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Investigation of sustainability models and a new proposal: sustainability cycle

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ABSTRACT

Sustainability defines the primary factors that influence the maintenance of the human-focused natural life cycle. Sustainable development and sustainability both consider environmental factors. However, sustainable development refers to “ameliorating” economic growth, whereas sustainability challenges economic growth. In this study, we explain sustainability and propose the sustainability cycle as a new vision.

INTRODUCTION

Sustainability is a current topic with studies on how to determine a strategy for managing the future and how to investigate the possibilities for surprises.

Sustainability defines the primary factors that influence the maintenance of the human-focused natural life cycle. The word sustainability derives from the Latin "sustinere." Although there are various meanings in dictionaries, it essentially means to protect, support, or endure (www.dictionary.com).

Sustainable development requires considering the principle of justice between current and future generations in the use of environmental, economic, and social resources. In other words, it requires the conservation of the ecosystem and biodiversity necessary for life in meeting the needs. (Monet, 2004).

Sustainable development and sustainability both consider environmental factors. However, sustainable development refers to "ameliorating" economic growth, whereas sustainability challenges economic growth. (Waas et al., 2011).

The concept of sustainability defines the primary factors that influence the maintenance of the human-focused natural life cycle. In the future, it will be considered as a projection from the supply and supply of this requirement. The concept of sustainability has been considered in terms of providing and supplying

the factors that affect the maintenance of the human-oriented natural life cycle. The traces of this concept are quite old. In this paper, we briefly cover the concept of sustainability, various sustainability models, and propose the sustainability cycle as a new vision.

The next section provides a literature review on the emergence of the concept of sustainability. Then, in the following section, we examine sustainability models. Among these models, the generally accepted triple bottom line that was discovered in 1994 and other reports are included. The sustainability concept has been proposed in various models, such as the prism model, egg model and pyramid model. These model approaches are generally explained over geometric shapes and offer us a mathematical perspective.

In the fourth section, a new model proposal is presented. In this model, it is proposed that sustainability should be handled as a cycle. Thus, considering the externality of the business, it is the constant communication with all stakeholders of the business and enabling diversification of its subjects. The final section provides conclusions.

LITERATURE REVIEW

The concept of sustainability first appeared in the German forestry literature as “Nachhaltigkeitsprinzip” (German term for sustainability) (Wiersum 1995). One of the first studies on sustainability was by the economist Thomas Malthus, who published his theory about looming mass starvation due to the inability of available agricultural land to feed an expanding population in 1798 (Kuhlman and Farrington, 2010).

According to Marsh (1864), sustainability is based on a fundamental and long-standing proposition: All that people need for their survival and well-being depends directly or indirectly on the natural environment (www.nap.edu). The environment provides people with air, water and food. The environment is the source of renewable and non-renewable resources. (www.nap.edu).

In recent years, there have been concerns about confronting various events. In the 1930s, wheat producers appear to have emerged with the "Dust Bowl" because they were encouraged to sow broad plains in high places in Texas and Oklahoma, at a time when the state was plentiful. When the traditional dry weather shifts were repeated, substantial dust storms made farming more difficult due to inconvenient and dust-induced lung inflammation and pneumonia. In order to

prevent this, soil conservation practices, including harvest transformation and soil fallout, have been implemented on an immense scale, and the Dust Bowl has not been repeated. (Sustainability and the USEPA, 2011)

When looking at the establishment basis, in 1961, the “World Wide Fund for Nature (WWF),” and the “International Union for Conservation of Nature (IUCN)” were formed. WWF was established to protect the natural resources and the future of nature. It functions in 100 countries. It directs people to make sustainable decisions and make choices about the use of natural resources to achieve their goals (<http://www.worldwildlife.org/initiatives>).

The Silent Spring book, written by Rachel Carson in 1962, has revolutionized the environment. Silent Spring describes the deadly effects of insecticidal pesticides used in agricultural areas in the United States on the environment and human health. Due to the interest and awareness created by Carson in the big city, the “Environmental Protection Agency (EPA)” was established in 1970 (Carson, 2004).

EPA was established in 1970 to eliminate environmental pollution problems, and it was aimed to ensure environmental protection and to set and implement standards. (www.epa.gov/history)

The word sustainability derives from the Latin "sustinere." Although there are various meanings in dictionaries, it essentially means to protect, support, or endure (www.dictionary.com). Written by Allen Prescott; It describes sustainable development as a combination of high-level human welfare and ecosystem wellbeing that supports ecosystem life (Prescott-Allen, 2001).

Sustainable development and sustainability both consider environmental factors. However, sustainable development refers to “ameliorating” economic growth, whereas sustainability challenges economic growth. (Waas et al., 2011).

Sustainable development requires considering the principle of justice between current and future generations in the use of environmental, economic, and social resources. In other words, it requires the conservation of the ecosystem and biodiversity necessary for life in meeting the needs. (Monet, 2004).

The emergence of sustainable development was mainly an intellectual answer to reconcile the conflicting goals of economic growth with environmental protection (Waas et al., 2011).

According to the above definitions, the main features of sustainability are:
(Sustainable Development: An Introduction, 2007)

- Desired person: The society that people want to maintain to meet their needs
- A durable ecosystem: an ecosystem that maintains the capacity to support human life and others.
- The balance between present and future generations: and the balance for the present generation.

SUSTAINABILITY MODELS

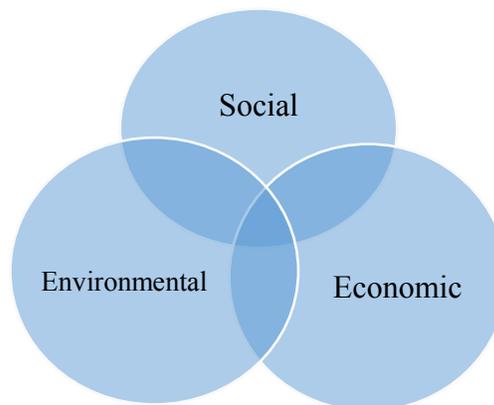
Academicians and scientists provide various sustainability models. The most commonly accepted model is the Triple Bottom Line. The other models are; prism model, egg model, and pyramid model. We provide a brief description of these models:

3P Triple Bottom Line- Triple Reporting

This term was coined by John Elkington in 1994 and is widely accepted in the following years as the Triple Bottom Line (TBL). Triple Bottom Line focuses on people, planet, and profit. The TBL agenda is not just about the economic value they add to companies; it also focuses on the environmental and social values they add or destroy (Elkington, 2004). Figure 1 shows that social, environmental, and economic factors are included in sustainability and they interact with each other. The starting point of the Triple Reporting can be described as the Brutland

Report published in 1987. It was thought that the social and economic dimensions identified in the Brundtland Report should be addressed in a more integrated manner if real environmental progress is to be achieved (Elkington, 2004)

FIGURE 1: TRIPLE BOTTOM LINE OF SUSTAINABILITY

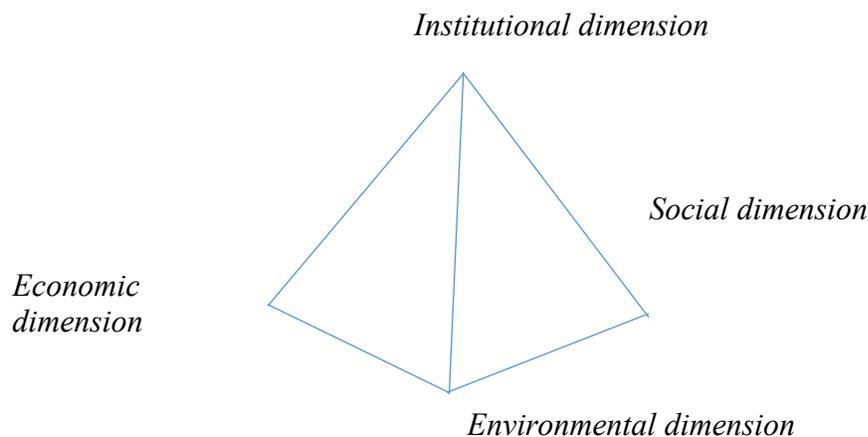


Prism Model

Similar to the three pillars model, the prism model proposes a set of interlinked components (Thatcher, 2011). The "sustainable development prism" (Spangenberg and Bonniot 1998, Valentin and Spangenberg 1999) adapted from the Wuppertal school envisages four dimensions (Kainer, 2005), as illustrated in Figure 2.

- Economic dimension: Man-made capital that includes all man-made material assets such as buildings and roads.
- Environmental dimension: It includes all-natural capital, which can be divided into stocks of non-renewable resources and renewable resources.
- Social dimension: The mind must be perceived as an awareness of the individual subject (world view, knowledge, and experience) and expressed as human capital.
- Institutional dimension: social capital that includes the organization of society and the relationship between people.

FIGURE 2: PRISM MODEL¹



Other four-pillar models include the basic three-pillar model. However, it divides social capital into social capital and cultural capital (Thatcher, 2011). Kain uses the terms “Mind, Artefact, Institution, and Nature” for the prism model instead of the social and economic dimensions (Kainer, 2005). Both prism models point to the impossibility of a simultaneous increase in man-made capital, social capital and human capital (Kainer, 2005). These are necessary to ensure both sustainability and sustainable development. In addition, the balance between them is vital (Crother & Aras, 2008).

Egg Model

Prism models may be criticized because they place less emphasis on the environment. This view is a sustainability model that reveals the environmental dimension. (Kainer, 2005).

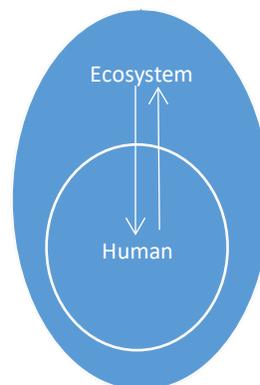
According to the "Sustainability Egg," egg yolk and egg white” show the relationship between humans and the ecosystem, as shown in Figure 3. This means that people are in the ecosystem, and ultimately, one is entirely dependent on the other. In order for the egg to be good, both the yolk and the egg white must be good. In society, as in eggs, it is good and sustainable when both humans and

eco-system are good (Kainer, 2005). The goodness of the egg is considered complete only when the goodness of each subsystem is achieved (Thatcher, 2011).

Social and economic development can only take place if the environment provides the necessary resources. The ecosystem should, therefore, be viewed as a high-level system socially, economically, and institutionally. IUCN hypothesis (Kainer, 2005):

Sustainable Development = Human Well-being + Ecosystem Well-being.

FIGURE 3: SUSTAINABILITY EGG²



Atkisson's' Pyramid Model

The design of this model was created to help groups of 20-40 people to progress in the sustainability learning curve, from basic principles and frameworks to system analysis and innovative action strategies. At the same time, groups do cross-sectoral teamwork, connect, generate many new ideas, and they work for an "Agreement," a series of actions they agree to watch in the real world. As shown in figure 4 , the structure of the Pyramid is five levels which include the following:

Level 1: Indicators- Measuring the trend;

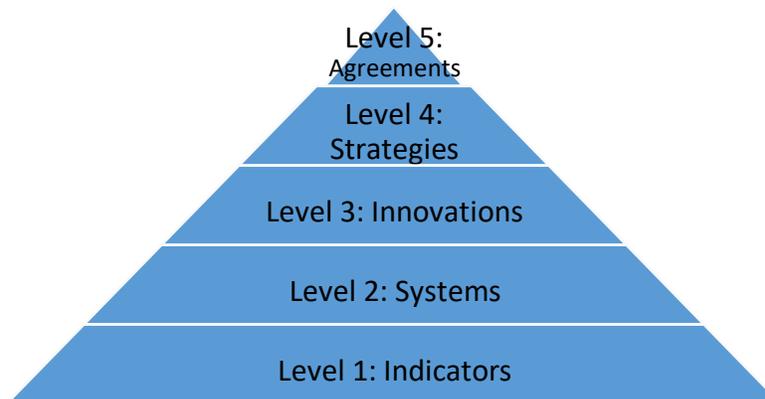
Level 2: Systems- Making the connections;

Level 3: Innovations- Ideas that Make a difference;

Level 4: Strategies: From Idea to Reality; and

Level 5: Agreements: From Workshop to Real World.

FIGURE 4: ATKISSON PYRAMID³

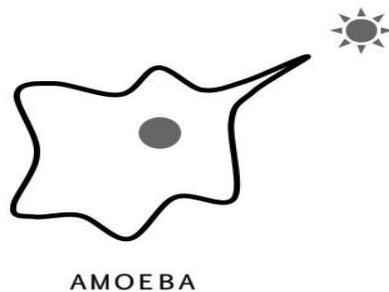


Amoeba Model

Amoeba Approach is used to visually evaluate the state of a system according to an optimum condition. As presented in Figure 5, the model is circular, and various indicators are placed outside. Lines spread continually from center to indicators, from unsustainable (at center) to sustainability (out of the loop). A loop will show optimum conditions. This type of model allows simultaneous

evaluation of different indicators and easy comparison between the components of the system . (Hamedan 2014).

FIGURE 5: AMOEBA MODEL⁴



Besides these classifications, the transition to sustainable capitalism in Table 1 below is included in seven principles. This process will be one of the complex processes that need to be discussed (Elkington, 2004).

TABLE 1: SEVEN SUSTAINABILITY VARIABLES⁵

	Old Paradigm	New Paradigm
1 Markets	Compliance	Competition
2 Values	Hard	Soft
3 Transparency	Closed	Open
4 Life-cycle technology	Product	Function
5 Partnerships	Subversion	Symbiosis
6 Time	Wider	Longer
7 Corporate governance	Exclusive	Inclusive

When Table 1 is examined, it seems that the first revolution is from compliance to the competition. The competition will be driven mainly through markets. The competition will now drive it higher through the markets. Learning to identify market conditions and the factors that can trigger this process will be an essential factor for future business success.

In the second revolution, it is stated that the values change from hard cases to soft cases. This is driven by a worldwide shift in human and societal values. It seems that the companies that have been in business for years have been upset just as Enron and Arthur Andersen are out of business due to the value-based crises they had.

The third revolution indicates that transparency becomes clear. Revolution 3 is well underway. It is being fuelled by growing international transparency and will accelerate. Increasingly, companies use their knowledge to compare their performance with their competitors. The launch of the “GRI (Global Reporting Initiative)” is one of the most reliable symbols in this situation.

Revolution 4 is driven by and, in turn, is driving the transparency revolution. At this point, there is a shift in the focus on the importance of their performance from the cradle to the villa rather than the acceptability of their products at the point of sale. In other words, it includes the period of recycling and disposal of the material.

Revolution 5 will significantly increase the rate of occurrence of new forms of partnership among companies and between companies and other organizations. In

the past, organizations were regarded as enemies. In the future, in order to survive, companies need to develop new forms of relationships with successful companies.

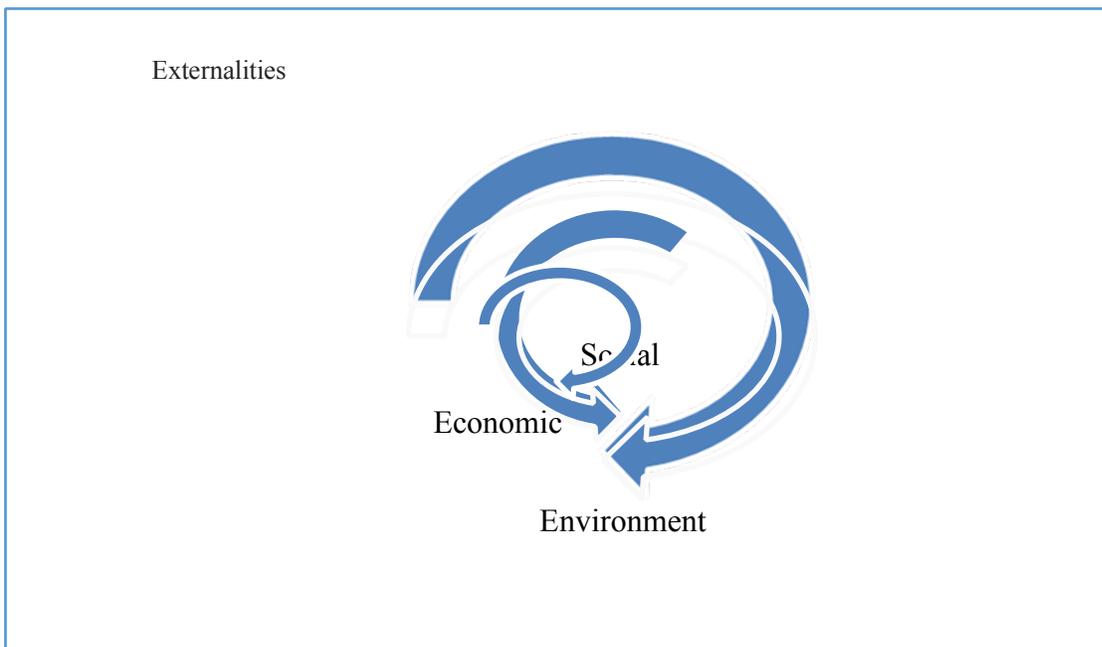
Revolution 6, the sustainability agenda is pushing us in the other direction – towards ‘long’ time. For politicians and business people to think beyond two or three years is even more challenging. In some cases, it is necessary to think about centuries that include decades or even subsequent generations (Elkington, 2004). Eventually, no matter what the drivers are, the business end of the TBL agenda is the responsibility of the corporate board.

A NEW PROPOSAL: SUSTAINABILITY CYCLE

According to the generally accepted Triple Bottom Line for sustainability, three dimensions are environmental, social, and economical and they are expressed in loops. However, when sustainability trends are examined, it is observed that transparency becomes clear and performance needs to be monitored throughout the life cycle. Today, many companies use their knowledge to compare their performance with competing companies. When externalities of operations are taken into consideration, it is necessary to communicate with all stakeholders regularly. However, in the case of triple reporting, it appears that there is no link

between the businesses and their external stakeholders. Due to these reasons, we propose that it would be more appropriate to express in loops instead of circles. Thus, in the case of the customers, shareholders, it is stated that communication with stakeholders is open.

FIGURE 6: SUSTAINABILITY CYCLE



CONCLUSIONS

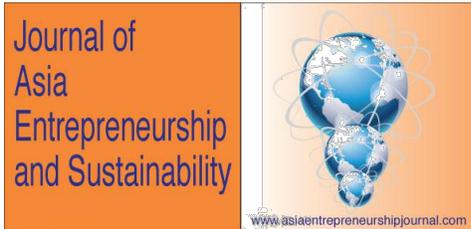
According to the Triple Bottom Line, which is the generally accepted report on sustainability, the sustainability dimensions are divided into three classes - environmental, social, and economical - and are expressed in loops. On the other hand, when the sustainability variables are taken into consideration, attention is paid to the importance of transparency, becoming precise and performance throughout the life cycle. Now, when undertaking business activities, it is necessary to keep in touch not only with internal stakeholders but also with external stakeholders at the same time. In other words, the externality of the business should be taken into account, and the continuity of communication must be ensured. The area indicated in the triple reports has no connection with external factors. According to the proposition made by us, it would be more appropriate to express in loops instead of circles. In this way, it will be possible to communicate with all stakeholders in accordance with the concept of social responsibility, as well as transparency, will be ensured.

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WWF World Wildlife Fund, <http://www.worldwildlife.org/initiatives>
(20.01.2017)

The role of drivers and adaptation factors in transferring business from linear to circular – Case Martela

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Abstract

Purpose - This case study explores the transition of business from linear to circular. More specifically, we ask, what drivers played a role in the transition to circular economy business model (CBM) and what internal changes were needed for that transitional change? The circular economy (CE) logic entails for re-

designing business. The previous literature has concentrated on business model innovation but not so much on how companies manage internal processes when changing from linear to circular business. Our office interior case company decided to start a change management process in their business to create more value and customer experience.

Method - The case study builds on the intensive case study method and it included an in-depth semi-structured interview with the CEO of a company in user centric workplace and learning environments design business. Additionally, we utilized our observations during the interview, pages of the company's public website and quarterly, annual and responsibility reports published by the company.

Results - The results show that most important drivers were the realisation of sustainable business logic, economical and market drivers. Moreover, new trends influenced the way work is done, thus, it impacted their core business.

Conclusions - Adaptation factors have a significant role in the transition as new knowledge, capabilities, leadership and collaboration were the most meaningful. Family business heritage strongly contributed to the successful implementation of the adaptation factors in the case study. Moreover, we identified several internal

operational and strategic changes, which were required to achieve the CE business thinking.

1 Introduction

Circular economy (CE) is an economic model that integrates both economic activities and environmental sustainability (Ellen MacArthur Foundation, 2012; European Commission, 2016; Murray et al., 2017). CE can provide business and value creation opportunities (Lewandowski, 2016), though, the transition from the traditional linear business models towards circular business models (CBM) requires new knowledge and business design (Bocken et. al., 2016). Previous research in CE has addressed topics like conceptualization of CE (Ghisellini, Cialani & Ulgati, 2016; Kircherr, Reike & Hekkert, 2017) and business model innovation (Antikainen & Valkokari, 2016). However, the research has not so much explored what driving factors and internal changes are required in the transition from linear to circular business.

In our study, we are interested in how established company can transform the current business model toward a business models for CE. This paper is based on one case from a company that changed its business model, and, at the same time, this required company-wide transformations. The transformations were primarily

driven by the need to stay competitive and the willingness to contribute to sustainable development. In this paper, we aim to shed a light to the “black box” in which the managers started the business transformation process as well as created two new sustainable business models (Roome & Louche, 2016). In this paper, we are not so much interested in the actual business models and how they are designed. The focus here is on the question “how” i.e. how the company and business model transformation was made to happen by the managers and the employees of the company. To be more specific, the focus is on the drivers of CE within an established company as well as the managerial and internal organisational processes that took place.

To illustrate one circular business transformation case in a Finnish user centric workplace and learning environments designer company, we conducted an intensive case study consisting of a semi-structured interview. Other data consists of web pages, annual, quarterly and responsibility reports. Content analysis was used as an analysis tool (Eriksson & Kovalainen, 2016), moreover, we utilized internal and some external adaptation factors as the analytical framework (see Lewandowski, 2016 for more on adaptation factors).

This paper is structured as follows. The next section outlines the theoretical framework of the study, in which we elaborate on the driving and preventing factors, the business model transformation and adaptation factors. Subsequently, the qualitative research approach and data are presented. The following section describes the case study and provides the analysis with discussion. Finally, the paper concludes with theoretical and practical implications.

2 Theoretical Framework

2.1 Driving and preventing factors of transition to circular economy

In this study we defined “drivers” following de Jesus and Mendonça, (2018) as factors enabling and encouraging the transition to CE. On the other hand, “barriers” here are technical, financial, regulatory or cultural factors, constraining the transition towards CE. Typically, a mixture of drivers and barriers accruing from local conditions are of importance, not just one or few. The categories are also not mutually exclusive. The drivers and barriers can be further divided into two categories: soft (social, institutional) and hard (technical, economic) (de Jesus & Mendonça, 2018).

Amongst the “hard” drivers and barriers technical capacities play a central role in the transition to a CE. Technical solutions are essential for product durability,

efficiency, quality, and for designing optimal product life-cycle scenarios for new products and processes (Bakker et al., 2014). Thus, technological challenges are also a key barrier to transition. Technological barriers can be related to non-existence of appropriate technology (Geng et al., 2014, but also to technology gaps i.e. lag between invention and production (Gao et al., 2006). Also lack of right kind of educated personnel is a technological barrier (Geng et al. 2010). In the other “hard” group of drivers and barriers, economic/ financial/ market factors, such as high initial costs and market uncertainty, influence new investments (Jones et al., 2013). In the existing socio-technical systems there are typically inertia and lock-ins as well as strong path-dependencies that are difficult to overcome (de Jesus & Mendonç, 2018).

Institutional/regulatory factors are “soft” drivers and they include public policy measures (e.g. legal frameworks, taxes, incentives, infrastructure development) addressing market failures and creating a supportive environment for innovation and entrepreneurship. However, institutional/regulatory barriers are also one of the most important factors constraining the development of a CE. An “optimal” mix of taxes, rules, infrastructures and educational set-ups are required to enhance the development of CE (de Jesus & Mendonç, 2018; Pinto & Allui, 2016).

Another group of “soft” factors is the social/cultural factors. They include trends

such as social sensitivity to environmental problems and changing customer preferences (e.g. from ownership to services models or to more sustainable choices). Also, the perception of companies on CE in producing reputational gains (e.g. through greener practices) is included in social/cultural drivers. The slow change in consumer habits and businesses routines, because of lack awareness or information regarding the CE is, on the other hand, an important barrier (de Jesus & Mendonç, 2018).

To summarise, technical “hard” drivers include availability of technologies that enhance, for example, resource optimisation, re-manufacturing and re-generation of by-products as input to other processes. Technical barriers are inappropriate technology, lag between invention and production as well as lack of technical personnel. Economic/financial/market drivers stem from for example, from the need to improve resource performance due to resource volatility. The barriers include, for example, high resource cost, market uncertainties and asymmetric information. Softer factors include institutional/regulatory drivers. They are linked with increase in environmental legislation. Barriers, on the other hand, can be misaligned incentives, lacking a conducive legal system and institutional framework that does not support entrepreneurship and innovation. Social/cultural drivers are concerned social awareness and shifting consumer preferences.

2.2 Adaptation Factors

We are aware of the models on how to transform a business model into a sustainable business model. We take the model proposed by Roome and Louche (2016) as a starting point, because our focus is not on the representation of the business model transformation (Abdelkafi & Täuscher, 2015) or on the business model itself (Gauthier & Gilomen, 2015) nor on the profit/loss potential of waste (Bautista-Lazo & Short, 2013). In their research, Roome and Louche (2016, p. 28-29) came up with a process model of business model change for sustainability. Research aims to explain how new business models for sustainability are created via the interactions between individuals and groups inside and outside companies in textile and construction industry. They came up with a model consisting four connected sub-phases: identifying, translating, embedding, and sharing. The first phase identifying is concerned with “event-driven problemistic search, recognition, and surfacing of core beliefs, combined with an ability to question assumptions and then to explore external ideas at the conceptual level”. The second translating-phase, on the other hand, “a tightly coupled network of communities inside the company set about to develop that concept into an operational reality after adapting it to the company setting.” In the third phase, embedding, “the new knowledge and relationships then being developed begin to take form in terms of the revised business model that helps create and capture

value.” The last phase, sharing, focuses on “the consolidation of the business model network into a collaborative structure as well as the communication of the company’s new approach and revised business model to a wider internal and external audience, including current and future customers.”

There are many reasons for rejecting, sustainable and CBMs. These are, for example, technological barriers, legal barriers, economic barriers and required change in mindset (Bechtel et al., 2013). Technological barriers include specific technologies (e.g. recycling technologies) and processes (e.g. product design) that may make the adaptation of CE principles harder to companies. Legal barriers, on the other hand, are complexity of regulations, differences between international regulations, and possible outdated or rigid characteristics of laws and regulations. These can unintentionally bring additional barriers to the transformation process. Economic barriers also may also play a key role; businesses may have challenges in defining the business case according to the CE business principles. Finally, change in mindset is also required. If companies are reluctant to adopt their current ways of operating, it can naturally make implementation of CE harder.

With the help of the adaptation factors companies can anticipate and counteract the barriers and move towards sustainable business models and CE. There are

variety of benefits to gain. Previous literature has found, that the advantages CE could provide can be related to the overall impact on economic growth, it could provide material cost savings, mitigation of price volatility and supply risks, could provide significant job growth in the service sector and moreover, CE could have an impact on the employment market resilience (Lewandowski, 2016). The factors affecting adaptation of a business model to the CE principles can be divided into internal and external factors. The internal factors are concerned with organisational capabilities whereas the external factor encompass the political, economic, social and technological (PEST) factors (Lewandowski, 2016). When it comes to the internal factors, in his study Roos (2014) refers to a master's thesis work and literature review by Bechtel et al. (2013) and highlights the role of leadership, related to the new strategic direction, realistic benefit and risk assessment, and the ability to create a shared understanding of the business.

One of the key external adaptation factors are the sociocultural factors such as consumers and their habits. Planing (2015) found in his literature review, that the adaptation of CE business models is dependent on the change of consumer behavior and their routines on non-functional motives, such as entertainment and enjoyment, and subjective and moral norms. Roos (2014) refers to a master's thesis work and literature review by Bechtel et al. (2013) and points out the

importance of collaboration. It is quite impossible for a company to achieve circularity without collaboration and networks. Managing internal and external collaboration is likely to be an important adaptation factor.

To summarise, there are many studies on barriers to business model innovation and transformation. Furthermore, many advantages of sustainable business models have been identified. However, there does not seem to be many empirical studies on adaptation factors i.e. that is how to overcome the identified barriers. Based on the previous literature internal adaptation factors concern organisational capabilities to move towards the CBM (Lewandowski, 2016). Such capabilities included role of leadership and risk management. External adaptation factors were mainly concerned with sociocultural factors such as customer's habits and collaboration.

3 Methodology

The objective of our study is to shed a light to the “black box” in which the managers started the business transformation process as well as created two new sustainable business models. The focus is on the question how the company and business model transformation was made to happen by the managers and the employees of the company. To be more specific, the focus is on the drivers of CE

within a mature company as well as the managerial and internal organisational processes that took place.

The company was chosen when two of the writers were in World Circular Economy Forum in Helsinki, Finland, in 5th and 6th of June 2017. Case company Martela's CEO was speaking in there about CE business models and we were fascinated by the speech and after that, we introduced ourselves and told if we could interview him about CE and especially business models and how the transformation has happened in their company. We shared some thoughts and business cards and after the Forum we shared a few emails and set up a meeting and an interview at the headquarters of Martela in Helsinki, Finland. The interview was a fantastic opportunity to hear Martela's journey towards CE. The interviewee and the company gave us a permit us to use the company brand name.

The case study was based on the intensive case study method (Eriksson & Kovalainen, 2016); it included a semi-structured interview with the CEO of a company in user centric workplace and learning environments design business. The collected data consists of a 59-page transcription of one 86-minute interview with the CEO, as well as our observations during the interview, pages of the company's public website and quarterly, annual and responsibility reports

published by the company. Two of the authors conducted the interview, all three authors analysed the interview and secondary data. The data was analysed using the qualitative content analysis technique (Eriksson & Kovalainen, 2016). We utilised three-step method. First, two authors read the transcribed interview data and first the internal adaptation factors began to emerge from the data. We then started to go through the data again and identified sentences which included mentions on the internal change process, CE transition and business model. Second, we then analysed the business model process, where the company was making the transition towards CBM. We concentrated on the mentions and expressions on business model, transition, process and how eventually the company managed the transition from linear business model to CBM. Third, as we had already analysed the data twice, we noticed that there were certain factors that had an effect on why in the first place the company started the process towards CE. Third analysis phase concentrated on the driving factors and all three authors did the analysis to ensure trustworthiness.

4 The Case Study and Analysis

“Martela was founded in the 1940s and there has always been, in some way, circular economy in our DNA. We make quality products, durable products and that they stand the test of time, so to speak, and that there is a

possibility to do repair and recycling activities, so that has been the basic philosophy in Martela” (The CEO).

The case company Martela has a long history in the design and sales of office furniture. Already in the beginning the idea was to build office furniture, which lasts. Matti S. Martela founded the family company in 1945. Today, the company is the largest one in its sector in Finland and one of the three largest in the Nordic countries. Martela has production facilities in Finland and Poland and the main markets include Finland, Sweden and Norway. In 2017, the company employed an average of 508 employees and Martela Group’s turnover was 109.5 million euros. Since 1986, company’s shares have been quoted on the OMX Nordic Exchange Helsinki. In recent years, Martela has changed strategy toward a more sustainable and green business with CE as their spearhead model. As CE became part of their strategy the CEO defines CE as the following:

“The main ideology has been that circular economy enables us to create more value to our customers, and we can produce products and services and combine these into more reasonable ensembles, and that makes possible for our customers to have savings and efficiency. And, in that

process we can rationally utilize, such as, raw material, energy and recycling materials.”

Today, the company serves its customers by offering an extensive range of services covering the entire cycle of changing the customers’ working environment from initial inventory and furniture rental and leasing to product care, maintenance and furniture recycling. The case company adopted two business models: First, they started to serve working environments as a service including individual office environment planning based on the idea of the product-service system (PSS) where a customer can use of a product without being the owner (Barquet, de Oliveira et al. 2013; Tukker, 2004; Tukker & Tischner, 2006). This change included a shift from selling volumes of products towards selling services (Laubscher & Marinelli, 2014) and the company started to sell performance related to serviced products, where the customers are served by becoming partners with the customers through user driven design. The idea is no longer produce the best furniture with the best design and price, but focus is on the changing customer needs. Second, the company started to put emphasis on the product life extension, where the idea was to buy those pieces of old furniture, which can be repaired, from the customers and resell them at the outlet marketed in the web-sites. This business model was based on the idea of maintaining,

repairing, reusing and recycling products aiming at the long cycle which extends the lifetime of existing products (Lacy et al., 2014; Bakker et al., 2014; Planing, 2015).

4.1 Driving factors towards CE business

4.1.1 The wakeup call

The first driver that had an effect was the realisation of the furniture waste in Finland, over 100 000 tons per year. The CEO felt that they must do something, they must do their part of that problem. “We wanted to end that and do our bit” (The CEO). They started to work towards business where there would not be such amount of waste and that waste could eventually be used again instead of being completely wasted. They began to think this problem customer-oriented way and how they could create value for their customers with the used furniture. That was the wakeup call for their CE journey and that would eventually lead to two CBMs.

4.1.2 Economical and market drivers

“Martela and the entire industry has been and still is in a major rupture, and, in 2010 you could clearly see that the sales of [core products] and furniture started to decline” (The CEO)

At the beginning of 2010's, the company faced several challenges in their business. The weak development of the global economy and the weak economic growth in Europe, especially in Finland, forced Martela to cut down its cost structure and to improve the contribution margins. The sales of their core products, desks and chairs for offices and public places, declined due to the increased competition in the global furniture business, where the company customers had better access to pricing and the private customers were able to buy furniture via online. There was also massive change in the behavior of their customer companies, because they reduced personnel and the costs of their office premises. These realisations lead to the understanding that they needed to evaluate their value creation.

“We began to understand, that our customer needs have changed a lot, in a major rupture, then we started to ponder how we create value for our customers” (The CEO)

4.1.3 New trends in the way work is done

“In a way we are forced to this, to this change. And when we pondered and analysed these megatrends and value creation and then we pondered what this means to us. We realised that every customer employee we have, they

have hybrid roles [in work]. That means combining two or more things, and that leads to better efficiency” (The CEO).

At the same time, there were changes in the needs of the customers, who started to require more flexible working environments for their employees. In Martela, the CEO realized how the traditional way of “just selling desks and chairs” did not support the new trends of the knowledge work, which emphasizes teamwork, communication and collaboration. The realisation in the case company was that working life was changing fast. Work was not anymore time and space bound, instead the work was increasingly thinking (knowledge work) and that results are much more important than always being at the office. The CEO thinks that “working environment is changing entirely to service based [business]”. Moreover, the employees in the knowledge work business started to feel that wellbeing at work was becoming increasingly important and thus the focus shifted to designing the work spaces that at the same time motivate, offer flexibility and efficiency.

4.2 Internal adaptation factors to achieve the new circular business thinking

In our analysis, we have found eight core changes that took place in this organisation. They were parallel, somewhat simultaneously managed operations.

The starting point was the understanding of how they are exactly creating value for their customers and how that value creation process has changed and will change during market pressures. Martela's solution was to develop a new business focus. To transform their business, they needed to concentrate on Scandinavia and discontinued sales operations in Russia and Poland. They came to conclusions that the knowledge work is not yet in the level of sales efforts as they are in the Nordic countries. Thus, the change in the markets has not yet started in those countries. The CEO states that, "these operating models don't have possibilities there". The CEO sees that in the Nordic countries the salaries are high, so the work productivity must be very high to operate efficiently and profitability. In that sense, companies invest in better working workplaces that encourages achieving those targets. Due to these reasons, they concentrate their sales efforts in Nordic countries.

4.2.1 New knowledge and capabilities

"And then I figured it out, that three main purposes of working environment are to face people, open communication and learning from each other" (The CEO).

When it comes to the adaptation factors, to transform the business towards sustainable they needed new knowledge. They understood quickly that the process required talent management in the organisation and that they needed to map out the knowledge and skills they already have in their company. This offered a better picture on what new skills they would need and why they would need it. They educated people with new skills, they were offered new responsibilities and they saw that this represented one way of circularity in their business. The CEO states that the company needs to know what resources they need to analyse, start, manage and implement new way of doing circular business.

4.2.2 Changing the business systems and processes

“We need to have right tools. Our know-how is changing, and the tools are changing”. (The CEO).

To further support transfer of (new) knowledge and capabilities and that the transition to more sustainable business started to go forward the company needed to invest in new ICT systems that supported new CBMs and revenue logic. The company also noticed that when the customer needs change the processes in the company needed to change also. The company also concentrated on lower hierarchy and open company communication both internally and externally, that

created business agility, which eventually gave them competitive advantage in the markets.

4.2.3 Culture and mindset

One of the most important internal changes seemed to be company's identity change. The identity changed from the traditional interior furniture manufacturer to the designer of user centric workplaces and learning environments. They got everyone involved in the co-creation of this new identity and it resulted eventually as Martela-one-spirit. What this means is that everyone takes care of your own responsibilities as good as possible, everyone should utilize company resources efficiently, share ideas, and allow other to succeed and develop skills. The CEO explains that he had to expose himself every day and meet co-workers, discuss and create and extend the developing culture. He also thought that providing the reasons for the new strategic shift was important and the feedback was needed to see what was working and what was not. This reflects the role of leadership in the transition from linear to circular, the strategic focus and shift needs to be implemented within the organisation and in this case, the identity change had a key role. Furthermore, small, but important internal cultural changes in the organisation are things to show that they all share the same goals. The CEO

is nowadays just called by his first name, no more titles and everyone in internal communication is a “dear colleague.”

4.2.4 Leadership capabilities

In a larger picture, the internal cultural change is a major task. The CEO saw that it takes a lot of commitment to lead that change. They saw that what they were doing internally is what they were moving forward in their circular business. The internal cultural change to be more customer oriented and focusing on customer experience provides tools for a better workplace. Thus, even the physical design of the whole work place is change management and what they understood that the core issues were meeting with people, open communication in every level and learning from each other. Leadership capabilities and changes related to them were also required when they realised at Martela that they need to learn away from Finland-centricity. The CEO felt that the customer experience must be the same everywhere; employees must have the same support in everywhere, so the identity transformation affected Finland centricity as well. What this meant that when seeking the best customer experience, they need to have the same mindset in every country they have business operations and personnel. The company identity, culture, and especially, Martela-one-spirit, needs to be implemented in

every country. They thought that this was one important step when transforming their business from linear to circular.

4.2.5 Collaboration

Finally, collaboration was an essential adaptation factor to Martela. When designing new business, and in this case, the transformation from linear to circular business it is important to develop new partnerships. However, the CEO sees that it is not easy in Finland, because of the attitudes. What he means is that in Finland partnerships could be a competition and not productive for both parties. However, they do feel that even more than ever, in circular business partnerships are in major role. They engage in close partnerships with their clients to pursue more lasting and benefiting partnerships.

4.2.6 Family business heritage

One reason why Martela was able to carry out all the required changes was most likely their family business heritage. One internal strength has always been the family business heritage and long history in furniture business. They believe in longer timeline when talking about business planning and creating new business opportunities. They also believe that the family business heritage provides stability and longevity to their business. One aspect of the heritage is also the

strong brand, though, the brand must evolve and that was one of the starting points when the identity transformation started that was the why they wanted to leap to the next level in providing more value to customer experience and transition to more sustainable business when the markets were changing.

5 Discussion

This study contributes to previous research by addressing the question how the company and business model transformation was made to happen by the managers and the employees of a company. We highlight, that the soft (social, institutional) and hard (technical, economic) driving factors can have an effect on the transition towards CE (see de Jesus & Mendonç, 2018). The wakeup call was the main driver and they realised that there must be an alternative way to do business in this industry. They understood that e.g. more recycled materials and sustainable energy sources are needed, however, they kept value creation and customer need always at the core. This realisation reflects the social/cultural driving factors as sensitivity to environmental problems and changing customer preferences as happened in the case company (de Jesus & Mendonç, 2018). Further, the economical and market drivers played central role in the transition towards CE business. The economical drivers, somewhat, forced the case company to evaluate their business thoroughly. They understood that their core

products were not as competitive as they have been and, thus, they began to analyse the market uncertainties (Jones et al., 2013) and came to conclusion that they need to change their strategy and business models.

Furthermore, the company analysed the markets and concluded that the way we understand work is rapidly changing. Knowledge work was gaining momentum and the way companies use their premises for productive work was also changing. Moreover, they saw business opportunities in CE, and thus, they began their transformation to circular business, which could create more value for their customers when reflecting the new way of doing work (de Jesus & Mendonç, 2018).

We further contribute to the previous research that the core adaptation factors have had an influence in their continuing transformation to CBMs (Lewandowski, 2016; Roome & Louche, 2016). The adaption factors showed that new knowledge and personnel capabilities, change in the business systems and processes, changing the internal culture and mindset of the personnel and throughout the supply chain, providing and developing leadership capabilities and further developing collaboration (Bechtel et al., 2013; Roome & Louche, 2016; Roos, 2014)). In addition, the identity co-creation and cultural changes were managed to

improve the transformation process. Moreover, the company decided to change their business focus, which was necessary for resource implementation and that they understood where they could provide better value for their customers (Planing, 2015). The family business heritage provides the company the basic values and longer timeline in business planning and creating new business opportunities. The adaptation factors reflect the regenerative nature of the company, their strategy provides them a tool to evolve continuously. However, the transformation started with a carefully conducted analysis and well-planned change management process.

When analysing the drivers and barriers, it is certain that they all have had an effect on the change management process. Political and economic decisions and initiatives have improved CE business opportunities and made the business environment pro-sustainable (Ellen MacArthur Foundation, 2012; European Commission, 2016). Social and technological changes in societies, in this case especially in the Nordic countries, made an impact on the decision process to transform business towards circular. This is reflected by the consumer behaviour change (Bechtel et al., 2013).

6 Conclusion

The case study focused on the transformation of established company business linear to circular. We analysed what drivers played a role in the transition to CBM and what internal changes were needed for the transition. The study presents three contributions. First, this study shows how an established company went through a transformation process from linear to circular business, adding to discussion on the driving factors, such as economical and market drivers, that influence motives and incentives. However, realisation that sustainability can have a strategic side, is an important notion. Further, sustainability as social/cultural driving factor could provide companies a strong enough reason for the transition from linear to circular business.

Second, the study shows that adaptation factors have a significant role in the transformation process. The most important adaptation factors were related to new knowledge and capabilities, leadership capabilities and collaboration. These reflect the need, for a company pondering the transformation to circular business, to design and manage a process accurately with value creation and customer orientation contiguously. Third, based on the findings, we argue, that the family business heritage can have a strong basis for the transformation process, it reflects the regenerative nature, especially in this case.

The practical implications of the study are related to the managerial aspects. This study reveals that the transformation from linear to circular business is a complex, resource intensive and quite difficult change management process, however, customer value and new business opportunity driven at the same time. Management can provide positive support with co-creation and commitment in the whole organisation.

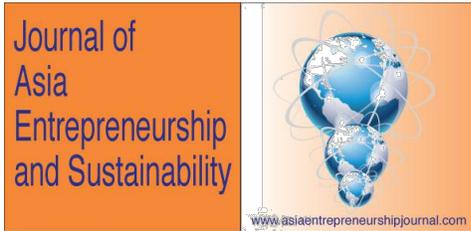
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This case is a revised and enlarged version of the original case titled: (How to transfer business from linear to circular - Case Martela), presented at International



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To study the impact of Social Media Marketing on the buying behavior of the Millennial parents

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Abstract:

Social media is effective for the Millennials as it is sustaining the attention of the consumers. As per Kaur and Kaur (2015) the Social Media marketing is seen to have a major social influence that effects the personal life of the Millennials. Social media marketing makes it easier for the Millennial parents to communicate in real time with a number of strangers. This increase in the communication with online friends through social media by the Millennials has led companies to focus of SMM. Social media is a crucial platform to share and exchange information, ideas, pictures, videos, reviews etc by Millennials. However the past research does not study the impact of social media to purchase intention being mediated by variables like consumer engagement. This study has been done on a special generation of Millennial parents to judge their purchase intention. The same is hypothesized to be mediated by the Consumer engagement through social media

marketing activities. The same has been studied in this paper through SEM technique of quantitative research. The model was found to be fit in the results for the target Millennial parents of India under study.

Introduction:

Social media marketing is a very popular trend today. The same has been adopted by many brands to communicate with the Millennial parents directly and form a relation with them. Millennials is often referred to Generation Y and is the demographic cohort which covers individuals born between 1980 and 2000. The major characteristics that differentiate this generation from others is their pressure to perform, tech savvy, ambitious, team oriented, need instant feedback, respect authority, and fast paced (Howe & Strauss, 2007). This generation has grown up with a majority of the technological advances like the internet and are thus very familiar with social media platforms.

Social media marketing and its impacts on Millennials is attracting great attention from academic research because of its USP of being economical and having a vast reach. Canhoto, Clark & Fennemore (2013) explain that the social medias' insight provide information to the Millennials about the company and companies information about the characteristics of specific individuals. Companies today are

looking forward to take full advantage of the data which social media generates. The social influence has been seen to have an impact on the Millennials purchasing behavior(Kaur,Duggal & Suri,2018).The Millennials also seem to be influenced by online reviews(Sethi,Kaur & Wadera,2017)

Social media is also effective for the Millennials as it is sustaining the attention of the consumers. As per Kaur & Kaur (2015) the Social Media marketing is seen to have a major social influence that effects the personal life of the Millennials. Social media marketing makes it easier for the Millennial parents to communicate in real time with a number of strangers. This increase in the communication with online friends through social media by the Millennials has led companies to focus of SMM. Social media is a crucial platform to share and exchange information, ideas, pictures, videos, reviews etc by Millennials.

However the past research does not study the impact of social media to purchase intention being mediated by variables like consumer engagement. This study has been done on a special generation of Millennial parents to judge their purchase intention. The same is hypothesized to be mediated by the Consumer engagement through social media marketing activities.

Theoretical framework:

SOCIAL MEDIA MARKETING

Previously social media marketing was sometimes addressed as e-marketing. The concept of e-marketing had been framed by Kierzkowski et al. (1996).

Kierzkowski et al. (1996) suggested, five elements namely Relate, Attract, Engage, Retain and Learn as the major factors which could be crucial in the success of digital marketing. Also the relevance of customized interaction brought in the upsurge of social media marketing in digital marketing (Sano, 2014). This framework of SMM suggested by Kierzkowski et al. (1996) is now at par with some of the most famous theoretical foundations of Social media marketing like Teo (2005) & Chan & Guillet (2011).

Teo (2005) explored the perceived effectiveness from among the major online marketing tools. This study was done on business-to-consumer (B2C) firms in Singapore. The study made use of the theoretical concept of Kierzkowski et al.'s (1996) framework and tested the same empirically. The research found variance in the use of online marketing tools by websites. The study analyzed the five factors (attract, engage, retain, learn, relate) which had been concluded by

Kierzkowski et al. The managerial perspective, was studied in the research but the customers' perspective was not studied for the same (Sano, 2014).

Another author Chan & Guillet (2011) also used the Kierzkowski et al.'s (1996) framework for their study. Whereas Teo (2005) used the same framework in the B2C firms, Chan & Guillet (2011) studied Kierzkowski et al.'s (1996) framework in respect to one industry which was the hospitality industry. The study was done on a set of Hong Kong hotels. This study explored the factors needed for establishing a good relationship with the customers through social media through a theoretical exploration. No empirical analysis was done in this study. This study was done on the field of SMM, and applied on the real industry through an analysis of different hotels in Hong Kong.(Sano, 2014).

Another framework which was contrary to Kierzkowski et al. (1996) model was a new SMM framework given by Kim & Ko (2012) .This framework was formulated to study the major SMM activities which could improve the customer equity .The study for the same was restricted to the luxury fashion brands. As per the study of Kim & Ko (2012) ,it has been suggested that the brands and customers do communicate with each other.In this communication, the role of time, place, and medium, is also crucial. The study explained that this

communication could be done through old-fashioned one-way mediums of communication. Lately it has been proven that a direct, two-way communication would be better. One of the major two way communications found to be effective in the study was social media marketing. The study also explain that the SMM activities could be measured with the help of five parameters namely: entertainment, interaction, trendiness, customization and WOM.

Kim & Ko's (2012) studied impact of variables like interaction, trendiness, and customization to in measuring the effectiveness of SMM activities. Interaction included information sharing and opinion exchange attributes .Trendiness is fashion-forward characteristics of a brand's social media by including items that explained trendiness and newness .Customization represents the customized property of social media, involving customized information and method of information search (Kim & Ko, 2012)

In this research paper, the study of Chan & Guillet's (2011) & Kim and Ko (2012) has been taken as a theoretical base for the research on SMM activities. The three factors studied for SMM as per Chan & Guillet's(2011) and Kim & Ko(2012) study are Interaction ,Trendiness and Customization and the same have been studied in Hypothesis 1.

H1: Interaction, trendiness and Customization have a positive influence on the effectiveness of SMM activities.

CONSUMER ENGAGEMENT

Consumer engagement can be defined as the “level of a customer’s physical, cognitive and emotional presence in their relationship with a service or organization” (Patterson, Yu, & De, 2006, p.3). Consumer engagement has been crucial for maintaining a competitive edge among competitors . This could also impact the business performances (Sedley & Perks, 2008). There are several media choices available to increase the customer engagement. Companies are now making marketing efforts to engage consumers through social media marketing activities as the engaged consumer are assumed to be high in loyal towards the brand (Sorenson & Adkins, 2014).

CONSUMER PURCHASE INTENTION

Purchase intention could be explained as a decision-making where the reason to buy a given product or brand is studied (Shah et al., 2012). Morinez et al. (2007)

has also defined purchase intention as a situation in which the consumer tends to buy a certain product under a certain condition.

Purchase intention tends is a crucial phase of the decision-making process .In this phase the consumer develops a positive intention to finally buy the brand (Dodds, Monroe, & Grewal, 1991). Thus many a companies are working on increasing the purchase intention of their brand.

Consumer purchase intention has been studied as an important construct for many studies in the past with special reference to the impact of purchase intention on consumer attitudes (Hidayat & Diwasasri, 2013), perceived risk, usefulness and the ease of use (Faqih, 2013).

Chang, Cheung, & Lai (2005) have identified 80 variables which are antecedents of consumer purchase intention in their study. Some of the crucial antecedents for the same were identified as characteristics of the websites, and consumer characteristics. In this study the impact of social network marketing on purchase intention has been studied. Social media websites like Facebook, Twitter and Youtube gives the consumer an opportunity to share information related to a product.

With the SMM the consumers become for informative before they can purchase a product(Ahmed & Zahid, 2014). Thus as per past review of literature, social media marketing is critical in providing information to the consumers in influencing their preferences and purchase intention.

The inter-relationship between Social media, Consumer engagement and Purchase intention.

The commitment of users to the social media networks enhances the customer relations. It is the participation in conversations which is done on a SNS page of the company where customer support and criticism can be shared .Thus this helps to make direct commitments of the customers with the company. Customer engagement in the field of relationship marketing, not only incorporates the relations among the buyers and sellers. This could further enhance the purchase intention.

SNSs allows the customer to participate in a conversation with the company. This enhances the trust and strengthens the relationship among the customers and brands (Vivek et al., 2012).

Consumers have started using the social media to increase their engagement with the companies. This is because the customers get valuable insights about these companies from these social media websites and SMM initiatives (Garretson, 2008). Internet, eliminates the geographic barriers. Thus social media marketing is a unique platform where value can be created for customers, thus increasing their interactivity and customer engagement (Shawhney et al., 2005). This engagement could further increase the purchase intention of a brand.

Following the outcome of extant literature, a research framework concludes that social media marketing has a positive impact on consumer purchasing intention and consumer engagement is developed.

H2: The impact of social media marketing on consumer purchase intention is mediated by Consumer engagement.

The inter-relation of Social media marketing and purchase intention
Customers could get influenced by social media as they could get effected by the information provided through the ecommerce, thus increasing their purchase intention (Singh & Cullinane, 2010; Kshetri & Jha, 2016).

Social media factors are very crucial in impacting the consumer behavior perceptions which in turn impact the purchase intention. (Jacoby & Olson, 1972; 1977; Kim, Gupta & Li, 2005)

H3: Social media marketing activities have a positive effect on purchase intention of millennial parents

The inter-relation of Demographic factors with purchase intention:

The major demographic variables studied in the proposed model are (i)age; (ii)education; and (iii)income. The study examines moderating impact of the three demographic variables on consumer purchase intention. Demographic could be said to be the consumers' characteristics like age, gender, marital status, education level, and income level. The demographic of a consumer have a strong impact on the purchase

intention of a product(Kotler & Keller 2018). Sumarwan (2002) has also concluded in his papers that the demographic characteristics of consumers like income, gender, age, education and occupation etc have a strong impact on the purchase of the product.(Kotler & Armstrong, 2008). Kotler & Keller (2009) have also differentiated in the way the gender differ in their attitudes and consumer behaviors. Other studies have stressed on the importance of demographic

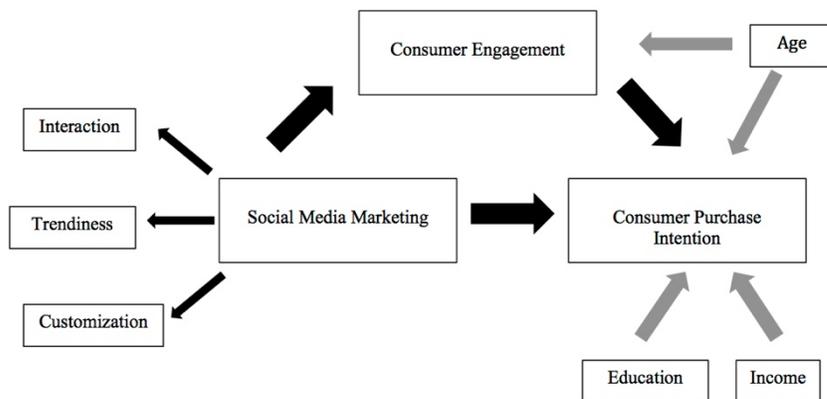
characteristics like age, gender, education, occupation and income in explaining the changes in the consumer behavior (Bigne' et al., 2005).

Thus the demographic factors become strong moderator when one studies the impact of SMM on the purchase intention of consumers.

H4: Age, income and education impact the consumer purchase intention.

H5: Age has a direct impact on Consumer engagement

Proposed Conceptual Model for empirical Testing:



Theoretical Framework

Hypothesis for the Model:

H1: Interaction, trendiness and Customization have a positive influence on the effectiveness of SMM activities.

H2: The impact of social media marketing on consumer purchase intention is mediated by Consumer engagement.

H3: Social media marketing activities have a positive effect on purchase intention of millennial parents.

H4: Age, income and education impact the consumer purchase intention.

H5: Age has a direct impact on Consumer engagement

Research Methodology

A quantitative approach was used in the study. The research design used in the paper is Descriptive research design. A survey was conducted on 200 millennial parents in India. A questionnaire was used for the study as a structured questionnaire is easy to be circulated to samples online and easier to interpret data for a quantitative study (Saunders, Lewis, & Thornhill, 2018).

Some of the features of SEM make it difficult to finalize a generalized guidelines for deciding on the appropriate sample size (MacCallum, Widaman, Zhang, & Hong, 1999). Past research does list various rules-of-thumb which are (a) a minimum sample size of 100 or 200 as explained by Boomsma (1982, 1985), and (b) 5 or 10 observations per estimated parameter (Bentler & Chou, 1987). In this research the sample size has been appropriately taken to be 200.

The items of the questionnaire have items measuring each construct which have been adopted from validated scales. Seven items measuring social media marketing were adapted from Kim & Ko (2012). Consumer engagement was measured through a scale adapted from Weman (2011), Gummerus, Liljander, Weman, & Pihlström (2012) while 5 items to measure consumer purchase intention were extracted from McKnight & Chervany (2002), Wang & Chang (2013), Yoo & Donthu (2001). All the items used a five point Likert scale ranging from 1= Strongly Disagree to 5= Strongly Agree.

Constructs	Measures	Sources
Social Media Marketing	1.1 Interaction <ul style="list-style-type: none"> The brand social media enables information sharing with others The conversation or opinion exchange with others is possible through the brands social media. 	Kim & Ko

<p>Co nsu mer Eng age me nt</p>	<ul style="list-style-type: none"> • I often visit pages of brands I follow on social networking sites. • I often read posts of brands I follow on social networking sites. • I often use the “like” option on brands posts; I follow on social media sites. • I often comment on brands pages on social media sites. • I follow brands pages of my interest to get information (e.g., new products). 	<p>We man (20 11); Gu mm erus , et al. (20 12)</p>
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- | | | |
|--|---|---|
| <p>Co
nsu
mer
Pur
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ntio
n</p> | <ul style="list-style-type: none"> • Using social networking sites of brands help me make decisions better before purchasing goods and services. • I will definitely buy products as marketed on brands' social networking sites, I follow. • I intend to purchase products as marketed on brand's social networking sites, I follow. • It is likely that I will purchase products as marketed on brand's social networking sites, I follow. • I expect to purchase products as marketed on brands' social networking sites, I follow. | <p>Mc
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thu primary
(20 data was
01) collected
through

snowball sampling from India and secondary data was also collected through reputed books and journals. A total of 200 samples were selected for the research. The data for the study was analyzed with the Structural equation modeling to test the proposed model fit for the study.

Results and Data Analysis

Validation of Scales:

A Cronbach Alpha test was conducted to test the validity of the scale. Past research concludes that a reliability score of 0.70 or higher is essential for a good psychometric instrument. In this research the Cronbach alpha scores of all the instruments (scales) used has been higher than 0.70 as shown in the table below. Thus all the respective items correctly measure the latent construct.



			Cr
		Fact	on
		or	ba
Co	Measures	(*)	ch
nstr		Loa	's
ucts		din	Al
		g	ph
			a
Soc	1.1 Interaction		
ial	• The brand social media	0.85	0.8
Me	enables information sharing		0
dia	with others	0.89	(S
Ma	• The conversation or opinion		cal
rket	exchange with others is		e
ing	possible through the brands	0.80	is
	social media.		rel
	• It is easy to deliver my		iab
	opinion through the brands		le)
	social media.		

1.2 Trendiness

- | | | |
|---|------|-----|
| • The content of the brand's social media is up to date | 0.86 | 0.6 |
| • I find the brand's social media is very fashionable | 0.86 | 5 |
- (Scale is reliable)

1.3 Customization

- | | | |
|---|------|-----|
| • The brand's social media offers a customized information search | 0.89 | 0.7 |
| • The brand's social media provides a customized service | | 3 |
- (Scale is



			rel
			iab
			le)
Co	• I often visit pages of brands I	0.81	
nsu	follow on social networking		
mer	sites.	0.84	
Eng	• I often read posts of brands I		
age	follow on social networking	0.87	
me	sites.		0.8
nt	• I often use the “like” option		7
	on brands posts; I follow on	0.75	(S
	social media sites.		cal
	• I often comment on brands	0.79	e
	pages on social media sites.		is
	• I follow brands pages of my		rel
	interest to get information		iab
	(e.g., new products).		le)
Co	• Using social networking sites	(0.8
nsu	of brands help me make	.78	7
mer	decisions better before		(S

Pur	purchasing goods and		cal
cha	services.		e
se	<ul style="list-style-type: none"> • I will definitely buy products as marketed on brands' social networking sites, I follow. 	(.82	is
Inte			rel
ntio			iab
n	<ul style="list-style-type: none"> • I intend to purchase products as marketed on brand's social networking sites, I follow. 	(.84	le)
	<ul style="list-style-type: none"> • It is likely that I will purchase products as marketed on brand's social networking sites, I follow. 	(.78	
	<ul style="list-style-type: none"> • I expect to purchase products as marketed on brands' social networking sites, I follow. 	(.83	

STRUCTURAL MODEL AND HYPOTHESIS TESTING

H1: Interaction, trendiness and Customization have a positive influence on the effectiveness of SMM activities.

Also, three dimensions which are used in Kim and Ko's (2012) study— interaction, trendiness, and customization— to measure the effectiveness of SMM activities.

Measures	Correlation	Accept/Reject
Social Media Marketing and Interaction	0.77	Strong Positive Correlation
Social Media Marketing and Customization	0.55	Moderate Positive correlation

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Social Media	0.77	Stron
Marketing and		g
Trendiness		Posit
		ive
		corre
		latio
		n

H1 in this study can be accepted as the three dimensions Interaction, trendiness and Customization have a positive influence on the effectiveness of SMM activities. The same is evident in the correlation values which show a strong positive correlation for Interaction (0.77), moderate positive correlation value for Customization(0.55) and a strong positive correlation value for Trendiness(0.77). Based on the results of the data analysis, the three dimensions are all shown to be very positively influencing the effectiveness of SMM activities.

H2: The impact of social media marketing on consumer purchase intention is mediated by Consumer engagement.

H3: Social media marketing activities have a positive effect on purchase intention of millennial parents.

Mediating effect of Consumer engagement in Social media marketing and Purchase intention:

S.No	Measures	Correlation	Hypothesis Accept/Reject
1.	Social media marketing has a positive impact on consumer engagement for millennial parents.	0.79	Strong Positive correlation



2.	<p>Consumer Engagement has a positive impact on purchase intention of millennial parents.</p>	0.35	Weak positive correlation
3.	<p>Social media marketing activities have a positive effect on purchase intention of millennial parents.</p>	0.13	No linear correlation

The H2 can be accepted in this study as there is a strong correlation value (0.79) to show an impact of social media marketing on Consumer engagement and a positive correlation is also evident between Consumer engagement and purchase intention(0.35).

The H3 can be rejected in this study as there is no correlation found between Social media marketing activities and purchase intention of millennial parents(0.13).

H4: Age, income and education impact the consumer purchase intention.

H5: Age has a direct impact on Consumer engagement

Correlation of the Demographic factors with consumer engagement and consumer purchase intention for millennial parents.

	Measures	Correlation	Accept/Reject
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	Age with Consumer Engagement	0.25	Weak Positive
	Age with Consumer Purchase Intention	-0.24	Weak Negative
	Income with Consumer Purchase Intention	0.35	Weak Positive
	Education with Consumer Purchase Intention	0.50	Moderate Positive

The H4 is that Age, income and education impact the consumer purchase intention. The Age is seen to have a negative correlation to purchase intention(-

0.24). The Income is seen to have a positive relationship with Consumer Purchase Intention(0.35). Education was seen to have a positive correlation to purchase intention. The H4 is thus partially accepted.

The H5 where Age has a direct impact on Consumer engagement can be accepted as age is seen to have a positive correlation with consumer engagement (0.25).

Model Fit:

In Structural equation modeling technique of multivariate analysis, testing the specified model 'fits' the data is one of the most crucial steps (Yuan, 2005). The same has been done here with an interpretation of Model fit indicator values like Chi square, BIC, CFI and RMSEA values.

The analysis derived from the structural model showed results in,

- Estimated degrees of Freedom = 267
- Chi Square = 275.0505
- jP Value = 0.3543
- BIC Score = -1569.3202
- CFI = 0.9989
- RMSEA = 0.0055

The Chi-Square value is crucial in judging the overall model fit as it judges the magnitude of discrepancy among the sample and fitted covariance matrices (Hu & Bentler, 1999). In a good model fit, the value of above 0.05 which is insignificant result would be an ideal threshold (Barrett, 2007). The results of the data the Chi-Square statistical value of 275.0505 which was at non-significant level ($p=0.3543$) which is greater than 0.05. Thus the model is fit.

Till the early nineties, it was assumed that the RMSEA value which falls in the range of 0.05 to 0.10 is an indication of fair fit for the model and a value of 0.10 indicated poor fit of the model (MacCallum et al, 1996). Further studies analyzed that value of RMSEA falling between 0.08 to 0.10 to be a mediocre fit and a value of RMSEA less than 0.08 to be a good fit (MacCallum et al, 1996).

Recently it has been seen that the value of RMSEA of less than 0.06 has been considered as a cut-off for concluding a good model fit (Hu & Bentler, 1999) .

Here in the research results the RMSEA value has been found to be 0.0055 which is less than the latest cut-off of 0.06 given by eminent authors. Thus the same indicates a close model fit.

The Comparative Fit Index (Bentler, 1990) has been revised form of the NFI. As was the case with NFI, the CFI values should lie between 0.0 and 1.0 with values closer to 1.0 which indicated a good fit for the model. A cut-off of $CFI \geq 0.90$ was thought to be advanced however, the latest studies have shown that a CFI value greater than 0.90 is crucial to conclude a good model fit and disregard the misspecified models (Hu & Bentler, 1999). Thus from latest reports a CFI value of more than or equal to 0.95 is considered to be an indication of a good model fit (Hu & Bentler, 1999). In this research the CFI value stood at 0.9989 which indicates a good model fit.

Discussion:

The findings and the research, shows lifestyle of millennial parents and how social media influences their purchase intentions. It has been concluded through past review of literature that millennial parents are digital natives and they value personal identity. The Millennials generation is extremely connected to social media, and have been actively using the same to take purchase decisions. The Millennials and the companies influence each other tremendously when it comes to a platform like social media. Millennials have also found to have an increased engagement with the brand when they participate in the brands special media

marketing activities. This leads to an increase in their purchase intention as per the findings of the research paper.

When one comes to the conceptual model testing, it was seen that the first hypothesis of social media marketing effectiveness was dependent on three dimensions Interaction, trendiness and Customization and showed a strong correlation. This is in synch with the past review of literature given by Kim and Ko(2012) where they have explained the effectiveness of social media marketing with the three factors namely Interaction, trendiness and Customization .

Another finding was that there is a strong impact of social media marketing on Consumer engagement. Also the findings showed a strong impact of Consumer engagement on purchase intention. These findings are in synch with the findings of Shawhney et al.(2005) that social media marketing is a unique platform where value can be created for customers, thus increasing their interactivity and customer engagement .This engagement could further impact the purchase intention. The same has been validated in this research paper findings too. Thus consumer engagement was seen to be the mediating variable between the social media marketing activities and the final purchase intention of Millennial parents.

Another crucial finding was the rejection of the third hypothesis showing a direct impact of social media marketing activities and purchase intention. These findings from the given sample in this research paper are contrary to the ones found in the past review of literature where according to Jacoby & Olson (1972; 1977) and Kim, Gupta and Li (2005) Social media factors are very crucial in impacting the purchase intention. In this study there was no direct impact found between Social media marketing activities and purchase intention of millennial parents.

One of the findings of the research paper was that the demographic factors of the Millennial parents like Age, income and education did not show a very strong impact on the consumer purchase intention. Age as a demographic factor was seen to have a negative impact to purchase intention. The Income was seen to have a positive impact on Consumer Purchase Intention. Education was seen to have a positive impact on purchase intention. Thus it was seen that demographic variables did have an impact on the purchase intention of millennial parents. The same is in synch with the past review of literature explained by Kotler & Keller (2018) and Sumarwan (2002) who explained that demographic characteristics of consumers like income, gender, age, education and occupation etc have a strong impact on the purchase of the product.

The Model fit findings help conclude that social media marketing activities , consumer engagement, purchase intention and demographic characteristics of Millennial parents all influence each other. The same can be concluded with a Perfect Model fit for the proposed conceptual model for Millennial parents. The findings thus support the fact that many millennial parents are very much engaged with social media platforms and the same will impact their purchase decision. Also it highlights the effect of consumer engagement and demographic factors of consumers on millennial parents purchase intention. Using these findings, marketers could focus their marketing strategies towards Social media marketing as the same has shown an influence in the purchase intention of the Millennial parent in this research paper.

Scope for further Research

There is scope of applying other qualitative research techniques to understand Millennial parents studied in this research paper. This study could be validated through a Personal interview techniques for a similar set of millennial parents. Thus this same conceptual model which has been proven to be empirically fit, could be tested on a similar sample through qualitative techniques of research.

The same could also be done in other parts of the globe as this study pertains to Indian Millennial parents .The same study could also be done on a different generation, specially Generation Z which is the new topic of study for many marketers today.

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Entrepreneurship in Uzbekistan and Kyrgyzstan: Cultural values and the Distinguishing Characteristics of Entrepreneurs

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ABSTRACT

The cultural values of entrepreneurs and factory workers in Uzbekistan and Kyrgyzstan are studied to determine if there is a difference in their cultural dimensions and if the cultural values of entrepreneurs are similar to those found in other nations. The paper examines the underlying cultural values so as to learn what cultural values are present and the degree of differences within the society when compared to the entrepreneurial class. By examining the entrepreneurs in

Uzbekistan and Kyrgyzstan and comparing their cultural characteristics to factory workers' cultural characteristics, insight is gained regarding both the characteristics of the people of these newly independent nations and their respective entrepreneurs. This study uses the framework established by Hofstede's Cultural Dimensional Values Model developed in 1980. The study was conducted on-site in the city of Samarkand, Uzbekistan and in the city of Bishkek, Kyrgyzstan. The main conclusion of this study is that entrepreneurs in Uzbekistan and Kyrgyzstan follow the typical cultural pattern of entrepreneurs throughout the world. The authors' study finds that entrepreneurs in Uzbekistan and Kyrgyzstan have unique characteristics relative to factory works.

Keywords: Entrepreneurs; entrepreneurship; Uzbekistan; Kyrgyzstan; transition economies; former communist countries; cultural characteristics; cultural values.

INTRODUCTION

The creation of the Central Asian Republics in 1991 has placed upon these countries an entirely different economic, political and social structure. Inherent in any successful transformation to a free-market economy is the ability to create new companies, large and small, that are entrepreneurial in nature. Cultural values are entrenched, engrained, and embedded into society. The willingness of entrepreneurs to establish new ventures is significantly influenced by society's

culture. The success of Central Asia in establishing a market economy depends on their cultural values and their impact on new ventures, entrepreneurial activity, and free-market development. From this emerging entrepreneurial class will come the foundation for a successful market driven economy.

Understanding the many differences among cultural groups is a valuable tool to study management and organizational theories that are used across cultures. The ability to examine entrepreneurs across the same cultural divide can provide insight into transition economies and emerging competitive markets. Are these differences similar across all cultures, particularly in the former communist world? Do entrepreneurs possess the same cultural values regardless of national cultural values? Are these cultural differences unique to all nations, or only to capitalist nations? In effect, did the philosophy of the communist world override the entrepreneurial class to such a degree that these differences are not yet evident?

These questions are critical to understanding the social, economic, and political structures that must be erected to reflect national culture, while maintaining the unique characteristics of the entrepreneurial class. The fundamental question for this study is whether the cultural values for entrepreneurs in Uzbekistan and

Kyrgyzstan are different from those of non-entrepreneurial workers and if differences are found, are they consistent, similar, or dissimilar with those found in capitalist economies.

THE STUDY

This study used Hofstede's VSM94 Cultural Dimension survey (Hofstede, 1994). The VSM94 survey instrument has been used in many studies over the past quarter century. The study was conducted in 2002 in the city of Samarkand, Uzbekistan and 2003 in the city of Bishkek, Kyrgyzstan. Two groups were surveyed in each city using the Hofstede 94 research instrument. The original Hofstede's survey (1980) used workers from various factories around the world that made IBM products. In the current authors' study, the first group studied were factory workers. The most similar type of factory in the studied countries to Hofstede's survey was the electro-mechanical product factory, and this type of factory was the source of the sample groups used so as to replicate the IBM study as close as possible in both Uzbekistan and Kyrgyzstan. The second group studied were entrepreneurs in the various sectors of the city. The criteria for the entrepreneurs was that they were in business for themselves selling a variety of products. Each sample taken was completed within a 30-day period. One of the

authors personally conducted the surveys in Uzbekistan and Kyrgyzstan. The study was conducted on site during lunch hours and after work at factory sites. The entrepreneurial sample was taken daily in all the market areas, shops, and businesses in the same city as the factory site. The samples were a convenience sample. The factory sample had a response rate of between 45-50%. The entrepreneurial group had a response rate of between 30-35%. Both are typical of those in other studies conducted in the former communist nations.

Respondent data (see Table 5, appendix) contained questions that determined each respondent's educational level, age, gender, job category, and time on the job. The authors' survey resulted in a higher number of male respondents for entrepreneurs in both Uzbekistan and Kyrgyzstan, while there were more male respondents for factory workers in Kyrgyzstan and in Uzbekistan there were more female respondents for factory workers.

Cultural Dimensions

The cultural dimensional definitions from Hofstede (1980, 1984, 1996, 2001) and Bond (1987) are discussed in the following paragraphs and used throughout this paper.

Individualism (IND)

The dimension of Individualism denotes whether the ties, bonds, and relationships between individuals are weak or strong (Hofstede, 1984). Weak relations between individuals imply a high IND culture, while strong ties between individuals implies low IND culture. High Individualism societies are more focused on their own success and their own self-interest (a basic tenet of capitalism and free markets). Thus, high IND countries encourage more entrepreneurs and increase the number start-up businesses (Hofstede, 2001). Group decision making, working together, and team success, are more important in low IND countries (Hofstede, 2001). Individualistic countries have more entrepreneurs, though collectivist countries can still have a flourishing entrepreneurship class (Tiessen, 1997; Stephan and Uhlaner, 2010; Hopp & Stephan, 2012; Pinillos and Reyes, 2011; Autio, et al, 2013).

Tiessen (1997) asserts that “collectivist orientation is positively associated with relational-tie approaches to gaining the use of external resources from firms of the same culture” and “collectivist orientation is positively associated with pragmatic-alliance approaches to gaining the use of external resources from firms of different cultures, regardless of orientation”. According to Tiessen (1997), a low IND, high collective society can result in more successful entrepreneurs since new companies can rely on their social networks for support,

backing, and encouragement; providing the necessary resources that would be more difficult to obtain in a high IND society. Pinillos and Reyes (2011) and Stephan and Uhlaner (2010) also argue that low IND, high collectivist countries can have high levels of entrepreneurship. Pinillos and Reyes's (2011) study found that in less developed countries low IND resulted in more entrepreneurs, but in developed countries high IND resulted in more entrepreneurs. Stephan and Uhlaner's (2010) study emphasized how "socially supportive" cultures (mostly low IND) promote entrepreneurship through their informal networks. Social connections and informal relationships are supportive of entrepreneurship and generate confidence that prompts them to take more risk (Hopp & Stephan, 2012).

According to Autio, et al. (2013) collectivist countries have ambitious entrepreneurs who often see business growth as their societal responsibility (for example, Japan or Sweden). European socialist nations have a very entrepreneurial nature with a socialist governmental orientation. The Asian-Latin socialist nations exhibit a very controlled economy with emphasis upon monopoly and oligopoly structures and often direct government ownership. In the Asian-Latin model, the individual is always seen in the context of the group, while Europeans regard the individual as unique.

Power Distance (PD)

As stated by Hofstede (2001), “Power Distance describes the extent of inequality that exists between rulers and those that are ruled, along with the level of acceptance of that inequality within the culture.” In those societies that exhibit low PD all employees (executives, managers, and workers) are all considered equal in society, while high PD societies accept inequalities and the ranking that goes along with hierarchy (Hofstede, 2001). Thus, high PD societies may prefer well-structured organizations for employment that requires approval from higher authorities to take action, while individuals in low PD countries are more likely become entrepreneurs and start their own business (Osoba, 2009). Cultures that have high PD are geared toward the status quo, stability, and preserving order (Geletkanycz, 1997), which generally speaking, would probably limit entrepreneurial opportunities. In high PD cultures those with high status are able to accumulate resources and power that helps to maintain their high status making it difficult for those with low status to acquire the resources necessary to launch successful businesses, earn profits, and to compete in the high PD society, therefore less entrepreneurial activity is likely (Kirzner, 1997).

Uncertainty Avoidance (UA)

Hofstede (1984) defines Uncertainty Avoidance as, "the (in)tolerance of ambiguity in society." High Uncertainty Avoidance cultures prefer stability in their lives. They prefer detailed contracts and specific rules to live by resulting in less desire to start their own business and become entrepreneurs (Hofstede, 2001; McGrath, et al., 1992; Kreiser, et al., 2010). Those who feel unable to control, and strongly influence their success or failure, are more likely to avoid starting their own business (Pandey and Tewary, 1979; Evans and Leighton, 1989). Low UA societies have been shown to encourage more entrepreneurs and stimulate entrepreneurship (Mueller and Thomas, 2001). However, research by Wennekers, Van Wennekers, Thurik, & Reynolds (2005, 2007) found higher UA cultures with rigid organizations that stifle creativity and innovation forced, those so inclined, quick their job, accept more risk, try new ideas, launch their own business and become an entrepreneur. However, Wennekers, et al. (2005, 2007) indicated that the correlation was not constant over time, curvilinear in its relationship, and likely related to the level of GDP.

Masculinity (MAS)

Hofstede (1984) defines MAS as, "societies in which social gender roles are clearly distinct," and according to Hofstede (1984) femininity pertains to "societies in which social gender roles overlap." Low MAS societies focus on

the relationships and the success of the group while high MAS societies concentrate more on the success of the individual (Hofstede 2001). The development of entrepreneurs should be more likely in those countries that have high MAS. A low MAS value would focus on equality, and the provision of entitlements by the government. Achievement oriented societies that emphasize success typically have a high MAS value essential in a high performance society (Hofstede, 1989; López-Duarte, Vidal-Súarez, and González-Díaz, 2016). Societies with low MAS are more family oriented and value harmony in decision making, see security, are less aggressive, and tend to emphasize a more cooperative strategy (Steensma, Marino, Weaver, & Dickson, 2000)

Long Term Orientation (LTO)

As stated by Hofstede (2001), “Long-term Orientation is the fostering of virtues oriented towards future rewards, in particular perseverance and thrift.”

Therefore, societies with high LTO look to the future and are willing to forgo consumption now for higher rewards and payoffs in the future. Such societies would be more likely to encourage entrepreneurs to flourish in the long run. The phenomenon known as the “marshmallow test” from psychology studied pre-school students and found some children had short-term orientations and some had a more Long-Term Orientation in their decision making (Mischel, 1958;

Mischel, Ebbsen, & Raskoff Zeiss, 1972). Children with more LTO were more patient and willing to wait to receive an additional reward (Mischel, 1958; Mischel, et al., 1972). The children were studied in subsequent years into adulthood and it was found that those with higher LTO were found to perform better in school and work, stayed healthier, and were better at maintaining social relationships (Mischel, 1958; Mischel, et al., 1972).

HYPOTHESIS

The general hypothesis of the study was that entrepreneurs in Uzbekistan and Kyrgyzstan are different in their cultural values compared to factory workers. This hypothesis was founded in theory advanced toward the belief that there is a divergence in cultural values associated with national identity and entrepreneurship (McGrath et al., 1992; McGrath, 1996). Factory workers traditionally have represented a segment of society that is consistent with society as a whole, especially in the former communist nations. Five variables were used to study the cultural value orientation as the criterion variables are the five variables of the Hofstede survey; IND, PD, UA, MAS, and LTO. McGrath et al.'s (1992) entrepreneurial model and Hofstede's cultural values are used to test the authors' research hypothesis. Hofstede's research is widely

accepted for cultural research (Kirkman, Lowe, and Gibson, 2017; Merkin, Taras, and Steel, 2014). The extensive number of replications using Hofstede's method is beyond compare, and is still relevant in studies regarding culture and cultural values (Holden, 2004; Eringa, et al., 2015). Additionally, the previous work of McGrath, et al. (1992), in their eight-nation study, is highly regarded. Hofstede's study provided the individual characteristics while, McGrath, et al. (1992) provided the framework of entrepreneurship and cultural values from which to create the following hypotheses.

Hypotheses

(1) Security of employment: $H1E < H1F$

H1: Entrepreneurs display a lesser need for security of employment than factory workers.

(2) Value work over family: $H2E > H2F$

H2: Entrepreneurs value work over their family to a greater degree than factory workers.

(3) Individualism: $H3E > H3F$

H3: Entrepreneurs display greater Individualism than factory workers.

(4) Power Distance: $H4E > H4F$

H4: Entrepreneurs display greater Power Distance than factory workers.

(5) Uncertainty Avoidance: $H5E < H5F$

H5: Entrepreneurs display lower Uncertainty Avoidance than factory workers.

(6) Masculinity: $H6E > H6F$

H6: Entrepreneurs display greater Masculinity than factory workers.

(7) Long-Term Orientation: $H7E > H7F$

H7: Entrepreneurs display greater Long-Term Orientation than factory workers.

Hypothesis 1: Security of employment: $H1E < H1F$

H0₁: Entrepreneurs will not display a lesser need for security of employment than factory workers.

H1: Entrepreneurs will display a lesser need for security of employment than factory workers.

McClelland (1961) claimed that “practically all theorists agree that entrepreneurship involves, by definition, taking risks of some kind”.

Independent thinking, risk taking, and hard work are important traits of entrepreneurs. Cultures that reward and encourage these traits create a positive and supporting environment for entrepreneurship. Cultures that emphasize conformity discourage entrepreneurs, limit entrepreneurship, and hinder risk taking (Herbig and Miller, 1992; Herbig, 1994; Hofstede, 1980). Since

entrepreneurs take their own risk, have no security of results at all, and either profit or lose by their own initiative it is hypothesized that entrepreneurs will display a lesser need for security of employment than factory workers. Question 4 from Hofstede's VSM94 survey specifically refers to security of employment, with a higher score indicating that the responder does not find security of employment very important. Table 2 contains the results of the z-test for the differences of the scores from the sample groups for the two countries in the study.

Hypothesis 2: Value work over family: $H2E > H2F$

$H0_2$: Entrepreneurs will not value work over their family to a greater degree than factory workers.

$H2$: Entrepreneurs will value work over their family to a greater degree than factory workers.

Cultures that encourage hard-work, reward merit, promote self-sufficiency, and value diligence tend to take more chances in life, bear more risk, and identify creative alternatives, all of which foster entrepreneurship (Davidsson and Wiklund, 1997). A strong work ethic and a desire for self-sufficiency would result in long hours implying a strong importance (value) of work over family.

Question 1 from Hofstede's VSM94 survey specifically refers to how respondents value work over family. A higher score from question 1 indicates that the responder values work more over family. The mean values and z-test are shown in Table 2.

Hypothesis 3: $H3E > H3F$: Individualism/Collectivism

$H0_3$: Entrepreneurs do not display greater Individualism than factory workers.

$H3$: Entrepreneurs display greater Individualism than factory workers.

Individualism has been an important characteristic in the study of entrepreneurship, at least since Knight (1921), Tawney (1926), and Schumpeter (1934), emphasized Individualism as the driving factor of capitalism. It has been widely accepted that higher Individualism in society encourages entrepreneurship (Brons, 2007; Tiessen, 1997; McGrath, et al., 1992; Schumpeter (1934; Tawney, 1926; Knight, 1921). There are many empirical studies using Hofstede's Individualism index that reveals IND is more beneficial for innovation compared to collectivism. Among others, Gorodnichenko and Roland (2017) and Acemoglu, Akcigit, and Celik (2014) conducted comprehensive cross-country empirical analyses and found that IND encourages

innovation and entrepreneurship more than collectivism both quantitatively and qualitatively.

The history of the Central Asian people shows constant domination by authoritarian leaders who have used a community-oriented model. The main trait that was desired in the establishment of communism was a collective spirit in peoples' attitude and for the established institutions to reflect the peoples' collective spirit. Without such a collective attitude among the people, the communist revolution would have been difficult to sustain for so long. After such a long period of dictatorial rule that officially prohibited open business efforts outside state controlled companies, it could be expected that individual effort would have been stifled and eventually even eliminated.

The need to be self-motivated is a cornerstone of entrepreneurial theory (Knight, 1921; Tawney, 1926; Schumpeter, 1934; Lippitt, 1987; Kao, 1991; Hébert and Link, 1988; Kuratko and Hodgetts, 1998). The relatively low level of IND generally found in former communist nations, outside the entrepreneurial class, is consistent with a lack of new business effort and success. Over 70% of the respondents replied utmost or very important when answering questions related to the security of employment. This suggests the basis for the low IND score.

Hypothesis 4: $H4E > H4F$: Power Distance

H0₄: Entrepreneurs do not display greater Power Distance than factory workers.

H4: Entrepreneurs display greater Power Distance than factory workers.

The academic literature indicates that under communism the countries should have a high PD value consistent with an autocratic society. The interaction of workers and superiors establishes the degree that PD is present in a society. The former USSR and Central Asian nations all have had a history of top-down organizational management systems with a very strong worker union presence. The presence of an entrepreneurial spirit may indicate that the entrepreneurial group studied would have a much higher PD than the factory workers.

When there is a high level of PD, then there is a tendency for people to resist change. Leaders, and those in authority, are given high respect and those with lower status depend on their leaders and the result is likely less initiative (Hofstede, 1991). Geletkanycz (1997) says that, “power distance is associated with maintaining the status quo and established barriers to novelty and change”. Hayton, et al. (2002) and Mitchell et al. (2000) argue that entrepreneur development and PD are inversely related. Low PD societies have less entrepreneurship according to Kreiser, et al. (2010) and Lee & Peterson (2000), while high PD countries promote entrepreneurship according to Busenitz & Lau (1996). Shane (1992) and Dwyer, et al. (2005) find a direct relationship between

entrepreneurial activity and PD; a higher PD means more entrepreneurship. Societies with high PD are resistant to change (Hofstede, 1991). In high PD societies, rigid organizations tend to stifle individualism (Rauch, et al., 2013), frustrating creative personalities, leading them to self-employment (Etzioni, 1987; Busenitz & Lau, 1996; McGrath, et al., 1992; Zhao, et al., 2010). When there is high PD, those working in an organization (without high status) find it difficult to advance and gain status; they are effectively stuck in their status. In this case, engaging in entrepreneur activity is one way to overcome their low status. If a person becomes an entrepreneur, then they gain independence, they are their own boss, and they must become self-reliant. There is no better way to become independent and have self-determination than to become an entrepreneur. PD in those countries that have low-to-medium levels of GDP affects entrepreneurship differently than in high GDP countries (Antoncic, 2003; Antoncic, Gantar, Hisrich, Marks, Bachkirov, & Kakkonen, 2018). The only way to acquire resources or mobility in high PD countries, with low-to-medium levels of GDP, is through unconventional ways outside the traditional institutional framework, prompting entrepreneurship. Inesi (2010) suggest higher PD increases the intensity of loss aversion by those in society that are low status. The level of PD moderates the perception, propensity, and attitudes of risk taking (Sitkin and Pablo, 1992; Antoncic, 2003;

Inesi, 2010; Block, Sandner, & Spiegel, 2015; Antoncic, et al., 2018). The framing effect from prospect theory (Kahneman and Tversky, 1979, 2013; Tversky and Kahneman, 1986, 1991, 1992) says that different risk preferences are observed depending on whether the framing is positive or negative. In prospect theory, sure gains framed as a positive choice are generally favored over larger, uncertain gains, whereas higher risk are generally taken to avoid losses when choices are negatively framed, losses hurt more than gains help, so a person is willing to take more risk to avoid the loss (Kahneman and Tversky, 1979, 2013; Tversky and Kahneman, 1986, 1991, 1992; Camerer, 1995; Heath, Larrick, & Wu, 1999; Antoncic, 2003; Antoncic, et al., 2018).

In a low PD, high equality society, available prospects to achieve success in an organization are widely available and can be thought of, or framed, as a positive choice (Antoncic, 2003; Antoncic, et al., 2018). Therefore, sure gains would be favored over larger, uncertain gains; implying less willingness to take risk in a low PD society with a positively framed choice. In a high PD society, available prospects to achieve success in an organization are limited, are highly dependent on status and rank, and can be thought of, or framed, as a negative choice (Antoncic, 2003; Antoncic, et al., 2018). Therefore, higher risk would generally be taken to avoid the loss, which implies high PD societies would be willing to take more risk, start their own business, and become an entrepreneur with a

negatively framed choice (Antoncic, 2003; Antoncic, 2018). Therefore, the current authors tested the hypothesis to see if entrepreneurs display greater PD than factory workers.

Hypothesis 5: $H5E < H5F$: Uncertainty Avoidance

$H0_5$: Entrepreneurs do not display lower Uncertainty Avoidance than factory workers.

$H5$: Entrepreneurs display lower Uncertainty Avoidance than factory workers.

Lower UA societies generally are more conducive to the success of entrepreneurs; lower UA may be expected to encourage more entrepreneurs and support a culture of entrepreneurship (McGrath et al., 1992). One of the critical elements of defining an entrepreneur is the degree that they fear uncertainty. Entrepreneurs tend to have less fear of uncertainty than do other members of society. This is especially critical in developing countries where the economy is unstable, and risk, uncertainty, and unpredictability are all high. Entering a new venture has a high degree of uncertainty. The new entrepreneur is expected to exhibit a smaller degree of UA in the countries studied. As stated by Hofstede (1980), “a low UA means by definition a greater willingness to take risks”. Taking risk means the outcome and results will vary. To handle the uncertainty

entrepreneurs must have a low level of UA. In those cultures that have high UA, people seek security, stability, and consistency and avoid high risk situations, thus inhibiting entrepreneurship (Hofstede, Jonker, and Verwaart, 2008). In such societies, individuals prefer stability in their life, like insurances or job security. Thus, the authors test the hypothesis to determine whether entrepreneurs display lower UA than factory workers.

Hypothesis 6: $H6E > H6F$: Masculinity/Femininity

$H0_6$: Entrepreneurs do not display greater Masculinity than factory workers.

$H6$: Entrepreneurs display greater Masculinity than factory workers.

High MAS cultures put more emphasis on material things such as money and wealth accumulation (Hofstede, 1980). Societies that have high MAS characteristics tend to be assertive, aggressive, seek prestige, material success, and feel the need for a high level of achievement (McGrath, et al., 1992; Hofstede, 1980, 1991; Hofstede, et al., 2010;). The ability of entrepreneurs to begin and sustain the effort needed to become successful contains an inherent ability to be aggressive in their pursuit for success. The ability to put forth the effort in business formation above family needs is legendary among successful entrepreneurs. Often the entrepreneur is alone, without a support system other

than self-direction. Each of these traits can be found in a highly masculine culture. The capacity to become assertive, proactive, self-oriented for success, and risk taking are all characteristics of an entrepreneurial class. Ardichvili and Gasparishvili (2003) found that societies with higher MAS had more entrepreneurial activity and behaviors. Cultures with lower MAS traits imply less importance is placed on high achievement, the accumulation of wealth, and engaging in entrepreneurial activity (Hofstede, 1980; Hofstede, 1991; Hofstede, et al., 2010; De Mooij and Hofstede, 2010). Since competitiveness, assertiveness, and the need for achievement all encourage entrepreneurship and are found in societies with high MAS, the authors hypothesize that entrepreneurs display greater MAS than factory workers.

Hypothesis 7: $H7E > H7F$: Long-Term Orientation

$H0_7$: Entrepreneurs do not display greater Long-Term Orientation than factory workers.

$H7$: Entrepreneurs display greater Long-Term Orientation than factory workers.

Hofstede (1991) said that the "values at the LTO pole are very Confucian and support entrepreneurial activity. Persistence and tenacity when pursuing a goal are components of the entrepreneurial effort." Hofstede (2001) further stated,

“Long-term Orientation stands for the fostering of virtues oriented towards future rewards, in particular perseverance and thrift.” (Hofstede, 2001). The ability to persist over time is a component of entrepreneurship. To be successful, entrepreneurs must endure, and it is expected that the entrepreneur will be more oriented toward the long term than is the general population. LTO is focused on the future, delayed gratification, and achieving long term goals. The LTO cultural value emphasizes thrift, perseverance and future benefits and putting less emphasis on leisure time (Hofstede et al., 2010). Therefore, the authors of this study hypothesize that entrepreneurs display greater LTO than factory workers.

LITERATURE REVIEW

Entrepreneurs, throughout the world, possess several common characteristics explored in academic literature. These traits were measured across cultures in a study by McGrath, MacMillan, and Scheinberg (1992). McGrath et al. (1992) established the characteristic traits and differences of typical of entrepreneurs for a variety of nationalities. McGrath et al.’s (1992) research found that even when the local culture is very different, the entrepreneur has similar differences from the general culture in all nations studied.

Entrepreneurship, and the characteristics of an entrepreneur, are effected by many factors, including the cultural values embedded in society (Thai and Turkina, 2014; Autio, Pathak, & Wennberg, 2013; Engelen, 2010; Hayton, Gerard, & Zahra, 2002; Tan, 2002; Mueller and Thomas, 2001; Berger, 1991). Economic growth, progress, and development of a country are shaped by cultural values and their influence on the establishment, support, and encouragement of entrepreneurship (Schumpeter, 1934; Reynolds, 1994; Wennekers and Thurik, 1999; Kuratko, 2003; Acs & Audretsch, 2006; Baumol 2007; Carree and Thurik 2010; Smith, 2010; Braunerhjelm, 2010; Kritikos, 2014; Dheer, 2017). Tarabar (2019) states, “more rapid economic growth during the examined period is associated with a more pronounced rise of individualistic and egalitarian values in younger generations around the world.” Many studies have linked culture and economic growth, including, but not limited to, Alesina, Algan, Cahuc, & Giuliano, 2015; Gorodnichenko and Roland, 2011, 2015; Klasing, 2013; Tabellini, 2010; Guiso, Sapienza, & Zingales, 2009; Licht, Goldschmidt, & Schwartz, 2007.

The shared cultural values that people embrace produces different reactions to the same or comparable situations (Kluckhohn, 1969; Cateora, Gilly, & Graham,

2013; Deresky, 2017). Cultural values guide the responses and decisions people make in their daily lives (Ball-Rokeach, 1973; Deresky, 2017; Hofstede, Hofstede, & Minkov, 2010) and entrepreneurs are guided by a specific set of cultural values that lead them to start their own business, innovate, and provide products to the market in the most efficient way.

The most comprehensive and commonly cited study of cultural is Hofstede's (1980) study. As mentioned by Aggarwal, Faccio, Guedhami, & Kwok (2016), Hofstede's cultural values model is widely cited and respected in the study of national culture. Certainly Hofstede's expansive study is relevant to the impact, influence, and power of culture on how people interact in business situations (Hofstede, 1980; Hofstede, et al., 2010) and has been referenced by many; to name a few, Alkailani, Azzam, & Athamneh, 2012; Daller and Yildiz, 2006; Dodor and Rana, 2007; Ergeneli, Gohar, & Temirbekova, 2007; Holden, 2004; Holliday and Wong, 2003; Kirkman, Lowe, & Gibson, 2006; Khatri, 2009; Puffer and Shekshnia, 1996; Mitra and Golder, 2002; Søndergaard, 1994; Swaidan, Rawwas, & Vitell, 2008). Hofstede's research is still considered by numerous researchers to be a robust, acceptable, and insightful indicator of a nation's culture (Eringa, Caudron, Rieck, Xie, and Gerhardt, 2015; Yoo, Donthu, and Lenartowicz, 2011; Gong, Li, & Stump, 2007; Holden, 2004). The

1981 to 2008 study by Beugelsdijk, Maseland, & Van Hoorn (2015) replicated Hofstede's cultural values using World Value Survey and European Values Study responses from around the world. Beugelsdijk, et al. (2015) assert that, "Hofstede's data ... is as relevant now as it was when his work was first published."

According to Beugelsdijk, Maseland, and Van Hoorn (2015), Beugelsdijk and Maseland, (2014), Hofstede, et al., (2010), Khalil (2010), Guiso, Sapienza & Zingales (2006), and Williamson (2002), society's culture remains constant and stable over generations, and culture is entrenched in the history and traditions of society; guiding the development and establishment of economic, legal, and social intuitions. Inglehart and Baker (2000) argue that tradition, customs, and heritage strongly shape and influence society's current culture. Cultural values also determine the establishment of society's institutions, laws, and legal framework (Acemoglu and Jackson, 2017).

Those societies that have high IND, low PD, and low UA seemingly innovate more, have higher GDP growth rates, and are more likely to establish reforms and legal systems that support free markets, discourage corruption, and provide an environment that promotes the legal resolution of disagreements, as well as better protection of the rights of lenders. (Gorodnichenko and Roland, 2011,

2017; Kyriacou, 2016; Klasing, 2013; Licht, Goldschmidt and Schwartz, 2005, 2007). Shane's (1992) research found cultures with low PD and high IND were more innovative. In addition, Shane (1993) and Dwyer, Mesak and Hsu (2005) also found that low UA has a strong influence on innovation compared other countries. Hayton, et al. (2002) argue that high IND, high MAS, low UA, and low PD are supportive of entrepreneurship. In an eight country study, McGrath, et al. (1992) analyzed entrepreneurs and those who were not entrepreneurs to compare their cultural values within each country. McGrath, et al. (1992) found entrepreneurs had high IND, high PD, high MAS, and low UA relative to those in society who were not entrepreneurs. McGrath et al. (1992) studied the characteristics of entrepreneurs compared to non-entrepreneurs within each country, while Shane (1992, 1993) studied the characteristics of between the countries.

High PD, high UA, low MAS, and low IND was found in a study by Baum, Olian, Erez, Schnell, Smith, Sims, & Smith (1993). Baum et al.'s (1993) argument is that highly structured, rigid, bureaucratic institutions with high PD frustrate those who are low ranking, therefore their frustration results in some of them becoming entrepreneurs, going into business for themselves, and starting their own company; this also known as the "dissatisfaction hypothesis". Even

though they are in a low IND, low MAS, high PD, and high UA culture, they are not happy with the bureaucratic system and seek out new opportunities. The low IND, low MAS, high PD, and high UA culture is not satisfying to those inclined to be entrepreneurs, motivating them to start their own business. Similar findings are reported by Hofstede, Noorderhaven, Thurik, Uhlaner, Wennekers, & Wildeman, (2004), Acs, et al. (1994), and Tiessen (1997).

Bradley & Eberle (2018) compared the cultural values for factory workers from nine former communist nations with the cultural values of entrepreneurs within those nations for the purpose of discovering whether the differences are similar to those found in McGrath, et al.'s (1992) study of 8 capitalist nations. Bradley & Eberle's (2018) study generally supports McGrath, et al.'s (1992) conclusion that entrepreneurs are unique and that, regardless of the national culture, they have unique characteristics. Bradley & Eberle's (2018) research indicated entrepreneurs had a higher value for IND and MAS than McGrath, et al.'s (1992) study, while having a lower value for UA and PD, with a greater LTO than McGrath, et al.'s (1992) study.

Cultures that are more willing to take risk and encourage innovations are more likely to generate an entrepreneurial class (Engelen, 2010; Kreiser, Marino, Dickson, & Weaver, 2010; Hayton, et al., 2002; Mueller and Thomas, 2001;

Shane, 1995; McClelland, 1961, 1965). In high UA societies there is often a resistance toward risk taking and innovation, therefore discouraging entrepreneurship (Frese and Gielnik, 2014; Rauch, Frese, Wang, Unger, Lozada, Kupcha, Spirina, 2013; Kreiser, et al., 2010). Those countries with high UA were also found to have more fear of failure, greater risk aversion, and place a high value on certainty and stability (Hofstede, 1980). In addition, high UA cultures tend to produce a more regulated society, a more authoritarian government, with burdensome rules creating more predictability and certainty in their society, but discourages innovation and entrepreneurship (Stephan & Pathak, 2016; Saeed, Yousafzai, and Engelen, 2014). Low UA countries encourage entrepreneurship and risk taking by their very nature (Baughn and Neupert, 2003; De Clercq, Danis, & Dakhli, 2010), though some studies have shown entrepreneurship and risk taking occurs in high UA countries (Wennekers, Thurik, van Stel, & Noorderhaven, 2010). In addition to low UA, the level of IND is also an important factor determining the extent of entrepreneurship in society (Frese and Gielnik, 2014; Liñán and Chen, 2009; Hayton, et al., 2002). High levels of IND promote governments that are business friendly, with fewer regulations, and controls that promote entrepreneurship (Pitlik and Rode, 2017; Klasing, 2013; Baughn and Neupert, 2003; Licht, et al., 2007; Greif, 1994; Mokyr, 1990).

For transition economies to successfully transform to a market economy, Pejovich (2003) states, “formal institutions of a market-oriented economy require an appropriate cultural undercurrent that encourages self-interest, self-determination, self-responsibility, and free market competition”. Inconsistencies between cultural values and society’s institutions create agency problems, asymmetric information, and increases the cost of transformation and enforcement and makes it difficult for entrepreneurs to succeed (Voigt and Engerer, 2002; Pejovich, 2003; Boettke and Nicoara, 2015). Economic institutions and systems based on cultural values contrary to those of its population are unlikely to prosper or succeed while nations that implement systems congruent with their underlying cultural values are more likely to flourish.

HYPOTHESIS ANALYSIS AND RESULTS OF THE STUDY

The results of the hypotheses test indicate that entrepreneurs scored statistically higher than factory workers in Uzbekistan and Kyrgyzstan for IND, MAS, and LTO. There was no support for valuing work over family in Uzbekistan or Kyrgyzstan. IND had total support from both countries. UA provided strong

support for the general hypothesis from both countries. MAS had support in both countries. LTO had support for the general hypothesis in both countries. The hypothesis test failed to support PD for Kyrgyzstan.

Table 1, Figure 1 and 2, and Figure 2 summarize the results for the cultural values of factory workers and entrepreneurs in Uzbekistan and Kyrgyzstan. Table 2 summarizes the hypotheses test results with the z-test statistics shown. Overall, the results found strong support for the differences between the studied groups on the cultural dimensional values of IND, UA, MAS and LTO, but with mixed results for PD.

Table 1: Cultural Dimensional Values

<u>Uz</u>	S					
<u>bek</u>	a					
<u>ista</u>	m					
<u>n</u>	p					
	le					
	S					
	iz					
	e					



Fac tory	2 5 9					
Ent repr ene ur	2 6 4					
<u>Kyr</u> <u>gyz</u> <u>stan</u>						
Fac tory	2 3 9					
Ent repr ene ur	2 6 7					

Figure 1: Cultural Dimensions Values, Uzbekistan vs Kyrgyzstan

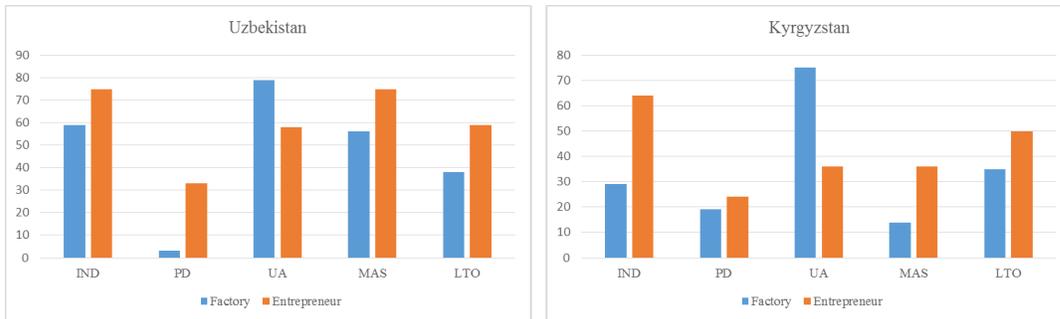


Figure 2: Cultural Dimensions Factory Workers vs Entrepreneurs.

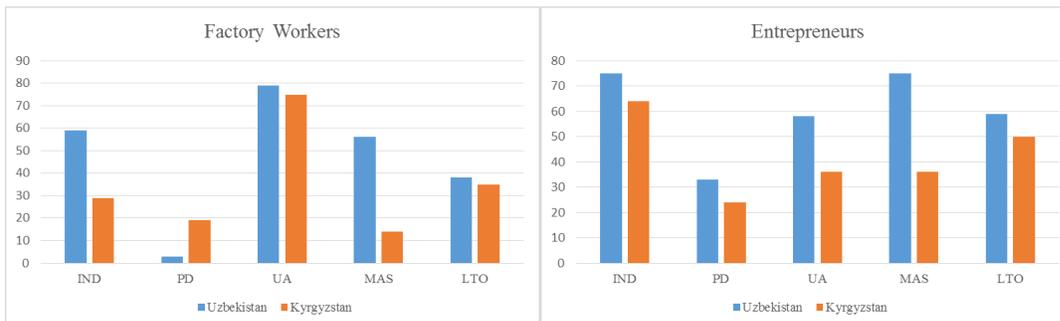


Table 2: Hypothesis Analysis

Hypothesis 1

H1: Entrepreneurs display a lesser need for security of employment than factory workers.

Uzbekistan has significantly higher mean values for entrepreneurs (thus a lower need for security) than for factory workers, thus rejecting the null hypothesis and supporting Hypothesis 1. Kyrgyzstan has higher mean values for the factory workers (thus have less need for security of employment) and therefore, Hypothesis 1 is not supported, the null hypothesis is not rejected.

The long period of communist rule with an all-encompassing social security blanket may have institutionalized a very low need for security of employment. This explains the mixed results from societies that are evolving from a situation of total security to one that is much more uncertain. This mixed result indicates that security of employment, while having differences between the two groups, is not strongly supported across all nations, as indicated by the z-test value for all nations combined.

Hypothesis 2

H2: Entrepreneurs value work over their family to a greater degree than factory workers.

These findings indicate that the null hypothesis is not rejected, and thus there is no support for Hypothesis 2. Uzbekistan and Kyrgyzstan entrepreneurs did not regard time for their personal or family life to be less valuable than time for work, whereas factory workers indicated a need for time for personal or family life to be more important. Hypothesis 2 is not supported.

Hypothesis 3

H3: Entrepreneurs display greater Individualism than factory workers.

The results of the independent tests that establish the z-score for the difference between the group means for the cultural dimension of IND are contained in Table 2. The results reject the null hypothesis at the 95% significance level for both countries and thus supports Hypothesis 3 that entrepreneurs are more individualistic than factory workers. In this study, the authors find a strong entrepreneurial spirit and an overall middle-to-high IND value. This provides rich evidence that even when a dominant culture is forced upon the population, it

is difficult to change the basic underlying culture. Even after such a long and sustained effort to make all the communist nations into a collective orientation, an individualist orientation continued.

Hypothesis 4

H4: Entrepreneurs display greater Power Distance than factory workers

The results of the independent z-test for the cultural dimension of PD are contained in Table 2. The results indicate a statistically significant higher degree of PD for entrepreneurs in Uzbekistan, and therefore the null hypothesis is rejected at the 95% confidence level in favor of H4, indicating a higher PD for Uzbekistan entrepreneurs than factory workers. For Uzbekistan entrepreneurs, compared to factory workers, there is a large disparity, indicating perhaps the influence of a controlled society not encouraging those who are insecure in their view of leadership to partake in individual effort. Also, in a society with such low, subsistence wages, the uncertainty of not having any income is very real and generally does not encourage business efforts. In Kyrgyzstan, the null hypothesis is not rejected at the 95% confidence level. There is not enough evidence to show that entrepreneurs display greater Power Distance than factory workers

It appears that Uzbekistan is an example of the dissatisfaction theory, where low status individuals are more likely to become entrepreneurs to overcome their low status (this occurs even though Uzbekistan is a low PD country because workers are still in a low status position). In addition, Uzbekistan is evidence of prospect theory's loss aversion and framing effect (Kahneman and Tversky, 1979, 2013; Tversky and Kahneman, 1986, 1991, 1992) where those in society with low status are willing to take higher risk and become entrepreneurs, to avoid losses that they face from limited opportunities to advance in the organization.

The level of PD for factory workers in Uzbekistan (3) and Kyrgyzstan (19) are even lower than in the United States (40). The socialist model for most nations has a low PD value, for example, the PD for Denmark 31, Finland 33, Norway 31, Switzerland 34, Sweden 31 are all considered low (Hofstede, et al., 2010). Entrepreneurs and factory workers are both consistent with this result. The authoritarian system that existed in the communist world certainly implied that a high PD should exist at all levels. However, the theoretical tenants of communism were based upon worker participation, social structures orientated to the factory, and collective agreement on decisions which would argue for a lower PD.

It is significant that the authors found a much lower PD for factory workers than was previously suggested would exist. In the communist factory environment, once decisions were made, the directions were followed without question. However, the process of decision making may have provided the lower than expected PD score. Theoretically, the factory was an institution in which the workers had an input into the decision making process. The factory provided workers a social network. Therefore, the factory manager's role was related to, and associated with, their workers rather than to any political ideology or political structure and therefore established a low PD difference between the workers and those who directly managed them.

Hypothesis 5

H5: Entrepreneurs display lower Uncertainty Avoidance than factory workers.

The results of the independent z-test for the cultural dimension of UA are contained in Table 2. The findings reject the null hypothesis at the 95% significance level in both Uzbekistan and Kyrgyzstan, and thus support Hypothesis 5, that entrepreneurs will have a lower UA than factory workers. In comparison to other socialist nations, both the countries studied scored higher UA for factory workers than many socialist nations scored (Uzbekistan = 79;

Kyrgyzstan = 75). For example, the UA values for Denmark = 23 Finland = 59, Netherlands = 53, Norway = 50, Sweden = 29, and Switzerland = 58 (Hofstede, 1980; Hofstede, et al., 2010). Because the basic value of communist ideology was to make all lives very certain, people in former communist countries display fear of uncertainty.

Most of the previous literature predicated the presence of a high UA value in the former communist nations (Bradley, 1999, 2004). Those societies that have high UA prefer distinctive, explicitly, and unmistakable norms, rules, and procedures and those that do not follow the rules face painful consequences (Erez and Nouri, 2010) which may limit the development of entrepreneurship (Jansen, Van den Bosch, and Volberda, 2006).

For entrepreneurs to succeed they must quickly identify new opportunities (to beat the completion), identify new trends, products, and markets and do all of this in an environment of risk and uncertainty (Lee and Peterson, 2000; Brinckmann, Grichnik, and Kapsa, 2010). Those societies that exhibit low UA will be better able to take advantage of these opportunities. For example, if there is significant uncertainty in the market, then an entrepreneur may find potential economic profit opportunities that others miss (Shackle, 1953). A lower UA

level promotes, cultivates, and encourages a culture of entrepreneurship (Lee and Peterson, 2000).

Hypothesis 6

H6: Entrepreneurs display greater Masculinity than factory workers.

The results of the independent z-test for the cultural dimension of MAS are contained in Table 2. The findings indicate that the null hypothesis is rejected in both Uzbekistan and Kyrgyzstan. Hypothesis 6 is supported, indicating that entrepreneurs have a greater MAS score than factory workers. The results indicate that the entrepreneurs were significantly more masculine than factory workers. The extremely low score for factory workers in Kyrgyzstan on this value places them in a highly feminine culture that values family, society, and the agreement among people, all values that are also similar to tenants of socialism. For the entrepreneurial group to rise substantially from this feminine culture provides the most significant evidence of this study confirming that a difference exists between entrepreneurs and factory workers across the measured cultures. The values of assertiveness, money orientation, work orientation and accountability for personal effort is contained in this dimension.

The characteristics associated with this value are family, cohesive work groups, and an orientation toward the society rather than the individual. With entrepreneurial scores far above these values, this difference between the two groups provides impetus for an aggressive, innovative-oriented entrepreneurial class. The entrepreneurs value work, money, assertiveness, and accountability toward personal effort. The ability to take personal responsibility for one's success or failure is at the cornerstone of entrepreneurial theory as well as market-oriented societies (Knight, 1921; Tawney, 1926; Schumpeter, 1934; Lippitt, 1987; Kao, 1991; Hébert and Link, 1988; Kuratko and Hodgetts, 1998). The act of forming a new business is a bold step and indicates a desire to become independent as well as the drive to pursue both personal goals and goals for the business.

The MAS factor is critical in the evolution of an entrepreneurial class. Evidence of a high MAS value among most nations studied and a large difference between the entrepreneurs and factory workers is a very positive finding. Combined with the IND finding, it is decisive that the overall hypotheses regarding real differences between the two groups studied have implications for the economic development within these nations. Although the overall level of MAS is not at the levels of Western economies, it is substantially above other socialist nations (Hofstede, 1980; Hofstede, et al., 2010).

Hypothesis 7

H7: Entrepreneurs display greater Long-Term Orientation than factory workers.

The results of the independent z-test for the LTO are contained in Table 2. The findings indicate that the null hypothesis is rejected for both Uzbekistan and Kyrgyzstan, and thus Hypothesis 7 is supported.

UZBEKISTAN

This is a region of the world where history plays an important role and Uzbekistan was a major part of that history. In past times, Uzbekistan was a huge power that was in the forefront of modern evolution into a thriving nation-state. That it fought the Islamic Fundamentalist war hundreds of years ago may surprise those in the West. That it was a multi-religious nation of traders might also be a surprising fact. This, however, might provide the explanation for the high value for IND (see Table 1) for both factory workers (59) and entrepreneurs (75). It is among the highest in the former communist world. Uzbekistan has long been run by powerful and elite clans of businessmen who controlled trade

in Central Asia for centuries. Economic issues are not foreign to these businessmen and the society reflects this historic value.

A nation of traders that is ruled by clans operating within the society forces everyone to be in equality of risk, life and trade; which is reflected by the extremely low PD for factory workers (3) and low PD for entrepreneurs (33). Perhaps the clan and trading cultures that have existed for centuries established a tradition of small PD between those who manage and those who work under them. Because limited research has been conducted of other Central Asian nations, the real answer is not known. Perhaps Uzbekistan is an anomaly or perhaps an indication of a regional pattern. Future research will prove fruitful to find out which is the truth. The other cultural value scores are in line with most other communist nation traits.

Uzbekistan has taken a very gradual and slow approach to economic transition and reform since independence in 1991. Uzbekistan gained independence in 1991. After independence, the new Uzbekistan government was essentially the same as the old Soviet government leading to the planning and government control of the economy as previously existed (Lasch, Dana, & Mueller, 2009). Uzbekistan was run by an elected dictator, one party rule, and excessive government regulation until the death of the first president in 2016. However, his successor is not having much success at moving the country to a market-

based economy. There is still massive, burdensome, and onerous regulations imposed on business, and the requirements for getting a business license is extremely complicated. An enormous number of government licenses, permits, and certificates are required for trivial things, and all are extremely difficult to obtain. In addition to the burdensome regulations, there is a complicated tax system, with rules that are hard to understand and difficult to comply with, leading to corruption and abuse (Suhir & Kovach, 2003). According to Oleinik (2002) there are the official government rules, and then there is the “alternative rule of law,” which is applied to settle conflicts and maintain order in the community. Violating the alternative rules leads to the demise of your business. Uzbekistan is a predominantly Muslim nation. However, one must be careful in making any analysis of this country until knowing and understanding the long history that has given this country a very different cultural characteristic than nearby Muslim nations. Uzbekistan has had a long and proud history that included the elimination of a very radical Islamic government. It was during this time that they created a trade oriented empire that became one of the largest in world history. Once this radical movement was eliminated, the society was reformed into a more secular trade oriented nation. This tradition has continued and while the modern nation is a very poor country, there remains a tradition of trade and economic development. Having said this, one must also understand

that the ruling elite has not been open to developing a modern, free-market economy, but rather an economy that benefits the ruling elite and their benefactors. The average salary of a worker in Uzbekistan is among the lowest, not only in the former Soviet Union nations, but it is also among the lowest in the world.

The cultural values for Uzbekistan include low PD, high MAS, and high IND (influenced by their Islamic heritage). Entrepreneurial values seen in the West are also seen in Uzbekistan, but the elected dictator and their one party control has not been supportive of reforms needed to develop markets and encourage small business entrepreneurs. The large population base, the central location, their rich history and traditions, and the entrepreneurial orientation of the nation, could perhaps, under the right political system, create a very prosperous economic culture. Until the leadership becomes one of utilizing these valuable traits, this central authority will instead override any potential for development beyond their abundant natural resources. It is very difficult for individual effort to succeed when the nation is focused upon national control of business development for the few, rather than encouragement for such effort designed to create a middle class. In Uzbekistan, corruption has had a major debilitating impact on the country. In addition, the economy suffers from protectionism and

restrictive government regulation. The legal system is extremely inadequate, inefficient, and corrupt rendering the legal system ineffective, weak, and inept. In examining the cultural values, a very interesting picture emerges. Uzbekistan has a very high IND score for both factory workers (59) and entrepreneurs (75), while also having a relatively high MAS score for both as well (factory workers = 56 and entrepreneurs = 75). In combination, these two cultural values would indicate that the country could be very entrepreneurial in nature given the opportunity. The long history of trade and economics could also be indicative of a society that is very economically driven.

President of Uzbekistan, Shavkat Mirziyoyev, “declared 2018 the year of Entrepreneurship and Support for Innovative Ideas and Technologies” (Dipanjan, 2017; UzDaily, 2017). The President “declared 2019 as the Year of Active Investments and Social Development in Uzbekistan (UzDaily, 2018). President Mirziyoyev vowed to improve the government, reduce burdensome regulations, and to provide a fundamental and supportive economic system to promote initiative and growth and encourage entrepreneurship. However, it appears from the outside, that the lack of any democratic institutions, and total control within the nation by the ruling elite, has eliminated the positive entrepreneurial potential that is evident within Uzbek society. The

entrepreneurial spirit of the people is being directed toward low value added products rather than a modern economic nation. This has somewhat maintained their historical business orientation, but has not evolved into building a stronger, more advanced, middle class nation. The strong centrally controlled institutions are designed to reward the controlling oligarchs rather than enhance the individual effort. Control has become more important than economic development as the institutions associated with a modern society such as the legal system, the tax structure, property ownership procedure; have not been allowed to evolve over time.

KYRGYZSTAN

This tiny nation is a landlocked mountainous region with only the central valley, (in which the capital Bishkek is located), that can become developed. The leadership has sought to become a modern economically driven society. Economic reforms and movement to a market system took place early in Kyrgyzstan, and in 2001, they established parliamentary democracy and a new constitution (ADB, 2014). However, most of the reforms were ineffective because bitter political rivalries held back implementation of true free market based reforms. The ability of the country to compete with its neighbors, who have more people and resources, is questionable. Former communist systems

and policies are still evident in many areas. Extensive corruption, inept rule of law, poor property right protection, and the failure to protect private sector investment will certainly obstruct their movement to a market based economy. When examining the cultural values (see Table 1), there is a very low IND (29) score and a very low MAS (14) score for factory workers. High IND and High MAS indicate the orientation of society toward a strong entrepreneurial effort. It would appear that this will be a long and difficult struggle for Kyrgyzstan given their low IND and low MAS. Unless the nation can find some large asset (for example, gold) to use that will provide the money necessary to become more diverse in its economic base; the lack of resources and people and mountainous terrain will certainly be difficult to overcome. The peoples' determination, their strength of will, and resolve is there for development, so perhaps a method can be found that will provide the capital needed to enhance their determination for development, even considering the lack of entrepreneurial values.

As is the norm for former communist nations, factory workers have a very high UA (75) score, with a low PD (19) value. Kyrgyzstan has a very similar cultural value to those of the Scandinavian countries with the exception of the IND value. It would appear that the national effort will be focused upon a central authority that is very socialist in its orientation.

However, Kyrgyzstan is in agreement with the other former communist nations as it has nothing unique in its cultural values score model for factory workers. One can project that the future will bode well for a return to the traditional values of a socialist-communist nation. There is nothing to provide evidence that a return to the traditional values within the political, social and economic sphere will not happen. Trying to change the institutions against the cultural values of who the people are, is difficult to accomplish. Kyrgyzstan is evidence for this thought.

Kyrgyzstan had a large difference between entrepreneurs and factory workers for IND (64 for entrepreneurs and 29 for factory workers). This large difference indicates potentially vast differences between entrepreneurs and factory workers on how they view their lives. A similar difference in UA between entrepreneurs and factory workers (entrepreneurs, 36; factory workers, 75) and MAS (entrepreneurs, 36; factory workers, 14), indicates a huge class difference. However, a low income level for most citizens and a lack of an industrial base impedes an entrepreneurial orientation. This study does indicate that Kyrgyzstan could become a very entrepreneurial-orientated society should the resources become available to enhance this effort.

UZBEKISTAN AND KYRGYZSTAN

While these two nations share a common boundary they are very different in their composition. Because Kyrgyzstan is a nation surrounded by huge mountains, with only one valley to access the capital, they are really neighbors in geography only. Uzbekistan was ruled by President Karimov for decades, with a totally authoritarian government. In contrast, Kyrgyzstan has had a succession of governments since 1991, with little progress toward the desired market economy. Since Kyrgyzstan gained independence, there have been two tense, undemocratic regime changes where the country's president was expelled by force (Matveeva, 2010). The borders in Central Asia were arbitrarily set by the former Soviet Union. The dissolution of the USSR in 1991 and the creation of the Central Asian Republics led to disputes, disagreements, and arguments regarding country borders. The disputes have resulted in violent clashes and bloodshed on the borders of Uzbekistan and Kyrgyzstan ((Matveeva, 2010; Zhang, 2015; Megoran, 2017; Horsman, 2018).

Uzbekistan and Kyrgyzstan have experienced instability in their economic and political systems ever since they gained independence. At the same time, their cultural values and characteristics have been amazingly constant (Rovny and Polk, 2017). In both Uzbekistan and Kyrgyzstan, as well as other Central Asian countries, it is not easy for entrepreneurs to start a new business, there is poor internet connectivity, unreliable electric supply, onerous regulations, corruption,

and limited financing available, this is especially true outside the major cities (Hasanova, 2018; Brück, Mahe, & Naudé, 2018; Kumar, R. Stauvermann, Patel, & Prasad, 2018; O'Connell & Kiparisov, 2018; Rudaz, 2017; Gassner, Rosenthal, & Hankinson 2017; ILO, 2016; UNDP, 2016; Keneshbekovna, 2014).

THREE INDEXES TO UNDERSTAND UZBEKISTAN AND KYRGYZSTAN

The Economic Freedom Indicators, Ease of Doing Business Rank, and the Corruption Perception Index are used to evaluate the level of economic freedom, ease of doing business, and the amount of corruption that exist in Uzbekistan and Kyrgyzstan.

Index of Economic Freedom

“The Heritage Foundation’s Index of Economic Freedom evaluates the economic and entrepreneurial environment over which governments typically exercise policy control including rule of law, size of government, regulatory environment and market access.” (Heritage Foundation, 2019). A brief discussion of the main aspects are included here to provide an indication of favorable or unfavorable conditions for entrepreneurs to succeed. Poor property rights protection, corrupt and ineffective judicial systems, restricted unfree

markets (labor, investment, financial) all make it more difficult for entrepreneurs to launch new ventures and succeed. Additional background about the Index of Economic Freedom is provided in the appendix.

Uzbekistan's Economic Freedom score is 53.3 and is ranked 140th in the world in Economic Freedom (see Table 3). Economic Freedom scores between 50 and 60 indicate a mostly unfree country, signifying that Uzbekistan is mostly unfree. The lack of economic freedom in Uzbekistan is a major barrier and obstacle for entrepreneurs to overcome

Kyrgyzstan's Economic Freedom score is 62.3. An Economic Freedom score between 60 and 70 indicates a moderately free country indicating that economic conditions in Kyrgyzstan are moderately supportive and unrestricted to foster the growth of entrepreneurs.

Uzbekistan (Labor Freedom = 58.7) has a Labor Freedom score between 50 and 60, indicating a mostly unfree labor system. The labor freedom in Uzbekistan is not conducive to economic freedom, entrepreneurship, capitalism, or market systems. Kyrgyzstan (Labor Freedom = 79.8) has a Labor Freedom score between 70 and 80 indicating a mostly free labor system and therefore supportive of the establishment and success of entrepreneurs.

Table 3: Economic Freedom Indicators³, Ease of Doing Business Rank, Corruption Perception Index.

Country Name											E c o n o m i c 3 F r e e d o m I n



											d e x / W o r l d R a n k
Uzbekistan											5 3 . 3 / 1 4

										0 th
Kyrgyzstan										6 2 . 3 / 7 9 th

¹World Bank, ²Transparency International, ³Heritage Foundation (2019).

A recent study by Newland (2018), found anti-free-market attitudes in Kyrgyzstan and Uzbekistan, poor property right protection unresponsive of economic freedom, making it very difficult to transition to a free-market economy. Uzbekistan and Kyrgyzstan continue to struggle with transforming their countries into a capitalist market oriented system and democratic society. Uzbekistan and Kyrgyzstan have government integrity (Gov't Integ) scores below 40 (Uzbekistan = 25.2 and Kyrgyzstan = 27.2; see Table 3), indicating extremely repressed, corrupt, and untrustworthy government lacking integrity and freedom. Government integrity in Uzbekistan and Kyrgyzstan is considered

repressed and not conducive to economic freedom, entrepreneurship, capitalism, or market systems. This will severely hamper the establishment and growth of entrepreneurs.

Uzbekistan and Kyrgyzstan have property right (Prop Right) scores below 50 (Uzbekistan = 43.9 and Kyrgyzstan = 49.9; see Table 3) indicating extremely poor property right protection. The property rights system in both countries is considered repressed, and not conducive to entrepreneurship, economic freedom, capitalism, or market systems. Uzbekistan and Kyrgyzstan have judicial effectiveness (Judical Effect) scores below 40 (Uzbekistan= 34.3 and Kyrgyzstan = 27.9; see Table 3) indicating extremely repressed, unfree, and ineffective judicial systems. Judicial systems in Uzbekistan and Kyrgyzstan are considered repressed and not conducive to economic freedom, capitalism, or market systems.

Uzbekistan's Investment Freedom (Invest Free) score is 10. An Investment Freedom score below 40 indicates an extremely repressed investment system with a severe lack of investment freedom. Investment freedom in Uzbekistan is considered repressed and not conducive to economic freedom, capitalism, or market systems. Kyrgyzstan has an Investment Freedom score of 60, indicating a moderately free investment environment that is somewhat conducive to entrepreneurship. Uzbekistan's Financial Freedom (Fin Free) score is 10. A

Financial Freedom score below 40 indicates an extremely repressed financial systems with a severe lack of financial freedom. Financial freedom in Uzbekistan is considered repressed and not conducive to economic freedom, capitalism, or market systems. Kyrgyzstan has a Financial Freedom score of 50, indicating a mostly unfree financial system exists, making it difficult for entrepreneurs to acquire funds for investments and to start new ventures.

Ease of Doing Business Index

The World Bank publishes the “Ease of Doing Business Index” which ranks 190 countries. Countries with good legal systems, strict property rights, free-trade, less regulations, and low barriers to entry receive a higher rank (World Bank, 2019). Additional background about the Ease of Doing Business Index (Ease Rank) is provided in the appendix and the index is shown in Table 3. Uzbekistan and Kyrgyzstan have relatively poor Ease of Doing Business rankings, indicating there are significant obstacles in these countries to operate and succeed in business activities (Uzbekistan Ease Rank = 76 and Kyrgyzstan = 70; see Table 3). The index indicates it will be difficult for new entrepreneurs to start a business and engage in trade.

Corruption Perception Index

The Corruption Perception Index (CPI) is included in Table 3 and briefly discussed in the appendix. Uzbekistan's CPI is 23 and Kyrgyzstan's CPI is 29. Both countries have low CPI scores, below 40, indicating pervasive and widespread corruption exists in these countries making it extremely difficult for entrepreneurs to open their own business without paying bribes or engaging in corrupt practices.

Central Asia has been at the forefront of trade and commerce for centuries. A powerful business class has always been present in Uzbekistan and Kyrgyzstan, even under communist rule. Uzbekistan and Kyrgyzstan have developed a type of oligarchic capitalism, where businesses and corporations form strong relationships with the political class to ensure success, exert power, and drive out competition (Ban, 2013).

Control from Moscow was never really effective in Central Asia. It would seem the only elements holding back Uzbekistan and Kyrgyzstan from achieving a commerce-oriented economy are politics, corruption, and an equitable legal system. Central Asia is very important to China and the ambitious Chinese Belt and Road Initiative. Vital trade routes and pipelines are set to run through Uzbekistan and Kyrgyzstan providing many entrepreneurial opportunities for both Uzbekistan and Kyrgyzstan.

CONCLUSION

The main conclusion of this study is that entrepreneurs in Uzbekistan and Kyrgyzstan follow the typical pattern of entrepreneurs throughout the world. The authors' study supports McGrath, et al.'s (1992) findings that entrepreneurs in Uzbekistan and Kyrgyzstan have unique characteristics relative to factory workers. Uzbekistan and Kyrgyzstan have an unusually high IND score for entrepreneurs (71 and 64). The region is at the crossroads from Asia, to Eastern Europe, and to Russia. With such an individualist orientation, much could be accomplished if their leaders focus on economic freedom, development and trade. Kyrgyzstan had the largest difference between the two groups for IND (64 for entrepreneurs and 29 for factory workers). This large difference between factory workers and entrepreneurs indicates potentially vast differences on how they view their lives. A similar difference in UA between the two groups (entrepreneurs, 36; factory workers, 75) and MAS (entrepreneurs, 36; factory workers, 14), indicates a huge class difference.

Knowledge and insight about the characteristics of entrepreneurs is essential to understanding the development and growth of transition economies and emerging competitive markets such as Uzbekistan and Kyrgyzstan. The implementation of social, political, legal, and economic structures will only

succeed if the created systems are consistent and compatible with the social values of the country. It is the entrepreneurs that will ultimately lead Uzbekistan and Kyrgyzstan into a market-based, free-enterprise economic system. Entrepreneurs in Uzbekistan and Kyrgyzstan exhibit the cultural values necessary that can propel their nation into a modern market-system.

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APPENDIX

Table 4: Cultural Value Calculations

Means of Individual Questions for Factory Workers for Hofstede's Cultural Values: Individualism					
Coun try	Qu esti on 1	Qu esti on 2	Qu esti on 4	Qu esti on 8	
Uzbe kista n	1.9 8	2	1.7 2	2.6 3	
Kyrg yzsta n	2.7 9	2.1 4	1.7 8	2.4 6	
<p>The (IND) cultural value was calculated using following formula:</p> $IND = -50(Q1) + 30(Q2) + 20(Q4) - 25(Q8) + 130$ <p>Uzbekistan: $-50(1.98) + 30(2) + 20(1.72) - 25(2.63) + 130 = 58.25$</p> <p>Kyrgyzstan: $-50(2.79) + 30(2.14) + 20(1.78) - 25(2.46) + 130 = 28.8$</p>					

Q1 is the mean score for question 1, Q2 is the mean score for question 2, etc.

Means of Individual Questions for Factory Workers for Hofstede's Cultural Values:

Power Distance

Coun try	Qu esti on 3	Qu esti on 6	Qu esti on 14	Qu esti on 17
Uzbe kista n	2.1 2	2.2 4	3.1 2	2.9 1
Kyrg yzsta n	2.1 6	2.6 3	3.1 2	2.7 4

The (PD) cultural value was calculated using following formula:

$$PD = -35(Q3) + 35(Q6) + 25(Q14) - 20(Q17) - 20$$

Q3 is the mean score for question 3, etc.

Means of Individual Questions for Factory Workers for Hofstede's Cultural Values:

Uncertainty Avoidance

Coun try	Qu esti on 13	Qu esti on 16	Qu esti on 18	Qu esti on 19
Uzbe kista n	3.0 1	3.3 3	2.8 2	2.8 4
Kyrg yzsta n	2.9 2	3.3	2.7 8	2.9 8

The (UA) cultural value was calculated using following formula:

$$UA = +25(Q13) + 20(Q16) - 50(Q18) - 15(Q19) + 120$$

Q13 is the mean score for question 13, etc.

Means of Individual Questions for Factory Workers for Hofstede's Cultural Values:

Masculinity					
Coun try	Qu esti on 5	Qu esti on 7	Qu esti on 15	Qu esti on 20	
Uzbe kista n	2.1 2	2.7 4	2.5 6	3.5 1	
Kyrg yzsta n	2.4 1	2.3 8	3.2 5	3.5 3	
<p>The (MAS) cultural value was calculated using the following formula:</p> $MAS = +60(Q5) - 20(Q7) + 20(Q15) - 70(Q20) + 100$ <p>In which Q5 is the mean score for question 5, etc.</p>					
<p>Means of Individual Questions for Factory Workers for Hofstede's Cultural Values:</p> <p>Long-Term Orientation</p>					

Coun try	Qu esti on 9	Qu esti on 10	Qu esti on 11	Qu esti on 12
Uzbe kista n	1.8	2.2	2.3 1	2.2 4
Kyrg yzsta n	1.7	2.4 7	2.3 1	3.1 2

The (LTO) cultural value was calculated using the following formula:

$$LTO = 45(Q9) - 30(Q11) - 35(Q10) + 15(Q12) + 67.$$

In which Q9 is the mean score for question 9, etc.

Means of Individual Questions for Entrepreneurs for Hofstede's Cultural Values:

Individualism

Coun try	Qu esti on	Qu esti on	Qu esti on	Qu esti on
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	on	on	on	on
	1	2	4	8
Uzbe kista n	1.7 6	1. 70	1. 45	1.7 8
Kyrg yzsta n	2.1 7	2.2 2	1. 92	2.5 3
Means of Individual Questions for Entrepreneurs for Hofstede's Cultural Values: Power Distance				
Coun try	Qu esti on	Qu esti on	Qu esti on	Qu esti on
	3	6	14	17
Uzbe kista n	2.2 3	2.8 1	3.3 2	2.6 3



Kyrg yzsta n	2.0 6	2.6 1	3.2 7	2.8 5	
Means of Individual Questions for Entrepreneurs for Hofstede's Cultural Values: Uncertainty Avoidance					
Coun try	Qu esti on 13	Qu esti on 16	Qu esti on 18	Qu esti on 19	
Uzbe kista n	2.9 2	3.1	3.2 2	2.5 3	
Kyrg yzsta n	2.4 1	2.8 3	3.1 5	2.8 9	

Means of Individual Questions for Entrepreneurs for Hofstede's Cultural Values: Masculinity					
Coun try	Qu esti on	Qu esti on	Qu esti on	Qu esti on	Qu esti on
	5	7	15	20	
Uzbe kista n	1. 61	2.6	3.5 2	2.1 2	
Kyrg yzsta n	2.5 5	2.4	3.2 6	3.3	
Means of Individual Questions for Entrepreneurs for Hofstede's Cultural Values: Long-Term Orientation					
Coun try	Qu esti on	Qu esti on	Qu esti on	Qu esti on	Qu esti on

	on 9	on 10	on 11	on 12
Uzbe kista n	1. 62	2.1	1. 73	2.1 4
Kyrg yzsta n	2.0 8	2.3 6	2.5	3.1 9

Table 5: Demographics

Gender

	Entrepreneurs % men	Factory % men
Uzbekistan	55.9	46.2
Kyrgyzstan	59.7	57.4

Education Level of Respondents

	Entrepreneur % < 12 years	Factory % < 12 years

Uzbekistan	53	62
Kyrgyzstan	61	56
Age Level of Respondents		
	Entrepreneurs % <45	Factory % < 45
Uzbekistan	76	78
Kyrgyzstan	72	69
Job Level of Respondents		
	Entrepreneurs % < level 6	Factory % < level 6
Uzbekistan	78	78
Kyrgyzstan	68	63
(< level 6 indicates not a manager of people)		

Index of Economic Freedom

“The Index of Economic Freedom focuses on four key aspects of the economic and entrepreneurial environment over which governments typically

exercise policy control including rule of law, size of government, regulatory environment and market access.” (Heritage Foundation, 2019). The index is scaled from 0 to 100, in which “Scores above 80 are considered free. Scores between 70 and 80 are mostly free. Scores between 60 and 70 are considered moderately free. Scores between 50 and 60 are mostly unfree. Scores below 50 are considered repressed (Heritage Foundation, 2019)”.

“The Economic Freedom index is based the following”:

- The rule of law as indicated by “property rights, government integrity, and judicial effectiveness” (Heritage Foundation, 2019).
- The size of government is determined by “government spending, taxes, debt, and fiscal health” (Heritage Foundation, 2019).
- The index evaluates “regulatory efficiency and its effects on business freedom, labor freedom, and monetary freedom” (Heritage Foundation, 2019).
- The extent to which markets are open are indicated by “trade freedom, investment freedom, and financial freedom” (Heritage Foundation, 2019).

“Each of these factors are rated on a scale from 0 to 100. The higher the score, the more freedom exists” (Heritage Foundation, 2019).

The Ease of Doing Business Ranking

The World Bank publishes the “Ease of Doing Business Index.” Countries with good legal systems, strict property rights, free-trade, less regulations, and low barriers to entry receive a higher rank (World Bank, 2019). Countries with poor and ineffective legal systems, vague property rights, trade barriers, burdensome regulations, and high barriers to entry receive a low rank (World Bank, 2019). According to the World Bank, “economies are ranked on their ease of doing business, from 1–190 where 1 is the highest ranking and 190 is the lowest ranking. A high Ease Rank means the regulatory environment is more conducive to the starting and operation of a local firm.”

Corruption Perception Index

“The Corruption Perceptions Index (CPI) ranks countries by their perceived levels of public sector corruption, as determined by expert assessments and opinion surveys” (Transparency International, 2019). “The CPI generally defines corruption as the misuse of public power for private benefit” (Transparency International, 2019). According to Transparency International, “Countries are ranked from 0 to 100. The lower the CPI, the more perceived corruption, the higher the number the lower the perceived corruption.”

When Profitability Makes Profitability in a Health Care Company

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Abstract

The purpose of this paper is to conduct qualitative case study on the factors that make the company profitable. The earlier profitability study is often based on quantitative research. This paper seeks to compare the results between qualitative and quantitative research as well. The research is based on a contingency theory, which argues that the profitability of a company consists of a large group of factors. The starting point was to interview highly successful SMEs management and to find out what the manager or the studied company considered important for improving their profitability. The focus of the survey was on the profitability of management accounting systems, customer concentration, innovation and digitalization activity in the company. The results show that monitoring the financial functions is vital for the company, emphasizing budgeting and financial

statement tracking regularly. Even the results show that studied health care company's perceptions of improving profitability are largely those that have emerged in previous research, the customer concentration in the industry was seen, contrary to several previous results, as a positive factor in the profitability. In addition, the systematic internal innovation of the company was a factor improving profitability.

Introduction

The starting point for this case research is the question of the profitability in small and medium sized company (SME). The whole service sector has risen again in 2017 as well the health care business has joined to this quickly grown service business area in Finland (Statistics Finland, 2018). One reason for short-term growth can be the economic boom in 2017 but in the longer term, the service sector is gaining ground from the manufacturing business or at least they converge each other (Gao, Yao, Zhu, Sun & Lin, 2011; Oliva & Kallenberg, 2003; Rogelio & Kallenberg, 2003). The rise of the private health care industry strengthened in 1990 when the purchaser-producer model was approved in Finland to get more actors to offer the health care beside the municipal organizations (Rissanen & Sinkkonen, 2004; Robinson, 1998).

In Finland, research into welfare companies is currently of particular importance. Typically, Finnish social and health care services are based on fully public funded organizations. The municipalities have been service providers and they have been able to buy services from private companies. After forthcoming the health and social services renewal (SOTE) (the reform is due to come into force in 1st January 2021), the client may choose to use public or private organization services. In this renewal of a larger entity, the counties will be the body responsible for the service. It remains to be seen how much the use of health care services is changing significantly. In generally, Finnish public health care has enjoyed great trust and it is widely used by all social classes. The high-quality healthcare system has been ranked fifth in the Lancet magazine study (assessed the availability and quality of health care in 2016 by source from <http://www.healthdata.org/> (Lozano, 2018)).

The purpose of the study was interview one well-performing health care company to find further information about the profitability processes. This paper is based on the contingency theory, which inspects the profitability of the company in a wide range of the different factors, all of which affect the company's success and hence they affect company's profitability (Fielder, 2006; Harisalo, 2010; Lawrence & Lorsch 1967; Woodward, 1958).

The target company was carefully selected from the internet database about the best-performed health care companies in Northern Savo. The aim was to construct the big picture of one reasonably large well-performed company in this industry, still, not to be too big in national or international framework. Thus, the methods of this study to generating material was the case study with semi-structured interview. The study continues with a qualitative method as a popular operator in management accounting as well as to get a new and deeper point of view of one health care service company.

This paper concerns the profitability factors in a SME. There is a diverse previous research in management accounting and the profitability of the company. One direction goes to the quantitative research (Cadez & Guilding, 2008; 2001; Scapens, 2006) and the other goes towards the qualitative research (Ahrens & Chapman, 2007; Ferreira & Otley, 2007; Llewelyn, 2003; Ribeiro & Scapens, 2006; Vaivio, 2007). Both of the research paths can defense their existence. It has found that the qualitative research can find wider phenomenon and can interpret cultural and social meanings (Eriksson and Kovalainen 2015, 4). On the contrary, the quantitative results are usually more able to generalize as they operate with the wider data (Modell, 2005, 2010).

This paper is structured as follows. In the next section, the theoretical framework of the study is introduced. Thereafter, the case company and methodology of the case study will be explained. In the empirical section, the analysis will be discussed and finally, the paper proceeds to provide a discussion with some recommendations of the future studies.

Theoretical Framework

The reasons for the company's profitability are undoubtedly multifaceted. These reasons have been discussed in the literature from a different point of view and through several theories. The theoretical basis of this paper is the organizational theory and the contingency model. It was developed in the U.S. in the 1950's, as the previous management theories was found to be too restricted. Hence, it was noticed that there are several main organizational factors such as technology, strategy, environment (vendors, customers and competitors), organization structure, size, age and the history of the company, which affect the management and performance of the company (Harisalo, 2010, p. 217; Lawrence & Lorsch, 1967; Woodward, 1958). In Fielder's (2006, 370) military management research, the management dimensions has noticed to be one important factor in the performance of the company as well. In his research, the performance was the best in the intermediate range of leader-group relation and in very good and very

poor leader-group relationship, the performance was poor. The results have proven that a very broad diverse of individual characteristics can have the best performance and it can be effected by training and placement right (Fielder, 2006, p. 371).

However, it has been noted in the research, that there are a wide variety of other factors to affect the group's performance, as leader's and the member's intellectual and task-relevant abilities and that the management directional choices are often gradually evolving and unintentional (Fielder, 2006, p. 371; Lawrence & Lorsch, 1967). As well, in this paper the contingency theory has chosen but it has connected with the management's features as well. The management quality is measured as performance and it can be a monetary item as profitability in this research or it can be effectiveness or even non-monetary as has measured often in public organizations (Ahrens & Chapman, 2007; Ferreira & Otlie, 2007; Llewelyn, 2003; Ribeiro & Scapens, 2006; Vaivio, 2007). The three dimension was applied as management control system (MCS) (information technology), customer (environment) and innovations (internal factors). In addition to, the rest of environment (municipal authority, competitors and employee markets) and the manager's features were included in to interview.

2.1 Health care industry and profitability

Profitability in the healthcare sector is easily ethically questioned. Private health care providers must produce profit, and yet their quality of care has been found to be as good as a public organization (Huseyin, Erdogan & Salih 2008; Nelson, Rust, Zahorik, Rose, Batalden & Siemanski, 1992). The results depend on the measurement method and when measuring the effectiveness of the organization, the opposite results have been obtained. Efficiency measurements include, among others, the patient placements or fixed cost share. According to this, the public units were somewhat more efficient than private units (Feldstein, 2012, p. 3; Hollingsworth, 2008). There are problems in the comparison and quality indicators vary. It is important to emphasize that to be valid quality measurement must assess the health outcomes that can be modified to improve the outcomes, a disease that can be cured by treatment measures and that quality correlates with the organization's outcome (Nelson et al., 1992).

In the health sector, digitalization and innovation are expected to bring significant savings and new earnings sources (Hillestad, Bigelow, Bower, Girosi, Meili, Scoville & Taylor, 2005; Murdoch & Detsky, 2013) as well as, it has been believed to reduce medical errors and by this way to lower overall health care

costs (Bates, Cohen, Leape, Overhage, Shabot & Sheridan, 2001). However, no major growth in the development and harmonization of healthcare systems has been observed. More radical innovations are needed and awaited on the field (Bessant & Maher, 2009; Zacca & Dayan, 2017).

Generally, the profitability of the health care sector has been widely explored in different areas. Apart from management accounting systems, the customer relationship and digitalization effects in efficiency as well as, profitability on the structures, and management competence of health care organizations have also been studied (McDonagh, 2006). This study found that effective executive boards led to better hospital outcomes and cost savings when the effectivity of the board was measured in six areas of competency. Further, in Singh and Wheeler (2012) research the patient revenue cycle management in relation to assets indicted increased in operating and total profit margins as financial performance. On the other hand, networking in the health care field had no impact on the organization's profitability or efficiency in Wan, Ma and Lin (2001) research. However, the main emphasis on health care studies when measuring outcomes is understandably, instead of improving profitability, in reducing treatment errors (Bates, Leape & Shabot 2001; Karsh, Holden & Alper, 2006).

2.2 Management accounting systems and profitability

The level of SME management accounting systems (MAS) is very varied. Generally, however, they are often underdeveloped compared to firm's size and in a reasonable high turnover, the company computing systems can be modest. However, inadequate systems may limit the development of the entire company (Granlund & Taipaleenmäki, 2005; Laitinen, 2001; Lukka, 2007). The reasons for the modest systems are several. The management accounting and the profitability system can be implemented in a countless number of different management accounting systems of the company and still, often the change in any context faces resistance.

The motivation for the system choice can be economic or institutional. Institutional motivation could be the situation when the municipal author adopts the new MAS in all its units, regardless if the new system is needed or not. With the same reasoning, the level of institutional pressure can vary from voluntary to coercive implementation depending on the originator of the investment (Hyvönen & Järvinen, 2006). This all makes a big difference on how, when and why to implement a new MAS. Furthermore, the previous MAS have been noticed to have an influence on the choice of a new system (Davila 2000). Opposite, the applying system of the MAS may be different in the private sector where the

financing of the MAS investment comes totally from the business profit. Beside the management, the applied strategy (Gosselin, 1997) or the environment of the company has been researched to have an impact on the choice of the MAS. The environmental factors can be the size or the age of the company or the existence of outside investors (Baines & Langfield-Smith 2003; Davila, 2000).

2.2 Customer concentration and profitability

Today, in many cases, the biggest issue of the company's existence is sales, which is realized through customers. Thus, the customers have a great deal of profitability (Mulhern 1999; Narver & Slater, 1990; Storbacka, Strandvik & Grönroos, 1994). However, customer relationships are one of the major risk factors for entrepreneurship. According to the general risk theory, decentralization will reduce the risk, but on the other hand, concentrations should again improve the performance. However, negative impacts have also been found. In earlier literature, the concentration of customer relationships has been hindered business activities. It has been found to have a negative effect, for example, cooperation (Balakrishnan, Linsmeier & Venkachalam, 1996; Campello & Gao, 2017). This trend has resulted in results in the manufacturing and financial sectors (Patatoukas, 2011). Studies have also found that the impact of customer focus on

profitability is negative in the early years of the company and turn positive as the company grow older (Irvine, Park & Yildizhan, 2016).

2.4 Digitalization and profitability

Digitalization is one of the most influential factors in business activity over the last decade. Most companies have had to accept the challenges of digitalization either willingly or unintentionally. The effects of digitalization on the company's profitability are certainly diverse, but as most profit-making companies use digitalization, probably it also helps the company to succeed (Johnson & Bharadwaj, 2005; Prahalad & Ramaswamy, 2003). Since digitalization is still a relatively new issue, its impact on the company's profitability has not yet been widely explored. However, studies on the profitability of digitization have already come up (Avasilcai & Galateanu, 2015; Juergen & Stanley, 2016; Neumeier, Wolf & Oesterle, 2017).

It seems that the digitalization of the welfare sector is only at the beginning. Several monetary and ethical problems are still unresolved and the data protection is challenging as well. Thus, law governs digitalization in Finland and the state administration has made it clear that man is also the most important in digitalization development (Hyppönen & Ilmarinen 2016, p. 7; Pesonen 2016). Digitalization in the health sector can include patient information systems,

electronic prescriptions, booking reservations on the internet, patient tracking electronically, or even online receptions. Although in Finland in 2016 only a few public health centers had an online appointment, but 12% of the population had been in contact with a private organization doctor via the Internet (Hyppönen & Ilmarinen, 2016, p. 2; Moilanen, 2016).

The benefits of digitalization both to the profitability of the organization and to the reduction of mortality have been studied. Likewise, the quality of health care has been studied through improved digitization. In the future, the use of big data, to gather customer and organization data together, has believed to bring efficiency to the industry (Hillestad, Bigelow, Bower, Girosi, Meili, Scoville & Taylor 2005; Murdoch & Detsky, 2013).

3. Research methodology

A case study is ‘a research strategy that focuses on understanding the dynamics present within single settings’ (Miles & Huberman, 2002). The main objective of the case study is not to produce knowledge that could be generalized to other contexts in the conventional meaning (Eriksson & Kovalainen, 2008). Selecting participants for the study, Creswell (2007) suggests that the researcher should select the participants purposefully rather than randomly. The purposeful

selection of participants help the researcher to answer the research questions and understand the research problem.

As data collecting method of this research we applied one case company interview. It was chosen from the internet list of best performed health care companies in Northern Savo area. The case company was established in 1996 and it is a housing service company. Company is family owned and it offers services for a municipality. It consists of one parent company in Northern Savo and one subsidiary in southern Finland. The subsidiary was established in 2014 and its operations have not stabilized yet. Although the subsidiary's earnings are not totally satisfactory, the parent company has generated profits and growth throughout its life.

Selecting participant for the study, for the interviewee, we sought the person who knows the financial factors of the company, who has the executive power and still, who knows well the personnel and customer management area. The interviewed person was the managing director of the case company. In this family business the managing director, works with the daughter, with the spouse and with 31 employees, of which 23 in Northern Savo and eight in the Southern Finland. The interviewed and her daughter work in the service production and the

spouse works in the company's bookkeeping and billing. There are 53 customer places in the company, together parent and subsidiary.

The data was gathered from one semi-structured interview, which had the features of the open and the depth interview. The interview situation was informal as possible and the interviewed person tried to get spoken as wide and deep as possible on the ongoing theme (Eskola & Vastamäki, 2015, pp. 24-27; Koistinen & Eriksson, 2014, 11-23, pp. 30-37; Tuomi & Sarajärvi 2009, p. 76). As well as, to evident the existing concern of the reasons for profitability, the aim was to find some new cornerstones for the well performed business models. The interview was provided by both authors of this paper and it was conducted on February 2018 in the premises of the case company. The interview lasted one hour and forty-one minutes and the interview frame was sketched in advance to serve the research framework.

The research questions were settled and the theory base was chosen before the interview, the research applied the deductive approach, from the general into details (Elo & Kyngäs, 2007; Weber, 1990). The interview questions based on the contingency theory concerned three main themes as performance (three questions), management control systems (three questions), customers (four questions) and innovations (six questions). Beside these themes, the interview

was started by easier and wider questions about her education, career, age, tasks in the company, as well as information about the company, age employee number and organization structure and further, six questions about the health care industry and the special features of the business. In addition to these, the financial information was collected from the national register for five years: the sales, the earnings before interest and taxes (EBIT), the profit of the company and some information from the balance sheet to reflect the financial conditions of the company.

This study applied the content analysis in opening the transcribed case interview data. The results were formed in several stages by deep reading the interview several times and by directed content analysis (Hsieh & Shannon, 2005). The contingency factor distribution ignored in these phases. Firstly the themes, what is the interviewee telling about, were produced by deep reading from the text. The whole new areas were looked for and those were labeled as a base of the results. These themes were the framework from which the eventual subtitles and categories were composed. The categories gave more precise information on performance structure. First, the terms of the material were reduced in relation to the research question of which factors influence the profitability of the company. Subsequently, the reduced terms were grouped and sub-categories were formed. Finally, the sub-categories were combined into the top categories, formulated to

the combining category. This table with thirty-five expressions is an example of results and the eventual amount of reduced expression from the text is almost two hundred.

The editing of empirical material was started from the latent part of the text by highlighting the key points of the interview, all the parts that were mentioned or could be related to the company's performance, success, profit or earnings, the themes of the research. Next the manifest part, the expression of the text was opened. The highlighted paragraphs were simplified first by reduced expression and then collected them into the categories. Next, these sub categories were grouped and the top categories were formed. Eventually, the top categories were formed naturally by combining the sub-categories of the empiricism and factors of the contingency theory. Consequently, the top categories are formed by the six categories of the contingent theory which are the size, strategy, structure, IT or systems, culture or environment of the company. In addition to these six factors, other factors affecting the profitability of the company were also found like innovativeness, the owner's contribution or society. Hence, this interview gave a wide perspective of the research subject and found new areas that are not classified in the contingency theory as such.

After these intermediate phases, the aim was to find categories that are still compiling top categories together. Finally, it was decided to classify the factors affecting profitability into two main categories, internal and external factors. This process was repeated and continued through the entire thirty-seven page interview. The results produced a broad image of the company's profitability. Partially, the results clearly illustrated the profitability as a contingency theory-based process, but several other factors affecting profitability were noted as well.

4 Data analysis and discussion

During the interview, it became clear that the company is very successful as assumed, solid and profitable. The interview focused largely on three factors that might affect profitability, such as management accounting systems, customer concentration and digitalization and innovations. These factors were decided on the basis of earlier literature, contingency theory and the special features of the health care sector. Thus, the key factor of success was predicted from the earlier literature review and the theory, and the interview of the research was meant to test whether the success factors are the same in practice as in theory.

4.1 Digitalization, suitable MAS and IT-systems

In case company, the management systems were modest and the interviewee felt the need for their development. This is a very typical situation for SMEs. It is taught that there is a need for accounting system development, but the lack of time and resources create the boundary (Ahrens & Chapman, 2007; Bititci, Firat & Garengo, 2010). The interviewee was of the opinion that computing systems will be developed in the future in accountancy co-operation and that the IT operations will continue to be more concentrated in the accounting agency. Currently accounting and billing are outsourced to the accounting agency. The company also believes that the accounting firm has more bargaining power against the employees, municipalities and the state as a tax collector. It is also believed that the accounting firm between the company and these agents will bring credibility to the calculations. However, no link between profitability and accounting systems occurred in the interview.

Still, the interviewed was concerned about their financial management systems. The company had changed their accounting agency twice in few last years and they were not satisfied the quality of the new agency. Hence, they highlight the importance of accounting agency in their financial functions. The company will

not invest in their own system, but they are ready to receive and buy even more specific services from the agency. Further, the interviewee points out the generation change in the foreseeable future and the lack of registration of tacit knowledge from owners. There is currently a wealth of information that is not stored anywhere. She also sees that the continuity of both the accounting agency system and the management information systems would help in the generation change. In earlier studies the accounting outsourcing has found to be in connection with the company's size, age, competition and strategy (Cooper & Taylor, 2000; Kamyabi & Devi, 2011) and often see as almost only possibility for smaller and newer company to organize their accounting (Renner & Tebbe, 1998). Also, big companies find service outsourcing appealing way to reduce the costs, even into other continent (Barthan & Kroll, 2007).

Although the financial situation of the company was felt to be good, it was in the company's interest that the financial statements were monitored monthly. The case company has direct access to the systems of the bookkeeping company from their own computers. The only clear management accounting tool in use was the budget and the interviewee herself makes it annually. She finds budgeting also important and felt that without budgeting the management would be impossible. Also, earlier studies show that the budget is one of the most commonly used

management method for SMEs (Granolund & Taipaleenmäki, 2005; Williams, 2001).

The information technology and digitalization have seen as a solution of improvement of patient safety and the performance and cost savings as well (Bates, Leape & Shabot 2001; Defaraj & Kohli, 2003). It turned out that the target company's information systems have been developed as part of the company's quality management system and they now are interoperable with the accounting. They are also capable of joining larger networks but a comprehensive integrated information system with municipalities is missing. The interviewee thought that it would be tremendously useful and would speed up operations.

Digitalization of the company has progressed naturally with other developments. Most importantly, digitalization is currently present in patients' everyday life, in accounting practices, and in connection with client and public administration. The most digitalization is seen in patients' relationships with relatives. It has been identified as the safest alternative. Also for data protection reasons, patients have their own tablets that can send pictures or be connected to the video. The company's machines do not store patient data, but everything is in electronic form because the industry is particularly sensitive to data protection. Digitalization has also facilitated the company's daily routines. Electronic recipes and imaging

directly from the system reduce paper usage and facilitate licensing practices. Today, the pharmacy supplies the medicines on the basis of electronic recipes. However, unified data systems are still missing, which adds to the variety in many ways. (Agarwal, Guodong, DesRoches & Jha, 2010; Andersen, Medaglia & Henriksen, 2012).

4.2 Innovation as a strategy

As in previous surveys, the target company also believes that innovation activity is developing the company's economy and thus encourages and supports innovation (Denis, Yann, Langley, Lozeau & Trottier, 2002; Källander, Tibenderana, Akpogheneta, Strachan, Hill, ten Asbroek, Conteh, Kirkwood & Meek, 2013). Although, the technology innovation has not been done much in the case company, but it is generally accepted that innovations are favorably received. An atmosphere in the working community that liberates people to bring new ideas is maintained.

According to the interviewee, the company's stable economic situation is an important source of innovation, and the reforms to work flow or practices are welcomed and implemented with ease. This has been shown by motivating staff. Several practices have been implemented in connection with the housing and

recreation of patients and employees. For example, medical or therapeutic trials are conducted in collaboration with doctors.

Innovative activity can be said to be a company's strategy as it has implemented renewal therapies throughout the company's lifecycle, and the company has always had the idea box for new ideas to drop. In addition, every morning during the café break, a weekly meeting or a monthly staff meeting the ideas are also brought up. Thus, an interviewee says that the company's innovativeness comes from the employees and owners of the company and, again, as the biggest obstacle to the creation of innovations, the interviewee sees the workload and hurry at the working place.

Both the employee and the entrepreneur's day must agree on moments when they can plan for the future. The company wants to keep up with time and implement the reforms ahead of time. Hence, the goal from the beginnings has been the continuous development, which requires an open mindedness of management and owners to believe that things can also be made in another way. Recruitment also takes account of innovativeness and the company has got an unprejudiced employee group. They thus know in the target company that good profitability maintains innovativeness and, on the other hand, innovations increase

profitability. In earlier research, innovation is seen as a key in the struggle with the healthcare industry, with decreasing income streams, rising costs and aging populations (Varkey, Horne & Bennet, 2008). Omachonu and Einspruch (2010) see the two main dimensions that contribute to innovation in the health field, one is the environment, and the other is the operational dimension. Environmental impacts include, among others, organization culture, regulatory acceptance and partnership, while factors affecting the innovation process within the company include, the sufficiency of staff, productivity improvement, customer satisfaction or improved profitability.

4.3 Customer concentration, safe and risk at the same time

The case company is fully employed by municipalities because of the Finnish legislation. Thus, the company does not have any private paying patients at all. According to the interviewed estimate, three of seven municipalities account for 85% of the total sales: the largest municipality accounts for 50%, the next largest municipality accounting for 20% and the third largest municipality accounting for 15%. The remaining 15% are distributed to different municipalities. The interviewed entrepreneur considers customer concentration as a risk, but on the other hand, municipalities are also seen as safe and stable customers, so current customer distribution is considered an appropriate and risk-reducing part of the

company. One municipality as a customer would be too risky, but greater dispersion would significantly increase the inputs and increase costs because the requirements of municipalities are different (reporting practices, payments etc.) and, in addition, a lot of time-consuming bidding rounds would increase. Similarly, in earlier literature, customer concentration has been shown to have both positive and negative impacts on the company's profitability (Balakrishnan, Linsmeier & Venkatachalam, 1996; Patatoukas, 2011).

One challenge is the diversity of municipal practices. These different requirements must be considered in day-to-day operations. For this activity, the company has self-developed municipal files, the record from which employees can, if necessary, review different practices. The position of a private entrepreneur in the municipality is vulnerable. The offer period lasts five years, which is seen as too short in the company and hampers the development of the business. It is difficult to make large investments for only five years. Municipalities can make major changes to their purchasing activities and the company must be able to meet the demands. Hence, one of the company's most important features is flexibility and predictability. Both are achieved with a strong financial position.

Responding to calls for tenders is challenging, but the experience of reading quotation documents has brought certainty to the tendering process and certain rules of the game are known. In the background, there are accurate previous profitability calculations. Initially, pricing was challenging, and too cheap deals were made. Gradually, prices have risen and in part, the tendering process has just improved the prices. Municipalities are not allowed to accept too low prices and, over the years, it has been noted that some of the previously included activities can be defined separately for the bids. The level of competence of a local customer in the tendering process varies, whereby the company's multi-annual experience is particularly useful. The tendering process takes one person's one-month work although this has accelerated over time.

The political decisions of the municipality are also reflected in the service-producing company. Different municipalities have differences in attitudes towards a private company. The interviewee thinks that some operators consider the service produced by the municipality itself to be more quality and more reliable than to buy a service. Although the price covers only a part, about 60% of the bid requirement, the existence of a quality management system is required and is put in the tender, the interviewee thinks that the representatives of the municipality do not value it. Some have referred to that quality work can be bought. Hence, maintaining good personal relationships, networking, is

considered being of paramount importance to break the enchantments. In the company it was thought that relations with the municipalities had improved and strengthened over time, earlier the prejudices were more. Thus, it would seem that long relationships are beneficial in the industry. The company strives to contact the customer monthly and some municipalities meet with service providers twice a year to inform future practices. This entrepreneur regards it as a very good and action promoting activity.

4.4 Other factors to influence on performance

In addition to these factors of research, several other issues that have influence on company's profitability were highlighted in the interview. These other factor as environment as networks or other competitors, as well as, culture as employees, and still society as controls or laws are mentioned in contingency theory. In additionally, the growth as a strategy plays an important role in this company's performance. The company has been pursuing steady moderate about 10% growth and has succeeded well. Extensions have been implemented in accordance with environmental conditions. A subsidiary was established when the shareholder moved to another town and expansion buildings were acquired from neighbors when they were offered. The positive connection between growth and

profitability has been found in earlier literature and growth as a factor of the performance via quality has been pointed out in n Co's and Pucik's (2005) paper as well as, Delmar, McKelvie and Wennberg (2013) in their paper found a clear connection between growth and profitability, in both ways (Sørensen 2018).

Particularly, the company's invests in personnel is considered strategically important. Partly, since 50% of the cost comes from the staff, but also because the persistence of staff in the disability-related industry has a significant impact on the daily life of the patients and hence their family and the personnel. The training of the personnel is also a major but important expenditure item. In general, a first aid card, hygiene passport and up-to-date information security training are required in the area.

Employment risk is one of the most important challenges because recruiting for a growing company is continuous. The company provides practice placements to be able to familiarize themselves with the potential employees and note their suitability. When a good employee is found, they want to keep him. Hence, the company's wages are motivated enough, as well as maintaining good working conditions and contributing a good working atmosphere. According to the entrepreneur, the worst threat of the working atmosphere is the formation isolated

groups and for prevention they try to keep the work community open and invest for the orientation of the workforce.

Networking in the field is important. As said earlier, there must be a personal connection with the municipality but also, other companies in the same field feel the connections important. Other companies also give a peer support and advice for the municipality and are not considered as competitors in that sense. It is also possible to get employee or education hints from other companies. The background is the desire to support other entrepreneurs and especially new businesses (Fellnhofer & Puumalainen, 2017). This attitude shows that there is not too much competition in this industry, and the capacity of the patient space is fully utilized. However, the SOTE (social and health services) reform is expected to bring new larger players to the industry, and it is also assumed that competition among companies will get harder.

One important company's stakeholder is the society that oversees healthcare activities. The activity is monitored annually by the state inspections and by random checks by municipalities. Substantial deficiencies may be a subject of formal notice or a contractual penalty. In addition, the company performs self-monitoring required by the quality management system. Further, the demands of

patients and especially needs of the family have increased. Their needs are considered e.g. thorough "homecoming" discussion. It emphasizes reluctance for the relatives and gives instructions on how to handle it best.

4.5 Profitability in generally

According to the entrepreneur, the health care industry is very profitable, which also tells about the emergence of large companies in the field. Still, the interviewee believes that the secret of the company's success has been the share of the entrepreneur's own labor input. Entrepreneurs work flexibly at all jobs when needed, but do not usually have too long days instead (Reyes, 2018). In the same way, nowadays it is important for the entrepreneur to keep the holiday as well. Earlier, the SOTE reform was raised concerns hence its delays have been welcomed. However, it is now believed that it is only a reform of the reforms, and the honest and good work effort help in the competition. The faith of the future is based on the company's profitability and good solvency. The company does not have a loan, and in general, growth has mostly been financed by income financing. The strengths of the company's quality management system are also believed to be beneficial for the upcoming competition. Private health care companies found to be more resistant to cash crises. According to Coyne and Singh (2008), it is especially important for a private company to prevent the risk

of bankruptcy because the whole family can get their livelihoods from the company, as is the case with the interviewed company. This can be one reason to over value the working capital and the positive relation of the company's working capital to the profitability has found (Garcia-Teruel & Martinez-Solano, 2011; Gill, Biger & Mathur, 2010).

According to the interviewed entrepreneur, profitability creates profitability. The expansion is successful when you do not have to refuse to invest in productive investment. Personnel needs can be well-versed as well in profitable company though it has also seen as an important factor in profitability, as turnover increases recruitment costs. However, continuous advertising campaigns are made to improve profitability and communicate with the municipalities. The municipality is seen as an innovative, resource-efficient and reliable actor. The company believes that there is always some way to stand out from the crowd. Further, the predictability of the management has been an important feature of the entire business history and its intuition will continue to be trusted. Also, it is believed that humble attitudes towards, as well, municipalities, patients' relatives, workers as patients have brought this far (Reyes, 2018).

5 Conclusions

The meaning of this study, in the first phase, was to strengthen the idea of the contingency theory and find out if those six factors of that theory are valid in the case company's performance. Second aim was to study, is there possibly other factors that have an influence on the performance beyond the contextual factors.

The underlying theory of the research was contingency theory which imagines the performance as a wide group of different factors. Thus, the interview path was made after contingency theory's contextual factors and this paper focused on three factors in the questionnaire's profitability perspective. Firstly, there was a discussion on what kind of management accounting system the company is using and how useful or up to date they are. Next, the research focused on the company's customers and their concentration. Finally, the study and interview focused on the company's attitude towards innovation and digitalization and how they were used and valued in the business activities.

To conclude of the management accounting systems, the company conducted only budgeting as a clear separate tool. Otherwise the company had mostly outsourced management accounting. Further, the company plans to develop with or via the accounting agency. The next reason that they might need new systems, is to collect the tacit information in company generation transition situation which

is coming soon. Also, the company monitored their financial statements monthly though their financial situation is continuously good.

Since the target company has only municipalities as customers, customer concentration was the everyday business. However, contrary to the initial assumptions, it was felt that customer satisfaction increased confidence and profitability. That's because 85% of the company's results come from three major customers and the company and is believed to have this relationship just ideal. If there were more municipal customers, it would make it more difficult because different municipalities have different requirements. On the other hand, fewer customers would increase the risk significantly.

In the company, digitalization is used mainly at the interface between the client, the society or the patient's relatives. It is felt to facilitate a significant amount of everyday activities, for example in the form of an electronic receipts. On the other hand, common information systems are needed. The increase in digitalization also brings more responsibility in the form of information security. The health care sector must focus on security in particular so that the patient information is retained only for the purpose for which they are intended.

Innovation can be considered a company's strategy because it has been invested since the beginning of the company. Specifically, just about new ideas from staff

are interested and collected in different forms. Generally, the company's innovation is about new work practices that speed up or facilitate operations. Investments in entertaining recreational activities have been invested and even institutional care periods have been replaced by recreational leave. Similarly, medical treatment has been experimental, within the limits of the physician allowed and controlled. They believe in the company that as important as innovativeness is for profitability, good profitability also generates innovations. Since the company has been in a state of solvency, it has been able to implement the reforms flexibly once they have come. This, in turn, improves efficiency and improves work motivation. This is how the twist of positivity has been maintained throughout the history of the company.

The results show that this health care company's perceptions of improving profitability are largely those that have emerged in previous research. However, new factors affecting profitability, as the innovativeness, management characteristics and the society were also found. The survey showed that, according to the interviewee, the innovation and willingness to experiment have improved profitability on many occasions. Similarly, the entrepreneurial characteristics as good work motivation and open-mindedness are paramount to the success of the company (Fellnhofer & Puumalainen, 2017). In addition to

these, the attitudes of the surrounding society can significantly improve or weaken the company's success.

Other important factors affecting profitability in the study were the growth goal and the importance of employee recruitment. Since the beginning of the foundation, the company has set about 10% annual growth goal and so far it has been achieved. The entrepreneur believed that this goal has kept the management effective and eager (Zacca & Dayan, 2017). Emphasizing the role of the employees' spirit was also inherently important in the company, because half of the cost of their involvement was human resources. The entrepreneur believed that a solid and well-performed company can keep employees happy by paying higher salaries than average wages.

In line with the previous literature, we can conclude that the contingency theory describes the complexity of the company's profitability and management, but it also simplifies it too much and, on the other hand, neglects some important areas (Berry, Coad, Harris, Otley & Stringer, 2009; Bititci, Firat & Garengo, 2010; Malmi & Granlund, 2009; Neely, Gregory & Platts, 1995). As a further study, it would be interesting to produce more interviews in highly profitable health care firms. On the other hand, ask the same questions in order to compare differences and similarities to this interview. On the other hand, it would also be interesting to

learn about other contingency factors, such as the company's strategy or organization structure on the company's performance.

Endnote

This case is a revised and enlarged version of the original case titled: When profitability makes profitability - Case Health Care Service Company, presented at International Conference of Management Cases 2018, organized by Birla Institute of Management Technology, Greater Noida, India, on 29th and 30th Nov, 2018.

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