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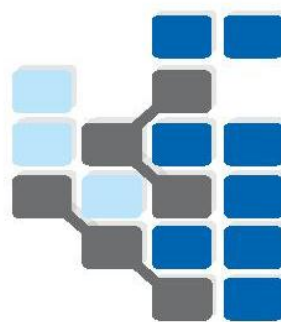
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**SOMS**  
**Studies of Organisational  
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## Vol 1, N. 1 (2013): SPECIAL ISSUE

**SPECIAL ISSUE**

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approaches, 23<sup>rd</sup> November 2012, Maia, Portugal

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**STUDIES OF ORGANISATIONAL  
MANAGEMENT & SUSTAINABILITY**

Vol 1, N. 1 (2013): SPECIAL ISSUE



## Editorial

This is the inaugural issue of Studies of Organisational Management & Sustainability (SOMS). SOMS is an international academic journal whose mission is to promote the diffusion of research in the areas of management sciences and sustainability. Being a multidisciplinary publication, it seeks to bring out original papers, literature reviews and short communications, both of empirical and methodological or conceptual nature, in the fields of Economics, Management, Entrepreneurship, Marketing, Innovation, Service Business, Human Capital and Organisational Behaviour.

SOMS' main goal is to become a preferred vehicle for diffusing and making sound academic research available to vast audiences. Therefore, manuscripts submitted to SOMS will be anonymously reviewed by two experts in the field and the journal will adopt an open-access policy.

Given the international and scientific nature of SOMS, papers might be published in English, French, Portuguese and Spanish. This will hopefully increase the likelihood of cooperation with academics worldwide. While based in Portugal, SOMS's Editorial Team brings together academics from about eight different countries and thirteen research universities, who enthusiastically agreed to join this multicultural editorial project. We strongly believe that the combination of these elements will add an extra flavour to the truly international spirit of the journal.

When Europe struggles with unusually high unemployment rates and the debate over sustainable worldwide economic growth intensifies, SOMS' first number is dedicated to entrepreneurship and sustainability. It comprises the proceedings of the *II International Research Seminar: Exploring Sustainability - The Basis of New Entrepreneurship Approaches* which was held at ISMAI, Maia Institute of Higher Education, Porto, Portugal, in November 2012. Therefore, this issue includes two peer-reviewed papers, one on sustainability and another on entrepreneurship, along with three short communications.

The first paper, "Core Organizational Stakeholder Impact – An assessment model", by João Carvalho proposes an alternative model for measuring organisational social impacts which is a pressing issue in corporate social responsibility research today. It aims at estimating how organizations impact each stakeholder differently and at raising awareness among managers about the importance of being sustainable and stakeholder-oriented.

The paper “No-Format Franchising: A new form of entrepreneurship and sustainable growth”, by Sandra Marnoto, discusses the trade-offs between No-Format and Business Format Franchising, emphasising the importance of franchisees’ diversity and autonomy for the network’s innovation process, and, consequently, drawing attention to how each model might suit different activities thus contributing to reinforce franchising economic relevance.

The short communication by Ivona Pavelić, “Education for Entrepreneurship – Good Practice Example from Croatia”, debates how the investment in the entrepreneurial competences of students in High Education Institutions represents a backbone of economic development by steering the development of small and medium size enterprises (SMEs). The example from Croatia is used to provide an overview of specific initiatives that might be undertaken by educational and other relevant institutions in order to reach that purpose.

The next communication by Lobão Mendes, “Partnership to Sustained and Sustainable Growth”, explains how Fundação Dom Cabral, a top executive education institution in Brazil brings together entrepreneurs and mid and large-size companies with the common objective of finding new sustained and sustainable growth models.

The last short communication, by Martina Ferk, Maja Quien and Zvezdana Posavec, “Female vs. Male Entrepreneurship – is there a difference?”, provides a perspective on the physical and psychological attributes of female and male entrepreneurs and on the crucial competences that these are expected to have.

With the launch of this inaugural issue, the Editorial Management Team would like to thank ISMAI’s Board of Directors for hosting and supporting the journal. We also take the opportunity to welcome SOMS’ Advisory Editorial Board on this journey and to publicly acknowledge that their support, confidence and enthusiasm were critical to this endeavour. A word of thanks is also due to the authors and reviewers in this first issue, as well as to all those who in different ways and shapes have helped putting this project through.

Finally, we would also like to thank our readers for their interest and to invite them to consider submitting their work for future issues.

The Editorial Board

# **Core Organizational Stakeholder Impact – An assessment model**

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**Abstract**

Measurement of organizational social impact is a pressing issue in corporate social responsibility research. This paper proposes an alternative measurement model – Core Organizational Stakeholder Impact (COSI) – based on economic, legal and ethical responsibilities of organizations. The model allows understanding organizational social footprint, i.e., how organizations impact each stakeholder. It has 40 indicators, easy to apply, dividing internal and external stakeholders in equal number (20), and corresponding to equal maximum scores (35 points each). A first exploratory application of COSI shows that it captures well the strengths and the weaknesses of the organizational performance in terms of social impact. The model also sensitizes managers to the importance of being sustainable and stakeholder oriented in order to accomplish organizational mission, and to contribute the welfare of society.

**Keywords:** corporate social responsibility, social footprint, sustainability, stakeholder, measurement model, core organizational stakeholder impact.



## **1. INTRODUCTION**

In the beginning of the XX century, Sheldon (1924) wrote that an enterprise should not only take the economic and legal duties, but also the social responsibilities beyond these duties. The debate started on various research strands in sociology, philosophy, medicine, theology, law and the public domain. The meanings of corporate social responsibility (CSR) and of sustainability have evolved over the last decades. We defend that organizational responsibility is basically to have success accomplishing its mission, and this result can be better achieved if the organization cares about all its stakeholders. This kind of satisfaction includes ecological, social and economic concerns (Székely and Knirsch, 2005). And we think that is very important to measure all these impacts on stakeholders in order to allow comparing organizations, economic sectors and even countries. Based on literature and on opinions of scholars and managers, we construct a tool for assessing the social footprint of an organization. The advantages of this tool are to sensitize managers and shareholders/owners to the importance of doing the right thing with stakeholders, allowing the sustainability of the organization in the long run. It must be a tool easy to apply to achieve its aims.

## **2. CONCEPTUAL BACKGROUND**

After Sheldon (1924), there were some references to a concern for social responsibility and social consciousness of managers (e.g. Barnard, 1938; Clark, 1939; Kreps, 1940). These and other works from that period can be considered as theoretical foundations of a new social view of the purpose of any organization.

Peter Drucker, in 1954, included the concept of public responsibility as one of the eight key areas in which business objectives should be set. He defends that organizations must promote the public good, and contribute to society stability, strength, and harmony.

In 1960, William Frederick asserted that businessmen should be concerned with total socio-economic welfare and not simply with the narrowly circumscribed interests of private persons and firms. In the same year, Davis presented a similar definition of social responsibility but he added the notion of “long-term needs and wants of the

broader social constituencies". Corporations must have social responsibility beyond economic and legal obligations and have to consider the ethical consequences of their decisions and actions on the whole social system. We can see here that these authors have concerns about what we call now stakeholder's satisfaction. This concept was clear when Johnson (1971), refers that "a responsible enterprise also takes into account employees, suppliers, dealers, local communities, and the nation". The further elaboration of this idea was made by Freeman (1984), who became known as the seminal author of the stakeholder concept.

In 1979, Archie Carroll defined CSR in four dimensions, where the economic and the social responsibilities of managers are complementary to each other:

- (1) organizations should be productive and profitable and meet the needs of consumers and investors (economic responsibility);
- (2) they are compelled to work within existing legal frameworks (legal responsibility);
- (3) organizations must follow socially established moral standards (ethical responsibility);
- (4) and their voluntary corporate activities (philanthropy) must attempt to help other people and contribute to the wellbeing of society (discretionary responsibility).

Drucker (1984) reinforce the idea that profitability and responsibility are complementary notions, and that it is desirable to transform social responsibilities into business opportunities.

In the end of the century, Maignan and colleagues (Maignan, 1997; Maignan, Ferrell and Hult, 1999; Maignan and Ralston, 2002) developed an instrument to measure CSR practices. They replaced "society" with "stakeholder expectations" in their definition of CSR, which includes the economic, legal, ethical and discretionary responsibilities of an organization.

Nowadays, CSR is related to issues such as environmental protection, health and safety at work, and relations with all stakeholders. Thus, companies are supposed to voluntarily integrate those issues in their operations. In fact, most of the authors who study ethics and social responsibility issues have drawn on stakeholder theory.

Recently, they are emerging new concepts like “social environment”, which also includes organizational effects on people and small groups, or “social footprint” that involves the impact on society due to management decisions (Pfeffer, 2010). As Jonker (2010) said: “responsibility implies mastering the art of balancing diverse needs and expectations of various stakeholders at the same time”. This is organizations must create a shared value to their stakeholders, as a new way to achieve economic success. So, we defend that CSR must be seen intimately in connection with the needs, desires and expectations of each company stakeholder. Philanthropy is only a plus. We think it is a schizophrenic behaviour to spend part of the profit in philanthropic activities instead of being social responsible in economic, legal and ethical performance.

The better way to achieve a close link with stakeholders is to be market-oriented or stakeholder-oriented. We agree with Crittenden et al. (2011) who developed a market-oriented sustainability framework. If an organization satisfies the human needs of its stakeholders, then presents a natural social responsibility.

Thus, it is important to measure CSR or the sustainability outcomes to assess the authentic social contribution, namely the stakeholder impact of each organization. There have been several attempts to measure CSR (e.g. Maignan, 1997; Maignan, Ferrell and Hult, 1999; Maignan and Ferrell, 2000; Maignan and Ralston, 2002; Turker, 2009); or corporate sustainability management (e.g. McElroy, Jorna, and Engelen, 2008); or business sustainability (Labuschagne, Brent, and Erck, 2005), which are based only on managers’ perceptions (Maignan and Turker’s models), or too complicated to apply with many indicators and subjects (McElroy and Labuschagne’s models). Our contribution is based on the idea that only an easy and effective measure of organizational social footprint can contribute to the success of spreading the social responsibility notion.

### **3. CORE ORGANIZATIONAL STAKEHOLDER IMPACT (COSI)**

Based on the work of Carroll (1979), we defend that CSR is related with economic, legal and ethical citizenship. This means that organizations should be productive and profitable and meet the needs of all stakeholders; they are compelled to work within

existing legal frameworks; and they must follow socially established moral standards. Voluntary corporate activities (philanthropy) are related with donation and assistance, and is only a plus that contributes to the wellbeing of society. Of course, there are environmental concerns linked to sustainability, but they can be equated as an ethical and legal responsibility of current entrepreneurs.

The entrepreneurs should think about doing things differently. If they are good players in the market, respecting organizational stakeholders, then they send a message that can create a new mentality in management and change organizational culture for better.

Our definition of social footprint is intertwined with the question of the mission of the organization, this is, its reason for being. The organizations are created in order to gather resources for the production or distribution of goods, services and ideas. These products will only be successful in the market if they meet human needs. Thus, we believe that an organization is, first hand, socially responsible if it fulfils its mission well, satisfying all stakeholders involved. This behaviour can be assessed by the evaluation of organizational performance and management decisions in economic, legal and ethical issues, i.e., through organizational social footprint. What it is done beyond that, such as social support of all kinds or philanthropy, will be extra activities for the welfare of society.

We propose the concept of Core Organizational Stakeholder Impact (COSI) that intends to measure the organizational outcomes in people's life, direct or indirectly, considering its stakeholders. Through this measurement model we can perform analyses and create a ranking of companies that contribute most to the welfare of society by stakeholder.

We wanted to create a simple and comparable method, thus we assume only the common stakeholders to the majority of organizations, namely: Employees, Owners/Shareholders, Managers, Suppliers, Competitors/Distributors, Customers, Community and the State.

Sure some indicators will be measured differently in the organizations, or it is also possible not have available data for non-use of those indicators. This can be the case,

for example, of indicators about communication system and internal organization, satisfaction level of top and middle managers, success of the main product or service launched last year, or customers' satisfaction level. However, if organizations use reliable measurement systems to be sure of its results, then it will be possible to compare those outcomes. Probably, another important issue is that some of the indicators could be related to the dimension of organization. So, the results with COSI will be comparable among organizations with similar dimension.

To determine the COSI indicators for each stakeholder, this methodology was followed:

- (1) A literature review of other models already proposed and used;
- (2) Meetings with some businessmen and scholars in the area of business sciences, in order to know what measures could be adjusted to include in the new assessment model;
- (3) Determination of adjusted COSI indicators and their pre-testing in a sample of three companies;
- (4) And then carry out a study on a larger number of Portuguese companies.

We rely on the most important scale of the literature at the organizational level, that was developed by Maignan and Ferrell (2000, p.284) based on the concept of corporate citizenship, which is defined as the extent to which businesses meet the economic, legal, ethical, and discretionary responsibilities imposed by their stakeholders.

We identified formative indicators and we established their metrics to obtain the desired results.

With the aim of obtaining a balanced result between the internal and external stakeholders, the scores were divided in 35 points for each group (Table 1).

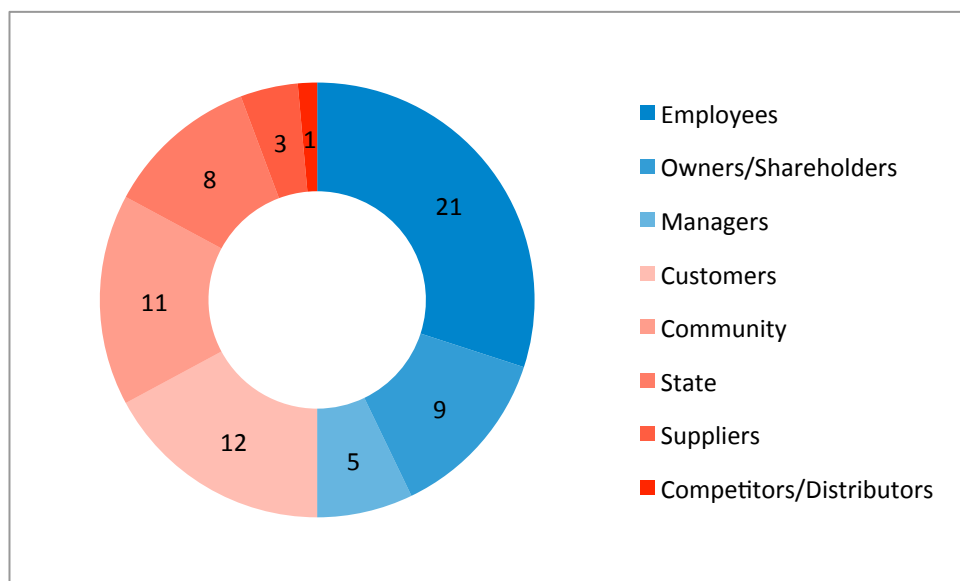
The relative importance of each stakeholder is manifested in their ranking of maximum points, although this ponderation is arbitrary, it aims to explore several issues related to social footprint, and sensitize managers to the importance of being sustainable and stakeholder oriented in order to accomplish organizational mission, and to contribute the welfare of society.

Table 1 – Score by stakeholder

Stakeholders	Maximum score
Employees	21
Owners/Shareholders	9
Managers	5
<i>Subtotal internal stakeholders</i>	<i>35</i>
Customers	12
Community	11
State	8
Suppliers	3
Competitors/Distributors	1
<i>Subtotal external stakeholders</i>	<i>35</i>
<b>TOTAL</b>	<b>70</b>

In order to easily show the situation of the organization evaluated by COSI model, we propose a circular graphical presentation of the results. The ideal is to have the complete geometry, this is, 100% plotted, corresponding to the maximum of 70 points that is possible to obtain with these indicators (Figure 1). Points are awarded depending on a range of pre-defined results, taking into account, in some of the indicators, the evolution between year t-1 and year t.

Figure 1 – COSI Conceptual Model



We intend that the graphical analysis presented, quickly identified the aspects that need improvement by companies to the satisfaction of its stakeholders, this is, we can easily recognize the strengths and weaknesses of the organization. After identification, the company may choose to take corrective measures to improve the level of satisfaction of its stakeholders and consequently improve their social performance.

All the categories of response (levels), in each variable, were considered a reasonable average at the moment. However, it is recommended that these categories are adjusted to which situation or country.

Table 2 – Indicators related to employees

Indicators	Levels	Points
Percentage of employees who had access to internal training	<10% ; 10 to 50% ; >50%	0-1-2
Number of employees studying in higher education*	<-5% ; -5 to 5% ; >5%	0-1-2
Number of employees with 40 or more years old*	<-5% ; -5 to 5% ; >5%	0-1-2
Number of workers laid off in the last year	>1 ; 1 ; 0	0-1-2
Ratio of workplace accidents*	<-5% ; -5 to 5% ; >5%	0-1-2
Ratio of absence from work*	<-5% ; -5 to 5% ; >5%	0-1-2
Communication system and internal organization	Insufficient; Reasonable; Good	0-1-2
Existence of incentive programs rewarding merit	No; In part; Always	0-1-2
Existence of health insurance	No ; Yes	0-1
Existence of a pension plan	No ; Yes	0-1
The company has certification in Health and Safety at Work	No ; Yes	0-1
Average salary of employees*	<-5% ; -5 to 5% ; >5%	0-1-2

\* in relation to the last year

Employees have a key role, since they influence directly and indirectly the performance of the organization. By contributing to the success of the organization they are contributing to their own personal and professional fulfilment. Beyond that,

employees are also major drivers of the economy, both locally and nationally, either through its role of producers, whether as consumers.

A review of how the company values and has positive impact on their employees is done by a set of 12 indicators (Table 2), which corresponds to a maximum score of 21 points (30%).

We believe that organizations exist only for the direct influence of the shareholders or owners, which are the key stakeholders for their existence. They always expect to have a quick and profitable return on equity. The impact of the company on the owners or shareholders was analysed by 5 indicators (Table 3), corresponding to a maximum score of 9 points (13%).

Table 3 – Indicators related to shareholders

Indicators	Levels	Points
Distribution of profits or dividends	No ; Yes	0-1
Net return*	<-5% ; -5 to 5% ; >5%	0-1-2
Value of the results distributed to shareholders*	<-5% ; -5 to 5% ; >5%	0-1-2
Return on equity*	<-5% ; -5 to 5% ; >5%	0-1-2
Social profitability of the company: net added value generated by invested capital unit*	<-5% ; -5 to 5% ; >5%	0-1-2

\* in relation to the last year

The primary role of the managers is to ensure the development of the company, by generating sustained profits. In relation to the impact on this stakeholder we analysed three indicators (Table 4), to which corresponds a maximum score of 5 points (7%).

Table 4 – Indicators related to managers

Indicators	Levels	Points
Overall satisfaction of top managers working for the company	No ; In part ; Yes	0-1-2
Overall satisfaction of middle managers working for the company	No ; In part ; Yes	0-1-2
Increase in the income of most of the managers in the last year	No ; Yes	0-1



Customers are obviously crucial for a company to be sustainable, i.e., has viability. Six indicators were analysed (Table 5), corresponding to a maximum score of 12 points (17%).

Table 5 – Indicators related to customers

Indicators	Levels	Points
Number of complaints*	<-10%; -10 to 10%; >10%	0-1-2
Success of the main product or service launched last year*	<-5% ; -5 to 5% ; >5%	0-1-2
Incorporation of customer opinion on the products or services in the last year	Rare ; Sometimes ; Always	0-1-2
Existence of Quality Certification	There is not / There is / Maintains quality in everything	0-1-2
Percentage of customers satisfied or very satisfied	<95% ; 95-98% ; >98%	0-1-2
Obtaining a prize of recognition from customers	0 ; 1 ; >1	0-1-2

\* in relation to the last year

Table 6 – Indicators related to community

Indicators	Levels	Points
Number of scholarships or internships	0 ; 1 ; >1	0-1-2
Number of employees hired in the last year	0 ; 1 ; >1	0-1-2
The company follows environmental preservation policies in consuming resources, the mode of production and distribution, in how it treats the waste, recycles, etc.	No ; In part ; Always	0-1-2
The company subcontracts to local activities	No ; Yes	0-1
They hired at least one employee with no experience	No ; Yes	0-1
The company supports organizations in the social sector	No ; Yes	0-1
Average contribution to welfare: labour costs per employee*	<-5% ; -5 to 5% ; >5%	0-1-2

\* in relation to the last year

The community plays a larger role, as it absorbs all kinds of relationships and interrelationships between the organization and its stakeholders. The community can benefit from the support of the organization to the employment, to non-profit activities, and to ecological issues. For the community we consider 7 indicators (Table 6), corresponding to a maximum score of 11 points (16%).

The State is a stakeholder with a very important role, either by managing the revenue obtained from taxes paid by citizens and businesses, either by the law and other regulations affecting businesses, either by representing an entire country. The impact of the company on this stakeholder was analysed using 4 indicators (Table 7), corresponding to a maximum score of 8 points (12%).

Table 7 – Indicators related to the State

Indicators	Levels	Points
Percentage of export sales*	<-5% ; -5 to 5% ; >5%	0-1-2
Percentage of national incorporation in the production of goods and services*	<-5% ; -5 to 5% ; >5%	0-1-2
Amount of income taxes paid to the State*	<-5% ; -5 to 5% ; >5%	0-1-2
Amount invested at the level of ecological responsibility*	<-5% ; -5 to 5% ; >5%	0-1-2

\* in relation to the last year

Suppliers have more or less relevance depending on the specific activity and the degree of dependence on the companies they supply. We analysed two indicators (Table 8), to which corresponds a maximum score of 3 points (4%).

Table 8 – Indicators related to suppliers

Indicators	Levels	Points
Average payment, in days, to suppliers*	<-10% ; -10 to 10% ; >10%	0-1-2
Existence of partnerships with suppliers	No ; Yes	0-1

\* in relation to the last year

Finally, competitors and distributors also influence the organizational level of success, the type of market strategy chosen and competitiveness. The analysis was performed using one indicator (Table 9) which corresponds to a maximum score of 1 point (1%).

Table 9 – Indicator related to competitors and distributors

Indicators	Levels	Points
Existence of partnerships with competitors or distributors to do co-marketing, co-production or co-R & D	No ; Yes	0-1

So, we have 20 indicators for internal stakeholders and 20 for external ones, corresponding 35 points to each one. This assessment model can be a good proxy to evaluate the real impact of an organization on society through their stakeholders, what we can call the organizational social footprint.

An organization with a high punctuation means that it is more focused in the key factors which can allow its sustainability in the market and the satisfaction of all people involved in the business.

It is possible to adapt this model to new organizational contexts, inclusive with different stakeholders and impact indicators. However, if we agree with the basis of this model, than we can have a tool to rate the organizations and to assess their evolution.

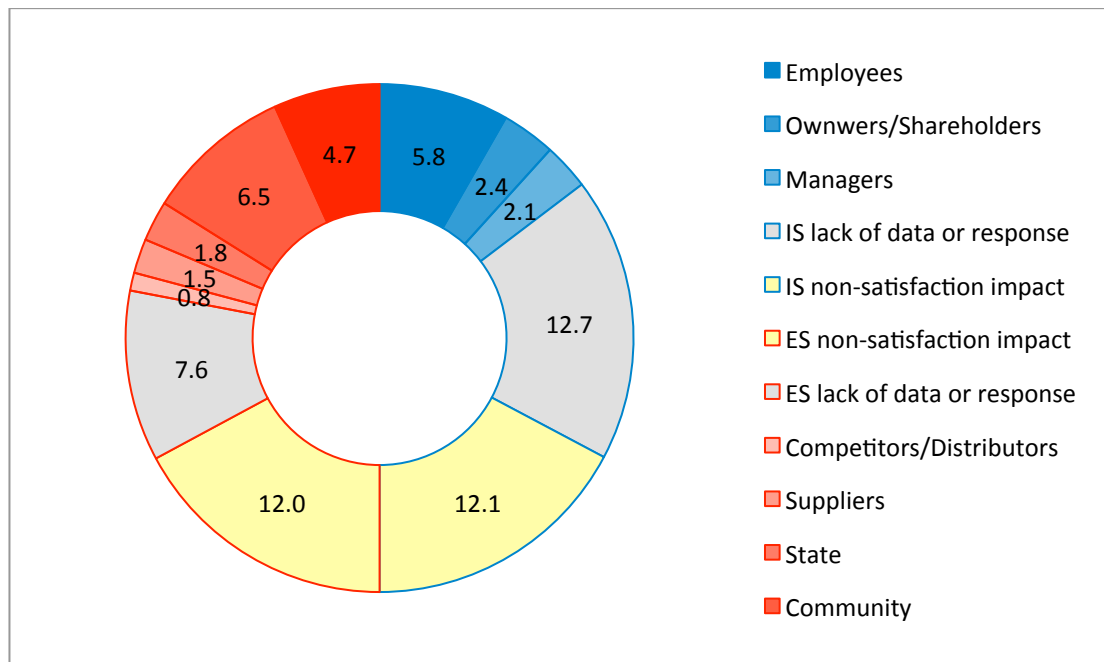
For us, this is Corporate Social Responsibility in action, linked to the core organizational stakeholders.

#### 4. AN APPLICATION OF THE ASSESSMENT MODEL COSI

A study (Mesquita, 2012) was performed in 15 large companies<sup>2</sup>, which allows obtaining a general rank by total scores, by internal and external focus, and by stakeholder. In this paper we only present the main conclusions of that application (Figure 2):

<sup>2</sup> Brisa, Bial, Anónima da Saúde, CTT, Eletricidade dos Açores, MOG, REN, SONAE, CIMPOR, Anónima de Semicondutores, Manuel Fernando Azevedo, Jerónimo Martins, SCC-Central de Cervejas, CP-Comboios de Portugal, ALTRI.

Figure 2 – Average score in 15 large companies



- The Community is the a stakeholder with high scoring (6,5 points – 59,1%) because, in fact, environmental policies and philanthropic strategies have been more common in these companies;
- In general, there are partnerships with competitors and/or distributors (percentual score = 80%, but only one indicator), and suppliers (50%), which is also a strategical tendency in large companies;
- Companies must pay more attention to employees (27,6%), encouraging and supporting personal success in order to increase their satisfaction, because this type of collective attitude is what makes organizations most successful;
- The impact on State seems to be the worst result (22,5%), which could be a result of the economic crisis and of the restrictive government policies due to excessive public debt;
- It seems that the impact on managers (42%) is the best percentual result among internal stakeholders. Probably, they feel they are rewarded by their effectiveness related to organizational economic sustainability. However, managers also have to change their view about organization objectives. Their

duties must not always be to get “value to the shareholder”, because this posture can lead them to make some decisions that harm the company's reputation and even lead to dissatisfaction among many stakeholders. A good social performance usually results in good reputation (Callan and Thomas, 2009).

- It was noted that companies clearly have to change their strategy in relation to the customers (39,2%). They create barriers and not allow customers to take an active position, this is, to incorporate their views in the products or services, jeopardizing organizational future sustainability.

These results demonstrate that there is much to do in terms of economic and social responsibility to the stakeholders. The strategic orientation to stakeholders, or market orientation as we advocate, is, on the one hand, fundamental to ensure economic and financial sustainability, and, on the other hand, crucial to the idea that organizations must be at the service of mankind and human communities.

## **5. CONCLUSIONS**

There are many perspectives about what corporate social responsibility is, is not, or should be. However, what is probably the most important issue in this debate is the organizational behaviour in relation to its stakeholders. A positive impact on the stakeholders allows the organization to be more sustainable in the long run.

The conjunction of economic, social and ecological responsibilities can be measured through what we define as social footprint, i.e., via economic, legal and ethical dimensions in relation to the key stakeholders: Employees, Owners/Shareholders, Managers, Customers, Community, State, Suppliers, and Competitors/Distributors. We propose the concept of Core Organizational Stakeholder Impact (COSI), which intends to constitute an alternative approach for measuring the organizational outcomes in people's life, direct or indirectly, considering these stakeholders. The COSI measurement model facilitates comparative analyses (e.g. per stakeholder, per internal or external focus, per economic sector, per organizational dimension), which

eventually may shed light into which organizations contribute the most to the welfare of society.

A first exploratory application of the model was implemented in 15 large companies, showing that there are many aspects organizations need to improve in relation to their stakeholders. The feedback from these companies shows that the measurement model can help sensitizing managers to several key issues that may be crucial to the sustainability and social impact of the companies. The decision to publish this kind of rankings can also contribute to the reputation of the companies and to put additional pressure in how they deal with their social responsibilities.

However, it is also important to apply COSI in Small and Medium Entreprises and be open minded to improve this kind of management tools. There are many points which were not assigned due to lack of data or lack of response, which is a problem that must be improved in future research.

Thus, we conclude that COSI may be an effective way to measure social impact. This kind of models is useful if their application is simple, and if they point out strengths and weaknesses in organizational performance related with each stakeholder. And it seems that COSI may be able to perform this task effectively.

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# Education for Entrepreneurship – Good Practice Example from Croatia

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**Abstract**

Supporting development of entrepreneurial climate needs to have a basis in educational system. Investment in entrepreneurial competences of students at higher education level represents a backbone of economic development, by steering primarily development of small and medium enterprises (SMEs). The most developed countries have recognised a need for supporting entrepreneurship, developing entrepreneurial climate and forming the frame that supports lifelong learning for entrepreneurship. Good practice example from South East Europe (specifically Croatia) provides overview of specific initiatives undertaken by educational and other relevant institutions in developing entrepreneurial competences at higher education level. Student Business Incubators represent a crucial support for students' start up companies that needs to be nurtured from their establishment in order to help them survive and grow during uncertain years of doing business on the real market. Network of Student Business Incubators is a national initiative from Croatia, forming a partnership between HEIs, where students will be supported in establishing and running their real companies. They will have mentors (professors and entrepreneurs) that will support them in doing real business through all phases – from planning and developing to implementing their business ideas. The significant role of Student Business Incubators is in their ability to increase the survival rates of new businesses. Existence of business incubators is particularly important at the level of higher education, as it represents a place where education, research and economy meet. This entrepreneurial initiatives are important also for building closer realtionships between the world of education, research and economy/business.

**Keywords:** entrepreneurship, education, business, higher education, incubator.

## **1. INTRODUCTION**

Implementation of entrepreneurial education is recognized in European Union (EU), as one of the basis for building more competitive economy based on knowledge. In order to achieve smart growth, Europe has to improve its performance in education, research, innovation and digital society. Higher education institutions (HEI) have important part in implementing this strategy because of its connection with research and innovation and the role in educating young people and therefore preparing them for the real business world. Highly educated human resources, adaptable to the ever changing market needs have to be the main output of HEIs in order to support achievement of EU long term goals. This is especially important in this time of economic downturn, where the highlight is put on steering entrepreneurship and developing entrepreneurial education, as the engine for building employment and creating innovative SMEs. This paper aims to research specific entrepreneurial initiatives that are undertaken in South East Europe (specifically Croatia) and that can serve as a good practice example in developing entrepreneurial competences of economic as well as non-economic students.

## **2. EDUCATION FOR ENTREPRENEURSHIP IN EUROPE**

The importance of education for entrepreneurship has been widely recognized throughout the Europe recent years, especially in this time of crisis, as quality education and training represent key elements for steering entrepreneurial mindset in society. Small and medium entrepreneurs need to be on the forefront of European economy in order to create employment and better future for all European citizens. Every individual needs to have sense of initiative and entrepreneurship, as one of the eight key competences of lifelong learning according to European Commission. Furthermore, future entrepreneurs need to gain right mix of knowledge and skills, and these competences must be developed through their educational process. Support from educational institutions is of utmost importance when it comes to developing students' ideas into real business through student business incubator. Implementation of entrepreneurial education therefore needs to be a part of European development

strategies, therefore numerous measures were undertaken by European Commission in order to implement lifelong learning for entrepreneurship and foster entrepreneurial mind-set. All relevant European strategies for entrepreneurial learning will be explained below.

### **2.1. European Charter for Small Enterprises**

European Charter for Small Enterprises (European Commission, 2000) highlighted the fact that *“small enterprises are the backbone of the European economy”* and that specific action measures need to be undertaken in order to achieve objective from Lisbon strategy for the EU to *“become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth, more and better jobs and greater social cohesion”*. The Charter highlights the importance of education and training for entrepreneurship where Europe needs to *“nurture entrepreneurial spirit and new skills from an earlier age”* and make *“specific business-related modules as an essential ingredient of education schemes at secondary level and at colleges and universities”*.

According to the Green Paper: Entrepreneurship in Europe (European Commission, 2003: 12) *“Education and training should contribute to encouraging entrepreneurship, by fostering the right mind-set, awareness of career opportunities as an entrepreneur and skills.”* At the level of higher education, development of so called “soft” entrepreneurial skills among students need to be accompanied by managerial skills, and not only connected to MBA students but also students from technical/technological universities.

In the Recommendation of the European Parliament and of the Council (2006) on key competences for lifelong learning, eight key competences needed for every citizen were defined. One of them is “sense of initiative and entrepreneurship”, representing the *“ability to turn ideas into action. It involves creativity, innovation and risk-taking, as well as the ability to plan and manage projects in order to achieve objectives.”*

Oslo Agenda for Entrepreneurship Education in Europe (European Commission, 2006a) was the main outcome of the Oslo Conference on "Entrepreneurship Education in

Europe – Fostering Entrepreneurial Mind-sets through Education and Learning", as a *"step up progress in promoting entrepreneurial mind-sets in society, systematically and with effective actions"*. The Agenda contains many proposals for different stakeholders of how to implement entrepreneurial education, applying it to the local level.

A need for promoting incubation and growth of small enterprises is stressed out in the European strategy for smart, sustainable and inclusive growth (European Commission, 2010b), as a continuation of Lisbon strategy. By smart growth EU means improving the performance in:

- education - encouraging people to learn, study and update their skills;
- research/innovation - creating new products/services that generate growth and jobs and help address social challenges;
- digital society - using information and communication technologies.

These European strategies serve as a basis for countries that want to develop their own system of entrepreneurial education and provide them guidelines for implementing specific measures for supporting development of entrepreneurship.

### **3. DEVELOPMENT OF ENTREPRENEURIAL EDUCATION IN CROATIA**

Croatia is a country that is accessing EU in 2013 and therefore must be prepared for European market through developing existing education system and adjusting it to the needs of the labour market. On the other side, due to the importance of entrepreneurship, there is a necessity for building and developing lifelong learning for entrepreneurship at all levels of education. Systematic approach in developing entrepreneurial education in Croatia is ensured through strategic partnerships within the South East Europe. In 2007 the Ministry of Economy, Labour and Entrepreneurship of the Republic of Croatia took an initiative to establish structured co-operation amongst the countries of South Eastern Europe on lifelong entrepreneurial learning - *South East European Centre for Entrepreneurial Learning (SEECEL)*, with the Republic of Croatia as the host country ([www.seecel.hr](http://www.seecel.hr)).

SEECEL is focused on addressing four pillars:

- Development of the entrepreneurship key competence (ISCED 2 level);

- Promotion of entrepreneurship at the third level education (ISCED 5/6 level) within non-business disciplines;
- Enterprise-driven training needs analysis;
- Dissemination and promotion of good policy and good practice.

Entrepreneurial competence is not yet fully developed and implemented in the Croatian educational system. In June 2010 Croatian Government adopted a *Strategy for Entrepreneurial Learning 2010 – 2014*, with the main goals to: “sensitize the public about entrepreneurship and develop a positive attitude towards lifelong learning for entrepreneurship; to introduce entrepreneurship as a key competence in all forms, types and levels of formal, non-formal and informal education and learning” (Croatian Government, 2010).

Education for Entrepreneurship (E4E) is a Croatian national coordination with the strategic goal to promote entrepreneurial learning as a key competence in all levels and forms of education, consisting of all the relevant institutions that form a partnership for implementation of entrepreneurial learning in Croatia, such as: Ministry of Entrepreneurship and Crafts; Ministry of Science, Education and Sports; Croatian Chamber of Economy; Croatian Employment Service; University College for Economics, Entrepreneurship and Management Nikola Subic Zrinski; etc. (National Coordination of Education for Entrepreneurship, 2012).

From these initiatives on strategic level in Croatia, it can be seen that relevant measures have already been undertaken in forming a basis for implementation of entrepreneurial education. In the following chapter, good practice examples on implementing entrepreneurial education in Croatia will be presented.

#### **4. GOOD PRACTICE EXAMPLE – NETWORK OF STUDENT BUSINESS INCUBATORS**

Importance of implementing entrepreneurial learning is foremost visible in signing of *A Charter for Entrepreneurial Learning: The Keystone for Growth and Jobs* in 2012 by the eight EU pre-accession countries from South East Europe, with the support of the European Commission and European Training Foundation. The objective of the charter is to reinforce development and progress in lifelong entrepreneurial learning policy

improvement, good practice sharing and regional cooperation. It is based on the following principles: lifelong entrepreneurial learning, entrepreneurship as a key competence, EU policy framework, partnership, do-working developments (sharing of good practice) and social and environmental responsibility (Entrepreneurship, 2012).

Before elaborating the role of Student Business Incubators (furthermore SBI) in entrepreneurial learning it is necessary to define what is a Business Incubator.

European Commission (2010a) defines Business Incubator as a *“place where the incubation activities are carried out, and where the would-be entrepreneurs and the existing SMEs find a suitable place, in terms of facilities and expertise, to address their needs and develop their business ideas, and transform them into sustainable realities”*.

According to the definition of National Business Incubation Association (2009) *“Business Incubators nurture the development of entrepreneurial companies, helping them survive and grow during the start-up period, when they are most vulnerable.*

*These programs provide their client companies with business support services and resources tailored to young firms. The most common goals of incubation programs are creating jobs in a community, enhancing a community’s entrepreneurial climate, retaining businesses in a community, building or accelerating growth in a local industry, and diversifying local economies”*.

Student Business Incubators are established by universities, representing a link between academic and business world and having a supportive environment through professors acting as mentors of student companies. This concept is especially important for students that are at the end of their study, preparing them for the real business world and making self-employment as one of the valuable options. The main goal of the SBI is to provide support for students' start-up companies through their first critical steps in doing business when they are most vulnerable. But not only providing this needed support, but also to encourage students to think entrepreneurial and become financially independent. Additional value of the SBI is that students learn how to manage a company in a safe environment which allows them to prepare themselves for the real market.

Student Business Incubators represent a good tool for entrepreneurial education by:

- Encouraging students in entrepreneurial way of thinking, being creative, innovative, responsible, risk-taking, able to plan and manage projects, etc.;
- Financial, technical and advisory support to students in establishment of their own sustainable businesses;
- Preparation of students for the real business world through development of business plans for their companies;
- Participating in workshops, seminars and round tables held by successful entrepreneurs;
- Cooperation development and networking of educational institutions with real business world.

There are three stages of incubation process: pre-incubation, incubation and post-incubation (Figure 1). The most important stage for Student Business Incubators is the first stage that is providing support to the students in developing their business idea, model and plan.

Incubation stage provides support from the start-up to the expansion phase and post-incubation implies activities in maturity phase of incubated company. University established incubators are usually pre-incubators (European Commission, 2010a).

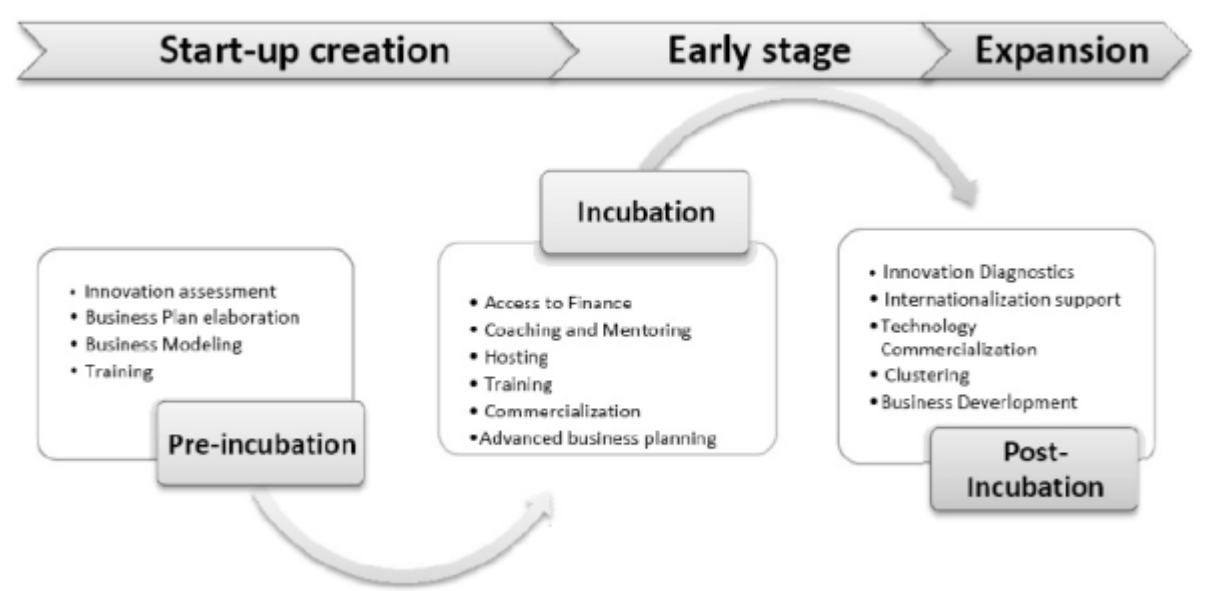


Figure 1: Stages of incubation process (European Commission, 2010a: 8)



As indicated in SEECEL strategic plan *“Entrepreneurial university needs to be the frontrunner of sustainable growth and development”* (Heder et al., 2012: 24). According to Cizmadija (2011: 136) Croatian good practice example in managing SBI is University College of Economics, Entrepreneurship and Management Nikola Subic Zrinski (UCEEM-NSZ), a higher education institution that enables their students in managing small and medium enterprises through practical implementation of entrepreneurial knowledge and skills. In line with the syllabus of UCEEM-NSZ for the subject *“Integral management of the company”* and following the European and world directives for fostering entrepreneurship, the SBI is initiated as the central advisory body to provide organisational and advising help for students in managing their company. This is a unique form of supporting students in their entrepreneurial activities in Croatia, providing them an opportunity for facing the real market and placing their business ideas. This innovative Incubator goes through all stages of incubation process. Incubation and post-incubation phase in this SBI means establishing real student companies and providing them support after leaving the Incubator. During first year of their study, students are introduced with theory in management of an SME. At the 2nd year of their study students of UCEEM-NSZ establish a real SME with financial support from their University for initial capital. They are managing their student company while they are studying which gives them the opportunity to link theoretical knowledge with practice in a real business world. After they finish their studies they have the opportunity to be self-employed and to continue to manage and work in their student company with the support from UCEEM-NSZ (advisory, legal, accounting support etc.). Students have the support of the Business Incubator two years after finishing their study without financial charges. Currently there are four tenants in the SBI of UCEEM-NSZ that are established in 2008, 2009, 2010 and 2012. UCEEM-NSZ is the only HEI in this part of Europe that gives their students the opportunity not only to learn how to manage a real company but allows them to keep the company and to work on the real market with the support of the UCEEM-NSZ Business Incubator.

Another good practice example of initiative for entrepreneurial education in Croatia is establishment of Network of Student Business Incubator. This Network represents the initiative of a public-private consortium between Croatian Agency for SMEs and Education Group Zrinski, gathering all higher education institutions that want to implement entrepreneurial education at their institution through Business Incubators. Firstly, support to new student companies will be enabled through the virtual network of incubators and mentorship system by professors and entrepreneurs. Thereby it will create better relations between experts and business sector and increase the innovative approach to business in national economy. Not only that Business Incubators are aimed at creating jobs, revitalising communities and commercialising new technologies, they will be formed to enhance economic development in general since they are creating new generations of young entrepreneurs by providing services to support development of the business in the first vulnerable years. That can be specially highlighted when it comes to SBIs since students are having the opportunity to learn in practice how to transform their entrepreneurial idea into reality.

## **5. CONCLUSION**

Education for entrepreneurship needs to be implemented at all levels of education, especially at higher education level where education, research and economy meet. Incubation support for newborn real student companies is considered to be a good instrument for building employment and ensuring higher survival rates of the companies in the long term period. At the level of higher education, support from educational institutions is of utmost importance when it comes to developing students' ideas into real business actions. Student Business Incubators represent the new direction in entrepreneurship education because they accelerate the development of innovative business start-ups and through creating jobs, help to support economic development. SBIs are essential in developing students' entrepreneurial competences, making a link between academic world and real business, as well as overcoming the gap between the end of educational process and employment. By providing crucial support for vulnerable student start-up companies in

their first years in doing business, universities are becoming the engines of innovation and self-employment. SBIs represent a significant factor in increasing survival rates of new businesses. Incubators for student companies are a good basis for development of SMEs sector, known as a backbone of employment and economic development.

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# **No-Format Franchising: A new form of entrepreneurship and sustainable growth**

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## Abstract

In the last years, a new form of franchising seems to be emerging where franchisors give franchisees more autonomy and decision power than Business Format franchisors do. As such, not surprisingly, these agreements are called Freedom or No-Format Franchising. Yet, although franchising has been researched comprehensively for the last decades, this new sort of arrangement has not yet received due attention.

This paper analyses No-Format Franchising by comparing it against the standard Business Format agreements. The discussion does not aim to suggest that there is one best model, but to understand the trade-offs between the two systems and how each might suit different activities.

The analysis is focused on Business Format Franchising benefits and difficulties, emphasising the importance of franchisees' diversity and autonomy for the network's innovation process. The debate leads to the discussion about the possible virtues of No-Format Franchising regarding innovation.

Finally, it is also claimed that No-Format Franchising can improve the adaptability and flexibility of these agreements, thus further contributing to its economic relevance.

**Keywords:** franchising, entrepreneurship, autonomy, diversity, innovation

## **1. INTRODUCTION: FRANCHISING AS AN ECONOMIC GROWTH ENGINE**

According to the European Franchise Federation (EFF, 2011), franchising has proven to be an engine for economic activity and wealth creation in Europe. It is also a recognised successful way to promote employment and turnover worldwide (Norton, 2004). In fact, franchising seems to be an important device for the promotion of economic development by inducing entrepreneurship, self-employment, job creation, exportations, foreign investment and ultimately wealth generation (EFF, 2011).

On one side, franchising is an important effective strategy for the franchisors' business development and growth both at domestic and international level. McDonald's is probably the most successful example of how it can enhance a firm's national growth and worldwide expansion. According to McDonald's Corporation, in 2012, the network was present in 119 countries with more than 34.000 restaurants, 80% of which were franchised, employing 1.7 million people worldwide. Indeed, by helping the franchisor firms overcome different sorts of resource constraints (*e.g.* Oxenfeldt and Kelly, 1969) as well as by relieving them from several management troubles (*e.g.* Brickley and Dark, 1987), franchising works as an important lever for the expansion of their businesses.

On the other side, franchising is also an equally important system for start-up creation, survival and growth by guarantying the franchisor's on-going business support to franchisees' smaller firms. Above all, franchising has an important role in the promotion of entrepreneurship and self-employment since it might reduce the risk of the enterprise due to the franchisor's assistance throughout the life of the franchise contract and also the franchisor's brand name and business concept (EFF, 2011).

But franchising's economic importance is also due to its ability to adapt to different business contexts and realities. Indeed, it is used in numerous business areas, such as automobile dealership, automotive products and services, gasoline service stations, construction and maintenance, domestic and childcare services, fast-food and non-food retailing, just to name a few (Blair and Lafontaine, 2011).

Yet, the diversity of settings where franchising emerges as well as the fact that these arrangements have been changing and evolving over time make it difficult to find a general definition which accounts for all those diverse circumstances (Norton, 2004).

Trying to cope with this diversity, authors and researchers have identified different sorts of franchising. But the most important distinction is probably that between *Traditional* and *Business Format Franchising*.

In the relationship which is nowadays called *Traditional or Product and Trade Name Franchising*, franchisees have the right to sell the product and use the brand of the franchisor but they do not get much support from it. This was the predominant form of franchising until the Second World War. Presently, the franchisors are much more involved in the relationship, passing on the know-how about the business to the franchisees. This form of franchising is called *Business Format Franchising* and it is the most widespread type of franchising today (Blair and Lafontaine, 2011).

But, in the last years, a new form of franchising seems to be emerging, where franchisors are also deeply involved in the relationship with the franchisees, but give them more autonomy and decision power than *Business Format* franchisors do. As such, not surprisingly, these agreements are called *Freedom or No-Format Franchising* (Streed and Cliquet, 2010). Yet, although franchising has been researched comprehensively for the last decades, this new sort of arrangement has not yet received much attention.

In the following sections, *No-Format Franchising* will be analysed and compared against standard *Business Format* agreements. This paper begins with a short debate over the definition of *Business Format Franchising*, trying to understand what distinguish it from other sort of arrangements. This discussion is followed by a short review of *Business Format Franchising* benefits and difficulties, focusing on the importance of franchisees' diversity and autonomy for the network's innovation process. The debate leads to the discussion of the possible virtues of *No-Format Franchising* regarding innovation. Nevertheless, it is argued that there is not a best model. The trade-offs between the two franchising systems should be known and considered to determine which one is best suited for a particular business. Finally, it is also claimed that a new form of franchising can improve the adaptability and flexibility of these agreements, thus further contributing to its economic relevance.



## 2. BUSINESS FORMAT FRANCHISING

According to Blair and Lafontaine (2011: 6), the U. S. Department of Commerce has, historically, distinguished *Traditional* and *Business Format Franchising*. In 1988, it described *Traditional Franchising* as an agreement where the franchisees focused on the franchisor's product line and somehow identified their business with that of the franchisor. In contrast, *Business Format Franchising* was described as comprising more than the permission to use the franchisors' trade name, product and service. It should also cover all aspects of an entire business format such as operating manuals, quality control standards and a marketing strategy.

In Europe, the Block Exemption Regulation on Franchise Agreements<sup>2</sup> has provided, to some extent, a standard legal definition for franchising (UNIDROIT, 2007). Norton (2004: 18) summarises the European Union's view on franchising as a "...package of industrial or intellectual property rights" with three identifying features - "a common name or sign, with a uniform presentation of the premises, communication of know-how from franchisor to franchisee, and continuing provision of commercial or technical services by the franchisor to the franchisee."

The description of *Business Format Franchising* in the European Code of Ethics for Franchising was prepared in consultation with the European Commission and is in agreement with the standard legal definition (UNIDROIT, 2007). According to that document, *Business Format Franchising* rests upon a written contract between two legally, financially and fiscally separate and independent firms, whereby the franchisor grants each of its individual franchisees the right, and imposes the obligation, to conduct a business in accordance with the franchised concept - which is formatted so as to create a recognisable common identity for the franchised brand and business. This contract entitles and compels the individual franchisee, in exchange for a financial payment, to use the franchising package. This is composed of the franchisor's trade name, know-how, business and technical methods, procedural system, and other industrial and /or intellectual property rights, supported by continuing provision of

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<sup>2</sup> Commission Regulation (EEC) n. 4087 of 30 November 1988 on the application of Article 85 (3) of the Treaty to categories of franchise agreements (OJ EEC L 359/46 of 26 December 1988)

commercial and technical assistance, for the term of the written franchise agreement (EFF, 2008).

However, to many academics, the definition of *Business Format Franchising* is not that simple. For instance, in 1995, Klein argued that, in the United States, the legislation did not even provide for a clear economic criterion to distinguish franchising from other distribution arrangements. To Klein (1995: 12), “control, exclusivity and standardisation” are the only basis by which a distribution arrangement may be labelled as a franchising agreement. Since these dimensions can be arranged into a variety of combinations, “one is likely to find a continuum of contract arrangements along each of these dimensions”, therefore Klein claims that the difference between *Traditional* and *Business Format Franchising* is somewhat blurred and subjective. Blair and Lafontaine (2011: 8) agree with Klein and consider that “in the end, the distinction between traditional and business format franchising is somewhat arbitrary and basically a matter of degree”.

In spite of that difficulty, or because of it, this topic is often present in franchising literature, with several authors trying to characterise *Business Format Franchising*. This paper will follow Kaufmann and Eroglu (1998) who have tried to identify the key features that outline *Business Format Franchising*. According to them, these are:

- 1) the characteristics of the product are the only features of the business format that define its market niche. This is the case of the product assortment offered to customers;
- 2) a set of visual elements - like the employees’ uniform - that links a unit to its network;
- 3) a set of procedures that is the basis for the efficient functioning of the business both at the unit and the network level. Equipment, layout and design are examples of these procedures at the unit level. At the network level, there are, for example, royalty payments.

Still, regardless of the debate concerning its definition and characterisation, franchising has been thoroughly studied for the past decades by Economy, Management and Marketing researchers. Each of these lines of study has different purposes and focus

on diverse aspects of franchising (Elango and Fried, 1997). Several questions have been raised and answered with different levels of consensus.

The research in the field of Management has mainly focused on the reasons why firms choose to franchise, the choice regarding contract terms, the incidence of vertical integration (*e.g.* Lafontaine, 1992), and, more recently, the processes of knowledge creation and transfer inside the franchising network (*e.g.* Argotte and Darr, 2000).

This extensive literature has identified several benefits and also a few problems that might be produced by franchise agreements. In the next section, only a few of these, due to its significance for the rest of the work, will be briefly reviewed and summarised. It must be noted, however, that some of these gains and shortcomings concern franchising in general, but they will be reviewed specifically in the context of *Business Format Franchising*.

### **3. BUSINESS FORMAT FRANCHISING: STRENGTHS AND WEAKNESSES**

In order to produce and market a good, several economic activities have to be undertaken and therefore coordinated. This can be achieved as a result of vertical integration, active participation in the market and the development of inter-organisational relationships (Richardson, 1972). The question is why “so many firms involved in such different activities [have] all chosen to organise themselves as franchised companies” (Blair and Lafontaine, 2011: 1).

Essentially, franchising displays a couple of advantages similar to vertical integration. It benefits from “comparative advantages in creating brand recognition and capturing economies of scale” of different types (Blair and Lafontaine, 2011: 1), such as in marketing, input acquisition and management.

Indeed, the increased mobility and time restrictions of consumers have led to an increased reliance on brand names, and thus a higher propensity to establish business chains (Blair and Lafontaine, 2011). The geographical dispersion of a chain’s outlets contributes to the penetration and coverage of the market(s), therefore strengthening the brand and protecting it against rivals (Caves and Murphy, 1976). Further, business chains allow firms to benefit from economies of scale in the promotion and marketing

of that brand as well as economies of scale in general management tasks and, in addition, savings in input acquisition due to higher volumes of purchases (*e.g.* Oxenfeldt and Kelly, 1969; Rubin, 1973; Caves and Murphy, 1976).

But these advantages are not franchise-specific. A vertical integrated chain can also enjoy these benefits. The franchising attractiveness is due to the fact that, in these networks, the market penetration and coverage can happen faster, since these arrangements might help mitigate resource limitations of different types, such as capital constraints (Caves and Murphy, 1976), local information restrictions (Minkler, 1990) and management talent Penrosian-like constraints to growth (Oxenfeldt and Kelly, 1969).

Franchising might also relieve franchisor firms from some management problems, like motivating unit managers to improve the outlets' performance (Rubin, 1973) and controlling them for shirking and perquisite-taking<sup>3</sup> (*e.g.* Brickley and Dark, 1987).

Finally, the diversity of franchisees in a franchise chain may also be important (*e.g.* De Castro *et al.*, 2009). Since they are closer to the local market, franchisees may not only be a source of local information but also a "source of local ideas" (Cliquet and Nguyen, 2004), thus, contributing for the network's innovation process.

To fully grasp the significance of *Business Format Franchising* strengths and weaknesses, one must first realise uniformity as a central feature in this model. Streed and Cliquet (2010: 206) explain that "the rationale behind standardization is the ability to protect the brand integrity, to realize economies of scale by implementing turn-key systems, and to provide a consistent experience to the consumer".

Actually, standardisation contributes to the unified identity of the network and the brand name image because consumers know what to expect when entering in a chain's outlet at a distant location for the first time (Brickley and Dark, 1987). Standardisation also makes it possible to dilute the costs of generating and acquiring new knowledge among the units of the network (Sorenson and Sørensen 2001).

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<sup>3</sup> According to Agency Theory, franchisees also have to be monitored. Nevertheless, it is easier and less costly to monitor franchisees than to control unit managers. (*e.g.* Brickley and Dark, 1987).

Seeking to avoid a loss in uniformity, franchisors develop manuals, procedures, routines and control mechanisms. Yet, maintaining the chain's uniformity might be difficult.

As in any other activity, franchisor organisations face the need to progress which means to develop the franchised concept. But the implementation of innovations might be harder in a franchising network than in a vertically integrated chain (*e.g.* Cliquet and Nguyen, 2004).

In order to maintain uniformity, every unit in a network has to adopt the franchisor's improvements. However, those improvements often demand capital expenditures that franchisees might not be willing to make (Brickley and Dark, 1987; Brickley *et al.*, 1991). As the franchisor cannot force franchisees to invest in those changes which were not anticipated in the franchise contract (Cliquet and Nguyen, 2004), that results in an under-investment problem (Brickley and Dark, 1987; Brickley *et al.*, 1991) that harms the standardisation of the chain. For some franchisors the problem might be so important that, sometimes, with the intention of guarantying a certain degree of standardisation, franchisors buyback some outlets and invest in the implementation of those improvements.

But this is not the only problem regarding uniformity that franchisors have to face. Another difficulty is local responsiveness (Bradach, 1998). A widespread chain has to balance the need to adapt to diverse local conditions with the need to preserve the uniformity of the franchised business (Cox and Mason, 2007). Kaufmann and Eroglu (1998) categorise the key features that shape Business Format Franchising in "core" and "peripheral components", and argue that only the latter can be adjusted to the local characteristics while the former have to be preserved. Therefore, franchisors must decide which features can and need to be changed locally. This problem, however, would not be eased by vertical integration. Quite the opposite, franchisees may actually help franchisors decide which contingent adaptations are needed (Bradach, 1998).

#### 4. INNOVATION, DIVERSITY AND NO-FORMAT FRANCHISING

Contrary to traditional franchising theories (*e.g.* Elango and Fried, 1997), there is a growing number of reports that document franchisees' active role in the franchising relationship. The empirical evidence gathered in the last years has given support to the importance of franchisees as a source of ideas regarding the development of new products (*e.g.* Love, 1986; Argote and Darr, 2000).

Also, a growing number of academics have been studying the active contribution of franchisees. Cliquet and Nguyen (2004: 109-110), for example, claim that franchisees are "a good source of local ideas" because they have a high incentive to improve their unit's performance, together with a better knowledge of the local market, a closer proximity to customers, and a "good intuition based on their experience". Thus, franchisees are no longer perceived as passive users of franchisors' expertise.

Likewise, franchising is not merely seen as a growth strategy through the reproduction of identical units, where the franchisor and the franchisee have a top-down relationship (Elango and Fried, 1997). Quite the opposite, "in the ideal franchise relationship, each party is able to specialize in what each does best and yet benefit from the efforts of the other" (Blair and Lafontaine, 2011: 2).

In fact, blending franchisor's capabilities with those of the franchisees' may be so significant that it may contribute to the emergence of franchise agreements, both at the business and unit level (De Castro *et al.*, 2009). Furthermore, since the encounter of heterogeneous knowledge promotes learning and innovation (*e.g.* Ritter *et al.*, 2002), the combination of franchisor's capabilities with those of various franchisees may be important to knowledge creation and innovation. Thus, the franchisees' different locations and past experiences might turn them into sources of dynamic capabilities for the network (De Castro *et al.*, 2009).

As franchising partners and networks are heterogeneous, it is natural that one may find an assortment of strategies followed by franchisors in order to manage the relationships within the chain (Dant and Gundlach, 1999). These diverse strategies include different levels of appraisal regarding the franchisees' role, control and autonomy (Cochet *et al.*, 2008; Pinzanti and Lerner, 2003). Certainly, the degree of

control and autonomy depends on the franchisor's expectations about the franchisees' role in the relationship. Anyhow, franchisor's control and franchisee's autonomy are certainly important variables to think of when considering differences in networks' performance regarding innovativeness.

Although most franchisors still seem to disregard the potential of franchisees' active contribution<sup>4</sup> (Cox and Mason, 2007), nowadays some franchisors, acknowledging the importance of franchisee diversity and autonomy, are less troubled about standardisation and more focused on creating a network of partners that share capabilities. Thus, a new form of franchising might be developing, where franchisees are less inhibited by franchisors' rules and are welcomed to exploit and explore their knowledge.

One of those cases is the *Great Harvest Bread Co.* (Flandez, 2007; Tozzi, 2008; Streed and Cliquet, 2010) which is a franchisor company of bakeries in the United States that describes itself as a freedom franchise. At *Great Harvest*, franchisees get all the benefits of *Business Format Franchising* contracts, such as the right to use the franchisor's brand name, to access and acquire its know-how and to get continuous commercial and technical assistance. But contrary to *Business Format Franchising*, they have little constraints on how to develop their businesses. In fact, franchisees are encouraged to figure out their own business format, for example deciding upon the look of the bakery and even marketing mix elements like the products offered to customers and promotional campaigns<sup>5</sup>.

Actually, *Great Harvest Bread Co.* is mainly focused on the creation and maintenance of a network of entrepreneurial franchisees that are expected to take part in the innovation process within the network. Indeed, they are praised for developing new bread recipes or innovative promotional ideas. Since standardisation is not an issue, innovations flow through the network freely with each franchisee deciding on whether to adopt them or not at its own unit. Not surprisingly, this franchisor acknowledges that the active participation of everyone can be much more profitable than the sole

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<sup>4</sup> This is probably a result of a predisposition that all network participants have to control it, even though network control might constraint innovation by limiting diversity (Ford *et al.*, 2003).

<sup>5</sup> Typically, in the Business Format Model these decisions are reserved to franchisors.

inventive action of a few at headquarters. Somehow it recognises that all participants in the network can profit from the existing diversity and that network control can harm innovation.

In fact, *No-Format* or *Freedom Franchising* seems to be both an outcome of the franchisor's conscious will to use franchisees as a source of dynamic capabilities and a stimulus for the development of franchisees' entrepreneurial capabilities. Thus, it seems to engender more innovative franchising networks.

## 5. NO-FORMAT OR BUSINESS FORMAT FRANCHISING?

This section aims to identify the virtues and downsides of *No-Format Franchising* when compared to the *Business Format* model. But the discussion about the advantages of one franchising system over the other does not have to imply that there is *one* best model. Truly, franchising economic importance is very much related to the diversity and flexibility of these agreements, which means that a new form of franchising can improve its adaptability to different contexts. In the end, what really matters is to understand the trade-offs between the two systems, and figure out which one is best suited for a particular business.

To begin with, the *No-Format Franchising* system may keep the advantages of *Business Format* for the most part. In fact, a *No-Format Franchising* network can, just as easily as a *Business Format* one, help franchisors overcome resource constraints to growth and free them from the need to motivate and control unit managers. Also, either system can benefit from economies of scale. For example, there will always be savings in the promotion and marketing of a single brand. Likewise, the development of a non-standardised chain does not have to stop franchisor and franchisees from using the same input suppliers, if they wish to, and therefore attaining cost reductions. However, the possibility that *Business Format Franchising* might generate higher savings must not be excluded.

A main point to this discussion has to be, obviously, the question of Uniformity. To franchisors, the *No-Format Franchising* model eliminates the direct and the indirect costs of standardisation. The direct costs are those related to the format development,



the creation of manuals, procedures and routines that ensure the unity of that format, and, finally, the control of franchisees regarding their compliance to those standards. The indirect costs of standardisation concern those related to franchisee underinvestment, and, consequently, the difficulties in the diffusion of innovations through the network. They also include the costs that result from the need to balance uniformity with local responsiveness.

Naturally, other type of costs will take their place. Using Kaufmann and Eroglu's (1998) distinction between "core" and "peripheral components", Streed and Cliquet (2010) suggest that the "core components" of *No-Format Franchising* networks have to be identified and kept intact in every unit, while the "peripheral components" can be 'customised' by franchisees. Therefore, *No-Format* franchisors must decide on the "core components" of the network and develop procedures to keep them untouched. This surely has a cost but, possibly, this cost is lower than those of standardisation. Since uniformity implies formalisation due to the need for complex detailed written procedures, it tends to lead to more bureaucratic organisations with higher organisational costs (e.g. Morgan, 1998).

Moreover, although one cannot neglect the importance of standardisation for brand recognition and the unified identity of the network, it is also important to recognise that there is a growing tendency towards customisation (e.g. Gardyn, 2001). Streed and Cliquet (2010: 206) claim that "industrialization of retail and service activities [...] was one of the major trends of the end of the XXth century and beginning of the XXIst (Cliquet *et al.*, 2006), but new processes should now be considered". They also add that "[i]n an era where mass-customization is becoming a driving force in manufacturing it is surprising to notice that business-format franchising is still for the most part resisting the idea of customization". In this context, the authors assert that *No-Format Franchising* might help franchisors deal with the present consumer trend towards customisation.

The debate over the advantages of *Business Format* and *No-Format Franchising* must also focus on the differences in franchisees' perceptions and consequent behaviour in each system. *Business Format Franchising* lures franchisees due to a few perceived

advantages over a totally independent enterprise. When an entrepreneur starts a franchised business, s/he believes to be taking a lower degree of risk than that s/he would be exposed to if s/he had chosen a totally independent venture (Blair and Lafontaine, 2011). This happens because the franchisee firm uses a business concept that typically has already been successfully tested.<sup>6</sup> In addition, it operates under a logo that is usually linked to a well-known and well-reputed established brand which allows it to profit from a safer exploitation of the market.

While joining the network, the franchisee has access to a whole system of doing business by receiving training and on-going technical, commercial and management assistance from the more experienced franchisor as well as access to permanent maintenance and development of the business concept<sup>7</sup>.

Finally, by participating in the franchising chain, it also enjoys economies of scale in advertising and in the acquisition of inputs, along with the possibility of easier access to financing. When asked for a loan, the bank will look at the franchisee's firm as part of a network, which is usually already known by the markets. This may reduce the information asymmetry between the start-up firm and the creditor, leading to lower interest rates and higher rates of credit approval (Rubin, 1973).

When buying a *Business Format Franchise*, entrepreneurs are offered all those benefits in exchange for a loss in autonomy. Even though they own an independent business, they are contractually compelled to follow franchisors' instructions regarding questions such as the location site, the outlet design, the decoration on the shop windows, the average level of stocks, and the list of approved suppliers. Franchisors may even have a say regarding the potential sale of their business (Cherto, 1989; Leite, 1990).

This loss of complete autonomy may give rise to problems between franchisors and franchisees. Blair and Lafontaine (2011: 291) describe how "some franchisees are simply ill-suited to being part of a chain where uniformity is essential". They mention that "[t]hese people are just too independent. They want to change the menu, select a

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<sup>6</sup> Although a firm should only start selling franchises after a few years in operation, sometimes small immature firms are able to do it.

<sup>7</sup> Brickley and Dark (1987) argue that franchisors' opportunism might make them decide to stop maintaining and developing the business.

different location, have different hours of operation, and so on". Therefore, to these authors, as "those individuals who seek significant independence should not invest in a franchise", franchisors should "develop franchise sales and franchisee selection procedures" that would avoid them from being selected.

However, in face of what has been described in the last section, the central question is whether by doing it franchisors would be making an adverse selection. Would they be leaving out the people with the best entrepreneurial drive and skills? What is more, would they be contributing to the chain's mediocrity (*e.g.* Luxenberg, 1985; Birkeland, 2002; Streed and Cliquet, 2010)?

The loss of franchisees' autonomy is indispensable in *Business Format Franchising* because without it the franchisor would not be able to guaranty the chain's uniformity. The more valued uniformity is by the franchisor, the least autonomy it will give franchisees and tighter will be the control exerted on them. Tighter control, per se, means less diversity and less innovation (Ford *et al.*, 2003). But less autonomy might also be harmful to innovation because it might hold back the franchisees with best entrepreneurial skills (Birkeland, 2002). In fact, *Business Format Franchising* seems to be more appealing to those who lack the human capital needed to set up a business on their own (Blair and Lafontaine, 2011). Further, uniformity demands for a high degree of centralisation and formalisation which, in turn, leads to rigid, bureaucratic, non-adaptable organisations which might compromise innovation (*e.g.* Morgan, 1998). In sum, like Streed and Cliquet (2010: 208) put it "avoiding entrepreneurial talents and rewarding strict conformity may impair the chain's ability to innovate and compete".

On the other hand, while *Business Format Franchising* offers franchisees the prospect of a less risky endeavour in exchange for a lower independence, *No-Format Franchising* gives franchisees the possibility to start and develop their businesses, backed up by the franchisor, but enjoying more autonomy and decision power as well as the chance to use their initiative. Therefore, it might attract franchisees with better entrepreneurial characteristics that, together with the existing diversity in the network and the looser control exerted by the franchisor, might contribute to the development of more innovative franchising organisations.

Finally, having discussed the characteristics and trade-offs between *No-Format* and *Business Format Franchising*, it is now possible to try to understand which model is best suited for which particular kind of business. Gareth Morgan in his book *Images of Organization* (1998: 32) describes the following:

McDonald's built a solid reputation for excellent performance in the fast food-industry by mechanizing the organization of all its franchise outlets all over the world so that each can produce a uniform product. It serves a carefully targeted mass market in a perfectly regular consistent way. The firm has been exemplary in its adoption of the Tayloristic principles (...)

Therefore, the merits of *Business Format Franchising* in activities (like fast-food restaurants) that demand for routinisation and mechanisation of simple tasks, deskilled jobs, mass production, efficiency, predictability, and control seem to be unquestionable. On the other hand, *No-Format Franchising* by shaping a more decentralised, less formalised and more innovative network appears to be more appropriate for activities that demand greater flexibility, adaptation, customisation and innovation (e.g. Streed and Cliquet, 2010). As a result, *No-Format Franchising* may expand the range of uses of franchising contracts to activities that would otherwise be incompatible with this type of agreements. An example of one of such activities is the rural tourism industry.

Although *Business Format Franchising* is already at use in several tourism trades, for example adventure tourism firms, travel agencies and hotel chains, this business concept hardly fits the 'rurality' (Hoggart, 1990) experience that rural tourists wish to enjoy.

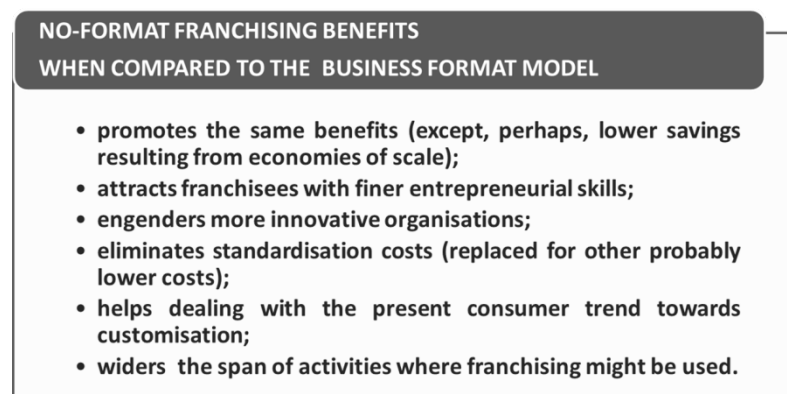
Visitors to the countryside "are attracted to rural areas by their distinctive regional, social and cultural heritage, landscape qualities and perceived cleaner environment" (Hall 2004: 165). Indeed, the standardisation which is the core feature of *Business Format Franchising* does not seem to be feasible for the rural tourism industry, where demand is commanded by the peculiarities of a specific region or place, as well as the desire to feel rurality (Sharples and Roberts, 2004).

Non-standardised partnerships such as *No-Format Franchising*, however, may allow rural tourism businesses to benefit from franchising, helping the entrepreneurs to share experiences, resources and capabilities and thus reducing their small-business weaknesses<sup>8</sup> without setting aside their authenticity as well as the traditional, cultural and historical features that charm their clients (Marnoto and De Castro, 2009).

## 6. CONCLUSION

In this paper, *No-Format Franchising* was compared with the *Business Format* model. The discussion did not intend to show that there is *one* best model but to understand the trade-offs between the two systems (Figure 1). These should be known and considered to determine which one is best suited for a particular business.

Figure 1 –No-Format vs. Business Format Franchising Benefits



With *No-Format Franchising*, entrepreneurs get all the support given to *Business Format* franchisees, but they enjoy more autonomy and are freer to use their initiative. To franchisors, this means they might be able to get franchisees with finer entrepreneurial skills. This, together with the diversity that characterises networks and the looser control exerted by *No-Format* franchisors, will most probably lead to the development of more innovative franchising organisations.

<sup>8</sup> The rural tourism industry is characterised by the small-scale of the businesses. Yet, although intrinsic to its nature as well as crucial to its sustainability, the typical dimension of those businesses also brings along a set of problems (Sharpley and Roberts, 2004) which comprise, for instance, capital constraints, humble supporting infrastructures, low quality products and services, poor market knowledge and lack of business know-how (Hall, 2004).

Furthermore, *No-Format* franchisors might probably get the same benefits as in *Business Format*. Although, one might assume that *Business Format Franchising* probably generates higher savings resulting from economies of scale.

On the other hand, the *No-Format Franchising* model eliminates the costs of standardisation, particularly those related with franchisees' underinvestment and the need for local responsiveness. These costs will surely be replaced for new costs which one might expect to be lower. *No-Format Franchising* might also help franchisors deal with the present consumer trend towards customisation.

Finally, *No-Format Franchising* might allow the use of franchise agreements in activities where *Business Format Franchising* would not work.

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# Partnership to Sustained and Sustainable Growth

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## **Abstract**

Development and Growth has been a topic of debate for some decades, but it has recently intensified in a stimulating way due to the radical economic changes that have shaken the world, the strong increase in social tensions and the constant degradation of the environment. Within such an unbalanced context, an alternative proposal for Sustainable Development and Growth arises - aiming for social inclusion, economic well-being, and the preservation of natural resources – that may become compulsory in the business world.

Partnership for Sustained and Sustainable Growth is an FDC partnership that brings together entrepreneurs and mid and large-size companies with a common objective: to find new sustained and sustainable growth models.

These companies and FDC get together in guided meetings to seek their original entrepreneurial spirit and to create new management models that can generate growth and profits but that can also promote the sustainable development of all the social actors that surround them.

A committee of experts called sponsors that is made up by local and international professors, managers and executives from the fields of market, finance, people and sustainability works together with the CEOs of the partner companies and offers advice, model validation, conceptual knowledge and shared knowledge.

**Keywords:** growth, strategy, sustainable, innovation.

## 1. INTRODUCTION

The Fundação Dom Cabral (FDC) is a center for the development of executives and companies that for more than 35 years has practiced dialogue and committed involvement with organizations, building integrated educational solutions with them. It is orientated towards the formation of teams to interact critically and strategically within companies.

FDC acts as a facilitator in Business Partnerships by setting up networks made up by companies who share common characteristics and goals. Executives from these organizations meet and collectively exchange experiences, discuss relevant themes and find shared solutions for problems they have in common. A business partnership is supported by six fundamentals: cooperation, reciprocity, complementarities, trust, shared decisions and value added to the partners and to society. Thus such partnerships will work as a resonance box for current needs and future trends, and end up by being centers that will generate new management tools.

Synergy with the companies is the result of the link made between the theory and practice of effective management technologies. This practice is reinforced by the interactive work of its technical team that combines academic background with business experience.

Partnership for Sustained and Sustainable Growth is an FDC partnership that brings together entrepreneurs and mid and large-size companies with a common objective: to find new sustained and sustainable growth models. These companies and FDC get together in guided meetings to seek their original entrepreneurial spirit and to create new management models that can generate growth and profits but that can also promote the sustainable development of all the social actors that surround them. A committee of experts called sponsors that is made up by local and international professors, managers and executives from the fields of market, finance, people and sustainability works together with the CEOs of the partner companies and offers advice, model validation, conceptual knowledge and shared knowledge.

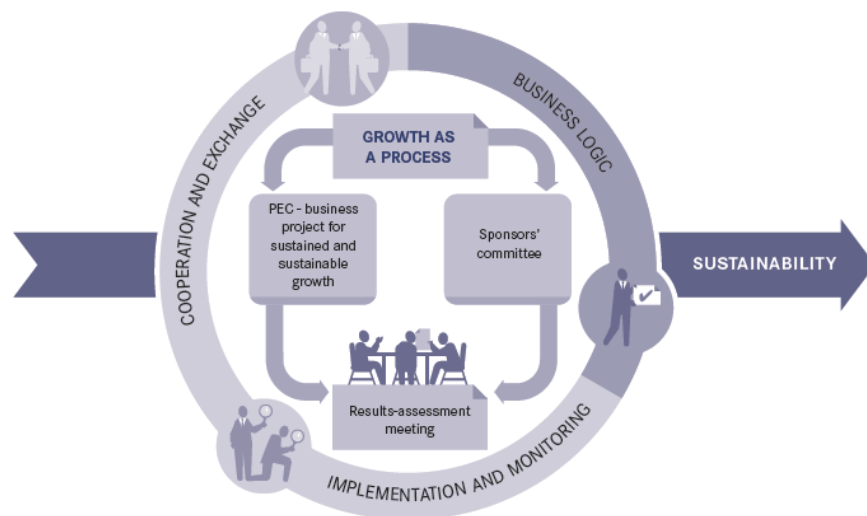
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shaken the world, the strong increase in social tensions and the constant degradation of the environment. Within such an unbalanced context, an alternative proposal for Sustainable Development and Growth arises - aiming for social inclusion, economic well-being, and the preservation of natural resources – that may become compulsory in the business world.

## 2. PARTNERSHIP: WORKING DYNAMICS

The partnership brings together groups of 6 to 20 Brazilian or international companies that do not compete among themselves within the productive chain (Figure 1). It is aimed at the main executive who will lead the company to a new level of sustainable growth.

Figure 1 – Partnership's Framework



To allow it to achieve the expected results, the partnership proposes to last for five years, and contracts will be renewed yearly based on the following pillars:

- **PEC - Business Growth Project:** This is the partnership's main pillar and the tool that will identify the new business platforms that will make the organization's growth cycles possible, as well as helping the company to understand how such an option reflects on its stakeholders (Figure 2). It is preceded by economic/financial, market, risks and sustainability diagnoses. The project is prepared jointly by FDC and its partner

companies and developed individually with each company by melding theory to the organization's day-to-day routine so that the best growth strategy can be chosen, as well as the best way to achieve it.

Figure 2 – PEC: Business Growth Project



- **The Sponsors' Committee:** It is made up by local and international professors, managers and executives from the FDC community from the fields of Market, Finance, People and Sustainability. This group will sponsor the main executive from the partner company.

Its role will be to validate management models as well as to offer conceptual and referential knowledge and shared knowledge.

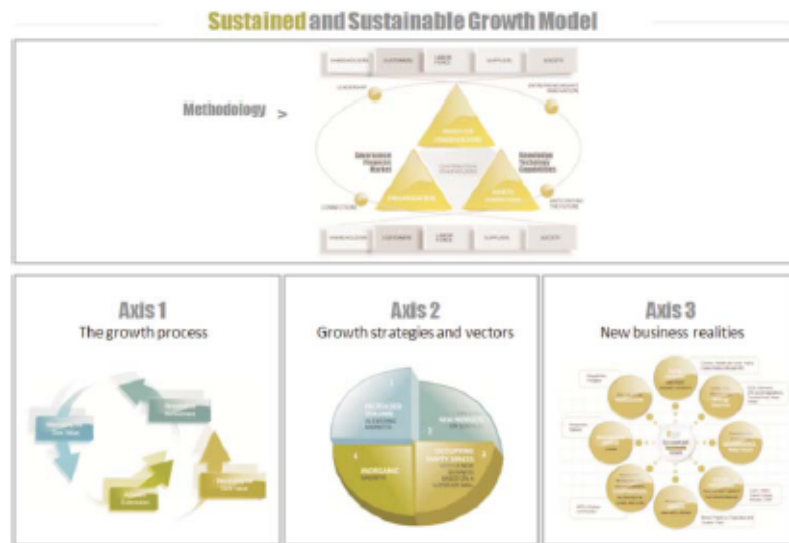
- **Cooperation and Exchange:** This pillar is based on FDC's accumulated experience that proves how efficient learning is when it is based on an exchange of experiences among companies. The presidents' committee: four annual meeting on themes related to sustained and sustainable growth with professors, entrepreneurs, domestically and internationally renowned executives, where companies share experiences.

- **Business Logic:** An annual structured visit, either domestic or international, to benchmark with other companies, business schools, reference centers, fairs or financial institutions to understand the logic of their businesses and their sustainable practices. These visits will be organized by the technical coordinator for each ongoing group.
- **Monitoring the Implementation of the Business Growth Projects:** Mentoring by an FDC professor while carrying out the projects and cooperating with their peers on the difficulties and the successes, innovation, etc.
- **Meeting to Assess Results:** Six results assessments focused on the short-term economic/financial and sustainability pillars of the Business Growth Project.

### **3. GROWTH WITH SUSTAINED AND SUSTAINABLE: THE MODEL**

Development and Growth has been a topic of debate for some decades, but it has recently intensified in a stimulating way due to the radical economic changes that have shaken the world, the strong increase in social tensions and the constant degradation of the environment. Within such an unbalanced context, an alternative proposal for Sustainable Development and Growth arises - aiming for social inclusion, economic well-being, and the preservation of natural resources – that may become compulsory in the business world. Such is the hypothesis articulated (Figure 3).

Figure 3 – Model for Sustained and Sustainable Growth



#### 4. THE GROWTH FORMULA

The growth model that we have developed at Fundação Dom Cabral stems from observing, following-up and studying companies that have managed to prosper and grow. It is based on the Process, Strategies and Emphasis set that makes up what we consider as Growth Axes, brought together within a methodology that focuses on stakeholder management. The Integrated Model for Sustained and Sustainable Growth (Figure 4) displays the aforementioned methodology.

#### 5. THE AXES OF SUSTAINED AND SUSTAINABLE GROWTH

##### 5.1. Axis 1: The growth process

The role of the leadership is to identify the next emerging opportunity, as the market matures. This is a fundamental effort for mature organizations, because it is inevitable that its core business growth will slow down, stop growing and begin to decline. This has been the outcome of consistent offers within a competitive and constantly changing world. Actually, there is a natural trend for businesses to decline as they mature. To keep this from happening, it is necessary to find new opportunities. Business growth plans begin by assessing existing Business Units and the opportunities they offer. As events unfold, such units must predict future growth based on their



managers' perspectives. Deep down, the method practiced by managers aims to create efficiency round known tasks, adding value to existing structures, working at maintaining the brand and expanding the business within the scope of established products and services. As they can already manage well that which they know, they seek to expand this basis.

### **5.2. Axis 2: Growth strategies and vectors**

How is it possible to promote growth without compromising short-term results or risking damage to processes and personal relations within an organization? In other words, how to grow sustainably? Although we do not have a magic formula, let us analyze some tools that have been adopted by companies that have been able to grow successfully through long periods.

Our aim is to go deeper into one of the growth model strategies presented by assessing the results of such positioning. Every company, whether it is a large multinational or a startup, will face the same challenge: how to make the business prosper so that profits will grow and shares will increase in value? However, it frequently happens that companies will find it difficult to keep on growing, because they become risk-averse and opt for incremental product increase (safer) and for better services instead of launching themselves into more daring project.

### **5.3. Axis 3: New business realities**

True profit accrues from social and environmental responsibility that melds the sustained to the sustainable. Although they are currently confused with each other, those two concepts do not represent the same thing.

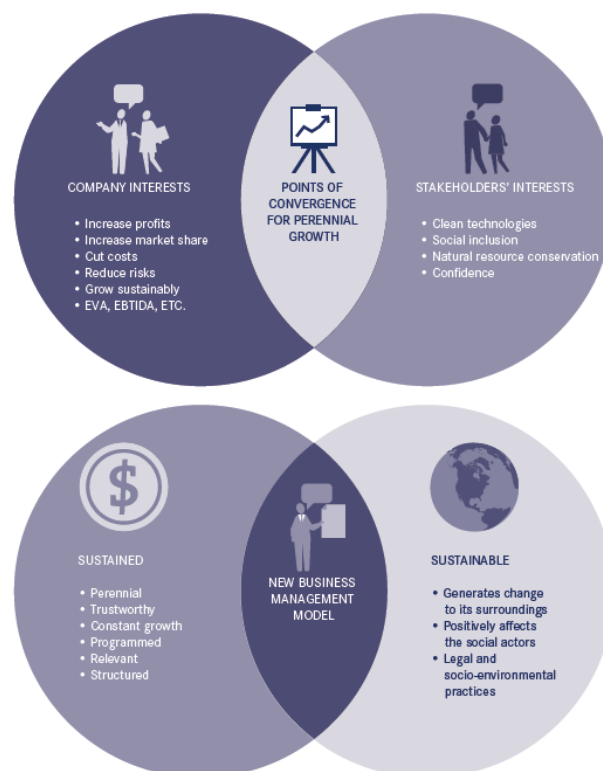
Sustained growth is a form of constant and lasting growth in which maintaining the factor that allows for continuous growth is assured.

Sustainable growth is related to environmental issues and it is based on the fact that we must not grow just for growth's sake, while destroying finite resources with no criterion and usefulness and thus making the development of future generations unfeasible.

According to the Houaiss dictionary, Sustainable is that which can be sustained; passive of being sustained, and Sustained is that which sustains or has sustained itself; supported, financed; that which receives or has received means to survive; maintained, fed. Therefore, in the former sustainability is only possible, while in the latter it is effective.

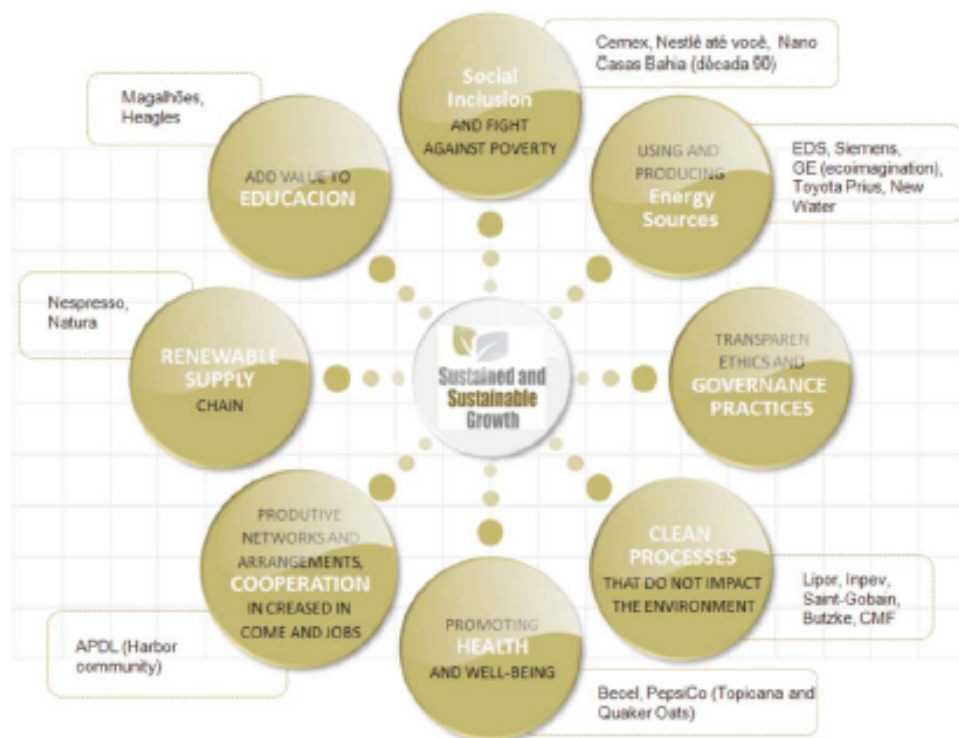
Economic and ecological thinking conflicts with these two definitions whose names are so similar and whose concepts are so antagonistic, and it even considers that they cannot even be compared. It is through sustained growth - the result of enhancing the economy's potential productive capacity - that we will consolidate the country we wish for by means of generating jobs, distributing income and social inclusion. In other words, sustainable growth would be impossible. In its physical dimension, the economy is an open subsystem of the planet's ecosystem, which is finite, not growing and materially closed. Words that seem to be exclude each other mutually, but which will reinforce an expression within the context (Figure 4).

Figure 4 – The Partnership's Conceptual Model



New markets are developed by creating new frontiers for business (Figure 5). Markets that had not been previously taken into account because of low revenues will represent new opportunities. We need great creativity to find ways to reach these potential markets. We need creative innovation and business models, product configuration and services that aim to reach the base of the pyramid.

Figure 5 - Growth and Benefits to Stakeholders



## 6. CONCLUSION

Sustainability is compatible with growth, and not a barrier to it, because it brings great commercial benefits to companies. The relationships built as time goes by will bring competitive advantages and opportunities, and tacit reciprocity will permeate interactions. Senior leadership, mainly the most visionary and strategic one, can

perceive the lasting effect of stakeholder management and dedicates its time to cultivating such relationships. Nevertheless, it is common that there will be some distancing - as regards management readiness and perspective to maintain relationships - among the highest levels of leadership and executive management at a company. Everyone knows that business is increasingly subject to the impact of sudden changes in the economy and that the positions that have been conquered are increasingly ephemeral. What is still little perceived is how stakeholder management can be useful at reducing risks and leveraging opportunities.

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# Female vs. Male Entrepreneurship – is there a difference?

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**Abstract**

Entrepreneurship can be defined as the readiness of an individual to take a risk and start a new business in order to realize profit. The person who decides what to create for whom and how is called an entrepreneur. To be a successful entrepreneur one has to possess certain characteristics. The characteristics that mostly describe entrepreneurial competence include planning and managing projects in order to achieve objectives, mostly in a complex environment, including creativity, innovation and risk taking ability. This paper provides overview of findings of various entrepreneurial competence research by comparing the crucial aspects of competences that entrepreneurs, both male and female are expected to have, with the physical and psychological characteristics of female and male managers that are correlated to the business performance and it's monitoring in strategic leadership context. Variety of studies shows the connection of entrepreneurship competencies and gender, claiming that women worldwide own and manage less business than men, they tend to focus on different business sectors than men, and have different socioeconomic conditions such as education, social status, financial capacities and similar (Minniti and Naudé, 2010).

This paper provides a comprehensive framework of knowledge, skills and attitudes necessary for the fulfilling a successful role of entrepreneur in a complex gender environment as well as comparison between female and male characteristic in correlation with being a successful entrepreneur.

**Keywords:** entrepreneurial competence, female entrepreneurship, competence research, gender.



## 1. INTRODUCTION

Entrepreneurship is vividly described as the engine of economic prosperity and is observed as in close relations to economic growth. The importance of entrepreneurship is even more emphasised and stressed as a possible response to existing economic crisis. Therefore, significant factor of development planning in any business sector is the development of entrepreneurial competence. This paper will focus on differences and similarities of competences features of male and female entrepreneurs and their comparisons aiming to identify potential gender specificities in that area.

EU has identified entrepreneurship as one of eight key competences that are necessary to everyone for personal development, active citizenship, social inclusion and employment. Entrepreneurship includes creativity, innovation, risk taking, planning and management, and is described as transferring ideas into action. It is also about identifying opportunities and developing possibilities taking into account moral values and ethnical standards (Official Journal of the European Union, 2006: 3-11). As explained in the publication of the EU called "Green Paper - Entrepreneurship in Europe", entrepreneurship is foremost a mindset, specifically motivation, capacity and willingness of an individual to identify and pursue an opportunity with a goal of creating new value of profit (European Commission, 2003: 5-6).

We can explain competency through various definitions, but all of them identify three types of features of that concept, and those are: knowledge, skills and attitudes (or characteristics, values etc.). There are other features that are part of the mentioned "main three features" competences or are significantly connected to them such as: beliefs, abilities, wisdom, expertise, values etc. All those features have a great influence on job performance of an individual and are or can be improved by training and education. Therefore, the key issue in business performance is identifying and building competences. We can use and apply Entrepreneurial Competence in a variety of business sectors and jobs. We will focus on male and female characteristic of an entrepreneur. Keep in mind that this data is generalized and does not indicate the

views of the authors but merely serves as a starting point in determining the basic differences in male and female entrepreneurship.

## **2. FEMALE AND MALE ENTREPRENEURS' CHARACTERISTICS**

There are numerous definitions and lists of an entrepreneurs properties and one of the most influential is the Gibbs list of entrepreneurs characteristics: taking initiative, persuasion, (reasonable) risk taking, flexibility, creativity, independence, problem solving, need for accomplishments, imagination, belief in controlling your own destiny, leadership abilities and work persistence (Gibb, 1987 referenced by Baranovic, Stribic and Domovic, 2007: 342). Innovativeness and creativity are also required along with firm knowledge of management and business. There are also readiness to take risks, independence and self-realisation as specific characteristics of entrepreneurial behaviour (European Commission, 2003: 5-6).

A gender difference in diffusion of entrepreneurship has been a topic of many studies over decades. Numerous studies have shown a higher prevalence of entrepreneurship for man than that for women with similar backgrounds (e.g., Haber, Lamas and Lichtenstein, 1987; Brush, 1992). Also this gender difference tends to be robust across countries and cultures. In an ideal world every person, regardless of age, gender, origin, financial status should have an equal opportunity to realize his/her potential. Taking in account this statement, the question about the potential of female entrepreneurship arises.

If female and male characteristics are compared with regards to leadership and management abilities, started from the physical diversities, the basic difference is that female brain is defused and uses significant portions of both hemispheres, so it's able to multitask, whereby the male brain is specialized and uses specific parts of one hemisphere or the other, mainly the left one, in order to accomplish specific task. Average weight of an adult male brain is 11 – 12 % more than the average brain weight of a female. Due to their larger corpus collosum women can transfer data between the right and left hemisphere faster than men. Furthermore, female are more creative and more aware of feelings whereby male are dominantly task-oriented, and their

perceptual sense is vision. Females have broader perspective of things whilst males focus more on narrow issues.

In a decision making process, the female are less risk taking then male (Heilman et al., 2004). Several large scale studies on female and male entrepreneurship conducted on several nations revealed that female entrepreneurs are less successful in objective success measures, including lower sales, slower growth, and lower profits (Brush, Carter, Gatewood, Greene and Hart, 2006; Welter, Smallbone and Isakova, 2006). If we compare female and male entrepreneurs, women entrepreneurs are less likely to seek start-up capital (Fay and Williams, 1993) as well as angel financing (Becker-Blease and Sohl, 2007). They also have less financial and human capital (i.e. education and quantity of work experience) invested in their start ups, and less access to business clients beyond their traditional household clientele. Women are to some extent discriminated at various stages of entrepreneurship that include lower salaries and the conflict between work activities and motherhood.

### **3. FEMALE ENTREPRENEURSHIP – WHAT IS ACHIEVED AND WHAT STILL HAS TO BE DONE?**

General-held gender stereotypes exist in many countries against woman entrepreneurs (Marlow and Patton, 2005) and in this part of the paper we will focus on Female Entrepreneurship. Entrepreneurial career is generally associated with masculine characteristics (Buttner and Rosen, 1988; Ahl, 2006; Lewis, 2006). Several studies have demonstrated that these gender role stereotypes influence men's and women's intention to pursue an entrepreneurial career (Fagenson and Marcus, 1991; Gupta, Turban and Bhawe, 2008). These stereotypes may result in female entrepreneurs' stronger self – imposed barriers to growth and less favorable perceptions of themselves and the entrepreneurial environment, as compared to male entrepreneurs (Langowitz and Minniti, 2007). Consequently, many women entrepreneurs tend to use entrepreneurship as a means of balancing work and family, rather than achieving final success (Brush, 1992; Bird and Brush, 2002; Kepler and Shane, 2007).

Several studies show that in transition countries, female entrepreneurship has a strong significance for their development. In businesses managed by females, employment of other women is encouraged which leads to elimination of discrimination of woman on labor market. Women's trafficking is also one of the arising problems in transitional countries which can be managed by encouraging female entrepreneurship and in the end it serves as a model for reduction of unemployment for new generations of women on labor market.

Based on data analysis, active policy and legislative basis in the Republic of Croatia we can generate three scenarios regarding future developments of the role of woman in entrepreneurship.

The first scenario regards set backs which features return of promoting a strong traditional role of women in the society. Such attitudes discourage woman in realizing their full potential.

Second scenario is a scenario of keeping the current situation (status quo). In that case share of woman in leading positions in entrepreneurship will stagnate or small steps forward will be made.

Third scenario (Open Doors) foresees growth of number of women in entrepreneurship and leading positions in businesses.

To achieve third scenario it is necessary to create strategies for female entrepreneurship development. It is also important to harmonize practices and create a legal basis for numerous institutions that follow data on activities of business entities.

The indicators of companies' business activities show that female entrepreneurship is currently mainly being developed in micro-sized and small-sized enterprises, mostly through self-employment.

Woman entrepreneurs' main strengths are innovativeness, determination and persistence that they have in order to achieve their goals. With years of experience the initial weaknesses disappear and they gain customers' trust, position on the market, they feel the power, but also the burden of earned reputation.

Although due to less risk taking abilities and cultural context, women are still strengthening their position as entrepreneurs, and even though there are still some stereotypes of female entrepreneurs, in the area of Project management and especially in managing EU funds, women have a strong position.

The activity of institutions and individuals are all equally important for prosperity and only our joint approach to the problem can bring things forward and increase opportunities for woman in entrepreneurship.

#### **4. CONCLUSIONS**

Being an entrepreneur means turning ideas into actions, but to make that happen one must of course have a set of competences to do it. Although there are a variety of different definitions and descriptions of what entrepreneurs and their competencies are, they all have some basic similarities and differ in aspects according to a specific author. The following entrepreneurial competences are determined as: management of a business entity, human resources management, identifying business opportunities, assessing, taking and managing risks, communication skills and networking, adaptability and imagination.

Talking about gender balance in an entrepreneurial environment, although studies have shown that entrepreneurship has a higher prevalence among man than women and the existing stereotypes about woman entrepreneurs, we can approach that problem through the series of characteristics and abilities necessary for a successful entrepreneur. Analysing male and female leadership and management abilities we can generalize and state that women are better managers due to the fact they have a stronger multitasking abilities, broader approach on things and less risk taking appetite, and male are more dominant entrepreneurs because of more ability to enter an unsecure area, their focus on narrow issues and their visionary approach. Taking those arguments into account, a gender balanced environment, is a precondition, both in companies as well as in projects to success and production of results, whereby good communication is a must. Although woman are still strengthening their position as entrepreneurs, we can say that, due to their specific abilities and characteristics of an

entrepreneur that differ them from men, they are reinforcing their position in companies and projects and are in that way achieving better gender balance.

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