, but they are also ethically and morally bound. CSR has to thus incorporate the entire range of obligations a business has to society, including an economic obligation. An organisation has core values which include responsibilities. The economic responsibility is generally the primal responsibility since it impacts directly on staff salaries and shareholder interests. Profits are vital if any organisation is to become a good corporate citizen.

An organisation also has legal responsibilities in that it is duty bound to satisfy the legal obligations of the country in which they operates and as such must avoid criminal acts and environmental degradation. The ethical responsibilities are responsibilities that an organisation places upon itself due to the owner's belief that it is the right thing to do. This includes paying tax, fair salaries and conserving the environment for example. The philanthropic responsibilities are those which go above and beyond what is required or what the organisation believes is right such as, donating to the community, and making an effort to be involved in projects to support worthy causes or simply aid in conserving the environment. The core values of any organisation need to come from its executives and its board of directors and should align with CSR in terms of desired ethical behaviour and management stakeholders. Where an organisation strives for long term values that consider society, this tends to motivate employees. It is thus desirable to infuse a corporate culture which is closely aligned to CSR. Organisations should pursue sustainable business practices that can be influenced by corporations including "greening" the supply chain.

Organisations should use the latest technology to monitor and manage their sustainability initiatives so as to improve their financial management which will enable them to help reduce poverty and destruction of the environment. By so doing, they show commitment to effectively practice CSR and serve humanity. Once stakeholders are managed ethically and effectively and sustainable management practices exist, society will benefit. Leaders of organisations should strategically use their core capabilities to create an opportunity to get ahead of the game and think laterally as they ethically lead CSR innovation in the market and gain the desired strategic competitive advantage.

5. A Stakeholder Approach

As stated earlier, CSR includes certain obligations and lawful and ethical commitments that an organisation must fulfil. The stakeholders are either individuals or groups, internal or external to an organisation, and include shareholders, employees, customers and even the suppliers, all of who have diverse expectations of CSR. Nonetheless they are not mutually exclusive and may be social or non-social, the latter are not able to be communicated with directly while the former can be communicated with directly. We thus have diverse stakeholder groups. Strategically speaking, in the micro-environment the primary investors, employees and customers would be considered the core strategic stakeholder group. In the competitive environment the competitors, local governmental authorities, trade unions and business partners would be considered as strategic stakeholders. In the macro environment the central government and social organisations such as those concerned about environmental degradation would be considered strategic stakeholders (Post et al., 2002). Each of these groups of stakeholders may influence an organisation and are in turn influenced by it. It is important for an organisation to identify the stakeholders and be cognisant of their interest. Organisational policies and behaviours should be developed that take into account the various views and concerns of the stakeholders. Stakeholder theory and management issues should be viewed as complimentary in that both should seek to address the values and expectations of society.

Very careful attention must be paid to the interest of stakeholders. Managers are obliged to commit themselves to take steps to protect and improve societal welfare as well as the interests of the shareholders. Organisations generally have diverse pools of resources including inter alia, human resources, financial resources, functional expertise and competencies to allow it to serve society. It is more cost efficient to deal with social issues before they become huge and threaten an organisation. CSR is morally appropriate and even though organisations do not run a country, they have an obligation to assist the government to eradicate social problems. It is vital to manage stakeholders as this is a key driver that enhances the ability of organisations and empowers them to comply with government regulations while the simultaneously deal with customer apprehensions and shareholder and employee interests in sustainability.

Organisations that adopt a stakeholder approach are also more able to recruit employees since the latter are keen to serve in socially responsible organisations. This also leads to low rates of employee turnover and a better quality employee will make the organisation more effective. At the corporate level strategies should be involved with directional issues, portfolio issues and parenting issues, which should aid growth and lead to stability. By applying CSR organisations develop a competitive advantage, but this requires that they be creative, acquire, transfer and retain knowledge that they should especially be able to respond to change in the environment and modify their behaviour. The rate at which organisations learn and adapt their behaviour and adopt CSR is critical to them obtaining a sustainable advantage. In the current environment of globalisation, deregulation, merging industries and new business models, it is clear that for organisation to stay ahead of their game the rate at which they learn, especially at grass roots levels must exceed the rate of change. Consequently, successful organisations will support a learning environment and allow some risk while they share knowledge and involve themselves in CSR. Above all they should have reflective practices and develop value to their customers.

Organisations must differentiate themselves from their competitors and an important way in which to do this is to incorporate CSR in their mission statements. They should develop core competencies and provide consumers with benefits that are difficult to imitate and strive to operate with low costs, they should define who they are and plan to implement initiatives in their operations, marketing and organisational development in which resources are allocated for operations including at least a measure of CSR. It is critical that organisations ask themselves how they will meet stakeholder requirements. In a systems thinking approach, it is important that organisations define their activities that will take to assist stakeholders and be prepared to take actions and risks. They should ask what they can do to bring about desirable and possible changes in society and then act in such a way as to improve society's situation. It is equally important to interrogate what precisely an organisation's strategic value proposition is. They should strive for having the best cost, product and service in an integrated approach and see beyond present constraints. From a technological operational point of view, they should ask what they can do towards CSR and what constraints they face. Above all they should compare their strategy to reality (Ackoff, 1999) and be ready and willing to shift resources, roles and responsibilities between paradoxical agendas. To these ends it is imperative that they carefully consider the external environment and reflect, plan, act, observe and reflect once again on how they are operating in society. Their strategy must thus be focused.

All organisations should be striving to actively learn in the knowledge economy and promote research and development to support CSR. Simply put they can 'do well by doing good', and should leverage technology to sustain economic and social growth. Organisations also need to converge CSR initiatives with governmental and non-governmental organisations and it is equally important to have a global vision. To build viable self-sustainable economic operational models is one thing but to serve society is another, but whichever model is used should consider what is best for society at all times.

Organisations should adopt CSR goals that are SMART (specific, measurable, agreed to, realistic and time bound), and they should use a balanced scorecard as a management tool, to manage performance and implement their strategies using specific measurements as a set of indicators. They should build intangible assets and use CSR to attract and retain employees and seek to create future value. Where they are degrading the environment, they must seek process improvement and innovation based on research and development and think way beyond the financials while they define and manage their corporate values. Long-term organisation interests need to include societal support since this is what will ultimately lead to sustainability. An organisation must thus consider its labour issues, human rights, environmental conservation and societal needs. Consequently we should refer to the Stakeholders' Theory (ST). Edward Freeman (1984) published *Strategic Management: a Stakeholder Approach*, in which he explained that it is critical for any organisation to build good relationships with stakeholders who have diverse claims that must in part be responded to (Freeman *et al.*, 1990). Clearly, company directors are legally obligated to act primarily in the interests of shareholders' whose interests must always be considered first, and efforts must be made to obtain the greatest profits but this should not be at the expense of other stakeholders. CSR allows organisations to demonstrate their values other than the share-price. However many organisations are insincere and are only truly concerned about share-prices since they are owned by the shareholders (Bakan, 2004). Toyota of Japan, which is the world's second largest automotive manufacturer, vigorously promotes its hybrid Prius motor vehicle which emits less greenhouse gases than a standard vehicle such as a for example, a Corolla. While this is a noteworthy invention, Toyota's SUV vehicles which are very successful in terms of sales, and which far outstrip the sales of the Prius, are hugely reliant on fuel which pollutes the environment. The task of managing stakeholders globally is indeed very complicated, but it is indispensable to CSR initiatives. Ultimately it brings huge rewards for organisations and a win-win scenario results if CSR is sincerely conducted. It is obvious that stakeholders cannot, and should not, be managed in the same way. They should be dealt with on a precedence basis in terms of their importance and impact on the organisation. In any event, CSR by its very nature implies that stakeholders are considered. CSR is very difficult for some managers to implement since many find themselves in a very competitive economic system which threatens the survival of their organisation.

Consequently, organisations should be given incentives to incorporate CSR measures in the management processes. Governments too, must provide incentives such as subsidies for Research and Development (R&D), which is also voluntary, as is CSR. R&D is important for industries, stakeholders and the whole of society. Organisations must strive to become sustainable by "meeting the needs of the present generation without compromising the ability of future generations to meet their own needs" (Brundtland, 1987). CSR undoubtedly enhances an organisations vale in the marketplace.

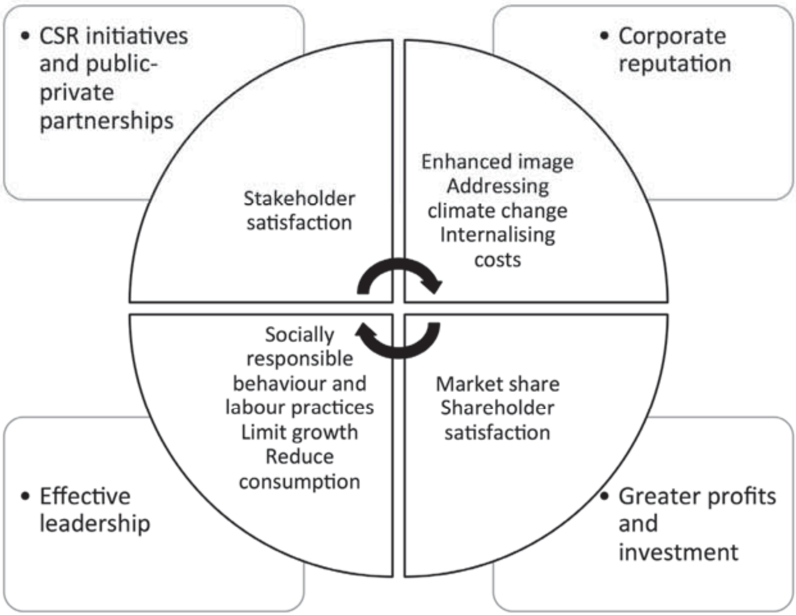

Fig. 2: CSR Spinoffs (Authors own)

A number of organisations have immersed themselves in CSR and developed profound connections between their business strategies and CSR initiatives that they undertake and voluntarily support. The spinoffs that result are clearly beneficial (Fig.2). They also recognize that there must be trade-offs between their expected short-term profitability and social and environmental ambitions. This further allows them to spotlight the many opportunities that prevail from incorporating social value schemes as part of their social strategies, which ultimately provides them with a strategic competitive advantage. In concentrated industry settings, competitors are invariably more interdependent in terms of the manner in which business is conducted. Consequently when one organisation adopts CSR initiatives and is successful, it makes it harder for competitors to resist adopting CSR practices. Of course, the antithesis is also a possibility and problematic. This is why it is important for a first-mover organisation to lead the way and be successful. The manner in which CSR is approached should not in any way put organisations at odds with society. Where there are limitations in compliance due to financial considerations and perhaps societal and environmental necessities, the long-term value of CSR must be vigorously promoted. There must be an attuning of all organisational behaviour to the norms and values of society and what organisations do must be voluntarily done. Organisations must simply go beyond the legal requirements and not be solely focussed on economic self-interest and shareholder value creation. All organisations have influence in society to a degree, and should be concerned about sustainability and thus act responsibly. Failure to do so will inevitably be sanctioned. While they are not governments, many especially major international corporations, as players in a globalised market, are comparable in authority and some in fact have more power and financial resources than governments, and must use their influence to support and protect society as partners of government and create shared value. This is based on the notion that organisational enhancement and social welfare are symbiotic.

6. Conclusion

A number of prominent conclusions may be drawn from the analysis of the literature on CSR. The growing influence of human rights on CSR is a momentous development especially for large international organisations to be cognisant of. Such organisations need to be encouraged to not only generate economic growth but also societal development (Rossouw, 2005). Organisations should motivate their CSR initiatives publicly and provide sound reasons for what they propose to do, since this will enhance their reputations and gratify their stakeholders. Consequently, their CSR must be based on coordinated and coherent social responsibility ideas because this will enable them to mobilise support from others and ensure that they meet the practical requirements of their CSR drives. Clearly, an organisation's CSR policy and mechanism to use finances for the general good are crucial to its success. It is a huge incentive for any organisation irrespective of size, to assist disadvantaged stakeholders to become active participants in the economy. In any event, CSR initiatives will also allow them to circumvent negative ratings that could prevent them from operating in certain countries.

Organisations should set benchmarks for others to follow and while many countries are heading in the right direction, greater support for effective CSR reforms by organisations is needed. Lofty CSR standards should be applicable from the very outset for organisations conducting business in any country. Challenges and opportunities abound but it is incumbent on governments, organisations and their various stakeholders to take a further lead and give greater impetus to CSR initiatives. The millennial generation is closely monitoring what transpires in the realm of CSR and this is important for organisations to internalise. Organisations should thus be asking a collective question: What can we achieve together for the betterment of society?

The very notion that organisations should exercise CSR as an entirely voluntary effort will increasingly be challenged as millenials promote their ideas on social media platforms. Respecting human rights must become a standard expectation of all organisations. While it is conceivable that certain areas of CSR will remain voluntary, many should be regulated. It is imperative that good governance remain a critical factor for move forward with CSR. Government must carefully scrutinize its role as a legislator and regulator. It should also should also serve as the protector of basic human rights and notify organizations of its role, their roles and the moral and ethical expectations for CSR initiatives. Generating goods and providing services is an economic duty of a business; good and services are affordable for customers while simultaneously satisfying its responsibility towards shareholders and other stakeholders. Given this an organization has legal as well social responsibilities.

The legal obligation is to conform to the laws and regulations of the land while the social dimension has a number of areas of operation, including how an organization shares in the economy, and how it relate to competitors, shareholders, employees, consumers, the community in which it functions and how it treats the environment. Within these dimensions lies an ethical and moral duty to do the right thing and act philanthropically but also to go beyond this by incorporating CSR initiatives as part and parcel of operating strategy since CSR will increasingly become a competitive factor for every organization (Utting, 2003). Exercising CSR will thus soon be mandatory in the global world and not simply be viewed as an “add-on” activity in which only prosperous organisations engage, reinforcing the local as well as international CSR frameworks as a part and parcel of the emerging global standard. It is already a fact that some organisations are now legally required to include a social and ethics committee in their governance structures and this represents a welcome shift towards institutionalising and legitimising CSR initiatives. Mining houses in particular have a moral obligation to improve access to health care and education for their employees as well as for communities around their mining activities, while addressing environmental conservation issues. The very unfortunate Marikana incident in which miners were shot by police in South Africa in 2012, for example, emphasised that CSR needs to move from being a charitable essential to being a legal requirement that makes it obligatory for all organisations to contribute to the development of a country.

Self –regulation on CSR would be a utopia for many organisations but they need to re-assess their CSR stances. Capitalism must be made far more responsive to the huge needs in society. There is also business case for organisations to take careful note of CSR, business ethics, reputation and corporate governance. If organisations fail to heed the demands of society they will suffer the consequences. Organisations have a great responsibility to each of their stakeholders and should imbue their employees with the tools to conduct business responsibly. The wide range of social needs in many countries, in areas including inter-alia education, health care (HIV/AIDS), empowerment and entrepreneurship present a wide gamut for organisations to initiate critical CSR initiatives.

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CHAPTER THREE

INNOVATION IN MULTINATIONAL CORPORATIONS: FROM CLOSED TO OPEN INNOVATION PARADIGM

STEFANO BRESCIANI AND ALBERTO FERRARIS

1. Introduction

The globalization of innovation is usually associated with the growth of innovative activities and foreign direct investment (FDI) by large companies, primarily multinational corporations (MNCs). This occurs because firms that internationalize production are also key players in the process relating to the generation and diffusion of innovation.

Nowadays, MNCs must take into account that, in addition to innovation, R&D is itself changing (Andersson and Beckmann, 2009; Schilling, 2012). Below is a summary of the main trends at the global level:

- as a result of the reduction of geographical barriers and the increasing rapidity with which goods and information are transported, the transfer of knowledge and technological products and services occurs more quickly than in the past;
- the innovation process is gradually becoming increasingly complex and requires collaboration between the various disciplines and specialties;
- the innovation process is evolving towards more collaborative models, which require close cooperation between scientists, engineers and end users, as well as between the firm's design, production, supply and marketing functions;

- the innovation process is becoming global in scope. For example, new knowledge and technologies are being created in centers of excellence around the world.

Thus, the internationalization of R&D in recent years has been interpreted as an attempt on the part of technology-intensive companies to reap the benefits that derive from innovation, from specific locations, in order to compete in an increasingly globalized environment (Bresciani and Ferraris, 2012). This need arises because the real potential of innovation is undervalued and underutilized[1]. The purpose of some companies therefore becomes to "create a culture where employees are directed to continuously co-operation, including through various regional and national boundaries" and "to combine the internal expertise and know-how with the best research's facilities around the world".

The objective of the present chapter is to present the evolution in the approach to innovation adopted by MNCs, from closed to open practices. Our starting point is the seminal work of Chesbrough, who was responsible for the birth, in 2003, of a new paradigm, i.e. open innovation. Subsequently, in this chapter we propose the reconstruction of existing literature and its critical examination, aimed at identifying the major contributes of scholars in this field. We have therefore applied a literature review methodology in order to highlight how the approach to innovation in big corporations has changed in the last decades.

The remainder of the chapter is organized as follows: section two proposes the older MNCs' approach to innovation, highlighting the classical models and the chain linked model. In section three, we propose the main characteristics of the so-called "close innovation paradigm". In the subsequent section, the transition from this paradigm to the newer one, the "open innovation paradigm", is examined. In this section, we highlight the reasons for these transitions, the main features of open innovation and the core concepts and processes underlying this new innovation logic in MNCs. Furthermore, in section five we present the main consequences

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[1] Gerybadze Reger (1999) analyze these dynamics noting that the traditional paradigm, characterized by the concept of technology adoption, has been replaced by the paradigm of the transnational transfer of innovation. According to these two authors, the traditional paradigm was based on the use of pre-packaged technical solutions developed only at the central level, this process could be easily understood as outward learning. The decentralization of R&D has changed the framework, leading to new transnational innovation paradigm, characterized by intense interaction with the market, by cross-functional learning, inward and outward learning and technology transfer.

beyond the principles of open innovation that change the way a firm innovates. Finally, the last section offers a conclusion to the discussion and identifies managerial implications.

2. The approach of MNCs to R&D

Of the first 700 major investors in R&D in the world, 98% are multinational, accounting for more than two-thirds of the entire R&D sector (Baye, 2003). Some of these MNCs invest alone more heavily than some advanced nations, such as Switzerland and Israel

Multinational companies therefore play a key role in the transfer and creation of technologies and, more generally, as institutions capable of combining different innovation systems. R&D efforts are highly dependent on the sector to which they belong. In fact, the top twenty in the world are mainly made up of companies from sectors such as healthcare, software and electronics (Jaruzelski et al., 2011). A study by Roberts (2001) also highlighted the positive correlation between the intensity of R&D and the rate of revenue growth, sales generated by new products and the company's profitability. The firms therefore invest substantial resources in R&D activities and projects because they expect a return in terms of improved productivity and efficiency. In order to obtain this result, it is, however, important that the activity be connected to the firm's other functions, especially production. Given the increasingly important role played by this function, which is nowadays considered strategic and critical, the approach to R&D adopted by MNCs has evolved over the years. Below, we propose the classical models, the chain linked model. In the following paragraph, we then move from the closed to the open paradigm.

2.1 Classical Models

Classical models illustrate the considerable distinction between the approaches adopted by MNCs and actual ones, where complexity and innovation processes follow different trends, depending on the context. The *science-push* and *demand-pull* approaches are included among this category.

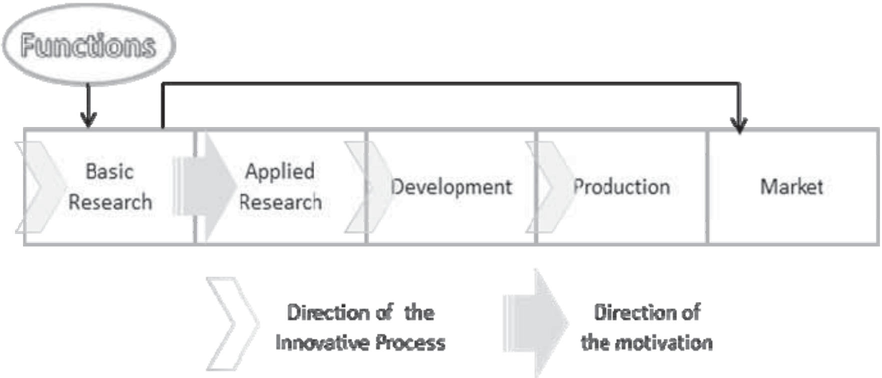

Fig. 1: Science Push Approach. Source: adapted from Bresciani and Ferraris (2012), p.85

The first model (figure 1) gained a foothold in the ‘50s and ‘60s, when the innovative modus operandi still followed a linear path process starting from the company. Thanks to the efforts of the R&D division, the firm made a scientific discovery, and the process then continued with the invention, planning and production stages, and, finally, the marketing. This model is linked to Industrial Capitalism, also called Fordism-Taylorism, which was characterized by standard products and standard production processes that were possible thanks to a stable and predictable system. Therefore, the main innovation sources were scientific discoveries that would have been translated into commercial applications by the firm.

Increased effort in basic and applied research activity should have brought about a rise in innovations, which should then, in turn, have resulted in finished products. This model was criticized, with an insistence on the absolute lack of an orientation towards client needs. According to this approach, the R&D team developed the product “*over the wall*” for users, hoping this would satisfy customers’ needs.

In some cases this approach has worked, for example when Sony developed the Walkman (with tapes), which were produced without any market research. However, this approach does necessarily fully explain the innovation process behind many products. In fact, there are many cases in which inventions that derived from great ideas have failed. However, if an idea is good, this approach is useful because it helps to bring the product to market, and to surpass many difficulties.

During the ‘70s, some elements of discontinuity occurred in the world’s economic system. These were caused by the petroleum crisis, the rise in inflation and the consequent fall in demand. This situation generated a saturation of the consumer goods market and a change in preferences in relation to the demand for goods.

This new condition resulted in the spread of a new approach termed the *demand pull*, which was based on the demand from potential users. According to this method, the needs of new consumers influenced the direction of the motivation, which was picked up by company researchers eager to develop new products following their customer needs and problems. Therefore, the new innovation sources derived from the demand, needs and suggestions of potential users.

This innovation approach was called the *demand pull* and was based on market research focused on attaining a better comprehension of potential consumers' needs and all related aspects. When a significant gap between consumers' needs and the products came to light, innovation deriving from this process could improve the products' features, making them suitable for the consumers (Figure 2). This procedure was based on the idea that if the innovations came from people's needs, it would not be difficult for the market to receive new products.

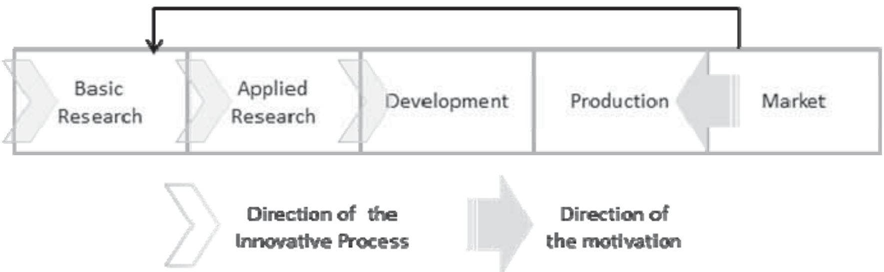

Fig. 2: Demand Pull Approach. Source: adapted from Bresciani and Ferraris (2012)

This approach changes the motivation aspect of the innovation process, going beyond the previous model, and is characterized by the slogan "*necessity is the mother of invention*".

Douthwaite (2002) identifies two exploration levels in market needs. The first is called the "*consultancy model*". The R&D team consults potential consumers about their needs without involving them too much in the development process because they consider their abilities to be sufficient in order to obtain the right information.

This process can work to update previous technologies but not to develop new products and processes because it is not sufficiently comprehensive. The author suggests that the *"codevelopment model"* could be more advantageous: the R&D team works together with the eventual users to develop the product, contacting the consumers and listening to them in various stages. For example, during a prototype phase, they might ask them what kind of product they need and, at a later stage, whether it has worked and satisfied their needs. Finally, they might ask them about the incremental improvement they wished.

Despite the existence of a real need, critics of this model are not convinced that the creation of an invention could satisfy it. There are many examples of latent needs which have not been satisfied, despite the efforts of innovative minds, such as cures for many diseases or road transport safety. Other critics maintain that it is easier to identify well-defined and coherent needs in the market (there are a great variety of sectors within the market with different features) or the rise in users' needs after the actual invention.

2.2 Chain linked model

In recent years, the juxtaposition between the *science-push* and *demand-pull* models is considered overly basic and outdated. The leading firms diversify in all directions in order to develop innovation capable of satisfying users. The companies carry out basic research internally, maintaining contact with potential users and paying heed to their suggestions; this is the case with all possible company networks and external sources of scientific research.

In the real world, which is characterized by inadequate information, high uncertainty, and fallible people makes the classical assumptions unrealistic. Shortcomings and failures are part of the learning process that creates innovation of every kind. Innovation accordingly demands feedback, and effective innovation demands rapid, accurate feedback with appropriate follow-on actions (Kline and Rosemberg, 1986).

Consequently, all innovation requires considerable amounts of feedback, and "effective innovation" necessitates fast and accurate feedback in conjunction with consistent follow-on actions. Incremental innovation requires, for example, an iterative process of refinement and adaptation, while radical innovation develops more easily when it has multiple sources of information as input. In any case, feedback and trials are essential.

In 1986, S.J. Kline and N. Rosenberg proposed an alternative approach in *"An overview of innovation"*. The "*Chain-Linked model*" arises as a consequence of the failures of the previous linear models; in Figure 3 the different elements of the model are highlighted. In this process, there is not only one predominant activity path, but five (figure 3).

> "The first path of innovation processes is called the central-chain-of-innovation. […] The path begins with a design and continues through development and production to marketing. It is important to note immediately that the second path is a series of feedback links […] that iterates the steps and also connects back directly from perceived market needs and users to potentials for improvement of product and service performance in the next round of design. […]"

Arguments about the importance of "market pull" versus "technology push" are in this sense unproductive, because each market need that enters the innovation cycle leads to a new design and each new design leads to new market conditions. The linkage between science and innovation expands through the whole central chain of innovation;

> "*This […] can be visualized as lying alongside development processes, to be used when needed. This linkage alongside the central-chain-of-innovation […] represents the third path, and is the reason for the name "chain-linked model".*

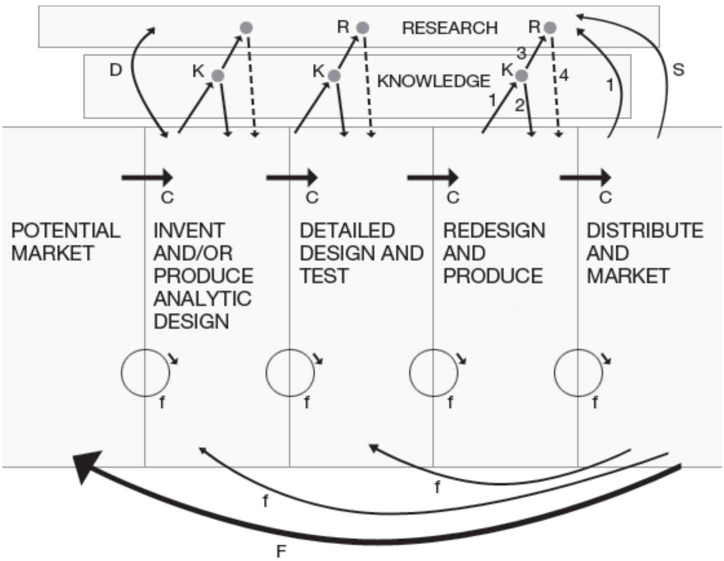

Fig. 3: Chain Linked Model. Source: adapted from Kline S.J. and Rosemberg N. (1986), p.290

Here, the use of prior knowledge is essential to innovation and is a fundamental part of technical innovation. It is not usually the initiating step; however, it is employed at all points along the central chain of innovation, as needed. It is also important to note that the type of science that is typically used and required varies from one stage of the central chain of innovation to another. At the design or invention stage, it is usually pure, long-range science that is required, which is not so different from purely academic science. The research generated during the development stage is usually systemic in nature and concerns the way in which the components interact with each other and the appearance of "holistic" or system properties that are generated when the product components planned are assembled to perform the intended function.

The research attained during the production stage, however, is very often process research, which is identified in the study of how specific components can be manufactured and how costs can be reduced through the use of special machines or processes, with the use of improved or less expensive materials. While these elements are all underlined and very clear in this model, they are absent in linear ones. Following the authors, the last two paths only require a brief.

> "*First, as already noted, new science does sometimes make possible radical innovation. These occurrences are rare, but often mark major changes that create whole new industries, and they should therefore not be left from consideration. […]. The last path […] is the feedback from innovation, or more precisely from the products of innovation to science. This pathway has been very important in the past and remains so even today*".

In sum, the main differences with the previous linear model consist in the variety of paths from which innovation could arise and in the existence of considerable feedback. In this model, therefore, research is not usually considered to be the initial stage (research actually occurs in and contributes to all stages of the innovation process). The primary source of innovation is, by now, the stock of knowledge accumulated by the firm and the well-known technological paradigms.

At the conclusion, any vision of the technical aspects of innovation that suggests a single path of innovation, or where science plays a central initiatory role, is overly simplistic and would likely distort the nature and purpose of innovation processes. Even if the "chain-linked" model proposes a remarkable improvement, it is only a general model and omits many details, as well as the variety and complexity of the entire innovation landscape nowadays.

3. Closed Innovation paradigm

The Closed Innovation paradigm implies not only a well-defined model with its own characteristics and modus operandi, but also a real mental attitude, an organization's specific approach to R&D activities.

The traditional business strategy has guided firms to develop defensible positions against the forces of competition and power in the value chain, implying the importance of constructing barriers to competition, rather than promoting openness (Chesbrough and Appleyard, 2007).

The main hypothesis behind the Closed Innovation model is that "successful innovation requires control", which presupposes an extremely closed attitude, in which the actors of innovation are focused internally only.

They generate ideas by focusing on their own laboratories and subsequently develop, support, finance, distribute them based on their own strength alone.

The need to rely on their internal resources and their own abilities appears to have been a direct consequence of the competitive environment that characterized (especially) the second half of the twentieth century, when external ideas, knowledge and technologies either did not guarantee acceptable innovation quality or were not available at all. Chesbrough (2003) stated:

> "*[…] one cannot be sure of the quality, availability, and capability of other's ideas*" and, "*If you want something done right, you've got to do it yourself*".

This strongly internal logic, defined as "closed", has the following characteristics:

- a company should hire the best human resources so that the most talented persons in the industry work in-house;
- to be able to bring new products and services to the market, it is necessary to discover and develop them independently;
- if a company is able to discover and develop on its own, it will gain "first mover" advantages;
- the company that arrives first on the market usually "wins";
- if a company controls the sector in terms of resources invested in internal R&D, it will be able to discover and develop the best ideas, thereby coming to dominate the market;

- it is necessary to protect intellectual property (IP), in order to avoid external competitors exploiting it and making profits.

These six principles were not written anywhere, but they have synthesized the "right way" to innovate. Figure 4 represents the paradigm of Closed Innovation, where the boundaries of the enterprise are well-defined. Ideas flow like a river within these boundaries, starting from the left, through the different stages of the innovation process, before finally arriving at the current market.

During this process, these ideas are selected and sorted into different levels; only some of the ideas that emerged in the first stage progress to the next stage (development). Many of them are set aside; the best or the ones that seem to best suit the business model of the firms are developed and, subject to further screening, are then introduced to the market. Looking at this model, Chesbrough (2003) recognizes several innovative tools:

> "*The process is designed to weed out false positives; projects that look initially appealing, but later turn out to be disappointing. The surviving projects, having survived a series of internal screens, hopefully have a greater chance of success in the market*".

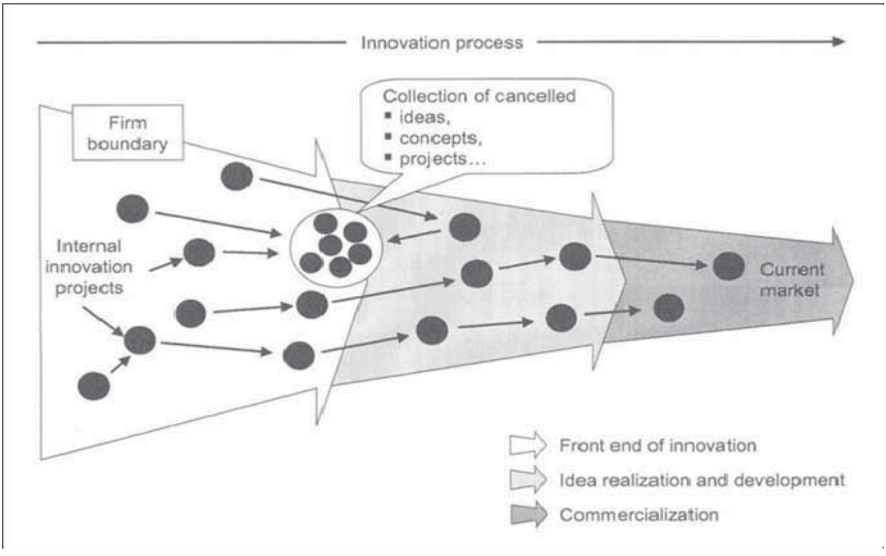

Fig. 4: Closed Innovation Model. Source: Chesbrough (2003)

4. From closed to open innovation

Economical, societal and technological changes in the external environment have profoundly influenced the approach to innovation adopted by firms. MNCs are the first enterprises to have experienced changes and, consequently, also the first to have tried to exploit opportunities arising from the new scenario. Changes in the market have occurred in two key respects: on the one hand, the increasing cost of developing new technologies and, on the other, the decrease in product life cycles in almost all markets, primarily high-tech markets.

These two changes have, in many cases, reduced the economic return that the company expects after making an investment in R&D, paving the way for new "open" business models. These business models may overcome the obstacles of the decrease in product life cycles and the increased costs of R&D activities, resulting in a new firm's innovation capability.

4.1 Erosion's factors of the paradigm of Closed Innovation

The main hypothesis of the Closed Innovation paradigm asserts that "successful innovation requires control", which assumes an extremely closed and internally focused attitude. The firms depend only on their internal networks' laboratories, thus relying only on their internal resources.

However, the combined action of the factors summarized below has certainly changed the scenario profoundly, leading to the erosion of the old model of Closed Innovation (Chesbrough, 2003).

1. Transforming the process of innovation.

The reduction of the market entry timing of a product, along with the new product development time, gave rise to significant consequences in the field of innovation. The complexity of the innovation process requires a more interdisciplinary approach, and it therefore becomes less and less likely that a single firm would generate innovation by simply depending on its own internal R&D activities.

2. The greater availability and mobility of high-skilled competencies

The improved average level of education in the world, as well as being a direct result of increased investment in education, primarily influences the greater availability of highly educated human resources'.

Nowadays, there is a greater presence in the labour market of talented people with a high level of basic training, including outside the research laboratories of large firms. These human resources, once taken and further trained on the workplace, are involved in the worldwide process of labour mobility.
A company, simply by hiring a resource from another context, may gain significant benefits from the training, skills, experience and network of relationships that this individual has developed in his/her past work experience. The increased availability and mobility of skilled human resources has created a fluid and highly dynamic labour market, which resizes the capacity (typical of the Closed Innovation paradigm) to maintain its own internal strategic capacity and knowledge.

3. The expansion of the Venture Capital Market.
The growing presence of venture capital has greatly destabilized the scenario in which firms usually operated, relying only on internal resources for innovation activities. It is clear that large companies, which are strongly focused on internal R&D, are not concerned with seeing the birth among their ranks of any start-up.

4. Development possibilities for external ideas "sitting on the shelf"
One of the major problems with the closed approach relates to the tensions between the research group and the development group, whose interests can be difficult to reconcile.
Big companies that were completely focused on their own internal research now face a dual threat: on the one hand the existence of a shorter product life cycle; and, on the other, the growth of development opportunities emerging from outside. The problem is that consumers in the new millennium are no longer willing to wait indefinitely for the arrival on the market of better products; moreover, competitors are ready to take advantage of any delay recorded in their final market. If a company's internal development organization is not ready to make use of new research results, it cannot blithely assume that this result will remain on the shelf, available whenever the development group chooses to work on it.

5. The increased capacity of the "External Suppliers"
Thanks to the confluence of the many factors outlined above, with the beginning of the twenty-first century companies became much more developed and now present a richer variety of skills than they did in the

past. A diametrically opposite scenario is emerging, with the openness of the market and its new crucial opportunities.

6. The technological convergence of different sectors

More similar value propositions, technologies and markets change the competitive environment and present a greater blurring of boundaries between different sectors, emerging in a context of technological convergence. One of the most famous examples of technological convergence is the so-called digital convergence in the field of digital photography and in the mobile phone industry. Today, many consumers are attracted by the phenomenon of "all in one" and prefer to buy a mobile phone with an integrated digital camera, rather than a traditional camera.

In this case, the final effect of technological convergence is an increasing degree of competitiveness in the digital sector; however, there are other experiences in which the final effect results in a new collaboration within new inter-industry market segments.

7. The evolution of the digital world

The last factor considered is the influence of the ICT revolution; globalization and the Internet have facilitated contact between worldwide and geographically dispersed partners. The new communication and relationship opportunities between businesses and innovative individuals strongly modify the context. In this sense too, innovation is increasingly based on technological platforms such as information and communication technologies (ICT).

The joint action of these factors has certainly brought about a profound change in the scenario. The innovation process has changed deeply; it should not be seen as a linear process from scientific research to the discovery of something new, through technological improvements, ending with the development of new products and their introduction onto the market.

Today, innovation is seen as a broader phenomenon, wherein internal processes have become more complex and interactive. In these processes, the World Wide Web and new technologies play a crucial role. In this new scenario, companies cannot expect to put their projects "on the shelf," without taking into consideration the possibility that these projects will be rapidly removed from their internal boundaries.

So, individual companies cannot control their external environment, which has changed considerably in recent years. Firms need to revolutionize the way in which they approach innovation; from an uncontrolled threat, to an important, exploitable resource. The environment, which was previously closed, with little opportunity for knowledge exchange and external growth, has become an open environment where enterprises can create ideas, projects and technologies, which are exploitable both internally and externally.

Moreover, the erosion factors listed above have had another consequence: they have completely revolutionized the so-called "Landscape of Knowledge". Innovation cannot be localized within a single company, nor can it be associated with a single inventor. Rather, it is the result of a distributed process of social interaction and collaboration between different actors, in which the amount of knowledge, knowledge sharing, learning, and increasing recombination capabilities play a crucial role. Knowledge has thus become the fundamental asset in order to compete in new, ever-changing dynamic markets.

Finally, in order to fully leverage all these new external sources, rather than continue (as in the past) to focus only on internal assets and capabilities, developing only their internal R&D activities, firms need to change from two different perspectives: strategically and organizationally. From this perspective, this is the only way to survive in today's competitive scenario.

4.2 Open Innovation paradigm

Academic attention in the previous decade has shifted considerably from the concept of closed innovation to that of open innovation (OI), which allows innovative ideas and knowledge embodied in people and intellectual property (IP) to flow freely either inwardly or outwardly (e.g., Chesbrough, 2003, 2012; Chesbrough and Appleyard, 2007; Enkel et al.,2009; Chen et al.,2011).

Shorter innovation cycles, industrial research and the escalating costs of development as well as the dearth of resources are some of the reasons that have led to the emergence of the new paradigm. The phenomenon is reinforced by the increasing globalization of research, technologies and innovation, by new information and communication technologies as well as new organizational forms and the potential of business models (Gassmand and Enkel, 2004).

Companies need to seek new ways to commercialise new products and bring their in-house ideas to the market. So, they need to deploy pathways outside their current businesses and realise that knowledge created inside the firm does not necessarily always equal the knowledge that consumers and markets need.

An open innovation approach transforms a company's solid boundaries into a semi-permeable membrane that enables innovation to move more easily between the external environment and the company's internal innovation process (Chesbrough, 2003; Gassman and Enkel, 2004).

Knowledge needs to flow freely inside and outside the firm in order to create opportunities for co-operative innovation processes with partners, customers and/or suppliers. In this perspective, it is important to understand how companies deal best with strategic assets in order to meet market demands. This approach is about gaining strategic flexibility in the strategic process and creating a critical momentum in innovation diffusion in order to generate customer acceptance and create industry standards (Gassmand and Enkel, 2004).

The underlying idea is that, in order to achieve high performance levels, particularly in knowledge intensive industries, firms need to promote the transfer of knowledge (not only incoming but also outgoing) through their organizational boundaries, going against the traditional assumption that "innovation requires control".

Open innovation is a new paradigm that encourages enterprises to use external knowledge flows and ideas as well as internal ones, with different knowledge paths leading to internal and external markets (Chesbrough et al., 2006). The general objective is therefore, on the one hand, the acceleration of the innovation process within firms and, on the other, the expansion of markets for an external use of innovation. This approach was later also detected as a valid paradigm to illustrate the dynamics of innovation in low-tech industries such as banking and logistics (Chesbrough and Crowther, 2006).

The open strategy balances the tenets of the traditional business strategy with the promise of open innovation. It embraces the benefits of openness as a means of expanding value creation for organizations. It places certain limits on traditional business models when those limits are necessary to foster greater adoption of an approach to innovation. The open strategy also introduces new business models based on invention and coordination undertaken within a community of innovators (Chesbrough and Appleyard, 2007).

Within a more open innovation process, good ideas do not arise only in large multinational R&D centres, but also from hundreds of thousands of small and very creative centres worldwide. In this perspective, small and medium enterprises (SMEs), individual inventors,= and universities can provide an accurate representation of the innovative relationship where the emerging importance of different networks leads to a further reinvention of the innovation process (Fig. 5).

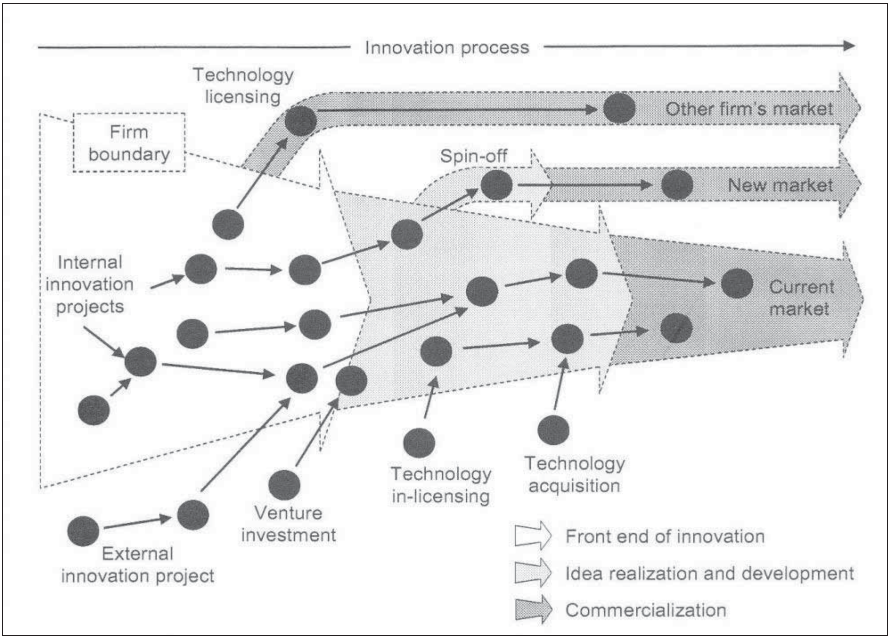

Fig. 5: Open Innovation Model. Source: Chesbrough (2003)

As can be seen from the figure, the innovation process itself has undergone major changes. The open innovation model is characterized by the presence of very permeable boundaries between firms and their external environment. In contrast with the closed innovation model, the sources of innovation projects are not only internal (Internal Innovation Projects), but also external. These ideas and technologies can enter into the process at any time through the innovative use of specific tools such as in-licensing or technology acquisition.

Inverse phenomena such as in-sourcing and the acquisition of technologies and know-how represent an alternative practice contrasting with the traditional "defensive strategies", wherein even tacit information and knowledge must remain protected within the company’s research department, in order to prevent potential competitors access and benefiting from them.

Organizations that have embraced the principles of open innovation have expanded their range of options, addressing the intermediate markets of innovation where it is possible to exchange technologies whose potential, for different reasons, it has not been possible to fully exploit ("projects on the shelf").

4.3 Three core Open Innovation processes

Calling upon data in different areas of open innovation, Gassmnan and Enkel (2004) found that not all companies choose the same core open innovation process, or integrate all three processes to the same degree. They found that each company chooses one primary process, while also integrating some elements of the others. These process archetypes are summarized in Figure 6, which are:

- the outside-in process: enriching a company's own knowledge base through the integration of suppliers, customers, and external knowledge sourcing can increase its innovativeness;
- the inside-out process: the external exploitation of ideas in different markets, selling IP and multiplying technology by channeling ideas to the external environment;
- The coupled process: linking outside-in and inside-out by working in alliance with complementary companies during which give and take are crucial for success. Consequent thinking along the whole value chain and new business models enable this core process.

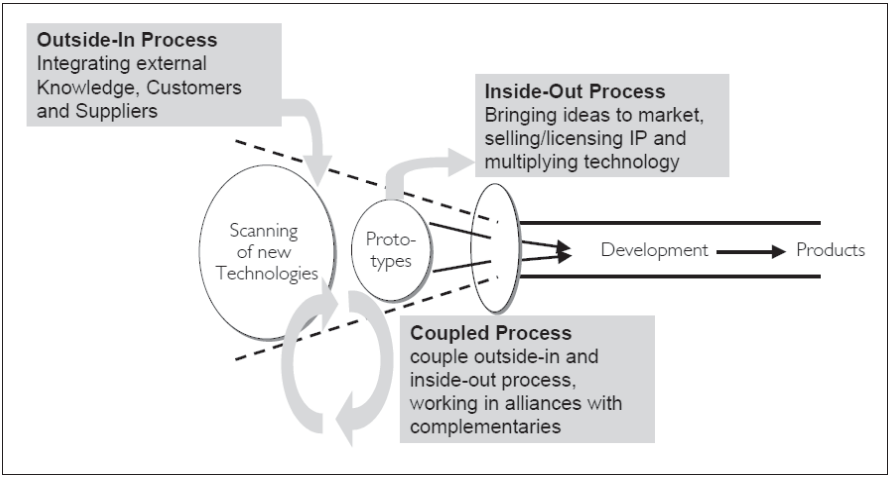

Fig. 6: Three archetypes of open innovation processes. Source: Gassman and Enkel (2004)

For each of these processes, the firm must possess certain core competencies and capabilities. These include: an absorptive capacity (Cohen and Levinthal 1990); the ability to multiply and transfer its knowledge to the outside environment; and the capability to build and maintain relationships with partners (relational capability) in order to enable joint development in strategic alliances (Johnson and Sohi, 2003).

To summarize, it is important that the firm identify *the required core processes* (archetypes) in order to successfully follow an open innovation strategy according to the company's characteristics. Moreover, it is fundamental that the firm possess a high level of absorptive capability, which must be complemented with a multiplicative and relational capacity in order to emulate a successful open innovation approach.

5.Changing the logic of innovation: the main consequences

"*What we need is a new logic of innovation to replace the logic of the early period*". Moreover, "*Companies must structure themselves to leverage this distributed landscape of knowledge, instead of ignoring it in the pursuit of their own internal research agendas*".

These are the words used by Henry Chesbrough (2003, p. 51) to indicate the radical change of logic behind the open innovation process. The progression towards this greater openness to external stimuli and expertise both on the market and internally requires a threefold perspective:

- new skills and cultural orientations needed at the strategic level (level 1);
- changes in the organizational processes and in the skills needed to integrate external opportunities with internal processes (level 2);
- New skills required of personnel involved in innovation processes (level 3).

At the strategic level (level 1), it is necessary for the CEO and top management to recognize the value of external inputs, and clearly identify the company's key competences and the gaps that could be filled by contributing external resources/competencies or internal resources that had thus-far been underestimated.

At the organizational level (level 2), on the other hand, new incentive mechanisms were detected in modern and open companies; these are based on cooperation, the presence of resources or offices dedicated to the search for solutions from outside networks, the evaluation and funding of collaborative initiatives, and the development of a roadmap that includes project planning elements that come from inside and outside the organization.

Finally, at the individual level (level 3), which is perhaps the most critical to the success of an open approach, a lot of changes are visible. The individuals involved in this process require a new attitude, which is at once more extroverted, entrepreneurial, and collaborative. In this perspective, in order to achieve success, the individuals also need to develop and maintain a network of contacts (one of the most important resources in this "new era") and to possess certain computer competencies relating to the collaborative tools of Web 2.0.

6. Managerial implications and conclusions

The new logic, beyond the principles of open innovation, change the way a firm innovates. To pursue excellent performance, managers should pay extra attention to external ideas and human talent when accessing external technologies to complement their in-house research activities (Hung and Chou, 2013).

Firms must invest resources in order to absorb knowledge spill overs (Lim, 2009). Among their sources of investment, internal R&D investment has been treated as the most prominent resource for the creation of new knowledge and absorptive capacities. In the Open Innovation system, employing internal R&D allows the firm to create a new architecture, defined as a hierarchy of connections between disparate functions within a system, when many possible connections within a system are not known (Chesbrough, 2003).

One famous, practical example of this is the "Connect & Develop" Procter & Gamble program. The R&D was in crisis, the rate of innovation success (the percentage of new products that met the financial targets) had stagnated at historic lows (35%). So, P&G lost more than half of its market share and the value of a single share decreased from $118 to $52.

In this context, an open innovation approach emerged, which involved making important decisions from three different points of view: innovating with partners, innovating with customers and potential end-users, and innovating with employees.

From the first point of view, the firm should rely not only on internal resources (internal R&D, laboratories, collaborative network owners) but also on all the knowledge and skills offered by the whole world scenario. Anyone could become a potential contributor to P&G: individuals, universities, SMEs, and competitors. On a practical level, P&G worked on three parallel tracks. First, the company tried to develop its network owners as much as possible, creating a new figure: the Technology Entrepreneur. Second, the major existing suppliers needed to be more involved as a major potential source of innovation. For this purpose, a secure IT platform, which enabled P&G to rapidly exchange technological information, was enabled. Third, as an additional external source, P&G included among its employees some "solution providers" with specific, highly-qualified networks.

From the second point of view, the firm stressed the importance of innovation being not just "for", but also "with" its customers. "The customer is the boss" was the slogan proposed by P&G's CEO. Through the use of digital media, they tried to bring together end-users and develop a direct interaction between them, so that they could become an active part of the innovative project as co-designers and co-engineers.

The third point of view relates to the employees and the open approach that is finalized in the development of ideas at any level. Within this approach, participation in joint innovative initiatives is further fostered by a new working environment in which executive office are not separated by doors, top leaders do not have secretaries and their offices remain open, like the rest of the conference room.

In this context, the role of internal R&D is also expanding and changing: from the simple generation of new knowledge, useful for developing new technologies, researchers are now open to the external environment, in order to identify and access external knowledge. This implies a profound change in practices and capabilities. In particular, an important, strategic approach relates to the expansion of the firm's connections with outside actors and the creation of a wide network from which innovations may emerge.

As can be seen in the practical example, firms reap benefits from externally acquiring technology and solid performance by taking advantage of the new knowledge created by internal R&D investment (Cohen and Levinthal, 1990).

By contrast, a firm with a lower R&D intensity is less likely to develop a sound technological knowledge capacity (Spithovenetal., 2010). Without a sufficient knowledge capacity, a firm has fewer chances to recognize and understand the knowledge that underpins the similarities and differences of its partners' skills.

The open innovation logic also offers a totally different approach in relation to IP protections. Nowadays, it is very difficult to maintain absolute control of technology over an extended timeframe due to a multitude of forces that enable the diffusion of knowledge. IP is better managed at the strategic level: the company may not only sell IP; at the same time it may also become a well-informed and motivated buyer of technology.

In the end, managers may not fully benefit from the opportunity of selling technologies or IP, in order to profit from outside efforts, if they fail to consider the moderating roles of in-house R&D (Hung and Chou, 2013).

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CHAPTER FOUR

TERRITORIAL DYNAMICS: THE RULES OF INNOVATION HELICES

ELVIRA MARTINI
AND FRANCESCO VESPASIANO

1. Introduction

In the knowledge society the key factors are represented on one side by the driver of the knowledge, the innovation and the creativity and, on the other side, by the formation of human and social capital (Stehr, 2001; Vespasiano, 2005).

For individuals and organizations, this phenomenon has involved the necessity to search new strategic practices. In this process of review the role of technology and the problems of knowledge management become fundamentals in order to generate innovation (Rifkin, 2000). The creation of innovations is more and more inside the network of national and international enterprises, universities and other agencies, let alone the stable collaborations between producers and users (Fagerberg *et al.*, 2005).

These situations favour the birth of “productive relations”, that are necessary to actors - with various competences - to attempt in innovative activities (the communities of practice are a clear example). The formation of a territory can be interpreted as the result of an evolving dynamics of these interactions developed by individuals, families and organizations within a system of constraints and defined rules governing the social and economic activity *in* and *of the* territory. “Within this framework, the action of individuals and organizations takes place in any case within degrees of freedom that are the expression of a subjective interpretation of the regulatory codes influenced by the prevailing system of values and the dominant paradigms, which translates the norm in behavioral regulation through the establishment of procedures, models, protocols, and operational techniques in common use" (Barile S., Saviano M., Polese M., Di Nauta P., 2012: 388).

"The power of policies is not only expressed through own prescriptive will but also on own legislation ability. For this reason s/he who has the power to "define" and enforce policy becomes a crucial figure because s/he also has the power to legitimize a specific way of looking for the reality on which one wants to operate" (Orlandini, 2010: 131).

The idea to consider the territory a social construction has authoritatively been clarified by Marcel Roncayolo (1981) but also, among the others, by Carlo Donolo (1999).

Particularly, Roncayolo, according to the studies of Lucien Febvre (*La terre et l'évolution humaine*, 1949), says «it is always dangerous to simply consider the territory as a support, a unity of measure», for which it is more profitable to think about it as "territorial construction", to whose inside the territoriality is developed that the author defines as «a complex of behaviors, of representations and of feelings», and in which the territorial organizations act as institutions that sustain, when they are not in crisis, the action of the collectivity (Roncayolo, 1981: 239-241)" (Martini, Vespasiano 2012: 9). "Within this framework, the action of individuals and organizations takes place in any case within degrees of freedom that are the expression of a subjective interpretation of the regulatory coded (code, text only, etc…) influenced by the prevailing system of values and the dominant paradigms, which translates the norm in behavioral regulation through the establishment of procedures, models, protocols, and operational techniques in common use" (Barile S., Saviano M., Polese M., Di Nauta P., 2012: 388).

"The crisis that has involved the territoriality is evident and it was true already it in the years preceding the explosion of the globalization; it is also evident the difficulty of the local communities to propose programs of territorial development. Local communities develop «the part of plug for the social investments», because for the important decisions they must accept decisions that are taken by non-local apparatuses. The involved actors in the different programs are found in the not easy (difficult) situation of subjection toward the outside and of weakness toward the inside. The action of "cut and sew" is that to which all the experienced actors submit in programs financed from the UE or from other non-local organisms; it is a necessary action, but it does not always produce results suitable to the local demand" (Martini, Vespasiano 2012: 9). In the emerging frontier of converging systems, networks and sectors of innovation that is driven by increasingly complex, non-linear and dynamic processes of knowledge creation, diffusion and use (Carayannis, Provance, 2008), confronts us with the need to re-conceptualize the ways and means that knowledge production, innovation utilization and development policies takes place in the context of the knowledge economy and society. This re-invention could lead to more sustainable firms (in terms of both size and profitability) and the territories where they operate as a result a higher level of competitiveness and, so, a higher economic and social growth.

2. Research and Innovation as Foundation of Economic and Social Growth

"The lines of action pursued by the dynamism of a region must be sought and developed by identifying the particular vocation of the same (manufacturing, tourism, art history, etc...) which represents factors of differentiation and attraction on which to base the strategy for development. These are the factors that give the opportunity to establish trade relations in order to find useful resources (investment, tourism, agreements and collaborations with other territories) in creating a competitive advantage instrumental to the achievement of the objectives of development. The proposed interpretation leads to a vision of the territory allowing you to identify not only the physical or natural scenery, but also those who in the course of developing natural and human environment of places and circumstances have qualified for a specific allocation, not only for the 'forms', but mostly for the features, the history and vocation, making the business-area central government action inspired by a vision of sustainable development" (Barile S., Saviano M., Polese M., Di Nauta P., 2012: 392).

In this context fits the growing role of innovation in stimulating productivity, economic growth and the standard of living of a country. Understood as a key condition for the survival of the production systems it requires a greater investment in the formalization and systematization of those procedures necessary to identify, learn, socialize and evaluate new knowledge. "If knowledge is an intellectual and interactive capability, it follows that its reproduction occurs with practice, with learning and with the intellectual and emotional involvement (while, for example in the case of information, this can be reproduced by a simple duplication)" (Foray, 2006: 17). In fact, any production or use of a good (or service) can lead to learning and then to the production of new knowledge. It is useful to reflect on the "disciplinary change that gradually leaves behind the mode of representation of the phenomenon of "learning" as an individual/cognitive process in favour of more social and collective process, triggered by cultural contexts and symbolic, with the mediation of old and new technologies and ways of organizing work" (Gherardi, 2000: 7)[1]. This result in a further reflection arising from the fact that the greater complexity of daily life makes it necessary to activate a capillary continuous learning process, which now can no longer be considered only as one of many aspects of education and training.

On the basis of these considerations and beyond those that are the methods used by companies to "innovate", it can be said that, in any case, the relationship among research, innovation and economic growth can be divided into three different types of approaches. The first one is the linear model, for which the basic research and the applied one creates the invention, which is then transformed into innovation, which in turn leads to increased growth. This type of analysis focuses mainly on the relationship between R&D and patents, and the relationship between them and their growth.

A second type can be classified as innovation systems or learning regions (Florida, 1995; Morgan, 1997) that focus on the study of institutional networks and incorporated in the territories which promote or inhibit the generation of innovations. It is useful to point out here that the ability of these networks to act as catalysts of innovation depends on the combination of the structural and social conditions of each territory, namely the so-called "social filter" (Rodriguez-Pose, Crescenzi, 1999).

Finally, there is a large number of scholars who instead focus on the analysis of the nature and the diffusion of innovation (think about knowledge spillovers) (Sonn, Storper, 2005; Storper, 1995, 1997).

Among these approaches, despite some similarities, there was always a little bit of cross-fertilization, with many methodological and operational constraints that have often kept the possible interactions below the basic minimum. However, it is possible to imagine an integrated framework among the three approaches, able to better understand the dynamics of regional growth. And this for at least three reasons:

a) as outlined by the linear model of innovation, innovation activities at the local level are critical to the production of new knowledge and the exploitation of the existing one; these activities are not equally distributed and therefore it can become a localized resource of competitive advantage for some areas more than others;

[1] In this perspective «even cognition is seen as a collective activity, socially distributed and organized, and also the body participates in the know, both retaining in the form of body patterns within the tacit knowledge both perceiving and processing in the form of aesthetic understanding» (Gherardi, 2000: 7).

b) secondly (according to the requirements of the regional innovation systems or learning regions), s/he who has working knowledge does not automatically know how to use it economically, so the success of an innovation depends on "the institutional and structural factors which are normally localized in the innovative capacity of a specific local context" (Iammarino, 2005: 499);
c) finally, the improvements in the infrastructure of communication does not affect all types of information and not in the same way. While codified knowledge can be passed gradually on increasing distance, the tacit knowledge remains geographically constrained, thus leading to a high concentration of innovation resulting in the limited geographical knowledge spillovers (Audretsch, Feldman, 2004; Cantwell, Iammarino, 2003).

The integration of these three different approaches allows us to understand how the work between localized knowledge spillovers and local socio-economic conditions can significantly affect the ability of a region to transform the efforts of interaction in real economic and social growth (Crescenzi, Rodriguez-Pose, 2011: 11).

3. The Rules of Innovation Helices

"Knowledge can act as a key to success for sustainable development. Essentially, it should be understood today that *nation-states* that concentrate on the progress of society, on higher competitiveness of their economies and on a better and sustainable quality of life have to apply the resource of knowledge. In the transformation to a knowledge-based society or knowledge-based democracy (Carayannis, Campbell 2009: 224), it is possible to generate new and usable knowledge in conjunction with sustainable development. The resource of knowledge, therefore, turns into the 'most fundamental resource' (Lundvall, 1992: 1), with qualities of a 'knowledge nugget' (Carayannis, Formica 2006: 152). Knowledge, as a resource, is created through creative processes, combinations, and productions in the so-called 'Knowledge models' or 'Innovation models' and thus it becomes available for society: 'We can also call this the creativity of knowledge creation' (Carayannis, Campbell 2010: 48)" (Carayannis et al., 2012: 5-6).

Models on innovation, for the most part, do not include a comprehensive and end-to-end view. Most innovation policy attention seems to be focused on the capacity to innovate and on input factors such as R&D investment, scientific institutions, human resources and capital.

Such inputs frequently serve as proxies for innovativeness and are correlated with intermediate outputs such as patent counts and outcomes such as GDP per capita. While this kind of analysis is generally indicative of innovative behavior, it is less useful in terms of discriminating causality and what drives successful strategy or public policy interventions (Yawson, 2008).

This situation has led to the developing of new frameworks for the innovation system and we want to refer here specifically the six currently existing models of knowledge creation and innovation creativity (Figure 1 and Carayannis, Campbell 2012: 13–28) as follows (Carayannis *et al.*, 2012: 2-3):

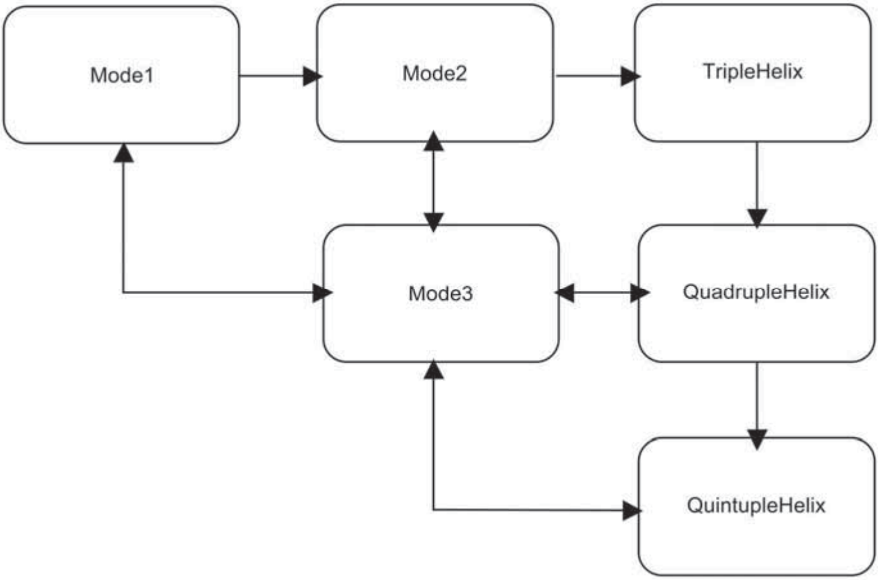

Fig. 1: The evolution of the models of knowledge creation. Source: Carayannis et al. (2012)

Earlier models created for the measurement of innovation are disparate, mostly linear in nature and neglecting the interrelationships among the various indicators and metrics. Statistics on science are often framed within an input–output framework: inputs are invested into research activities that produce outputs. This framework is a pure accounting framework based on the anticipated economic benefits of science. Most existing methodologies for measuring innovation are motivated by research and practice in domains of accounting, economics, human resource accounting, intellectual property, and, real options, among others. Prior reviews of such models have focused at the firm level analysis with an accounting, economic, or strategic lens. Most of these models have not been directly applied for assessment of national innovation systems. Many empirical research studies and institutional policy frameworks do however relate to the key elements of these models in their conceptualization. However, the main gap identified in the literature with these new national innovation policy portfolios is the linear nature of presentation just as the previous models of innovation.

The ‘core model’ is the Triple Helix (Etzkowitz, 2004, 2008; Etzkowitz, Leyesdorff 1998, 2000a,b, 2001, 2003) that is a valid socio-economic mechanism, where the relational networks (enterprises-universities-governments) get together to produce social values from knowledge. The analytical examination of this model shows that the critical point is the quality of the social capital nets, starting point to set up, sustain and manage the triangulation we are discussing. The Triple Helix governance, while pushing the communication and the relationships among the territorial actors, favours the forms of collective learning and facilitates the economic and cultural exchanges, necessary to the development and the social inclusion. The dynamics of the Triple Helix wants to promote an innovative atmosphere, encouraged by all actors (Leydesdorff, 2005): in fact, every actor assumes roles and tasks uninterruptedly reformulating the agreements with the others. At the same time these interrelations are realized also inside every single actor, reformulating continuously structures, characteristics and objectives.

On the base of these statements, in the Triple Helix dynamics it is very important the socializing role; in other words, we underline the importance of the ‘social capital nets’. In fact, the social capital facilitates the spread of a climate of confidence and such collaboration renders simpler and effective the learning (individual and organizational) then in its turn generates intellectual capital, innovation and competitiveness. An elevated intellectual capital could create greater job opportunities, to decrease unemployment rates and favour social inclusion (Livraghi, 2003: 108). A greater active participation of all the members of society to the productive processes, a smaller social exclusion could favour the formation of social capital, revitalizing and recomposing internal relational dynamics to the circuit of the Triple Helix. From there it comes a virtuous circle of development and social well-being” (Martini, Vespasiano, 2011).

However, the Triple Helix Model demands continue territorial adjustments and integrations. It cannot be considered a closed model to apply to the perfection to any local context, because every context has its net of the relations - weak and strong - that give form and substance to the relative social capital. Sociology has been writing about it for years: the territories are various, the social, cultural and economic pre-existence are ballast to the development programs and their various abilities to create nets of social capital and institutionalized confidence can be powerful motors in order to accelerate the realization of development programs (Bagnasco, 2006). Although these attempt to favour forms of sustainability - beginning from the confidence and the collaboration among the present actors on a territory - they still represent an experimentation of real governance based on nets of knowledge spreading.

For these reasons, other authors have tried to adopt new perspectives imagining and suggesting N-tuple helices models: not only three helices (government, university and enterprises) but also civil society (public) and natural environment. The Triple Helix is broadened within the Quadruple Helix through a media-based and culture-based public subsystem. The purpose of this extension is to include the public as well as the civil society as a fourth subsystem. The media-based public not only supports the diffusion of knowledge in a state (nation-state), but also the culture-based public with its values, experience, traditions, and visions, which promotes knowledge for the knowledge society (Carayannis, Campbell 2009: 217–227).

The Quintuple Helix finally stresses the socio-ecological perspective of the natural environments of society. Social ecology focuses on the interaction, co-development and co-evolution of society, and nature (Carayannis, Campbell, 2010) (Carayannis *et al.*, 2012):

"The goal and interest of the Quintuple Helix are to include natural environment as a new subsystem for knowledge and innovation models, so that 'nature' becomes established as a central and equivalent component of and for knowledge production and innovation. The natural environment for the process of knowledge production, and the creation of a new innovation is particularly important because it serves for the preservation, survival, and vitalization of humanity, and the possible making of new green technologies; and humankind, after all, should learn more from nature (especially in times of climate change)" (Ibidem: 5). To analyze sustainability in a Quintuple Helix and to make sustainable development determination for progress therefore means that each of the five described helices (petals of a daisy, in a more bucolic language!) has a special and necessary asset at its disposal, with a social (societal) and academic (scientific) relevance for use as follows (Figure 2):

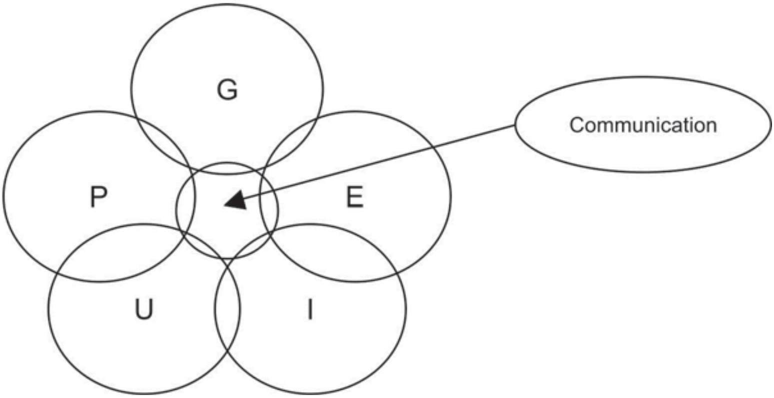

Fig. 2: The "Daisy" of Quintuple Helix Model. Modified from Etzkowitz and Leydesdorff (2000, p. 111), Carayannis and Campbell (2009, p. 207; 2010, p. 62) and Carayannis et al. (2012, p. 6). Source: author's calculation

(a) The education system (U): The education system, as the first subsystem, defines itself in reference to 'academia', 'universities', 'higher education systems', and schools. In this helix, the necessary 'human capital' (for example: students, teachers, scientists/researchers, academic entrepreneurs, etc.) of a state (nation-state) is being formed by diffusion and research of knowledge.

(b) The economic system (I): The economic system, as the second subsystem, consists of 'industry/industries', 'firms', services and banks. This helix concentrates and focuses on the 'economic capital' (for example: entrepreneurship, machines, products, technology, money, etc.) of a state (nation-state).

(c) The natural environment (E): The natural environment as the third subsystem is decisive for a sustainable development and provides people with a 'natural capital' (for example: resources, plants, variety of animals, etc.).

(d) The media-based and culture-based public (P): The fourth subsystem, media-based and culture-based public, integrates and combines two forms of 'capital'. On the one hand, this helix has, through the culture-based public (for example: tradition, values, etc.), a 'social capital'. On the other hand, the helix of the media-based public (for example: television, the internet, newspapers, etc.) contains also 'capital of information' (for example: news, communication, social networks).

(e) The political system (G): The political system, as a fifth subsystem, is also of crucial importance, because it formulates the 'will', where the state (nation-state) is heading to in the present and future, thereby also defining, organizing as well as administering the general conditions of the state (nation-state). Therefore, this helix has a 'political and legal capital' (for example: ideas, laws, plans, politicians, etc.) (Carayannis *et al.*, 2012: 5-6).

"A system with five helices is not linear, it is a web of interrelationships, different systems, niches and pathways coming together to sustain life. This new architectural framework for a national innovation policy extends the traditional linear chain model to the innovation process and enlarges it to incorporate all aspects of society, including academia, government, industry, public and natural environment, thus creating a comprehensive National Ecological System of Innovation. Despite a national outlook, the framework retains focus on the organizational level and metrics and tools for measurement at that level. In order to understand the innovation process it is necessary to focus upon interaction and relationships. Organizations, knowledge institutions and people do seldom innovate alone and innovation emanates from cumulative processes of interactive learning and searching. This implies that the system needs to be characterized simultaneously with reference to its elements and to the relationships among those elements. The relationships may be seen as carriers of knowledge and the interaction as processes where new knowledge is produced and diffused. The key issue facing many organizations relates to how they can foster effective innovation using organizational supporting mechanisms. Failure to innovate is likely to result in reduced competitiveness. There is the need for theoretical integration to link organizational context with innovation and to consider strategic orientation as an important action parameter and the general framework for decisions about innovation and change. For these reasons:

1. Organizations play the most important role in the innovation system;
2. Organizations innovate in an interaction with other organizations and with knowledge infrastructure;
3. Organizations' mode of innovation and learning reflect national innovation systems;
4. Organizations belonging to different sectors contribute differently to innovation processes.

There are three main domains that are foundational to addressing the roles that organizations and organizational change play in scientific discovery processes and innovation:

- Organizational learning,
- Knowledge creation and transfer or conversion,
- Strategic change implementation, change management, specifically, process innovation.

Organizational level learning refers to a collective, group or whole organization, “thinking” and behaving differently as a result of a change process. The knowledge creating and transfer process refers to those activities, both human and technology-based, that change cognition. The change management is an organizational initiative designed to achieve significant improvements in performance by changing relationships among people, technology, organizational structure, and information, and which typically begins with a strategic change to which the top management team is committed.

Without a basic understanding of the combination of organizational and inter-organizational learning it is impossible to establish the link from innovation to economic growth. To put it briefly the focus should be much more on people and competence and upon how the relationships and interactions among people promote learning. This is especially important in the current era of the globalizing learning economy where the key to success for individuals, firms, regions and national systems is rapid learning. To understand how learning takes place within organizations as well as in the interaction between organizations is a key to understand how a system of innovation works (Yawson, 2008).

4. Conclusions

Capacity of local actors to find the right synergy with respect to the choice of different strategies and the ability to know how to create is vital. However, limitations to these forms of cooperation abound: it is often more inclined (CHI?). To cooperate with people they know, or are sufficiently similar, or even to have a good reputation based on their past (Martini, Vespasiano, 2012: 12).

The problem concerns the difficulty of cooperation among the helices and especially the identification of those helices which may be considered as 'starters' of development processes.

The convictions of Leydesdorff and Etzkowitz reside in the fact that the Triple Helix Model was repeatedly subjected to “experiments”: with the aid of “relavant date” they demonstrate the success or otherwise of the applicability of the model in one or more local contexts. They are not opposed *a priori* to N-tuples evolution but they require effort to demonstrate how society and nature can initiate and support models to Quintuple Helix.

“In a discussion which focused on bringing “society” or “the public” back into the model as a fourth helix, Leydesdorff & Etzkowitz (2003) argued that the helices represent specialization and codification in function systems which evolve from and within civil society. A pluriform “society” is no longer coordinated by a central instance, but it functions in terms of interactions among variously coded communications. Money, for example, can be considered as a prime example of a symbolically generalized medium of communication (Parsons, 1968): it enables us to pay without having to negotiate the price of a commodity. Power, truth, trust, and affection are other “performative” media (Luhmann, 1975, 1995). In a knowledge-based economy, in other words, one should not only optimize the retention of “wealth from knowledge,” but also nourish the generation of further research questions from social and economic demand. Variety is required in the different dimensions of a triple or N-tuple helix so that differently coded discourses can select upon each other and interact (Ashby, 1958). One may wish to move beyond the Triple Helix model with three relevant selection environments, but every further dimension requires substantive specification, operationalization in terms of potentially relevant data, and sometimes the further development of relevant indicators (Leydesdorff & Sun, 2009)” (Leydesdorff, 2013).

The answer to Carayannis on the issue is that development must be understood within a systemic framework that cannot be separated from the role of society and the natural environment.

“The Quintuple Helix innovation model (Carayannis and Campbell 2010) bridges social ecology with knowledge production and innovation. Here, the natural environments of society and economy not only challenge, but also encourage and inspire knowledge production and innovation. In the approach of the Quintuple Helix innovation model, the ‘natural environments-of-society’ are being identified as opportunities for driving further and excelling the sustainable development and coevolution of knowledge economy, knowledge society, and knowledge democracy” (Carayannis *et al*. 2012: 9).

In this context, then, only a complete and solid “eco-system of innovation” will ensure that knowledge that entrepreneurial drive and capacity for innovation needed to continue to compete successfully in international markets and help spur economic growth. It is essentially to ensure the development of those "forms of social capital reciprocity and not a general willingness of cooperation and trust" (Pizzorno 1999: 381). The role of social capital, in fact, is relevant in economies that base their economic growth on knowledge, because it strengthens the individual and organizational learning processes that give rise to the skills and innovation. It is evident then that technology cannot be the only factor of production that can generate innovation and competition.

It generates economic growth with scientific research that produces new technology in the areas where learning processes are high and capital is widely spread and practiced.

Active participation, communication, knowledge and action become so essential in the processes of production, as in the past it was the accumulation of capital, and also the ethical sensitivity begins to play an increasingly critical role. The most pressing question, then, is to re-examine the issues of efficiency and social equity, shifting the focus on individual freedoms (Sen, 1990), if you want to manage knowledge in an intelligent manner to the benefit of all (Martini, 2011: 207-208).

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CHAPTER FIVE

INNOVATION: A THOROUGH REVIEW OF THE VARIOUS PERSPECTIVES

MICHAEL CHRISTOFI, ERASMIA LEONIDOU AND DEMETRIS VRONTIS

1. Introduction

Why do not all companies innovate? Innovation, the process of introducing new products and services to market (Hauser et al. 2006), is widely recognized as a key source of competitive advantage and economic performance of organizations (Panne et al. 2003; Crossan and Apaydin, 2010). In the business world, innovation is widely applied as it improves the quality and lowers the prices of services and products that have dramatically enhanced consumers' lives (Hauser et al. 2006).

In doing so, innovation, is also one of the most significant fields in business research today. An unrestricted search of academic publications in the various scientific databases using innovation as a keyword yields thousands of articles yet, reviews are rare and narrowly focused, either around the innovation type such as process or product innovation, or around the level of analysis such as individual, company, group, sector, region, nation, etc (Crossan and Apaydin, 2010). While this narrow focus helps understanding specific aspects of innovation in more depth, the fragmentation of the field prevents scholars from seeing the relations between these aspects and eventually encumbers unification of the field (ibid.).

Our intent in conducting this research was to bring together all parts of the proverbial elephant by integrating all dimensions of the fragmented innovation literature. Thus, we conducted a narrative analysis of the innovation research to offer a comprehensive review of all typologies of innovation and their benefits towards the various stakeholders. In doing so, the authors hope this attempted literature integration will stimulate interaction and fertilization across fields and advance productive new research within the scholar community.

In the following subchapters a brief overview of the evolution of innovation is conducted along with an analysis of the various innovation typologies, namely, product innovation, brand innovativeness, service and process innovation, as well as marketing, organisational, technological and green innovation.

2. The Evolution of Innovation

The term innovation has partly its origins in Latin phrase "res novae" and was often used by Quintus Horatius Flaccus and his synchronous during the first century BC (Frankelius, 2009). The more modern term "innovation", was used for the first time by King Edward VI in 1548, and meant something newly introduced. Thus, from an etymological standpoint, innovation can be defined as something new with a high degree of originality, in any area, and is introduced to consumers via the market (ibid.). In this meaning, innovation creates value for organizations by developing new products and services, new technologies and new markets (Miron-Spektor et al., 2011; Cui & O'Connor, 2012).

Today, even though innovation is a topic of great interest within the scholar community, this has not always been the case (Fagerberg et al., 2012). Back in the beginning of the 20th century, minimal attention was given to this area. The exception was made by Joseph Schumpeter, an Austrian–American economist, who constructed a theory according to which economic development is the consequence of innovations (Archibugi et al., 2012; Fagerberg et al., 2012). He defined innovation as a dynamic force that creates continuous transformation of institutional, social and economic structures (Fagerberg et al., 2012). The subject received more attention during World War II, when policy makers, mainly from the U.S., became more interested in innovation as an important impetus for advancing the civil sector and the military (Fagerberg et al., 2012; Godin, 2006). Despite this, in the beginning of 1960s, innovation was still in its infancy. However, things were about to change, because in the forthcoming years, various significant contributions of innovation emerged within several fields such as, economics, management and sociology (Fagerberg et al., 2012; Birkinshaw et al., 2008; Godin, 2006). In the same vein, another factor that influenced the growth of innovation is the integration of technological change within models for economic growth (Shearmur, 2012). This realization advanced the theorization of endogenous growth which illustrates how economies can grow due to their internal capabilities, specifically through exchanging information and learning processes, components that lead to innovation (ibid.).

Today, innovation is one of the most important components for continued growth and sustainable competitive advantage in business cycles (Friedrich et al., 2010; Mors, 2010). Innovation creates value for businesses by creating new products and services, new technologies and new markets (Cui & O'Connor, 2012; Miron-Spektor et al., 2011). Central to the notion of innovation, is the idea of newness and is based on the integration of new and different information, resources and knowledge (ibid.). Innovation is also accountable for reducing the prices and advancing the quality of products and services (Hauser et al., 2006). By finding new solutions to problems, innovation reshapes industries or develops new ones, alters existing markets and provides a basis by which world economies emulate in the global marketplace. Furthermore, innovation is a wide field and various disciplines refer to various aspects of it, including marketing, technology management, operations management, quality management, product development, economics, organizational behaviour, etc (ibid.).

3. Product Innovation

From the knowledge and management practice about innovation, two main schools of thought arise: those who deal with process innovation and those who focus on product innovation (Bhoovaraghavan et al. 1996). Product innovation typically pertains to an assembled product ready to be purchased by a customer (Maine et al., 2012). Chen and Liu (2005) refer to product innovation as the planning and realization processes that generate or reconstruct a new technological system and supply the needful functions to satisfy the customers' needs. The terminative goal is to provide a solution that can be exploited or accepted by consumers (ibid.). A more analytical definition of product innovation is given by Dougherty and Bowman (1995) who refer to it as a problem solving process in three domains of activity. The first domain has to do with the conceptualization of the product design and the path up to its existence. In doing so, this domain also includes the development and application of new technological advancements for product manufacturing and design evaluation, as well as the interaction with consumers in order to understand performance requirements. The second domain deals with the organization of work across functions. In addition, employees must work out problems between departments and work in multi-disciplinary teams. The last domain deals with the linkage between the product and the firm's structure, strategy, and resources. A simpler definition given by Cormican and O'Sullivan (2004) refers to product innovation as a continuous and cross-functional process involving and encompassing a maximizing number of several competencies inside and outside the organizational boundaries. In other words, product innovation is the process of transfiguring business opportunities into tangible products and services (ibid.).

As regards to the benefits that accrue when implementing product innovation, each year businesses spend millions of dollars in research and development activities because the reputation of those companies is interlinked with product innovation (Henard and Dacin, 2010). Furthermore, because of the hyper-competition and turbulent environment of today's era, the pursuit of innovation is significant in order to gain competitive advantage, and the best, perhaps, way an organization can hope to prosper is to innovate (Li et al. 2010). In doing so, several studies argue that product innovation enables a firm to gain the competitive advantage, consolidate a leadership position in the market, formulate new distribution channels, create entry barriers, and attract new customers to improve its position to the market. Therefore, product innovation has an important performance implication (ibid.).

4. Brand Innovativeness

Today, marketing scholars and practitioners acknowledge that, creating strong brands is one of the core success factors for creating a sustainable competitive advantage and guarantee the firm's long-term survival (Santos-Vijande et al., 2013). In parallel, it is well known that brands influence consumer behaviour because, consumers use brands as cues which signal product/ service characteristics, such as performance, reliability, or service/ product quality (Price & Dawar, 2002). In addition, it has been long acknowledged by the research community that, in today's hypercompetitive market, innovativeness is one of the most important elements of companies, due to the fact that it offers several advantages to the company against competition (Kaplan, 2009), such as profitability improvement and enhancement of brand value (Barone & Jewell, 2013).

To this end, as the etymology of the phrase reveals too, brand innovativeness deals with the development of innovation on brands and is an accessional yet unstudied field in scholarly research. In particular, brand innovativeness has to do with the advancements in consumer response towards their perceived innovativeness of a brand. The authors adopt Barone's and Jewell's (2013: 2) definition of brand innovativeness, which define it as "the extent to which a brand has earned a reputation with consumers for introducing valued new offerings to the market". According to them, a brand’s reputation involves various associations’ consumers form in response to its marketing strategies. An especially important dimension of a brand’s reputation posits beliefs that reflect its innovativeness. These perceptions, in parallel with the other associations that consumers have for the brand, eventually define the brand in the marketplace and help create a consumer’s holistic evaluation of the offering. In a different wording, brand innovativeness represents a brand-level characteristic that can positively predispose consumer response to marketing activities (Barone & Jewell, 2013).

In addition, Kaplan (2009) examined the relationship between perceived brand innovativeness and emotional responses to a product design of that brand. The results of his study illustrated that there is a strong relationship between the perceived brand innovativeness and the emotional responses aroused by the products of that brand. This shows that, the perception of brand innovativeness is important for companies, as it is eventually showed in the brand knowledge, especially for improved brand image. Given the tendency of consumers to evaluate innovativeness very highly, the brand can highly benefit from this brand-level characteristic (ibid.). In the same vein, Barone and Jewell (2013), examined the influence of brand innovativeness upon consumer response towards a brand. Their study resulted in the following conclusion: a brand’s innovative reputation can capacitate it to effectively implement strategies that deviate from market convention. These kinds of effects happen when a brand creates innovation credit, a form of customer-based equity. The importance of this asset lies in its ability to provide brands with the license to use strategies that breach category norms without the impaired attitudes that consumers create for brands that are less innovative. As a result, innovative brands are equipped with the capacity to apply non-normative strategies without the negative effects experienced by non-innovative brands (ibid.). Finally, a study conducted by Eisingerich and Rubera (2010), showed that brand innovativeness also contributes to brand loyalty by consumers.

5. Service Innovation

Research on service innovation is regarded as the "Next Big Thing" by business and marketing scholars, because of the huge proportion of wealth created by the organizations belonging to the service sector in both emerging and developed economies (O'Cass et al., 2013; Thakur & Hale, 2013). Even though the need for service innovation is widely acknowledged, it is insufficiently researched by the scholar community and there is very little research illustrating how service innovation improves business performance and customer satisfaction (Danjum & Rasli, 2012; O'Cass et al., 2013). In parallel, there is a major lack of theory-based frameworks for service innovations in the business field (Chae, 2012) and service sector studies have been forced to stay behind in favour of the manufacturing sector (Kindström et al., 2013; Castro et al., 2011; Aas, & Pedersen, 2010).

In that meaning, and through the literature review, it can be said that there is a lively debate between the characteristics of services and products as regards to their theoretical and practical implications for the marketing discipline (Nijssen et al., 2006). In that respect, three schools of thought arise from the services innovation literature, namely, the demarcation approach, the assimilation approach and the synthesis approach (Castro et al., 2011; Mansury & Love, 2008). The adherents of demarcation approach point out the unique characteristics of services and concomitantly the necessity for models and theories developed specifically for services (ibid.). On the other hand, those who support the assimilation approach argue that the models of innovation, developed in a manufacturing or product framework, can also be applied in a service framework due to their likeness (Castro et al., 2011; Nijssen et al., 2006). Lastly, those who are in favour of the synthesis approach, argue that manufacturing and services industries do not tag along completely different approaches to innovation, but studies of services and their innovation activities bring to the fore neglected perspectives of the innovation process, which, even though very significant in services, are widely diffused throughout the economy (Nijssen et al., 2006). The authors of this chapter support the demarcation approach because there are some unique characteristics in services, which cannot be found in the manufacturing industry and those include: their heterogeneity, simultaneity, perishability, intangibility and the lack of standardization, because customers are engaged in several degrees in the creation and delivery of services, a reasoning that is also supported by various researchers such as Ettlie and Rosenthal (2011), Castro et al. (2011) and Nijssen et al. (2006).

Innovation in services can be linked to changes in several dimensions, like innovation in the service concept, the delivery system, client interface or technological options (Dominguez-Péry et al., 2013; Kindström et al., 2013). In the same vein, Su (2011) argues that service processes, service products, external innovations and organizational relation could be the core dimensions of service innovation. Therefore, businesses targeting to master the intricacies of service innovation and exploit to the maximum extent the fruitful outcomes it offers, must address that wide array of component aspects (Kindström et al., 2013).

Continuing, through the review of the relevant literature, we can identify several benefits that accrue from the implementation of service innovation. First, Mizik and Jacobson (2003) and Moller et al. (2008), argue that service innovation forms value creation and plays a significant role in understanding the interplay among the services provided by firms and those sought by consumers. Second, the existing knowledge suggests that service innovation improves firm performance and enables the organization to provide superior value in contrast to its competitors (Melton & Hartline,. 2010; Salunke et al., 2013). In a simpler wording, it enhances the development of a sustainable competitive advantage (ibid.). Third, service innovation could improve service delivery and as a consequent result to enhance customer satisfaction (Danjum & Rasli, 2012). In addition, existing literature illustrated that in various industries, competition leads to service innovation, which in turn marches to customer satisfaction (ibid.). Lastly, service innovation positively affects behavioural intention and experience of customers (Su, 2011), as well as economic growth (Rubalcaba et al., 2010).

6. Process Innovation

Continuing with the exploration of innovation literature and the various types of innovation, one of the most widely accepted types of innovating, is process innovation (Camisón & Villar-López, 2014). Bunduchi et al. (2011), argue that process innovation can be characterised as a new methodology of producing and / or delivering services and products and can be distinguished into two core categories: technological and organizational process innovation. The notion of technological process innovation pertains to new products such as new software applied in the production process, while organisational process innovations are new modes of organising business operations, such as new management accounting methods. In a simpler wording, process innovation, or process development as it is also called by Kurkkio et al. (2011), has to do with improvements on how work is accomplished, in contrast with product innovation which focuses on what is done. To this end, process innovation implies changes both in organizational processes and production technologies (Gunday et al., 2011).

Moreover, a large portion within the innovation literature deals with the benefits associated with process innovation (Bunduchi et al., 2011). The outcomes of process innovation are various, and depend according to the aims of every single process development project. Increased volume of production, reductions of costs and yields from production are few examples of the fruitful outcomes it offers (Bunduchi et al., 2011; Klein & Sorra, 1996). Other benefits include reduced product delivery time, enhanced product/ service reliability and quality, as well as sustaining more environmentally friendly production (Gunday et al., 2011; Kurkkio et al., 2011).

A recent review of the literature has identified two core approaches in order to classify into categories the benefits associated with process innovation (Bunduchi & Smart, 2010). The first approach incorporates benefits according to their strategic importance and contradistinguishes between three categories: a.) strategic benefits that are associated to the capacity to create stronger business bonds with suppliers and associates; b.) direct benefits from the improved transmission of information and the consequent cost savings from reduced document handling, and; c.) indirect benefits from improved efficiency within the organization, and improved relationships with suppliers and customers (Bunduchi et al., 2011; Bunduchi & Smart, 2010). The second approach of classifying into categories the benefits of process innovation, takes into consideration the link between process innovation outcomes and the focal organization applying the innovation. This approach classifies benefits into two categories. The first category includes benefits associated to the firm's action and incorporates strategic benefits that come up from modifications in the buyer–supplier trading relationship, as well as operational benefits such as lower transaction and production costs. The second category includes benefits that are associated with the effect of factors that cannot be controlled by the focal organization (Bunduchi et al., 2011). These factors deal with the outcomes that innovation has on the success of the focal firm in relation to its competitors (ibid.).

From the aforementioned analysis, it is evident that process innovation positively influences pricing of services and products through the reduction of transaction and production costs, as well as from cost savings through reduced document handling. In other words, a company can reduce its service and / or product price without any reduction of its profits (Chenavaz, 2012; Hauser et al., 2006).

7. Marketing Innovation

Within the literature of the marketing field, marketing innovation has been positioned as a type of incremental innovation (Naidoo, 2010). In doing so, unlike the other types of innovation, marketing innovation has been the subject of infrequent research in the scholarly research (ibid.). A widely accepted definition of marketing innovation is the one stated by OECD (2005), which defines it as the effectuation of new marketing methods that incorporate significant changes in product design, packaging, product pricing, product placement or product promotion. Simply stated, marketing innovations represent methods in which companies can create new ways of marketing themselves to potential or existing clientele (Halpern, 2010).

Furthermore, the benefits related with this type of innovation are several and among others incorporate, improved ways of aiming and addressing customer needs, opening up new markets, differentiating an organization's service or product in the market with the intent of enhancing sales performance, etc. In doing so, marketing innovation also has a major positive consequence on marketing performance (ibid.), and is positively associated to pricing strategies (Gunday et al., 2011).

Moreover, a study conducted by Naidoo (2010), revealed the significant role of marketing innovation as a moderating variable between market orientation and performance. In accordance to this, marketing innovation is an important capability and resource by which organizations could apply to handle their environment, improve efficiency and have better chances of surviving in hard economic situations (ibid.). Similarly, marketing innovation, allows an organization to capture consumer information and thus, to target consumers more effectively (Chen, 2006). In addition, Phong-Inwong and Ussahawanitchakit's (2011) study showed that marketing innovation has an important relationship with marketing success in terms of enhanced profit maximization and marketing performance, a positive effect for developing a competitive advantage as well as on service / product pricing and quality. Lastly, marketing innovation maximizes the levels of profitability and generates a sustainable competitive advantage via differentiation and cost leadership strategies (Phong-inwong & Ussahawanitchakit, 2011; Naidoo, 2010).

8. Organizational Innovation

Another aspect of innovation within the relevant literature, is organizational innovation, one of the most important and sustainable sources of competitive advantage for organizations (Camisón & Villar-López, 2014). Even so, when it comes to define organizational innovation, it is not as easily agreed in existing literature as the other typologies of innovation. This happens because the literature on organizational innovation is still in its infancy and scattered (ibid.) Gumusluoglu and Ilsev (2009), refer to the notion of organizational innovation as the development of useful and valuable new services and/ or products within an organizational context. Gunday et al. (2011) define organizational innovation quite differently, and they refer to it as the implementation of new organizational methods in the firm's business practices, workplace, or external relations. A similar and the most widely accepted definition of organizational innovation is the definition stated by OECD (2005), which defines it as the introduction of new organizational methods for business management in the relationship between a company and external associates and/ or in the workplace.

Some examples of organizational innovation would be: the composition of a supplier development program or the application of training seminars and programs for employee continuing development and improved retention; the induction of new management systems; the introduction of practices for codifying knowledge by creating databases of best practices, lessons learnt and other valuable knowledge that each employee can easily access to it (Camisón & Villar-López, 2014; Gunday et al., 2011). Furthermore, organizational innovation could include new ways for external relationships with other firms or public institutions, such as cooperation with research institutions or customers, or perhaps new ways of integration with suppliers and outsourcing. Lastly, organizational innovation could involve the implementation of new processes for distributing responsibilities and decision-making among employees for the division of work, as well as new methods for activities' structuring (Camisón & Villar-López, 2014). Therefore, organizational innovation is strongly related to all administrative efforts of renewing the organizational processes, systems, mechanisms, routines, etc., in order to advance knowledge sharing, teamwork, collaboration and coordination, as well as to improve the learning climate and the innovativeness (Gunday et al., 2011).

Regarding the positive outcomes of organizational innovation, those cover various areas within an organization, such as enhanced financial performance and market share, operational excellence and efficiency, as well as enhanced productivity (Laforet 2013; Mazzanti et al., 2006; Simpson et al., 2006). Moreover, organizational innovation provides a challenging and satisfying workplace which leads to improved job satisfaction and self-fulfillment by employees (Mazzanti et al., 2006; Simpson et al., 2006). As a consequent result, employee retention is also improved (ibid.).

9. Technological innovation

In today's era, technological change is a crucial factor of competitive strategy in the business cycles and it has an impact on the evolution of industry structure and economic growth (Stock et al., 2002). Given its importance, research has focused on technological innovation, because it's interrelated with technological change and a number of definitions and conceptualizations have been given by the scholar community throughout the years (ibid.). In fact, one definition given by Yam et al. (2011), characterizes technological innovation as a learning process and the outcome of this process is the enhancement of the skills and knowledge companies need to choose, install, operate, retain, ameliorate, adapt, and develop their technological framework. In other words, technological innovation is a sequence of activities applied by the firm in order to develop new techniques with the assistance of technology (Cantisani, 2006).

Continuing, one of the most critical components that contribute towards the successful implementation of technological innovation is the capacity of a company to exploit and utilize external knowledge, to interact with external sources of innovation in the field in which it operates (Yam, et al., 2011). However, technological innovation activity incorporates uncertain factors in each stage and component, thus giving it a high-risk character (Wu et al., 2010). A successfully implemented technological innovation has often less probability than the probability of a failed one. The risk that comes from technological innovation is mainly due to the uncertainties of market, technologies, and institutional environment (ibid.).

However, even if the risk of failure at technological innovations is high, companies implement it because of the various benefits it offers. From the review of the relevant wisdom, it can be argued that the outcomes of technological innovation have been thoroughly examined by the scholar community, mainly in terms of either economic performance or positive changes in operational capabilities (Cázaresa et al., 2013). In general, it is argued that technological innovation fosters competitive advantage (Černe et al., 2013), a benefit that is crucial in today's turbulent and unstable environment.

10. Green Innovation

The last typology of innovation that the authors analyze at this chapter is green innovation. In today's era, environmental pollution and other severe consequences from the ever-increasing corporate activities, is a growing worldwide problem (Chen, 2008). Thus, in order to delete these problems, the notions of environmental management are now being pursued (ibid.) along with the implications of strict environmental regulations that organizations have to follow (Chang, 2011). In that respect, green innovation has become one of the core strategic tools to gain sustainable development in the manufacturing sector because of the increasing environmental pressure towards corporations from various stakeholders (ibid.). However, despite of the growing importance of the management of green innovations not only in practice but also in academia, research in this domain is still in its infancy (Schiederig, et al. 2012).

Green innovation refers to the enhancement of processes or products that relate with pollution - prevention, energy saving, corporate environmental management, waste recycling or green product designs (Chen et al. 2012; Chang and Chen, 2013). In parallel, green innovation could entail the notion of environmental protection into design and package of products in order to maximize its differentiation advantage (ibid.). Several researchers, such as Chen et al. (2006), Chang (2011), and Dangelico & Pujari (2010) divide green innovation into green product innovation and green process innovation, while Chen et al. (2012), divides green innovations into reactive and proactive green innovations. Chen et al (2012) define proactive green innovation as active environment-related innovation for the purpose of taking initiatives new practices or products ahead of competitors, to capture market opportunities, to minimize cost, to gain competitive advantages or to be the leader in the market. Concordantly, they define passive environment-related innovation in order to conform with environmental regulations, to align with the changing environment, to respond to competitors' actions and challenges or to adapt to stakeholders' requests (ibid.). Simply stated, green innovation refers to software or hardware innovation that is linked to green processes or products, incorporating the innovation in technologies that are involved in waste recycling, green product designs, energy-saving, corporate environmental management or pollution-prevention (Chen, et al. 2006; Chang & Chen, 2013).

As regards to the benefits of green innovations, they are probably the most efficient way to improve environmental management performance in order to satisfy the requirements of environmental regulations (Chen, 2013). An organization that creates green innovation also creates barriers to the other competitors (Chang, 2011). Previously, several firms believed that investing in environmental management was unnecessary. However, in recent times, there are more positive relationships between corporate environmental ethics and green innovation (ibid.).

Moreover, prior research argues that there is a positive relationship between green innovations and competitiveness (Chang, 2011). In particular, Chen et al (2006), found that the performances of the green process innovation and green product innovation were positively related to the corporate competitive advantage. Chen et al. (2012) and Chang and Chen (2013) argue that firms embracing the adoption of green innovations would lead a new business model and change competitive rules to develop a business opportunity. In addition, Dangelico & Pujari (2010), argue that green product innovation has been recognized as one of the main factors to achieve environmental sustainability, growth and an improved quality of life.

Further to that, firms with high-environmental ethics are prone to advanced resource productivity and product value through green innovation and therefore offset the costs from environmental investments (Chang, 2011; Chen et al., 2012; Chang and Chen, 2013). In parallel, according to Chen et al. (2012) and Chang and Chen (2013), green innovations can enhance corporate image and make organizations more successful. In doing so, firms pioneering in green innovation or environmental management can gain first-mover advantages which allow them to apply distinctive differentiation strategies, to improve their green images, and to gain competitive advantages. In conclusion, companies investing money on green innovations would not only avoid the trouble of protests or punishment about environmental protection, but also develop new environmental markets and improve their productivity (Chen, 2011).

11. Discussion and Conclusion

Innovation is significant for consumers, businesses, and countries (Hauser et al. 2006). Innovation research has advanced in various fields of several disciplines despite the fact that a number of those research areas are either scarce or well researched (ibid.). In this chapter, we endeavoured to underline convergent learning from multiple fields and perspectives of innovation. In doing so, we illustrated several benefits associated with the various typologies of innovation, such as financial and production performance as well as positive reputation and competitive advantage (Chang, 2011; Gunday et al., 2011). However, in order for innovation to be implemented by the various organizations, the latter must embed the value of innovation in their corporate culture (Martín-de et al., 2013). In other words, organizations must adopt an innovation culture, referred to as the shared common values, beliefs and assumptions of the members of an organization that could facilitate the innovation process. When a firm's corporate culture encourages its employees' innovation capacity, countenances risks and provides support towards personal growth and development, only then this organization may be characterized as innovative (ibid.). In conclusion, we hope that this research is beneficial to practitioners, managers, and policy makers, and that academics will use this comprehensive review as a basis for further advancing innovation research.

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CHAPTER SIX

INNOVATION MANAGEMENT FOR RETAILING: FROM CLIENTS' TO SELLERS' PERSPECTIVE FOR COMPETING

ELEONORA PANTANO, MILENA VIASSONE AND DEMETRIS VRONTIS

1. Introduction

Due to the increasing competition with online channel, the importance of innovating also in physical points of sale (retail offline context) is acquiring in the recent literature (Bennet and Savani, 2011; Evans, 2011; Vesel and Zabkar, 2010; Wood and Reynolds, 2011; Pantano and Viassone, 2013; Keeling *et al*., 2013; Pantano *et al*., 2013; Vrontis and Thrassou, 2013). Despite the growing diffusion of innovative technologies in the traditional points of sale and the great deal of research on consumers' acceptance and benefits for retailers (Hauser *et al.*, 2006; Chiu *et al*., 2010; Bennet and Savani, 2011; Bodhani, 2012; Park *et al.*, 2012; Pantano and Viassone, 2014), there are some questions still open concerning (i) employees acceptance of these systems and their role in the new retail setting, and (ii) the critical information for supporting retailers' decision to innovate (Pantano and Viassone, 2014). In fact, the introduction of in-store advanced technologies enriches the provided services with (either positive or negative) effects on consumers' shopping experience while requiring high costs (Oh *et al*., 2012; Gilboa and Vilnai-Yavetz, 2013; Pantano *et al*., 2013; Pantano and Viassone, 2014).

The most employed technologies currently consist of self-service systems based on high interactive and automated interfaces that users can access without the direct assistance of a real salesperson. As a consequence, in the one hand retailers achieve benefits in terms of reducing costs and personnel, in the other one they have the possibility to improve the service quality, by increasing the level of automation in the process. Meaningful examples are groceries and department stores that have introduced self-service technologies equipped with RFID (Radio Frequency IDentification) systems, such as self-cash desks for self-checkouts; while electronics have introduced interactive displays equipped with (informative) touch screen displays; other stores have introduced applications for mobile phones for supporting consumers to find stores, items, creating a wish list, etc.; some ones also created completely new virtual stores based on ubiquitous computing, such as the Spanish Pickbe, which allows consumers to access its products directly from mobile while it is located in a certain area. Another consistent part of stores had not introduced advanced technologies in the points of sale yet (Pantano and Viassone, 2014).

Consumers' acceptance of these systems clearly emerges as a largely investigated topic in the past literature, which exploited the Technology Acceptance Model for predicting the effective usage of the technology. This model allows defying the determinants of the adoption behaviour from users' point of view (Davis, 1989; Chen *et al.*, 2009; Chiu *et al.*, 2010; Dimitriadis and Kyrezis, 2001; Kim *et al.*, 2010; Kowatesch and Maass, 2010; Kim and Han, 2011; Oghazi *et al.*, 2012). These past studies agree in defying the antecedents of acceptance behaviour as driven by the ease of use and the perceived usefulness of the technology. Despite the large investigation of consumers' perspective, the research on frontline employees' perspective is still in progress (Lee and Qualls, 2010; Bennet and Savani, 2011; Pantano and Viassone, 2014). Similarly, this model predicts the effective consumers' usage of the system, without providing indications on the adopted technology as the best choice for retailers. Although innovating in the points of sale plays a critical role for developing new stores and improving the existing ones in order to attract consumers' interest, current marketing studies on this topic are mainly based on clients' perspective (including expectation, acceptance and motivation).

Starting from the recent studies on innovation and technology management in retailing, the aim of this chapter is to provide an integrative view that takes into account also the emerging researches on sellers' standpoint, thus combining findings on consumers' acceptance and sellers' perspective. Our chapter would summarize the recent findings on the topic and propose interesting insights for helping retailers in the definition of the best innovation management strategies. To achieve this goal, the present work merges outcomes from several disciplines including psychology, computer science, management and marketing. We also discuss the future research directions.

In particular, the first part of the paper focuses on consumers' perspective (the demand for technology- based innovations in the point of sale), whereas the subsequent one investigates sellers' opinion towards the innovation trend in retail settings. The remaining sections provide a synthesis of the two standpoints, and underline the future lines of inquiry for deeper understanding the phenomenon and the strategic issues for successfully competing.

2. Demand for technology-based innovations in the point of sale

In the last years, consumers' consciousness has increased, as well as their possibility to be interrelated through the internet-based tools, by shifting value creation process from a product- and firm-centric view to more customized consumer experiences (Prahalad and Ramaswamy, 2004). As a consequence, they are more aware of the ''empowerment,'' which solicits the desire of a greater role in exchanges with companies (Ernst *et al.,* 2010). For this reason, customers play a critical role in the development of efficient firm strategies. The new technologies support this process of "experience and service co-creation", by facilitating the exchanges and interactions between consumers and firms, such as in the case of self-service systems (e.g. self-service cash desks at supermarkets for self-checkout) (Prahalad and Venkat Ramaswamy, 2004). This co-creation process has been seen as a superior element by several studies (Lusch and Vargo, 2006). Similarly, many authors underlined the importance of the relationship between customer and enterprise focusing on the optimization of the value production (Grönroos, 2009); while Collesei and Ravà (2008) attributed different roles to customers due to their for providing creative contributes useful for the products and services actual production. In fact, Gilly and Zeithaml (1985) suggested how the adoption of innovation technologies by consumers is a (continuous) process and not an instantaneous event. This process is based on the following main steps (Rogers, 1995):

- *knowledge*, the consumer is getting aware of the existence of innovation and understanding its function;
- *persuasion*: the consumer develops a more favourable attitude toward the innovation on the base of the information available;

- *decision*: the consumer engages some activities to decide whether to adopt or reject the innovation;
- *implementation:* the consumer uses this innovation;
- *confirmation:* the consumer tries to reinforce the decision about the innovation.

Despite these elements, retail innovations might fail if these activities are not able to create new value or satisfy consumers' needs, with consequences on the success or unsuccessful of a certain innovation (Lin *et al.*, website). Since consumers mainly expect that these ones will improve their shopping activities, by pushing retailers to propose novel tools, services and functions for saving time and entertaining while purchasing (Oh *et al.*, 2012; Pantano and Viassone, 2012; Tardivo and Viassone, 2011), retail innovations would be more successful in the marketplace if they include a consumer-centric perspective is essential (Kunz *et al.*, 2011)

This trends needs to take into account also the risks involved while innovating in the point of sale, which includes the high level of uncertainty emerging from the consumers' effective interest/usage of the technology, costs, time consuming and complexity that the application of these technology's needs, and the changes in the store layout and atmosphere (Alkemade and Suurs, 2012; Pantano *et al.*, 2013). For instance, Reinders *et al.* (2007) focused their attention on three important personal characteristics that may reduce or increase consumers' usage of a certain technology: (i) self-efficacy (the degree in which the customer thinks that using the self-service is easy or difficult), (ii) inertia (the degree in which people do not want to change their customs or habits), and (iii) need for interaction with a service employee. Likewise, other works identified the role played by the trust in the technical system (Chattaram *et al.*, 2012; Park *et al.*, 2012), the enjoyment while using this innovation (Venkatesh, 2000; Wang, 2012), and the influence of others (Chong *et al.*, 2009). The large usage of self-service technology involves also another risk: consumers' tendency to interact more with the technological system than with the frontline employees, with consequences for the traditional employees' inferences cons consumers' buying decision.

For these reasons, new ways of making payments have appeared as technological advances and they make easier for consumers, businesses and financial institutions to exchange information freely and quickly (Richard, 2013). Previous studies emphasized the increasing interest for e-commerce and web-based channel for shopping (Hsiao, 2009; Liu and Forsythe, 2011) with a subsequent decreasing interest for traditional stores

(Hsiao, 2009). Hence, traditional points of sale must innovate in order to catch consumers' interest by providing fast, useful and enjoyable services, to maintain the existing market share and, finally, to explore new market opportunities (Pantano and Viassone, 2014).

In 2012 Pantano and Viassone (2012) started evaluating consumers' perception towards the introduction of advanced technologies in retailing, by figuring out customers' satisfaction towards previous experiences with advanced technologies in the points of sales. In the same study, authors also found the still limited attention Italian retailers paid to the technological characteristics. In particular, 15 main characteristics emerged as the most important from consumers' standpoint. Table 1 summarizes these findings according to the importance consumers set from the *enjoyment* with the lowest importance to the *positive experience* with the largest importance).

Characteristics	**Description**
Enjoyment	User's perception of level of entertainment emerging from the usage of a certain technology in the points of sale (i.e. how much does consumer perceive pleasant using the technology?)
Research	Users like using these systems for helping them to find products in the physical store in order to make the shopping activity easier (i.e. how much does consumer consider useful the technologies for finding products and related information?)
New payment modality	User showed interested in the introduction of new payment modalities (i.e. via mobile phones). In such cases, these technologies substitute the traditional payments modalities based on cash or credit card at cash-desks
Web integration	User requested for the integration of advanced technologies available in the physical store with web-based applications, such as the possibility to create a virtual shopping list, to access to virtual catalogues, as well as to search the right location of the single items in the store from own place (this service would be very useful in the case of large stores such as anchor stores or shopping centers).

More automatic cash desks	User expects a major diffusion of automatic cash desks in each point of sale (users' complained about the still limited diffusion of these technologies in the stores they use to access).
Technologies for avoiding waiting time	User requires innovative technologies for avoiding problems concerning waiting time in the stores (i.e. waiting for a free salesperson). The main benefits of these technologies should be reducing the waiting time while shopping (i.e. reducing lines at cash-desks).
New informative systems	User imagines that new informative technologies should be introduced in the stores, in order to achieve more detailed information on each available item. This information would be accessed without the direct employee assistance.
Limited diffusion	The introduction of new technologies such as automatic cash desks and intelligent shopping trolleys is considered still too limited in Northern Italy
No line	The new technologies must reduce or delete the lines in the stores
Fast	The new technologies must be fast and make consumers to save time
Positive experience	Users who already tried new technologies such as automatic cash desks experienced them positively

Source: Adapted from Pantano and Viassone (2012).

Table 1: Consumers' standpoint towards the new technologies introduction

3. Sellers' perspective towards the introduction of advanced technologies

As anticipated in previous sections, there is an increasing demand of technology-based innovations able to make the stores more appealing, by providing fast, enjoyable and useful services. To reply to this request, retailers are forced to innovate. A solution is offered by the introduction of self-service technologies (SSTs), which have been defined as:

> "A technological interface that enables customers to produce a service independent of direct service employee involvement" (Meuter *et al.*, 2000, p. 50).

A huge part of self-service technologies are "on-site" options (i.e. touch screens in department stores, automated teller machines (ATMs) and ticket machines) or "off-site" options (i.e. telephone and online banking and shopping). Bank sector offer meaningful examples of the shift from traditional face-to-face provided services to a sort of "branchless mode of banking" based on Internet and mobile devices (Saleem and Rashid, 2011): the mobile banking (or M-banking). Its importance lays on the possibility to guarantee electronic payments that are far less expensive to process if compared to traditional paper checks. They are further less constrained by distance and political boundaries than the paper-based ones (Furst and Nolle, 2004). In addition, these technologies do not require the direct employee's assistance.

Hence, the introduction of SSTs forces retailers to also reconsider the way of delivering services and of managing the staff involved in the process. Despite this new challenge, there is still a lack of researches on the retailers' and employees' points of views towards the introduction of these systems. Pantano and Viassone (2014) tried to provide some preliminary insights in this direction. From their research on 47 retailers, only 23% emerged as introducing advanced technology. Probably they are discouraged by the current economic difficulties or they don't fully understand the demand pull of innovation (Pantano and Viassone, 2014). In fact, they may be retained to exploit these opportunities due to the uncertainty, huge monetary investments and late returns on investment involved in the innovation process, with consequences for the technology failure (Alkemade and Suurs, 2012; Pantano *et al.*, 2013). Moreover, they can be further discouraged by the diffidence in consumers' acceptance of the technology, in the level of subsequent system usage and risk of obsolescence of the technical components.

In particular, Pantano and Viassone (2014) summarized sellers' point of view towards the introduction of advanced technologies in retailing, by identifying six main characteristics/advantages, as shown in Table 2 (starting from *no line* with the lowest importance to the *reducing management costs* with the largest importance).

Advantages	Description
no lines	Retailers expect that the new possible technology will reduce the line in the store (especially at the cash desk)
more clients	Retailers expect that the new possible technology will attract more clients
reducing personnel costs	Retailers expect that the new possible technology will reduce the costs of employees (for instance by reducing the number)
improving job performance	Retailers expect that the new possible technology will improve the employees' job performance in the stores
enhancing supply chain	Retailers expect that the new possible technology will enhance the supply chain, the interaction with stakeholders and the management of the stocks
reducing management costs	Retailers expect that the new possible technology will reduce the management costs, by providing advanced software for the integration of the different functions involved in retailing

Source: Adapted from Pantano and Viassone (2014).

Table 2: Sellers' standpoint towards the new technologies introduction

If comparing table 1 and table 2, an important consideration emerges: retailers who adopt these technology are driven by the promise of management cost reducing or alternatively by the possibility to attract more clients, while none of them introduced these technologies to allow time saving for their customers.

The above mentioned studies further emphasize a scarce preparation of Italian retailers towards the introduction of self-service technologies and a scarce correspondence between customers' and sellers' expectations. As a consequence, there is the need of developing more suitable strategies able to improve a higher communication among consumers and sellers and a successful match of their interests.

4. Integrating consumers' and sellers' perspectives

A comparison between consumers' and sellers' expectations towards technology- based innovations would be very useful to identify a sort of bridge able to match together the different perspective for defying new efficient strategies for business profitability and consumers' satisfaction.

Summarizing, both sellers and consumers are increasing consciousness about the emerging benefits (Ryding, 2011; Chou *et al*., 2010; Bonner, 2010; von Hippel and Katz, 2002; Chattaraman *et al*., 2012; Park *et al*., 2012). Despite this increasing interest, a still limited number of retailers currently innovate (Pantano *et al*., 2013; Zhu *et al*., 2013; Pantano and Viassone, 2014; Alkemade and Suurs, 2012), while the involvement of consumers into the innovation process is lower than the attention they reserve to other elements such as product selection, store layout, and price than to the actual technology (Backstrom and Johansson, 2006).

If we consider the consumers' point of view, main expectations they show in the usage of advanced technologies can be shortened in:

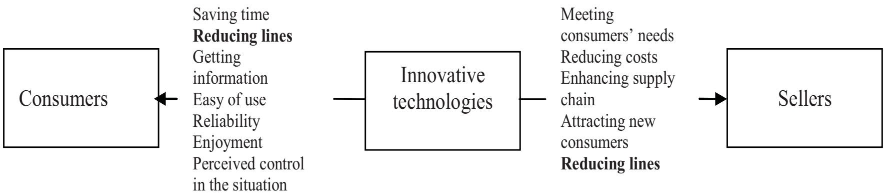
1) saving time, which seems to be scarce in the current retail scenario (i.e. consumers expect new technologies able to save more time, for instance by providing faster services with emphasis in the information searching and check-out phase);
2) reducing lines in the stores, allowing a higher efficiency in purchasing (i.e. the faster service allow to reduce the lines, for instance for asking information to a frontline employee or at the cash-desk);
3) getting more information during the in-store experience (i.e. new technologies would be able to provide more information with different entertaining modalities, such as the direct interaction with the products that would seem to directly talk with consumer);
4) easy of use, reliability and enjoyment provided (the technology would not require effort for its usage, while providing a trustworthy and enjoying service);
5) perceived control of the situation (Self-control).

Similarly, the adoption of these technologies by sellers is principally pushed by:

1) the need to meet consumers' needs, understanding their interest and catching their attention (i.e. these technologies would be able to collect and manage a large amount of data on consumers' preferences, behaviours, purchases, etc., which will be useful for defying new and more efficient marketing strategies);
2) the reduction of costs due to the customer's personal execution of tasks originally assigned to employees (i.e. for such operations, technologies would substitute physical frontline employees, with a subsequent reduction of personnel);

3) the enhancing of the supply chain (i.e. these technologies provide more tools for allowing actors involved in the process to directly and fast communicating);
4) the possibility to attract new customers (i.e. the benefits provided by these technologies would solicit consumers' curiosity and interest);
5) the reduction of the line in the store and, in particular, at the cash desk.

Figure 1 integrates the both perspectives, by both underlying the different attention paid to the technology characteristics, and emphasizing the (one) similarity in the benefits perception.



Source: Personal elaboration

Figure 1: Sellers and buyers perspectives.

This consideration shows to what extent motivations of sellers and consumers diverge in the most of cases. The one common expectation results in the reduction of queues in the store. While consumers focus their attention in the time, these technologies allow them to save, while sellers consider them as a tool able to attract new customers, and to create value by reducing costs for employees due to the interaction with them.

These technologies would be *something* more than the expectations expressed by customers and sellers, but they require an attempt of education and support of customers by employees and a higher courage at investing in them by sellers to achieve this goal.

5. Driving and restraining forces: motivation, acceptance, and capabilities

The aim of this chapter is to compare the current studies on consumers' and sellers'/retailers' perception of advanced technologies for the points of sale, in order to synthetize the similarities and differences, and identify the gaps in the current literature focusing on this topic.

Since the technology acceptance consists of users' effective employment of the system and it can be influenced by several factors that may drive or restrain the emerging usage (Davis, 1989; Venkatesh, 2000; Schierz *et al.*, 2010; Eastlick *et al.*, 2012), it is important to deeply understand consumers' and sellers' standpoint for predicting technology future improvements and diffusion. In particular, consumers' and sellers/retailers have a different perception of these technologies, due to their interest towards different advantages that may emerge (Backstrom and Johansson, 2006).

As emerging from our analysis on consumers' and sellers' perspective, the antecedents of effective acceptance of these technologies are (i) enjoyment (i.e. the pleasant experience emerging from the new shopping experience enriched with advanced technologies), (ii) reducing of lines (i.e. self-service technologies allow consumers to deliver by themselves the final service with benefits for its speed), (iii) speed of service (the usage of these technologies provide a faster service, in terms of replying to consumers' request, searching of information, payment, etc.), (iv) time saving (i.e. the increased speed of service allows consumers to save time, both for finding items and information, and for check-out/payment), and (v) previous positive experience (i.e. the positive experience with the systems allows users to deeply understand all the benefits emerging from the usage) from consumers standpoint (Venkatesh, 2000; Wang, 2012; Chiu *et al.*, 2010; Backstrom and Johansson, 2006; Pantano and Viassone, 2012); while the drivers of innovating in the point of sale are (i) the need to meet consumers' needs (in terms of understanding current trends and predicting new ones), (ii) the possibility attract more consumers (i.e. these technologies have a particular appealing able to solicit consumers attention, especially if considering youth and male population), (iii) the possibility to reduce production costs (i.e. these technologies are able to provide services traditionally delivered by humans), (iv) possibility to enhance the supply chain (by improving the interconnections and communication among the actors involved in the process), and (v) the possibility to reduce the lines. Hence, there are more factors able to push technology usage in addition to the traditional technology acceptance model for predicting acceptance (Davis, 1989).

Despite these motivating factors, there are some restraining forces that may limit the usage and diffusion of these technologies. These forces can be (i) the difficulties linked to the usage for consumers (i.e. if these technologies need to provide a high level of usability for allowing also people with a low level of education or experience to easily understand the correct usage) (Reinders *et al.*, 2007), (iii) the risks in terms of costs (i.e. some technologies with sophisticated characteristics such as more realistic interfaces and interaction modalities may require huge monetary investment), and (iii) the time consuming and complexity while innovating.

Hence, retailers need to develop particular capabilities that allow them to understand and fast react to this changeable scenario. This concept underlines the role of strategic management for integrating and reconfiguring the skills and competencies for successfully innovating, including ability of perceiving changes (i.e. the ability to understand consumers' needs of innovative systems for enhancing in-store shopping experience), ability of acquiring knowledge from consumers to be transferred into efficient retail strategies, ability to assign the necessary resources (financial and human ones), and ability to assign and integrate the value chain. In fact, our comparative analysis underlines how these capabilities have been previously identified but not fully exploited by retailers and need further advancements. In accordance, current literature still misses of quantitative data concerning retailers' capabilities of innovating, in terms of propensity to innovate, financial resources to innovate (by considering larger enterprises more interested to invest in innovations), capabilities to assume risks (strictly interrelated to the tools for reducing failure risks), and capabilities to reduce the uncertainty. Despite consumers' increasing interest in these innovations, there is still a limited diffusion of advanced technologies in the point of sale. Hence, we can assume that even if retailers recognized the benefits and value of innovative technical solutions, they are not already prepared to absorb these technologies, and they need to develop new capabilities for faster adapting to the changeable scenario.

6. Future research directions

From the theoretical analysis, the current retail scenario emerges as characterized by frequent (disruptive) changes and confusion, triggered by the continuous progresses in technology. While these constant progresses offer new tools for enhancing consumers' experience and support retailers, they also limit the speed of technology diffusion and integration, by requiring huge retailers' effort for understanding and exploiting the benefits. Thus, retailers' ability to predict trends by understanding the best technology for competing is a key issue.

In particular, further studies would focus on three main promising areas including (i) consumers' motivation to choose a certain technology, (ii) development of new efficient tools for supporting retailers innovation strategy, and (iii) creation of new frameworks able to integrate sellers' and consumers' requests for defining the best technologies to be introduced.

More specifically, future consumer's studies may investigate consumers' acceptance of the technologies by focusing on consumers' choice of technology among alternatives. In fact, current studies are mainly based on consumers' acceptance of a single technology (Davis, 1989; Venkatesh, 2000; Chen *et al.*, 2009; Chiu *et al.*, 2010; Dimitriadis and Kyrezis, 2001; Kim *et al.*, 2010; Kowatesch and Maass, 2010; Kim and Han, 2011; Oghazi *et al.*, 2012), without stressing consumers' preference of a certain one among the alternatives. Hence, new questions occur in the innovative scenario where different retailers may adopt different technologies: which technology will consumer choose (and why) among the available one? Is it possible to develop a new one that may be preferred over the current ones? Which are the characteristics of the new technologies for encompassing the other available ones?

Concerning retail strategies studies, future works would focus on the best approach to adopt while innovating by answering to the following questions: when following and when pioneering? To what extend this strategy is linked to the financial resources and/or personal capabilities? Is always introducing a new technology the best way for competing?

In addition, studies able to combine consumers' and sellers' needs for identifying the best strategy and technologies would be required. The actual tools are able to focus just on one perspective per time (i.e. the traditional technology acceptance model investigates the acceptance of a certain technology by a certain group of individuals) (Pantano *et al.*, 2013), thus the development of new tools (also graphical tools) could provide useful guidelines for reducing uncertainty (from retailers' point of view) and increasing consumers' satisfaction (from clients' perspective).

The researches would be also able to provide guidelines for the efficient integration of the actual technologies, in order to develop new ones based on the synthesis of the benefits provided by the single one, and to reduce the overall involved risks (in terms of acceptance, costs, obsolescence, etc.).

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CHAPTER SEVEN

WEB-SITES QUALITY AND BUSINESS PERFORMANCE: AN EMPIRICAL INVESTIGATION IN THE SICILIAN WINERIES

MARIA CRESCIMANNO, ANTONIO GALATI, DARIO SIGGIA AND SALVATORE TINERVIA

1. Introduction

In recent years, an intensification in the process of globalization, on the one hand, and changes in the rules of the economic market and progress in technology, on the other, have brought about mutations both in the scenario in which businesses operate and how they operate. These changes have triggered an intense process of re-planning of business organizations relative both to production and organization in order to respond to growing competitive market pressures. An important impetus to the process of this redefinition of business processes has been given by the growth in the widespread use of electronic and digital technologies, more commonly known as Information and Communication Technology (ICT), which take on a central role in the development of each single enterprise, changing the way in which they interact with each other and with customers (Lumpkin and Dess, 2004). Within the field of ICT, it has been the internet in particular which has changed ways of doing business, affecting not only the level of the transformation of business practices but also the system of relationships between enterprises and customers (Manthou et al., 2005), which have become, as Rowley (2001) affirms, more efficient. Today, the most advanced commercial businesses adopt models of e-business and, exploiting the potentiality of ICT in their various business processes, participate in value creation and transformation of value (Chesbrough and Rosenbloom, 2002; Kalakota and Robinson, 1999). In business practice, the Internet may be used either for the management of internal company communications (Intranet) or external ones (Extranet). As far as external relations are concerned, with regard to partners, we can distinguish different categories of e-business: Business-to-Business or B2B, which concerns communications and transactions between businesses, Business-to-Consumer or B2C, relative to relations with clients, and Business-to-Government or B2G, concerning relations with Institutions.

In particular, the rapid diffusion of the Internet and of digital technology, has brought about a gradual change in business marketing orientation of companies, which was, in the past, almost exclusively directed towards achieving the biggest profit and to acquiring relevant shares on the market. Today, marketing is primarily directed towards the satisfaction of the customer's needs and in capturing a high level of customer trust (Dominici, 2009), necessary for intensifying competitiveness on the market. Exploiting the growing popularity of the Internet, which results from the rapid expansion of public access to these media (Liao et al., 2006), numerous businesses have redefined their marketing strategies in order to establish their presence on the World Wide Web (Web) (Brychan, 2004), to develop a brand reputation, to make transactions with and give services to customers, or simply for public relations purposes (Liao et al., 2006). Websites are essentially storehouses of information, which is provided in such a way that it helps the visitors, and accordingly, affects their view of the site's effectiveness (Ranganathan and Ganapathy, 2002). The growing number of websites worldwide, reaching 634 million in 2012 compared to 8 million registered in 2000 (Netcraft, 2014; Pingdom, 2014), is explained by the escalating number of web users who go onto the web for various purposes, including information, searching, and online shopping. From 2002 to 2012, according to data from the Internet World Stats (2014), the yearly average of web users has increased by 43.6%, attesting 2.4 billion users. Numerous studies have shown that the presence of businesses on virtual channels has a positive impact on the economic performance of those businesses. Hoffman and Novak (1996) give a complete classification of the benefits and obstacles of Internet marketing, both for the consumer and for Small and Medium Enterprises (SMEs). The former can benefit from the possibility of having easier access to information which is also more complete, although the consumer is limited by costs, privacy and security. For the SMEs, benefits are connected to a reduction in the costs of product and service delivery, marketing costs – in particular advertising costs -, an improvement in the quality of the services offered, an increase in business profit margins, and also a widening of geographical boundaries in bringing buyers and sellers together (Annunziata e Vecchio, 2013; Hasan and Abuelrub, 2011; Teo, 2005; Dholakia and Kshetri, 2004; Hoffman and Novak, 1996). About twenty years ago, with specific reference to costs, Verity and Hoff (1994) suggested that it may be nearly one fourth less costly to carry out direct marketing through the internet than through conventional channels. The opportunity that web presence offers, above all to Small and Medium Enterprises (SMEs), to access a wider market which surpasses the geographical limits in which they operate, and, in particular, the possibility to interact with and to develop relations with customers, are two factors which permit businesses to gain growing competitive advantage in being able to compete even with the leader companies in the sector (Teo, 2005; Lynn et al., 2002; Sparkes and Thomas, 2001; Beatty et al., 2001). However, as Hoffman and Novak (1996) state, if it is true that web marketing permits businesses to discover and satisfy the customer's needs, the companies themselves must also contribute to the development of the web itself as a new media for marketing. In fact, as these authors state, the costs of the construction of a web site and the difficulties linked to the test performance of marketing are significant deterrents. Simply being present on the web does not, in fact, in itself constitute a condition for success, rather, it is important that the web site, as an integral part of the strategy of e-business, possesses decisive quality attributes, measurable and or perceptible, because, in this specific case, it is a means of communication and interaction with the consumer (Hérnandez et al., 2009; Cao et al., 2005; Frost and Strauss, 2002; Turban et al., 2002). As Wilkinson (2002) and Thelwall (2002) state, the quality of a web site and the lack of experience of the web business are often critical variables which determine a loss of opportunities for the SMEs on the market. Porter (2001) states that the most successful companies are those which use the Internet as a complementary means and not as a substitution for traditional business practice.

Strategies of web marketing have been widespread in various economic sectors since they offer, as has already been highlighted, not indifferent opportunities for businesses. Despite the advantages already identified, little use of the new marketing means has been seen in SMEs operating in the food and drinks sector (Annunziata and Vecchio, 2013). This could be due, as Volpentesta et al., (2005) found, to the fact that companies do not appreciate the economic benefits likely to accrue from the introduction of e-commerce, in the form of rationalization of processes and reduced costs, and because of scarce financial recourses or, as Krijnen (1997) affirmed, although referring to a different sector, it could be due to the fact that companies tend to use traditional advertising concepts that do not take into account the interactive features of the web. However, as Annunziata and Vecchio (2013) and other authors suggest (Haas, 2002; Begalli et al., 2009) the Internet represents a great opportunity for the economic exploitation of typical foods. One of the prestigious sectors of the food and drinks industry in Italy is the wine sector which, thanks to its high quality and marked distinction, has contributed to the strengthening of the reputation of 'Made in Italy' all over the world as an offer of excellence, strongly tied to the territory (Crescimanno and Galati, 2014; Carbone and Henke, 2012). In recent years, the companies operating in this sector have demonstrated a growing awareness of the possibilities provided by the web, perhaps influenced by the fact that a smaller budget is needed with respect to that required for traditional means of communication.

On this basis, the aim of this work is to verify the existence of a positive relationship between the quality of web sites, measured in terms of content and functionality, and the business performance of wineries. In particular, Sicilian wineries were chosen for two specific reasons. The first is connected to the importance that Sicilian wine production has at national level and for the regional economy (Di Vita et al., 2013). With a production of 5.2 million hectoliters of wine in 2012 (ISTAT, 2014), Sicily is the third region for wine making, boasting a production of high level territorial specificity. Secondly, Sicily has always suffered from territorial marginality which determines its detachment from the main consumer markets, hindered, moreover, by a limited infrastructural system (Crescimanno et al., 2011). As a consequence, information and communication technologies and e-business strategies in particular assume a key role for Regional companies in order to reach more distant markets. In particular, this study proposes to verify the approach to web marketing adopted in the strategies implemented by Sicilian wineries, and the influence of the main web site quality attributes, which have been identified through a detailed analysis of the reference literature, on the economic importance of the wineries themselves.

2. Literature review

In recent years, economic literature has been enhanced by numerous scientific contributions aimed at analyzing the impact of the adoption of ICT on the capacity of enterprises to operate in an ever more competitive economic environment. As has previously been highlighted, simply being present on the web does not represent a success factor; rather, it is necessary that the site has specific quality attributes. The upsurge of websites has, in fact, determined the need for measurement criteria to evaluate aspects related to the quality in their use (Hasan and Abuelrub, 2011). As asserted by Cao et al. (2005) and Frost and Strauss (2002), the design of a quality website is a fundamental aspect of e-business strategy, considering that it is one of the main means of communication for interacting with existing and new customers (Hernández et al., 2009; Turban et al., 2002).

The literature available on web marketing has been enriched over the years by numerous scientific contributions which have examined different aspects. Some studies analyze the different uses of the web by companies and the advantages tied to the adoption of e-business strategies (Liu et al., 1997; Jones and Biasiotto, 1999). Hernández et al. (2009) found that Web presence represents a significant opportunity for companies characterized by an unfavorable geographic position. Lynn et al. (2002) analyzed those factors which influence the adoption and the efficiency of web marketing strategies. The results show that perceived usefulness of the web, website training for people, perceived effectiveness of the relationship between the marketing information system and management information system, all play an important role in improving the effectiveness of the web in marketing. Substantial literature focuses on the expectations and on the perception of the quality of websites by web users or by marketing managers, and on the influence that quality attributes of websites have on consumers' intentions to buy, for e-commerce sites, or intentions to return to the same site (Teo, 2005; Bell and Tang, 1998). Of great use for the designing of websites are the studies conducted on consumer perception, based on the characteristics that a website must have to attract, engage, keep and interact with the client. In particular, website quality factors can have, as Ahn et al. (2007) suggest, an impact on the user approval because they are ways of influencing user belief and behavioral intention. Ranganathan and Ganapathy (2002) analyzed the opinions of a group of 214 consumers on what they considered to be the most important aspects of a website. They found that the principal components are content information, design, security and privacy. Teo (2005), interviewing marketing managers or managing directors of 400 B2C companies, found that many web marketing instruments are not used because of limits in budget, lack of IT competence and different objectives of the companies, despite these features being recognized as effective. The subjective perception of the quality of a site assumes considerable importance for an understanding of the most important elements valued by consumers in their use of the website. However, as asserted by Huizingh (2000), perception changes in relation to the type of user considered. In fact, the authors themselves state that the expected subjective measures of frequent users are different to those of users who visit the site for the first time. Furthermore, as observed by Zhang and von Dran (2001), expectations of website quality change in time and, therefore, no single quality checklist will be appropriate for very long, while the ranking of important quality factors differ from one web domain to another. Other research has examined the criteria for designing successful websites. These studies demonstrate how numerous variables play a role in the construction of a website, and they undertake to provide useful suggestions both for web designers and for companies which, through a site, intend to build up a preferential relationship of trust with existing and potential customers (Schimmenti et al., 2012).

With specific reference to websites, quality may depend on task-related factors affecting end users, such as, the quality of presentation and appeal or design, content, accessibility, speed and navigability (Rababah and Masoud, 2010; Hernández et al., 2009; Begalli et al., 2009; Cox and Dale, 2002; Zhang and von Dran, 2001; Rayport and Jaworsky, 2001; Hoffman and Novak, 1996). Numerous authors focus on Content and Design in their analysis of websites. Content refers to the information included on the site, access to different languages, features and services offered by the site. As Rabin (2001) suggests, the quality of a website depends on diverse factors amongst which the most important are content and ease of use since these are ways of influencing user beliefs and behavioral intention, and they are, moreover, under the control of the company (Hernández et al., 2009; Ahn et al., 2007). Molla and Licker (2001) consider the Content of the website as the main source of value for customers. The information included on the site should allow its users to clarify any ambiguities and improve comprehension of all issues rapidly (Chen et al., 2002). As Hernández et al. (2009) found, content has an important role and must be accurate, informative, up to date and relevant to customers' needs. Huizingh (2000), for example, analyzed the structure of websites of different groups of companies with specific reference to content and design, measured in terms of features of the site (objective) and perceptions (subjective). They found a positive correlation between site content and design with the dimensions of the site itself, highlighting the importance of considering the perception of websites when studying them. Other important factors are the speed of loading, navigability, and interactivity, which, as Palmer (2002) affirms, determine the success of websites. Hernández et al. (2009), studied the key factors of success which can be considered in designing a commercial website for a company and which contribute to successful e-business strategy. In particular, they found that the navigability and usability of the site makes surfing the net more convenient and safe for the customer.

Other factors, security and reliability of the site (Kim and Niehm, 2009; Wolfinbarger and Gilly, 2003), exercise an important role in attracting, sustaining and retaining consumer interest in a site (Ranganathan and Ganapathy, 2002). In their study Ranganathan and Ganapathy (2002), analyzed four key characteristics of a B2C website, content information, design, security and privacy, and demonstrated that security and privacy had a greater effect on the purchase intent of consumers on the e-commerce website.

These dimensions put together exert a strong influence on cognitive processes and consequently on the users' intentions to return to the site or to purchase, on the usefulness perceived by the user, on the ease of use and on loyalty (Kim and Niehm, 2009; Hausman and Siekpe, 2009; Éthier et al., 2008; Cyr et al., 2008; Ranganathan and Ganapathy, 2002; Davis, 1989).

The literature review offers a composite picture of the characteristics which a website should possess in order to be considered of quality and as a contribution to the success of a company. As Hernández et al. (2009) assert, the factors considered may not be applicable in all cases.

3. Methodological approach

This research has analyzed websites from a model proposed by Schimmenti et al. (2012), applied to the Sicilian floricultural sector which is based on two reference models. The first model by Cox and Dale (2002) and the second by Begalli et al. (2009); The model adopted differs from the two reference models in that there is a diverse combination of the parameters relative to 'Content', which includes aspects connected to 'Convenience' and 'Design', which also comprises attributes connected with 'Comfort'. More specifically, with respect to the models proposed by Cox and Dale accessibility and speed are not examined, even though these factors constitute two of the most important attributes influencing a return to the site. They are, however, two characteristics which give greater difficulty in data collection and measurement since they are influenced by the type of connection used for web consultation. Table 1 illustrates the website quality attributes measured. These attributes together generate the structure of the website; they can be diversely combined in relation to multiple factors amongst which budget available, the type of company, and the consideration given to online marketing strategies.

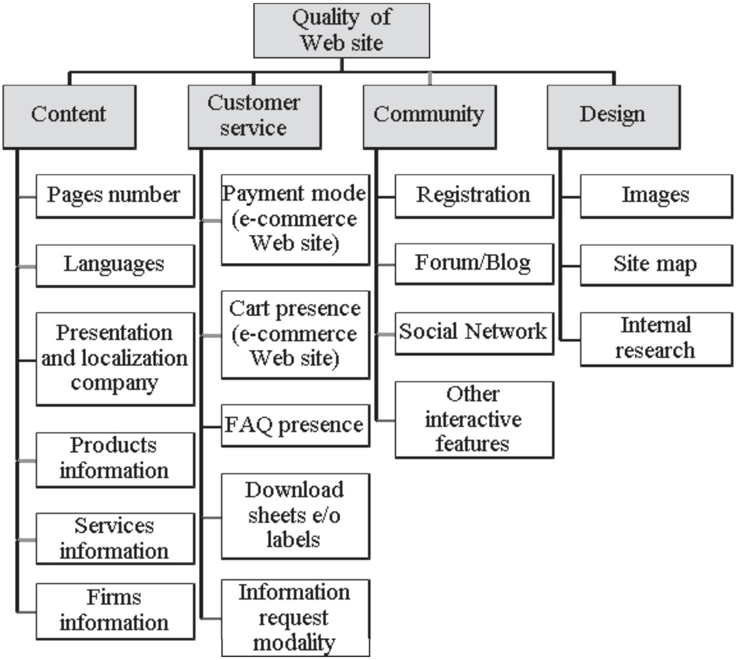


Figure 1. Research framework

In order to respond to the objective of this study, a direct survey was conducted on Sicilian wineries and an analysis was made of their websites. The wineries were chosen on the basis of a list provided by the l'Istituto Regionale Vini e Oli di Sicilia (Regional Institute of Sicilian Wines and Oils). The list, updated to 2010, included 553 wineries to be examined. Of the total number, 38 wineries were inactive, 176 were not able to be contacted, and 236 did not want to participate in the survey, registering a response rate of 18.6%. Subsequently, the websites of the wineries identified were examined. The main quality attributes for each website were analyzed and the completeness of each was measured on the basis of the presence or not of some of the basic characteristics of the site.

In order to analyze the quality of web site a form divided in four sections has been structured. As can be seen in the Table 1, the first section contain information about the content, such as languages used, and all the information related to the wineries and type of products and services offered. The second section describe all the services offered to the costumer in order to obtain products and services information's and to complete the transactions, both on-line and off-line. The next section is focused on the web site design and in particular on its usability. Lastly, sections four analyze community services and user loyalty building strategies. At the same time, a telephone survey has been carried out to glean the information on the business revenue of the wineries studied.

4. Results

The analysis carry out demonstrated a prevalence of sites used by the wineries as simply a means of communication (78.3%), in order to transfer their image to a wider catchment area of users with respect to that accessible by traditional means of communication. Not insignificant, considering the modest diffusion of e-commerce in the food industry, is the number of sites where it is possible to purchase their products directly online (21.7%).

Considering the objective of this research we proceeded to analyze the websites in order to identify their principal features relative to the four website quality attributes identified on the basis of reference literature.

4.1 Content

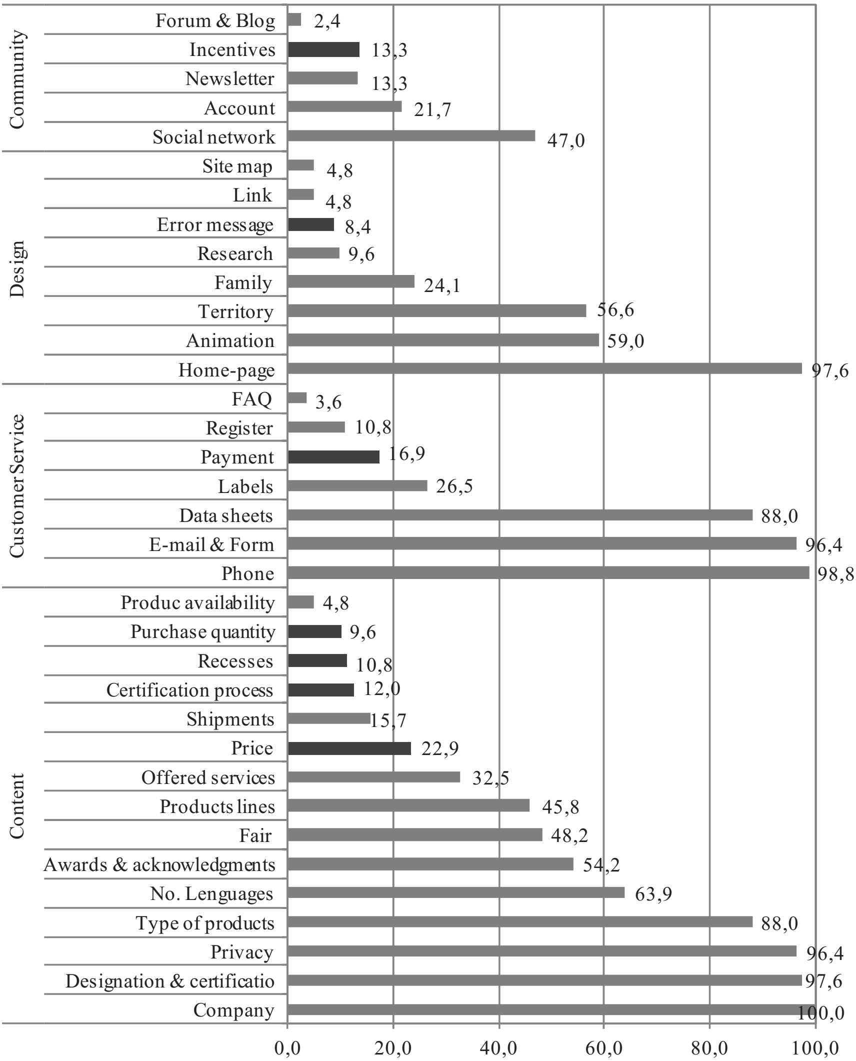
The qualitative and quantitative level of the contents is undoubtedly the factor that most influences the general quality of websites; in fact, Singh and Soock (2002) define this factor as the “King” dimension of any website.

As far as the content of the sites examined is concerned (e-commerce and showcase) the presentation of the winery and of its activities are included in all of them, as well as location accompanied by a virtual map. Information about certifications and denominations of the wines offered are frequent (97.6%) along with the variety of products available in terms of wine typologies (88.0%) (fig.2). The security of the information that users enter on the website, both to obtain information and to manage purchase procedure, is supervised by the sites observed. In fact, in both web site typologies, information about the treatment of personal data is reported in 96.4% of cases. Information regarding prices, instead, is a prerogative of e-commerce websites, and is always present on each website. An interesting aspect that emerges from this study is an inclination of wineries to address a wider public than the national one. In fact, 63.9% of websites can be consulted in at least two languages (fig. 2); the importance of such data increases in showcase websites (66.2%) more than in e-commerce websites (55.6%).

Table 1: Observed variables and brief description

Variables			Description
Content	1	No. languages	Opportunity to consult the web-site in many languages
	2	Type of products	Company's main products description
	3	Products lines	Information on products lines
	4	Price	Price information per product
	5	Designation & Certification	Information on presence of product quality certification
	6	Shipments	Shipments information
	7	Product availability	Availability product information
	8	Offered services	Company's main services description
	9	Purchase quantity	Information on minimum quantity purchasing
	10	Recesses	Information on the possibility to recess
	11	Privacy	Information on treatment of personal data
	12	Company	Description of company's structures and localization
	13	Certification process	Information on process certifications
	14	Fair	Information on fairs events participation
	15	Awards & acknowledgments	Information on Awards & acknowledgments received
Customer Service	16	Phone	Possibility to contact company via phone
	17	Register	Possibility to contact company prior registration
	18	E-mail & Form	Possibility to contact company via E-mail and form
	19	Payment	Payment option to purchase
	20	FAQ	Presence in the web site of Frequently Asked Questions
	21	Data sheets	Possibility to download data scheets
	22	Labels	Possibility to download labels of wines
Design	23	Territory	Presence of territory images
	24	Family	Presence of family images
	25	Site map	Presence of description structure of web site
	26	Link	Change of color link in the page of web site
	27	Home-page	Presence of home-page link on the pages of web site
	28	Research	Possibility to research in the web site
	29	Error message	Error warning during purchase
	30	Animation	Animation items
Community	31	Account	Possibility to create an account with username and password
	32	Forum & Blog	Presence of forum and blog
	33	Incentives	Special offers for the web users
	34	Newsletter	Opportunity to receive newsletter
	35	Social network	Presence of the company on social network

Figure 2: Features and tools presence in the websites

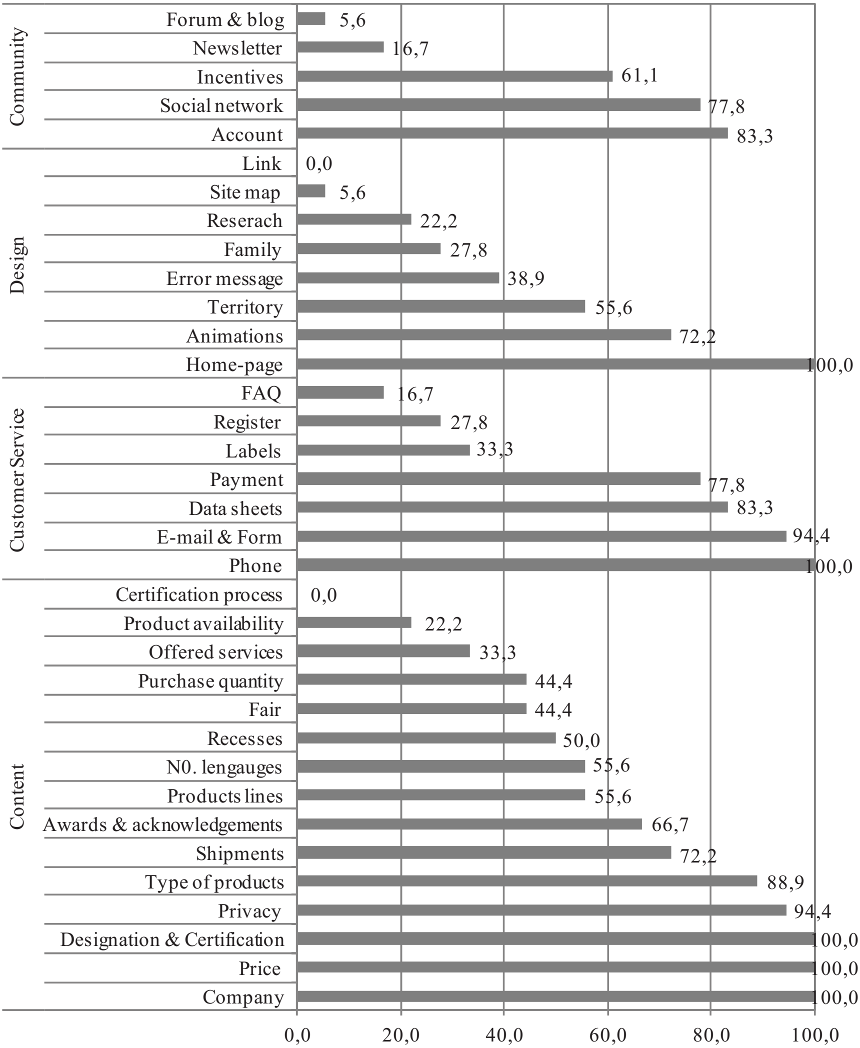


Source: Our elaboration on collected data.

On the contrary, information regarding process certification, such as organic, ISO and other quality certification (12.0%) and prices (22.9%) are less frequent. Information about rewards and prizes won by the wineries

(66.7%) and a greater number of product lines shown to users (55.6%) are more frequently available on e-commerce sites. On the contrary, there is some information, although in a smaller part, about process certification, (15.4%) (Figs 3-4).

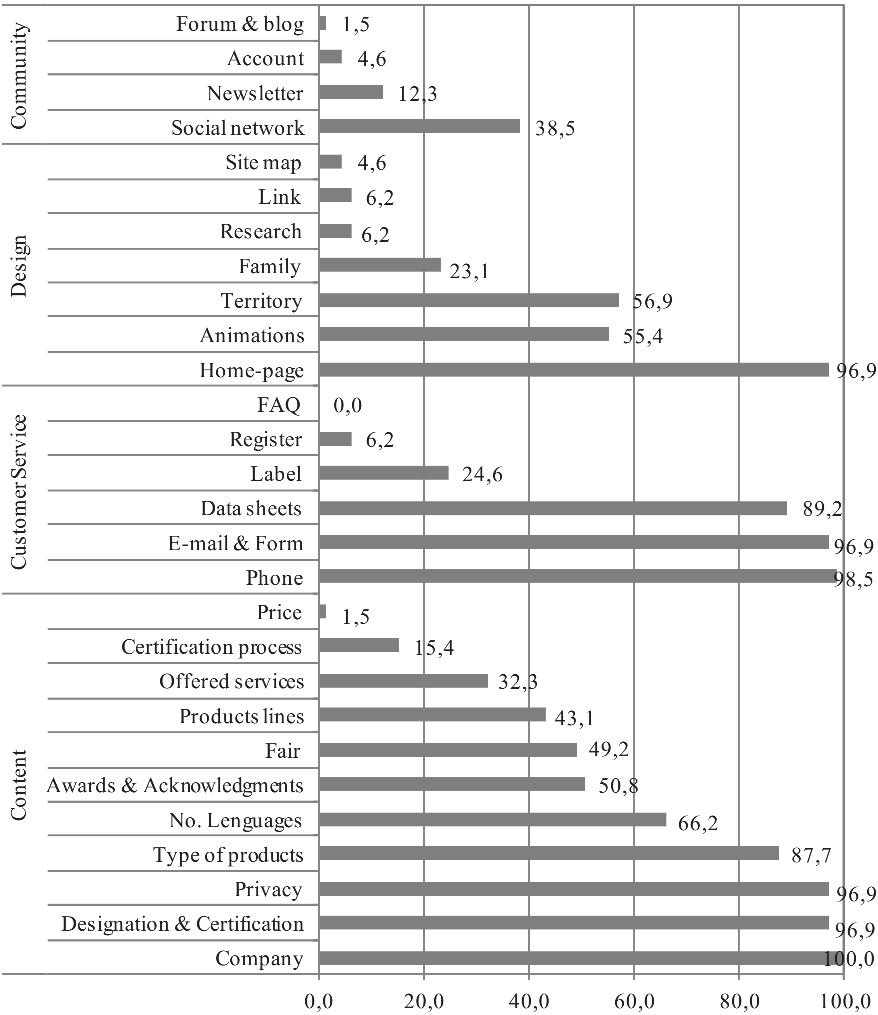
Figure 3: Features and tools presence in e-commerce websites



Source: Our elaboration on collected data.

This is, certainly, a criticality of these websites. As Ranganathan and Ganapathy (2002) highlights, many studies have shown that online stores with a FAQ section have more visitors than those without one.

Figure 4: Features and tools presence in showcase websites



Source: Our elaboration on collected data.

4.2 Customer Service

The customer service feature includes some of the characteristics of websites which support customers during the phase of product and/or services search.

In particular, the most common characteristics include the opportunity to request information by telephone (98,8%), by email or by filling in specific forms (96,4%) and finally, to download the technical information sheet of the products (88.0%). Instead, few sites were found which permit the users to register to ask for information (10.8%) and which provide a Frequently Asked Question section (3,6%) giving answers to common consumer concerns (fig. 2).

Considering their nature of direct sales, e-commerce websites frequently have payment options in order to conclude the transaction on line (77.8%) (fig.3). The analysis also shows that on the e-commerce websites it is possible to register (27,8%), there is a FAQ section (16.7%) and wine labels can be downloaded (33.3%) more frequently than the showcase websites (figs. 3-4).

4.3 Design

This feature refers to the way in which the information included on the website is shown to the web user and involves, in particular, some functionality which improve the usability of the site itself. Specifically, in almost every site there is a homepage link which allows the user to go back to the start page (97.6% of cases). There is, also, frequent animation, as well as pictures of the territory where the winery is located (59.0% and 56.6% of sites, respectively). A picture of the family which in recent years has been used in the marketing policies of many wineries is less frequent in both types of sites analyzed (24.1%). On the contrary, useful tools which facilitate browsing and searching contents, such as the site map, the homepage button and signaling of pages already visited, are almost entirely absent (4.8%) (Fig 2).

Referring specifically to e-commerce websites, less than half of the websites investigated contain the feature which shows errors to users during purchase procedure (38.9%), while there is a more frequent presence of search engines within the site than in the showcase websites (22.2%) (Figs. 3-4).

4.4 Community

In this section we identify the variables which help the user, independently from their education or experience, to obtain necessary information in reasonable time (Lautenbach et al., 2006).

ICT offers many tools which consent the interaction between companies and consumers. In particular, in 47.0% of the cases, wineries are on social-networks such as Facebook and Twitter; in a limited number of cases, for the two websites types, it was possible for users to register and create their own account (21.7%), to receive newsletters (13.3%) or to exchange opinions on blogs or forums with other consumers or with the winery itself (2.4%) (fig. 2).

In particular, it is enterprises with e-commerce websites which use social networks (77.8%) to interact with existing or potential clients, to whom they offer discounts on the products and incentives to buy (61.1%). Moreover, the possibility to register and create an account on e-commerce websites is more frequent on showcase websites (83.3%) (figs. 3-4).

4.5 The relationship between business revenue and quality of website

This study considered the 83 websites as a whole and, in succession, divided them into two categories based on their typology (e-commerce and showcase) to investigate the relationship between the quality of each website and business revenue. For the evaluation of website quality, every web feature reported in table 1 was given one point for its existence on the website and the final score for each quality feature (Content, Customer Service, Design and Community) was determined by summing up the points assigned. The four website features received a value determined by the sum of the points. It seemed reasonable to believe that a high value of web features should correspond to a high level of completeness of the website and its quality. These values were then related to the business revenues of the wineries obtained through a direct study.

On the whole, in the 83 cases studied, there is a positive correlation between business revenue and the quality of the websites, measured in terms of completeness and functionality, both with reference to single quality attributes and to overall quality. In the latter case, there is a significant relationship (p-value $< 0,01$) between the total quality of the websites examined and the business performance of the wineries (tab. 2). This result, although it is not possible to generalize, shows how important it is for a successful enterprise to design a good website.

Table 2. Means, Standard Deviation and Correlation between Quality attributes and Business Revenue (Total web sites)

				Business Revenue	
	N	Mean	S.D.	P	Sig. (2-tailed)
Content	83	0.5543	0.16	0.498**	0.000
Customer	83	0.5457	0.12	0.267*	0.015
Design	83	0.3675	0.16	0.205*	0.063
Community	83	0.2175	0.24	0.235*	0.032
Total	83	1.6848	0.47	0.424**	0.000
Business Revenue	83	2.7349	1.11	1	

**p<0,01; *p<0,05

An analysis of the four features shows that there is a relationship between business revenues and content completeness, for both e-commerce and showcase websites (tab. 3 and 4; fig. 5).

Table 3. Means, Standard Deviation and Correlation between Quality attributes and Business Revenue (e-commerce web sites)

				Business Revenue	
	N	Mean	S.D.	P	Sig. (2-tailed)
Content	18	0.5950	0.15	0.686**	0.002
Customer	18	0.6172	0.15	0.211	0.401
Design	18	0.4056	0.18	0.271	0.278
Community	18	0.4889	0.22	0.541*	0.020
Total	18	2.1072	0.51	0.588*	0.010
Business Revenue	18	2.8889	1.28	1	

**p<0,01; *p<0,05

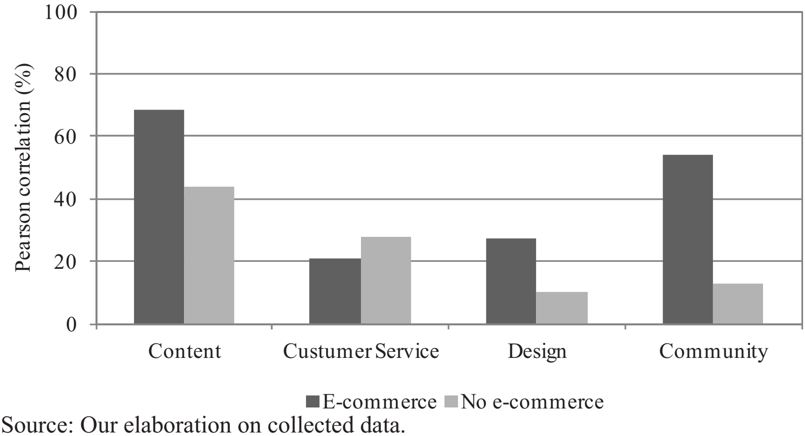
For both typologies, Pearson's correlation coefficient shows a positive relationship and a level of significance in both cases at the 0,01 level. This result confirms what has been highlighted by several authors (Hernández et al., 2009; Ahn et al., 2002; Chen et al., 2002) according to whom, content has an important role for web users, since its information allows them to answer specific questions. It must be, in fact, as Hernández et al. say (2009), accurate, informative, up to date and pertinent to the customer's needs. For showcase websites there is, in addition, a positive and significant correlation ($p < 0,05$) between business revenue and customer service. This result could be linked to the fact that wineries which do not consent product purchase transactions online offer more customer services, making it possible to interact with the company through the web. No relationship was found between business revenue and Design and Community.

Table 4. Means, Standard Deviation and Correlation between Quality attributes and Business Revenue (no e-commerce web sites)

				Business Revenue	
	N	**Mean**	**S.D.**	**P**	**Sig. (2-tailed)**
Content	65	0.5431	0.16	0.438**	0.000
Customer	65	0.5258	0.11	0.278*	0.025
Design	65	0.3569	0.15	0.170	0.175
Community	65	0.1423	0.19	0.126	0.319
Total	65	1.5678	0.39	0.382**	0.002
Business Revenue	65	2.6923	1.06	1	

**p<0,01; *p<0,05

Figure 5 – Relationship between business revenue and quality of web site



Source: Our elaboration on collected data.

As far as Design is concerned, results could be linked to the low consideration given by web designers to the way in which they show information on the site. In fact, although websites have pictures of the territory, the company or the family, they do not have features linked, for example, to searching within the website itself or to changing the link color once a page has been visited, which makes site browsing less satisfactory. If applied, such features could contribute to successful e-business strategy, as Hernández et al. (2009) and Palmer (2002) say.

Moreover, it emerges that wineries which use their website as a showcase do not recognize their potential, particularly that of interacting with the consumer. In fact, there is a low correlation with the group of features that belongs to the Community attribute. Enterprises with a showcase website, as it has already been said, do not have the interactive tools which permit them to interact with consumers. The Community feature is, however, positively correlated ($p < 0,05$) to business revenue in those wineries which use their website in the e-commerce mode. Although Design and Customer service are positively correlated to business revenue, they are not significant.

5. Conclusions

In recent years, several enterprises in different sectors have adopted e-business models exploiting the potential offered by ICT and particularly by the internet. As many authors have highlighted, web presence offers enterprises important opportunities which are linked to overcoming spatiotemporal and cost limits which characterize traditional means of communication. As Porter asserts (2001), web technology now provides better opportunities to establish a distinctive strategic position than previous information technology. Despite the benefits that can be achieved by employing modern means of communication in company strategies, there is a limited diffusion of them among enterprises which operate in the agricultural and food business.

This study aimed to analyze how the web marketing is used in Sicilian wineries, and the relationship between the quality of content and features of websites to their business revenue. With reference to the first aspect, results show a different approach to web marketing by wineries which use the net as a mere tool to promote their image, to increase their visibility on this virtual space, bringing down communication costs but neglecting other possibilities that the web may offer. Simple modifications that contribute to the improvement of browsing and usability of the site are frequently neglected, as well as tools for interaction with web users. Most of the sites consulted have limited web features regarding search modes and interactivity with consumers. As many authors emphasize, this could be linked both to the difficulty of recognizing the potentialities and benefits that the web may offer, especially through interaction with users, and to the lack of specific competences related to the management of information technology. The positive relationship between the abundance of information and functionalities of the website and business revenue of the wineries show the relevant importance that web marketing assumes for enterprises which are on the web, especially for those situations, such as Sicilian wineries, which experience strong territorial marginality.

Knowing how wineries use websites, which features are given more consideration, and what relationship there is between website quality and business performance, can provide useful indications both to enterprises which are appearing for the first time in the virtual world, and to those already existing which, by replanning web marketing strategies, could improve their economic performance. However, this requires both technical and economic investment in the most advanced information tools and in developing specific competences which are able to exploit the great potential that web marketing can offer to improve the competitive potential of enterprises on the market.

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CHAPTER EIGHT

COMPETITIVE INTELLIGENCE ORGANIZATION IN PRACTICE: THE CASE OF A MULTINATIONAL RETAILER

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1. Introduction

Many major corporations around the world have established formal competitive intelligence (CI) units. A good, formalized CI department provides an organization with the opportunity to prevent or minimize any loss occurring from a competitor, while also providing the opportunity to create a competitive advantage, through strategy, over the competition (Fuld, 1995; Hannula and Pirttimaki, 2003; McGonagle *et al.,* 1990). Jaworski et al. (2002) point out that from a managerial perspective, the development of a formal CI effort is a requirement for successful CI. However, there is a limited knowledge available about the organisation and function of these departments. Previous case studies on CI have been conducted in a global energy company (April and Bessa, 2006) and in banks (Heppes and du Toit, 2009). Although major company executives such as Pepper (1999) of Procter & Gamble, Galvin (1997) of Motorola and Vezmar (1996) of Xerox have discussed CI processes in their companies respectively, none of these studies described in detail the organization and function of a formal CI department.

The aim of this chapter is to present the organization and function of a formal CI department and how CI is actually generated within an organization. For this purpose, a multinational electronics retailer from Europe was used as an anecdotal case example. A qualitative exploratory case study was performed through observation and interviews. Literature indicates that there is a need for case study research on this subject (Dishman and Calof, 2008; Wright, 2011). Especially, Dishman and Calof, (2008) suggested that "*more detailed case studies are needed to aid in the development of an intelligence "best practices" guide to help firms become more aware of accepted and successful practices. These case studies are also needed for validating the results of previous assumptions made about intelligence structure and implementation* (p. 780). Moreover, there is a dearth of studies centered on exploring this issue in retailing (Gatsoris, 2012).

This chapter begins with a comprehensive literature review of CI followed by the case study; the company profile, the case study methodology and a discussion of the findings. The book chapter closes with a discussion about the implications of this research for academics and practitioners.

2. The concept of competitive intelligence

Competitive Intelligence (CI) is a vital vehicle for either long term or short term strategic planning and management processes in any organization and for its present and future success. Bernhardt (1993) points out that CI is a business tool that can make an important contribution to the strategic management process in business organizations, driving business performance and change by increasing knowledge, internal relationships and the quality of strategic plans. Furthermore, recent studies (Dishman and Calof, 2008; Strauss and du Toit, 2010) highlight CI's critical role in sustaining and supporting companies' competitive advantage by analyzing and understanding the company's external environment. CI is generally understood as the procedure by which a company identifies early potential risks and opportunities by gathering and thoroughly analyzing information about competitors and the competitive environment so as to predict market changes and challenges and support managers in making strategic decisions in a pro-active manner in order to improve the company's performance (Cook and Cook, 2000; Fleisher and Bensoussan, 2007; Gilad, 2004; Mason, 2006; Porter, 1980; Wright *et al*., 2009). By applying an effective CI program, companies can improve their competitive edge and their overall performance and thus meet two essential goals for their survival (Guimaraes, 2000), especially in today's uncertain global economic environment. Thus, a growing number of commercial businesses add competitive intelligence units to their operations (Colakoglu, 2011) or have some sort of CI activities in place, whether performed formally or informally (Yap and Rashid, 2011).

However, studies in various countries and industries reveal that only large-scale companies employ CI activities in a professional manner. This could be explained by the fact that CI only started to grow in importance in the business world in the early 1980s, mainly following Porter's influential work (1980); the pressure to cut costs due to competition from abroad (Attaway, 1998); and the lack of formal education about CI (Blenkhorn and Fleisher, 2010; Fleisher, 2004). However, studies in various countries and industries reveal that only large-scale companies employ CI activities in a professional manner. The vast majority of companies are unaware of it or are only using it at an embryonic stage (Franco *et al.,* 2011; Nasri, 2011; Priporas *et al.,* 2005; Strauss and du Toit, 2010; Wright *et al.,* 2002).

CI as a decision support system is attracting increasing interest in retail literature as well. It is mostly linked to the areas of retail location selection and management, inventory management, and lately to the integration of retail channels in multi or omni platforms. Hernandez research (2005, 2007) expanded on the seminal work of Clarke *et al.* (1995) on the application of decision support systems to the competitive appraisal of retail properties and store selection. Achabal *et al.* (2000) and Woo *et al.* (2005) proposed that inventory management is supported by DSS, and Holsapple and Sena proposed that it is supported by ERPs. The technical side of the CI system was developed by researchers such as Bongers and Timmermans (1991), and Koshaka (1993) although it took a few years before the wider strategic and organizational implications of decision support systems started to appear in the management literature (e.g. see Hoch and Schkade, 1996; Turban *et al.*, 2007; Theodoridis and Bennison, 2009).

In general, CI is considered to be an emerging research and practice business field (Bousquet *et al.,* 2011; Sewdass, 2012). The literature offers many definitions of CI. However, Fleisher and Bensoussan (2003) emphatically comment that there is no single definition which is likely to be precise and/or universally accepted. CI is formally defined by the Society of Competitive Intelligence Professionals (SCIP) as "*a systematic and ethical program for gathering, analyzing and managing external information that can affect your company's plans, decisions and operations*" (www.scip.org). CI can be described as both a process and a product. As a process, CI is the set of legal and ethical methods of collecting, developing, analyzing and disseminating actionable information pertaining to competitors, suppliers, customers, the organization itself and the business environment (SCIP, 2009). As a product, CI is actionable information about the present and future behavior of competitors, suppliers, customers, technologies, government, acquisitions, market and general business environment

(Vedder and Guynes, 2000). Aspinall (2011) points out that there are two types of competitive intelligence; primary, publicly unavailable intelligence, also known as Humint (human intelligence) and secondary, publicly available intelligence, or Pubint (public intelligence).

3. The company's profile

A pseudonym name, "M" was used to represent the organisation used in the study. M is a large multinational electronics retailer which has rapidly spread throughout Europe. M is based in a highly industrialized country and it is part of a group of companies. It and its sister firm, a low cost electronics firm, have dominated the market heavily. M's strategy revolves around the use of aggressive marketing campaigns mixed with the use of with large stores, over 10.000 square meters long. In the parent country alone M has over 200 stores and thousands of employees. Every store is an independent company in which the manager of the store holds a share of up to ten percent. The managers of the individual stores decide on their local advertising needs, the selection of products they offer, pricing and personnel planning. This allows them to respond flexibly to the needs of their own particular customers. M and its sister firm have seen steady growth and have become the leading consumer electronics retailer in Europe. There are currently more than 850 stores in 16 countries, which generated net sales of 20.8 billion Euros in 2010. The corporate group has a current headcount of over 70,000 - over 2,000 of which are employed at the group's headquarters.

The high level of individual responsibility increases the extent to which employees identify with the company. The Group recognizes and cultivates the strengths of their employees. Flat hierarchies, committed teams and a working environment that gives employees the freedom to contribute ideas and act on their own initiative provide them with the motivation to perform to the best of their abilities. This enthusiasm conveys itself to the customer. The company's senior management believes in allowing the stores independence and supporting their decisions without prejudice or debate. This fact is an important guide as to why they decided to invest in CI, a tool that relies upon cooperation, faith and self-motivated employees.

4. Research Methodology

A case study approach was adopted for this study primarily because it is an approach that assists a researcher in achieving a deep understanding of a specific phenomenon (Yin, 2009). Case studies have emerged as an increasingly important qualitative approach in many management disciplines (Gummesson, 2000). Case studies are carried out in close interaction with practitioners, and as they deal with real management situations, they have the potential to create knowledge that practitioners will consider useful (Djuric *et al.,* 2010). Case-studies present two key advantages for the conduct of the research project: the first one is that by employing case-studies it is viable to investigate contemporary events within their context; and, secondly, as mentioned previously, the researcher can use multiple sources of data and information that are available to the authors (Quinn *et al.* 2007). According to Djuric et al. (2010) an ideal approach is a) direct observation by the researcher of the environment of the case study; b) asking participants for explanations and interpretations of operational data and c) analyzing written documents and natural sites occurring in the environment. Operational data includes spontaneous conversations with the participants, activities observed by the researcher and documents written by the participants.

A single case study was adopted and an international electronics retailer was selected as being a case of a CI unit's organization and function. A qualitative approach to data collection was adopted since the phenomenon under investigation was new and the study aimed at explaining how CI units are organized and function. Yin (2009) proposes using a combination of different sources of evidence, namely data triangulation, for data collection. In this case study participant observation (Matthews and Ross, 2010), discussions/interviews with CI unit staff, documentation, and archival resources were adopted.

The researchers employed viewed the lived experience of the staff of the company as the source of their information. Therefore they adopted a phenomenological approach to the development and implementation of the research (further details on phenomenological case-studying can be found in Theodoridis, 2014). The premise of this kind of research is that the researcher focuses on understanding the lived experience of the subjects under research as a whole, rather than connecting incremental instances in their professional life.

For the research purpose, one of the researchers spent 24 working days in the company's headquarters and its stores as an observer. The days were scheduled so the observer would spend time with CI members on the job as well as viewing the personnel in the stores. When the arrangements were made with the firm's executives, the researcher/observer asked that he was treated as a new employee that needed training on the CI function. This enabled him to have complete access to all the documentation and allowed him to observe and take notes on every aspect of the tool and ask clarifying questions whenever needed. All participants agreed and signed a form which allowed the results of the observation to be published, on the condition of anonymity of the company and the respondents. This has led the researcher to use letters and numbers to distinguish the interviewees. Therefore, the respondents from the CI department are called CI1, CI2, CI3 and CI4 correspondingly, while the head of CI operations is addressed to as CIH. After the observation period, the data obtained from the discussions and the notes from the company's documentation (reports, presentations, battle cards and simulation notes) were transcribed and analyzed.

5. Findings

5.1 The CI Department

Although, CI is a child of marketing (Walle, 1999), the Sales Director (SD) was the one who recommended its use to the organization's board and assumed responsibility for its results. The CI department was created in 2011. The CI department consists of five people with more than five years' working experience; one is the head of operations (CIH), three are CI experts and one is the assistant (see Table 1). The CI staff hold mainly junior positions and this is consistent with the literature that indicates that CI professionals are often in junior positions in comparison to the decision makers (Butler Group, 2006; Gilad, 1996 cited in Tsitoura and Stephens, 2012). Furthermore, a study by Yap and Rashid (2011) reveals that of the surveyed companies which have formal CI units, most are located within marketing, market research or corporate planning departments and have been established for 5 to 9 years with on average 2 to 5 full-time personnel. Similarly, Adidam et al. (2012) in their study of Indian firms found that the CI unit was located within corporate planning, IT, marketing/market research, R&D or sales departments and the majority of the firms had up to 5 people engaged in CI activities, and although in some forms they may have no clear task.

5.2 The operation of the department

The operation of the department so far focuses on three dimensions:

1. Ad-hoc projects which are requested from various departments within the firm;

2. Monitoring of the market as a whole; and
3. Creating intelligence teams with the sales team in each store and producing any type of material that could assist the stores in increasing their sales.

Table 1: CI Team Profile

POSITION	ACADEMIC BACKROUND	AREA OF EXPERTISE/ DUTIES
Head of CI Operations (CIH)	PhD	STRATEGIC MARKETING • Director and supervisor of the department • Produces reports and presentations only for the board and is responsible for the intelligence produced by the team • Participates in the weekly senior management meetings
CI Assistant (CI1)	MSc in I.T.	IT • Collects information about the competition using all available methods • Responsible for the appropriate flow of information within the department and the retail stores
CI Expert (CI2)	MBA	SALES • Responsible for the dissemination and analysis of information and converting it into intelligence • Produces reports and presentations when requested • He is assigned to an area in Germany where he is responsible for the stores • He is also accountable for the battle cards created and used in his stores and the simulation games

CI Expert (CI3)	MBA	MARKETING • Responsible for the dissemination and analysis of information and converting it into intelligence • Produces reports and presentations when requested • He is assigned to an area in Germany where he is responsible for the stores • He is also accountable for the battle cards created and used in his stores and the simulation games
CI Expert (CI4)	MBA	R&D • Responsible for the dissemination and analysis of information and converting it into intelligence • Produces reports and presentations when requested • He is assigned to an area in Germany where he is responsible for the stores • He is also accountable for the battle cards created and used in his stores and the simulation games

5.3 Ad-hoc

Ad-hoc projects can vary and have multiple recipients. If a request is from the board or the senior management then it is passed on to the CI department which in turn follows these subsequent steps:

1. initially examines the request and states if it is achievable
2. sets the time frames for completing the project
3. specifies the desired outcomes
4. specifies what type of internal information is required
5. produces the report of the above and awaits final permission from the sales director.

6. begins the project

If the request comes from a specific department the same procedures apply, though with two important differences; the first priority goes to requests from the board and the second to requests that must be approved by the SD. For example, if a project is requested from R&D or any other department they need to contact the SD to get approval. If the project is accepted and it is ongoing it will stop if the board places an urgent request. That is part of the policy, although this has not been carried out yet. This procedure concerning the other departments seems fair since the CI team would end up overwhelmed with tasks, which may not be of sufficient importance or may not be relevant to the team's duties. Thus, the SD operates like a shield or a filter that protects the team from those sort of problems. Once the procedure is approved then the project begins. These projects can be simple requests, for example, "Consumer preferences", "Top selling rival products" or can be complex like "Identification of consumers' new requirements" and so on.

Literature indicates that the Ad-hoc method is a very common one in the CI field. Ad hoc CI takes place when the top management expects or forecasts a move from a competitor or when a move has just been made. The results of the research and the analysis of the information are done for that specific occasion only and are solely focused on the competitors and their moves (Cartwright *et al.,* 1995; McGonagle *et al.,* 2002; Prescott, 1995).

Comparing the case of M to the literature, it seems that the Ad-hoc procedure is extended to other matters as well. Collecting data on "Consumer preferences" is very useful for any project and can be taken advantage of, however in many cases this is something done by a Marketing or a Sales department. This can have various meanings. Firstly, the SD who is the director of this team is also the head of marketing activities, as explained. The head of operations used to be the Marketing Assistant, who mainly dealt with issues like the projects mentioned earlier so it makes sense that he would be willing to transfer this responsibility to his new department. Another plausible explanation could be that the Head of Operations willingly asked to have this responsibility in order to make the department necessary from the very beginning of its existence, and having the know-how on this matter from his previous position minimized the risk of doing it incorrectly.

5.4 Monitoring the Market

Monitoring the external environment of the firm is done in exactly the same way as the literature suggests - as a “Continuous comprehensive” method of doing CI (Cartwright *et al.,* 1995; McGonagle *et al.,* 2002; Prescott, 1995). Competitive analysis is performed on an ongoing basis by all the staff in the department by investigating broad competitive forces that shape the industry. Assessments of competitors, market shifts, market trends, technologies and other major market factors are the outputs. Outputs are relatively complex and integrate various aspects of the environment. This approach embodies an extensive system of information development and distribution which is useful for decisions regarding broad strategic change (Prescott and Smith, 1987).

All the staff deal with this method as it requires attention not only to the information collected but also to its dissemination and analysis as well. The CI experts are also responsible for delivering information from the outside world to the stores and the intelligence teams. All the information is stored in SharePoint and after the analysis the unwanted information is erased. It was observed that a jumble of information is gathered, mostly from the internet, and that its volume is hard to manage in terms of dissemination. As a result the volume keeps growing and growing and the CI experts have a difficult time maintaining the reliability of the results.

5.5 Intelligence Teams

Fahey and Herring (2007) in their paper *intelligence teams* described the structure and the role that these teams can play in top firms and how they can contribute to strategy making. In M’s case this is a critical dimension of the operation of the CI department. The main reason behind the creation of the teams was to empower the retail stores across the parent country. All the CI experts are responsible for specific areas in the parent country, meaning they have a close connection with the stores in their vicinity. This role is the same as the area manager position the firm had but was removed after the boards’ decision. So, the experts were handed with the task of visiting the stores, making a presentation of CI and commencing with collaboration on the methods they would use to take advantage of this tool.

Sales staff was trained specifically in how to acquire information from customers concerning their rivals. This training relied heavily upon enabling the sales staff to act as advisors to the customers and building relationships that would make the client feel safe and secure. In detail, all the staff from the stores followed 3 day training seminars held by a US consulting firm which included many role plays and experiential tasks. Afterwards, it was the CI experts' responsibility to monitor their progress and make appropriate arrangements. Furthermore, the frontline members participated in a seminar conducted by the CI staff, which explained to them the use of SharePoint and how they should store any type of information they would get their hands on. During this seminar obstacles were noted by the trainees concerning the time that they would need to assign to this task and there unfamiliarity with such an operation. However, most of them were interested and were willing to give it a try.

The CI staff acknowledged the obstacles, the most important being the fact that each store consists of about 60 sales staff and 10 in store department managers which would make it difficult for a person from headquarters to successfully monitor their progress. This was dealt with by the creation of intelligence teams within the stores. These teams were comprised of 6 salesmen and the according CI expert. Their task would be to monitor the progress of the store concerning the new activity and also manage the information put on SharePoint. They are set to have meetings every two weeks to present findings, problems or any matter that needs attention and they are responsible for taking appropriate actions autonomously. In order to avoid any misunderstandings among the staff it was agreed that the intelligence teams would rotate members every month, thus after two meetings. As an initial reward, when all members have participated in the teams they would vote for the top three Intelligence members who will win an all-expenses paid weekend for two in a hotel of their choice, within limits. The rest of the staff will receive tokens worth 30 Euros which they can use in restaurants, cinemas or retail stores of any type. All this procedure took almost four months to set up, so the teams have not yet completed a full circle so as to be able to receive the gifts. However, the intelligence teams also produced some clever ideas that would assist the frontline in their sales; battle cards and simulation games.

5.6 Collecting the information

In today's hypercompetitive, uncertain and fragile global business environment managers and especially the top management need valuable information to make more solid and safe decisions. Thus, by identifying and focusing on the right quantity and quality of information (Ezigbo and Uduji, 2013; Tsitoura and Stephens, 2012; Tuan, 2013) organizations can decrease the response time (Ezigbo and Uduji, 2013).

In M, CI1 is responsible for acquiring information from various sources. The sources they use match the ones in the literature, which is completely understandable. Sources of information can be quite low in number. They are usually divided into three major categories: a company's employees, the Internet and secondary sources like magazines, newspapers, public documents (Attaway, 1998; Groom and David, 2001; McGonagle *et al.,* 2002). According to Yap and Rashid (2011) the top three sources managers use CI are newspapers and periodicals, the Internet and extranets, and customers. This study also found that Intelligence Teams can be a valuable means of acquiring information.

5.7 The company's employees

Around 70-90 % of the information a company needs is held by its employees (Attaway, 1998; Claudron, 1994). The reason for this is that it is the employees that deal with the customers, suppliers and the external environment of the company. Knowing the state of the market and the competitors is part of their everyday work. However, most of the time even employees do not realize the importance of their knowledge. In order for this information to be collected CI1 needed to first identify:

1. Which employees have which information?
2. How and where is all this information stored?
3. How can the employees be motivated to distribute this information in the company?

In terms of the actual process of collecting information from the employees, CI1 initially conducted focus groups with each department in order to scan the environment and provide the answers to the previous three questions. Questionnaires were put online and the employees of each department answer the questions once every month and send them by email to the assistant. These questionnaires consist of 6-8 questions, at the most, (dichotomous and open ended), so that they can write down the findings. In this quest he was assisted by CIH. Upon completing the panels he set up online questionnaires and a "Red button" operation. The "Red button" operation is an interesting idea from CI1 which enables them to acquire important information quickly and not wait until the end of the month. This operation is fairly simple; when the user believes that he has acquired some important piece of information he pushes the "red button", which is online, and immediately a video call is transferred to the screen of CI1. This enables both employees to exchange the information rapidly and directly. Data mining is a necessary tool because it can help people create internal folders with various forms of information, from various departments which can be connected with one another (Guimaraes, 2000; Mena 1996). On this point CI1 has decided to use Microsoft SharePoint, as an instrument for appropriately storing all the information acquired (Bouthillier and Shearer, 2003).

CIH disseminates the results from the projects to the whole company every six months, noting which departments' effort and information assisted most in the successful completion of a project. This is done in order to reward departments for their work. At the end of the first year it was decided not to announce a winner but to commend everyone's effort in implementing the information. This was done because it would be unfair to mark a competition from the very beginning as it was believed that all personnel need time to completely understand competitive intelligence and make it a part of their everyday routine.

The CI department is supplied with information from the sales staff of the stores. This happens, using the program mentioned and in collaboration with the CI experts and the intelligence teams that have been created within the stores. They are all stored on the SharePoint and CI1 mines them and distributes them to the paths and folders for every competitor he has created.

5.8 The Internet

The Internet is one of the major sources for CI (Adidam *et al.,* 2012; Chen et al., 2002; Wright *et al.,* 2009; Yap and Rashid, 2011) since it is a huge source of information and is constantly growing all over the world and is used by more people and businesses every day. There is a vast amount of information there to be collected. Public articles, web pages of the competitors, on line newspapers, magazines, blogs, and the list goes on. There are also Database Vendors, which are internet companies who have a major database waiting to be used at the right price. Even chat rooms can be a significant part of collecting information, even though they exist solely for entertainment purposes.

CI1 as an IT expert believes a lot in the proper use of the internet and has set up various methods of collecting material. He is using database vendors in which he is subscribed to and he also monitors online newspapers and business magazines. Also, he focuses at some blogs that he believes are worth looking at (Bouthillier and Shearer, 2003). In order to save time and be more accurate in his online search, he uses a couple of programs that assist him significantly. The first one is a search engine technology which has received a great deal of attention recently (Chen *et al.,* 2002). Developers are creating a new generation of Web search applications that offer more sophisticated indexing, querying, ranking, and clustering options than do current "mainstream" search engines such as AltaVista and Google (Bouthillier and Shearer, 2003). Many of these new search tools address the issue of quantity as well as quality, guaranteeing that a large number of documents matching a given query will be retrieved, and presenting the results in a highly structured order based on relevance.

CI1 also takes advantage of "Push" technology, meaning having a program which alerts users about new information released on the web according to a desired set of keywords. Collecting information though can be quite time consuming and tiring. If someone is not very familiar with the process they can end up lost on the internet for hours. Christensen (1998) found that there is a small negative relationship between task time and performance when using the internet, suggesting that more time is spent on the internet in getting less information, especially when compared to a traditional library.

5.9 Secondary sources

This is probably an easier and more direct method of collecting information. There are many secondary sources he uses like newspapers, magazines and in general all public and published data (Attaway, 1998; Claudron, 1994; McGonacle *et al.,* 1990; Yap and Rashid, 2011). Through these, CI1 prefers to collect information on the financial status of a competitor, and read surveys, statistical analysis or executives' interview in newspapers. However, CI1 noted that he tends to use the Internet more as almost all information that is printed can be found easily on line, and in a form which can be easily used and stored.

5.10 Analysis

Analysis is a very crucial part of the CI process and this is why three out of four CI unit members have this task. In order to analyze the information and produce intelligence, the experts address several matters with caution and most of the times use various tools from the literature to assist them in their efforts. The analysis of collected information involves creativity, technical knowledge, intuition, models and frameworks (Fleisher and Bensoussan, 2003). Furthermore, Sewdass (2012) points out that every organisation has to choose the appropriate tools, techniques or combinations of them to obtain optimal results (i.e., information (intelligence) can be incorporated easily and quickly by the users).

Observing the experts' analysis of information during the Ad-hoc projects that they were running, the observer noted that they spent a lot of time disseminating the information and choosing which information could produce intelligence. They worked as a team exchanging ideas on what valuable intelligence can be derived from every simple piece of information. This is consistent with the literature, since about 80% of the time an analyst needs to provide intelligence is spent on mining. The remaining 20% is used to interpret the information into Intelligence (Attaway, 1998). Also, they use common tools in their analysis depending on the research, like, Porter's five forces, PEST, SWOT analysis, marketing mix, value chain analysis and some more in order to get a clear view of the task in hand (Adidam *et al.,* 2012; Bose, 2008; Nasri, 2011; Wright *et al.,* 2009).

Having completed the mining, the useful information is recorded along with the initial intelligence produced so that they can keep track of the findings. The results are all stored in the corresponding folder of the competitor. In M, they use several dissemination methods such as through meetings, intranet, presentations, and networks, which convey the core issues to stores and the company. Equally, the literature (i.e., Adidam *et al.,* 2012; Bose, 2008; Marin and Poulter, 2004; Wright *et al.,* 2009) suggests various dissemination tools for the CI process with the most common ones being briefings, meetings, e-mails, intranets, presentations, and written reports.

5.11 Implementation

The final part of the process is implementation. At this stage the CI members produce the reports that are to be submitted to the corresponding department, or the senior management, depending on the request. There is no standard procedure as to how the reports are printed or whether to use various technology applications in order to support the intelligence produced. Viewing reports from previous attempts was insightful as the investigator was able to see the method the department follows in their reports. In all cases a written document is presented which is so detailed that at some points it reminded the author of academic papers found in journals. They use a lot of graphs, mostly pie charts, to support the findings, and in a lot of paragraphs there are citations as to where the relevant information was acquired from. At the end a list is printed with the sources that played a major role in the collection of information.

In the case of a request by the senior management, apart from the written report produced, the team also prepares a PowerPoint presentation which is presented to the meeting with the management team. The template used is simple and contains the logo of the firm. The presentation the author viewed was quite fascinating as it had a good flow with pictures and in some cases video links for the management to view. CIH is responsible for the presentation and the final edition of the reports. In the case of monitoring the market as a whole, without a pending request from inside the firm, CI employees produce periodic reports which are stored in the Share Point and are visible to the Sales director at any given time. CIH may ask for a meeting with the director at any time should he believe it is necessary.

5.12 Managing and Evaluating CI

Evaluation is an important part of all processes and procedures in a firm. Everything needs to be measured in order to determine the success or failure of a process. The intelligence process itself seems straightforward:

1. Board states requirements
2. Collectors gather information
3. Analysts analyse and disseminate the information
4. Analyst produces intelligence via reports graphs and other methods and
5. Board makes the appropriate decisions.

Even though it appears simple, evaluating what this procedure costs and most importantly measuring or quantifying its results is a complex matter. The literature (i.e., Marin and Poutler, 2004) indicates that there is a lack of a universal acceptable method of measuring CI results. This is because in any Intelligence report no one can clearly state that something was right or wrong because it involves a process and a product (Wheaton, 2007). Herring (2007), in his study found that none of the interviewed executives were interested in adopting quantitative measurement of their intelligence programs. Their priority was to make the firm take action on the problems encountered. All the interviewed executives stated that they expected to see the intelligence have some “visible” impact on the company or its management decisions. Because CI is a team that assists in decision making it is difficult to assess its value; mostly because it produces reports but it does not take the final decision. Intelligence is intended to warn, to give decision makers time to take action, to change the course of events and, in turn, change an unfavorable potential future into a more favorable actual one (Wheaton, 2007).

Thus, if the management defined what should be measured and how it should be measured before a project, it would be possible to evaluate these intelligence activities. However, it appears that it is not about how much money a firm is going to make but rather how CI activities affect the method of making (reaching) decisions with positive outcomes. Naturally, a positive outcome means increased sales, profits or increased market share. Evaluation, however, means measuring the performance of the unit through its personnel. The fact that there still is not a formal mode of evaluation means that the CI team cannot be evaluated is terms of some aspects of their work. It is fairly obvious that the passion and the drive for results can be observed and evaluated by the management team but there seems to be a gap in the actual assessment.

Furthermore, it could be argued that the Head of Operations, who spends most of his time with the team, is the one responsible for creating a form of evaluation for the team, but there is a gap there as well. It seems that the assistant is a key player in the department and he is considered to be specialized in his duties. This, and the fact that there is no one else in the department who is remotely close to his expertise, means that assessing his performance may be complicated. He may be collecting valuable information but no one can actually evaluate that.

5.13 The future of the CI department in the firm

CIH has created a plan about how the department should operate in the near future and presented it to the senior management team in detail. The aim is to have a fully functional department which will operate on all levels of CI. CIH believes that he needs two more members in his team which will lead to a small restructuring. This will mean having a second assistant help with the collection of information and having all the other members work more closely together. The staff needs to go through some training and there are some thoughts of inviting CI professionals from the US to train them, although this may not be possible. However, CIH is working closely with the HR team responsible for training so to create an internal training program for the CI staff.

He particularly wants to try different techniques like the "quarterback technique" (Shaker and Kardulias, 1996), the "false interview" and "media management tools". He expects to add more dimensions to the operation with "continuous focused" and "project based" methods added to their requirements. Concerning the intelligence teams at the stores he expects them to work better and more efficiently during the next year and has plans for conducting annual internal conferences in order to promote their efforts.

The future seems to be set for the practitioners of CI as they have a specific plan about the method of operation for the next few years. However, having autonomous intelligence teams seems quite optimistic in the sense that there are many stores and it will be difficult to train and coordinate store managers on CI. Also, the future can be altered since CI is dependent on the method of evaluation of its function. When the evaluation method is decided this will most certainly have a big influence on its future; not so much as to whether it will exist, but rather as to how it is going to be enhanced.

Implications

The purpose of the present chapter was to shed some light on the organization and operation of a CI unit in a large scale company, were there is a dearth of studies. For this purpose a leading multinational retailer of electronics was chosen as a pragmatic case study of a CI unit. The findings revealed that the CI unit was organized as a small unit with highly educated staff who had the necessary competencies, expertise and assigned tasks. This seems to be crucial since, as Motorola's former Chairman Bob Galvin (2001) said, in order for CI to be successful requires only a small unit of professionals, but not “amateurs or part-timers”. Furthermore, Tuan (2013) points out with emphasis that CI members must have competencies in order to produce effective CI. Also, the creation of intelligence teams with the participation of the CI experts and the stores’ salespeople is a new approach for collecting primary information. In addition, the introduction of battle cards and simulation games as tools for salespeople is also an interesting direction, recognizing that salespeople can be a very important source of information especially about customers, market and competitors (i.e., Hughes *et al.,* 2013; Rapp *et al.,* 2011). Another interesting issue from this case is the innovative “Red Button” operation, a technological tool, which was introduced by CI1 in order to obtain and share the most important information quickly. The literature (i.e., Marin and Poulter, 2004) demonstrates that the process of collecting secondary sources of CI has become increasingly reliant on technological tools that enable real-time access to fresh data or information sources. In conclusion a fundamental component of the success of any CI practice is to build a CI culture within the organizations (Capatina *et al.,* 2013; Nasri, 2011; Viviers *et al.,* 2005). More empathetically, Lackman *et al.* (2000) suggest that an effective CI function in an organization is characterized by its emphasis on users, total commitment to CI by the company's top leadership, and effective methods of disseminating the gathered intelligence within the organization. Additionally, organizations differ in terms of attitudes, knowledge and values as well as the environments/industries in which they function (Kahaner, 1997).

Considering the gap in the CI literature as well as the academic and managerial interest in the deeper understanding of CI unit organization, future inquiries could investigate organizations that have operated their CI units for many years, as well as those with "international" CI units for the purposes of comparison. In addition, upcoming research could be conducted in organizations from different cultures, since CI practices are different between cultures (Adidam *et al.,* 2009; Fleisher and Wright, 2009) as well as sectors. Also, forthcoming studies could include the top management, since its role is crucial for the success of CI (Tsitoura and Stephens, 2012; Lackman *et al.*, 2000).

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CHAPTER NINE

INNOVATION BASED ON DYNAMIC CAPABILITIES

RUTH RIOS-MORALES, ALEJANDRO FLORES AND MAX SCHWEIZER

1. Introduction

Innovation is an inherent and implicit proposal of change. Therefore, it represents alternatives that promote differentiation of business performance in relation to competitors. Every organization has access to business innovation in the sense of an integrated and collective process of new knowledge generation. Nonetheless, capabilities for innovation require the implementation of a business model that uses available organizational resources and internal capabilities to create competitive advantage.

This chapter intends to depict a model of innovation based on dynamic capabilities. The model is based on the work of Wernerfelt's (1984) related to resource-based view of a firm. According to Wernerfelt, competitiveness is determined by heterogeneity of resources and capabilities of a company. The model proposed is the result of a managed process focusing on distinctive capabilities that ensure innovation. In the intention to develop distinctiveness, uniqueness and originality to achieve a position of sustainable competitive advantage, it is important to evaluate organizational resources and existing internal capabilities (Drnevich and Kriauciunas, 2011). In this sense, innovation mainly depends on the intention to achieve a synergistic effect through interaction of heterogeneous resources and capabilities (Rothaermel and Hess, 2007).

2. Model of Innovation Capacity

Attaining a position of competitive advantage requires the implementation of a business model that envisages how the firm will create, delivers and has obtained added-value (Skarzynski and Gibson, 2008). Since competitiveness is determined by heterogeneity of the internal resources and capabilities of an organization, assessing these key elements is necessary. Yet, external factors have to be also taken into account as well. The internal components and external factors become inexhaustible sources of entrepreneurial opportunities (Dolata, 2014). While the set of organizational capabilities ensure creativity within a firm, external factors exert competitiveness based on the market opportunities and challenges. However, a systematic evaluation of possible options and deliberate policy actions should be employed to foresee market opportunities (Flores, 2011). Therefore, innovation should be the result of a strategic action plan that is systematically implemented (Grant, 2013). The main components of such strategic policy could be the following:

1. Endorsing innovation and creativity from internal capacity. This may require a deliberate implementation process of change that achieves and maintains competitive advantage.
2. Promoting internal dynamics generated by heterogeneity of resources and organizational capabilities.
3. Specifying a strategic assessment of opportunities offered by the market. It is the market itself that will appraise the appropriateness of innovation.
4. Achieving competitive advantage through the development of distinctive elements that differentiate the performance of the organization from competition.
5. Encouraging the participation and cooperation of all members of the organization.

The business approach for innovation, from the perspective of organizational capabilities, implies sustaining the competitive edge through the interaction of heterogeneous resources and capabilities. This method is complementable with the systematic analysis of the external environment and its influences on the organization. It is appropriate to rely on systematic and rational analysis to identify and evaluate the opportunities that are presented in the market. The analysis of both internal and external factors that influence innovation capability is therefore key to successful outcomes.

3. Organizational Capabilities

An understanding of organizational capabilities provides the basis for setting and achieving realistic objectives. Moreover, making use of these capabilities leads to more efficiency. An organization can increase its strength through capabilities, as well as, generate new synergies (Hecker, 2012). Organizational capabilities are likely to develop internally and gradually over time. These capabilities are then accumulated and stored in so-called organizational routines (Nelson and Winter, 1982). This is possible due to an endogenous mutation process that leverages and integrates individual and collective knowledge, both tacit and explicit (Hecker, 2012). It is considered that this endogenous process of change results from knowledge enhancement and accumulated expertise. Consequently, allowing the organization to converge and adapt to environmental constraints, through an upgrade of their original abilities and skills increases and enhances business expertise (Teece *et al.,* 1994; Rouse and Daellenbach, 2002). In sum, organizational capabilities represent intangible resources or invisible assets (Itami, 1987; Grant, 2013) from which an organization can develop a sustainable competitive advantage.

The endogenous mutation mechanism is associated with the use of knowledge accumulated; both on an individual and collective level (Flores, 2011). The endogenous mutation process focuses on the generation of new knowledge by updating previously acquired knowledge and the combination of knowledge, skills and resources (Galunic and Rondan, 1998). Since original creativeness of a firm can be imitated by competitors, organizational capabilities should not only be acquired and accumulate, but are also develop, enrich and constantly improved to attain distinctive competitive performance (Argyris and Schön, 1996). Therefore, organizational capabilities, acquired in a learning process or developed by an endogenous mutation process, to maintain and ensure distinctive expertise that will support the creation of new products and effective responses to the market.

3.1 Business Innovation Capacity

Business innovation is a designed process, intentionally conceived by a well-established purpose. Envisioning business innovation implies the development of internal capacity. It may also require the incorporation of new resources or the development of new skills and competences (Gatignon *et al.,* 2002). Therefore, business innovation is primarily built from integration, combination and synergy of initial stock of resources and capabilities (Collis, 1996).

In business there are countless skills acquired through years of specialization and experience; these provide guiding tools in the enhancement of a specific business activity (Grant, 1996). In this sense, business innovation capacity represents the synergy that results from achieving sustainable competitive advantage from heterogeneous competencies, skills and resources (Pitelis and Teece, 2010; Mehrabani and Shajari, 2012).

3.2 Key Factors of Business Innovation Capacity

Business innovation depends on two key factors; dynamic and supporting factors. Dynamic facilitators allow innovation to emerge within the organization, while supporting factors facilitate its occurrence and consent sustainability (Grant, 2013). The dynamic synergy of these factors is crucial when evaluating the possibility of starting an innovative project.

Key Dynamic Factors

The factors that reinforce the occurrence of innovation are: creativity, culture and change. However, these factors alone do not generate innovative capacity, if not aligned with a strategic action plan. Therefore, business innovation capability is derived from other capabilities, such as:

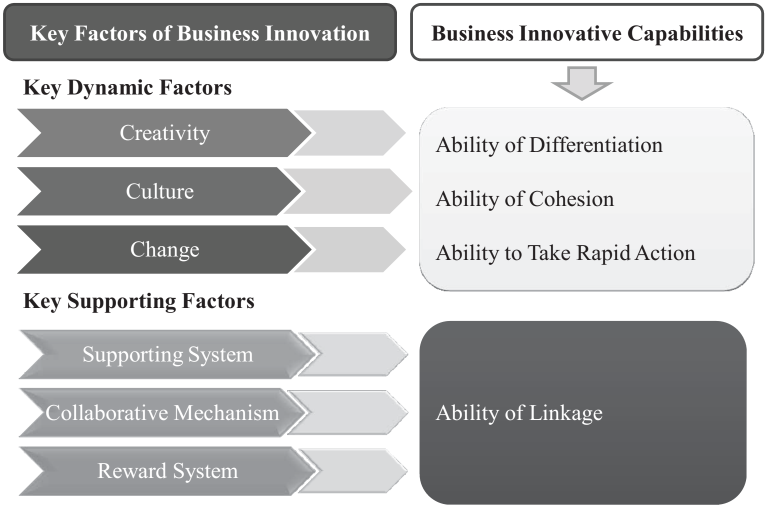
a) The ability of differentiation as a direct result of creativity.
b) The ability of cohesion based on a corporate culture.
c) The ability to act as a result of a process of change.

Key Supporting Factors

The mere desire for change or search for a position of competitive advantage does not ensure innovation (Dolata, 2014). It requires certain supporting elements including the configuration of coordinated mechanisms that promote collaborative working projects, as well as the provision of compensation to employees that generate economic benefits through innovation (Blayse and Manley, 2004). Furthermore, it requires the synergy of activities that underpin innovation and creation of a distinctive expertise.

Figure 1 shows key factors of business innovation (dynamic and supporting factors) that generate business innovation capabilities and illustrates the relationship between them.

Figure 1: Key Factors of Business Innovation Capacity



Source: Own elaboration

3.3 The Dynamics between Key Dynamic and Key Supporting Factors

From the key dynamic and supporting factors, a firm develops its distinctive capabilities to promote innovation in business. In the context of innovation based on model-building the key dynamic and supporting factors represent dynamic bilateral relations.

The Dynamics between Creativity and Key Supporting Factors

The dynamics between creativity and the *supporting system* are generated as a result of an established process of creativeness in the firm. The supporting system should encourage creative proposals and support the implementation of such proposals. Constraints to creativity can result from highly structured and inflexible processes. A low creative ability is unlikely to exceed inflexible processes. A high creative ability, on the other hand, allows the mechanisms to overcome inflexibility (Rasmussen, 2014).

The dynamics between creativity and the *collaborative mechanism* are generated from the necessity of teamwork to develop spaces for creativity. Organic structures and horizontal collaborative networks enable the development of creativity (Jacobs, 2013).

The dynamics between creativity and the *reward system* are generated as a result of the policy implementation for rewarding employees for their performance in the organization (Dolata, 2014). Such a policy should also embrace a philosophy that sets values and principles relating how employees will be valued. Such strategy may not contemplate any monetary plan, but instead underpin the employee's contribution.

The Dynamics between Change and Key Supporting Factors

The dynamics between change and the *supporting system* are established to reduce the variability of the action of collaborators (employees) in a specific task, so that firms support their routine actions in structured manner (Rasmussen, 2014). Periodic reviews of the supporting system allow management to incorporate transformation, especially in its dimension of convergent change (Hecker, 2012).

The supporting system through *collaborative mechanism* sustains the implementation of change by establishing new patterns of work organization and ensuring the sustainability of change in the future (Flores, 2014). The redesign of the structure is an option to establish new working parameters according to trends and external development, however, collaborators (employees) might resist. Therefore, vertical and bureaucratic structures may require major change compared to horizontal or organic structures that are more flexible.

The dynamics between change and the *reward system* do not necessarily generate monetary compensation, because change usually responds to a need that may involve new responsibilities without changing the pay scale of employees. However, the compensation system should be clear to employees and serve as a motivator for change and development.

The Dynamics between Culture and Key Supporting Factors

The dynamics with *supporting system* are generated as a result of the need for a cultural response triggered by a new variable that affects the activities of the organization (Rasmussen, 2014). The supporting system may become obsolete, if it does not respond to cultural change. Therefore, updating or developing a new supporting system will help the company to remain stable.

The dynamics between culture and the *collaborative mechanism* generate organizational culture (Jacobs, 2013). Organizational culture unites people around certain values and ideals. It also contributes to coordinate actions within the firm, while the firm's philosophy acts as a coordination mechanism. The development of a solid culture favors the generation of enriching responses that act as mechanisms of adaptation to the rapid changing business environment.

Many of the cultural patterns that occur in the firm are rooted in values and beliefs of the firm's management, resulting from the dynamics between culture and the *reward system*. The sharing of these values and beliefs with the employees allows achieving the firm's goal, while the recognition of employees' input would provide a sense of belonging. In this case, the reward is not monetary, but involves recognition of belonging to a group. Therefore, the social judgment of coworkers becomes more important than the monetary reward factor. A solid and well-developed culture generates pride among employees and favors change without greater rewards than the mere fact of belonging to the organization.

4. The Innovation Generating Model

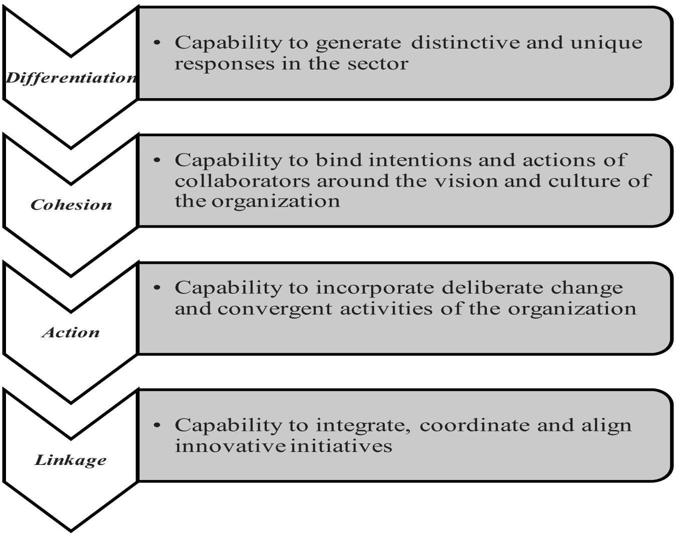
It was noted above that organizational capabilities provide companies with certain distinctive features based on know-how, competitiveness and effectiveness, allowing organizations to achieve cohesive resources to accomplish competitive advantage (Zahra and George, 2002; Grant, 2013). The accumulated expertise leads to elements of differentiation in the performance of organizations, and provides the ability to create a sustainable competitive advantage (Flores, 2011). Therefore, key dynamic and supporting factors generate a series of organizational capabilities that support the development of entrepreneurial innovation capacity. These are for instance:

a) The ability of differentiation generates distinctive and unique proposals.
b) The ability of cohesion leads to harmonized behavior during the process of change and adjustment to new environmental conditions.

c) The ability to take rapid action in a competitive environment, allows the organization to incorporate immediately required changes.
d) The ability of linkage supports the coordination of activities and processes within the company.

The innovation generating model is based on the synergistic result of interaction of four organizational capabilities: differentiation, cohesion, action and linkage (see Figure 2). The effect of the synergistic result is known as business innovative capacity, which is the ability of the organization to propose, implement and materialize innovative initiatives. The origin of each organizational capability is associated with key facilitators and supporting factors. Therefore, the task of corporate management is twofold. Firstly, ensure that the key factors become organizational skills, for which an evaluation of each key factor is required. Secondly, attain the highest possible synergistic effect of the interrelationship of these capabilities.

Figure 2: Organizational Capabilities for the Development of Innovation



Source: Own elaboration

4.1 Differentiation Capability

The differentiation capability has the capacity to generate distinctive and unique responses to the market, as well as to the internal environment. Differentiation is developed by fostering internal creativity. Therefore, developing creative environments in organizations requires inclusive, organic and communicative models. These in turn, allows the culture of the organization to strengthen by developing feelings of belonging among employees and involving work teams to create sustainable innovation processes. However, the outcome of creative proposals and their implementation entails the incorporation of convergent change processes that will further guarantee positive results. Consequently, change processes will have an impact on job design and reward mechanisms. The latter, does not necessarily mean monetary reward, but recognition and acknowledgement that may involve new responsibilities without modification of wages or a new career path. The non-monetary rewards are means of generating internal employee value. The compensation system requires managerial support to achieve sustainability.

4.2 Cohesion Capability

The capacity of cohesion facilitates the implementation of innovative initiatives and new cultural elements, binding goals, vision, values and beliefs promoted by the firm's management. Given the importance of corporate culture in the development of innovation, it is of utmost important for the process of organizational change. This capability also leads to an enrichment of the existing corporate culture, which allows developing organizational capacity to cope with unforeseen environmental changes.

As a result of incorporating the capacity of cohesion in an organization, business innovation is mainly advanced by:

a) The organizational learning that takes place in the process of solving key situations.
b) An endogenous mechanism that deploys a cultural response to learn.
c) The ability to identify certain elements that favor the development of corporate innovation, and the consequences from the providing distinctive quality corporate culture.

Therefore, the ability of cohesion promotes the development and implementation of innovative initiatives in the organization due to internal dynamics and endogenous mutation process. It also allows a favorable cultural climate that incorporates all employees in the development of innovative initiatives.

4.3 Action Capability

Every business innovation contributes to an organization by enabling the implementation of a convergent process of change. Therefore, organizations have to be prepared to take actions in order to develop a distinctive expertise. Action capabilities are based on the change process that has purposefully been implemented by the organization. The need to incorporate elements of change has its origins either in the minimization of risk or in the differentiation of the outcome. A convergent process of change is accomplished through the learning process system that ensures creation, development and maintenance of accumulated knowledge at collective and individual levels (Seybold, 2006). The result of the synergy generated by the action capability, updates, enhances and combines the accumulated knowledge in an organization. This establishes new routines that allow the organization to solve unforeseen problems and achieve differentiation. Therefore, action capability supports the development and implementation of innovative initiatives in an organization, incorporating elements of change in order to minimize risk or create distinctive results (Flores, 2011).

4.4 Linkage Capability

The capacity of linkage favors the integration, coordination and alignment of innovative initiatives. It is also able to develop and implement innovation through the incorporation of flexible processes, organizational knowledge and collaboration (internal and external). It also allows identifying distinctive resources and skills, especially intangible assets that differentiate the performance of the organization. This capacity enables to establish:

a) Supporting systems that facilitate the encoding, protection and accumulation of organizational knowledge.
b) Formation of collaborative mechanisms that foster coordination and flexibility.

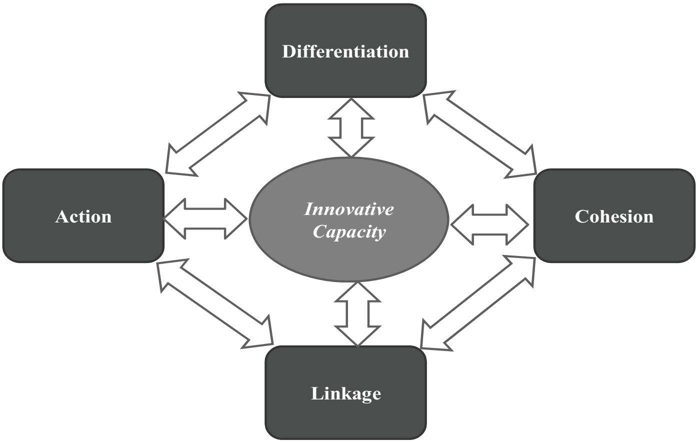
c) Rewarding systems that engender motivation and belonging as a result of incorporating elements of creativity and change.

5. Synergy of Capabilities: the essence of innovation capacity

Once the organizational capabilities have been analyzed, results obtained from the synergy of combined capabilities have to be identified (Jacobs, 2013). This synergy basically refers to the generation of unique attributes in the firm's performance, engendering competitive advantage for the organization (Mie and Teece, 2009). This process also assists in identifying intangible relationships that have contributed to the formation of added value. Results provide basic criteria to guide the organizational effort towards the implementation of innovative initiatives (Flores, 2011).

Figure 3 illustrates the dynamics of innovation as a process based on a capability model. It ensures that the process is carried out systematically and sustainably. The four determinants of competitive advantages stated below (differentiation, cohesion, action and linkage) create a favorable environment for innovation in a firm.

Figure 3: The Dynamics of the Capability Model for Innovation



Source: Own elaboration

The dynamics of the Capability Model for Innovation are based on interrelationships of the four capabilities that act together to generate

competitive advantage. However, at the core of the dynamics is the firm's innovative capacity that determines the nature of competition.
The interrelationships are the following:

a) Interrelationships from Differentiation Capability. The connection between differentiation capability and the other three capacities generates collaborative openings to implement innovative initiatives, provide room to find opportunities from customers (mechanism for generation and validation of ideas), and provide greater opportunities for creative proposals.
b) Interrelations from Cohesion Capability. The interconnection between the cohesion capability and the other three capacities facilities provides criteria and margins for creative proposals, greater benefits in the process of endogenous knowledge generation with rapid and distinctive attributes. It should also provide better criteria to create a different and peculiar structure.
c) Interrelations from Action Capability. The interconnection between the action capability and the other three capacities provides greater ability to present creative ideas. It also offers greater ability to incorporate change in key convergent situations, and provides elements that contribute to the coordination of employees' tasks.
d) Interrelations from Linkage Capability. The interconnection between the linkage capability and the other three capacities provides necessary conditions to stimulate creativity and innovation. It also endows better results by promoting criteria that encourage horizontal relationships among staff. Furthermore, it provides a greater benefit to transform individual knowledge into collective knowledge.

Table 1 summarizes the synergistic effects of business innovation capabilities. The correlation among the four capabilities generates additional added values.

Table 1: Synergistic effect of business innovation capacity in realizing organizational business innovation

→	ORGANIZATIONAL CAPABILITIES TO ENHANCE BUSINESS INNOVATION			
↓	DIFFERENTIATION	COHESION	ACTION	LINKAGE
CAPABILITY OF DIFFERENTIATION: Ability to generate distinctive and unique responses in the sector		The values and beliefs as framework for divergent thinking. **ADDED VALUE:** *"Provides the criteria and margins for creative proposals"*	Intentionality to favor creative initiatives and incorporate divergent thinking. **ADDED VALUE:** *"Provides greater ability to present creative ideas"*	Organizational support and reward mechanisms that stimulate the development of creative proposals. **ADDED VALUE:** *"Provides the conditions necessary for the stimulus to creativity and innovation"*
CAPABILITY OF COHESION: Ability to bind intentions and actions of collaborators around the vision, values and beliefs of the company.	Teamwork and a sense of belonging encourage creative proposals. **ADDED VALUE:** *"Provides collaborative meeting spaces to implement innovative initiatives"*		•Incorporation process of change in the organization. •Combination of accumulated knowledge, collective and individual. **ADDED VALUE:** *"Provides greater ability to incorporate key situations convergent change"*	• Lateral coordination tasks. • Collaborative relations. • Flexibility. • Reward systems. **ADDED VALUE:** *"Provides better results by promoting aspects and criteria that encourage and narrow horizontal relationships between staff"*
CAPABILITY OF ACTION: Ability to incorporate deliberate and convergent change routines and activities of the organization.	Organizational change is viable by convergent mechanisms involving all employees. **ADDED VALUE:** *"Provides space for finding opportunities and mechanism for knowledge generation and validation of new ideas"*	• Heterogeneity of cultural components. • Cultural response. **ADDED VALUE:** *"Provides a greater benefit in the process of endogenous knowledge generation, with rapid and distinctive and inimitable attributes"*		Criteria for flexibility, cooperation and information systems needed to create and manage knowledge. **ADDED VALUE:** *"Provides a greater benefit to transform individual knowledge into collective knowledge"*
CAPABILITY OF LINKAGE: Ability to integrate, coordinate and align innovation initiatives proposed by reviewers.	Divergent thinking is supported by collaborative and horizontal schemes to make creative proposals. **ADDED VALUE:** *"Provides greater opportunities for creative proposals and serves as basis for innovative initiatives"*	• Process creation and combining knowledge. • Mastery of a specific and unique expertise. **ADDED VALUE:** *"Provides better criteria to create a different and peculiar structure"*	Uniform cultural response pattern formalizing and predetermining the behavior in the organization to convergent change processes. **ADDED VALUE:** *"Provides elements that contribute to the coordination of personnel and organizational aims"*	

Source: Own elaboration

6. Conclusions

The topic of innovation in the business world has evolved very rapidly in the past decades. Currently, innovation is considered the cornerstone of business development. From the business perspective, innovation is the result of an internal process. Innovation provides to firms opportunities for differentiation from competing firms. In this sense, innovation is the outcome of an internal process that seeks to renew business performance. Such a process is established on organizational capacities, creation and improvement of products or services, and the implementation of a business model for innovation. The business innovation process mainly includes three actions. First of all, it involves the intent to incorporate organizational change. Secondly, it entails the renewal of business performance, involving the search for superior and distinctive results. Finally, it requires marked reorientation of business performance; reorientation has to be based on the availability of resources and capabilities of the organization.

The ability to innovate in the business world is based on the synergy of firms' capabilities. Nonetheless, the decision-makers play a key role in this process. The strategic business manager that seeks to develop a competitive edge over industrial competitors establishes a model that generates a synergistic effect based on a set of dynamic organizational capabilities. The model takes into account external influences from the sector in which the firm operates, as well as the technological factors and market conditions. The strategic business manager should also stimulate the development of soft skills that engender additional elements of differentiation, endorsing organic growth. Therefore, investment in human capital is the basis for sustainable business innovation.

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Chapter Ten

Ethics as the Component of Human Resource Management in Retailing

Sanda Renko

1. Introduction

In order to face today's challenges of a changing retail environment and to obtain the competitive advantage on the market, retailers are forced to undertake the responsible activities that go beyond the profitability, focusing on goals such as more loyal customers, more motivated staff, responsibility to the community and society, etc. Issues like environmentally friendly consumption, health issues, ethical food, fair global trade, union and human rights, environment, and global warming confront retailers with "right" – or – "wrong" types of decisions (Nygaard and Biong, 2010, p. 101).

As image has increased its role in the creation of company's strategy, it is obvious that during the past few years ethics and ethical behaviour are gaining their importance within the retailing. Moreover, discussions of corporate values and ethics have been popular in the last few decades. As they are often interchangeable, concepts such as corporate social responsibility or sustainable development also arise when studying the ethics of retailers (Gendron, 2004). Hogan (2005) notes that "there can be little doubt that we are living in what Smith (1995) describes as the "ethics era", at a time when ethics as an issue appears to be on most companies' boardroom agendas" (p. 385). Organizations have increasingly asked employees to sign ethics statements to confirm their agreement with the company's core values (Sharma et al., 2009, p. 252). It is vitally important to note that retailing, as mostly service-oriented industry and the part of the distribution channel, comprehends all of the business activities relating to selling goods and services directly to ultimate consumers (Kent and Omar, 2003, p. 8). Retailing companies are in unique position to have relationships with suppliers, wholesalers, distributors, community, other partners and customers as well. Accepting the code of business ethics, retailers accept the obligation to act in compliance with the criteria of responsibility, truthfulness, efficiency, transparency, quality, good faith and observance of fair business practices towards business partners, business and social environment and own employees. They are no longer working to convey the image of their suppliers' products, but are seeking to forge their own image and establish their position with regard to their competitors (Fady and Pontier, 1999).

However, many retail managers appear to struggle to get to grips with ethics (Hogan, 2005, p. 385), as they are not quite sure of the importance of fitting ethical responsibilities into their day-to-day business practices. The relationships between ethics and organizational/employees' outcomes have been important issues in advancing knowledge in HR management (Koonmee et al., 2010). Jose and Thibodeaux (1999) found out that business managers perceived ethics to be good for the bottom line of organizations and that ethics and business could coexist.

Following this introduction, the chapter begins with a review of the relevant literature regarding ethics in human resource management. The main purpose of the chapter is to shed light on the interrelationships between ethics and human resource management in the context of retailing. In order to clarify the application of ethics to human resource management in retailing, it has been explored in the grocery retailing of the Republic of Croatia. Croatia is the Southeast European country with modern retailing forms (supermarkets, hypermarkets and discounters) which accounted for 76 per cent of grocery sales in 2011 (Nielsen Q1 Reports, 2012). Top 10 retailers hold almost 80 per cent of the Croatian market, similar to the situation on the markets of the developed Central and East European countries. Relying on the study conducted on the sample of retail companies operating in grocery retailing on the Croatian market, the chapter considers key areas in human resource management and related ethical behaviour. Finally, the paper discusses the theoretical and managerial implications, including the limitations of the study and directions for future research.

2. Theoretical background

In this section, the ethical nature of human resource management is discussed. Moreover, key functional areas, associated with effective human resource management, with specific attention devoted to ethics are explained. In such a way, a comprehensive framework necessary for understanding the link between ethics and ethical behaviour within human resource management in retailing is provided.

2.1 Ethics in the business environment

There is the diversity in the definition of ethics as the concept of values and morals, making sense of, or a quest for understanding of, a diverse range of emotions and human interactions (Svensson and Wood, 2003). According to Newman and Cullen (2002, p. 173), ethical issues are strong determinants of store patronage. The same observation was found in the work of Singhapakdi (1999), who suggested that over time consumers recognized companies which attempted to behave ethically. Pettijohn et al. (2008, p. 547) note that "over the past few years, it seems that the business sections of many city newspapers and business publications have been dominated by stories concerning unethical business actions".

Ethics (or moral philosophy) deals with individual character and the moral rules that govern and limit our conduct (Shaw, 2014, p. 3). Ethics and morality are terms that are often interchangeably in discussions of good and evil (Rose, 2007). Ethics investigates questions of right and wrong, duty and obligation, and moral responsibility. Business ethics is the study of what constitutes right and wrong, or good and bad, human conduct in a business context (Shaw, 2014, p. 4).

Previous researches (Bergeron, 2007; Schwepker, 2003; Sharma et al., 2009) indicate a positive relationship between an individual' ethics and performance. They conclude that positive employee perception of top management's value and beliefs are leading to higher performance outcomes and that employees that perceive high balance between an organization's ethical values and their own are feeling more motivated.

One of the major characteristics of an organization is shared acceptance of organizational norms and rules by its members. In dealing with their constituencies (customer, the general public, employees, suppliers, competitors, and others), retailers have a moral obligation to act ethically. Due to the media attention paid to firms' behaviour and the high expectations people have today, a failure to be ethical may lead to adverse publicity, lawsuits, the loss of customers, and a lack of self-respect among employees (Berman and Evans, 2010). Literature (e.g. Koonmee et al., 2010; Valentine and Fleischman, 2008) points out that due to increasing ethical problems in recent years, many business organizations have established ethics programs (codes of ethics, policy manuals, ethics seminars, internal control systems, etc.) to help improve ethical behaviour and/or to help prevent ethical problems among their employees.

Business ethics are critical factors from a manager's perspective (Pettijohn et al., 2008, p. 548). Accordingly, Chonko et al. (2002) draw the conclusion that the ethical behaviour of a business is critical managerial problem and management should have a leading role in promoting ethical behaviour.

2.2 Ethics and human resource management in retailing

Human resource management involves recruiting, selecting, training, compensating, and supervising personnel in a manner consistent with the retailer's organization structure and strategy mix (Berman and Evans, 2010, p. 319). It is a business function that is concerned with managing relations between groups of people in their capacity as employees, employers and managers (Rose, 2007). According to Mondy (2010, p. 4), human resource management is the utilization of individuals to achieve organizational objectives. Its primary objective is to build a basis for a sustainable competitive advantage. Reddy and Suresh (2011, p. 523) define human resource management practices as a primary means for defining, communicating and rewarding desired role behaviour.

Retailers face a human resource environment characterized by a large number of inexperienced workers, long working hours, highly visible employees, a diverse workforce, many part-time workers, and variable customer demand. These factors complicate employee hiring, staffing, and supervision. The fact is that, human resource management is particularly important in retailing because employees play a major role in performing its critical business functions (Levy and Weitz, 2012, p. 219). Retailers rely on people to perform the basic retailing activities, such as buying, displaying merchandise, and providing service to customers. The experience that most customers have with a retailer is determined by the activities of employees who select merchandise, provide information and assistance, and stock displays and shelves. Thus, employees can play a major role in differentiating a retailer's offering from its competitor's. However, Dessler (2009, p. 11) drew attention to one of the challenges human management face today, relating to human resource management's priorities, which have been increasingly focused on reducing costs and improving employee performance.

Taking into the consideration that retailing plays a vital role in the economy (Sarma, 2007) by presenting the first link in the distribution channel; it is interesting that Pretious and Love (2006) noted relatively little academic literature which examined ethics in a retail context. Among them, there are worth mentioning works of Whysall (1998, 2000) which have raised the question about ethical retailing. Whysall (1998) suggests that the definition of ethical retailing is open to variations in interpretation, and it should not focus merely on adopting ethical trading practices in selling situations, but on wide range of interactions with groups and organizations with which a retailer may be simultaneously involved. In such a way, ethical retailing considers ethical relations between retailer and suppliers and customers, and interactions with managers, employees, local communities, competitors, etc. In their study, Pretious and Love (2006) identified the ethical issues confronted by retail buying personnel "in the field" in particular how purchasing codes of conduct affect management attitudes and the extent to which they offer solutions to ethical problems. Nygaard and Biong (2010) analyse how various sources of social power affect corporate ethical values, retailer's commitment to the retail organization, and ultimately sales and service quality. Roman and Cuestas (2008) and Roman (2007) focused on an under-researched area, and examined the conceptualization and measurement of online retail ethics from the consumers' perspective.

In retailing companies, dysfunctional and unethical problems, such as free riding on the system's brand reputation, are major concerns (Kidwell et al., 2007). Sarma (2007) investigates the ethical practices of retailers and the ethical beliefs of retail sales force. Weaver et al. (1999) suggest that ethics could be used in conceiving the company's control systems aiming at standardizing employee behaviour. Demuijnck (2009) and Grisaffe and Jaramillo (2007) are discussing about ethical codes and ethical programs introduced by retailers as a response to external stakeholders' negative reactions to potential unethical behaviour. Ingram et al. (2007) also investigate how ethical codes could enhance ethical decision making and behaviour in retailing. Chonko and Burnett (1983) were among the first researchers who suggested that a great deal of subjective judgment existed concerning the propensity of salespeople to engage in unethical behaviour

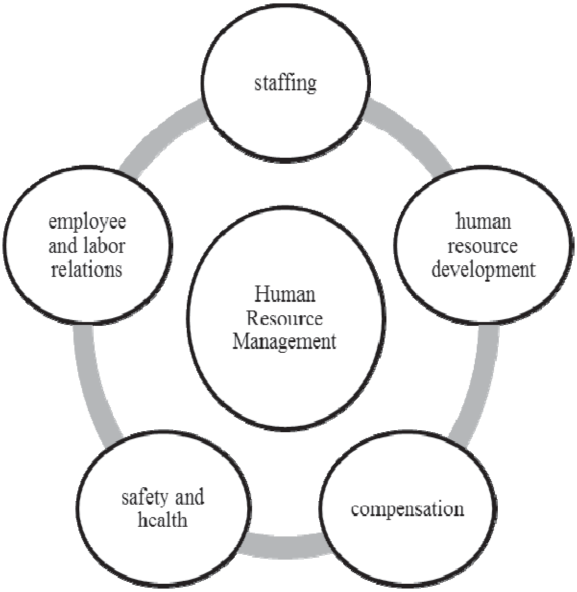
According to their ethical positioning Gatfaoui and Lavorata (2001) classified retailers into two categories: 1) retailers who only engage in fair trade business and retailers, that have adopted an ethical strategy, and 2) conventional retailers, which deploy ethical actions. Dubinsky et al. (2004) examine the impact of retail salespersons' moral philosophy on their perceptions of situations that are potentially ethically troublesome.

McClaren (2000) gave a brief review of early researches on ethics in retailing, pointing out the worth mentioning works of Dornoff and Tankersley (1975-1976) and Levy and Dubinsky (1983) who investigated how retail management might formulate guidelines for ethical conduct.

Additionally, there is an investigation of ethical beliefs by Dubinsky and Levy (1985) who concluded that giving incorrect change, misinforming customers, etc. were seen as unethical by retail salespeople. The same work has ascertained that retail salespersons do not appear to be particularly concerned about ethically troublesome situations they face in their sales positions. Dubinsky et al. (2004) conclude that much of the empirical works on ethics in selling have focused on ethics in industrial sales comparing to the interests in ethics in retail selling.

2.3 Functional areas of human resource management in retailing

Figure 1 Five functional areas of human resource management in retailing



Source: Mondy, 2010, p. 5.

As a framework for examining the link between ethics and human resource management explored by various authors from various approaches (explained above) , we use the modified version of Mondy (2010) approach and his five functional areas associated with effective human resource management: staffing, human resource development, compensation, safety and health, and employee and labour relations (Figure 1). This framework is used in exploring the ethics nature of human resource management in the context of retailing, too. What follows is a short discussion of functional areas.

2.4 Staffing

Mondy (2010, p. 5) defines staffing as the process through which an organization ensures that it always has the proper number of employees with appropriate skills in the right jobs, at the right time, to achieve organizational objectives. This process is described by Dessler (2009, p. 65) through the terms of job analysis, job descriptions and job specifications. The changing market demands require frequent change of strategies in the human resource sectors. This helps human resource management to plan employees' number and educational level for the varying seasons. As retail industry has a very large amount of employees and provides a range of services to its customers, employees present its major source of competitive advantage. Moreover, employees are an important part of the image of a retail organization (Newman and Cullen, 2002, p. 398). They are in many cases a reflection of the retailer. The key to maintaining high standards of customer service is highly committed staff. Committed employees are more motivated to assist the retailer in achieving its goals. Staffs that enjoy their job have a high level of job satisfaction. Hiring „the right number of the right kind of people, providing them with clear job description and giving them appropriate training in customer service, can improve customer service and job satisfaction among employees. A contented workforce will deliver better customer service. On the other hand, nowadays there is the trend in retailing that in order to control costs; retailers often hire people with little or no experience. The lack of experience and motivation among many retail employees is particularly troublesome because these employees are often in direct contact with customers.

Conclusively, the retail human resource environment has its special features: a large number of inexperienced workers, long hours, highly visible employees, many part-time workers, and variations in customer demand (Saaty and Qureshi, 2012). Those features create difficulties to retailers and raise specific issues in human resource management practices. Those practices should be effective in order to hire and retain competent employees and to develop their competencies. Numerous entities have strived to create a viable selection process where the involved firms provide an equal opportunity milieu for all prospective employees (Van den Bossche et al., 2010). Some companies undertake employee selection through consultants mandated to embrace such services. Such companies might use various criteria including advertisement of the concerned vacancies, separating applicants, aptitude tests, interviews, and the final selection for the organization's management to verify (Nankervis et al., 2009). Researches (McClaren, 2000) suggest that employees' education is an important factor in the process of salesperson's ethical decision making, but they did not prove the relationship between the level of education and professionalism of salespersons and the level of ethical behaviour.

2.5 Employee and labour relations

As retailing characterizes a large number of inexperienced and part-time workers, it is important to evaluate the effect of the perception of companies' ethical behaviour on its employees. In the area of labour relations, the reasons why employees join labour unions are included. Unions look for arbitrary or unfair management decisions and then emphasize the advantages of union membership as a means of solving these problems (Mondy, 2010, p. 375). Employees are concerned with their job security, they want their compensation to be fair and equitable and want to feel that they are immigrant for their company. Deakin and Njoya (2007) have considered measures aimed at enhancing opportunities for temporary and part-time work at the same time, as entrenching a principle of equality of treatment between these forms of work and full-time, long-term employment, and recognition at EU level of a wider principle of non-discrimination in employment. Throughout many years a lot of argumentative issues are being discussed within the frames of the employee's rights, requirements of international organizations, social conditions of employees; labour freedom, investor interests, etc. Employment law requires a balancing of the interests of employers and employees, with proper regard not only to the individual dignity and worth of the employees but also to the general economic interest'. If we analyse the literature of human resource management where the practice of effective human resource management are reviewed and analysed in details, we can conclude that the employee and the employer are not antagonists but only the labour relation participants united by the common goals. The interaction and relations between an employee and an employer in contemporary progressive organizations, and the effective human resource management is supported by the existence of the Labour Code (the single document regulating labour relations). However, that means more than just hanging the codes-of-conduct posters on walls (Mondy, 2010, p. 36).

2.6 Human resource development

Employee retention and motivation of staff has become the major concern for HR department in the organized retailing sector. Jaramillo et al. (2006) show that the employer's ethical climate, as perceived by its sales force, affects the salesperson's level of job satisfaction. Employees who feel positive about the ethical behaviour related to the business environment in which they work, would also have positive feelings of job satisfaction and could affect consumers' satisfaction and loyalty as well. Requiring sales employees to engage in coercive sales tactics, which the salesperson may feel as unethical, can lead to lower performance, decreased job satisfaction, etc. (McFarland, 2003). According to Shaw (2005), work environment can be considered ethical and productive only if managers have trust and confidence in their employees. Employees' work attitudes and employees' ethics are important considerations in the work environment, so retail companies should dedicate their time and resources to properly manage employees' career satisfaction. Employee believes that ethical companies tend to develop work situations that precipitate and sustain fulfilling careers.

The company's ethical values can be cultivated by corporate programs and ethics training guided by experts, incorporating the company's ethical values and standards, and participative exercises from employees (Valentine, 2009). Training can perform a role in reducing ethical conflicts (McClaren, 2000, p. 289). Moreover, increased amounts of training in ethics should allow managers to more clearly articulate corporate rules and codes, and produce some benefits as their employees use such rules and codes in forming their own ethical values.

The need for a well-designed human resource practices are greatly needed for proper training to the newly recruited people to the retail organization. Providing training to the sales staff plays a significant role in every business operation.

2.7 Safety and health

Safety and health functional area focuses on protecting employees from injuries caused by work-related accidents, and employees' freedom from physical or emotional illness. Shaw (2014) considers the right to privacy, the need for maintaining an acceptable work-family balance, and health and safety needs as significant ethical concern in the work environment. Problems in the area of safety and health can seriously affect a worker's productivity and quality of work life, and consequently lower company's effectiveness and employee morale (Mondy, 2010, p. 341). Koonmee et al. (2010) found the association between institutionalization of ethics (whether through codes of ethics, policy manuals, corporate culture, etc.) and quality of work life, measured in terms of the Sirgy et al. (2001) seven dimensions of employees' needs ((1) health and safety needs – protection from ill health and injury at work; (2) economic and family needs – pay, job and security; (3) social needs – collegiality at work; (4) esteem needs – recognition and appreciation of work within and outside the organization; (5) actualization needs – realization of one's own potential within the company; (6) knowledge needs – learning to improve skills; and (7) aesthetic needs – creativity at work).

Some common benefits evident in most organizations entail health insurance, retirement benefits, and issuance of company shares among others. This benefits' package operates independently, but as a complement to the base compensations and incentives given to employees (Gomez-Mejia and Balkin, 1992).

2.8 Compensation

The simple definition of compensation is that it includes total of rewards that are provided to employees in return for their services (Mondy, 2010, p. 7). Compensations are all forms of financial returns and tangible services and benefits employees receive as part of an employment relationship (Milkovich and Newman 1999). Organizations use attractive compensation schemes to attract and retain potential employees. It is evident that the industry employs both skilled and unskilled workers hence creating the disparities noticed in the compensation margins (Michel and Chênevert, 2008).

Researches (Mulki et al., 2006; Weeks et al., 2006, etc.) have shown that companies' ethical climate has significant impact on salesperson turnover intentions, and low level of employer ethics vis a vis the salesperson's, will result in lower levels of organizational commitment and higher levels of turnover intentions. Ethical culture, developed in an organization, is derived from people's values, policies and activities (Koonmee et al., 2010) and companies, with an environment created in accordance to employees' ethics values and policies have experienced, at the same time, positive work attitudes among their employees and company commitment, as well.

Company's ethics could lead to positive work attitudes among employees (Singhapakdi and Vitell, 2007) and might influence career satisfaction because employees are more attracted to and more committed to ethical organization (Trevino and Nelson, 2007). Valentine et al. (2011) suppose that perceived corporate ethical values have a much broader impact on employees' job responses, making ethical practices a key consideration in the management of employees' careers. Based on research using a national sample of US sales managers Bellizzi (1995) concluded that unethical behaviour was related to the method for awarding sales force incentives. There is the strong impact of reward power on ethical decision (Nygaard and Biong, 2010). Managers often function as ethical role models and can inspire employees to perform ethically through social exchanges (Valentine, 2009).

3. Methodology

For the purpose of this chapter, a research study examining the retail employees satisfaction on the various human resource practices employed in their retail companies was presented. As research instrument follows previously formulated conceptual framework, some ethical considerations in the investigated area were observed as well. Namely, it is important that corporate executives (especially those who work in human resource management) understand practices that are unacceptable and ensure that all employees behave ethically in doing their jobs and dealing with others. Following the research of Pettijohn et al. (2008), retailers were identified as the sample of interest for this research. By virtue of their positions, retailers face many of the ethical challenges related to their employees, suppliers, consumers, society, etc.

To maintain as much homogeneity in the sample as possible, 12 retail companies operating in grocery retailing on the Croatian market were identified as potential study participants. The decision to conduct study on the Croatian retail market was mostly induced by the fact that it is a dynamic and increasing market with modern retailing forms (supermarkets, hypermarkets and discounters), and it is characterized by similarities as the markets of the developed Central and East European countries.

Pre-survey telephone calls were made at each company to identify whether they would be prepared to participate in the survey and to distribute the questionnaire to the group of 20 employees. With regard to the job functions of personnel involved, all respondents were retail sales people in supermarket formats of participating retail companies. A self-administered questionnaire was used as the data-collection technique for this study. The questionnaire consisted of two parts. Part I of the research instrument included 16 statements related to five functional areas of human resource management in retailing. The statements were adopted from Pettijohn et al. (2008) and Valentine et al. (2011). A five-point Likert-type scale (from 5=strongly agree to 1=strongly disagree) was used to investigate attitudes of respondents related to ethical practices in their companies. Part II of the questionnaire focused on areas such as gender, age, general education level of the employees, and the level of experience of the employees (results are shown in Table 1). Also, anonymity and confidentiality of the responses in the introduction of the questionnaire were stressed. The questionnaire was originally developed into English and translated into Croatian for high response rate.

The data collected questionnaire from the respondents was analysed by SPSS software. Statistical tools used were percentages, and Chi-square test.

4. Results and discussion

According to the results in Table 1, the sample mostly consists of female respondents (77 percent of respondents). 50 percent of the respondents were aged between 25 and 34, and 20 percent were between 35 and 44 years. As regards the level of education, 60 percent of the respondents had three years to high school level education. Those results are in accordance with the results of Saaty and Qureshi (2012) who conducted the research on the retail market of Saudi Arabia. As we suppose that sale employees have experienced ethics more specifically depending on their working experience, those results were especially important for further analysis. As indicated in the table, a slight majority of respondents characterizes less working experience in retailing. The possible explanation lies in the fact that some of selected retail companies have recently opened new locations and distributed questionnaires to some of those new stores.

The analysis of the human resource practices (across five functional areas of human resource management) of selected retail companies suggests that in some statements respondents' perception about the ethical behaviours of their company differs a lot (Table 2).

Table 1: Respondents' profile

Item	*Percentage*
Gender	
Female	77
Male	23
Age (Years)	
18-24	17
25-34	50
35-44	20
45-54	13
55-64	0
65+	0
Education	
Elementary	0
3 years-High school	60
Secondary/High	13
College/University	27
Business experience	
1-5 years	37
6-10 years	30
11-15 years	13
16-20 years	13
21-25 years	0
More than 25 years	7

Table 2: Ethical behaviour in HRM areas

Areas in HRM	*Item*	*Percentage*
Staffing	using processes in selecting employees	36
	ensuring the proper number of skilled employees	38
	planning the proper number of employees by seasons	28
	avoiding overwork hours	24

Employee & labour relations	no discrimination on work by a supervisor no discrimination on work by colleagues no disparate treatment of women in their career development the level of knowledge of Labour Code	99 73 41 73
Human resource development	interest in the professional development of employees continuity in training and development of employees	30 27
Safety & health	regular working hours/ no overwork hours concerns for positive work environment and good team commitment enough breaks during work-time	47 46 20
Compensation	adequate compensation and benefits practices encouraged employees to give their ideas and suggestions fair basis for compensation and benefit practices among employees	50 22 40

As Table 2 shows, respondents are not convinced in ethics of the company's personnel planning and recruitment process. Only moderate percentage of them (36 percent) believes that retail companies use practices regarding selection processes like interviews, tests, group discussions, etc. It is strongly related to the actual post-transition period of the Republic of Croatia with still existing high level of corruption in the process of recruiting job candidates. This is in line with Nowak (2001) who provided a structural framework for discussing corruption issues in transitional economies and pointed out privatization as a potential contribution to corruption. Additionally, respondents do not consider company's job analysis effective. The largest percentage of respondents seems suspicious about their management human resource planning decisions related to the size and skills of the workforce. Hart et al. (2007) point out that retailers need to clarify the relevant skills required for specific roles, and use these as a basis for recruitment and development.

Respondents are also disappointed with their top management support in employees' training and development (only 30 percent of respondents detected interest in their professional development and training provided by their executives). As retailing technologies are constantly emerging, retailers have to be involved in the implementation of innovative business practices provided by technological innovations. This is in line with Hart et al. (2007) and their findings how reluctance to learn new skills, and keep up to date with technology, may lead to the "dinosaur" mentality referred to above and a stagnation in skills development. Thus, training and development should be in the heart of a continuous effort designed to improve employee competency and organizational performance (Mondy, 2010, p. 198). There are two positive findings concerning the compensation and benefit practices in investigated retail companies. Namely, almost half of the respondents (employees from the retail sector) seem to be satisfied with compensation and benefit practices. Human resource units consider compensation and benefits practices to ensure maximum utilization of the human capital within the industry (Pynes, 2008). At the same time, employees are not encouraged to give their ideas and suggestions to improve their companies' performance. The explanation lies in the structure of the sample consisting of grocery retailers with self-service technologies and little area for new ideas. In such retail forms, cost efficiency is the main management priority. Contrary to the findings of Wagner et al. (2008) about frequently criticizing retailers for the way they are treating their store employees, from the above table it is evident that, in some areas of human resource management, Croatian retailing sector characterizes non-discriminant behaviour and good relationships within the company.

However, there is still certain percentage of respondents who believes in disparate treatment of women in their career development. This is in line with Foster et al. (2007) and Broadbridge (2008) who reported about limits to career development for women in retailing, especially in retail managerial roles, suggesting that many women are working below their potential and that retailers are not utilising a large part of their workforce's talents to full effect. Additionally, Maruzani (2013) conducted an extensive study about the prevalence of gender discrimination in the retail industry, and showed that gender discriminatory practices in the retail business were strongly associated with women's low academic and professional qualifications, their personal preferences and patriarchal prejudices that were rampant in the labour market.

In the study on the Croatian market, workplace gender discrimination is mostly related to new mothers that are leaving the labour force and tend to return later. This is similar to Heywood's (2003) explanation that the ideology of motherhood restricts women's mobility in the workplace, and that patriarchy works in such a way that it burdens women with responsibilities to nurture and rear children. Due to extended working-hours in the Croatian retailing sector, some mothers cannot develop their working potential completely and very often they feel discriminated.

In order to find out whether some demographics characteristics (gender, age, years of business experience, the level of education) of the sample affects the retail employees satisfaction on the various human resource practices employed in their retail companies, Chi-square test was used. Chi-square test shows significant relationship between the level of education of employees and the fact that there is no discrimination on work by a supervisor ($\chi2$ = 19,099, df=4, p=0,001), neither by colleagues ($\chi2$ = 15,02 df=4, p=0,010). Moreover, there are statistically significant relationships between the length of business experience and the company's concerns for positive work environment and good team commitment ($\chi2$ = 14,431 df=3, p=0,013).

5. Limitations and directions for future research

The present paper has certainly acknowledged limitations that need to be taken into account when considering the results of the study and its contributions. More generally, as with any academic work, it is hoped that the present paper will stimulate other researchers to extend the knowledge about the application of ethics to human resource management in retailing. Foremost among these limitations is the underlying sample size. The sample captured only retail companies operating in grocery retailing with modern, self-service retailing forms (supermarkets, hypermarkets and discounters). Namely, the present study concentrates on retail formats with limited interactions with customers, as the main part of ethical issues in retailing. Therefore, further empirical research is needed in this area, with specialty stores or department stores selected as the sampling frame's source, as it was done in the work of Dubinsky et al. (2004)..

Next limitation of this study is related to research instrument, which has to be extended covering retailers' perceptions of potentially ethically troublesome retail sales situations involving customers (e.g. Abratt and Penman, 2002). Moreover, similar to Lavorata and Pontier (2005), a qualitative study to determine what retailers think of the said ethical practices, and what practices they deem relevant for retailing business strategy, can be included.

6. Conclusion and implications

Retail industry is one of the fastest growing and most competitive sectors of the economy. Retail companies can no longer rely on their market share, nor the strategy or some elements of the marketing mix. They have to build their competitive advantage and to differentiate themselves through ethical treat and responsibility to various stakeholders who have interest in the business, such as customers, business partners, suppliers, society, etc. However, surprisingly little research has addressed ethics in retailing (Chonko et al., 2002; Dubinsky et al., 2004) even though the retailers have been hit by the crisis of confidence erosion and have been gradually prompted to revise their business concepts (Lavorata and Pontier, 2005). The vast majority of earlier research on this area is conceptual in nature, and limited in scope by focusing on measurement of retail ethics from the consumers' perspective, or community initiatives (Lavorata and Pontier, 2005).

This work contributes to the literature on retail management as it has addressed and linked three important areas: retailing (as the most competitive and dynamic economic sector), human resource management (because employees' values and activities, relationships, communication skills, quality of work life, etc. are basis for ethical culture development), and ethics (since ethical issues have become strong determinants of store patronage). Sinclair (1993) points out that ethical business stems from an ethical corporate culture.

Companies that emphasize ethical values and social responsibilities tend to be more profitable than others (Pettijohn, 2008, p. 547). They tend to develop work situations that precipitate and sustain fulfilling employees' careers, thus increasing their satisfaction and commitment.The core of this work represents a quantitative survey, conducted among retail employees of retail companies which operate on the Croatian market. Findings of the survey bear two implications for retail management. First and foremost, this research provides retail management with a detailed account of which human resource practices retail employees perceived as ethical and which of them bring to a question the quality of job issues. The findings of this reserch show that retail sector in a transition economy faces similar obstacles as retail in developed countries. In such a way, the findings are consistent with the literature which supports that retailing suffers from irregular, uncontrollable, and inconvenient working hours (Zeytinoglu et al., 2004). Thus, high employee rotation (Arnold et al., 2009) and the the lack of career advancement (Hendrie, 2004) have been expected.

Furthermore, since retailing technologies are constantly emerging, retailers have to be involved in the implementation of innovative business practices provided by technological innovations. However, the results of this study did not indicate management support in employees' training and development. On the contrary, similar to Martinuzzi et al. (2011), the results showed that training was low due to the structure of the workforce, and that a large proportion of employees consisted of unskilled workers. Conclusively, to face the challenge of increasing competition that has resulted from internationalization and the growth of large number of competitive retailing formats, Croatian retailers should stop to be more conscious of costs failing to forecast staffing needs properly. The findings of this paper indicate that retailers and company managers should take under consideration that the success of retail business depends upon the way how people are managed. As Zairis (2013) suggests, this could involve more detailed job descriptions, defining specific performance evaluation criteria, and ensuring proper training in specific areas.

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CHAPTER ELEVEN

INNOVATION MANAGEMENT IN THE WINE SECTOR

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1. A History of Innovation in Wine Business: A Case of Style over Substance

The sense of history represents a very important cultural value within the wine sector. Few texts, articles, or discussions on wine fail to inspire discussions about 'time-honoured values', traditions in production or references to generations past. An unfamiliar observer on a wine discussion may even conclude that wine is merely a medium for the communication of a specific history: a place, a time, a culture.

Wine comes from a primary product - grapes. By definition, primary products are made from the raw materials provided by the local environment. Produce from primary industry can be provided directly to the final user as a product component in a tertiary industry, but is more frequently used as a constituent material in manufacturing or processing within secondary industry. This is important to note because primary industry is noted for its absence or limited contact with the final consumer.

In considering the management of innovation in the wine industry this chapter will first outline the recent history of the industry and its adoption – both positive and negative – of technological and marketing innovation. It will then examine this history in the light of our theoretical understanding of innovation adoption and management, including the structural context. It will then offer some conclusions about the reluctance of certain industry sectors to undertake a highly innovative approach, particularly beyond the area of production.

2. The Isolation of Grape Farmers

Typically, a primary producer neither interacts almost exclusively with other businesses, and has little interest in, nor experience with consumers. Consequently, the primary producer has a limited understanding of the demand and market trends that affect the business. The notable exception is a general expectation of how the volume of demand may affect his capacity to supply the market on a seasonal basis.

This absence of information on the use and preferences of final consumers makes it difficult for a primary producer to consider such ideas in planning for the coming years of production. These producers are thus tied to the need for information and advice provided by the distribution channel. Accordingly, primary producers are constrained by the conflicting interests of clients wanting to maximise their own profits, whilst being reliant on these same clients to supply market information from further down the supply chain. When modifications to market demand impact on the value of the wine producer's commercial clients, it is reasonable to query whether the producer will receive this information as and when required.

Thus outlines the challenge for wine producers. Maintaining the '*status quo'* of wine business saves the primary producer the costs of research and development. The commercial client is also saved from any need to update sales information. Thus, for a practitioner of agricultural practices, there is a natural preference for agrarian practices over commercial ability.

However, in order for the primary industry to progress, it is necessary that a strategic approach is adopted and implemented. This business practice correlates well with agricultural businesses that are successful, as they are required to plan and consider the market needs in future years (Rosairo *et al.,* 2012). As markets change over time, the wine producer that can be innovative effectively will be best placed to succeed.

3. The value of Respecting Tradition

Although the wine sector is perceived to be in a parlous state, producing surplus wine for the market, this sense of crisis has been the norm for much of the last century (Anderson & Nelgen, 2011). The situation was considered so dire in France at the turn of the 20^{th} Century that the Government stepped in to act in 1905, by beginning the process of designating the specific land boundaries that areas producing wine of quality. This identification of designated areas of land that through time had illustrated sensory characteristics unique to that area began manifesting across Europe as a system known as Appellations.

Using France as an example, despite various modifications, and legal challenges from farmers located outside regional boundaries, the Government formed a specific organisation in 1935 with the express task of regulating the administrative, judiciary and professional aspects of *appellation contrôlée* for wine production in France. This organisation, the INAO, began granting appellations to the regions best known to produce quality wine. By the end of 1938, approximately 165 distinct appellations could be used to identify wine made from these specified plots of land. This system had the effect of defending producers from the action of unscrupulous producers, and conveyed an image of reliability to the consumer. With popular AOCs attracting higher prices for wine, every producer began trying to have their own region certified.

Other European wine producing countries like Spain, Portugal, Italy and Germany implemented similar systems, based on similar criteria. With these nationally recognised systems of regulation for the location in which wine was made, grape farmers had found a system that recognised the quality of their land for viticulture, and provided them with a potential tool with which to help them conduct commerce. For the following two generations, these systems helped the wine sector prosper.

However, commercial success relies on innovation as the method in which a business develops and succeeds when markets slow down. And after almost four decades of success through the Appellation system, the end of the 1970s marked a watershed period for European vignerons. With successive generations of farmers being committed to the production of a consistent and authentic rendition of a region's history, and global markets opening up to new wine producers, how could European wine producers marry their time-honoured practices with the need to be innovative in the running of wine businesses?

4. Implementing Innovation in Wine Business

The most recent 30 years have been difficult for the wine sector. Where in the late 70s and early 80s, global wine consumption was around 30 billion litres per annum; a steady and continuous decline began with the progression of the 80s. The change was so sudden that by the end of the 1980s, global wine consumption had fallen to below 23 billion litres for the year (OIV, 2000). Whatever catalyst created this wine consumption plunge, it was neither foreseen, nor confronted by the wine sector.

Ironically, the period from the start of the 1980s through the 1990s coincided with a 'golden era' of growth, and commercial success for a number of non-European wine producers (Anderson and Nelgen, 2011). At the end of the 1980s just under 95% of the value of the global market for wine exports came from European wines. By the turn of the century, the New World had increased its contribution to global wine exports to 20% of value (Anderson and Nelgen, 2011). That is a four-fold increase in just over 10 years.

Most of the decline was from traditional wine producers in European countries. Local consumers continued to drink wine, but they were drinking less of it. Further complicating the mystery of why this period of plummeting wine consumption occurred was that the number of wine consumers actually increased (Anderson and Nelgen, 2011; Labys and Cohen, 2006). In a marketing sense, it could be labelled as the period where consumer loyalty to wine gave way to market penetration. The only growth was in the number of new consumers entering the category, thus *per capita* consumption collapsed.

Throughout this period of wine market contraction, blue-chip wine producers were unable to quell the haemorrhaging of sales in their countries' wine sectors. Although there is insufficient empirical evidence to prove why this occurred, there is a clear correlation with the growth of new wine consumers preferring New World wines to those from Europe (Anderson and Nelgen, 2011; Euromonitor, 2013). This observation begs the question of why New World wine producers were able to grow market share so easily at a time when the entire wine market was contracting.

An explanation can be derived by comparing the strategies of each region's wine sector at the time. During the 1980s, the EU was working to affect a common system of regulations for international and intra-state trade (Beeston, 1994; Berthomeau, 2002; Cawley, 1992). One of the salient challenges was that New World wine producers were trying to create their own wine sectors in an evolving global market for wine (Anderson and Nelgen, 2011; Beeston, 1994).

There was little salience for these New World regions outside their own countries, and most producers were working simply to find a way to generate recognition that their wines existed. When one recognises that farmers lived every day in their region, it would have been difficult for them to realise that others outside that region have never heard of it as a wine producing area. The first step in generating a sale is to create awareness in the mind of the consumer. With potentially limited awareness it is easy to see where the New World wine sector could have struggled with this precondition. Concurrently, European wine producers were at the top of the market. Their wines were widely known, had an impeccable reputation for producing quality wine, and almost complete saturation of the global wine export market.

Unsurprisingly, American and Australian wine producers were recognised at the time for emulating the wine styles of the famous regions of Europe. Regions like Burgundy, the Mosel and Chianti were well-known outside Europe, and became selling tools for New World wine labels. Wine was at this time, a category that relied on the need to express the characteristics of the location in which it was made. Thus, using a European regional designation implied the style of wine intended by the New World producer. Such a labelling practice was improper for at least two key reasons. Not only were such wines not constrained by the production requirements of any of those regions, but these New World producers were also passing-off their wines as foreign by using the attraction of regions that were not their own (Beeston, 1994).

The Europeans had everything; and all of it to lose. With the fear of competition looming large, Europe decided that the best approach was to defend their markets, by legislating against the New World use of generic names. The belief that this restriction would hamper the trade success of New World wine producers was gravely inaccurate. Europe ultimately shut this labelling practice down, and could have been forgiven for thinking that the problem had been solved. However, the New World producers were also using other promotional techniques.

By the early 1980s, International wine shows were becoming ubiquitous. For whatever reason they were created, one successful outcome was that awards and trophies could be used as promotional tools by the victors. During this period consumers began gravitating to wines with these awards, and New World producers were winning a number of them (Beeston, 1994; Dunphy and Lockshin, 1998).

As New World producers strived for ways to generate market salience, they happened upon a system that began to work for them – wine-show success (Beeston, 1994; Dunphy and Lockshin, 1998; Lawson *et al.,* 1996). Concurrently, European wine sectors began to reinforce their historical connections to the land. The French word 'terroir' became the watchword for wine producers seeking to strengthen the consumer appeal of their own wines. Their belief was in the method that had cast European wine into pre-eminence.

So with the New World looking at a world of opportunity, and Europe deciding that they needed to defend their position, the conditions were in place for a wine market war. In hindsight, it was during this period that the European wine sector lost its way. In the absence of a strategy encouraging innovation, as observed in other industries (Chandy and Tellis, 2000), there was only one way that Europe's wine market share could go - down.

Consistent with the findings of Chandy and Tellis (2000), the incumbent market leader began to focus on defending its position in the global pecking order, instead of continuing the decades of innovation that encouraged market growth. As the New World began to develop it is notable to recognise that it was not only awards that were being used to create awareness.

One of the other innovations of the time was that a band of Australian wine producers began to look at new ways to promote and protect their wines. One notable innovation was the launch of the screwcap to seal wine bottles instead of a cork (Hickinbotham, 1976; Wilson, under review). This is discussed in more detail in a case study, below.

When considering the planning and adoption of an innovation within the wine sector, it is fair to say that there have not been many discussions on the matter. The wine sector may not implement innovations on demand, but there are numerous cases of where innovation has taken place. In order to illustrate the point, one specific development is reviewed.

5. Innovation Cases in Wine Business

Wine has undergone substantial technological change in production throughout the last 50 years. Prior to the modern age, the winemaker did little more than sort good grapes from bad, then press them for juice and leave the juice to ferment into wine (Halliday and Johnson, 1994). However, the modern winemaker has access to both high quality analytical tools and the benefits of scientific progress. These advances are an example of successful innovation adoption.

The sharing of experience and information began in earnest with the growth in wine production in New World countries. As the area under vine increased, winemakers began traveling to other countries in order to exercise their skills and discover common approaches and variation in production techniques.

In a relatively short time-frame, this sharing of method and information became commonplace in the wine sector. New practices in production, like Scott-Henry trellising, extended maceration, and micro-oxygenation were shared and adopted as the proponents of these methods worked in collaboration to improve the quality of the final product for consumers. Even though these production methods could offer competitive advantages to those adopting them, there was very little objection or opposition to the sharing and diffusion of these methods among the international community of wine producers.

5.1 Innovations in bottle closures

A specific example moves from the sharing of information on production, to the creation of a new packaging option. In the 1950s a French firm, *Le Bouchage Mécanique* created a screw-off, metal closure as an alternative to natural cork. The new closure was a tamper-evident, resealable and inexpensive alternative.

By the 1970s there were top Bordeaux producers experimenting with them, and science backing up the superiority of the closure's technical specifications (Eric *et al.,* 1976; Hickinbotham, 1976). Subsequently, the Australian and Swiss wine sectors launched the closure with aplomb, and high expectations.

However, in this case, the market result in both locations was decidedly cold. In both countries, the closure was launched on less popular wine styles. Further, the number of producers adopting the closure was relatively small. This new closure, which offered no claimed advantage to consumers, was visually distinct from the previous bottle dressing used to seal a wine bottle. In Australia, after eight years of trial, the closure was withdrawn from circulation in 1984. However, the lessons learned at this time would prove valuable. Australian wine was evolving during that era from being a category of fortified wines to that of table wines. With that change, the corks used to seal many of these new, table wine styles were more regularly found to be inconsistent or faulty as the wines matured. These problems accumulated to such an extent that by the start of the current millennium, the use of screwcaps on wine bottles was re-evaluated and successfully reintroduced.

Currently, innovations are rife in packaging but many end up unused, or undervalued. A typical example is the closure, ZORK, a 'roll-on, tamper-evident' closure for sparkling wine bottles. The ZORK has found market success across the globe. Such has been the closure's value in protecting and promoting sparkling wines that the original producer in Australia has now built an additional production facility in Italy. However, ZORK has been unable to capture market share in Champagne, the most famous region for sparkling wine production, due to Champagne's requirement that its wines must be sealed under a natural cork. The irony of the ZORK's value is noteworthy, and analogous to the challenges facing the wine sector.

Alternative closures were created in many wine-producing countries. The ZORK has all the advantages of keeping Champagne sparkling, and can also be used to reclose the bottle between glasses, thus reducing the loss of carbonation in the wine. Further, the ZORK does not randomly damage the wine in the bottle like a natural cork can. Here was a case of an innovation that could offer a practical advantage for Champagne producers wanting to improve the performance quality of their wines.

The opportunities for the adoption of this innovation were hamstrung by the wine sector's regulatory authorities. Geographically protected areas of wine production, including Champagne, have legislated so that alternative closures cannot be used on wines of these regions.

5.2 Environmental Innovations

Increasing attention has also been paid to environmental concerns and to the adoption of environmental innovations in wine making (e.g. Galbreath, 2011, Forbes, Cullen and Grout, 2013). Individual and institutional drivers of proactive environmental innovations (Marshall, Cordano and Silverman, 2005; Cordano, Marshall and Silverman, 2010) and customers' positive attitudes regarding these innovations have been stressed in much of the recent literature in this field (Forbes *et al.,* 2009).

Environmental product and process innovations would still be more oriented towards incremental innovations like the adoption of phyto-sanitary treatments and the reduced use of pesticides, (Ugaglia *et al.,* 2008, Ugaglia 2010), 'Phyto–eco RandD (INRA 2010) as well as the use of more environmentally friendly solutions.

Examples of more significant innovations in wine making, including organizational and ‘systemic’ innovations have been identified and developed. Cases like bio-dynamic viticulture, sustainable agro-viticulture and organic viticulture are just three such examples (Willer, 2008, Jonis *et al.,* 2008a). Incentives, regulatory frameworks and the role of ‘eco-labels’, as well as and the increasing demand for these ‘bio-wine ‘have also been studied (Jonis *et al.,* 2008b).

One must question why information about some innovations in wine production move rapidly around the oenological community while other, technically better methods examples of innovation are ignored?

6. Innovation in Wine Industries: Mapping Some (New) Territories

The study of innovations in wine businesses encompasses different perspectives that reflect the evolutions in streams of literature on innovation. Modern discussions focus on central issues and debates rage on the form, content, process, contexts and outcomes of innovations. Fortunately, recent developments enable us to overcome classical dichotomies and taxonomies.

Whilst innovation categories range from incremental to radical, speculation exists over the influence that their forms have over the prospect of adoption. There is disagreement over the parameters of what defines their technological nature; their drivers in a 'technological push' versus 'marketing pull' strategy; and/or the gravity effect. New approaches enable us to better integrate the dimensions that lead to a clearer understanding of their relations and complementarities. For the purpose of this chapter we use broad definitions of innovations, taking the 'business unit' level as a starting point.

> 'An innovation is the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations.' (OECD - Eurostat, 2005 p.46)

Studies on innovation in wine stress the role of technological innovations that mark the evolution of upstream activities in the wine sector along the supply chain, principally addressing grape farmers and wine-makers. These innovations are defined as follows:

> 'Technological product and process innovations comprise implemented technologically new products and processes and significant technological improvements in products and processes. A technological innovation has been implemented if it has been introduced onto the market (product innovation) or used within a production process (process innovation).'

Technological innovations 'involve a series of scientific, technological, organizational and commercial activities' (OECD - Eurostat Oslo Manual 1992 p.31), and can be viewed as 'an iterative process initiated by the perception of a new market and/or new service opportunity for a technology based invention which leads to the development, production and marketing tasks striving for the commercial success of the invention (OECD 1991 cited in Garcia and Calantone, 2002, p.112). Product innovativeness has been viewed as a 'measure of the potential discontinuity a product (process or service) can generate in the marketing and/or technological process' (Garcia and Calantone, 2002 p113). These definitions invite us to identify a first set of dimensions and characteristics of innovations in the wine industry.

6.1 Product and process innovations; two faces of the same coin

Wine as a natural-resource based product, implies that the technological element of the product and process innovations are intrinsically related. The purposes and characteristics of these innovations have been documented showing how tradition and advances in science and technology 'co-evolved' (e.g. Kennedy, Saucier and Glories, 2006). An example of this collaborative innovation is expressed in the recent evolution of claims about wine as 'natural', 'biodynamic' and 'organic', as well as 'sustainable'. These titles are meant to express both the process of production and the types of wines styles they express.

These emerging categories of wine distinguish themselves from conventional wines in the market by the manner in which they are made. Each of the processes incorporates either a reduction in winemaker intervention, and/or reliance on the purported influence of nature and/or reduction in the use of chemicals in grape growing and wine production activities. Thus, the process is an intrinsic element of the innovative product.

These non-conventional wines have emerged as a consequence of the evolution of organic and sustainable practices. A report from the 2010 International Organic Fruit Symposium explained that organic grapes account for approximately 3% of all grape plantings worldwide, and this proportion has increased from a negligible figure in the 1990s (Granatstein et al., 2010). With wine producers increasingly turning to 'non-conventional' methods of viticulture and wine making in the modern era, a prudent business would suggest that there is evidence to support this trend (Preston, 2008).

However, one of the challenges in these specific innovations is that the demand for them has not been quantified. Even though there is emerging evidence for the value associated with such an innovation, there is scant evidence of the potential market size. For the purposes of illustration, unless one specific type of these wines is referenced, all of these terms 'natural', 'biodynamic', 'organic', and 'sustainable' will be grouped as 'non-conventional' wines in the following text.

There is little doubt that interest exists in the market for such 'non-conventional' wines. Studies from across the globe in the past ten years illustrate that consumers attach value to 'non-conventional' wines. Researchers in the past ten years have worked to investigate whether a price premium can be attached to the extra handling and attention required in the process of 'non-conventional' wine production. From studies investigating the motivations of Greek wine buyers (Fotopoulos et al., 2003), Spanish buyers (Brugarolas Mollá-Bauzá et al., 2005), and those in New Zealand (Forbes et al., 2009). Further, Remaud (2008) even found that Australian consumers not only added a premium to the price of 'non-conventional' wine, but also suggested that this consideration occurs for approximately 10% of wine purchase occasions. However, a consideration does not equate to a wine purchase.

A recent study conducted by Castellini et al. (2014) of 186 of the 891 non-conventional wine producers in Italy, reported (consistent with Remaud et al. (2008)) that the level of consumer demand for these wines was just over 10% of these specialist wine producer's customers. More concerning, however, was that less than 4% respondents who produced organic wine said that they had any difficulty in selling conventionally made wines! One must then ask what led to the increase in 'non-conventional' wines on the market.

Despite the fact that innovation is an essential element in a sector's development, the increase in supply of such wines is more likely to have been producer-driven than market-driven. Specifically, these categories have evolved from the desires of wine producers, not based on latent market demand. This helps explain why demand for and sales of this new category have not been as successful as hoped.

The example illustrates how farmers/growers who initially expected to benefit from these production innovations to combat diseases in vineyards, and enhance microbial resistance still require a commercial focus in order to be successful. From a commercial perspective, even with the evidence of a price premium being paid for 'non-conventional' wines, it is imperative that the wine sector establishes a critical mass of buyers in order for the innovation to move from being a niche, into a profitable production innovation (Blank and Thompson, 2004)

6.2 Bridging technology and markets

Technological innovations in wine businesses have been extensively studied (Giuliani, Morrisson and Rabellotti, 2011). Recent literature on innovation has shown that, beyond their differences, the frontiers between technological and non-technological innovations are not ‘clear cut’.

Process and organizational innovations, product and marketing innovations can, indeed, be closely related (Schmidt and Rammer, 2007).

Emphasis has been long put on the 'technological push' rather than 'marketing pull' of product innovations in the wine sector. However, this dichotomy proves to be too simple to explain the specificities of wine as a product which, beyond its technical characteristics, conveys semantic dimensions that can be embedded in product technologies. These then lead to 'design driven' models of product innovation (Del' Erra and Bellini, 2009). The roles of independent winemaking consultants and wine guides, who by supporting innovations bridge and mediate the disparity between supply and demand, have been identified (Corrado and Odorici, 2009).

6.3 'New' versus Old Worlds

As noted previously, the literature on innovations in wine industries indicate differences relating to locations or countries, principally between the so-called 'Old ' and 'New' world countries and their underlying regions. Much research has been conducted in this field, with notable examples being Porter (1998), Lundvall (1985, 1988) and Lundvall *et al.,* (2002), who stress the role of interactions between producers and users. They subsequently expand the theory of an underlying cultural distinction into area-based, innovation applications in clusters and territories. Their systems of innovation open avenues for the study of knowledge transfer and innovation adoption in the wine industry. (Aylward, 2004, Aylward and Turpin, 2003, Bell and Giuliani, 2007, Giuliani and Bell, 2005).

The success of the 'New World' (both in affluent and developing economies) in wine production (in quantity and quality) rests on product and process innovations supported by research efforts and sustained investment (Giuliani, Morrisson and Rabellotti, 2011). Innovations in the New World and comparisons with the 'Old World' have been extensively documented.

'New World' wine industries are typified as being more innovative, with innovations taking place in clusters, territories and systems at regional and national levels. 'Old world' countries are more oriented towards traditions, with incremental innovations being constrained by the impact perceived on local production systems (also known as terroirs). Tradition and conventions are the salient obstacles to adopting significant innovations due to perceived 'lock-in' effects (Ditter, 2005a, 2005b). However, path-dependence and lock-in situations have also been identified in the 'New World' in a context of increasing global competition (Aylward, 2006).

Clusters and networks are propitious to innovation and knowledge transfer. It has been shown that the 'more intense the co-location and the more highly evolved the integration of supply chains, advisory and regulatory bodies, education, training and research bodies and the growers and wine makers themselves, the more visible are the advantages' (Aylward, 2004, p.438). This is true in terms of links between innovation and export. Territories play a central role in fuelling innovations (Aylward, 2003) and those forms of relationships between local, regional and national structures stimulate and support knowledge transfer and innovation (Sanchez and Bisang 2011).

6.3 Degrees of novelty and innovativeness

Innovation means novelty, but the degrees of novelty and innovativeness can strongly differ depending on their characteristics and impacts. Numerous typologies of innovations have been presented in the literature. Typologies of innovations range on a continuum from incremental, characterised by small and progressive improvements, to radical or breakthrough innovations which can even disrupt former solutions.

The concepts of breakthrough, radical and disruptive innovations have been used to label innovations associated with a high degree of novelty. Moreover, companies can also develop strategic (Markides 1997) and disruptive innovations (Christensen, 1997) and turn new market spaces and value curves (Kim and Mauborgne, 2005) into new business models. Such innovations are rare in wine industries, even if examples have been identified in the case of budget wine (Kim and Mauborgne, 2005). The difficulties in successfully developing and implementing such strategic innovations in traditional wine regions, like Burgundy, have been stressed and interpreted in terms of uncertainty and a lack of legitimacy (Asselineau, 2010).

Henderson and Clarck (1990) developed a framework for defining technical innovations ranging from incremental to radical. Incremental innovations introduce relatively minor changes in existing products, reinforce core concepts and keep linkages between core concepts and components unchanged. Core concepts are overturned and the linkages between core concepts and components are changed in radical innovations. Intermediate categories cover modular innovations in which core concepts are overturned and linkages are unchanged and architectural innovations which reinforce existing core concepts while linkages between core concepts and components are changed.

An example of architectural innovation is drawn from the distribution channel. A new wine retailer, Naked Wines, devised a method for protecting the wine consumer's interests, while supplying the wine producer with cash in return. Naked Wines sells wine at a price that varies depending on the period in the wine's creation that the customer is willing to assume any risk, and pay for the wine.

Although Naked Wines has cheaper prices for wine bought in the earlier stages of the vineyard cycle, and that model is proving fruitful for them, they use this model exclusively. Even though other retailers could copy the model they choose not to. The innovative nature of the model facilitates the interaction between the consumer, the product and the producer, but the product is essentially unaffected by the innovative nature of its distribution. This form of innovation is rare in the wine sector.

Modular innovation is much more popular. In reference to technological improvements in both the performance of the product, the use of improved oxygen management through diffusion of inert gases during production is one such method. Although the application of technological improvements is commonplace in production, examples of modular innovation in distribution are less common. A few notable exceptions include the use of slip-sheeting to facilitate the loading of wine into shipping containers.

Other typologies of product innovations insist on their degree of novelty for markets. In the marketing literature products are defined as a ‘bundle of attributes’. In marketing, the term new products means new bundle of attributes in order to ‘fit with markets’ meet customers' expectations, and build market share thanks to positioning and pricing (Krishnan and Ulrich, 2001).

A case in point is the modern example of the most successful product launch from a wine producer in the 21st Century. The Casella family in Australia have been proud wine producers since their Italian forebears migrated to Australia. As a small producer of local wines, the family had barely remained profitable in previous generations. This all changed as the American wine market took an interest in Australian wines towards the end of the 20th Century.

The Casellas were being provided with more and more grapes with which to make wine. What happened at the turn of the 21st Century is an example of being alert to opportunity. As the US market grew, a number of major suppliers began using their size as negotiation tools. Consequently, a vacuum in the market developed as retailers dropped some major suppliers, in search of preferred wines.

Enter the Casella family, with a new brand [yellowtail]. As opportunities were created, [yellowtail] was created as a brand to match the image of Australia, and the volume required by the sector. Suddenly, the wine sector could respond to the needs of the market.

7. Conclusion

The wine sector is renowned for its retention of traditions and expressions of regionality in the final product. Custodians in the wine sector are both proud and defensive of their product’s place in the agricultural industry. For centuries, the image and value of wine was both driven and protected by those in Europe, where the bulk of production emanated. Until the emergence of the modern age, the 'status quo' held sway over any compunction to change.

The emergence of globalisation in the modern era burst the image of tranquillity for the traditional grape grower. With markets opening up, grapegrowers began by innovating in the way they knew – in production. However, when this proved insufficient, the wine sector struggled with the new. What to do next in order to encourage innovation adoption is a mystery.

In order for a primary industry to progress, it is necessary that a strategic approach is adopted and implemented. This business practice correlates well with agricultural businesses that are successful, as they are required to plan and consider the market needs in future years (Rosairo *et al.,* 2012). As markets change over time, the wine producer that can be innovative effectively will be best placed to advance under these conditions.

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CHAPTER TWELVE

GOOD PRACTICES ON INNOVATIVE ENTREPRENEURSHIP: A EUROPEAN EXPERIENCE

JOANA NEVES AND VITOR AMBRÓSIO

This work would not have been possible without the unconditional support of Loures Municipality. For over two years, Joana Neves (co-author) collaborated as a specialist in Business Intelligence and as the director of the Intelligence and Knowledge Unit of Aicep Portugal Global (the Portuguese Trade & Investment Agency). Much of the information in this article was inspired by the experience of Joana Neves and by the Guide Book to Designing the Future, co-funded by the European program INTERREG IVC – Innovation & Environment Regions of Europe Sharing Solutions.

1. Introduction

The European economy faces several challenges. One of them interrelates with the need for enterprises and organisations, both governmental and private, to be globally competitive. This requires developing innovation strategies that respond to increasing competition and to the complexity of the local business and industrial environment. According to Redford (2013), these strategies may incorporate various different approaches, such as: close collaborations between the "world of work" and schools/universities envisaging innovation based sustainable economic growth; the promotion of entrepreneurship education foreseeing lifelong learning so that individuals may advance their attitudes and perceptions and be capable of putting ideas into practice (European Commission 2012, p.5); the development of partnerships among civil society, private entities and the state – with the latter playing an essential role in removing the obstacles otherwise hindering new developments (Dahlstrand and Stevenson, 2012);

building "innovative milieus" based on inter-network connections among cities sharing similar peripheral situation, thus cities that face common economic, cultural and social challenges – the Edge Cities Network (ECN).

It was within this framework that, between January 2010 and December 2012, with the support of the European Commission (INTERREG Management Authority), a cross-Europe project took place with the cooperation of six municipalities: Pernik (Bulgaria), Ballerup (Denmark), North Down Borough (Northern Ireland), Loures (Portugal), Getafe (Spain) and Nacka (Sweden). These partners, within the scope of the Edge Cities Network, which brings together communities on the fringes of the major European capitals, formed a consortium called Innohubs. Innovation was identified as one area that might help the Edge Cities meet the aforementioned challenges. By finding better ways to support innovation based entrepreneurship, an Edge City becomes better positioned to compete, grow and strengthen the wellbeing and prosperity of both local businesses and the broader community (Innohubs and Interreg IVC, 2012: p.3). Therefore, stimulating innovation and entrepreneurship in the regional economy, and alongside identifying, analysing, and disseminating good practices, proves truly critical for these cities.

From this perspective, the Innohubs project aimed at stimulating innovative entrepreneurship, identifying best practices, testing new tools and methods, sharing experiences and knowledge, while also planning and carrying out joint projects and activities among Innohubs partner cities. In fact, the project partners sought to explore their own potential for sustainability and economic growth as well as promoting employment through the implementation of new ideas, through enhancing the value of SMEs and boosting entrepreneurship education among the younger generations in order to foster innovative local SMEs.

2. Entrepreneurship, Innovation and Collaborative Learning – the Theoretical Background

Stiglitz and Driffill (2000) defined the entrepreneur as a person who launches new businesses, brings new products to market or develops new processes of production. However, the role of the entrepreneur in economic development has been a source of inspiration and has evolved diversely depending on the point of view of each author. Table 1 presents a classification of entrepreneur types based on a work of Herbert and Link (1982), cited by Nijkam (2000).

Table 1: Types of Entrepreneurs

Entrepreneur Concepts
Person who assumes the risk associated with uncertainty
Person who supplies financial capital
An innovator
A decision maker
An industrial leader
A manager or superintendent
An organizer and coordinator of economic resources
The owner of an enterprise
An employer of factors of production
A contractor
An ‘arbitrageur’
An allocator of resources among alternative uses
Someone who seeks knowledge about markets

Source: Adapted from Nijkam (2000)

The literature conveys how this represents a multifaceted subject and that the current "age of entrepreneurship" is essentially based on the entrepreneur's role which gets portrayed through taking into consideration: his/her own business; the economic system where he/she is operating; the financial situation of his/her company towards risk; his/her innovative behavior; his/her knowledge about market dynamics, whether at the local level or at the international level.

In fact, enterprises in general and SMEs in particular need to cope with strong competition in global markets regardless of their respective geographical location. Furthermore, finding the right path within these global business environments is no easy task due to the diversity in the number of potential directions. In this sense, it is plausible to state that knowledge constitutes a critical factor of success both for global firms and SMEs and a means of reducing the risks of choosing bad investments.

The other reasons that may limit SME capacities to adapt to the requirements of an open market include: the high degree of uncertainty about the direct or indirect costs associated with performance and the investment needed; the difficulties in acquiring in-house the technological and organizational management skills necessary; and qualified human resource limitations. This should also take into consideration problems with monitoring and selecting the information and existing knowledge which also proves crucial to managing the business (Camisón, 2008) as much of the existing knowledge is mainly tacit and fragmented. Another difficulty in transferring and sharing knowledge is that both depend on the goodwill of informal groups, professional organizations, companies or communities of special interest. Nevertheless, the dissemination of indigenous knowledge based on technological innovation as a key factor for business performance does not per se constitute "the therapy for all ills"

This knowledge also depends on the outcomes of the actions and choices made by various stakeholders, including government policies that should serve as facilitators for investing in R&D, education, training and for the development/strengthening of knowledge centers (Nijkamp, 2000). Important to this logic is emphasizing how universities play an important role in urban and regional competitiveness as they deploy expertise on companies, regional and local resources as well as other sources of intellectual and human capital (Benneworth et al, 2010), all crucial to the development of regional social and economic issues (Maillat, 1998). Another priority requiring taking into consideration is the teaching and learning of entrepreneurship related subjects. These actions should be complemented by intervening in the local community and in SMEs in order to strengthen not only more active teaching methods but also collaboration with entrepreneurs. Additionally, study visits, internships, applied research to solve specific company related problems, among others, are all also recommended.

One of the most common problems among companies seeking to expand their businesses and markets stems from the fact that they think the decision to do so represents a sufficient factor. Among the factors they often disregard are: the importance of getting to know themselves; the development of new procedures for acting and competing; and the means of improving their performance through the analysis of good practices in effect at third parties. In short, it seems those companies lack an awareness about the need for undertaking their own self-evaluation and the sheer urgency over making their products or services more innovative and competitive. Another no less important perspective involves the organizational and technological innovations introduced by companies mainly resulting from collective processes in which companies, institutions and other stakeholders take part within a given geographical context (OECD, 1996).

Within this framework, the strategies of collective learning emerge as critical especially across two dimensions: participation in networks and geographic clustering. In fact, nowadays, both work together and allow for the creation of particular geographies. Such networks achieve better results among the various partners because they create specific knowledge at the local and sectorial levels. The concept of collective learning precisely reflects the ability of a specific region to generate or to facilitate innovative behaviors throughout its productive structure based upon models of trust and reciprocity (Keeble et.al., 1999).

Among others, Gerstlberger (2004), in his work on successful innovative regions, identified formal networks among governmental and private entities and the forms of organization (among organizations) as key components to regional innovation systems and sustainable development. We may also add that government intervention is justified in order to compensate for market imbalances, provide services based on knowledge and consultancy and to encourage coordination among institutions so that all agents are able cooperate.

Furthermore, we must also be aware about how collective learning can and must be done wisely, within and among enterprises and other players from their respective territorial locations. This perspective on the need to spread innovations (Roger, 2007) i.e. the process communicating an innovation based on certain channels among the members of a specific social system indeed represents a huge challenge for companies generally and particularly SMEs. Innovations are adopted by many individuals and disseminated by subgroups of individuals, depending on its respective characteristics coupled wirh those of the adopters and the environment they operate in. Rogers (2003) and Greenhalgh et al. (2004) also propose that the characteristics of innovations impacting on diffusion revolve around a set of core attributes, that is, relative advantage, compatibility, complexity, trialability and observability. Relative advantage refers to how the good practice gets perceived as better than the practices it supersedes. Compatibility, in turn, relates to the perception of how closely that good practice by the “receiving organisation” aligns with their values, needs and goals. Complexity reflects the variations in good practices in terms of their relative complexity of understanding and implementation. In triability, the good practice may be modified and tested in restricted circumstances. Finally, observability highlights how good practices and also the results produced are perceived as easy for others to both observe and communicate to others.

This case study (based on Edge Cities) attempts to show how best to establish relationships among: local governmental actions and economic actors and furthermore with international government partners (on a local basis) sharing similar characteristics in geographic, economic, cultural and social terms. This fundamentally assumes that the transfer of good practices on aspects related to innovation and knowledge transmission among local authorities (municipalities), companies, universities and governmental agencies does contribute to the improvement of entrepreneurship and brings about an expansion in SME business activities.

3. The Case Study – Innohubs Project

In February 2008, during the Edge Cities Network meeting in Brussels, the decision was taken to set up a collaborative project in the areas of business development and internationalization. Based on innovative SMEs and entrepreneurs, the project's purpose involved studying and disseminating new ways of promoting employment and improving living conditions in Edge Capital Cities. Hence, within this context, the municipality of Nacka (Stockholm/Sweden) – a network member – suggested replicating its very positive development experience through the Innovation Hub project. This focused on business owners, entrepreneurs and individuals interested in marketing ideas and turning them into innovative businesses. Experts from academia and from the business field would contribute by counselling, mentoring and coaching local companies. Therefore, Nacka (Stockholm/ Sweden), together with its partners in Ballerup (Copenhagen/ Denmark) and Getafe (Madrid/Spain) sought out European programs able to support this project and identified the INTERREG IVC Program - European Regional Development Fund - as the most appropriate for backing the development of the Innohubs project. As referred to above, three more municipalities - Loures (Lisbon/Portugal), North Down Borough (Belfast, UK, Northern Ireland) and Pernik (Sofia/Bulgaria) - took part in the application proposing an innovative entrepreneurship program.

The program structure involved the following steps: (i) characterizing the project partners, including the objectives and innovation strategy advocated for their respective municipalities; (ii) the methodological design approach based on not only the "Europe 2020" policy guide lines but also on the economic, cultural and social realities of the Edge Cities participating and on Roger (2003) regarding the diffusion of innovations; (iii) the conceptual development model based on the transfer of good practice among the parties; (iv) the identification of the Edge Cities pilot projects designed to test this model, joint discussion of their outcomes and adapting the model by some partners in order to improve their project performances; (v) the definition of guidelines to implement the Innohubs model based on the lessons learned from the aforementioned collaborative work.

Table 2: General objective and partnership innovation strategies

Country and City	Main Objectives	Innovation Strategy
Bulgaria, Pernik	• Reconstruction and modernisation of existing infrastructures in line with European Standards • Improving educational, cultural and social facilities standards • Creation of terms and conditions for business development • Attract investment in high-tech industries and logistics' centres	• Pernik Chamber of Commerce and Industry • Regional Business Centre for SME • Business Incubator
Denmark, Ballerup	• Efficient use of the municipality's resources • High degree of citizen participation and empowerment • Providing excellent education • Long-term sustainable growth	• Referring entrepreneurs with special growth potential to advisers from one of the 5 Green Houses • Providing advice for high-tech entrepreneurs (business plans) and connecting them with potential investors • Placing entrepreneurship into primary, secondary and higher education levels • Offering basic information and guidance on starting a business
Northern Ireland, North Down	• Delivery good quality services • Promote the sustainability development • Promote the municipality as a place to live, work and visit	• Tailored, one-t-one advice • Market research and business intelligence services • Training and Networking Event
Portugal, Loures	• Promote the modernisation of production and technology • Defend the territorial and cultural identity • Forward-looking, effective governance and active citizenship • Promote integration and solidarity	• Enhance the quality, ease of use and modernisation of ICT • Preservation, enhancement and dissemination of heritage • Promote entrepreneurship and employment support programmes • Develop local policies of social responsibility
Spain, Getafe	• Business Support services (existing and new entrepreneurs) • Networks and Projects • Development of office, commercial and industrial accommodation • Miscellaneous projects and initiatives	• Services: support for existing business and for new start-up businesses • E-Administration • Infrastructure: development technology parks for high growth technology companies • Citizens: raising awareness and use of ICT
Sweden, Nacka	• Efficient use of the municipality's resources • Lowest possible tax rate and charges • High degree of citizen participation and empowerment • Long-term sustainable growth	• Improving governance of policies for innovation • Creating and applying knowledge • Empowering people to innovate • Unleashing innovation in firms

Source: Adapted from Innohubs and Interreg IVC (2012)

3.1 The Characteristics of Edge Cities

For a better understanding of the specific characteristics of the six Innohubs project municipalities, Table 2 presents a set of information in terms of the general innovation objectives and strategies implemented by each participant in accordance with their performance expectations.

After reading the information on the six Innohubs project partners, despite the intrinsic differences to each municipality, there are indeed clear and common concerns: the need to improve education for citizenship; the need to improve skills and support for SMEs and start-ups (mainly in terms of entrepreneurship and in the conditions available for business expansion); the need to acquire appropriate skill sets (in particular soft skills); the need to share and disseminate knowledge; and the need to attract investments.

Summing up, all six municipalities underline their needs for business innovation, economic development and social equity while also taking into account the future sustainability of their territories.

3.2 Methodological Approach

Firstly, we should emphasize that the problems mentioned in the previous points are not confined exclusively to edge capital cities. Europe, in general, reveals weaknesses in its economic structure. This problem is very similar across most of its member states. In fact, in “Europe 2020” - a 10-year strategy proposed by the European Commission on 3 March 2010 (following the Lisbon Strategy for the period 2000-2010) – envisages economic growth and a rise in the rate of employment. “Europe 2020” aims at smart, sustainable and inclusive growth with greater coordination of national and European policy (European Union, 2013).

Bearing this background in mind, the six municipalities gathered around common goals: fostering the competitiveness of their enterprises; enhancing support for their communities, promoting and sharing their best practices and their knowledge among these partner cities. The perspective of incorporating cities facing the same difficulties and challenges and adopting and replicating existing methodologies (already tested in other environments) in itself represents an innovation (Roger, 2003). Roger’s vision on Diffusion of Innovations that applied by Innohubs promoters, emphasises five attributes supporting the diffusion of an idea to new users: relative advantage; compatibility; complexity; triability; and observability. While the author had originally made recourse to individuals to test his theory, he later said that “innovation spreads among companies in an industry in a diffusion process similar to the way innovation diffuses among individuals in a community" (Innohubs and Interreg IVC, 2012:19). Innohubs promoters also decided to include an additional attribute – results. By applying this attribute they could determine whether a good practice might achieve its objectives and, in this sense, whether susceptible to consideration as a good practice. From a methodological standpoint, the Innohubs targeted three key areas:

- the identification/development of one good practice implemented by each partner municipality with the respective results then processed through content analysis;
- the joint evaluation of such practices among partner municipalities, politicians, chambers of commerce, industry, government bodies and local/regional universities from the six countries involved;
- the development of a multidimensional scale for measuring the importance of each of the five good practice attributes identified in the literature based on a scale from 1 to 5 (1=not important and 5= very important).

This evaluation process was completed by each of the six municipalities, by the project business consultant and by the universities involved. The final presentation of the results included: the identification of best practices for innovation and dissemination of knowledge; the main learning outcomes within and among partners; the external diffusion of good practices and results.

In order to identify/develop good practices, each municipality completed a file model developed in the meanwhile. This file was filled in by each partner to substantiate the later critical group analysis and discussion (among the six partners/municipalities). This file model contained three specific key dimensions:

1) Good general practices for supporting and promoting local entrepreneurship and innovation in SMEs and also including the definition of good practice; types of support existing for innovation in SMEs and entrepreneurship; forms of innovation; educational approaches to promoting innovation; procedures to overcome barriers and/or to encourage innovation; relevant examples of how the partner Edge City is important to the project.
2) Identification of good practices, including their definitions, objectives, activities, sector(s) and geographical coverage; assumptions and framework; legal basis; highlights (beginning, end

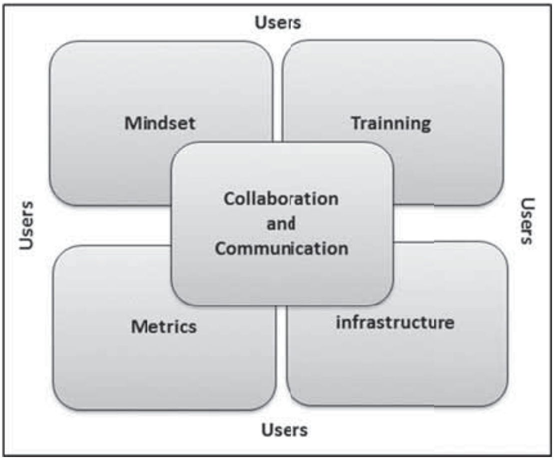
and frequency); the resources necessary (physical, financial and human); and budget details.

3) Analysis of good practices including specific results; performance indicators; reasons for eventual success (e.g. critical success factors; visibility levels of good practices; external impacts and respective reports); SWOT analysis of good practices; views and opinions (partners and stakeholders); and additional comments (if any).

3.3 Developing Innohubs Model

The content analysis of the files and the lively and impassioned discussion among partners and stakeholders as to the results obtained provided for the clarification of the concept of good practice and categorized the various dimensions and attributes of the future project design. From a conceptual point of view, there was unanimous agreement that good practices may constitute a specific program, a technique, a project, a method or an initiative that adds value to something. Furthermore, it proved possible to identify not only the good practices mapped into five activity categories for the six cities but also the key dimensions of the Innohubs Model Innovation Ecosystem Support (see figure 1).

Figure 1: Innohubs Model – Key dimensions of the Innovation Support Ecosystem



Source: Innohubs and Interreg IVC (2012)

The mind-set category interrelates with practices fostering a positive attitude towards innovation and entrepreneurship among students and in organisations or specific demographic groups. The training category involves teaching the necessary/principal competences for innovation and entrepreneurship. Therefore, this increases the entrepreneurship and innovation capability of all key stakeholders. The infrastructure category is needed to support innovation and entrepreneurship. The collaboration category stimulates innovation and entrepreneurship by linking up different actors in the city in order to work together and the communication facet incorporates activities nurturing innovation and entrepreneurship through different channels.

Finally, the metrics category ensures the municipalities measure and assess the levels of innovation and entrepreneurship in their cities. A special focus is also placed on citizens as they are the end users of all services that municipalities provide and thus need actively engaging in all innovation initiatives.

3.4 Pilot Projects

After having reached a consensus on the model to deploy for the Innohubs project, we moved onto the next step – testing the model. Therefore, to this end, one of the two pilot projects underwent implementation in two partner municipalities - Ballerup (Denmark) and Loures (Portugal) focusing on developing a collaborative innovation platform with politicians and municipality officials, local universities including teachers and students and local companies whether SMEs or larger firms seeking to strengthen their international competitiveness and expand their businesses.

Table 3: Innohubs pilot projects (Ballerup and Loures)

	Ballerup - Denmark	Loures-Portugal
Purpose	- Create an innovative hub focusing on innovation and entrepreneurship	- Improve competitiveness of local companies/remove barriers to innovation among SME and encourage an entrepreneurial spirit among students

Local	- Copenhagen University College of Engineering	- Students/teachers from secondary schools/University (ISCTE, IUL)
Focus	- Innovation and entrepreneurship (educational institutions/companies/municipalities)	- Network composed of businesses/innovation and research agencies/educational institutes
Approach	- Co-creation and collaboration	- Meetings in municipality commercial areas to recruit suitable organisations
Method	- Research trends/interviewing experts/stakeholder analysis - Stakeholders workshop; creating partnerships/ involvement/dialogue - Creating common ground (e.g. vision, goals, capabilities, resources) - Creating culture/values and mindset - Creating change - Testing framework/initiatives to ensure sustainability	- 29 companies enrolled in the pilot - Selected business received initial diagnosis - Issues identified by the process became the focus of strategies for improvement - Work undertaken by university students/tutors/stakeholders - Each student used real-world experience as the base for academic thesis - Presentations in local schools to establish synergies for all parties

Source: Adapted from Innohubs and Interreg IVC (2012)

This project developed different ideas and tested how to enhance the exchange entrepreneurship and innovation related ideas, knowledge and skills among these different partners to strengthen their competitiveness and growth. The purpose of the Ballerup pilot project (see Table 3) called "Collaborate 2 Innovative – the creation of an innovative hub" involved setting up an innovative hub at the Copenhagen University College of Engineering (Ballerup Campus) focusing on innovation and entrepreneurship in Triple Helix collaborations interlinking educational institutions, companies and municipalities. The chosen approach was based on "co-creation" and "collaboration", developed in close cooperation with key stakeholders.

Taking into account the objectives, the municipality of Ballerup made a thorough analysis of trends, interviewed experts and defined intervention levels for each stakeholder according to its characteristics and aspirations. In this process, the municipality sought to ensure that the pilot project results could respond adequately both to current stakeholder needs and also to effectively address their future sustainability.

We should also add that the approach deployed in this pilot project was in itself innovative considering that the team involved applied different and mutually complementary methodologies – rapidly prototyping to test the sustainability of the innovation hub framework, a springboard for companies and students, the Dee Dock Theory on how to create the right process, user-led interviews, among others.

The result of this pilot project was the design of a center/hub at the Copenhagen University College of Engineering in Ballerup campus. It opened its operations in mid-2013.

The hub focuses on close-to-market innovation, targeting SMEs and involves collaboration among students, educators and companies, drawing on facilities such as rapid prototyping in the innovation hub. The hub was perceived, since its launch, as a university department and perceived as of benefit to everyone. We may also point out, among others: the development of innovative teaching methods; more sustained SME business growth; easier student access to the labour market through the identification and development of contacts.

The Loures pilot project was called the "Innovation Center of Loures" and its purpose was both to improve the competitiveness of local companies and to remove barriers to innovation among SMEs. This pilot project was based on the perspective that innovation represents a useful idea susceptible to effective implementation whenever built up through a network of key stakeholders and consultants.

The partners were: ISCTE, IUL (University, Business School); ADI (National Agency for Innovation and Technological Development); IAPMEI (National Institute for SMEs); AICEP (Portuguese Agency for Trade & Investment); COTEC Portugal (Business Association for Innovation); two local international trading companies – Luis Simões (transportation company) and Gelpeixe (frozen fish company); in addition to professors, teachers and high school and university students.

This network specifically strove to bridge the gap among the academic, the corporate and the governmental fields. All three facets should benefit through this collaborative work.

In addition, local enterprises were also contacted to join the pilot project. Out of the thirty two companies identified, twenty-nine agreed to join the project.

These companies received the initial diagnostic made by all network members and the key issues identified became the improvement strategic target. In this context, ISCTE, IUL (Business School) masters and doctoral students used this experience of the "real world" as a basis for the development of their academic research. Most of these research projects related to internationalization strategies, communication, distribution channels, marketing, governance, energy efficiency and production planning. As one example, there was a food producer company requiring chemical research in order to improve a fresh cheese.

This pilot project also sought to encourage an entrepreneurial spirit among students. To achieve that goal, several seminars were provided in local schools in order to improve the entrepreneurial awareness among young people. In these seminars key issues to any business model were also focused on such as: leadership; innovation; market niches. Schools and enterprises also worked together to promote entrepreneurship – in-school activities, visits to companies and incubation centres, innovative idea competitions, etcetera.

As in the Ballerup pilot project, the Loures project also holds truly innovative features: the dynamic nature of the network and the positive experience for all participants concerning the development of an innovation based environment.

By sharing the knowledge and experience of the stakeholder network, participating businesses were able to introduce innovation into many areas, all of which delivered quantifiable business value. Furthermore, this did change the attitudes of some business people who had previously seen innovation initiatives as a waste of time.

We should highlight that the results of these two pilot projects revealed that they complemented each other and both showed how the Innohubs model could in practice be implemented by engaging a variety of stakeholders across sectors and fields. Therefore, each partner mutually shared just how they felt they might exploit their own potential for sustainability and growth by putting innovative ideas and entrepreneurship into practice. Furthermore, the identification of best practices that could be tested in new environments and, when accepted and adopted, duly perceived innovations. The main contribution of this project was the identification of best practices and some general guidelines for the steps necessary to improving a municipality's capacity for innovation and entrepreneurship.

3.5 Guidelines for implementing the Innohubs model

The guidelines developed, based on lessons learned during the various Innohubs phases, allowed for the definition of a theoretical model and alongside its practical implementation. In fact, the project's road map identifies a set of strategic guidelines for the various partners despite their respective specificities, contexts and priorities.

More important than applying every model dimension to every case study (or to future case studies) is the holding of a general framework concerning entrepreneurship and innovation. Each case study inherently involves adjusting the model to a particular situation or reality. For example, in a city the priority might be linked to the need for encouraging innovation and entrepreneurial mindsets in schools while in another context the priority may fall on supporting the development of the start-ups resulting. We should also reference how it does not prove possible to establish the order of implementation for the various model dimensions with some of them probably requiring simultaneous development.

In Table 4, we present the general guidelines identified as relevant to implementing the Innohubs model.

Table 4: Guidelines for implementing the Innohubs Model

Innovation Will	- High level commitment to work strategically with innovation
Vision and Strategy for Innovation (collaborative process)	- Collect background data on current status of economy - Map the current strategy, vision, priorities and values at municipality - Make sure that they are integrated in the local strategy for innovation - Identify local needs for innovation - Map existing status of support for innovation and entrepreneurship at municipality - Structure all existing support for entrepreneurship and innovation according the categories of Innohubs Model - Make a SWOT analysis of current situation in municipality
Innovation Team and Ambassadors (People with passion for innovation identified and trained)	- Form innovation teams (inside and/or outside the municipality) - Innovation team and innovation ambassadors develop detailed plan for implementing the strategy
Innovation Programs (Based on priorities of Strategy)	- Find and involve right local partners and motivate individuals) - Value proposition/pitching the program - Try out different methods/good practices and adjust them - Regular meetings and contacts with all partners - Be flexible and prepared for changes in partners and direction of the program - Ensure excellent people skills, sustainability and local commitment - Ensure political and managerial support - Continuous communication and marketing

Innovation Infrastructure (A sustainable innovation support ecosystem developed and resourced)	- Think about how to develop a support infrastructure and ecosystem - Involve partners to drive projects and ensure their financing - Transfer of knowledge and tools to other by ambassadors
Communication (To encourage engagement and participation)	- Develop an Innovation Plan around innovation programs - Ensure that innovation and entrepreneurship-related topics form part of the agenda of the municipality website, newsletters, official speeches, etc. - Document and communicate results of innovation projects (good practices and success stories) - Organize special communication campaigns or events at schools and other specific audiences - Give annual awards for best innovations and innovative entrepreneurs - Create an online platform
Evaluation and Policy Improvement (Iterative process of measurement, review and improvement)	- Measure continuously the results of support activities for innovation and entrepreneurship - Develop specific Innovation index - Combine specific indicators with international innovation indicators

Source: Authors

4. Main conclusions

As is easily noticeable, the Innohubs project involved a broad set of steps and a long learning process. With a budget of €1,469,085 (with 70% EC co-funding), this included various activities, such as: the sharing of good practice and analysis of the factors critical to success; the development of an effective network of partners with a common goal; the construction and testing of a model for corporate innovation; the integration of policies, models, processes, activities and tools for application by all network partners; the dissemination of results among the six participants and also among other networks of European regions and cities. Although each city has, in fact, specific settings, and even their own particular priorities, the Innohubs model allows for responding to the challenges imposed by the particular dynamics of each municipality or region.

This correspondingly means that implementation may be tailored to suit the different needs and aspirations of particular municipalities. The Innohubs model also proves a tool for improving the collaborative business working mindset as well as a proposal for adding value, sharing and disseminating knowledge among strategic actors from any territory.

The development of the project led to the writing of a practical guide to innovation processes and collaborative learning: the Book Guide to Designing the Future. This book may serve as a stimulus for other municipalities or European regions seeking to bolster their own ecosystems of innovation and entrepreneurship.

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CHAPTER THIRTEEN

GOVERNANCE AND ADAPTATION STRATEGIES OF COOPERATIVES IN THE AGRO-FOOD SECTOR: EVIDENCE FROM AN ITALIAN CASE STUDY

DIEGO BEGALLI AND ROBERTA CAPITELLO

1. Cooperatives: towards new organisational models

In the Italian socio-economic context, the cooperative has not yet reached its full potential, but it is still a modern organisational form that can provide new opportunities to firms in the agro-food sector. In Europe, cooperatives play an important role. According to the European Commission (2013), there are 250,000 European cooperatives, with more than 163 million members, which together employ 5.4 million people. They are more widespread in some countries and economic sectors than in others; for example, in agriculture, forestry, banking and retail. Certain of these sectors have a very high presence of cooperatives, particularly in countries in the north of Europe. Recently, cooperatives have branched out from their original business sectors, moving into new service activities, such as education, social services, transport, and finance for small-to-medium enterprises.

Approximately 40,000 cooperatives, with a turnover of more than 300 billion euro and a workforce of 660,000 employees operate in the European food sector. They have a significant market share, controlling 50% of the market for raw materials and 60% for food products, reaching up to 80% in some countries, such as the Netherlands and Finland (Cogeca, 2010).

The European cooperative system has two different organisational models: the Northern and the Southern models (Nicolas, 1994). The first model is applied in countries like Germany, Denmark and the Netherlands.

It is based on the liberal tradition, flexibility of legal rules and bylaws, and has not been assisted with tax privileges. This model has allowed agricultural cooperatives to adapt to economic and social changes and carry out a process of concentration and strategic development since the 1960s. Large and powerful cooperatives compete and lead in the international market. The second model, mainly adopted in France, Italy and Spain, has been aided by government interventions offering financial support, tax incentives and a detailed legal framework. This cooperative model has some points of criticism: regulatory constraints in order to obtain public support; difficulties in strategic and financial management; inefficiencies in decision-making processes and political criteria in the choice of management.

From the beginning of the 1990s, the Italian cooperatives adopted a modern perspective from both the regulatory and managerial perspectives as a result of changes in the international and domestic contexts. In 1992, after many years of lobbying, relevant regulatory changes were made with the introduction of the typology of the investor member. In 2003, the reform of company law changed certain rules related to cooperatives and the requirement for prevalent mutuality was introduced, meaning that at least half of the volume or value of the product must be supplied by the members of agricultural cooperatives. If these cooperatives do not respect this requirement, they are no longer able to receive public contributions and tax incentives. From a managerial point of view, the dynamism required by the market led to an evolution of the objectives of the cooperatives that makes the traditional cooperative member approach no longer adequate. The cooperative cannot be regarded as a simple extension of the members' businesses; but rather, as a separate entity that pursues financial and economic equilibrium as any other kind of business does, ensuring adequate patronage and returns to members.

The case of the Italian cooperative system is relevant in the European context because it is characterised by the coexistence of traditional and modern managerial approaches. The level of autonomy of the cooperatives from their members is the main differentiating aspect of these approaches. On this basis, four reference typologies still exist in the Italian cooperative system (Matacena, 1982): i) the *pure cooperative*, whose services benefit the members, with its economic aim being to maximise the members' profit; ii) the *co-dependent integrated cooperative*, in which the cooperative and the members constitute a system of firms, where the cooperative is interested in its strategic, economic and financial development and the members actively take part in the management and control of the cooperative. Here, the aims of the members and the cooperative are integrated; iii) the *management-driven cooperative*, in which the managers are the driving force of the cooperative's governance and management and the members have limited control of the management and iv) the *profit-driven cooperative*, in which the cooperative form is maintained for legal and taxation reasons, but in reality, it works as a non-cooperative business.

This classification shows the life cycle of the Italian cooperative system over the past 20 years. In particular, in recent years, cooperatives have sought greater downstream negotiation power via management and organisational changes. This has caused a reduction in the numbers of cooperatives and a growth in their size.

This chapter aims to highlight the crucial elements of agro-food cooperative organisation and governance. Attention is paid to the effect of structural changes on the social dimensions of the cooperative. The former could be implemented in the short term through external growth. The latter could only be developed in the medium-to-long term due to the productive, economic, socio-psychological and cultural constraints of their members. This chapter is organised as follows: Section 2 highlights the importance of cooperatives in the Italian agro-food system. A critical analysis of the relevant literature reviewed is reported in Section 3. Possible paths of development of the cooperative model are discussed, using case studies, in Section 4, and Section 5 concludes the chapter.

2. The role of cooperatives in the Italian agro-food system

In Italy, cooperatives are a dynamic actor in the economic system. According to Censis (2012), the total number of cooperatives increased from 70,029 to 79,949 in the period 2001–11; between 2007 and 2011, the number of employees in cooperatives increased by 8%, while the labour market as a whole and the other forms of enterprise showed decreases of 1.2% and 2.3%, respectively. Cooperatives can be found mainly in services, manufacturing, agriculture, and agro-industry. In agriculture and food processing there were 9,000 cooperatives operating in 2012, with more than 100,000 employees (Censis, 2012). According to INEA (2013), 75% of these were operating in agriculture, 15% in the food processing industry and the remainder in wholesale. About two thirds of cooperatives belong to national associations.

Italian cooperatives are particularly important for wine, fruit and vegetables, meat, dairy, services to farmers and olive oil. It is estimated that they control 36% of total agricultural value, especially in the north of the country (57%), in wine (52%) and fruit and vegetables (39%). Cooperative members supply 86% of the raw materials processed. The cooperatives generate one fourth of the turnover of the Italian food industry and are mainly focused on the domestic market; they generate only 10% of the food export value, to which the wine, and fruit and vegetable cooperatives largely contribute (Osservatorio della Cooperazione Agricola Italiana, 2011).

In Italy, cooperatives contribute to a more effective integration of the food supply chain. Structural deficiencies due to the small size and fragmentation of Italy's agricultural enterprises are partially overcome by the ability of the cooperatives to aggregate supply, which in turn determines a higher bargaining power, both with suppliers and customers. Cooperative integration also allows members i) to realise economies of scale in the processing and commercial stages; ii) to reduce the asymmetry of information between farmers and market and iii) to address the agricultural investments to market needs.

The future of the cooperatives depends more and more on their ability to connect the farmer with the market, to drive business choices and to involve farmers in the cooperative's activities, determining the interdependence between the cooperative's aims and the members' aims.

The main strengths of the cooperatives are their links with local territorial systems and their ability to effectively coordinate individuals, enterprises and institutions. Their main weaknesses are undercapitalisation as a result of the historical Italian regulatory framework, which restricted cooperative members' participation in the cooperative capital, and by the rules of the indivisibility and the inalienability of corporate assets. These factors penalise long-term development objectives as well as members' capital participation in their cooperatives. Moreover, the so called principle of democratic control, 'one person one vote', must considered a source of managerial inefficiency, particularly in the presence of large numbers of different members.

The surplus generated by cooperatives has also a social dimension, since in many Italian rural areas they play a relevant role in the valorisation of local production systems characterised by: i) human capital with specific skills, ii) high (technological, economic and cultural) exit barriers and iii) the specificity of the rural context, mainly in relation to the countryside, traditions and local identity. In these situations, cooperatives contribute to the enhancement of farmers' competitiveness in the value chain. They are required to improve their ability in the creation of new collaborative networks aimed at promoting technological innovation in processes as well as to optimise the management of human and financial resources.

Over the last ten years, the changes in the agro-food cooperatives have been marked by the birth of new organisational processes. These changes have required the adoption of new strategic and managerial approaches in terms of both management and relationships with members. Cohesion based on the traditional principles of cooperative mutuality, solidarity and democracy has had to be adapted into the social governance of cooperatives. This aspect is particularly relevant because it concerns the level of autonomy of the cooperative from its members, and the relationships between the cooperative and its members. These organisational changes may create difficult relationships between members and management if the development strategies are not fully understood. New crucial elements are: i) the growth of responsibility and the specialisation of the management, ii) the level of participation and control by the members and iii) the understanding and sharing of management choices by cooperative members.

3. Agro-food cooperatives in the economic literature

There is considerable economic literature on agro-food cooperatives. Staatz (1989) and Cook *et al.* (2004) provided a critical analysis of theories suggested for agricultural and agro-food cooperatives. Since the early 1960s, the first studies of agricultural cooperatives have been focused on the economic equilibrium of the cooperative as a simple extension of the members' farm firms. Since the 1980s, new developments in the theories of firms have been applied to cooperatives in order to explain agricultural cooperatives from an organisational, managerial and behavioural point of view. Member heterogeneity, different opinions between members and management, information costs, the different relevance of stakeholders and the complexity of the decision-making process have all been studied as the main factors that affect a cooperative's behaviour (Cook *et al.*, 2004).

The cooperative has been studied as a coalition of economic agents to emphasise the dynamics of coordination between them and the formation of groups of members with different bargaining powers in relation to the cooperative's stated objectives and benefits distribution. The cooperative has also been studied as a 'node of contracts' in order to highlight contractual relations between stakeholders in the definition of the company's organisation as well as the processes of strategic planning and control.

Since the 1990s, the dynamics of the competitive context have demanded that cooperatives find new organisational and strategic solutions to enhance their business efficiency and members' involvement and to face the structural changes and the intensification of merger and acquisition processes. Several studies have paid renewed attention to cooperative management problems. Four main themes discussed in the literature are particularly relevant to explain the actual dynamics of the agro-food chain. These are:

1) the search for new organisational forms, participation in risk by members and the concept of 'collective entrepreneurship';
2) relationships between members and corporate governance, and between members and management;
3) psychosocial aspects of the member–cooperative relationship; and
4) strategies to orient the members' business activities towards quality improvement of deliveries.

With respect to the first theme, Cook and Iliopoulos (1999) proposed the concept of 'collective entrepreneurship'. Observing the development of the agricultural cooperatives in United States, they pointed out that an increasing number of traditional, defensive cooperatives were becoming 'new generation' cooperatives, 'more interested in extracting rents from value-added activities', and with 'a more clearly defined set of property rights in order to create investment incentives to producers' (Cook and Iliopoulos, 1999, pp. 529–530).

The empirical evidence related to agricultural cooperatives in North America, Oceania and North Europe shows very complex and diversified organisational models. These have satisfied the need to adopt an offensive marketing strategy and obtain greater capital participation by cooperative members. The cooperatives were seeking new solutions by developing hybrid organisational forms. Cook and Chaddad (2004) identified different cooperatives typologies by considering 'how the ownership rights are defined and assigned to economic agents tied contractually to the firm (members, patrons, and investors)' (p. 1249). In the traditional cooperative, where the ownership rights are restricted to member patrons, they are increasingly engaged in investing in the cooperative. In the other new typologies, ownership rights are not restricted to member patrons and they are characterised by simplification of the decision-making process, greater financial flexibility, and participation in investments by their members.

These new organisational forms are difficult to transfer to the Italian cooperatives due to restrictive legislation and the traditional cultural approach of members. For Italian cooperatives, a shift to the collective entrepreneurship orientation would mean changes in attitude for both the cooperative and its members, experimenting with organisational innovations, capturing new opportunities, increasing their willingness to take risks and the members contributing to the cooperative's capital as well as accepting different allocations of patronage returns.

All these elements involve the second theme; that is, the relationships between members and the cooperative and between members and the cooperative's management. According to Cornforth (2004), the major weaknesses in cooperative governance concern the participation of the members and the role of the board of directors. The characteristics of the board members, primarily those concerning their specific skills and the mode of selection (within or outside the social structure of the cooperative), and their relationships with the management, are particularly important. The latter aspect gives new theoretical relevance to one of the main contributions of Italian researchers to the studies on agricultural cooperatives (Benvenuti, 1980; Saccomandi, 1992) who theorised that the board of directors, the management and the members are linked in a cooperative triangle called the 'cooperative nexus'.

In traditional cooperatives, this nexus could fail because of the low degree of members' participation in governance and the delegation process between members and the board of directors, and sometimes between the board of directors and the management. In large cooperatives, the aggregation processes and the professionalisation of management create a concentration of strategic and decision-making competences in the management and an increase in the social and cultural distance between members, the board of directors and the top management (Ruffio *et al.*, 2001).

The third relevant theme analysed in recent literature concerns the psychosocial aspects of the relationship between cooperatives and their members. Particular attention has been paid to the role of trust. This determines the members' participation in the cooperative's governance, the cooperative's commitment and performance evaluation. Scholars have shown that some member characteristics (i.e., age and experience) affect the participatory link between the member and the cooperative (Östenberg and Nilsson, 2009). Different kinds of trust have been identified and their effects on group cohesion and membership performance and satisfaction evaluated. Trust among members and trust between members and managers were distinguished. In addition, the differentiated impacts of cognitive trust and affective trust were evaluated (Hansen *et al.*, 2002). The managerial implications are relevant: the creation of a favourable social environment improves member–cooperative integration and company performance. However, it happens through relational processes that evolve in the long term (Barraud-Didier *et al.*, 2012).

The fourth theme to be discussed concerns ways to enhance the relationship between members and their cooperative in addition to valorizing farmers deliveries. This aspect has been increasingly influenced by the socio-psychological perspective. According to Lambert (2003), the relationship between members and the cooperative has as its basic elements the social identity, and, in particular, the relationships between the board of directors and the members. Lambert (2003) takes the example of some French wineries. In different situations in cooperative life (entrance, power distribution, participation in governance, relationship of the members with the board of directors and the management), the cooperative management employs coercive measures, applying them with flexibility to achieve members' approval.

Biarnès and Touzard (2003) focused on differentiated remuneration for grapes in the French cooperatives and its importance to corporate governance. They explained that this change in the remuneration mechanism is a real process of organisational innovation, difficult to implement and based on a formal device. It requires interpersonal adjustments to be applied and to contribute to its adaptability. Some operational key elements have been identified: i) innovation in marketing strategies, ii) stable, simple and flexible standards, iii) transparency in the decision-making process, and iv) information and dissemination among members. A multidisciplinary approach linking economical, organisational, technical and sociological aspects is necessary.

4. New development paths of agro-food cooperatives in Italy

In light of the role played by the cooperative in the agro-food system, the organisational form and the social dimension are crucial elements in a future perspective. The Italian cooperative experience confirms that while the organisational structure can be changed in a relatively short period of time, membership participation evolves very slowly, because of the farmers' productive, economic, socio-psychological and cultural constraints. The need to ensure cohesion between the cooperative and its members should push cooperatives to take into account that organisational and strategic changes should go hand-in-hand with specific interventions that develop members' participation.

Over the last two decades, the most dynamic Italian cooperatives have adopted organisational paths aimed towards corporate aggregation and concentration, giving rise to cooperatives that are competitive in both the domestic and international markets.

In this chapter, four cooperative enterprises are used as case studies to show the processes of structural adjustment that have been put in place. These are discussed below, with a description of the in-depth changes in their organisational structure and the resulting economic and social impacts.

The first case study is focused on the ‘Cantina di Soave’. Since the second half of the 1990s, it has undertaken a process of growth through acquisition and incorporation of other cooperatives (Figure 1 and Table 1). In a short period of time the Cantina di Soave has become one of the largest wine cooperatives in Italy. These merger processes were the most suitable solution for a highly local competitive situation. The Cantina di Soave is characterised by a larger production capacity than the other cooperatives, greater managerial skills, its differentiation strategies and price leadership. Prior to this, the merged cooperatives suffered from structural limits, economic and managerial inefficiencies, and relational difficulties with their memberships, as well as critical financial situations.

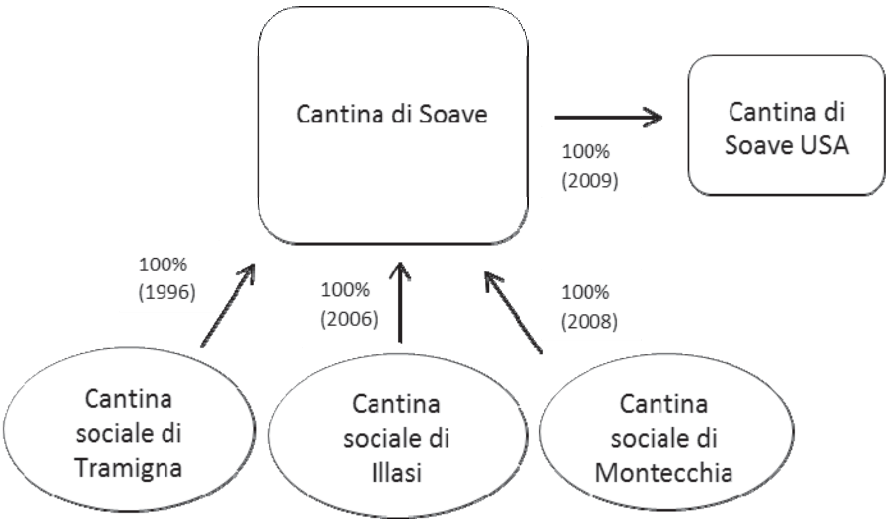

Figure 1: The corporate structure of Cantina di Soave

-Founded in 1898 -6,000 hectares of vineyards (48% of the enrolled vineyards in the Soave Protected Designation of Origin [PDO]), 49% in Valpolicella PDO and 70% in Lessini Durello PDO) -2,200 members -Six wineries and a commercial company in the United States -100,000 tons of grapes processed -164 employees -50% of volume exported to 52 countries -Turnover of 105 million euro

Table 1: Key facts for Cantina di Soave

The new organisation has resulted in the following effects:

- A managerial structure organised by functions, characterised by significant coordination and supervisory power for the CEO; special attention is paid to marketing and communications;
- High vineyard and wine production concentration in two of the largest Italian PDOs (Soave and Valpolicella PDO wines), high market power in the bulk and bottled wine supply and strong decision-making power in the PDOs' inter-professional committees;
- Deepening of product and brand differentiation strategies, control of the distribution channels in domestic and foreign markets and communication strategies similar to private companies;
- Recognition by public institutions of a socio-economic role strengthened by the mergers, because of its capacity to generate value for members, their families and the local system;
- Difficulty in the management of the membership as a result of their heterogeneity; and
- Impact of marketing strategies at an inter-organisational level.

The second case study concerns the 'Collis Veneto Wine Group'. In this case, the changes were rapid and were permitted in order to establish a cooperative group, also including private wineries, with significant economic and social weight (Figure 2 and Table 2).

From the 1990s, two large cooperatives ('Colognola ai Colli' and 'Colli Berici'), potential competitors, have adopted similar organisational and strategic choices: acquisition of small cooperatives, participation in commercial private companies, product differentiation strategies and downstream control. In 2008, they constituted a second level cooperative to have greater power in the final market, maintaining the corporate identity for their customers and their grape grower members.

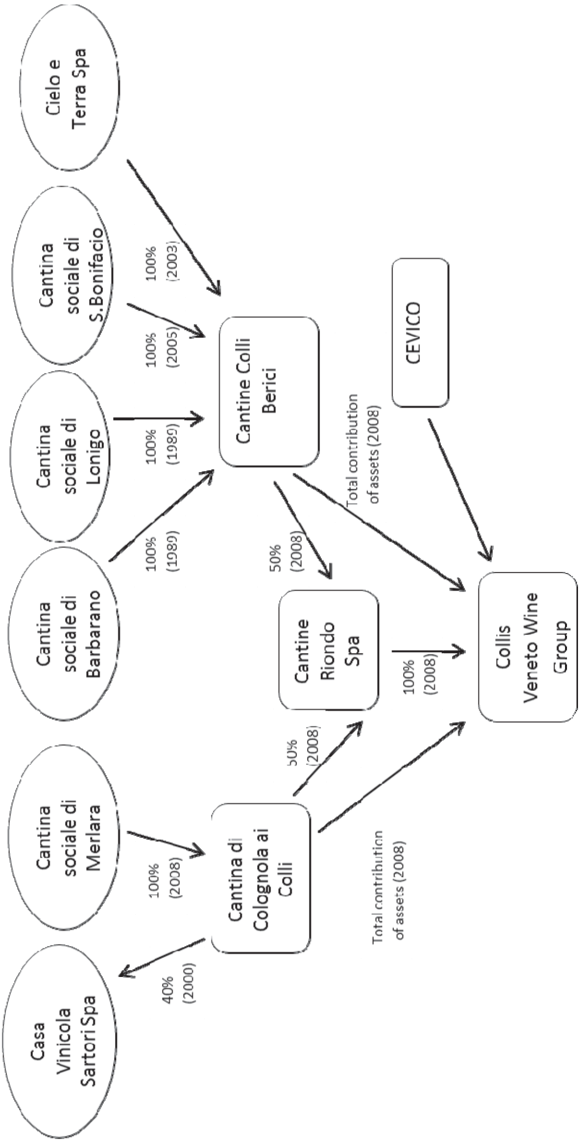

Figure 2: The organisational structure of the Collis Veneto Wine Group

-Founded in 2008 -6,700 hectares of vineyards (3,500 enrolled in PDO and 3,200 enrolled in Protected Geographical Indication [PGI]) -3,000 members -A presence in six PDO areas (Soave, Valpolicella, Arcole, Colli Berici and Merlara) -140,000 tons of grapes processed -110,000,000 litres of wine produced -Six wineries and three bottling factories -15% of the wine production of the Veneto region -2% of Italian wine production

Table 2—Key facts for the Collis Veneto Wine Group

This agreement has had the following effects:

- A strategic concentration of the marketing and public relations functions, control of the supply chain;
- Preservation of their legal identity, product and brand differentiation;
- Strong vineyard and wine production concentration in the cooperative group and direct management of members by the single cooperative;
- A complex organisational structure characterised by different decision-making centres and difficulties in managing tangible and intangible assets and human resources.

The third case study refers to ‘Agriform’, a second degree cooperative consisting of dairies operating in Northern Italy, which in turn unites over 1,000 farmers. It is specialised in the maturation of typical cheeses and the marketing of Grana Padano PDO cheese, as well as other cheeses, through direct relationships with retail chains in Italy and abroad. In addition to the cooperative dairies, some private and cooperative dairies are members of the partnership, and two investor companies participate as shareholders (Tables 3 and 4).

This cooperative has been the answer to the problems of investment management and marketing faced by smaller companies producing cheeses. Agriform’s economic and social impact is significant because it has become one of the most important companies in the Italian market for Grana Padano and other PDO cheeses, allowing member companies and their shareholders to manage production according to market trends and to protect the exploitation of agricultural raw material. This has also enabled an improvement in the bargaining power of the agricultural and food processing phases along the dairy supply chain, as well the location of these phases to be retained in the typical areas of production. Through Agriform, the associated companies have made substantial investments in the later stages of processing (e.g., maturing, portioning and packaging). They grew the added value of the product through a developing a higher content of the service offered and have expanded the product portfolio with new products and brands. Further, the portfolio of countries has been diversified, which in turn increased the share of the exported production, enhancing the communication strategy of local products in the international market.

-Founded in 1980
-Has a capital of 7,979,000 euro
-Equity of 10,881,000 euro
-A turnover of 149,714,000 euro in 2012
-33% of volume exported to over 50 countries
-26 million units of grated and portioned cheese packages (59% of sales)
-350,000 forms of Grana Padano cheese, 40,000 of Parmigiano-Reggiano, 200,000 of Asiago and over 120,000 of Piave, Montasio and Monte Veronese

Table 3: Key facts for Agriform

1980—The foundation: nine dairies came together to enhance the dairy production of local cooperatives
1988—The total compulsory delivery by the members: a relevant step towards the reinforcement of commercial role of Agriform
1991—Purchase of a storehouse: for the preservation of cheese, with a capacity of 85,000 forms
2000—Enlargement of the storehouse: a storage capacity of 120,000 forms
2002—New packaging centre: with advanced portioning and packaging technologies to meet the requests of retailers and HoReCa in Italy and abroad
2006—New storehouse to mature cheese, with storage capacity of 200,000 forms
2008—New packaging line
2009—Opening of a retail store at the headquarters

Table 4: The main stages of Agriform's growth

The fourth case study concerns 'APO Scaligera', a large association of fruit and vegetable producers established as a cooperative and recognised by the European Union. Founded in 1997 by the union of several cooperatives operating in the fruit and vegetable industry, today it brings together 450 farms, mainly located in the north-east of Italy, offering a relevant and diversified portfolio of products. It operates as a second degree cooperative that associates five fruit and vegetable cooperatives (one of which also specialises in organic production). The actual size is the result of successive aggregations that responded to the needs of associations in the fruit and vegetable industry and is aimed at achieving adequate production quantities in order to: i) meet the demand of large buyers in the retail international market, ii) differentiate the product portfolio, iii) manage the required production quality standards and iv) increase the ability to generate new added value.

These case studies show that the basic strategy is the strengthening of competitiveness downstream in the supply chain. Technological investments are a means to reach the following objectives: i) to improve the supply quality stated through the marketing strategy plans, ii) to manage high added value products and iii) to control the logistic organisation of the supply chain. The management of relationships with the members, primarily constituted by small farms, is the main challenge these large structures have to face in the near future in order to build a competitive and sustainable supply chain 'from producer to consumer'. In this context, an increased transparency of cooperative policies particularly concerning i) the strategy of product innovation, ii) the procedures for the implementation of quality and certification systems, and iii) new control mechanisms of vertical integration both upstream and downstream of the cooperative, is one of the key elements.

The growth of a cooperative's size can make the relationship with members more fragile if organisational changes are not accompanied by management choices able to ensure consistency between the objectives of the cooperative and those of the associated farms. This inevitably passes through a high clarity of cooperative strategic vision and objectives, which are required to be shared with shareholders through the implementation of a bottom-up approach at different levels of the strategic decision-making process. This implies the strengthening of the cooperative communication and training system and setting up a system of incentives to address shareholders' investment and production decisions.

Taking the example of cooperation in the wine sector, it is interesting to examine the characteristics of the associated companies. In the study of Begalli and Capitello (2013), a sample of members was analysed through personal interviews in order to investigate the dynamics of the corporate development.

Five main aspects that affected the members emerged:

1) The reasons that explain the farmers' choice to be involved in grape production and to be members of the cooperative. These concern the creation or the integration of the family income, the increase of the land value and the passion for, and involvement in, farming and territorial values;
2) The uncertainty about the future of the family farm, given that almost half of the respondents lack the possibility for the continuation of their family's agricultural activity by future generations. Inter-generational change is therefore an important critical factor for the development of cooperatives;
3) Farm management problems, especially those concerning vineyards, due to the existence of asymmetry of information in technical and marketing knowledge. The grape prices paid by the cooperative are not always considered to be fully able to cover the short-term production costs and to sustain farmer's investments. This raises two critical key areas: i) the farmers' participation and sharing of the corporate strategy and ii) the transfer of knowledge from the management to members;
4) The awareness that the key factors to realise economic efficiency in the associated farms are the farmers' propensity to invest in viticulture and the quality of their human capital. These factors influence both the grape price paid by the cooperative and the reduction in production costs;
5) The cooperative–member relationship, which is influenced by the flow of information concerning agronomic, economic and regulatory aspects. The use of new information technologies increases the efficiency of these activities. A strong heterogeneity of opinions among the members emerged. These concern some important issues such as the assessment of grape quality, the provision of cooperative services and the dissemination of information from the cooperative to the members.

Attention to the social dimension cannot ignore differences between members that can help (or hinder) the relationship between members and their cooperative. In a study carried out by Capitello and Agnoli (2009), some of the main differentiating factors were identified. These are:

- The propensity towards innovation, which in this case concerns the choices adopted for vine cultivation systems and the mechanisation of agricultural operations;
- The vineyard size, as members with the largest vineyards are more likely to adopt innovations and to comply with the guidelines of the management;
- The investments made in the vineyard and the adoption of less traditional agricultural systems that are more in line with the needs of the international market;
- Location in areas dedicated to viticulture and adherence to collective protocols of typical products or to quality projects triggered by the cooperative;
- The degree of specialisation/differentiation of the grape production.

The factors related to the quality of the human factors overlap with structural factors in explaining differentiation within the cooperative.

Capitello and Agnoli (2009) grouped the social structure into clusters characterised by common elements that could help the management of the cooperative to differentiate the models of their relationships with their members relative to their characteristics. Five different groups of members were identified: a) members of mature–old age who have exhausted their innovation ability, b) members of mature–old age characterised by opportunistic behaviour, c) members focused on the dimensional growth of the farm, d) members who are managing small farms and are focused on typical products and d) members with large farms fully integrated with the strategic decisions of the cooperative.

This differentiation of the membership requires the cooperative to put in place different actions based on the members' typologies. In fact, while members of typology d) have already implemented production decisions that are consistent with the objectives of the cooperative, a necessary condition for the development of the first two groups (a and b) is the adoption of solutions able to favour an inter-generational change of the farm business. For the other two groups (c and d) the improvement of the grape quality standards requires the adoption of differentiated strategies by the management in order to reduce the yields per hectare in the first situation, and to enhance the farm vocation and entrepreneurial ability in the second.

The strategic, socio-demographic and cultural heterogeneity of members that characterise many cooperatives, especially the larger ones, suggests that a single quality project indiscriminately designed for all members will be largely ineffective. Consequently, in order to increase the social relationship, simultaneous and differentiated actions may be more effective. These concern not only the production choices, but also the entrepreneurial skills and the cultural, social and territorial cohesion on the cooperative's values.

5. Conclusions

In the Italian agro-food system cooperation is still an important tool to encourage collaboration between businesses, the concentration of agricultural supply and strengthening the bargaining power of the primary sector to safeguard the income of farmers who fail to reach the market independently. The processes of aggregation of cooperative enterprises confirm the need to strengthen the economies of scale in this phase of industrial transformation and to increase the control of the supply chain.

The dynamics of the competitive environment has increased the gap between the large cooperative enterprises, characterised by organisational and management skills and appropriate market positioning, and the smaller enterprises, which are focused on the provision of services to their members, who have difficulty in achieving adequate technical efficiency levels and a competitive presence in the market. On the other hand, the small cooperatives may have a strength that is often underutilised in their local production area.

This analysis of the agro-food cooperative system helped to identify some critical elements for the future:

- The structural and strategic processes that push mergers between cooperatives;
- The consistency between members and cooperative objectives in a situation in which the cooperative organisation has become increasingly complex and the social structure is characterised by fragility, and the impact of inter-generational change;
- The ability to identify the socio-cultural and structural factors able to facilitate the integration between the social structure and the cooperative, and between enterprises;
- The growth of the human capital in the associated farms and within the cooperative in order to support long-term market strategies, investments, and a reduction of risk aversion and opportunistic behaviour;
- The optimisation of the internal communication flows to favour transparency of decision-making processes and trust between the members and the cooperative;

- The marketing implications due to product and brand differentiation, the control of distribution channels and the creation of long-term relationships with intermediaries and consumers;
- The role played by cooperatives in the social and territorial contexts in which they are established, and their ability to manage the local supply chain, which in turn determines competitive advantages in terms of specific combinations between environmental, social and economic factors.

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CHAPTER FOURTEEN

BUFFERING OUT THE EFFECTS OF SURFACE ACTING WHEN DEALING WITH AGGRESSIVE CUSTOMERS: A REVIEW OF THE EXISTING LITERATURE

ASPASIA SIMILLIDOU-THEODOSIOU
AND DEMETRIS VRONTIS

1. Introduction

Emotional Labour and its impact in employees have received considerable attention in the recent decades. The term emotional labour has been first described by Hochschild (1983:7) as "the management of feeling to create a publicly observable facial and bodily display".

The emotions that employees need to display vary among happiness, enjoyment, love, compassion, sadness. Those emotions are not always felt by employees (Huang, Dai 2010). Sometimes employees deeply work on an emotion that will be displayed (Deep Acting) and some other times they simply act (Surface Acting) according to Ashforth & Humphrey (1993). Emotional labour is undertaken by these two acting strategies (Hochschild 1983). They are both defined and discussed below.

Harris Reynolds (2003); Booth and Mann (2005); Fitness (2000) identified and discussed the consequences of emotional labour when dealing with aggressive customers. The impact of aggressive customers' behaviour on employees engaging in emotional labour has received too much attention in the literature at the last decades. This existing literature on this area has concluded that when customer service representatives interact with aggressive customers this leads to a number of negative results.

2. Aim and Objectives

The aim of this chapter is to discuss and analyse the various consequences occurring when employees are dealing with aggressive customers and how to overcome them. Most employees, especially the ones that are working in the services industries are facing many challenges when interacting with customers. Their job becomes much more complex when those employees have to deal with aggressive customers. This chapter will discuss in detail the various consequences and identify the ways of overcoming them. The aim is to discuss how employees are affected both in the short term but also mention any long term implications. Further, the chapter will conclude in an extensive discussion of the existing literature findings on how to buffer out those consequences and help employees feel better and happier in the jobs.

The objectives of this chapter are the following:

- To explain the theory of emotional labour
- To discuss the consequences of engaging in emotional labour while interacting with aggressive customers
- To analyse the ways of overcoming those consequences and the various implications

To expand the discussion on the consequences of aggressive customers' behaviour on employees engaging in emotional labour the two types of emotional labour need to be explained and examined.

3. The theory of emotional labour

3.1 Types of Emotional Labour: Deep and Surface Acting

Hochschild (1983) has first identified two ways of engaging in emotional labour. These two ways are deep and surface acting. Further research has supported these two methods (Grandey 2000). When employees are being asked to perform emotional labour they do that by using one of the two different strategies (deep and surface acting). Ashforth and Humphrey (1993); Grandey (2000); Collishaw *et al.,* (2008) have described deep acting as the shaping out of inner feelings and emotions to enable the employees to first experience those desired emotions before expressing them. Blau *et al.,* (2010); Hochschild (1983); Grandey *et al.,* (2004) describe surface acting as suppressing or hiding true emotions in order to display emotions that will be publicly acceptable. On one hand, deep acting is achieved through shaping up feelings and changing perceptions in order for the behaviour of a front line employee to be as natural as possible (Bechtoldt *et al.,* 2011). This usually creates positive feelings but it takes too much effort and mind training to do that. Hochschild (1983) states that many service employees have managed to engage in deep acting after working a lot on their own feelings and perceptions. On the other hand, when engaging in surface acting, the individual is not imposing real emotions but fake ones. When engaging into surface acting the service provider works on acceptable behaviours that have to be imposed by them by suppressing real feelings. For example a hotel clerk may put on a sympathetic smile towards a customer's complaint but in reality he feels unhappy or irritated.

Deep Acting Method

During exploring these two very important emotional labour strategies, various researchers distinguished different types of deep and surface acting. Employees that engage in deep acting focus on their own inner feelings, in order for them to be able to display the right and expected organisational emotions (Kruml & Geddes 2000). For example, in their attempt to display understanding or empathy for a customer they attempt to "actually feel" those emotions. Bono and Vey (2005) as well as Kruml and Geddes (2000) suggest that there are two ways of deep acting, passive and active. In passive deep acting, the employee actually feels the emotion they are displaying. On the other hand, during active deep acting, the employee needs to change his/her own feeling and perception, in order for them to display the work related expected emotion. Authors discussing about deep acting, have identified active deep acting as the only true deep acting method. This is because this method needs actual effort and personal development in order for an employee to be able to display more "natural" emotions as Blau *et al.,* (2010) explain. On the other hand, passive deep acting occurs only when an employee really feels the emotion he is displaying and this deeply depends on one's personality. The only type of deep acting that organisations can work on with their employees is active deep acting.

Building on this, there are two ways to achieve active deep acting. Attentional deployment is one method, that is actually based on "method acting" in theatre as Turner & Edgley (2006) state. This method actually requires a person to think about certain events that in reality are relevant to the situation as well as the emotion that they need to display. For example, a person may have to think of a happy situation in their life when they need to impose feelings of happiness. They then draw a picture of this situation in their minds and use this picture to enable them to display those certain emotions when needed at work. According to Beal *et al.,* (2006) this first way of achieving active deep acting needs training and development as well as a lot of effort on behalf of the employees. When this is achieved, organisations reach better customer service results and they gain a competitive advantage. As Grandey *et al.,* (2005) state, attentional deployment is a method of active deep acting that suggests the so called “positive refocusing”. The employee is being asked to remember a happy situation in their lives and then draw a picture which, in the end, makes them feel happy as well. Even though this method is more actively used in theatres, many organisations have used it effectively and trained their staff to be able to apply it at work.

The second way of enabling an employee to be engaged in active deep acting is cognitive change. According to Grandey *et al.,* (2007) this involves re appraising the whole situation so that the employee will be able to reduce the emotional impact and thus feel positive and display the required feelings and behaviours. Whereas Attentional Deployment focuses on changing one’s feelings, this method is merely trying to change a person’s perception of the current situation (Beal *et al.,* 2006). For example, a bank assistant while using this method will have to make an effort to understand a client’s feelings when expressing anger. This will therefore enable the employee to change his perception of facing a difficult client to perceiving the client as someone that feels bad and needs support. Positive feelings that are expected to be created in such situation will then be more easily displayed.

According to Bolton & Boyd (2003) and Hochschild (1983), to practically apply any deep acting method, employees need to receive extensive training from organisations. Hochschild (1983) describes the training that a flight attendant has received in order for her to understand customer’s frustration. She describes it as not only a simple training course, but a whole process that will cause a change in employee’s mind-sets. Further development of deep acting method has introduced more ways that will teach employees how to be engaged in active deep acting. One way is through role playing; when employees will keep practicing their skills until they can fully adopt the deep acting method (Blau *et al.,* 2010).

Grandey (2003) says that deep acting workers are not only working on their own feelings, and thus change them in order to meet the standards, but they also feel empathy about the customer. Understanding the customer’s feelings is really important and people engaging in deep acting do that as well. Therefore, deep acting helps employees display natural feelings.

Surface Acting Method

Building on the initial distinction between surface and deep acting that Hochschild (1983) has identified, many authors worked on the surface acting method and how it is achieved. Surface acting is performed by many employees on an everyday basis. They display certain emotions by just faking them. For example, an employee may smile to an unhappy customer but their inner feeling is not compatible to the smile (Adelmann, 1989). They may feel sad or disappointed, but they just put on a happy face because this is what they should do. It has been argued by Bechtoldt *et al.,* (2011) that surface acting is being used on a greater extent than deep acting. They state that using surface acting also requires too much effort on behalf of the employees. It is really difficult for people to engage themselves in any kind of surface acting, especially since this means that they are working on a fake imposed feeling in order to display it correctly according to the organisational rules.

Ashforth & Humphrey (1993) have initially identified that talking about surface acting in general is not enough. There should be a distinction of the ways to engage in surface acting. There are two different ways of engaging in surface acting; Wang & Groth (2014), building on the existing theories, support and discuss about the two different ways which are faking positive emotions and suppressing negative emotions. The faked positive emotions method is used when employees need to show happiness, enjoyment, satisfaction, etc. When using the faked positive emotions method, the employee is actually displaying positive emotions without working in any way to make them more natural. So, unlike the active deep acting method, during engaging in surface acting, the employees work towards displaying fake positive emotions. Since service with a smile is very important during any customer interaction, employees fake this smile when using this method according to Glomb and Tews (2004). Putting on a fake sympathetic smile is something that occurs quite often, especially in the services industry. However, smiling is not the only positive emotion that employees are faking. When engaging in faked positive emotions, employees may be faking happiness, fulfilment, excitement, interest and many others.

Glomb and Tews (2004), state that employees engage in faking positive emotions method as competition increases. Customers are not satisfied with just receiving good service; they need to get something extra. Feeling happy during a service interaction is now much more important. Employees are aware of it from the very first day of their recruitment. Therefore, they know that displaying positive emotions is something they should be doing during their interactions with customers. Since working towards deep acting and displaying genuinely felt emotions is more challenging, most employees use the faked positive emotions method.

According to Taegoo (Terry *et al.,* 2012), even though many employees are engaging in surface acting, more specifically in faking positive emotions during their interactions with customers, this does not always work; they state that most customers are able to distinguish between a genuinely felt positive emotion and a fake one. This creates many problems in organisations, because even if employees seem to display the right emotions when being engaged in surface acting, this does not reflect the customers actual feeling. Engaging in surface acting through faking positive emotions may seem to be the "easy" way but this is not the real case. Despite the fact that faking positive emotions causes exhaustion, customers can easily identify that these emotions are not really felt and this brings along many negative consequences.

On the other hand, according to Brotheridge and Lee (2003), there is a second way of engaging in surface acting. It is what is being called as suppressing negative emotions. This occurs when an employee has negative emotions such as anger, frustration and stress. By using this method, the employee suppresses negative emotions in order for them to be able to express positive emotions towards a customer. Employees tend to use this method on many occasions. This chapter focuses on emotional labour during aggressive customers' interaction. During such interactions, employees tend to use this method in order for them to hide their negative emotions. Employees feel unhappy and dissatisfied when facing aggressive customers. These emotions need to be suppressed so that they can display the positive emotions that are required by the organisation they are working for.

As it is noted by Beal *et al.,* (2006), employees usually need to engage in emotional labour (either deep or surface acting) when they face difficult situations, such as an angry or a dissatisfied customer. During these situations, they need to either work intensively on imposing positive feelings (deep acting) or display faked emotions (surface acting). Either way they use it, employees need to work hard and this requires time and effort both on their behalf as well as the organisations in general. As it has been identified in the literature, dealing with aggressive customers can be very challenging (Grandey *et al.,* 2007).

Further in this chapter, existing literature findings will be discussed, in terms of engaging in emotional labour when facing customer aggressiveness.

4. Engaging in emotional labour when dealing with aggressive customers

There is a considerable attention in the literature regarding aggressive customers' behaviour and its impact on emotional labour. The behaviours and consequences on both service providers and customers have been greatly discussed.

The very demanding role of service providers has increased the need of regulating emotions in the last decades (Goussinsky 2011). Service providers are being asked to display certain emotions and organisations are nowadays more demanding on these issues, due to the increased need for survival in the highly competitive environment. Anger provoking events have increased this need of emotion regulation; especially since employees are now facing an increase in demanding and angry customers (Grandey, 2000). Harris and Reynolds (2003) have found that almost 82% of service providers working in the hospitality industry have been subjected to their customers' aggressive behaviour in the last year. It is clearly stated that aggressive behaviour is very usual among customers in the hospitality industry and this is mainly due to the increased demands of those that are spending money for leisure. Goussinsky (2011) states that even though people need to engage in emotional labour as part of their duties when interacting with customers, doing that during facing aggression has been very challenging. Both studies concluded that customer service representatives face customer aggressiveness to a great extent on a daily basis. This means that while customer service providers need to engage in emotional labour, they are also facing customer aggressiveness and they need to deal with it. This makes it even more difficult for them to deal with both the consequences of engaging in emotional labour and thus dealing with aggressiveness.

As it has been identified above, customer service providers will either shape their feelings (deep acting) or suppress their true emotions (surface acting), in order for them to be able to display the desired emotions. To what extent do customer service providers engage in either deep or surface acting when dealing with customer aggressiveness? The answer lies on many factors which are discussed in this section of the chapter.

5. The role of emotions

It has been identified in the literature that emotions are contagious (Huang & Dai, 2010). The author states in his article that when people are interacting with happy customers they really face no difficulties to display the desired emotions that organisations are asking them to display. On the contrary, when people are facing aggressiveness they cannot display positive emotions and they feel negative which affects the customer interaction outcome. Customer service representatives feel pleased and satisfied when facing happy customers and they have a feeling of dissatisfaction and unhappiness when facing aggressive customers (Gardner, 1985).

Many researchers have concluded that emotions are contagious; Barsade (2002) as well as Bechtoldt *et al.,* (2011) conclude that when customer service representatives are facing aggressiveness they find it very challenging to change their emotional state and impose positive feelings. This is mainly due to the fact that emotions are contagious and they are very easily being transferred from one person to another through interaction (either face to face or through the phone). Bakker *et al.,* (2005), while investigating contagious emotions between nurses, have found that negative emotions are easier to be transferred than positive ones. An example provided in this article is stress; this is an emotion that can be easily transmitted to the people around you, colleagues or customers. Stress or other negative emotions cannot be merely transmitted through interaction and communication with people that are affected with this emotion, but also through body language (Appelbaum & Roy-Girard, 2007). So a negative emotion can be easily adopted and passed on to employees. On the contrary, such employees may pass on the negative emotions to their colleagues. Therefore, through these existing findings, it can be concluded that people share negative emotions between them as well as the negative consequences that come through such emotions.

Service providers engage in surface acting when interacting with aggressive customers (Grandey 2000). Since people tend to feel what other people feel around them, they find it difficult to engage in deep acting when handling customer complaints and anger (Huang, Dai 2010). When service providers interact with customers in good moods, they find it very easy to display the feelings that are imposed by organisations and they engage in deep acting subconsciously. They impose the real feelings that their happy customers make them feel; this is what makes deep acting a more usual strategy when interacting with satisfied customers. On the other hand, when service providers face customer aggressiveness, they tend to feel angry and dissatisfied. This is mainly supported through the theory of contagious emotions that has been explained above. Therefore, customer service representatives tend to engage in surface acting through alienating the negative feelings being caused by the angry customers. They suppress these feelings so that they will be able to display the right feelings and behaviours.

6. The role of Affective Events Theory

Affective Events Theory (AET), suggests that all events in the workplace directly affect employees in terms of their emotional reactions, feelings and therefore behaviours (Weiss & Cropanzano 1996). Various authors based their research of engaging in emotional labour, while interacting with aggressive customers on that theory. Rupp and Spencer (2006) concluded that people that are unfairly treated, experience great levels of dissatisfaction and unhappiness in the workplace environment. Unfair treatment in this aspect involves both customer and colleagues' anger and any other interaction that people felt was bad. Adding to that, Grandey *et al.,* (2010) concluded that any bad interaction with customers imposed negative feelings and therefore negative behaviours. This was also based on the Affective Events Theory. On the contrary, since it is not accepted by organisations to express those negative feelings during customer interactions, service providers tend to hide them. Calabrese (2000), building on the Affective Events Theory, states that during any negative interaction in their workplace such as anger or sarcasm, people tend to hide their true feelings in order to impose behaviours that will be organisationally appropriate. Due to Huang and Dai (2010), the more negative feelings people have during an interaction with angry customers, the more they will be engaging in emotional labour through surface acting.

The important conclusion of the above studies is the fact that customer mood stage directly affects employees and on the contrary the way they engage in emotional labour. Grandey *et al.,* (2004) supports the above findings by the results derived during her research on the consequences of customer aggression on employees. She says that service representatives tend to engage in surface acting when they feel stressed because of customer aggression.

Since the existing literature review findings concluded that service providers engage mostly in surface acting during facing angry customers, this chapter will further discuss the consequences and how to overcome them.

Engaging in both surface and deep acting affects employees on different ways. Employees will be greatly affected when they engage in emotional labour while interacting with aggressive customers. In the fourth section of this chapter, the author will discuss about the consequences of interacting with aggressive customers while engaging in emotional labour. This discussion will be directed towards the consequences of customer aggressiveness during surface acting since this is the most common way of engaging in emotional labour when facing aggressiveness, according to the findings above.

In the last two decades, attention has focussed on the impact of customer aggressiveness. In the previous years, more attention was given on customers and how they are affected, but more recent literature came to the conclusion that how employees feel is equally important. Also, the literature was focussing more on the consequences of coworkers' or supervisors' aggressive behaviours. It has been found that this type of aggressive behaviour affects employees' feelings and productivity negatively (Appelbaum & Roy-Girard 2007). So a number of authors started questioning if the same happens during customers' aggressive behaviours.

7. Decreased sense of well being

Ben-Zur (2009) has indicated that interaction with aggressive customers leads to a decreased sense of wellbeing among service care providers. This is also supported by Grandey *et al.,* (2004) on their customer aggression model. Their model shows that continuous interaction with aggressive customers leads to a very strong state of emotional as well as physiological arousal. Customer service providers are not only affected emotionally, according to this model, but different physiological conditions arise, such as a general feeling of fatigue. It has been argued by these authors that the general feeling of fatigue as well as the decreased sense of emotional wellbeing will eventually lead to emotional exhaustion and burnout.

8. Emotional Dissonance

Goussinsky (2012) discussed and analysed the effects of aggressive behaviour on employees and their engagement in emotional labour. She concludes through her study that continues aggressive behaviour towards employees leads to what is being known as "emotional dissonance". This is the separation between the emotions that are displayed and the ones that are actually being felt. As she found out, the term "emotional dissonance" was created after an understanding of the role of surface acting during an interaction with a "difficult" and angry customer. This finding also supports the fact that employees are engaging in surface acting during these types of customer interactions. Emotional dissonance will eventually result in reduced sense of wellbeing as well, as Heuven *et al.,* (2006) state. Another explanation provided by Bailey and McCollough (2000), is that since customers' aggressive behaviour is not a rare event but usually happens on a daily basis, this leads to more negative emotions. Employees try to hide these negative emotions when they deal with customers, thus they engage in more surface acting and their sense of wellbeing is being reduced even more.

9. Increase in psycho-physiological stress

Further psycho-physiological stress research has found out that when people need to suppress their negative emotions this leads to an increased level of physiological stress (Bechtoldt *et al.,* 2011). Having this is mind, employees' stress levels are increased since they do not only need to suppress negative emotions when interacting with angry customers but also go a step beyond and display positive emotions.

This leads to an increase in stress and emotional exhaustion, which is another reason why employees are being driven to burnout. Comparing that to the Emotional Dissonance model, employees do not like the idea of faking emotions in general (Cote 2005). Since employees dislike the fact that they need to use fake emotions, their stress levels increase more. The more they increase their stress levels, the more they get closer to burnout and its consequences. Burnout will be further discussed in this section.

The Social Interaction Model, introduced by Cote (2005), indicates that people need to be authentic. Using this model as a reference, it seems that employees want to display authentic emotions when interacting with customers. As explained through the existing literature, this is especially difficult to be achieved during interactions with aggressive customers. Therefore, as a consequence of this non-authentic behaviour, people tend to feel alienated and dissatisfied in their work environment. Clients expect employees not only to be friendly but to display authentic emotions during their interactions as Bakker *et al.,* (2004) state. Since employees have this feeling during their interactions with their customers, this is another source that increases their stress levels as well. Customers that are angry will usually feel that employees are not displaying true emotions (Lazarus 1999). This may eventually lead to more anger and employees will need to struggle more to convince those customers that they care. This is something that makes employees feel more irritated and dissatisfied, thus their sense of wellbeing is reduced because of that as well.

10. Burnout as the extreme negative effect

Chronic increase of these stress levels and emotional exhaustion as it has been discussed above, leads to burnout (Adelmann 1989). This is the extreme consequence of emotional dissonance and the increased stress levels. It has been identified that a great percentage of people that are exposed to customers' aggressive behaviour will eventually face burnout. This very negative effect is described through psychoanalytical research as extreme physical as well as emotional exhaustion (Winstanley & Whittington 2002). People unaware that they suffer from burnout, until signs of unhealthy physical well-being are shown. People may face several symptoms because of burnout such as extreme fatigue, not being able to perform simple daily tasks, headaches and an overall feeling of physical exhaustion as Dewe *et al.,* (2010) state.

It has been argued that it is not emotional labour that leads to emotional exhaustion and then to burnout, but the way that people perform emotional labour. This means either by engaging in deep or surface acting. Adding to that, it has been found that customer aggressiveness makes people feel alienated and dissatisfied which is what actually enhances surface acting and thus creates more burnout in the long run (Wharton, 1993).

Burnout is not only a personal issue. It has been identified in the literature that burnout works the same like the rest of the emotions. As it has been discussed above, emotions are contagious; the same happens with burnout. It can pass on from one employee to another and create an organisational challenge (Bakker *et al.,* 2005). The fact that burnout is contagious can create many problems in terms of dealing with the negative consequences of engaging in emotional labour during interacting with aggressive customers. It means that employees do not only need to handle their own emotions, but also try not to be affected by the negative emotions of others (Wang & Groth, 2014). It is very important to identify how burnout is transmitted from one person to the other. This is usually a subconscious action. When employees have a certain feeling (such as extreme emotional exhaustion), they usually have certain behaviours (Adelmann, 1989); such behaviours are then observed and passed on to their colleagues with extreme negative consequences (Bakker *et al.,* 2005).

11. Effects on Service performance

Even though emotional exhaustion, stress and reduced feeling of wellbeing as well as burnout are very important consequences of customer aggressive behaviour, there are also other negative effects. The effect on service outcomes has also been greatly discussed in the existing literature. In general terms, surface acting affects customer experience negatively according Ashforth and Humphrey (1993); Boyd (2002) and Grandey *et al.,* (2010). During interaction with abusive or aggressive customers those negative effects are increased. Therefore, performance of employees is negatively affected according to Wang and Groth (2014). Customers demand employees to perform on a higher level when they are angry or dissatisfied. Due to the negative effects of surface acting during aggressive customers' interaction, though, performance lowers and customers remain unsatisfied. Consequently, not only employees get negative feelings because of this situation, but they also perform on a lower level which increases their stress levels. It has been argued by Liu *et al.,* (2013) that by not buffering out negative effects, a tremendous cost both on organisations as well as their people is created.

Further in this chapter, the ways which can help employees buffer out negative effects and work more effectively and efficiently will be evaluated and discussed.

In order for researchers to identify the ways that will work towards buffering out the negative effects, they first of all needed to distinguish between the people that are affected more and the ones that are less affected. This identification has helped many authors discuss the buffering out effects more efficiently. Since this is a new concept that has started emerging in the last years, it is argued that some areas need further research. These areas will be discussed in this section.

12. The role of positive and negative affectivity

A lot of research has been made so far on the aspect of identifying who is affected more and why. First of all, authors have started researching whether different personalities are affected more from the negative effects of surface acting during customers' aggressive behaviours (Goussinsky 2012). Positive and negative affectivity are discussed by a number of authors that have investigated the relationship of the characteristics of positive and negative affectivity and the way this helps in buffering out the negative effects of surface acting. To explain the two terms in short, positive affectivity is characterised by people looking at the positive aspects of life, being in a good mood even if they face a bad situation and having an overall feeling of satisfaction and fulfilment in life according to Bowling *et al.,* (2008). On the other hand, negative affectivity is characterised by being dissatisfied, with a reduced sense of wellbeing and pessimism (Bono & Vey 2007). It has been found that people with negative affectivity personalities are less affected from the consequences of emotional labour (Judge *et al.,* 2009). On the other hand, people with a positive affectivity personality are much more affected by their customers' aggressive behaviour and the consequences of engaging in surface acting according to Appelbaum *et al.,* (2007).

According to Goussinsky (2012), people with high positive affectivity are more likely to be offended by their customers' aggressive behaviour and thus feel more negatively. There is conflicting view in regards to this aspect, so Goussinsky (2012) suggests that further research is needed to validate these results.

13. The role of job autonomy

Personality is not the only component under research in this area. Authors paid attention to the role of job autonomy in the attempt to buffer out the negative effects of emotional labour. It has been argued by Huang and Dai (2010) that people who are high in self-monitoring are affected less by emotional labour and more specifically surface acting consequences. On the other hand, people that are low in self-monitoring feel more negatively when they perceive the negative consequences of emotional labour during handling rude or angry customers. This has been validated by studies that combined self-monitoring with job autonomy. It has been found that having job autonomy and a great extent of self-monitoring will lower the levels of stress for employees (Grandey *et al.,* 2004). It has been stated above, that stress is one of the most difficult consequences of engaging in emotional labour during interaction with aggressive customers. The reason is that in the long term it leads to burnout with all the negative consequences that this may imply. Therefore, in an attempt to buffer out this negative effect, researchers indicated that job autonomy will help to a great extent (Wang and Groth 2014). As it has been stated by Grandey *et al.,* (2004) if management gives employees more job autonomy and allows them to self-monitor, this is one way to reduce their stress levels. Adding to that, Wang and Groth (2014) support that if employees feel that they have the right of taking a break or take a decision during a difficult situation with a client, this will help them feel less alienated and more important.

Having in mind the above, we break the norm of giving strict instructions to employees in terms of customer service and let them take initiatives and responsibilities in what they are doing. Further, Wang and Groth (2014) as well as Grandey *et al.,* (2010) say that both job autonomy and self-monitoring are new terms in the area of buffering out negative effects of surface acting when facing aggression so they perceive that there is a gap in the existing literature. They call for further research to validate and further analyse these results.

14. The role of organisational, group and family support

It has been identified that both work group support and family support may be a good way of buffering out the negative effects of surface acting. It has been stated that surface acting negative effects, especially during facing aggression, may be severe without the support of others (Goussinsky 2011). People need to feel that they are not alone and they have other people close to them to share their dissatisfaction about any negative outcome that has to do with customers' interactions (Appelbaum & Roy-Girard 2007).

The perceived organisational support and its outcomes on both how employees engage in emotional labour as well as how they handle the negative effects has been discussed in the recent literature. Perceived Organisational Support (POS) is the perception of employees of how much the organisation they are working for cares about them, their feelings and how much they value their opinions as Moon *et al.,* (2013) state. It has been found that the more support that employees perceive they get from the organisation they are working for, the more they will be able to cope with the negative consequences of surface acting (Moon *et al.,* 2013). Interestingly, though, the study's findings suggest that not only employees will be more able to cope with the negative consequences, but they will also engage to greater extent in deep acting. Adding to this, Wang and Groth (2014) suggest that when employees feel that they have support from their colleagues and managers they will be more able to cope with aggressive customers and the negative consequences of such interactions. Thus, it is important to consider the value of helping employees feel part of a 'company family' in order for them to be able to buffer out any negative effects. Many authors have been trying to find ways to eliminate the use of surface acting during handling customers, and more specifically angry ones. Grandey *et al.,* (2010) as well as Ben – Zur (2009) support the fact that eliminating the use of surface acting during such situations would be ideal. In more recent studies, as discussed above, it has been identified that this is not the case, and that employees are mostly engaging in surface acting. Recent studies came to identify the role of group and organisational support as the one that will help organisations move their employees towards the use of deep acting.

The role of group support is as important as the role of family. It has been identified by Montgomery *et al.,* (2006) that work family interference is an important element that may help in the eliminating the negative effects process. Work family interference is actually experienced by employees when the work and family stressors are not compatible in such a way that participating in one makes it difficult to participate in the other (Wallace 1999). It's been argued by Geurts *et al.,* (1999) that this may increase the levels of burnout, especially when having to deal with difficult situations at work, such as engaging in emotional labour. If employees are engaging in some kind of faking emotions with their family this will impact the way they engage in emotional labour at work. Employees do not only display certain emotions at work but they also do that at home. So it has been found by Montgomery *et al.,* (2006) that the role of family is positively related to how employees perceive stressors at work and in what extend they can handle it.

15. The role of stress appraisal

According to Grandey *et al.,* (2005), research on work aggression, especially if it is coming from customers, has very unique consequences for the employees. As it has been discussed above, stress can be one of the negative consequences that need attention by researchers. Minimising stress can be a good approach towards buffering out the negative effects of surface acting during aggressive behaviour according to Grandey *et al.,* (2005). According to Lazarus (1999), stress appraisal (i.e. how threatening is this situation to me?) is considered to be a very important element when being engaged in emotional labour. Grandey *et al.,* (2010) suggest that minimizing the stress appraisal will be a good way of working towards minimising the negative effects of surface acting as well as helping employees to be engaged in deep acting more.

Minimising stress, though, is not something that can be done very easily. One must take into consideration the stressors (what causes stress) and work on those ones so that stress can be minimised on a great extent. In their research Grandey *et al.,* (2004) discuss about those stressors and their importance. One stressor is job autonomy that has been discussed above. Increasing job autonomy will eventually decrease stress. Other stressors include the job stability, job role and ambiguity as Beehr *et al.,*

(2000) state. Working on these will also have a positive effect on stress decrease. This will impact the way employees perceive emotional labour and help them use more deep acting in their interactions with customers. It has been clearly stated by Grandey *et al.,* (2004) that we cannot avoid stressful situations at work, but minimising stress by working directly on the causes will help employees buffer out negative consequences. It is also a way to increase the use of deep acting during interacting with aggressive customers, which in the long term will help organisations succeed. Stress is still a source of discussion among researchers in terms of how it is reduced in the work environment and it should be included in any new models aiming at reducing the negative consequences of surface acting.

16. Conclusion and managerial implications

This chapter deals with Emotional Labour which seems to be an important concept that has been given great attention by authors researching emotions. As it has been shown from the existing literature review, deep and surface acting are the two ways that employees may choose from, when asked or when needed to engage in emotional labour. Both deep and surface acting are used by employees in different circumstances. The decision whether they will engage in deep or surface acting lies among different factors. Such factors involve both organisational support as well as personal issues. As it has been mentioned by the author in this literature review chapter, deep acting is associated with more positive outcomes than surface acting.

The focus of this chapter indicates the way that employees' emotional labour is affected by customers' aggressive behaviour. It has been identified that employees are mostly engaging in surface acting when dealing with aggressive customers; this of course has many negative consequences. Surface acting has some negative consequences in general, but engaging in surface acting while interacting with aggressive customers draws employees in a much more complex situation. Among the negative consequences of surface acting during customers' aggressive behaviour are: a decreased sense of wellbeing, an increase in psycho-physiological stress and an increase in emotional dissonance. In the long term, burnout becomes a very bad and also difficult to handle negative consequence. Adding to this, the service performance of employees is negatively affected.

Below is a simple framework representing the initial model of overcoming these consequences. It shows the ways which are identified by researchers in providing help to employees in eliminating negative consequences as well as being able to feel more positively while dealing with aggressive customers and thus engaging themselves in emotional labour. As it has been described above, some of these ways which are illustrated in the framework below would not only work as buffering out effects of those consequences, but may also help employees increasingly engage in deep acting while dealing with aggressiveness on behalf of their customers.

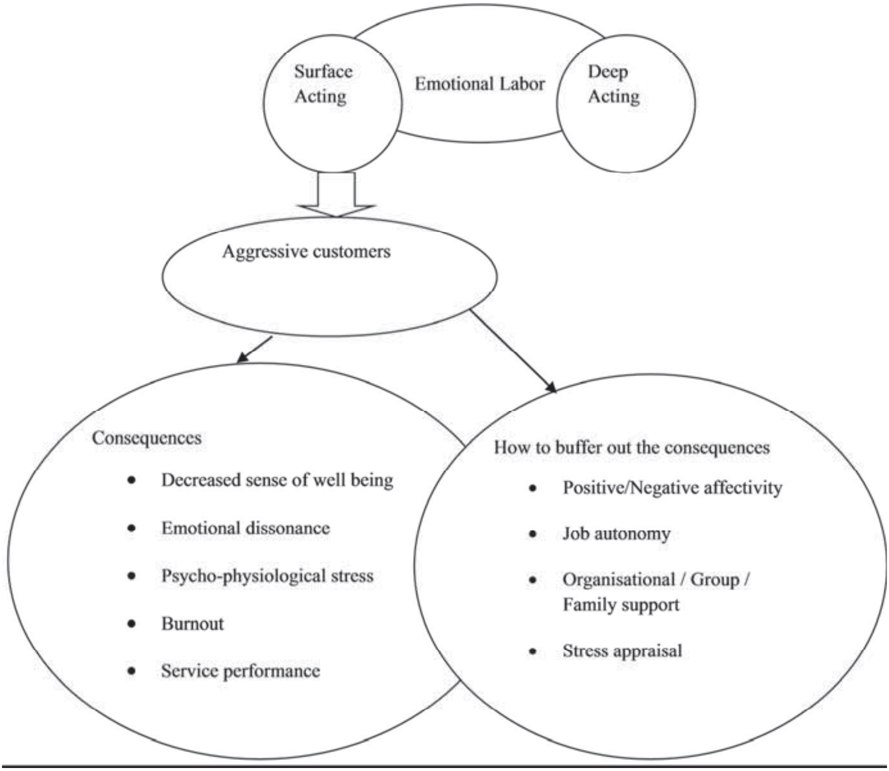

Figure 1: How to overcome the negative effects of surface acting during customer aggressiveness

The role of positive and negative affectivity is an important buffering our effect since as it has been discussed above there is a direct link between positive and negative affectivity and how it affects employees engaging in emotional labour during aggressive customers' interactions. The framework above includes job autonomy, organisational, group and family support as well as stress appraisal into the ways of overcoming the negative consequences. This model is an initial one. According to Wang and Groth (2014) more researchers have now started working towards finding more ways to enable employees overcome those negative consequences.

Competition is growing and thus there are increased demands on behalf of organisations from their employees. There is greater demand to make customers feel special so that they return back. Emotional labour has been a way to make customers feel happy by displaying the appropriate emotions. Especially when it comes to unsatisfied customers, this is even more important; emotional labour comes with a cost.

Managers need to become aware of how their employees react when interacting with aggressive customers and why they do that. More importantly, they need to understand how employees are affected and how they feel. Hotel managers may be investing in training courses to teach their employees how to behave when interacting with customers. Those trainings may not be efficient enough if employees' emotions are not taken into consideration. While researching this area, managers will be able to consider the consequences that come along when engaging in emotional labour and thus make a decision of the tools and resources that they will use to help their employees overcome them and become more efficient. This will eventually lead to an increase in both employees' and customers' satisfaction.

This chapter has discussed the consequences of engaging in emotional labour and more specifically surface acting, since this is the most usual approach when interacting with aggressive customers. The reason that many researchers have started working towards finding solutions is because there is a great need to help employees face emotional labour in a more positive way. By making managers more aware of the consequences and how to overcome them it will help creating a more productive working environment.

17. Implications for future research

This chapter analyses the existing literature of this very important area that has gained considerable attention recently. It has been indicated that most present studies mainly focus on pre-determined variables to determine the buffering effects of the consequences that occur when employees engage in emotional labour while interacting with aggressive customers (Wang and Groth 2014; Karatepe 2011; Grandey et. *al.,* 2010; Goussinsky 2012). Existing research has proved that this area needs more development.

Future studies should not only focus on pre-determined variables but try to identify more ways to overcome the negative consequences. This can be done by engaging more ways of researching such as observations, focus groups and interviews. Future researchers, through these ways, should try to become more engaged in the research process and thus gain more in depth knowledge. Further, future studies should consider including samples from various industries to make comparisons and provide an insight on what employees of each industry need to overcome those effects and become more effective and efficient in the jobs. Emotional labour is considered to be very important in the services industries and future studies should be aware that their contribution will help managers introduce other techniques and help their employees in a better way.

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CHAPTER FIFTEEN

UNIVERSAL RECOGNITION FOR THE NEED OF MARKETING OF UNIVERSITIES

SAM EL NEMAR AND DEMETRIS VRONTIS

1. Introduction

This chapter addresses a key question that marketers in higher education globally face: how should a university market itself and effectively? Traditionally, businesses used marketing as a tool to lure customers into using their products. As marketing evolved into a strategic approach, non-traditional industries have resorted to marketing activities to stay competitive in a dynamic environment. This chapter explores the nature of the marketing of universities. Research in the area of marketing of higher education is of great significance, firstly because of the major reductions in educational funding by governments, and secondly due to privately owned universities whose focus is more on high achieving students than a monetary gain. A predominate amount of literature sides with the need for universities to grow their brand names in the market and have a competitive edge. However, for effective tactical marketing results there needs to be accurate student perspective. Universities strive to attract good quality students in the market while also maintaining a competitive balance. This is called Higher Education Marketing, and it is a field of study in its own right (Johnston, 2010).

The purpose of this chapter is to conceptualize the causes behind universities shifting towards marketing of their institutions, and to identify a universal approach in developing their marketing programmes. A conceptual map is illustrated at the end of this chapter.

2. Marketing of Higher Education

Krachenberg (1972), one of the earliest promoters of the marketing of higher education, clearly encourages universities to adopt a dynamic and multifaceted nature of marketing which can be applied in a university setting. Universities can identify their markets and divide them into segments of consumers, while measuring their size and attractiveness. The reason for a dynamic and multifaceted nature of marketing is to enable universities to target different market segmentations; such as new students, past students, governments at all levels (municipal, state, and national), the public and organizations that can benefit from a university (1972). As higher education becomes more competitive, it has become necessary for universities to start effective strategic marketing programmes. The purpose of strategic marketing programmes is to segment the markets and positions of the university. The benefits of segmentation are that it discovers students with comparable characteristics, such as having the same expectations, goals, and prospects for the future. Students with similar characteristic can be clustered, which would allow universities to understand the groups of prospective students better, based on their current and evolving needs, backgrounds, and expectations which enables them to cater a program that can effectively reach and influence their decisions (Anguloa, et al., 2010).

3. Triggering the need for University Marketing

There are many motives that have forced universities into promoting themselves. The initial cause may have started when State and Federal governments faced economic instabilities, whereby governments began to cut education funding to balance their budgets. This in turn, drove universities, for the first time, to think about their financial issues. Consequently, many universities began to review themselves and identify their student target markets out of necessity when a reduction of funding by State and Federal governments began to limit the monetary resources university previous enjoyed (Kotler & Fox 1995). Whichever the cause, this new trend of higher education marketing was the result of university financial burdens being shifted away from the reliance on government grants and sponsorships but now on the university itself. With the loss of external financial support, the student is ultimately the core revenue contributor. This is creating the need to attract students in numbers to sustain the financial burden that overwhelms universities, Bacila (2008). Tough financial decisions that are being addressed include the amount of money to be allocated to marketing programmes, and the ability to effectively market to potential students by showcasing a unique competitive edge (Hawkins & Frohoff, 2010). When governments reduced higher education funding, it created a semi-privatized education industry, with their outlook on their own organization becoming more commercialized because their services became more commodity driven. Higher education should not be marketed in such a way that it is used to manipulate student recruitment or achieve better admission figures. Rather, marketing should be used as a tool to promote the core benefits of university education (Maringe and Gibbs, 2008). Faculty members have voiced their concerns that some marketing techniques are limiting and compromising their academic freedom. Lavish marketing ploys are facilitating illusions of the university that are unattainable. Universities are however accountable to third parties; such as parents, donors, alumni, employers and other stake holders (Hawkins and Frohoff, 2010; Litten, 1980).

4. Rethinking the approach of Services Marketing for Universities

Education is a form of service that many authors consider should generally be classified under the theoretical framework of general Services Marketing. When a student enrolls in a university, they are making a major service purchase as well as a difficult life decision (Galotti and Mark, 1994). A university is considered to be a full service organization when everything it provides is service orientated, such as; 'education, libraries, student accommodation, healthcare, athletics facilities, security, counselling, bookstores, photocopying, entertainments etc.' (Lovelock and Wirtz, 2007, p.4). Even though a university does fit as a full service provider, some authors believe the marketing of specific services should slightly differ from other services such as Hospitality, Health, Financial and Insurance industries. Particularly considering that university selection is a very complex choice and the marketing of such industries needs special attention. Just because education is intangible does not warrant it to be addressed the same way as other services industries such as hospitality and financial services. Universities have some differentiable attributes that do distinguish themselves from other services (Canterbury, 1999). Marketing of higher education can also be labelled as an 'Institutional Presentation' to potential students. A responsible approach to marketing of potential students would be to get them in contact with matching programmes that can benefit and reward their personal and future needs (Litten, 1980). Using mainstream marketing concepts in Higher Education Institutional Marketing may not always be relevant and as effective. Ramachandran argues that the main purpose of Higher Educational Institutions is (2010, p. 544):

> ‘To serve the community, engage in research activities, teach students, and equip them with knowledge and skills that are useful in their places of work. Higher Educational Institution were considered a source to develop a knowledge society.’

But due to factors of market changes, funding cuts, and student awakening, intuitions began to adopt marketing strategies that would allow them to remain open and relevant (Ramachandran, 2010; Kotler & Fox 1995).

Even with these market changes, higher education has emerged as an important service industry because of the vital role it has on the current and future society. Many Higher Education institutions initiated marketing efforts to form a solid image, improve student and stakeholder satisfaction levels, gain a competitive advantage over competitors, and increase their market share. With customer orientation being identified as the forefront of the higher education market, competitors are now redefining their strategic mission to meet the needs and expectations of current and prospective students (Nadiri, 2008).

5. Students as Consumers

Recognizing university students as potential customers can lead universities to lose track of their objectives in education. Marketing departments at universities have taken on marketing concepts to capitalize on new marketing opportunities. Students are now viewed as customers and marketing concepts and strategies are being used at all levels to attain quality student recruitment (Svensson & Wood, 2007). Universities are being faced with the dilemma of balancing their educational obligations and stakeholder responsibilities with marketing, since students are regarded as brand customers (Hawkins & Frohoff, 2010). In addition, Harrison-Walker (2010 p. 191) adds to this by describing the purpose of the marketing of Higher of Education is now due to:

> “As the competition for students, faculty and financial support has increased, so has the application of marketing in the field of higher education. One critical application of marketing all too often neglected,

> misunderstood and mismanaged in higher education is targeting customers for profitability."

An American perspective on the Marketing of Higher Education in the last few decades has seen marketing slowly become an effective tool in the enrolment process. However, most institutions are redefining their admissions office as a sales and promotional tool. Marketing was rarely seen as a way to help increase student satisfaction, lower attrition, and develop strategic and competitive advantages in the student market place. A survey on US admissions officers in the 1990's found admissions officers perceived there were fifteen effective marketing techniques that were facilitating an influence on students decision making: publicity, target marketing, market segmentation, advertising, program development, market positioning, market research, access, marketing plan, pricing, marketing committee, advertising research, consultants, marketing audit, and marketing director. These marketing techniques if applied correctly have now been accepted as a method that attracts students and is being applied in some US University marketing programs (Goldgehn, 1990). The relationship between students and Universities has always been viewed as *'Providers of Knowledge'* while students as *'Receivers of Knowledge*'. However, when the relationship is considered to be a customer and supplier, this will alter the relation to who is providing the knowledge. The student is now considered the customer, and customers have financial leverage and demanding power over the type of education to be delivered (Svensson & Wood, 2007). Corporate universities, who totally identify the student as a customer, rely heavily on marketing strategies to continue their education business (Eccles, 2004). However, traditional marketing concepts state effective marketing strategies should make *selling* unnecessary (Kotler & Armstrong, 2006). Marketing of corporate universities should focus more on answering the question: *What will a corporate university offer the organization?* Rather than focusing on mass marketing to find new corporate university students. Universities should instead emphasize on effective communication of programmes that will be beneficial to a student's career. '*What is its value to the customer*?' This question opens up many areas that universities need to communicate to future students. What are the benefits of this institution and how will it profit the customer (Eccles, 2004)?

6. Total Institution approach to students

Universities can be described as a 'Total Institution' which distinguishes them from other service. Universities do not just provide a single service contribution, but rather a total involvement with their constituents, such as; 'feeding, housing, entertaining, exercising, protecting, employing, socializing, educating and counselling' (Goffman 1961). This total institution environment can even distinguish a university from another university. For a university to be able to provide attractive 'Total Institution', universities need to focus on 'Societal Marketing Orientation' which helps universities meet the students' wants and needs. Societal Marketing Orientation can be described as (Kotler & Fox, 1995 p.10);

> 'A societal marketing orientation holds that the main task of the institution is to determine the needs, wants, and interests of its consumers and to adapt the institution to deliver satisfactions that preserve or enhance the consumer's and society's well-being and long-term interests.'

When a university is recognized as a total institution, selecting a university can become a unique decision (Lewis & Morrison, 1975) that may need an adjusted service marketing approach (Litten, 1980). The marketing of higher education can be addressed in a distinctive service marketing nature; Educational Marketing should be adjusted slightly to the regular form of services marketing to be able to fit the nature of the educational market. Hence, under the scope of Services Marketing, we find a distinct subject matter called Educational Marketing as a dedicated services marketing approach (Canterbury, 1999).

7. Models of University Marketing

When universities try to attract and recruit students, Canterbury (1999) recognizes seven factors that can help universities better understand the university market environment. The first two were discussed earlier, 1) 'Unique decision' and 2) 'Total Institutions' while the others are;

3) *Issues of human development constrain this process.*
4) *The importance of college choice discourages open-mindedness.*
5) *College seem to question the competence of their "customers" to choose wisely.*
6) *Family life is irretrievably altered by this choice process*
7) *What "buyers" are choosing is not clear.*

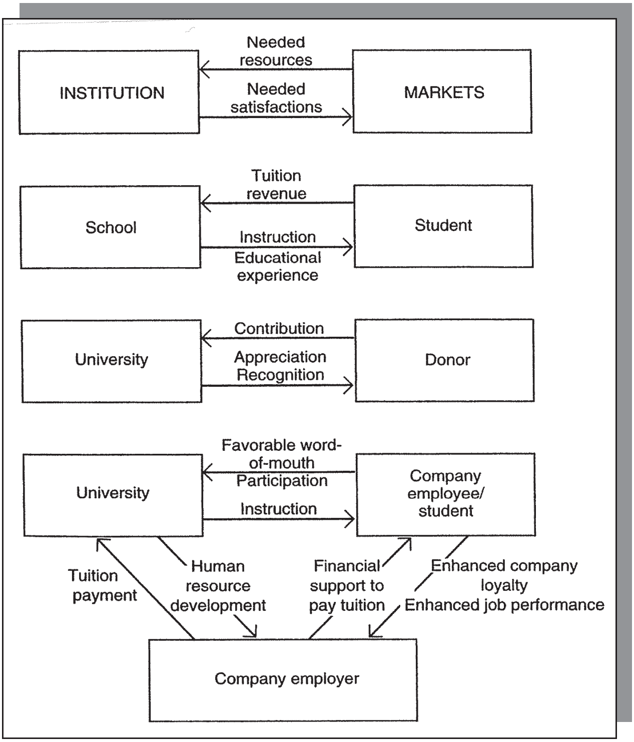
These seven market characteristics illustrate how this type of service is more of a transformative event for people rather than a purchase of a standard product. So the use of marketing in Higher Education needs to be tailored for its distinctive attributes and not as a standardised service approach (Canterbury, 1999). The American perspective of marketing of education might be best viewed through Kotler & Fox (1995). Schools, institutions and universities are affected by the modern education market shifts and how marketing can play an important role in recruiting new students. Kotler & Fox (1995, p. 6) described marketing as;

> ‘the analysis, planning, implementation, and control of carefully formulated programs designed to bring about voluntary exchanges of value with target markets to achieve institutional objectives. Educational Marketing involves designing the institution's offerings to meet the target market's needs and desires, and using effective pricing, communication, and distribution to inform, motivate, and service these student markets.’

The further we investigate the marketing of education, we recognize that universities provide a service of knowledge that is delivered through instruction via teachers and courses, and in return this provides the market with an educational experience, appreciation recognition, human resource development, and obviously a need satisfaction to students who seek a career in their majors. Furthermore, in return for their education service, universities aspire to achieve a favourable reputation through word-of-mouth marketing, to increase tuition revenue as well as contributions from donors, and obtain a long term stable market share as figure 1 below illustrates, (Kotler & Fox 1995).

If we approach Kotler & Fox’s (1995) model (figure 1) through the lens of Maringe & Gibbs (2008), we learn that changing job markets has forced some universities to update themselves by moving away from providing traditional methods of teaching and instead re-designing their courses and units to focus on developing students' professional skills (*human resource development*) to prepare them for the job market. This approach is due to industries seeking better prepared students to hire when selecting job candidates. Students that are aware of industry attitudes take this into account when selecting a university. If we approach Kotler & Fox’s (1995) model figure 1, through the lens of Foskett and Hemsley-Brown (2001) we also learn that universities that are considered winners in university competitions such as sporting and arts events become more attractive to high school students which becomes self-reinforcing through the process of feedback (*word of mouth*). Such universities attract more resources, such as funding (*contributions from donors*) for facilities which increases the potential for more output indicators. When performance success is witnessed in the market, the marketing participants will favour winning universities over others. University competition over quality of

Figure 1: Exchanges between an educational institution and its various markets



Source: Kotler & Fox (1995, p.7)

student is slowly taking off, universities are aware that education is being sought by post university outcome and students' behaviour is allowing universities to identify shifts in how students are selecting their universities. Word-of-mouth and the university websites are considered important factors in making a choice of university (Petruzzellis and Romanazzi, 2010). Universities have changed rapidly over the past few decades to become more customer orientated, focusing their attention on outward measures rather than internal ones. In the past, universities were viewed as a place of knowledge and students went there to gain a future. Now-a-days, institutions are busy competing in recruiting, modern curriculum development, teaching, assessment and learning support. Institutions that do not update themselves to compete in this new education market, which is focused heavily on student needs and wants, may find themselves reaching closure in the long term, (Maringe & Gibbs, 2008). If the right type of marketing in education institutions is used wisely, institutional objectives will be met much more effectively. Effective marketing could bring about four major benefits; greater success in fulfilling the institution's mission, improved satisfaction of the institution's publics and markets, increased ability to attract marketing resources such as faculty and donors, and improved efficiency in marketing activities, their strategic programs and program implementations, (Kotler and Fox, 1995). A form of effective marketing that could lead to institutional benefits, is when a university becomes a 'Responsive Institution', which means when an institution's objective is to identify the real customer and strives to see things from the customer's point of view. These types of institutions make every effort to sense, serve, and satisfy the needs and concerns of the customer. Institutions should be sensitive to emerging customer and market requirements, and strive to retain customers over the long haul. Institutions must also work to create cultures that aim at satisfying customer's needs and concerns (Kotler and Fox, 1995). This type of university (Responsive institution) can also be considered to embrace the same values and characteristics as 'Total Institutions' (Goffman, 1961) universities, by providing the full service care their constituents require. Furthermore, another important educational marketing instrument that also compliments the concept of 'Total Institutions' (Goffman, 1961), is the 'Measuring Service Quality'. The main service provided by educational institutions is instruction. However, students also look at other services that play an integral part of their educational experience, such as accommodation, dining, advising, career planning, tutoring, library, computer facilities, wireless internet access, entertainment, leisure and recreation. The level quality of these services is a vital part of the student's lifestyle, (Kotler and Fox, 1995). When universities measure service quality, a measurement tool of service quality is student satisfaction. A method to identify the dimensions of satisfaction of university students and the factors that affect their judgments is by analysing an approach which is identified by Nadiri (2008). If universities are able to measure the level of satisfaction of students using the Student Satisfaction Inventory (SSI) model, they will be better equipped with identifying discrepancies and improve their services to increase student satisfaction. This will allow a university to meet student expectations and lead to a greater market share. The following factors that define education experience as described by Nadiri (2008, p. 130) are:

(1) "Instructional effectiveness"
(2) "Safety and Security"
(3) "Academic Advising"
(4) "Recruitment and Financial Aid"
(5) "Students Centeredness"
(6) "Registration effectiveness"
(7) "Service Excellence"
(8) "Campus Climate"
(9) "Concern for Individual"
(10) "Campus Support Services"
(11) "Campus Life"

A study conducted a few years ago, focused on current university students at the Eastern Mediterranean University in Cyprus. This study sought to define the factors that influence the education experience. The study found that if a university is able to work on improving its services, it would lead to better student satisfaction and appreciation of the institution. When improvements in service factors increased, so did student perception of the university. If applied, universities will improve their image in the market place which will allow the brand name to grow, leading to increased recruitment as Kotler & Fox figure 1, suggested in their model (1995). This is seen as a much more effective approach to university marketing rather than solely relying on advertising to bring in a greater market share, or attracting better quality students (Nadiri, 2008). If a university wants to classify themselves as; 'Responsive Institutions'/'Total Institutions' so that they are able to best serve their students or other constituents, they need to be involved in accurate and dependable marketing research. The significance of marketing research is that it helps identify students' (constituents) needs, wants, demands and behaviours. Marketing research benefits universities by helping them to understand their education target market requirements especially when trying to keep current students satisfied and attract new ones (Kotler and Fox, 1995). When universities want to identify a consumer they should refer not only to the traditional high school students as the typical consumers but seek qualified staff, talented faculty, alumni, donors and others. University needs all forms of consumers to be able to reach an optimal level of service supply (Kotler and Fox, 1995). This optimal service of supply helps universities become an effective 'Total Institution'.

8. Targeting the Right Students

The challenge of identifying a university's target market is also raised by Maringe and Gibbs (2008), whereby they question, who are the customers? Which customers will the university serve and why? How best can universities meet the needs of these customers? All three questions fall into three areas of study, Market segmentation; Customer needs research and developing the curriculum. A study on the influential factors on South African pre-university students attempted to group the university target market into subgroups. The reason for segmenting a target market with similar characteristics was to know which preferred sources students would consult with when deciding upon a university. Currently most universities send out one message, through one medium for the entire target market. This method of subgrouping the market would allow universities to send out multi-segmented messages through different mediums for effective impact. When the target market is divided by socio-economic circumstances, each group's preferences and objectives are found to be similar. A subgroup will have common educational beliefs and objectives. When a sub-group is aligned with similar characteristics, Universities Marketing communication can become specific and tailored to reach each sub-group independently with custom-made marketing information (Bonnema and Van der Waldt, 2008). Parallel to this, a university needs to consider its position in the mind of its target market. A university's position in the education market will appeal to students who are concerned with a university's market position. Universities should always position their products in the market that showcase their excellence and achievements (Maringe and Gibbs, 2008). For universities to do so, they need to plan where to position themselves in the minds of applicants. This involves the process of designing an image and value so that students within target segments understand what the institution or brand stands for in relation to its competitors Maringe (2006).

9. Re-Branding for Contemporary Student

Institutions such as Troy University are becoming more creative and entrepreneurial in generating marketing strategies to attain new students. In the case for Troy University, building the brand is essential in establishing brand favourability over other competing universities (Lee et al., 2008). As define by Kotler and Armstrong (2006, p6):

> 'Brand is the name, term, sign, or design, or a combination of these, that identifies the maker or seller of a product or service. Brand represents the consumer's perceptions and feelings about a product and its performance. It is the company's promise to deliver a specific set of features, benefits, services, and experiences consistently to the buyers.'

A major factor why students choose a particular brand of university is based in terms the university's physical location and convenience (Bennett and Ali-Choudhury (2009). The American higher education market is obsessed with university rankings, and has started to re-brand itself in the best way possible in order to maintain and improve their rankings. Students will resort to media outlets such as *US News & World Report Rankings body* as a vital source of information when students try to build an image on the brand of the university. However, for a university to rebrand itself, it should be taken into account that '*a university is no longer just an institution of higher learning but also a business'*, and a business must justify its returns on investment. Therefore a university has to ensure rebranding is successfully reaping a return on investment (Bunzel, 2007) Branding also requires a selection of language articulation to help conceptualize the university's identity (Lowrie, 2007). Modern higher education environments have inevitability forced universities in the UK to adopt the concepts and practices of branding, however there is doubt as to whether branding is still fully embraced and understood (Chapleo 2008). In the case for Troy University, branding is considered the key marketing strategy in attracting quality students. Consequently, building a brand name requires a lot of effort in compiling a long term strategy to effectively communicate the benefits of the brand with successful outcomes (Lee, et al., 2008).

10. Bringing Value to students

Another approach to the marketing of higher education is by recognizing that there are four broad principles, involving sound customer orientation, which benefits the recruitment process over the long term. The first involves recognising that the student may not always be right, but understand where they are coming from. The second is the understanding of students' expectations and perception of service quality. The third is students' satisfaction which is the heart of the educational delivery service and finally, research directions in the area of student as customer. The last principle is an important aspect in learning more about what attitude changes are occurring at universities when students are seen as a customer (Maringe and Gibbs, 2008). Universities can use Target Marketing in different approaches. A university can segment different education markets that can benefit an institution with its overall strategy. This can be approached through three different strategies. The first is the 'One-Size-Fits- All (Mass) Marketing' by offering one form of curriculum for everyone and informing students what they should learn. The second is 'Program-Differentiated Marketing' whereby universities offer two or more programs and allow students to select what they want to study. Most universities use this method in formulating a strategy and organizing their curriculum to suit the student. The third is 'Focused (Target) Marketing', whereby extreme focus is given to a target market of students and tailored to their needs in great detail (Kotler and Fox, 1995). Segmenting a market for a university major to different genders may vary in approach and reach and therefore selecting the right communication channel is critical. Female potential fashion students may enjoy reading fashion magazines, whereas males prefer surfing the net for fashion websites (Maringe and Gibbs 2008). So reaching a particular target market for a major like fashion would need to focus upon the correct marketing communication. This leads the authors to focus upon segmentation and the different categories into which segmentation strategies can be grouped. The four strategies are: geographic segmentation, demographic segmentation, behavioural segmentation and psychographic segmentation (Maringe and Gibbs, 2008). The segmentation benefits for universities provide a mechanism for understanding customers of higher education through sound knowledge of their demographics and behavioral profiles, their personality and lifestyles (Maringe and Gibbs, 2008). Admissions departments of higher education institutions must be precisely effective, and to do so, they will need; real, exact, actual, full and relevant information about potential students. To be able to apply a strategic marketing campaign, admissions need to acquire relevant marketing student information. Faculties must conduct marketing researchers to determine pupil behaviour in the decision-making process of educational choice, Bacila (2008). When understanding these customers of higher education, these students appeared to be price-insensitive, because these types of consumers are able to bear much higher fees, due to the perceived value of the benefits that is attained from a university degree. Therefore, value is a key component in the positioning of universities in the minds of students (Maringe and Gibbs, 2008).

11. Marketing Mix for Universities

Finding the right marketing mix 4P's: *Product, Price, Place* and *Promotion* (Kotler and Armstrong, 2010) to stage an effective strategic marketing mix assault is vital (Kotler and Fox, 1995). Some authors such as Thomas (2005) believe that to improve the recruitment processes in central European education institutions, they need to apply a 5P's Marketing Mix model; Product, Price, Place, Promotion and People. People are highly recommended in attaining best practice for designing and planning effective university and educational institution marketing strategies. Whereas, Ivy (2008) in his research on post graduate student recruitment on South African Universities, says competition has become increasingly aggressive and universities need to differentiate themselves. Initially Ivy (2008) considered by expanding the marketing mix from the 4P's (Kotler and Armstrong, 2006)*,* to the Services Marketing Mix of the 7P's including *People, Physical Evidence* and *Process Management,* this may lead to attaining new post graduate students because of the nature of the environment in South Africa education institutions. The study identified the element of *People* in the marketing mix to include all staff and academic personnel of the university. This element was argued that if staff personnel are perceived to provide high quality performance, while the academic faculty is clearly qualified in teaching, holders of PhDs and industry positions, this will have significant manifestation on the image of the institution. Students give consideration to the quality of lesson deliverance and rely heavily on the knowledge and industry experience of the educator. Teacher avoidance by students is not in the best interest of the university, it can have an adverse effect on image. If staff have the proper training and comply with the best practice in performing their tasks, it will support smooth student and staff interactions especially when staff is considered the front line of service. The second element in the university marketing strategies is *Physical evidence*. Tangible aspects of university appearance will impact students' perception of the institution; Ranging from classrooms, lecture theatres, hallways, cafes, faculty buildings, recreational facilities and gardens. Since this element is clearly physical and is viewed and observed, students will build a perception based only on what they will see. The third element is *Processes, which* are all administrative functions, from admissions, continuous registration and advising, payments, examinations, result publications, and graduation achievement. A student is continuously in the university system, and wants all administrative processes to run correctly and on time with the least amount of fuss. It was discovered that the traditional 4P's and the services 7P's Marketing Mixes were considered to be the unlikely best way approach to market to Post Graduate students in South Africa (Ivy, 2008). Rather a new approach was considered for this sector, redesigning the entire marketing mix to suit universities. The new system was also designed with 7P's directly related to what students care for when selecting a university designed by Ivy (2008).

1) ***Programmes***; range of electives and range of majors,
2) ***Prominence***; academic staff reputations, online information, university ranking,

3) ***Price***; payment arrangements, tuition fees, program duration, Flexible tuition approaches,
4) ***Prospectus***, hard copy of the prospectus, directly mailed
5) ***People***; face-to-face tuition, personal contact, open days**,**
6) ***Promotion***; press advertising, publicity and electronic marketing,
7) ***Premium***, accommodation, modules, exchange programs, computer facilities, class sizes.

This model of the marketing mix was considered a more accurate measure because it focused entirely on university performance details rather than services in general; however this model has a gap which needs to be addressed and that is Physical Evidence. Physical Evidence needs to be added as the 8th P to complete a more representative Marketing Mix for universities. Ivy's (2008) mainly confined the perception of "people" to administrative and academics, face-to-face tuition, personal contact, open days, acknowledging that the author did pay attention but to a lesser extent to the role of students (potential, current and alumni). This situation prompts the question on whether the term "*people" needs* to include students as being major stakeholders in the learning and teaching process at any higher education institute. In addition, students majorly contribute to all business and academic transactions which take place at universities. Furthermore, students unlike customers in a non-education business (ie hotels or banks) contribute to the learning environment, settings and experiences within HEI. Another approach to the marketing of higher education is by restructuring the services marketing mix to be more relevant to universities. The redesign changes the elements of *People, Physical Evidence* and *Processes* to become calibre or champions, capabilities, charisma and collateral. Calibre/champions replace *People*, who are the administrational staff and academics. This new term focuses on quality of how staff and academic performance, their relationship with students, their accountability to the institution and stakeholders, their managerial efficiency, and their customer service. Capabilities replace *Processes*, whereby the institutes' capabilities become the attribute that defines its competitive edge. Charisma and Collateral replace *Physical Facilities* which are a universities location, facilities and visual representation. The identity of the university can be considered at its brand (Newman and Jahdi, 2009). Other approaches for the Marketing of Higher Education are through Capacity, Choice and Selection, which is also considered a vital part of many stated Institutions mission. Capacity is the limit to how many students the university can actually service with their limited resources. Commercial businesses strive to grow their market share and try to expand their business, however non-profit institutions such as most American Universities are not commercial driven, therefore they can't expand or don't want to, to a certain extent prefer well qualified students who fit into their type of institution (Kotler and Fox, 1995).

12. Student Selection Process

With new students, university choice is considered to be of high importance 'Unique Decision' (Lewis and Morrison, 1975), and for some students this starts years before applying and enrolling. University choice is considered to be of 'high-involvement' decision making, this is because prospective students give high personal involvement in the decision making process, and this is because of the importance of the outcome. For universities to meet their mission requirements, they need to admit the most attractive academic students, and for students to apply, they need to be made aware of universities through outreach programmes and image building, (Kotler and Fox, 1995). When selecting a university, students will undertake a highly-complex decision making process that begins with a wide funnel which narrows until students are left with few alternatives to make a decision, Kotler and Fox (1995). Some marketing strategy models can be built on the core values of a university. A model can be divided into four key concepts aimed at harnessing marketing and ensuring that it becomes part of the strategic planning process of universities. Authors Maringe and Gibbs (2008, p.49) propose the following;

> 'current university marketing lacks an appropriate contextualization; is poorly organized and co-ordinate; is largely responsive and not strategic; and its application lacks formal operational guidelines. The CORD model, standing for Contextualization, Organization and co-ordination, Research and Development, provides a framework for raising the profile, sharpening the strategic focus and for developing a home-grown educational marketing philosophy.'

The CORD model is designed to be an entire university performance system relating to all areas of education, staffing, processing, marketing orientation and development embedded with a continuously marketing procedure aimed at complementing the university rather than being only used as a tool to sell education programs and help increase recruitment numbers. In its entirety the CORD model is a full package linked and related to one another to help improve the entire institutions performance at all levels. Another approach to the marketing of higher education is through relationship marketing. A research conducted on athletic students from a public Mid-Western university in the US, was organized to capture the relationship between the university and students who had been on campus for almost 16 months. The reason of this study was to demonstrate that relationship marketing is a proven tool to building a long and stable monetary relationship with the student (Judson et al, 2007). To measure the strength of the relationship between student and university, a model was created by Judson et al (2007, p.189);

The stages are;

Stage 1: Stranger Attraction → recruitment stage, pre registrar
Stage 2: Acquaintance Satisfaction → recognized themselves as a student of the institute
Stage 3: Friend Satisfaction & Trust → feels part of the university, trusts the institution
Stage 4: Partner Satisfaction, Trust, & Commitment → committed to the university interests

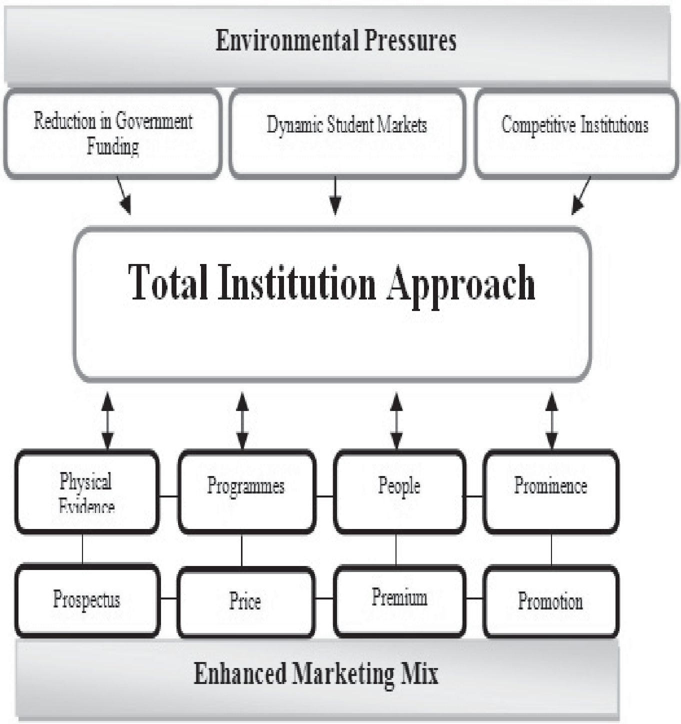
This model illustrates a deep understanding of students' relationship with the university, these intimate details allowed universities and researchers to identify keys areas of what is considered important to students through their university cycle. This insight revisits Kotlers & Fox (1995) model figure 1, which identifies exchanges between an education institution and its various markets. In this case its relationship with its students, in favour of 'Word-of-mouth', 'Participation', and 'Needed Resources' which for this case was with Athletic Students who rely heavily on certain facilities for performance training. Another approach to the marketing of higher education is through differentiation. A study on Higher Educational Institutions in Norway found that there is a need to recognize excellence and diversity as key issues for consideration when developing their institutional profile (Frølich and Stensaker, 2010). Due to the market-like environments in higher education, institutions need to profile themselves to be differentiated by incoming students. If a Higher Educational Institution is able to successfully differentiate its excellence and diversity, the advantages are in a number of areas, including funding, reputation, research grants, research output, and attracting the most talented students in the market. The university of Oslo strives for excellence in their recruitment for the best students each year, believing if they have the best students each year, the output will be the best at all levels of education and industry, which supports Kolters and Fox (1995) model of "Exchanges between an educational institution and its various markets" Figure 1, nevertheless, recruitment strategies are only focusing from an Institutional point of view and not from a student perspective, some universities in Norway did state that they did conduct a yearly recruitment student research and were always adapting to the changing market forces to stay competitive (Frølich and Stensaker, 2010). Research on the Marketing of Universities in Taiwan's higher education sector, revealed that institutions wanted to expand their student recruitment. To stay competitive in the educational market the normal marketing strategy to adopt was a concentration on *promotion, advertising, tuition reduction, and scholarships.* To do so, they needed to adopt the following marketing strategies; market segmentation, target market selection and Product position as a clear way to develop a sound marketing strategy (Ho and Hung, 2008). From a Taiwanese student's prospective, students now emphasize employability, with curriculum placing second. Due to job market forces changing and finding a job was quite difficult, students now relied heavily on their education to find a job and continue to a career path. Due to this new shift in dynamics in the job market in Taiwan, has changed the attitude of a students' in their selection process in choosing a university. However the marketing of education institutions can be challenging and success is not guaranteed. Just because a university teaches Marketing to its students, does not warrant their institutional marketing to be fruitful. MBA marketing strategies by UK based universities have not always utilized their own internal marketing resources, which are the production line of marketing executives of profitable enterprises. There is a lacking of smart marketing innovation in the promoting of MBA institutions, especially when the institution is teaching how to market and promote (Nicholls, et al., 1995). Some US Universities in their business schools used marketing activities such as best practice performance in fields of; Business school marketing planning, University advertising planning and Business school advertising planning. These 3 activities pushed their educational brand name into the market. This is because when activities of performance are at the optimal level of marketing it has a positive outcome on enrolments because of word-of-mouth and quality of education factors (Hammond, et al., 2004).

13. Conclusion

The emergence of Marketing of Universities may have been instigated by financial constraints, however many authors believe it was a natural path that was going to be taken sooner or later. Having said that, whatever triggered University Marketing is now secondary; designing an effective marketing program to generate beneficial results is crucial to achieving university recruitment objectives. To avoid spoiling university reputations and becoming too commercialized by deeming students as typical commodity consumerist, some authors have presented models and methods to how student recruitment should be approached. Universities should perceive themselves as Total Institutions providing a unique learning experience that students will be able to distinguish them during their university selection process. A balanced university marketing mix this chapter puts forward is Ivy (2008) 7Ps with an additional P being Physical Evidence; 1) Programmes, 2) Prominence, 3) Price, 4) Prospectus, 5) People, 6) Promotion, 7) Premium. This enhanced 8 Ps approach would reflect profoundly on the Total Institution Approach in leading university to reach students in this continuously changing student recruitment market.

Conceptual framework Figure 2 is an illustration of this approach:

Figure 2: *Total Institution Approach*



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