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Letter from the Managing Editor

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The year 2020 has been marked by, among other aspects, the global coronavirus pandemic. This phenomenon, ignoring the innumerable damages to people's health, has led to a change in practically all areas of life, among which are educational environments. Likewise, it has meant a paradigm shift in companies towards a rapid and growing digitization, which, although present before, has been accelerated by the current emergency situation. In effect, an immeasurable cast of disruptive changes is brewing, accelerating the transformation of production processes. A series of vaccines will be implemented in the coming weeks, with the aim of overcoming this complex situation, with a progress return to normality. At Harvard Deusto Business Research, we have continued to work consistently, advancing in the generation of new knowledge. In this issue, which represents the last of Volume IX, numerous authors from different countries of the world collaborate.

The first article, whose author is Antoni Olive Tomas, deals with the results of a multiple case study conducted to analyze the question of how business opportunities are recognized by examining two theoretical proposals related to two topics: on the one hand, the role of prior knowledge in the discovery of opportunities and, on the other hand, if the opportunities are perceived without seeking them or whether they can be the object of a systematic and restricted search.

Patricia Vargas Portillo, in the second article, analyzes the recommendations that influencers, through social networks, are making on the Internet. For this, the author studies the legal norms adopted in this regard, as well as the codes of conduct that specifically apply. The latter are a suggestive complement to the current regulations on the subject.

In the subsequent article, Antonio Vives studies how corporations recognize their social responsibility and that their purpose goes beyond maximizing profits. This understanding has been intensified by recent crises, during which corporations have realized that they can and should also contribute to alleviating some societal needs. As the author points out, there are precise changes in strategy, culture, structure, governance and management processes, among others, whose analysis is the purpose of this article.

Next, the case of Engie, which is a French energy company, is analyzed as a transformation of the business model. The authors of this article - Jorge Hernando Cuñó, Jorge Colvin Díez and Javier Antonio Enríquez Román - show how this company is adapting to a new energy business environment characterized by three trends: decarbonization, decentralization and digitalization. To achieve this objective, Engie has carried out a plan focused on renewable energy sources, local energy generation and new technologies. Likewise, the company has developed a new strategy with the objective of

becoming the world leader in the zero carbon transition as a service, helping companies and local authorities reduce their carbon footprint in their operations.

Sarah Philipson, next, alludes, in her suggestive work, to the phenomenon of differentiation made possible by branding or innovation or a combination of both. The document focuses on innovation as a differentiating strategy and on temporary monopoly rent as an engine of innovation.

The following study refers to poverty alleviation and competitiveness in the agroindustrial sector in Latin America. Its authors -Renata Kubus, Tania Elena González Alvarado, and José Sánchez Gutiérrez- analyze the proposal that the productive units of the Latin American agroindustrial sector evolve from internationalization towards their product offerings aimed at “the local” in response to changes in the world stage. To achieve this objective, they perform a documentary analysis and an analysis of secondary sources on the impact of coronavirus on the Latin American economy at the world stage.

Voluntary and flexible work agreements and their effects on managers and employees are the objects of attention by Joanna Karmowska and Stuart Sanders. They evaluate results as they relate to the work performed, specifically job satisfaction and the commitment of the organization, as well as the well-being of employees. The results indicate that flexible labor agreements have both positive and negative impacts on employee well-being.

The next article, by Chux Gervase Iwu, Rylyne Nchu, Abiola Abimbola Babatunde and Charmaine Helena, refers to the influence of background on entrepreneurial intention in university students. Knowing whether university students will assume entrepreneurship upon graduation bodes well for any economy, especially developing economies, because it will help governments and other stakeholders plan better. This study was aimed at university students to understand how they perceive entrepreneurship, the factors that may dissuade them from starting an entrepreneurial career, and whether they consider themselves capable of being entrepreneurs. It is worth emphasizing that if university students adopt a business career, unemployment will be reduced, and subsequently, poverty and inequality will be mitigated.

Next, Pablo Medina Aguerrebere, Toni González Pacanowski, and Eva Medina analyze how the ten most reputable pharmaceutical companies in Spain use Facebook to improve their corporate image. To do this, the authors review the literature on corporate communication, health organizations and social networks. Then, they study the corporate profiles of the companies on Facebook using different indicators related to corporate communication.

Likewise, a review of the book *Cyberdiplomacy: Managing Security and Governance Online* is included. The diplomatic perspective of cyberspace is based on the concurrence of an international community in which groups that are not only technical should collaborate. In any case, we could ask ourselves if the growing diversity of nongovernmental actors would make governing the network more affordable or more difficult to achieve. In the author's opinion, the difference between the physical and virtual world is increasingly tenuous. Diplomats, academics and strategists, in general as they work, should be aware that the cybernetic world represents an extension of the physical world.

Finally, I wish to convey our sincere thanks to the authors for their efforts, to the editorial committee and to the reviewers for their collaboration and to the readers for their warm welcome. Likewise, I do not want to end the presentation of this new issue of Harvard Deusto Business Research without emphasizing that together we will overcome this complicated situation related to the global pandemic thanks to the collaboration and responsibility of each and every one of us. Thank you all very much.

Passive, non-systematic search as an alternative to systematic search in opportunity discovery

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Abstract

This paper summarizes the results of a multiple-case study conducted to shed light into the question of how business opportunities are recognized by examining two theoretical propositions related to two topics: 1) the role of prior knowledge in the discovery of opportunities, and 2) whether opportunities are noticed without deliberate search or can be the object of a constrained, systematic search. We studied five Spanish companies and eight business opportunities. All the opportunities of the multiple-case study were recognized thanks to the prior knowledge of the entrepreneurs. In addition, the entrepreneurs only discovered opportunities related to their prior knowledge. None of the opportunities was discovered by noticing without search, as the alertness perspective contends. Some of them were the result of a systematic search constrained to the entrepreneur's prior knowledge, but most of them were discovered by searching passively and non-systematically within the knowledge domain of the entrepreneur. This result suggests the passive, non-systematic search as an alternative to the systematic search.

Key words

Business opportunities; prior knowledge; entrepreneurial alertness; pattern recognition; systematic search; passive, non-systematic search.

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1. Introduction

Business opportunities, defined as the match between an unfulfilled market need and a solution that satisfies the need (O'Connor & Rice, 2001), are identified by specific persons and not others. The reason why some persons and not others recognize particular opportunities (Baron, 2004) has to do with the fact that information is not evenly distributed (Shane & Venkataraman, 2000; Minniti, 2004). According to these authors, opportunities exist because there are asymmetries of information. Distribution of information across the population and thus asymmetries of information gives rise to a prominent role of the entrepreneur's prior knowledge in the discovery of opportunities. Venkataraman (1997), Shane (2000), Shane and Venkataraman (2000), and McMullen and Shepherd (2006) claim that idiosyncratic prior knowledge determines who recognizes opportunities and who does not.

However, the entrepreneurial alertness perspective (Kirzner, 1979; Kaish & Gilad, 1991) contends that opportunities are noticed without deliberate search, by accident, involving surprise, and that the entrepreneur's prior knowledge is not relevant. In line with the alertness perspective, Shane (2000) and Baron (2006) say that entrepreneurs recognize opportunities without actively searching for them, but they differ with entrepreneurial alertness in the role of prior knowledge: entrepreneurs only discover opportunities related to their idiosyncratic prior knowledge (Shane, 2000) and they use cognitive frameworks developed through their previous life and work experience (Baron, 2006).

Finally, while the alertness perspective argues that opportunities cannot be the object of systematic search (Kirzner, 1997), the constrained, systematic search perspective states that entrepreneurs can systematically search for opportunities, and that their prior knowledge circumscribes the domain within which to search (Fiet, 2007).

The literature we have reviewed is not conclusive on two topics: 1) the relevance of prior knowledge in the identification of opportunities, and 2) whether opportunities are noticed without deliberate search or can be the object of a constrained, systematic search. Hence, the role of prior knowledge and the potentiality of a systematic search merit further research efforts. The mentioned two topics relate to the broader question of how business opportunities are recognized. In turn, we may expect that answers to this research question will provide with new insights into the question of why some persons and not others recognize particular opportunities.

The case study was chosen as the research methodology. We studied five Spanish companies and eight business opportunities. Two theoretical propositions were drawn from the literature review to guide data collection and analysis.

The paper is organized in the following sections: theoretical background, methodology and theoretical propositions, multiple-case study, results, discussion and conclusions.

2. Theoretical framework

In this section, we summarize the literature review, covering several topics related to opportunity recognition: the role of prior knowledge, the entrepreneurial alertness perspective, the process of pattern recognition and the constrained, systematic search, a perspective alternative to entrepreneurial alertness.

The mentioned constructs are interrelated, as suggested by George et al. (2016). They review literature on how individuals recognize entrepreneurial opportunities published in the last three decades and classify existing contributions into six influential factors: prior knowledge, social capital, cognition/personality traits, environmental conditions, alertness, and systematic search.

2.1 Idiosyncratic prior knowledge

Why some persons and not others recognize particular opportunities (Baron, 2004) is a recurring question in the relevant literature. An entrepreneur's prior knowledge and experience play a critical role in his ability to identify and exploit entrepreneurial opportunities (Arentz, Sautet, & Storr, 2013). Venkataraman (1997) argues that each person's idiosyncratic prior knowledge creates a knowledge corridor that allows her to recognize certain opportunities, but not others. Shane and Venkataraman (2000) state that recognition depends on two factors, the possession of the prior information necessary to identify the opportunity and the cognitive properties necessary to value it. McMullen and Shepherd (2006) say that an opportunity is only an opportunity for those possessing the necessary knowledge. Guided by insights from cognitive theories, Ucbasaran, Westhead, and Wright (2009) explore the links between entrepreneurs' prior business ownership experience and their opportunity identification behavior. They conclude that experienced entrepreneurs identify more opportunities and exploit opportunities with greater wealth creation potential. Gruber, MacMillan, and Thompson (2008) find that serial entrepreneurs learn through prior start-up experience to generate a "choice set" of alternative market opportunities before deciding which one to pursue in their new firm creation. However, Gruber, MacMillan, and Thompson (2013) find that founding teams with more diverse industry experience and more diverse external knowledge sourcing relationships identify a larger number and more varied market opportunities.

Fuentes et al. (2010) analyze the effects of prior knowledge and social networks on the exploitation of entrepreneurial opportunities. In their study, the prior knowledge considered is associated with the successes and failures experienced in the entrepreneurial trajectory and, therefore, derived from the exploitation of prior opportunities. They show that the number of previous opportunities successfully exploited and the strength of entrepreneurial social networks positively influence the number of opportunities developed and exploited.

Arentz, Sautet, and Storr (2013) show that participants in a laboratory experiment with prior knowledge that oriented them toward an opportunity were significantly more likely to discover the opportunity than participants with prior knowledge that oriented them away from the opportunity.

Hajizadeh and Zali (2016) offer a comprehensive framework of key effective factors that explain the role of prior knowledge and cognitive characteristics of entrepreneurial alertness and learning in opportunity recognition. Moreover, they demonstrate that both entrepreneurial alertness and learning partially mediate the relationship between prior knowledge and opportunity recognition.

Shane (2000) claims that entrepreneurs recognize opportunities related to the information they already possess. More concisely, they recognize opportunities without actively searching for them, but only those opportunities related to their idiosyncratic prior knowledge. He remarks that the sources of idiosyncratic prior knowledge are education, work experience and personal event. Marvel and Lumpkin (2007) investigate how the experience, education, and prior knowledge of technology entrepreneurs relate to innovation radicalness. They suggest that general and specific human capital are both vital to innovation outcomes. Innovation radicalness was positively associated with formal education and prior knowledge of technology, but negatively associated with prior knowledge of ways to serve markets, a counterintuitive conclusion—the less technology entrepreneurs know about ways to serve a market, the greater their chances of using technology knowledge to create breakthrough innovations within it.

In sum, idiosyncratic prior knowledge determines who recognizes opportunities and who does not, assuming beforehand that information is not evenly distributed and thus opportunities exist because there are asymmetries of information (Shane & Venkataraman, 2000; Minniti, 2004).
Entrepreneurial alertness

Kirzner (1979) defines entrepreneurial alertness as the ability to notice opportunities without search. Kaish and Gilad (1991) say that opportunities are discovered without a deliberate search, and simply when encountered. Kirzner (1997) states that opportunities cannot be the object of systematic search because individuals do not know what do not know. Opportunities are discovered by accident and discovery involves surprise. Therefore, entrepreneurial alertness contends that entrepreneurs are receptive to opportunities but do not engage in a formal, systematic search for them.

Kaish and Gilad (1991) confront general alertness to directed and rational search, and hypothesize that, in comparison with managers, entrepreneurs exhibit general alertness by spending more non-business time searching for opportunities, and are less likely to use obvious business sources and to rely on conventional analyses, and more likely to rely on subjective impressions.

Tang, Kacmar, and Busenitz (2012) suggest that personal disposition, prior experience, and experiential learning (Corbett, 2005; Lumpkin and Lichtenstein, 2005) enhance alertness, a capability that can be learned and improved with formal training or constant reminders. The authors detail three dimensions of alertness: systematically or non-systematically searching for new information; connecting disparate pieces of information; and evaluating whether the new information represents an opportunity.

Gaglio and Katz (2001) refer to the difference between alert and non-alert individuals. Alert individuals are sensitive to signals of market disequilibrium, while non-alert individuals do not detect or ignore or discount them.

There is a relationship between entrepreneurial alertness and prior knowledge. Ardichvili, Cardozo, & Ray (2003) identify entrepreneur's personality traits, social networks, and prior knowledge as antecedents of entrepreneurial alertness to business opportunities, and say that entrepreneurial alertness is a necessary condition for the success of the opportunity identification triad: recognition, development, and evaluation. Sambasivan, Abdul, and Yusop (2009) study the role of personal qualities, management skills, and opportunity recognition skills of entrepreneurs in influencing the venture performance, and show that that alertness mediate the relationship between personal qualities and venture performance, and that alertness and prior knowledge mediate the relationship between management skills and venture performance.

Puhakka (2011) uses a creative-cognitive perspective to explore alertness to business opportunities. The entrepreneur's creative cognitive process, internal creative qualities, and environmental conditions supporting or hindering creativity are elements of a model of business opportunity recognition and have a significant impact on the innovativeness of the business opportunity. The aim of the model is clarifying why some entrepreneurs create novel ideas while others just copy the old and used ones.

Valliere (2013a, 2013b) uses theoretical approaches from cognitive psychology to examine how entrepreneurial alertness leads the individual to pay attention to new opportunities, and develops a model to show how entrepreneurial alertness and attention work together to support the recognition of opportunities. In this model, entrepreneurial alertness is seen to be the application of unique schemata that allow the entrepreneur to impute meaning to environmental change. The alertness that allows entrepreneurs to see opportunities where others do not arise from differences in schematic richness, schematic association, and schematic priming.

Jiao et al. (2014) claim that knowledge acquisition through social networks with suppliers, manufacturers and distributors has a positive effect on entrepreneurial alertness to business ideas. Moreover, entrepreneurial alertness plays a mediating role between sources of knowledge acquisition and entrepreneurs' innovativeness.

Lim and Xavier (2015) study the potential effect of entrepreneurial alertness, prior knowledge and social network on opportunity recognition and, ultimately, on reaping the rewards of superior business performance.

Li, Wang, and Liang (2015) examine the influence of entrepreneurial experience, alertness and prior knowledge on opportunity recognition using the novice–experienced entrepreneurs contrast paradigm. They conclude that entrepreneurial alertness significantly and directly predicts opportunity recognition, whereas prior knowledge significantly and indirectly affects opportunity recognition through its impact on entrepreneurial alertness. The entrepreneurial alertness of novice entrepreneurs significantly influences their opportunity recognition; in contrast, the prior knowledge of experienced entrepreneurs greatly influences their opportunity recognition.

Miao and Liu (2010) show that individual psychological factors such as entrepreneurial alertness and prior knowledge are the antecedents of entrepreneurial opportunity recognition and influence entrepreneurial decision-making.

Lee Lim, Lee, and Ramasamy (2014) examine the role of entrepreneurial alertness as a mediator to personality traits, prior knowledge and social capital in influencing the potential of entrepreneurial intention, and conclude that there are significant relationships between the three variables—prior knowledge, social capital and personality traits—with the entrepreneurial intention which is mediated by entrepreneurial alertness.

Brockman (2014) presents a model to extend the contributions of Tang, Kacmar, and Busenitz (2012) and Valliere (2013), by further delineating the components and antecedents of entrepreneurial alertness, connecting the construct to opportunity identification and opportunity development, and introducing entrepreneurial intention as a moderating factor.

Adomako et al. (2018) hypothesize that variations in new venture performance are a function of levels of entrepreneurial alertness and networking capabilities, and find that increases in the levels of entrepreneurial alertness are related to increases in new venture performance. Additionally, they find that, under conditions of increased use of social and business networking capabilities, the power of entrepreneurial alertness as a driver of new venture success is amplified.

Roundy et al. (2018) explore the role of entrepreneurial alertness in the identification and creation of opportunities in mature organizations that are responding to an environmental disruption, and find a direct effect of entrepreneurial alertness on strategic change decisions and organizational performance.

Shane (2000) concurs with entrepreneurial alertness in that individuals discover opportunities without actively searching for them, but differs in that they only discover opportunities related to their idiosyncratic prior knowledge, while entrepreneurial alertness claims that prior knowledge is no relevant.

2.2 Pattern recognition

Baron (2006) claims that opportunities can be noticed by individuals who are not actively searching for them by using their cognitive frameworks, developed through their previous life and work experience, to connect the dots, perceive links between seemingly unrelated trends, changes and events. The patterns are only perceived by those equipped with these frameworks and are the basis for identifying opportunities. Baron (2004) suggests that individuals compare ideas for new products with their cognitive framework for “business opportunity;” then, a close match means a potential opportunity identified. Because individuals have unique life and work experiences, their cognitive frameworks are also different in content (Baron & Ensley, 2006). That is the reason why some persons and not others recognize opportunities (Baron, 2004).

Pattern recognition requires information processing. In this vein, Vaghely and Julien (2010) develop a model of human information processing which provides a frame to help understand the entrepreneur’s use of information to identify opportunities. Their model integrates an algorithmic or pattern type of information processing and a heuristic or trial and error type of information

processing into a pragmatic frame of the entrepreneur's opportunity recognition-construction mechanism.

Pattern recognition also requires a mental leap. Grégoire and Shepherd (2012) study the effects that differences among opportunities may have on their identification. Relying on cognitive science research on the use of similarity comparisons in making creative mental leaps, they develop a model of opportunity identification that includes both the independent effects of an opportunity idea's similarity characteristics and the interaction of these characteristics with an individual's knowledge and motivation. They conclude that the similarities of technology-market combinations impact the formation of opportunity beliefs and that individual differences in prior knowledge and entrepreneurial intent moderate these relationships.

2.3 Constrained, systematic search

The constrained, systematic search is a perspective alternative to entrepreneurial alertness. Fiet and Patel (2006) claim that discovery depends on an overlap between an entrepreneur's idiosyncratic prior knowledge and the knowledge domain of a particular venture idea. In contrast to the alertness perspective, which considers the role of prior knowledge as not relevant because discoveries occur accidentally, Fiet (2007) argues that prior experience circumscribes the domain within which to search, and that entrepreneurs are not equally competent to discover every venture idea because knowledge derived from experience is idiosyncratic. Specific knowledge prequalifies entrepreneurs to discover ideas within their domain, and allows them to search more effectively than if they were scanning outside their domain, or random scanning, or not-looking-at-all, or having the whole world to search (Fiet, Piskounov, and Patel, 2005).

The authors of the constrained, systematic search perspective say that repeat entrepreneurs, those who have a successful track record, limit their search to their prior knowledge (Fiet et al., 2006), or to domains in which they have experience and competence (Fiet, Norton, and Clouse, 2007), or to known domains (Fiet and Patel, 2008). Fiet, Norton, and Clouse (2013) present evidence of the use of Fiet's model of constrained, systematic search by repeatedly successful entrepreneurs. The model offers a prescriptive alternative to the advice of remaining alert and provides guidance on how to improve search effectiveness. On the basis of assumptions from information economics, Fiet et al. (2015) find that repeat entrepreneurs rely more on knowledge specific to a prospective new venture—as opposed to knowledge acquired through education—than discontinued entrepreneurs.

Patel and Fiet (2011) say that differences in knowledge structures and combinative capabilities provide family firms with distinct advantages over nonfamily firms in identifying opportunities and use the constrained, systematic search framework to explore how noneconomic goals and family relations enhance searching for opportunities. Differences in knowledge combinations and the long-term orientation of family firm managers explain differences in finding opportunities between family and nonfamily firms. Furthermore, they suggest that family firms are more likely to improve their search routines over time. In particular, fewer endgame scenarios in family firms allow the refinement of search routines.

There is a relationship between prior knowledge and information search. According to a research by Ucbasaran, Westhead, and Wright (2008), entrepreneurs with specific (i.e. business ownership experience) rather than general (i.e. education and work experience) human capital identify and pursue more business opportunities. Also, entrepreneurs reporting higher information search intensity identify more business opportunities. Finally, the use of publications as a source of information was positively associated with the probability of identifying more opportunities, while information emanating from personal, professional and business networks was not.

3. Methodology and theoretical propositions

The literature review focused on two topics: 1) the role of prior knowledge in the recognition of opportunities, and 2) whether opportunities can be the object of a systematic search or are noticed without search by alert entrepreneurs. They relate to the broader question of how business opportunities are recognized. The case study was chosen as the research methodology because the research question starts with a “how” (Yin, 2017) and the purpose of the research is to understand a specific phenomenon and to build theory from qualitative evidence, rather than to test hypothesis and generalize findings. We studied five Spanish companies (AUSA, Atrápalo.com, Naturhouse, Buff and Paellador), and eight business opportunities (AUSA mini cars, AUSA dumpers, AUSA EcoSite, Atrápalo.com theater tickets, Atrápalo.com flights and hotel rooms, Naturhouse, Buff and Paellador). In this research, the unit of analysis was the opportunity, not the legal entity or firm. We interviewed 5 managers (1 founder, 4 managers) from AUSA (total duration of the recordings: 9 hours), 3 founders-managers from Atrápalo.com (total duration of the recordings: 4 hours), and 5 managers (2 founders, 3 managers) from Naturhouse (total duration of the recordings: 6 hours). AUSA and Naturhouse are family firms while Atrápalo.com is owned by the four founders and a venture capital.

Two theoretical propositions were drawn from the literature review:

Proposition 1: idiosyncratic prior knowledge determines who discovers opportunities and who does not.

Proposition 2: alertness determines who discovers opportunities and who does not. Prior knowledge is not relevant.

Rival proposition of proposition 2: opportunities can be the object of a constrained, systematic search. Prior knowledge circumscribes the domain within which to search.

They guided data collection and analysis and were used as a template with which to compare the empirical results.

Primary data was collected through semi-structured interviews with the founders and managers of the five companies. Although the interviews were open, a questionnaire based on the literature review was prepared to guide the interviews and keep the focus on the research question. The informants were asked to provide a detailed account of the opportunities identified. One of the limitations of the research is the fact that the accounts had to be necessarily retrospective. All the

interviews were recorded, transcribed, and coded. Secondary data came from archival documents, including website information, newspaper clippings, interviews in media, business plans, presentations to investors, public reports, and internal documents. This secondary data was used to corroborate the interviewees' verbal accounts.

4. Multiple-case study

AUSA was established to manufacture and sell mini cars in the decade of 1950, and nowadays designs, manufactures, and sells dumpers and other vehicles for the construction industry. Recently, the company has developed and marketed a service to help construction companies dispose their waste in recycling plants. Thanks to visiting construction works in which their vehicles were utilized, AUSA managers realized that construction companies were paying high fares to dispose their waste because it was mixed. AUSA developed a set of procedures to manage the waste in the works, dispose it classified in the recycling plants, and obtain costs reductions. The construction companies share the savings with AUSA. Within AUSA three opportunities were analyzed: AUSA mini cars (small cars designed and manufactured during the 50s), AUSA dumpers (dumpers, forklifts and other vehicles for the construction industry, designed and manufactured since the 60s to date), and AUSA EcoSite (a service offered to construction companies to help them manage the waste in the works). While there were several manufacturers of mini cars in Spain in the 50s, dumpers did not exist in the Spanish construction industry of the 60's.

Atrápalo.com is an Internet portal to book flights, hotel rooms, and theater tickets. In selling flights and reserving hotel rooms through a website, Atrápalo.com and other similar portals replicated online the activity of travel agencies. They attracted customers from the traditional business by adding convenience to the process of booking a flight or a hotel room. In reserving theater tickets, Atrápalo.com tried to satisfy two market needs, the need of theaters to occupy their full capacity from Tuesday to Thursday and the need of some aficionados to get theater tickets at lower prices. The founders recognized the opportunity by realizing that "theatres were empty from Tuesday to Thursday." They also applied the analogy from the airline industry that fares for a given flight depend on the date of the booking and dynamically vary with demand, and relied on a previous job experience of one of the founders in a project to promote the sale of unsold cinema seats through the Internet. Within Atrápalo.com two opportunities were analyzed: Atrápalo.com flights and hotel rooms and Atrápalo.com theater tickets. When Atrápalo.com was established there were some other online travel agencies in Spain.

Naturhouse helps people to lose excess weight. The business consists of selling dietary supplements directly to consumers through a retail chain, skipping the traditional distribution channel. The inception of Naturhouse was triggered by some industry shocks [a liberalization process, an increase in the market power of retailers and an intensification of competition] and a growing trend in other industries towards skipping the intermediaries by reaching directly the consumers through retail chains (i.e., the fashion industry). Before Naturhouse, many methods existed to help people to lose excess weight, and the Naturhouse method is a combination of some of them: a qualified dietician prescribes a diet and dietary supplements, and makes the patients

stay motivated and committed by exerting some sort of psychological pressure on them; the interaction takes place in well-located and convenient shops with the same privacy as a doctor's office. The Naturehouse business model (a retail chain to sell dietary supplements to help consumers lose excess weight) was a novelty in Spain when the company was established in the 90's.

Buff designs, manufactures, and sells buffs, seamless, tubular garments made of microfiber and suitable to protect the neck from cold and wind when practicing sports in winter. The company had been a manufacturer of pullovers. Forced by the decline of the traditional textile industry, the owner recovered an old machine that manufactured woolen neck warmers for the army to manufacture an adaptation and improvement of the original military product. The buff product category did not exist before its invention by the founder of the company.

Paellador is a franchise that sells precooked and frozen paellas through bars and restaurants. The idea was originated in a brainstorming session. The product did not exist. Before Paellador, eating a paella meant cooking it at home or going to a restaurant. The founder and his team did some product tests in bars, restaurants and grocery stores. They started selling the precooked and frozen paellas to supermarkets, but many logistic problems arose. In addition, the consumer was reluctant to buy the product in supermarkets. Then, they continued testing the product in bars and restaurants and created a business based on franchising. They supplied bars and restaurants with an oven and an inventory of precooked and frozen paellas in consignment. After a cooking of 12 minutes in the oven, the paella was ready to be eaten and could be sold for the price of a pizza. The quality was not that of a paella cooked at home or in a specialized restaurant, but they sacrificed quality for convenience. Paellador was the first company selling precooked and frozen paellas in Spain, and remains almost the only player in this product category.

5. Results

5.1 Examining proposition 1

The opportunity of the AUSA mini cars was recognized thanks to the prior knowledge of "some friends passionate about engineering and motor racing." The opportunity of the AUSA dumpers was recognized thanks to the AUSA prior knowledge of the manufacture of mini cars. The manufacture of dumpers benefited from the know-how acquired in the manufacture of mini cars. The opportunity of AUSA EcoSite was recognized thanks to visiting the construction works in which AUSA dumpers were utilized. Prior knowledge of engineering and motor racing, prior knowledge of the manufacture of mini cars, and prior knowledge of the utilization of dumpers in construction works determined the recognition of AUSA opportunities. Prior knowledge in a previous business helped the founders-managers of AUSA recognize the subsequent opportunity.

The Atrápalo.com opportunities were recognized thanks to the founders' prior knowledge of Internet businesses. The opportunity of reserving theater tickets was recognized, in addition, thanks to a previous job experience of one of the founders in a project to promote the sale of unsold cinema seats through the Internet. The founders' prior knowledge of Internet businesses,

as well as a previous job experience, determined the recognition of the Atrápalo.com opportunities. Prior knowledge in previous Internet businesses helped the founders-managers of Atrápalo.com recognize the opportunity.

The Naturhouse opportunity of selling dietary supplements directly to consumers through a retail chain, skipping the traditional distribution channel, is based on similar businesses observed by the founder in the USA and was initially tried at Dietisa, a company he managed before establishing Naturhouse. Naturhouse benefited from the experience acquired by the founder at Dietisa. The success of Naturhouse cannot be understood without the founder's prior knowledge, which inspired many parts of the business model (i.e., Dietisa group therapies inspired Naturhouse method to motivate patients to follow a diet and make them stay committed). The founder's prior knowledge of the dietetics industry, and especially his work experience at Dietisa, determined the recognition of the Naturhouse opportunity. Prior knowledge of the dietetics industry helped the founder of Naturhouse recognize the opportunity.

The Buff opportunity was recognized thanks to the founder's prior knowledge of the textile industry, as well as his personal experience as a skier and biker and in the army. During his military service he used a woolen neck warmer to protect from cold and wind. He connected three dots (Baron, 2006) to identify and address an unfulfilled market need. His prior knowledge of the textile industry (first dot) and his personal experience as a skier and biker (second dot) and in the army (third dot) determined the recognition of the buff opportunity. The opportunity remained merely a potential until the entrepreneur connected the dots (Baron & Ward, 2004). Prior knowledge of the textile industry, combined with two personal experiences, helped the founder of Buff recognize the opportunity.

Before establishing the company, the founder of Paellador had owned and managed a snack business. Prior knowledge supplying bars and restaurants with snacks helped him recognize the opportunity.

Evidence related to this proposition was obtained through the interviews and corroborated whenever was possible with secondary data.

5.2 Examining proposition 2

None of the opportunities of the multiple-case study was recognized by noticing without search (Kirzner, 1979). There is evidence of a systematic search in the sense of Fiet (2007) and Fiet and Patel (2006) in the AUSA opportunities only. In the remaining opportunities, some sort of search was conducted, but there is no evidence it was systematic in the sense of Fiet (2007) and Fiet and Patel (2006).

The recognition of the AUSA opportunities (dumpers and EcoSite) was the result of a systematic search constrained to their prior knowledge. Systematically searching for an opportunity, and constraining their search within the confines of their knowledge domain, helped AUSA founders recognize the opportunities. They recognized the dumpers opportunity when they systematically

searched for an opportunity that became an alternative to the manufacture of mini cars and leveraged their accumulated know-how in engineering, and saw a prototype in a trade fair in Germany. They recognized the EcoSite opportunity when they systematically searched for an opportunity to widen the scope of their business. They constrained their search to the utilization of dumpers in construction works. AUSA managers were alert entrepreneurs who noticed at first sight the potentiality of a solution to satisfy an unfulfilled market need, but the alertness they exhibited has to do more with being attentive than with noticing without search (Kirzner, 1979). The opportunities were not recognized serendipitously, by chance, involving surprise, as the alertness perspective contends. In both cases, being in the right place at the right time (Fiet & Patel, 2006) allowed them to identify the opportunities. Despite the informants referred to innovation as a “selective and organized search leading to products that do not exist,” despite they said that identification of opportunities “comes from market observation, from a systematic analysis of the market changes,” a statement that proves their commitment to the constrained, systematic search approach, there is no evidence of the use of formal procedures to conduct the systematic search.

Before creating Atrápalo.com, the founders made a list of potential Internet businesses and examined some business plans, but there is no evidence of a systematic search constrained to their prior knowledge of Internet businesses. The Naturhouse founder possessed prior knowledge of the dietetics industry, but there is no evidence of a systematic search constrained to his prior knowledge. The Buff founder identified the opportunity by connecting the dots (Baron, 2006), rather than by noticing without search (Kirzner, 1979). The opportunity of selling precooked and frozen paellas was identified after a brainstorming session conducted by the Paellador founding team. In neither of the Buff and Paellador cases there is evidence of a systematic search leading to products that did not exist in the market.

Evidence related to this proposition was obtained through the interviews and corroborated whenever was possible with secondary data.

6. Discussion

6.1 With regard to proposition 1

All the opportunities of the multiple-case study were recognized thanks to the prior knowledge of the entrepreneurs. Relevant prior knowledge seems to determine the recognition of the opportunities and to be a precondition for the recognition. This result confirms proposition 1.

The relationship between prior knowledge and the discovery of opportunities has been claimed by several authors (Venkataraman, 1997; Shane, 2000; Shane & Venkataraman, 2000; McMullen & Shepherd, 2006). The prior knowledge of the founders and managers of AUSA, Atrápalo.com, Naturhouse and Buff created the Venkataraman's (1997) knowledge corridors that allowed them to recognize the respective opportunities. They possessed both the prior information necessary to identify the opportunities and the cognitive properties necessary to value them (Shane & Venkataraman, 2000). The opportunities were opportunities only for them, because they possessed the necessary knowledge (McMullen & Shepherd, 2006). Finally, all the opportunities

relate to the information they already possessed (Shane, 2000). For instance, AUSA has only discovered opportunities related to engineering and to the utilization of their vehicles, Naturhouse has only discovered opportunities related to the dietetics industry, and Buff has only discovered opportunities related to the textile industry.

In all the opportunities of the multiple-case study, prior knowledge resulted from work experience, and Shane (2000) and Fiet (2007) say that knowledge derived from experience is idiosyncratic. In some of the opportunities, prior knowledge was truly idiosyncratic, only possessed by the individuals involved in the work experience itself and, hence, personal and almost non-transferable. In contrast, in the other opportunities, prior knowledge was generic and could be possessed by anybody exposed to a similar personal, educational or occupational experience, or anybody familiar with the respective industry. In Table 1, manufacture of mini cars, utilization of dumpers in construction works, cinema seats project and Dietisa are considered idiosyncratic prior knowledge because of their uniqueness. The rest are considered generic prior knowledge because they are derived from common, ordinary work experience in the respective industry.

Table 1

Opportunities and prior knowledge, generic and idiosyncratic

Opportunities	Prior knowledge	Generic or idiosyncratic
AUSA mini cars	Engineering and motor racing	Generic
AUSA dumpers	Manufacture of mini cars	Idiosyncratic
AUSA EcoSite	Utilization of dumpers in construction works	Idiosyncratic
Atrápalo.com flights and hotel rooms	Internet businesses	Generic
Atrápalo.com theater tickets	Internet businesses / Cinema seats project	Generic / Idiosyncratic
Naturhouse	Dietetics industry / Dietisa	Generic / Idiosyncratic
Buff	Textile industry, skier and biker, army	Generic
Paellador	Snacks industry	Generic

Source: Own elaboration.

The distinction between generic and idiosyncratic prior knowledge shown in Table 1 is relevant and claims a further research effort to refine proposition 1 and to shed light into the question of which

type of prior knowledge, whether generic or idiosyncratic, determines who discovers opportunities and who does not.

Possession of prior knowledge is a necessary but not sufficient condition for the discovery of opportunities. Not to possess the necessary prior knowledge hinders the discovery, but its possession does not ensure it. The entrepreneurs associated with an industry usually possess the necessary prior knowledge to discover opportunities within that industry, but they may or may not discover them depending on whether they possess or not the cognitive properties necessary to value them (Shane & Venkataraman, 2000). All the entrepreneurs of the multiple-case study were associated with the respective industries and, hence, possessed the necessary prior knowledge. But they became aware of the opportunities because they also possessed the cognitive properties necessary to value them.

Prior knowledge of the respective industries helped the entrepreneurs of the multiple-case study know where to search. They took into consideration what they knew and used their prior knowledge to circumscribe the domain within which to search (Fiet, 2007).

In sum, due to the role of prior knowledge, the opportunities of the multiple-case study were identified by these individuals and not others (Baron, 2004); and they were more competent to discover them than to recognize opportunities unrelated to their knowledge domain (Fiet, 2007).

6.2 With regard to proposition 2

None of the opportunities of the multiple-case study was recognized by noticing without search (Kirzner, 1979), without a deliberate search, and simply when encountered (Kaish & Gilad, 1991). None of the opportunities was the result of random scanning (Fiet, 2007), or not-looking-at-all (Fiet, 2007), or having the whole world to search (Fiet, Piskounow, & Patel, 2005), or searching randomly (Fiet, Norton, & Clouse, 2007), or not knowing what to look for (Kirzner, 1997), or scanning the horizon at all times (Kirzner, 1997). None of them occurred fortuitously, accidentally, involving surprise (Kirzner, 1997). Consequently, there is no evidence in the multiple-case study in support of proposition 2.

The recognition of the AUSA opportunities (dumpers and EcoSite) was the result of a systematic search constrained to the entrepreneur's specific knowledge (Fiet, 2007). Then, AUSA provides us with evidence in support of the rival proposition of proposition 2. However, there is no evidence of the use of formal procedures to conduct the systematic search.

The type of search of AUSA managers is a "directed, rational search, which takes place in appropriate time (e.g., during work hours) and expected places (usually at the immediate business environment) where managerial search is more likely to occur" and not the type of search of general alertness, a "continuous 'search' for information, through broad and undirected scanning that will take place at unconventional times and places" (Kaish & Gilad, 1991, p. 49). AUSA managers did not explore non-obvious opportunities (Busenitz, 1996) and, hence, their search pattern does not fit the concept of alertness, as we have argued at the beginning of the section.

As far as the remaining opportunities are concerned, there is no evidence of a systematic search constrained to the founders' prior knowledge that supported the rival proposition of proposition 2. The founders of Atrápalo.com, Naturhouse and Paellador could have conducted some sort of search, albeit non-systematic. These opportunities challenge both proposition 2 and its rival proposition. They were discovered neither by noticing without search nor as a result of a systematic, constrained search. This result shows that opportunities can be discovered by searching within the knowledge domain of the entrepreneur, but passively and non-systematically.

About the informal nature of the searches conducted, it seems that the discoveries were "highly dependent on individual initiative and capacity, rather than routine practices and procedures of the firm" (O'Connor & Rice, 2001, p. 103), and none of the firms had implemented "a sustained, comprehensive, and disciplined approach" (O'Connor & Rice, 2001, p. 99).

All but AUSA opportunities were discovered without actively searching for them, but the entrepreneurs only discovered opportunities related to their idiosyncratic prior knowledge, as claimed by Shane (2000). In all the discoveries an overlap between the entrepreneur's idiosyncratic prior knowledge and the knowledge domain of the venture idea occurred (Fiet & Patel, 2006). All the opportunities belong to the knowledge domain of the entrepreneurs, circumscribed by their prior experience (Fiet, 2007).

As repeat entrepreneurs do, the founders of the businesses of the multiple-case study limited their search to their prior knowledge (Fiet et al., 2006), to domains in which they had experience and competence (Fiet, Norton, & Clouse, 2007), and to known domains (Fiet & Patel, 2008).

The behavior of the entrepreneurs of the multiple-case study fits Gaglio and Katz's (2001) description of alert individuals, those who are more sensitive to signals of market disequilibrium. Their behavior also fits Gaglio's (2004, p. 535) description of alert individuals, who are "extremely sagacious about change: they are quicker to detect its signals; more accurate in sizing up its true significance; quicker to infer the full scope of its implications; and most important, more accurate in uncovering its commercial potential." Gaglio's (2004) alert individuals are the AUSA attentive managers who became aware of an opportunity when they visited a trade fair in Germany or construction works in which dumpers were utilized.

7. Conclusions and discussion

All the opportunities of the multiple-case study were recognized thanks to the prior knowledge of the entrepreneurs. It determined their recognition and was a precondition for their recognition. Had the entrepreneurs not possessed the relevant prior knowledge, they would not have recognized the opportunities examined in this research. In addition, the entrepreneurs in the multiple-case study only discovered opportunities related to their prior knowledge.

We have shown that prior knowledge mostly comes from work experience. It can be truly idiosyncratic, only possessed by the individuals involved in the work experience itself and, hence,

personal and almost non-transferable, or generic, derived from common, ordinary work experience in the respective industry.

None of the opportunities of the multiple-case study was discovered by noticing without search, as the alertness perspective contends. Only the AUSA opportunities were the result of a systematic search constrained to the entrepreneur's prior knowledge, but there is no evidence of the use of formal procedures to conduct this systematic search. All but AUSA opportunities were discovered by searching passively and non-systematically within the knowledge domain of the entrepreneur. This result shows that opportunities can be discovered by searching systematically or non-systematically, and suggests the passive, non-systematic search as an alternative to the systematic search. In both cases, search is constrained to the entrepreneur's prior knowledge.

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Influencers' recommendations on the Internet: effects of codes of conduct

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Abstract

Recommendations of goods and/or services on social networks are an increasingly widespread advertising tactic. Brands are aware of the power of persuasion that influencers in the digital world have on their followers. In this article, we analyze the particularities of this phenomenon and then focus on its regulation. Specifically, we refer to the suggestive role that self-regulation plays in this area. By virtue of the latter, codes of conduct in the influencer market are possible.

Key words

Self-regulation; communication; digital economy; marketing; advertising.

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1. Introduction

Digital media has had a far-reaching and significant impact on the communication strategies employed by companies. Traditional advertising has become saturated, and companies are turning to influencers, defined as content creators who have built a large following on social media platforms. In these latter spaces, influencers share their personal life, including their experiences and/or opinions (De Veirman, Cauberghe & Hudders, 2017). In short, an influencer is a person who has influence. The latter is the action and the effect of influencing. In other words, influence involves producing certain effects on other people. Although the trend has become popular with social networks, its roots go back a few centuries, starting with Josiah Wedgwood in the 1760s, who produced ceramics for the British royal family. Other important figures who further developed the concept appeared in the 19th and 20th centuries (Górecka, Strykowski & Biegun, 2019).

We are, therefore, faced with a diverse advertising strategy because brands position their commercial content so potential recipients voluntarily approach it. Brands also take advantage of the advertising opportunities driven by the proactivity of influencers (Martínez & Sánchez, 2012). An abundance of effects are possible thanks to the Internet and the reach of social networks. Notably, a large portion of influencers' target audience is millennials (Barton et al., 2012). This generation grew up with the Internet, in a reality where technological and geographical boundaries do not exist (Walrave et al., 2018). To date, Instagram has one of the largest audiences among social media. It's visual attractiveness and the more than two billion active users make it a powerful channel for influencer marketing. Instagram reaches a younger demographic population, millennials between 22 and 37 years old, who have a reputation of being easily bored and being drawn to visual and attractive messages rather than text.

There are professional or semiprofessional influencers with millions of followers. Generally, they actively engage in conversations, have a strong capacity for innovation, reflect confidence and security in their own person and have real experience with products and/or services in their area of interest (Uzunoglu & Misci, 2014). In their social network profiles, they feature certain photographs, videos or comments connected to the goods and/or services of brands with which they have entered into a certain commercial contract (Safko & Brake, 2009; Arrigo, 2018; Morra, 2018).

Brands themselves are committed to hiring influencers to reach their target audiences (Brown & Hayes, 2008; Turban et al., 2015; Vilajoana, Rom & Miotto, 2019). Influencer marketing aims to drive sales and increase product or brand awareness by word of mouth (Allard, 2007; Steinhart et al., 2014; Erkan & Evans, 2016).

Influencers have an enormous amount of credibility with their followers (Silva et al., 2019; Schaffer, 2020), and brands try to avoid commercial communication being presented as such. In other words, brands seek to advertise through objective content (Segarra & Hidalgo, 2018). Influencers generally advertise products and/or services of brands through recommendations, and their audience trusts them. Trust is a belief that motivates consumers to buy goods and/or services when suppliers are unknown or when there is questionable credibility regarding the quality of a good and/or service. Trust, among other things, allows creating long-term relationships with

customers and improves tolerance to price increases (Delgado-Ballester & Munuera-Aleman, 2001).

Consumers take extreme measures to avoid ads by using ad blockers (Essex, 2017). Influencer marketing is considered nonintrusive and more attractive than traditional online ads, such as pop-ups or banners. In the digital space, influencers have emerged as reliable and trustworthy sources (Freberg et al., 2011; Conick, 2018).

Brands are capitalizing on this type of advertising modality; brands are partnering with certain influencers to be included in their content. The brand offers some type of compensation—in-kind or monetary—to the influencer, outlining in the contract the content and advertising format in which the products and/or services must appear.

The contract that brands create with influencers must include a series of clauses. In short, the communication or the object must be precisely laid out, including the type of social network to be used. Second, it must state how the ads should be made, that is to say, explain in detail exactly how the ad should be served. Third, intellectual property rights must be addressed, and fourth, related to the above, image rights must be determined so that the influencer's name or image can be cited in the brand's ads. Finally, fifth, the possible exclusivity of the brand with the influencer should be determined.

In this article, we will first address the legal regulation, by virtue of general norms, of this novel advertising modality. Next, we will describe the work carried out in this field on self-regulation in the industry in Spain and in comparative law, where Anglo-Saxon countries, as we will see, are the reference paradigm. In the specific case of Spain, in the heart of Autocontrol is the Advertising Jury that, without being an organ of its own, performs work suggestive of extrajudicial dispute resolution in the marketing field. In regard to the problem arising on this suggestive issue, we can anticipate that in Spain, no specific regulation exists, although recently a specific code of conduct has been approved.

2. Advertising regulation of influencers

Advertising is commonplace in current society and has considerably increased in social and economic significance and presumably will continue to do so in the future. It plays a very important role, stimulating growth and innovation, promoting competitiveness, combatting conglomerate domination, and expanding the possibilities of consumer choice (Dittmar, 2012). To keep up, advertisers must secure a high level of trust on the part of the latter, which requires being truthful, legal, honest and loyal.

Bad advertising—which does not fulfill all or some of the mentioned characters—despite representing a minuscule portion compared to the whole, undermines consumer confidence, and in one way or another, threatens to end all advertising, which will generate substantial consequences. Therefore, for the benefit of all of society, so that the abovementioned extreme does not occur, it is necessary for advertising to be regulated. There are approaches that

complement legislation that are not mutually exclusive, namely, normative regulation (hetero-regulation) and self-regulation (industry disciplines itself).

The factual reality of the world in which we interact advances faster than the normative reality, creating a significant gap between the two. Currently, influencer marketing is not subject to specific control by state or community regulations. In any case, the generic norms presented in three great laws is applied: Law 34/1988 on General Advertising (LGP); Law 3/1991 on Unfair Competition (LCD); and Law 34/2002 on Information Society Services and Electronic Commerce (LSSI-CE).

The LGP refers to misleading advertising among the many forms of illicit advertising. Article 5 of the LCD considers misleading advertising “any behavior that contains false information or information that, although being truthful, by its content or presentation induces or may mislead its recipients, causing them to change their purchasing behavior”. Such a definition would indirectly include misleading advertising by omission, which is expanded upon in article 7. Although the credibility of influencers could be affected, some brands will insist on the need for some content not to be sponsored or warning that goods and/or services are promotional.

Covert advertising, a type of misleading omission, deserves special mention. As presented, covert advertising is likely to mislead its recipients because it conceals the commercial nature of the message. The deception is not in the content but how the message is presented because consumers and/or users do not consciously perceive the commercial nature of the message (Vilajoana, 2011). Thus, according to article 9 of the LGP, this type of advertising violates the principle of advertising identification required by both advertisers and the media, making it subject to the regulation outlined in article 26 of the LCD. It is clear that legislators understand that payment or compensation is critical to proving the concurrence of covert advertising. Remuneration can be monetary but also in-kind. The latter occurs when an influencer, by posting a certain message or review, receives a certain good or service for free. The concurrence of a commercial relationship can only be excluded when a gift includes messages explaining that the proof delivered does not imply any commitment on the part of the recipient.

Regarding the LSSI-CE, it is worth considering article 20. Such precept, in line with the principle of advertising identification, determines that “commercial communications made electronically must be clearly identifiable as such, and the natural or legal person in whose name they are made must also be clearly identifiable”. Such an article goes beyond traditional media because it includes any media outlet that enables electronic communication. These include, among others, the social networks Facebook, Instagram, Twitter, YouTube and Snapchat.

3. The necessary complement to self-regulation

Next, we analyze the assumptions that must concur in a system of self-regulation. Following that, the paradigmatic conflict resolution agency in advertising, the Advertising Jury, is studied.

3.1 Concurrence of self-regulation systems

Best practices documents (which include codes of conduct) are sometimes integrated into a system of self-regulation. For their concurrence, there must be two assumptions: on the one hand, the best practices document and, on the other, the control body, impartial and independent, responsible for ensuring its full compliance. The lack of any of the assumptions or their malfunctioning indicates that the system, in addition to being ineffective, is incomplete (López Jiménez & Dittmar, 2018).

On the one hand, best practices documents entail the establishment of certain guarantees that go beyond legislation, which is an inescapable requirement for a true best practices document (typically a code of conduct) because otherwise, the document would serve merely as a legislative compilation or a didactic explanation of the prevailing regulations.

On the other hand, the second assumption is that there is a control body to resolve disputes between participating companies and the consumers or users who undertake contracts or are provided goods and/or services, including activities aimed at the promotion-advertising interaction.

In addition to a priori verification (prior advice or copy advice), certain self-disciplinary systems allow for a posteriori examination of the eventual disputes that arise regarding the possible violation of a code of conduct. The latter is carried out by a control body that acts once the promotional campaign has been disseminated. In this case, the content of resolutions determine, where appropriate, the illegality of advertising regarding the infringement of one or more ethical standards presented in the articles of the codes of conduct; the control body then urges the advertiser to cease or modify the advertising. There is no objection when a control body speaks out against adhered entities, although the same cannot be said when referring to third parties not integrated into a self-discipline system (in which there is no obligation to comply with resolutions). Among the most paradigmatic extrajudicial systems is the Advertising Jury, which we will address below.

3.2 The Advertising Jury

Among the extrajudicial conflict resolution bodies that exist in Europe in terms of interactive advertising, there is one that constitutes a reference model: the Advertising Jury. The association in which the Advertising Jury is integrated, although without being a dependent body of it—as it enjoys full independence—is Autocontrol.

The Jury is formed, by virtue of the Statute of Autocontrol and the Regulatory Jury, by a president, three to six vice-presidents and nine to 20 members of indisputable impartiality. None of the members of the Jury can have any relationship whatsoever with member companies (there is a wide range of causes of abstention and recusal).

This body only intervenes when a dispute is raised and acts according to a procedure governed by the principles of equality of the parties, hearing and contradiction. Although it is true that the Jury has an administrative branch of Advertising Self-Control, it is not an organ of its own.

The Jury only deals with commercial advertising and thus does not cover political, institutional and religious advertising. It handles complaints related to advertising broadcast in Spain in the last 12 months, including not only cross-border advertising but also foreign broadcasts that have been strictly condemned by the corresponding national self-control body integrated in the European Advertising Standards Alliance (EASA), if there are indications that it will also be broadcast in Spain. Complaints of a commercial communications nature that have been resolved or are undergoing a judicial process or administrative procedure will not be handled.

The texts that serve as a basis for the decisions made by the Advertising Jury are not strictly legal norms because if they were, the Jury would risk interfering with jurisdictional function.

The resolution of conflicts, in the matter of interactive advertising, is based on the (general) code of advertising conduct as well as on the sectoral code in question. The norms contained in the sectoral code must be considered deontological or ethical, without prejudice to the fact that they contain, in addition to the applicable regulations, in certain cases, an improvement of the rights of potential consumers and/or users.

Both parties themselves, in their writings, as well as the decisions made by the Advertising Jury itself allude to previous resolutions of that body, serving as a basis for their judgment. In fact, the Jury, except for duly motivated exceptions, does not usually deviate from resolutions determined in other conflicts.

The technical authority and impartiality demonstrated by its resolutions, dictated by renowned jurists and reputable experts in the advertising sector, have generated high credibility and trust from its beginnings to the present. Whenever a matter submitted to the Advertising Jury subsequently reaches the Courts of Justice, the judicial decisions have substantially coincided with those previously issued by the Jury.

Regarding the active legitimation to appeal commercial communications to the Advertising Jury, there is a clear preeminence of consumer and user associations, public entities and individuals. In fact, this trend is sharply rising. According to an annual report by Autocontrol, in 2017, almost 70% of the cases resolved by the Advertising Jury originated as claims presented by individuals. Individuals fall within the realm of Autocontrol, which, as is known, stands alongside an entity that has a corporate brand.

Advertising in digital media is becoming increasingly popular. In response, advertising self-control is increasingly being implemented through intense verification activity. Of the more than 36,000 requests for copy advice formulated in 2018, 40% were related to electronic commercial communications, which, according to an Autocontrol report in 2019, represents an increase of 25%. In 2018, one in three decisions by the Jury dealt with digital media.

Copy advice is a voluntary, confidential service (without, therefore, contradiction), and usually nonbinding, for both the legal and ethical correctness of a campaign project or advertisement before being made public; the service can be requested by the advertiser, its agency or the media outlet where the advertisement will be broadcast. These advisory services are largely performed by technical branches independent of the juries that resolve disputes. The only entity that, in the case of Spain, provides such a service is Autocontrol through its Technical Branch. This branch is

composed of jurists and publicists who, once the copy advice is proposed, assess whether a particular advertisement that is in the process of being developed complies with the norms, regulations and ethics included in codes of conduct, and if applicable, the request must be resolved after negative advice.

3.3 Advertising self-control codes of conduct for influencers

Recently, a code of conduct for influencers was approved. In its articles, the legality of this commercial strategy is recognized as long as the regulations and the principle of advertising identification are observed. Specifically, in these cases, the use of indications such as “advertising”, “in collaboration with” or “sponsored by” is proposed, both in the initial publication of the content and when the influencer shares it. In contrast, the use of generic or unclear indications is discouraged, as well requiring users to click to access such advertising identification.

The code of conduct refers to commercial messages conveyed by influencers in exchange for monetary or in-kind considerations, for example, free delivery of the good and/or service, invitations to certain places and trips. The code states that mentions or advertising content are all mentions or content that are directed to the promotion of products and/or services and are disclosed in the framework of collaborations or reciprocal commitments with payment or other type of consideration or in those cases in which the advertiser exercises editorial control over the content. Content that is purely editorial in nature, or content disclosed by influencers who are speaking for themselves, is excluded.

The annex of the code of conduct provides a list of examples of recommended placements for the identification of the mention or advertising content, according to the platform or social network on which such mention is carried out.

Likewise, it defines what is meant by a typical consumer in the field of influencer advertising. In this sense, a typical consumer is defined as an active consumer who is knowledgeable about new information technologies, usually attentive and informed, with sufficient capacity to access and understand digital media and the autonomy to search for, discriminate and customize the contents of the network as they browse based on tastes or interests.

Regarding the recipients to whom the code of conduct applies, they are the partner companies of the Spanish Association of Advertisers and Autocontrol, as well as other voluntarily adhering companies (López Jiménez, Vargas Portillo & Dittmar, 2020). Adherence by influencers is also important. In the text of the code of conduct, adherents are obligated to include a reference regarding the influencer in those contracts that regulate the advertising actions of influencers.

Although this code of best practices will come into effect on January 1, 2021, for now, a general code of conduct in advertising self-control is applied that roughly integrates and develops advertising regulations. In this matter, various rules of the general code of conduct are applicable, such as norm 13, which includes the principle of authenticity. Under the latter, advertising will have to be identified as such regardless of the form or media outlet used. Likewise, norm 19, referring to the use of testimonies in the commercial sphere, could be applied in a complementary manner.

3.4 Scenario in the Anglo-Saxon context

In the foreign sphere, Anglo-Saxon countries play a prominent role in this area. Note that these countries have a recognized track record in the field.

In the United States, the Federal Trade Commission (FTC) bestows upon both the industry and the sponsors the duty to identify the commercial practices in which influencers intervene. In 2013, ahead of many other states, it published the guide *How to Make Effective Disclosures in Digital Advertising* in which various recommendations regarding influencers were incorporated.

In addition to incorporating certain suggestions in its guides, it sent informative messages to the industry and influencers so that in their communications, they would respect the principle of advertising identification. Communications should be faithful to the concurrence of trade agreements between brands and influencers. Thus, by way of example, in advertising communications, sponsorship should be explicitly displayed - the most common is to include the hashtags #Ad, #sponsor or the like. It is worth making a brief point about what a tag or hashtag is. The latter, which refers to a specific topic, consists of one or more words, preceded by the hash symbol (#).

There are very suggestive cases of covert advertising in which the FTC has had to intervene. Lord & Taylor financially compensated approximately 50 influencers so that in their Instagram posts (with certain requirements imposed by the brand), they would wear a Design Lab dress. The ads that did not specify that they were advertising or sponsored reached more than 11 million followers.

In the specific case of the United Kingdom, it should be noted that in January 2019, the Competition and Markets Authority published a guide to be read by influencers regarding respecting the rules of user protection, where, among other issues, it detailed the need be transparent about the commercial relationship between brand and influencer. It is also worth mentioning the paradigmatic system of English self-regulation in advertising, such as the Advertising Standards Authority (ASA). The latter develops codes of conduct on the subject under the Committee on Advertising Practice (CAP). In September 2018, it published the guide "An influencer's guide to making clear that ads are ads". As highlighted in the articles of the latter, influencer marketing must be identified and is subject to advertising regulations and consumer protection regulations. Such approaches have been borrowed by European coordination entities in the field of self-regulation. We refer to the EASA, which, in December 2018, published a guide on best practices related to advertising in which influencers are mentioned (EASA Best Practice Recommendation on Influencer Marketing).

4. Judicial and extrajudicial dispute resolution on this matter

The recipients—consumers and/or users—of the commercial messages communicated by influencers deserve real and effective protection. There are different ways to make this a reality.

In the event that legal regulations are violated, courts of justice and administrative bodies with the power to sanction must intervene. In the case of self-regulating systems, any entities that have voluntarily adhered to codes of conduct can be sanctioned by an extrajudicial conflict resolution agency if they fail to comply with its articles. In the case of Autocontrol, it is the Advertising Jury.

In both judicial and extrajudicial matters, we find a notable absence of decisions on the matter. The Advertising Jury recently had the opportunity to rule on the extrajudicial sphere. In November 2019, an individual made a claim against certain advertising by an influencer on his Instagram profile. In her message, the influencer referred to the positive aspects of headphones. There was no criticism or comparison with other competitors. The communication, which focused on a single product, constituted a clear assumption of covert advertising that directly conflicted with rule 13 of the code of conduct of Advertising Self-Control. Although the influencer sought to give the impression that it was a mere opinion, the concurring circumstances showed that it was a commercial communication. Indeed, in the ad, it was not apparent that communication was a promotional activity. The influencer does not adhere to Advertising Self-Control; therefore, such resolution lacks binding force. The negative press surrounding this event quite likely affected the reputation or good name of the influencer. In any case, this resolution, operated by such a paradigmatic body, sets a precedent for future occasions.

To date, in the specific case of Spain, based on the LGP, the LCD or the LSSI-CE, no sanctions have been imposed on influencers—either judicially or administratively—as a result of broadcasting covert advertising.

5. Conclusions

Due to the growth of new technologies, the use of influencers has become popular in numerous advertising spaces. There are influencers in a wide range of topics—such as sports, music, video games, lifestyle, gastronomy, fashion, cars and electronics—and territorial areas. An influencer, as we have seen, is someone who is admired, followed and listened to by a large number of people on social networks. During lockdown due to the COVID-19 health crisis, published content by influencers increased in order to maintain relationships with followers.

For many years, influencers have acted as they like on social networks without clear rules regarding the way in which they should distinguish content sponsored by brands from content that is not, i.e., content that can be regarded as mere opinions. Advertising that uses influencers must observe the regulations on the matter. In addition, in the event that the company or influencers have voluntarily adhered to a code of conduct on the subject, they must observe its articles. Both establish the need for influencer marketing to respect the general principle of advertising identification. In this way, there will be no covert advertising that, as has been shown, is an advertising practice prohibited by regulations and self-regulation instruments.

Both brands and influencers must act ethically in their practices. Both must be aware of the harm they can cause; therefore, they must observe the rights of consumers and/or users.

Without prejudice to the fact that regulations on this matter are necessary, we must highlight the complementary work, not substitute work, that self-regulatory bodies can perform regarding this matter.

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Broadening the purpose of the corporation requires purposeful implementation

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Abstract

The notion that the purpose of the corporation is to maximize profits to be distributed to its shareholders has been the guiding light of management for many decades. Nevertheless, in the last few decades many corporations, on their own, and in response to pressures from society, have realized that their operations, and hence profits, impact and are impacted by a broader set of entities: employees, clients, community, suppliers of goods and services and the environment, among others, besides the providers of capital. Corporations are recognizing that they have a responsibility towards society, that their purpose is broader than maximization of profits. This realization has been intensified with recent crises, where corporations have realized that they can and must also contribute to alleviate some societal needs. But the discussion has been so concentrated on the redefinition of this purpose and on the actions on the ground, beginning and end of a process, but the difficult task in the middle, the implementation of a broader purpose, has been neglected or underestimated, relying on the status quo or on small changes to the business as usual. But the redefinition of purpose, to be effective, to have impact, requires not only changes in strategy but also changes in culture, structure, governance and management processes among others, whose analysis is the purpose of this paper.

Key words

Purpose of the corporation, corporate social responsibility, stakeholder capitalism, profit maximization, corporate culture.

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1. Introduction

The last few decades have seen an acceleration of the interest on the role of corporations in society's wellbeing. From the call of International Organizations to corporations to contribute to the achievement of the Millennium Development Goals (2000-2015) and their successors, the Sustainable Development Goals (2015-2030), passing through the financial crisis that started in 2008, attributed by many members of society to the greed and lack of ethics of financial institutions. More recently, the coronavirus crisis has put the spotlight on the contributions that private corporations can make to alleviate the social and economic impacts on society. Many have found a renewed purpose, beyond making money for shareholders.

These events have led to the realization that inequality and discrimination are problems that severely constrain human and economic development. Furthermore, the impact of climate change and the efforts to mitigate their effects, articulated in the Paris Agreement, have extrapolated the interest on the impacts of corporation's activities on society and the environment, and led to a renewed interest on these activities and to a call on corporations to reevaluate their role and purpose.

In those multilateral efforts much of the burden falls on governments, but the failure to act in the part of some governments, the growing economic power of corporations, their access to financial resources and the impact of their activities on society, has led, at the corporation level, to a call to broaden their purpose to include other stakeholders beyond the shareholders, and at the aggregate level of the economy to make the operation of the markets more inclusive, to make capitalism more human, more compassionate, more fair, more responsible.

The narrow purpose of shareholder financial wellbeing has been promoted in most business schools over at least the last 50 years, partly because of its simplicity, only one group of stakeholders to consider: shareholders. The bulk of finance and economics literature used to teach being based on this objective and the inertia to continue to use the same teaching materials has led to its persistence in teaching and training. The hundreds of thousands of graduates and consultants have promoted it within corporations and the linking of manager remuneration to the achievement of purely financial goals has entrenched a culture that promotes this purpose (Brower & Payne, 2018, Stout, 2012). But given the visible consequences on society of the application of this purpose, the abuses and omissions (negative impacts) committed by some corporations on their way to maximize profits and the failure of markets (markets cannot deal with issues of social justice, as amply demonstrated by the coronavirus crisis), there is a call in the business community and civil society to question the primacy of shareholders and to broaden the purpose of the corporation, its *raison d'être*, to include other stakeholders, to move from profits to shareholders to benefits to stakeholders, financial and non-financial.

To counteract what parts of society and some in the business world saw as a tendency to ignore the impacts of profit maximization on economic justice, environmental degradations, abuses on labor rights among others, the responsibility of business towards society (Corporate Social Responsibility, CSR) was rediscovered and emphasized during the last four decades. In that period, with emphasis on private enterprise as the solution to many economic problems, neoliberal

policies led by Prime Minister Thatcher in the UK and President Reagan in the US in the eighties, gave political acceptance to the idea that the purpose of the corporation was to make money. Helping society was a byproduct. Responsible production, sourcing, employment, and payment of required taxes, among other responsibilities was not the main consideration. Most corporations behaved as if their purpose was profit maximization. And that was reinforced by teachings in the main business schools.

And the financial crisis on 2008, in part the result of irresponsible and greedy practices of the financial sector, awoke the latent tension in society against what in many developed countries was perceived as unbridled capitalism, the uneven distribution of the gains of globalization and economic growth and the resultant inequality, that stimulated anti-immigration sentiments, localism in actions and populism in politics, both on the left and right of the political spectrum (Timbro, 2019). This made the business sector realize that they could no longer be indifferent to the needs of society and led to questioning the purpose of business.

But the rediscovery of CSR emphasized its implementation, the “what” of the social responsibilities of business, the “how” to implement the needed actions and in particular the “why”, mostly in order to counteract the pressures of those that defended the primacy of profit and attacked the distractions or other responsibilities (Friedman 1970). The business argument, the competitive advantage of being responsible, had to be justified. The moral argument, responsible because it is the right thing to do, was not convincing, although has lately come to fore with the financial crisis of 2008 and the pandemic of 2020. It was a rediscovery of CSR as most of what today is considered as those responsibilities had already been articulated in a seminal article in the Harvard Business Review (Donham 1927) and a book (Bowen 1953).

Now that the “why”, “what” and “how” to do it have been accepted by larger segments of businesses, there is a return to fundamentals and corporations and business associations are asking the basic and overarching question of what is the purpose of the corporation: it must be more than just making the most money possible. Corporations should have started with this question, but for the reasons described above and their drive to action, the priority was doing it over what appeared to be almost a philosophical question.

The purpose of the corporation is becoming the buzzword of the 20s. Recent statements have responded to these expanded concerns about the role of corporations in society and the environment, questioning the purpose, explicit or implicit, of maximizing profits for shareholders. In August of 2019, the Business Roundtable, BRT, the association of chief executive officers of the USA’s leading companies, unveiled their revised Statement on the Purpose of a Corporation, to move from the primacy of shareholders to include other groups of stakeholders (customers, employees, community and suppliers), taking a long term view. It was signed by 181 CEOs (BRT, 2019, Vives, 2019). In January of 2020, at the annual meeting of the World Economic Forum in Davos, a revised Manifesto 2020 was launched, calling for Stakeholder Capitalism (the original Manifesto already calling for this was from 1973) (WEF, 2020a, WEF, 2020b,). The most recent Manifesto goes beyond the statement of the BRT calling for “performance must be measured not only on the return to shareholders, but also on how it achieves its environmental, social and good governance objectives. Executive remuneration should reflect stakeholder responsibility”. Another

prominent recent call has been that of Lawrence D. Fink, CEO of BlackRock, one of the largest investment funds in the world, in his last three annual letters to other CEOs. The 2018 letter, A Sense of Purpose stated (Fink, 2018)

To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all their stakeholders, including shareholders, employees, customers, and the communities in which they operate. Without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the license to operate from key stakeholders.

But these and many other calls for a change in purpose have met with detractors. For instance, the BRT statement was immediately denounced by the Council of Institutional Investors, a powerful institution that promotes maximization of profits, arguing that “shareholders are merely seen as providers of capital and not as owners” (CII, 2019). More recently the Wall Street Journal published an Op-Ed, The ‘Stakeholders’ vs. the People with a rather strident argument: “I don’t want American capitalists to play a larger role in defining and implementing the country’s political and social values.”(Ramaswamy, 2020, Vives, 2020b)

Most statements are declarations of good intentions and none deal with how to implement the broadened purpose of the corporation or the “stakeholder capitalism”. The problem of implementation is assumed away, that somehow it will be taken care of. A recent article on the Harvard Business Review blog, We Are Nowhere Near Stakeholder Capitalism, laments that despite all the recent announcements, there is still a long way to go to achieve a generalized implementation of stakeholder’s concerns (Govindarajan & Srivastava, 2020). But as in the case of the statements, it does not offer a way to get there. Indeed, we are nowhere near, but this does not mean that we have to be content with statements and lamentations. While the implementation is indeed company specific, there are some areas that are common to all. Even though a generalized solution is not feasible, at the very least corporations must devise a path to get there, from purpose to actions, adaptable for each case. This is the purpose of this article.

2. Purpose of the corporation

“If you do not know where you are going, any road will take you there”. The purpose of this article is to discuss the process of implementation of Purpose, to fill the void in those general statements. We will not go into detail as to what the broader purpose should be, will offer only some general comments to set the framework for the discussion to follow. Purpose is very company specific, as each company is different, has different commercial objectives, operates in different contexts, have different capacities and willingness to incorporate their specific stakeholders, while making the needed compromises between the large variety of conflicting objectives, particularly between financial and social and environmental sustainability.

We will work under the assumption that the corporation will seek the good of society, for all stakeholders, stockholders and the environment included. We are not advocating for prioritizing society, neither for prioritizing profits. Contrary to an extended belief, there is no legal imperative

to maximize profits, the fiduciary responsibility of the Board is to manage the resources efficiently and effectively (Stout, 2012). The purpose of the corporation must seek a balance between the interest of all relevant stakeholders, which may conflict with each other, within the financial, physical and managerial constraints it faces. The purpose must be realistic. Many companies spend significant resources in consultants to develop a nice sounding purpose, to be later ignored as it is not feasible or not specific enough to guide implementation. As expressed by the Boston Consulting Group in *Optimize for both Social and Business Value: Winning the 20's* (Young, Woods & Reeves, 2019):

“Purpose” should not be a comforting and self-congratulatory statement of what the company already does, however—that would be an impediment to progress. Rather, it should define the aspirational societal contribution of a company based on its unique attributes and inspire awareness of the broader context and progress toward business and societal value.

And the establishment of a purpose should be to guide the company to fulfill its role in society, not to, supposedly, achieve larger profits, although those profits may come as markets show appreciation for a purposeful company. Some studies have concluded that companies with a well-defined purpose are more profitable (Birkinshaw, Foss & Lindenberg, 2014). But it could well be that profitable companies are well managed and a fundamental part of this is having a well implemented purpose. (How to Harness the Power of Purpose, BCG, 2020). It is beyond the scope of this paper to detail the benefits of having and implementing a purpose.

The current, new or revised purpose will be determined by the evolution of the company, its culture, the financial and managerial constraints it faces, the context and environment in which it operates, the structure, power, urgency and needs of stakeholders, among others. For instance, it will be very different for a multinational versus a purely domestic firm, for a consumer-oriented firm versus a business oriented one, for one operating in very developed markets versus one operating in developing regions.

Once the corporation has decided to establish or revise its purpose a process of implementation must be activated.

3. State of implementation

By the middle of 2020, the emphasis on the purpose of the corporation has been concentrated on the need to articulate it, the supposed competitive advantages that it brings (Izzo and Vanderwielen 2018, Ernst and Young & Harvard Business Review, 2015) and as a strategic guidance. The actual implementation has not had a broad discussion in academic and professional publications, and it has been mostly confined to internal discussions, thereby the need for an implementation program as proposed in this article. Given the recent interest, corporations have taken isolated actions, but not an integral approach.

A recent survey by a shareholders relations advisory firm (SquareWell, 2020) of investors with over US\$ 22 trillion of assets under management, found that 79% considered how the purpose is

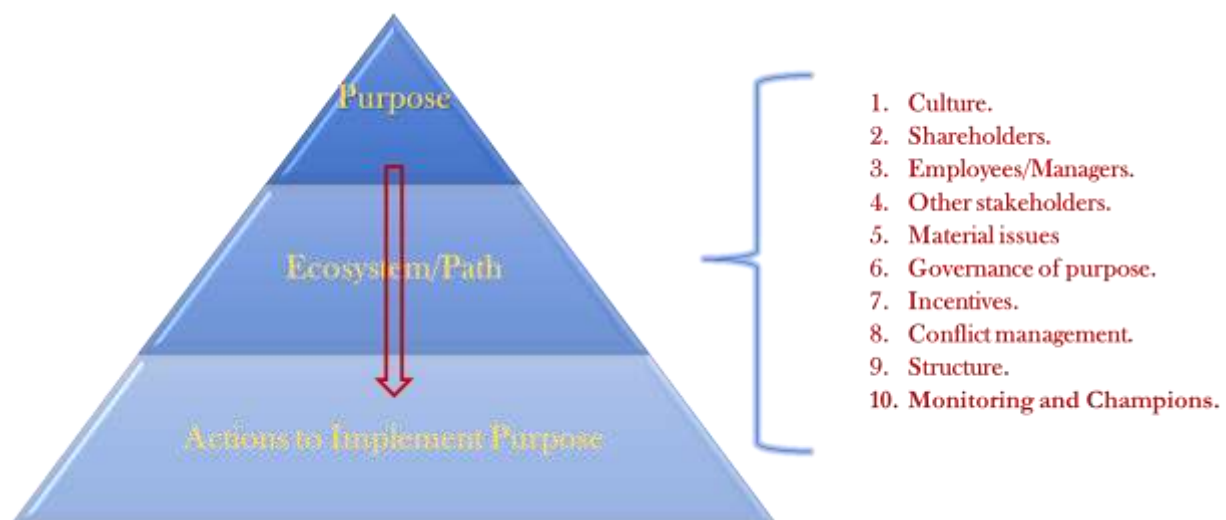
implemented the most important aspect and only 12% how the process was formulated and 5% the actual wording. 86% expect that its implementation will be reported and 75% expect that it will include key performance indicators to measure progress. But only 21% of those investors have incorporated corporate purpose in their evaluation of ESG risks and opportunities.

4. From purpose to actions: The path through the ecosystem

The setting of a realistic purpose is the beginning. But the hard part is its implementation, maybe the reason why there is so little written on it. To implement it we propose the consideration of ten elements of the ecosystem that envelop the path from Purpose to Actions (figure 1):

Figure 1

The path from purpose to actions



Source: Own elaboration.

1. **Culture.** Determines and it is determined by purpose, they are extremely linked. Culture must be conducive to implementing the stated purpose. This is probably the key issue where most purposes fail. For instance, it is unlikely that a culture that favors internal competition and financial results will be conducive to consider the welfare of stakeholders other than shareholders. A culture that favors internal cooperation and learning will be more conducive. The soil of culture must favor the seed of purpose for concern for society to grow (see the five articles, The Leader's Guide to Corporate Culture, Groysberg et.al., 2018). We must note that the term culture is used as if it were a homogenous concept within the company, but there are subcultures, which may complicate the implementation of purpose, as we discuss below. Also, large companies operating in different regions of the

world, may face different external cultures and different groups of stakeholders with differing expectations. This may require adapting purpose and its implementation to the different environments.

2. **Shareholders.** It is one of the most critical groups of stakeholders. Even though most of them have similar concerns about profits, the major reason for holding the shares, it is not a homogenous group. Regarding a broader purpose there is a group that may be against it: activist shareholders, concerned about maximization of financial returns over the short term, can disrupt it. There may be groups in favor of a broad purpose, for instance some institutional investors with a wider and longer-term view. The vast majority of stockholders may be indifferent (the average holding period of shares in the NYSE is 4 months). The structure of shareholding will determine the feasibility of implementing a broader purpose, as besides their actions in shareholders meetings, some groups may be able to appoint members of the Board and influence management (Vives, 2020a).
3. **Employees/Managers.** This is probably the most critical group of stakeholders and a common one to all companies. The concern for this group is twofold. On the one hand, their welfare is one of the objects of purpose. On the other hand, they are the instruments for the implementation of purpose, which is done in the trenches, granted, under the order and guidance of the Board and Upper Management (Quinn & Thakor, 2018). They must be convinced of the purpose. But not all will be on board as we comment below.
4. **Other stakeholders.** These groups do vary from company to company, and their relevance can even vary through time. As the broader purpose is precisely to include these groups, there is a need to identify the critical ones, those that are most impacted and can impact the company operations, their likelihood of acting, their power, their urgency, their needs and expectations. Again, even though we use a common name, there are many different groups of stakeholders (consumers, governments, communities, suppliers, competitors and partnerships, among others), and even within groups there are differences, which may have different concerns, which need to be balanced. It must also be emphasized that, even though the purpose may include all stakeholders, the company must be selective in addressing the critical ones, it cannot do everything for everybody, financial feasibility is still priority one.
5. **Material issues.** The broader purpose will have identified, in rather general terms the types of stakeholders, but not the issues that matter. Based on the analysis of stakeholders above, the company must determine the issues that is willing and able to address. It will have to prioritize them based on the relevance of stakeholders and the issues that are critical to them. Shareholders and employees will have priority and most likely will have their issues identified and hopefully addressed, but it bears a review in the context of the overall strategy with other stakeholders. This part of the ecosystem will already be in place for any company that has sustainability, in its broader sense, already under consideration. For many firms there will no need for special analysis. The material issues and stakeholders to be addressed will determine in large part the activities of the company in addressing the broader purpose.
6. **Governance of purpose.** This governance of purpose goes beyond the traditional understanding of governance, the G in ESG analysis, which tends to refer to issues related

to the Board and Upper management (composition, separation of Chairperson and CEO, independent directors, diversity, compensation, ethics, audit and control, compliance, classes of shares and voting power, etc.). In the context of purpose, governance refers the whole set of policies (whistleblowing, diversity, compensation, ethics, consultations, political action, etc.), processes and procedures to implement them on the ground (employee participation, consensus seeking, cooperation, etc.) and internal institutional arrangements (grievance committees, decision making processes, etc.), that are used in the management of stakeholders. This part of the ecosystem must, eventually, be made compatible with purpose.

7. **Incentives.** People, which must implement purpose, respond to incentives. These may be explicit (remuneration) and implicit (unwritten expected behavior), positive (rewards) and negative (penalties). The most effective ones are the financial ones and the factors to be considered in salary and promotion decisions. But with the changing composition of the work force, nonfinancial incentives can also be effective (recognition, enhanced responsibilities, etc.). Incentives must be part of the culture and, eventually, be made compatible with purpose. This is one of the factors that most influences the success of the implementation of purpose.
8. **Conflict management** (subcultures, stakeholders). The implementation of purpose will require change, and in all change, there will be winners and losers (there will be boulders and pothole builders on the path), and these ones will tend to oppose change. Furthermore, as mentioned, culture is not homogenous and inside every firm there can coexist many subcultures, some more conducive than others to implement the broader purpose. For example, marketing, production and legal departments tend to face different sets of incentives and be populated by professionals with very specific cultures, for instance sociologists versus salespersons, versus engineers versus lawyers. These potential conflicts of objectives must be proactively managed. And there will be conflicts in the interests of the different stakeholders and even within a group of stakeholders. A clear example is the conflict of interest between shareholders and employees, the first may want to reduce labor costs under adverse conditions and the second will want to maintain employment levels and remuneration. Balancing the interests of all groups is one of the large obstacles faced in the implementation of purpose.
9. **Structure.** Company structure tends to be relatively rigid and only changes under strong changes in the environment in which it operates. But the implementation of purpose, with the changes required outlined above may require some adaptations to the structure. It may require, for instance, assignment of more responsibilities to middle management, which may require either consolidation of units to enhance cooperation and coordination of implementation or dispersion of responsibilities to enhance effectiveness. It may require the creation of special units to handle the enhanced relations with stakeholders, identification, consultations, prioritization, management of conflicts and the like.
10. **Monitoring and Champions.** There will be a need for a process of continuous adaptation to the changing stakeholders and the need to assure, to the best extent possible, the compatibility within all the components of the ecosystem as they are adapted. This will require continuous assessment of the relevance of purpose, of these components, their

compatibility and the strategy of adaptation. A dedicated group of individuals, with a holistic view of the company and its context, may be necessary to oversee the process, and its implementation may require strategically located “champions” to move the process along and overcome the obstacles.

It is important to emphasize that in real life, unlike in academic oversimplifications, this path is not straight, goes back and forth, has bumps, diversions, at time it appears random, is traveled in spurts, with progress in some areas, regression in others, full of obstacles, mostly man-made. Every company will find itself at some stage in the development and implementations of purpose, sometimes purpose may only be implicit. The path can be started at any of the stages and will go back and forth. Many corporations, without an explicit, broad purpose, will start developing one and then analyze if the rest of the elements of the ecosystem, particularly culture and governance of purpose, are compatible with the new purpose and proceed to make adjustments, where and when it finds suitable and feasible. The important thing of the suggested path is that it shows the direction, it may never be completed, will be in constant flux. Implementation will depend on available resources, degree of commitments, perseverance, impact of stakeholders, particularly shareholders, among other factors.

5. Actions to Implement Purpose

It is beyond the scope of this paper to detail the on-the-ground actions needed to achieve purpose. We will discuss only briefly these on-the-ground activities as these are amply covered in the Corporate Social Responsibility/ Sustainability literature, but some examples and comments are in order to illustrate the third pillar, Actions. For instance, to include the interests of employees, good working conditions must be established, some benefits to improve their quality of life, like health insurance and support for professional development. To include the interests of clients, quality and reliability of products and customer services are essential. To include the interest of the surrounding community, depending on their impact, the company will strive to be a good neighbor, to be as little disturbing as possible (noise, traffic, dust, etc.) and depending on their needs it may support local education and sporting activities. And to implement, it will need to adapt, over time, the company structure and governance to the revised purpose and set up a process for implementation, evaluation and feedback.

The implementation will not be complete without these actions geared to achieve the interests of stakeholders. Again, the nature and scope of these actions will depend not only on the stated purpose, that most likely will not have the level of detail needed to guide implementation, but also on the reality that the company faces. It will need to balance the interests of the different groups, within the constraints that the company faces, will have to decide what is feasible within what is desirable.

And these actions should not be isolated, occasional, uncoordinated activities undertaken by the different units. They must be part of an overall strategy, compatible between themselves and compatible with the goals of the company, hopefully with synergy. This is possibly the most likely

cause of the lack of credibility in the reported sustainability activities of corporations, what is called the “purpose gap”, the perceived gap between stated intentions and results. As mentioned at the beginning, and given the relatively novel emphasis on the statement of purpose much attention is devoted to having an inspiring statement, but much less to its implementation, under an implicit assumption that if it is well articulated it will take care of itself.

Also, given the relative novelty, the complexity and their overarching impact, most corporations do not yet carry a comprehensive effort and implementation tends to follow the aspects that are more feasible in the short run, given the human and financial endowment and constraints. Most corporations can adapt, for instance, to the elements related to shareholders, employees and managers and material issues that are actively managed on an ongoing basis. On other the hand, elements like culture change, adaptation and conflict anticipation and changes in structure require special attention. Corporate culture, for instance, is something that evolves slowly and if the change in purpose is noticeable, it will require proactive special efforts over longer periods of time.

This uneven and incomplete implementation of purpose not only provides an inconsistent image but contributes to the criticism that purpose is divorced for action, and accusations of greenwashing.

The proposed implementation path is an ideal that may not be assumed by even the most advanced corporations, but it shows the way to close the gap between words and actions.

6. Conclusions

In the current economic and social environment, it is not enough for corporations to produce goods and services that society demands and enhance the financial accounts of shareholders and top management. Society expects and demands a broader role, especially of the larger corporations. Corporations must recognize, in their actions not in rhetoric, that they are part of society and have responsibilities in their wellbeing. Purpose should establish that role, but it needs to be implemented properly.

Most corporations that manage to develop a purpose, move directly to actions and fail to undertake the required activities for their implementation. Many times, they are content with disseminating these statements throughout the organization via internal memos, seminars, training, etc. But it is like sowing in fallow ground, notice is taken but the implementation will be weak. The statement of purpose must be followed by strong, broad and sustained implementation activities.

Like any strategy implementation it is not an easy task, that can be left to itself. It must be emphasized that it is the rank and file, the middle and lower levels that implement the purpose, not the directives or orders from the top. Follow up is also necessary. The setting of purpose is a necessary but not sufficient condition, and more and more, especially after crises, society demands actions, not words.

This paper has discussed an issue which is relatively neglected in the expanding literature on corporate purpose.

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Engie: Business Model Transformation

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Abstract

This article reviews the business model transformation of a French energy company, Engie. The company is adapting to a new energy business environment characterized by three trends: decarbonisation, decentralisation and digitalization. In order to achieve this objective Engie has carried out a three-year plan (2016-2019) focusing on renewable energy sources, local energy generation and new technologies. The company has developed a new strategy for the period 2019-2021, the aim is to become the world leader in zero-carbon transition “as a service” assisting business and local authorities to reduce their carbon footprint in their operations. This implies an asset light strategy, Engie provides tailor-made solutions and expertise to their customers while partnering with the owners of renewable power sources. The company is in line with the environmental concerns of all its stakeholders and believes in the profitability of this new strategy, centred on renewable energy sources.

Key words

Energy, Engie, environment, decarbonisation, renewable energy sources, asset light strategy, stakeholders.

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1. Introduction

This article is structured in four parts. The first one describes the problems of the global energy system and how Engie is facing them. The second part of the paper focuses on the strategy of the company, it was based on a three-year-transformation plan (2016-2019) to adapt to the new energy business environment. For the following three years the company concentrates on services to business and cities to foster energy transition. The actions carried out by the company are also reviewed, as well as what competitors are doing in relation to the energy transition. Finally, we analyse the “Asset Light Model” that Engie is implementing in order to differentiate and be successful in the Energy Market.

Case study is the methodology applied in the article, the case is the company Engie and the approach they are using to adapt to a new energy environment characterized by decarbonisation, decentralization and digitalization. Numerous companies will have to deal with this problem in the future and it is significant to understand how pioneer companies like Engie are facing the challenge. The sources of research used are mainly academic literature, Engie corporate reports, energy companies' reports and international energy agencies' reports.

2. Thinking of a fair energy transition

Energy has been one of the central themes of the political debate for quite some time. Oil prices, associated geopolitical conflicts, the impact on climate or supply problems are unfinished business in the global political agenda.

Energy transition is at the heart of the agenda of institutions, governments, civil movements and businesses. But does everyone understand and promote the same thing when it comes to energy transition?

In the last 150 years, the world's population has multiplied by 5.5 and energy consumption, due to the use of fossil fuels, has increased fiftyfold (Hughes, 2013).

This huge difference between the rate of population growth and energy consumption disarticulates the idea that the central problem is the increase of the world population. There are two key aspects at the core of the issue. Firstly, a strong trend towards urbanization; and secondly, a profound cultural change that has changed how we meet human needs.

If we had to define the current global energy system, we would do so with the term inequity. Per capita consumption of 18% of the world population living in OECD countries is four times higher than that of the rest of the world's population. For example, U.S. per capita consumption is 50 times higher than the one in Bangladesh (Bertinat, 2016). Furthermore, the weight of fossil fuels (oil and gas) in the global energy system and the perspective of economic gains exploiting them have played an important role in a great number of conflicts around the world: Irak, Syria, Ukraine, Nigeria or South Sudan are examples of this (Klare, 2014).

A report by the International Energy Agency (IEA, 2012) points out that there are 1.3 billion people who lack access to electricity and 2.6 billion people who cook with biomass in unhealthy conditions. According to this report, "only" 1 billion people are expected to have no access to electricity by 2030, although world production is expected to increase by 37%.

The current energy system is not designed to improve the life of citizens, as it is based on intensive use of fossil fuels that account for 81,3% of total primary energy supply. First Oil (32%), second coal (27,1%) and third Natural Gas (22,2%) (IEA, 2019a).

These studies are even more significant when applied to large energy companies since the same institution had foreseen five years ago that climate change could be avoided if the world did not consume more than a third of the current fossil reserves by 2030. But the scenario we find is that the exploitation of fossil resources has increased (Vilches & Gil-Pérez, 2016).

We should clarify that energy is much more than a physical issue. There are also social, political, economic and cultural sides to it. Some authors suggest that an increased energy production has allowed more people and territories to be controlled. On the other hand, it is in fact the ability to manage energy what allows social and environmental control (Castells, 2009).

While for many periods of history energy management has been –and continues being–, the management of resources, today the development of some modern renewable energy technologies seems to place the emphasis on technologies and materials.

There is an intense process of "financialising" nature in the proposals of the so-called green economy, instead of encouraging new alternatives for production, distribution and consumption of energy (Klein, 2015).

One of the first obstacles is the current regulation, which derives from the unprecedented process of market liberalization that took place in the 1900s. This process also leads to the segmentation of energy chains into business units, starting up a process of privatization of state energy, which remains in place until now.

One of the essential steps for a real change in the energy system is a change in the energy matrix. It is necessary to undertake a rapid and effective defossilization.

There is no doubt that the extraordinary economic growth that has taken place from the second half of the twentieth century has produced remarkable advances in the quality of life of millions of people. For example, life expectancy across the planet increased from 47 years in 1950 to 64 years in 1995. For this reason, there are many politicians, economists and sociologists who advocate to continue with this model of ongoing growth (Mulvaney, 2019).

Today we know that while economic indicators such as investment or production are positive, environmental indicators are increasingly negative. Some authors link economic growth to environmental degradation, questioning whether or not growth in the production of goods and services (including their consumption) is causing an ecological footprint impossible to ignore (Giddens, 2000).

The ecological footprint per inhabitant is 2.8 hectare, which means that the ecologically productive area, which barely reaches 1.7 hectares per inhabitant, is vastly exceeded. In 2020 the human species, which already exceeds 7.500 million inhabitants and continues to grow, is consuming more resources than the planet can regenerate. In the current ecological crisis, predatory consumption and unsustainable growth are the main factors for collapse, due to the degrading of ecosystems and growing inequalities and poverty (Taibo, 2019).

Evidence of this change is unequivocal, according to experts such as Carlos Taibo (2016). Since 1880 the average temperature of the world's surface has increased from 0.8 to 1.2 degrees Celsius and eight of the ten warmest years on record have occurred over the past decade (United Nations, 2019).

This lack of control has triggered a significant decline in the population of several species. Currently, 42% of terrestrial invertebrates, 34% of freshwater invertebrates and 25% of seafarers are on the verge of extinction. The world population of terrestrial vertebrates was reduced by an average of more than 60% between 1970 and 2014 (Planelles, 2019).

The UN believes that land degradation is likely to increase as long as there are no national and international management policies, accelerating the migration process in some regions. An estimated 4 billion people will live on barren lands by 2050, mainly in depressed regions of Africa or South Asia. Deforestation, which has slowed somewhat but is still advancing, is another major challenge, along with urban agglomerations, which in 2015 accounted for 7% of the world's land area (Moraleda, 2019).

Agriculture and livestock are another major environmental impact. Food production uses about 50% of the habitable land and 77% of agricultural areas are used for feed production, pastureland and grazing for meat production. To feed the 10 billion people expected to inhabit the world by 2050, a 50% increase in food production will be needed.

According to some scientific studies, we still have time (though not too much) to stop the current degradation process. The United Nations Environment Programme (UNEP), stresses that only a shift to an economy based on low-carbon consumption, renewable and efficient energy and food productivity will cause a decrease in ecological footprints (UNEP, 2019). Although global emissions from coal have reduced, the overall carbon dioxide emissions peaked in 2019 (Plumer, 2019)

This new economic and industrial revolution, which we can call "green" and which will replace the current "brown" one, will have to be carried out through an expensive transition full of constraints. It is no secret that the current productive system does not take into account the environmental costs in order to maximize its benefits.

To emerge from this "brown" crisis and create, at the same time, millions of new "green" employees, there is no need to reduce social rights, but to promote a more sustainable employment.

3. Engie: building a decarbonized future

In the summer of 2008 the French energy company Engie, former GDF Suez, changed its business model, aiming to create solutions for a decarbonized energy future.

Engie noticed the lack of access to energy in less developed countries and the growing concern of its stakeholders about the environment. Therefore, the company launched global initiatives to transform most of its energy production activities to low in carbon and to invest mainly in biogas and renewable energy.

The growth of the world population implies a great number of economic problems and social changes. Although this growth has concentrated in large cities of developed and emerging countries, the gap between urban and rural areas is widening in terms of housing quality, services or pollution.

Fortunately for younger generations, climate change awareness is increasingly important and therefore our understanding of its impacts is clearer. The concentration of CO₂ in the air has reached an all-time high, leading to fears of an increase in extreme weather events. In addition, biodiversity is declining dramatically: around 17,000 animal and plant species are currently endangered. However, in the face of these alarming findings, society has shown great concern. In order to reduce the impact of climate change around the globe, there is a change in behaviour in terms of energy consumption and production. This underlying trend has resulted in commitments by worldwide companies to limit global warming to +2 °C as a result of the 2015 Paris Agreement. To the same end, many governments are imposing increasingly severe regulations, as illustrated in France by the enactment of the 2015 law related to the energy transition for green growth and the Duty of Surveillance Act in 2017. Financial investors are also putting pressure on energy companies to be more transparent about their impacts on climate change (Engie, 2019).

For all these reasons, Engie has chosen new and innovative ways of producing, managing and supplying energy. Currently the company has more than 155,000 employees worldwide and presence in 70 countries to develop this new strategy.

4. Strategy

Continuous growth of the world population and the economic development of countries is increasing the access to energy, but also the global demand. Engie has carried out a three-year transformation plan (2016-2019) in order to adapt to the new environment in the energy sector. This new energy market is characterised by three major structural trends: decarbonisation, decentralisation and digitalisation (Engie, 2018).

Regarding decarbonisation, several studies show that the burning of fossil fuels and the consequent release of carbon dioxide to the atmosphere is the main cause of climate change (Letcher, 2019; Wuebbles & Jain, 2001). In response to this, Engie has focused on lowering its carbon portfolio and increasing the importance of low-carbon activities in EBITDA. It has passed from an 81% share of low carbon activities in EBITDA in 2016 to a 93% share in 2018 (Engie, 2019).

They are focusing on natural gas, hydropower, photovoltaic solar power, wind power, biomass and biogas.

The decentralisation of energy services means that energy generation is changing from large and centralised plants to local production at consumption locations through microgrids. Customers become “energy prosumers” because they can produce their own electricity through, for example, solar panels. This is possible due to the advanced and widespread use of technology at affordable prices. In order to adapt to this new situation, Engie has decentralised its organisation to become more flexible to satisfy customers’ needs and save costs through efficiency gains. Energy can be supplied at local level through local networks; this includes decentralised and smart energy models for cities and regions.

The digitalisation is changing the energy sector through Big Data analysis and artificial intelligence. This relates to innovation in the generation and storage of renewable energy, energy use monitoring, diagnosis or installation of equipment. It is easier for customers to control and optimise their energy use on account of the connection of everyday objects to the Internet. Engie has increase the expenditure in digital technologies from 0.5 billion euros in 2016 to 1.4 billion euros in 2018 (Engie, 2019).

With the aim of adapting to this new energy environment, Engie set three strategic objectives in its transformation plan: increase the share of low-carbon operations to more than 90% of EBITDA, increase the business of integrated customer solutions (over 50% of EBITDA by 2018) and improve the risk profile by reducing exposure to volatile commodity prices (Engie, 2017). Two of the objectives have been reached, as shown in Table 1.

Table 1

Engie's Strategic Objectives consecution 2016-2018

	2016	2017	2018	Objectives in 2018
Share of low-carbon activities in EBITDA	81%	91%	93%	> 90%
Increase in EBITDA from integrated customer solutions since the end of 2015 at constant exchange rates	+2%	+22%	+36%	+ 50%
Share of regulated or contracted activities in Group EBITDA	75%	89%	93%	> 85%

Source: Engie Integrated Report 2018 & 2019.

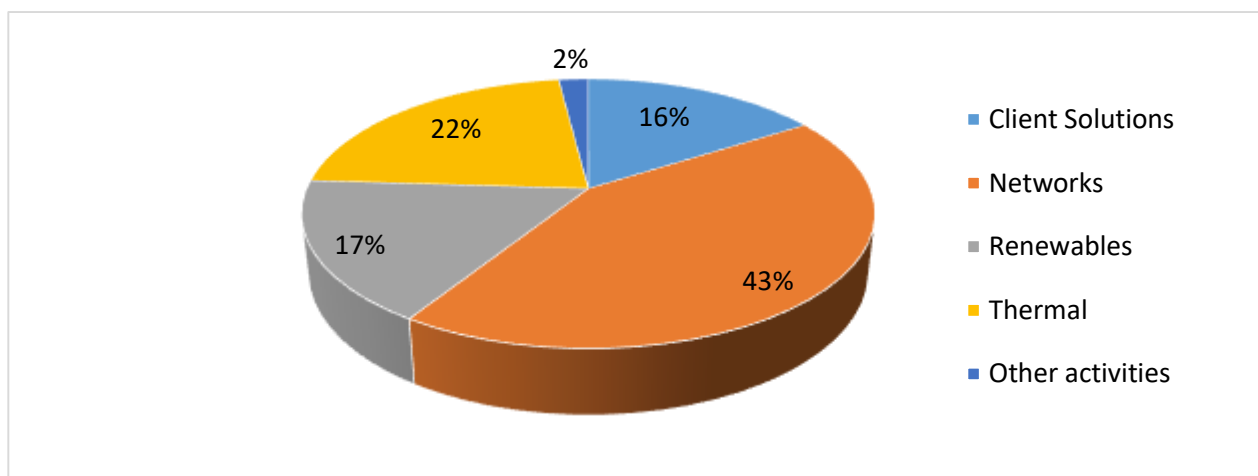
Integrated customer solutions include Energy Supply, Technical Services, Facility Management and Energy services. These customer solutions are focused on business, private and professional customers, cities and territories.

The company has elaborated a new strategic plan for the period 2019-2021, the objective of which is to become the world leader in zero-carbon transition as a service (Engie, 2019). Engie assists business and local authorities to achieve a zero-carbon transition in their sectors. In order to get this, the company will focus on four areas: (i) Client Solutions including Business to Business (B2B) and Business to Territory; (ii) Renewables (hydropower, photovoltaic solar power, wind power, biomass, biogas); (iii) Networks (gas and electricity infrastructure); and (iv) Generation and Supply (thermal, nuclear power, supply, etc.).

The contribution of these activities to EBITDA can be observed in Figure 1. The most important contributions come from Networks (43%) and Thermal (22%), followed by Renewables (17%) and Client Solutions (16%). Therefore, traditional activities (infrastructures and generation and supply) still plays an important role in the company but the innovative ones (renewables and client solutions) are the cornerstone of the future growth of the company.

Figure 1

Contribution to EBITDA by activities 2019



Source: Engie Integrated Report 2019.

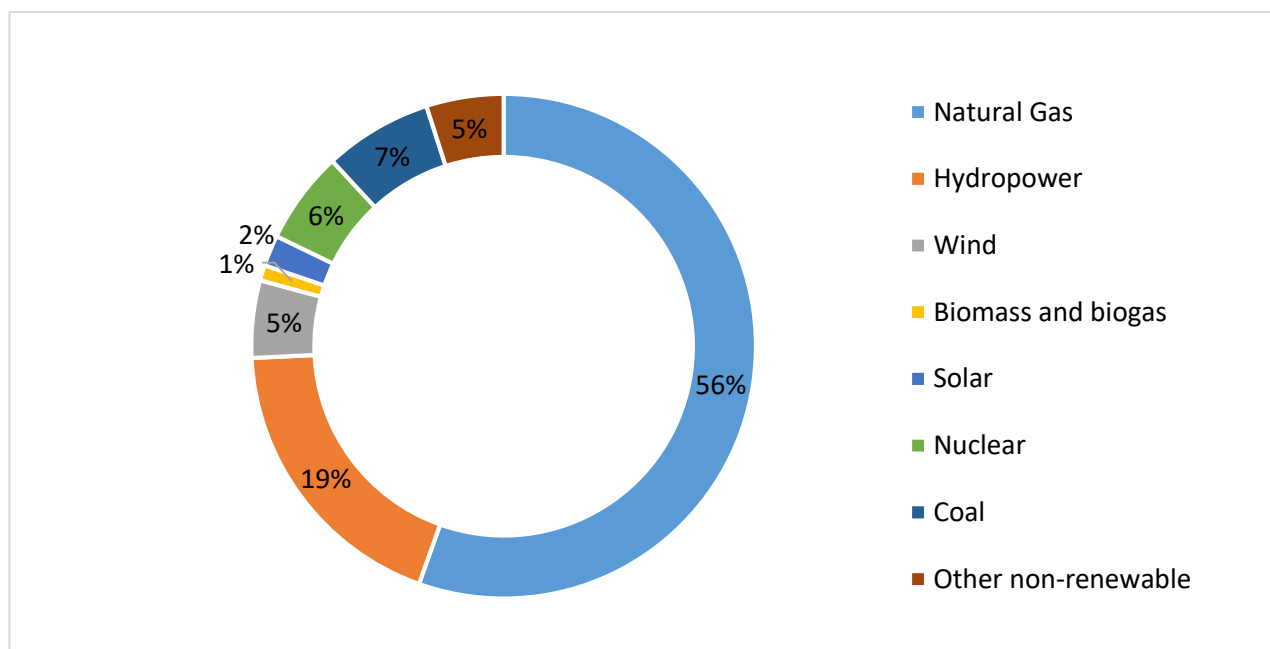
One of the limitations of renewable energies is storage. Wind and solar power are variable and intermittent. Additionally, batteries to store long-term energy are high-priced. Lithium-based batteries are considered a solution for the management of renewable energy and a potential economic opportunity for countries with large reserves of this element. The setbacks are the time required to implement the projects and the great increase in costs if that time is to be reduced (López, Obaya, Pascuini & Ramos, 2019). Nowadays, the most frequent option for long-term

storage is pumped-storage hydroelectricity. This consists of pumping water to a higher elevation reservoir when there is surplus of electric power; the water will then be released to a lower reservoir through turbines to generate electricity when needed. The difficulty is the land required to build these facilities (Thurber, 2020) and installation costs. Another option for storage is power-to-gas (P2G) whereby the surplus electrical power is converted into gas that can be used directly or transformed into electricity. This system relies on electrolysis, making use of electricity to split water into hydrogen and oxygen. This technology has its setbacks: it is expensive and there is loss of energy during the process. An additional solution could be to expand the grids that distribute the electricity. Electricity could be shared from places with surplus to places that need power. The obstacle is again the cost of expanding the grid. An alternative option is combining renewable energy with gas turbines that will complement the variability and intermittency of renewable sources. There is also the possibility of incorporating biomass, this is also a renewable source of energy and it is less irregular. Gas could play an important role in the energy transition from fossil fuels to renewable sources. Coal to gas substitution decreases, on average, CO₂ and methane emissions by 50% when generating electricity and 33% when producing heat (IEA, 2019b).

Figure 2 reveals the importance of natural gas and hydropower in electricity capacity in Engie's business model (75% of electricity capacity at the end of 2017).

Figure 2

Engie – Breakdown of Electricity Capacity 2017



Source: Engie Integrated Report 2018.

Following the concept of “Marketing Myopia” (Levitt, 1960), energy companies should focus on the customer need (energy) instead of the product (fossil fuels). Furthermore, innovations in the energy sector and the preoccupation with the environmental problems caused by fossil fuels are changing the energy sector environment. Companies that don’t adapt to this new environment are in danger of disappearing. Here applies the theory of “creative destruction” (Schumpeter, 1942), wherein obsolete companies close and innovative ones succeed and produce economic growth. It is a question of being better adapted to the environment and better satisfying customer needs. There is a growing concern among companies, consumers and states about the effects of fossil fuels on global warming. This is in line with the Paris Agreement of 2015, the objective of which was to reduce greenhouse gas emissions to limit global temperature rise well below 2°C above pre-industrial levels and to restrict the temperature increase to 1.5°C. To date, 187 parties have ratified the agreement (United Nations, 2020). On 4th November, 2019, the United States, under Donald Trump’s presidency, started the process to leave the Paris Agreement. The procedure completion needs one year; therefore, the country will leave the Agreement on 4th November, 2020, a day after the presidential elections.

In spite of the efforts, 2019 was the second warmest year globally and the decade 2010-2019 was the warmest decade on record (Copernicus Climate Change Service, 2020). Global energy-related CO₂ emissions increased 1.7% in 2018, coal power generation being the higher contributor with 30% of all energy CO₂ emissions (IEA, 2019c).

In order to implement its transformation plan, Engie conducted several acquisitions and sales:

In 2015, the company acquired Solairedirect for 200 million euro, becoming the leader of solar power in France. In 2017, they bought La Compagnie de Vent SA, a wind and solar power company in France. Subsequently, in 2018, the group purchased Sameole, a wind farm developer with projects in seven regions in France. In 2019, Engie acquired ChargePoint Services Ltd, a British electric vehicle charging provider. The company also led a consortium that bought six hydroelectric dams in Portugal for 2.2 billion euros in December 2019.

In regard to disinvestments, the group sold its United States fossil portfolio in 2016. After that, the company liquidated Engie E&P International S.A., an oil and gas producer in Europe, Africa and Asia, for 3.6 billion euros in 2017. Subsequently, Engie sold its upstream and midstream Liquefied Natural Gas (LNG) activities in the United States and Europe to the French company Total. In 2019, the company sold several coal-fired power plants in Germany and the Netherlands following its decarbonisation strategy. The company also experienced some trouble with nuclear energy in Belgium due to unscheduled outages, which meant a loss in earnings in 2018.

The group is retreating in three years from twenty countries where it has a marginal role. The idea is to focus on fewer countries, but looking for a greater impact within the energy market of those countries. This is also related to efforts to reduce costs, increase efficiency and simplify strategy in the company. The company is also targeting some of the most important cities in developing countries.

Technology is a key factor in Engie’s strategy. The declining costs of wind and solar technology (Bogmans, 2019) have increased the profitability of renewable energies. Furthermore, smart grids,

energy storage (power-to-gas), web applications and blockchain services are being used in the company. The group has invested 1.5 billion euros in emerging and digital technologies in the period 2016-2018 (Engie, 2019).

There are other energy companies that are also focusing on the energy transition. Iberdrola, a Spanish company based on Bilbao, has a business model centred on the electrification and decarbonisation of energy and the use of renewable sources. The company has set the objective of reducing 50% of its CO₂ emissions by 2030 compared to those of 2007 and reach carbon neutrality by 2050 (Iberdrola, 2019a).

This group is investing 34 billion euros in the 2018-2022 period; of which 86% will be in long-term or regulated activities; specifically, 47% in networks, 39% in renewables energies and 11% in generation and supply. The company has offshore wind farm projects in Saint Brieuc (France), Vineyard Winds (United States), Baltic Eagle (Germany) and the Tàmega hydroelectric project in Portugal (Iberdrola, 2019b).

Iberdrola, Energias de Portugal (EDP) and Enel have science-based targets, a set of goals that establish a clear route to reduce greenhouse emissions, specifying the quantities and the time to reach this objective. They are in conformity with the Paris Agreement goals limiting global warming.

There is also new competence from oil companies that are entering into renewable energies. Some companies, like Repsol, Total and Shell, are trying to diversify their operations and reduce their dependency on oil resources. In December 2017, Shell acquired the gas and electricity group First Utility in the United Kingdom, British Petroleum bought solar generator Lighthouse in 2017 and the French company Total purchased the 95% of the gas and electricity retailer Direct Energie in 2018. Furthermore, Repsol acquired Viesgo's low-emissions electricity assets and retail business, expanding its operations to the electricity sector in 2018.

In relation to oil majors, there are two groups with different strategies: Royal Dutch, Shell, Total, BP and Equinor have initiated the transition from oil to energy and Exxonmobil, Chevron and Petrobras are more focused on hydrocarbon; oil majors with less oil reserves are progressing faster with the transition than companies with abundant deposits (Pickl, 2019).

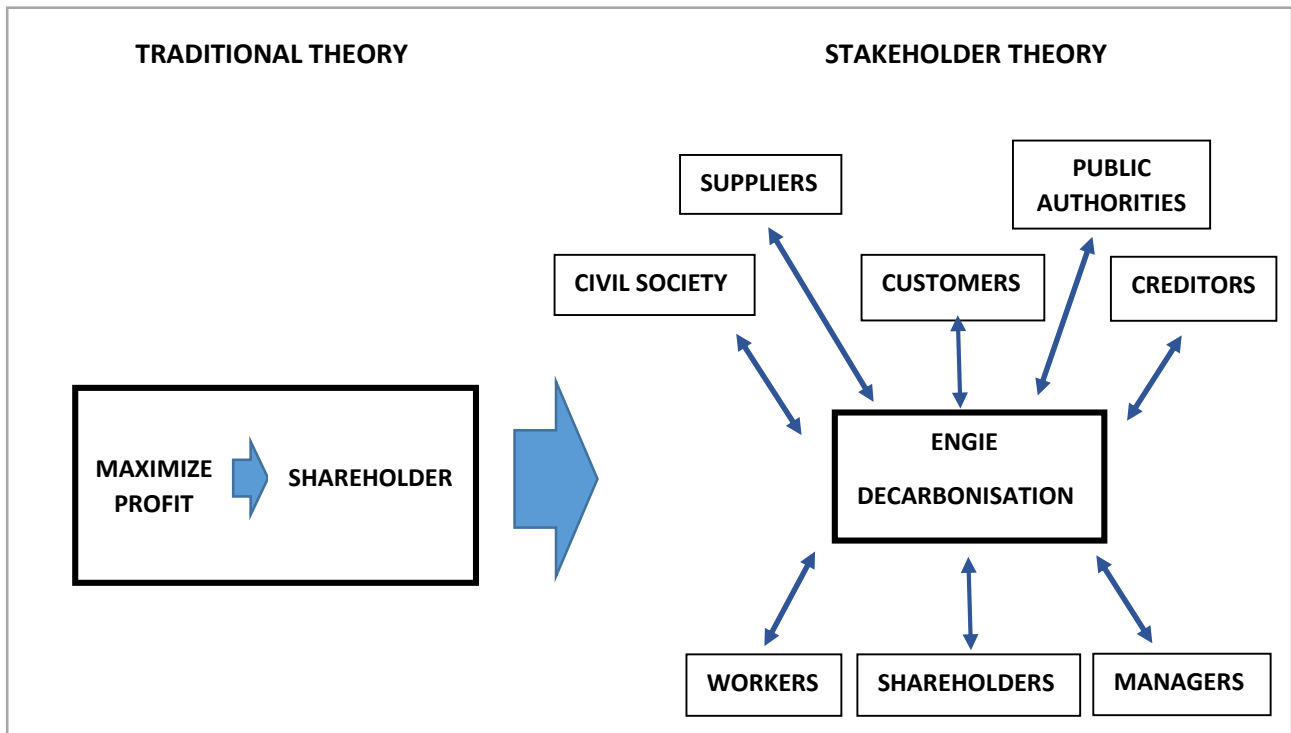
Engie, due to the transformation of its business model, is more in line with stakeholder theory (Freeman, 1984). The company is not only under obligation to its shareholders, it must also take into account anyone who is involved in or affected by the business: workers, shareholders, government, customers, providers, community, etc.

There is an increasing concern about environment among all stakeholders: some companies take into account the carbon footprint in order to select providers, governments and public authorities consider environmental factors in order to assign public projects, customers can discriminate products depending on ecological factors and firms are internally improving their sustainability in everyday activities. This is even more important in energy companies because of their large contribution to carbon emissions.

The change from a traditional model based on maximizing profit for shareholders to a new one including all the stakeholders of the company and centred on decarbonisation can be observed in figure 3.

Figure 3

Engie – Engie and Stakeholder Theory



Source: Own elaboration.

Therefore, Engie is adapting to an environment and to stakeholders who are concerned about sustainability. The company also believes in the profitability of this new scenario. However, some of the new investments of the company are long term and it will require time to see the effects on the company results. The objective is “the triple bottom line”, changing the traditional focus of companies on profits, return on investment and shareholder value to planet, people and profit (Elkington, 1997). Thus, they also take into account environmental and social factors that are important for the stakeholders.

5. Asset Light Model

Isabelle Kocher managed one of the top energy companies in France: Engie. Under her leadership the company followed a new and innovative strategy: selling fossil fuel assets and investing the proceeds in renewable energy and new sophisticated services. Her plan was transforming the former gas monopoly into a clean power champion. The objective was to boost profits and to be the first global utility to take the strategic shift to Asset Light.

Engie implemented the Asset Light approach: by leveraging on its leading B2B energy service activity it is in a unique position to build a comprehensive, global platform which will be difficult to replicate for competitors:

1. By leveraging on its leading B2B energy service activity. Infrastructure and Pension funds are investing in the energy sector. With their lower cost of capital, they are ultimately the new owners of renewable power sources.

A lower cost of capital is key, because renewables are very intensive in Capital Expenditure (Capex) and Operating Expenditure (Opex). Engie enters into partnerships with these Infrastructure and pension funds through structures that enable the company to propose financed, tailor-made solutions to industrials and municipalities. Engie thus shares ownership of the assets with its partners while providing specialised services. These shareholding and contractual structures are based in the so-called “Asset Companies” (AssetCo’s) and “Operating Contracts” (OpCo’s) through which Engie can create substantial shareholder value. The “AssetCo/OpCo” implies the structuring of high Intellectual Property (IP) design, develop and operate activities on a global platform and separate them from the classic Capital Expenditure (Capex) deployment and asset ownership.

2. Unique position to build a comprehensive, global platform which will be difficult to replicate for competitors. Engie is still deploying capital in areas with higher barriers of entry (e.g. decentralized energy generation, cold/heat systems in its Asset Based business, or Offshore wind), yet making the shift to the service business model.

Under this new business model, Engie is the first large utility to make the necessary adjustments to its business model to meet the challenges now facing the industry, by leveraging on its own expertise and taking an inferior stake in Capex and Opex.

This AssetCo/OpCo model based on the partnership with Infrastructure and Pension Funds and the implementation of tailor made solutions and can be observed graphically in figure 4.

Engie still works with nuclear generation and has a large exposure to gas. For these reasons, the market may still have doubts on the ability of Engie to grow organically.

However, the company is expected to simplify its operations even more in the following years: going asset light, improving returns, reducing exposure to gas.

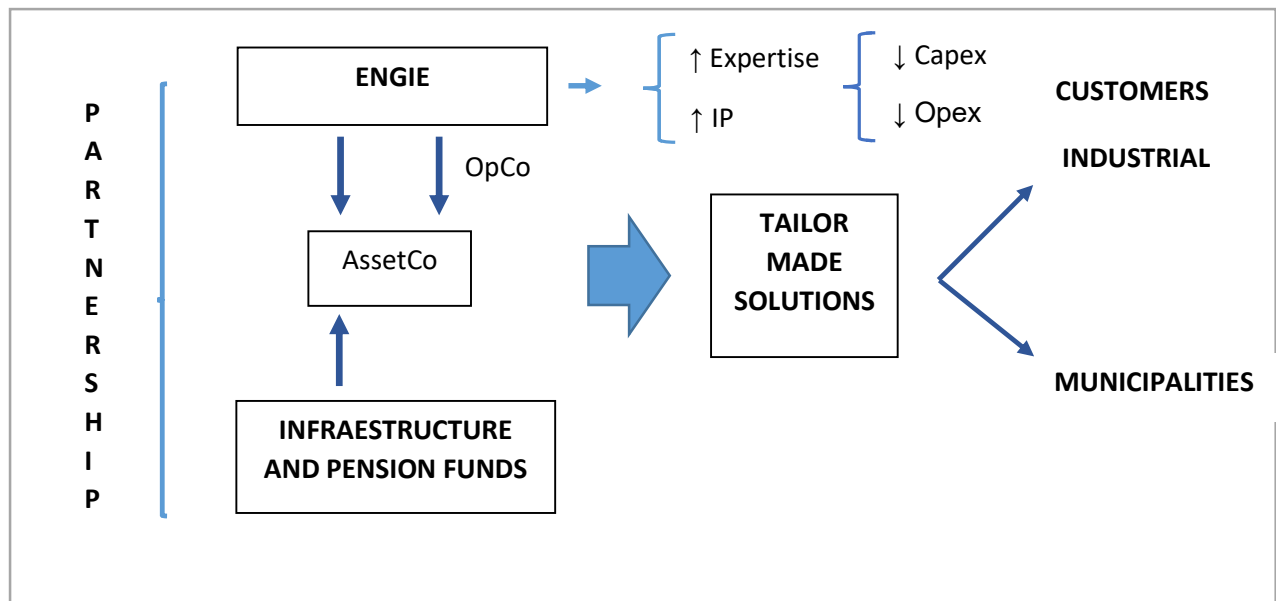
Although there are risks on the horizon:

- Deteriorating European generation commodities could keep earnings under pressure in the medium term.

- A weaker growth outlook in the Renewables and Customer Solutions business because of a drying pipeline of new investment projects at acceptable returns.
- The return of “transformative” Mergers and Acquisitions, perceived to be driven by the need to sustain falling earnings at the expense of shareholder value.
- Failure to deliver on medium term earnings guidance could mean a derating of Engie shares.

Figure 4

The AssetCo/OpCo model promoted by Engie



Source: Own elaboration.

6. Conclusions

Engie has implemented a transformation plan in the period 2016-2019 to adapt to a new energy business environment based on decarbonisation, decentralisation and digitalisation. The company has focused on renewable sources of energy and reducing fossil fuels dependency. It is important to understand how they are implementing the change, as most energy companies are going to face the same situation in the future.

The Energy transition is a matter of urgency due to the environmental consequences of fossil fuels in the planet. It is not just a question of “getting greener”, the objective is find out a model which is respectful with the environment and, at the same time, profitable. All the stakeholders of the company benefit from this transformation. The problem of renewable energy is intermittence and the impossibility of storage. Gas could play an important role in the energetic transition,

complementing renewable sources when needed. Engie has concentrated on the need (energy) and not on the product (fossil fuels) confronting the “marketing myopia” described by Levitt. The increasing concern about global warming and the limited future of fossil fuels requires energy companies to innovate and drive the energetic transition to renewable sources. The risk of not doing so for business could be becoming obsolete and their disappearance through the process of Schumpeterian creative destruction.

The objective of Engie for the period 2019-2021 is to centre on tailor made-solutions to assist customers in their zero-carbon transition. In order to achieve this, they follow an Asset Light strategy, they partner with infrastructure and pension funds that are the new owners of renewable sources due to their lower cost of capital, Engie delivers expertise and reduces asset ownership. This business model transformation is satisfying better the needs of Engie’s main stakeholders: civil society, public authorities, business community, financial community and human resources. Only future will tell the potential of this new business model in terms of growth and profitability.

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Consumers and enterprises as actors on the market

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Abstract

This conceptual paper discusses the phenomenon of differentiation made possible through branding or innovation or a combination of the two. Differentiation is eventually the driving force for the development of its own negation, commoditization. When customers have endured a commoditized market long enough the opportunities open up for creative destruction, this concept of Schumpeter (1942), means that an entrepreneur invents a completely new way of satisfying the customers' unsatisfied needs, making the industry that no longer bothered about their customers. Many researchers have tried to re/brand destructive innovation as their own, with concepts, such as of "transilience", and "blue ocean strategy", as opposed to 'red ocean strategy'.

The paper focuses on innovation as a differentiation strategy and on temporary monopoly rent as a driver of innovation. Increased competition and shortening and life cycles makes capitalism more volatile and the strategies to reduce the risks involved are discussed. These strategies lead to the real-world implementation of the concentration of capital forecasted by Marx and feared by Schumpeter.

The paper identifies the need to continuously monitor the concentration of capital and to understand individual markets by studying the firm's profit.

Key words

Market, differentiation, commoditization, innovation, creative destruction, monopoly rent, organic composition of capital, volatility, concentration of capital.

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1. Introduction

The “market” concept is central in marketing, but we are often sloppy in defining it and explain the mechanisms regulating markets. Sometimes we use the concept of “market forces” (a legacy from economics), but of what does these forces consist and how can we understand these. Different traditions in marketing rely on different perspectives on how to view the market and the mechanisms regulating it.

First, we give an example, *Winemaking in France*, of how undifferentiated products can be differentiated. Then under *Competition and differentiation* we discuss how competition forces companies in general to differentiate their products and services, to reach higher profits. Neo-classical and classical economy’s view on these issues are discussed and the reasons why marketing is fundamentally classical in its foundations. There are *two ways to differentiate products, Innovation and Branding*. Here we are showing what they achieve for companies in the form of differentiation. Under *Innovation and Monopoly Rent*, we discuss the extra-ordinary profit levels that can be achieved by successful radical innovation. The risks inherent in investing in differentiation leads to increasing volatility are discussed under *The volatility risks and the management of these*. Under the header *Commoditization and creative destruction*, we show how markets mature from competition and enter into a phase of slow change that eventually ends in what is called *Creative destruction*, when the industry is over-run by a newly arising industry.

Commodities, undifferentiated homogeneous goods, satisfy basic human needs; be it a kilo of rice or potatoes to eat, or pine planks to build a house. But most needs are different for different customers, hence if we address these specific needs, we produce products and services which are differentiated, heterogeneous. Differentiation means that the product satisfies the need differently, through innovation, or better, because of quality. The firm that manages to produce such added value and communicate the extra value to customers reap higher profits in the marketplace.

2. Winemaking in France

In the 1960s, when I first visited Paris, most people brought their own bottle to the local food retailer and refilled in from a tap, almost as in a gas station. Wine was a commodity, not a differentiated product, and as such quite bad one, also in France.

Although wine making has a history going back more than a couple of thousand years, there were no possibility for customers, apart from a select few of the upper classes, to distinguish the hundred thousand wine peasants that produced wine, and hence buy it because of its quality. The select few, like the most prestigious vineyard in France, Domaine de la Romanée-Conti that goes back to 1232, had the royalty and the noblesse as customers.

In 1742 the first attempt to differentiate the vineyards was made in Bordeaux, but it was not until 1855 that an official classification system of Bordeaux wine was made. The same year Burgundy got its first unofficial system, but it was not until 1936 that an official system was introduced. What

the “appellation contrôlée”-system did was to classify the land, based on soil type, sun exposition, minerals, and water flow, which together with the climate during the year, give the conditions for wine making. The quality of the wine is primarily the result of the wine-makers efforts and the classification tells nothing about that. But the identification of the land made it meaningful for the wine maker to invest in quality, as the vineyard could be identified.

In the two villages Chassagne-Montrachet and Puligny-Montrachet in the lower central area of Burgundy, there are some 500 ha of land with wine, of which slightly more than 30 ha have the highest classification of “grand Cru”. Of four grand Cru wines, the best the Montrachet, is the best dry white wine in the world. It is produced on less than 8 ha of land and subdivided in lots owned by 26 producers (2007). On a global market with 26 producers it is possible to differentiate yourself by outstanding quality.

Hence, the region in which the wine is produced tells something about the quality of the wine. The region labelled on the wine bottle signaling this quality. Thus, the wine becomes differentiated into different brands (vineyards), vintages (quality indicator) and regions (quality indicator). Other commodities have become differentiated in this way, especially food products from the agricultural sector, e.g. cheese, meat, etc. In some cases third-party quality inspection and classification has been the bases for such differentiation.

3. Competition and differentiation

Markets as we know them are a consequence of industrialization and the capitalistic economic system that replaced the feudalism of the middle ages. The peasant produced either for the nobleman or for his own family, never for a market. The independent artisan did exchange the results of his work for money, but not with the aim to produce profit, just to support the family on a socially acceptable level (Marx, 1867/1970).

For the modern version of the artisan, be it a shoe-repairer or an owner of a taxi, the firm is also a basis of survival, rather than to produce profit and expand. In a favorable business cycle the company might expand slightly, with one or a few employees, and then contract in a less favorable one. In the slow cycle, the owner’s hours of work could expand to 12 hours and in a good cycle diminish to 8 hours. Chayanov (1925/1966) explained the regulating mechanisms in these enterprises to be a socially acceptable subsistence level for the family. This type of companies can exist in sectors of the market characterized by a fragmented economy, no actor is able to differentiate to make substantial profits and outcompete others.

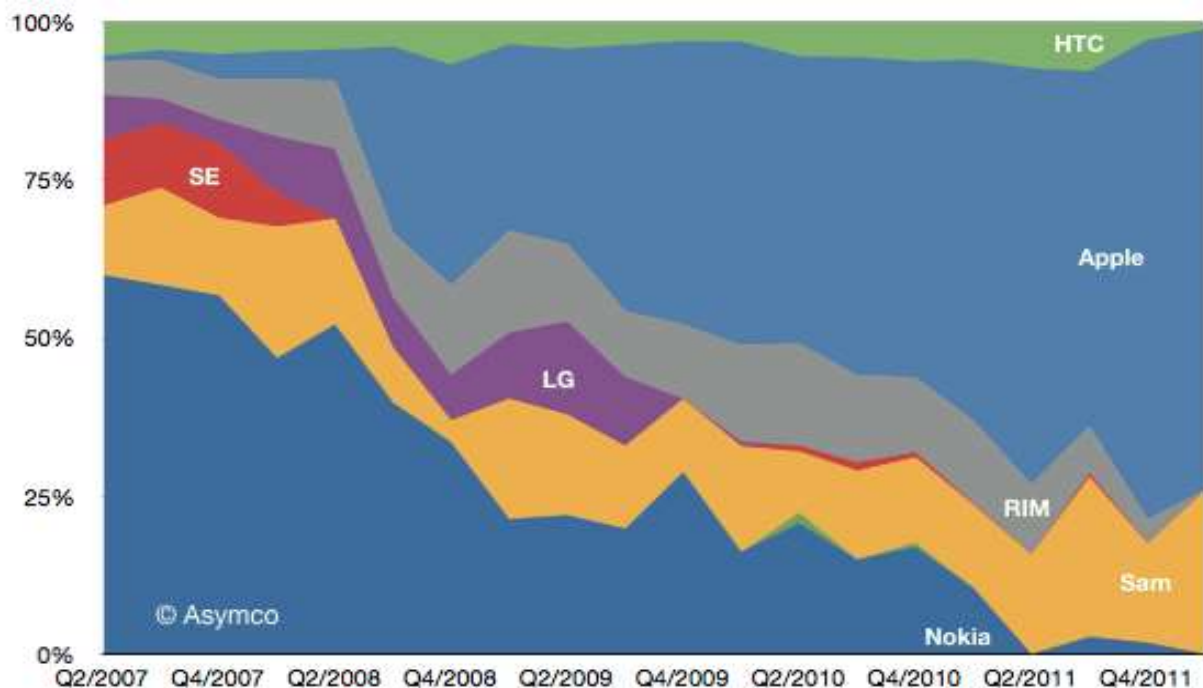
With industrialization markets evolved and companies sold goods for profit. The aim of the company was not to produce goods, but to produce profit. This was not without risk and the profit had to be on certain level to motivate the risk-taking involved. Over business cycles the average profit level has been some 5% over bank interest (cf. Nicholas, 2003:1045), giving an average interest of around 2%.

Neo-classical economics presumes that markets are characterized by perfect competition, where no individual or buyer can affect price, i.e. only undifferentiated goods are exchanged on the market. Hence, all companies create average profit. But companies and business administration as their help science, strives to get more profit, not only in absolute figures by growing, but relatively, as a percentage of the company equity, by differentiating products and services.

Classical economics (Smith, 1776/1982; Malthus, 1798/1970; Ricardo, 1817/1971; Marx 1894/1970; and others) understood that there is a drive among capitalists to get more than the average profit. They recognized this as monopoly rent, a premium for being different, which meant that profits were re-distributed in the marketplace to the advantage of the company with a unique, and especially the most unique product. To begin this was supposed to be because of monopoly control of natural resources. Ricardo is credited with the clearest analysis of land rent. Marx (1894/1970; 1973) used Ricardo's concept for land rent, but for industrial capitalism. He introduced the concept of redistribution of profits by the organic composition of capital, a measure for how advanced the capital is in employing science and technology. Schumpeter (1942, 1947) used the term monopoly rent in a sense akin to Marx' concept, to explain the "long waves" of capitalism and fundamental effects of entrepreneurial "destructive changes"; when market conditions are fundamentally changed by the innovations of "entrepreneurs" (cf. Elliott, 1980). The entrepreneur gains a temporary monopoly rent by being unique (von Hippel, 1988).

Figure 1

Profits in the Mobile Phone Vendor Market



Source: Asymco (28 June 2013).

This can be illustrated by the monopoly rent that Apple was able to gain by the introduction of the iPhone in mid 2007, illustrated in figure 1. In 2006, Nokia catches 60% of the profits in the market for mobile telephone terminals. Four years later, Apple had 75% of the profits and Nokia zero. Two years later Nokia, the monopolist six year earlier, had been forced out of the market.

In spite of what is commonly thought, given the increasing Android sales, Apple has increased its dominance, see table 1. The figure shows that in 2016, Apple took 92% of the profits in the market, although Samsung is the leader in terms of market share but does not earn any money! Google is the profit leader for operating systems (Android), but that does not trickle down to its partners using that operating system. Hence, even if a company has a smaller market share it can catch the lion's share of the profit, because of the monopoly rent gained by differentiation. This also illustrates the important difference between market share, share of total sales in industry, and profit share, share of the total profits in industry. The market share does not tell who the industry leader is.

Table 1

Global Smartphone Operating Profit Share in Q3 2016

Global Smartphone Profit by Vendor	Operating profit (US\$, Billions)	Operating Profit Share (%)
Apple	\$ 8.5	91.0 %
Huawei	\$ 0.2	2.4 %
Vivo	\$ 0.2	2.2 %
Oppo	\$ 0.2	2.2 %
Others	\$ 0.2	2.2 %
Total	\$ 9.4	100.0 %

Source: Strategic Analytics (25 November 2016).

Another example is Digital Equipment that in 1986 was number two in the computer market (after IBM), 9 years later it did not exist anymore (Spencer, Kirchhoff & White, 2008).

4. Two elements of differentiation

As indicated by our narrative about French wine making, differentiation by branding is antecedent to exploiting the results of investing in innovation or quality. Branding is a differentiating phenomenon, which is promising quality.

“Firms with strong brands... tend to introduce fewer products and keep those products on their market longer than their weak-brand counterparts.” (De Figueiredo & Kyle, 2006:242).

Firms with strong brands, measured by having high brand equity can capture higher price premiums on brand extensions into nearby product classes than firms without strong brands. (De Figueiredo & Kyle, 2006).

Unless customers can identify the innovator, the investments in innovation are unfruitful.

5. Innovation and Monopoly Rent

Innovation makes it possible to reach Abnormal Earnings, AE, during the time that the innovation has not been imitated by competitors. Monopoly rent was used by Malthus (1798/1970), Ricardo (1817/1971), and Marx (1894/1970) to explain land rent and then other monopoly rents. Marx (1894/1970) explained AE as the result of the re-distribution of profit in relation to the organic composition of capital. In this he was a forerunner of the resource-based view (Penrose, 1959/2009), in that it that he focused on the technical resources and the more advanced capabilities of the company reaping monopoly rent. Schumpeter (1942; 1947) applied monopoly rent to innovation, to explain how a temporary monopoly gives the innovating firm a competitive advantage.

“Schumpeter argued that those who succeed at innovating are rewarded by having temporary monopoly control over what they have created. This control, in turn, is the lever that allows innovators to gain an enhanced position in the market and related temporary profits of “economic rents” from their innovations.” (von Hippel, 1988:43, 58).

In accounting literature AE is normally measured by the neo-classic Ohlson model (AbuGhazaleh, Al-Hares & Haddad, 2012; Bernard, 1995; Feltham & Ohlson, 1995; Lo & Lys, 2000; Lundholm, 1995, after Lundholm, 2014; Ohlson, 1995), which calculates the value of the firm as the net present value of future abnormal earnings. The Ohlson model updated the Gordon model (Gordon & Shapiro, 1956) with the Miller & Modigliani model (Miller & Modigliani, 1961).

“Abnormal earnings bear on the difference between market and book values, that is, they bear on a firm’s goodwill.” Ohlson (1995:662).

However, that the model recognizes abnormal earnings is in fundamental conflict with neo-classic economic theory, as it abstracts from the fundamental assumption of perfect markets. The Ohlson model is one of the most cited and respected models in the accounting literature, but it has one major flaw: although it is an empirically well-validated prediction model, it fails to explain *why* these abnormal earnings exist. Classical economics gives such a fundamental explanation. (Philipson, Johansson, & Schley, 2016).

The result of monopoly rent, or abnormal earnings, is rapid, unforeseen changes. In mid-2007 Nokia retained 60% of the profits in the mobile phone vendor market. Then Apple introduced the

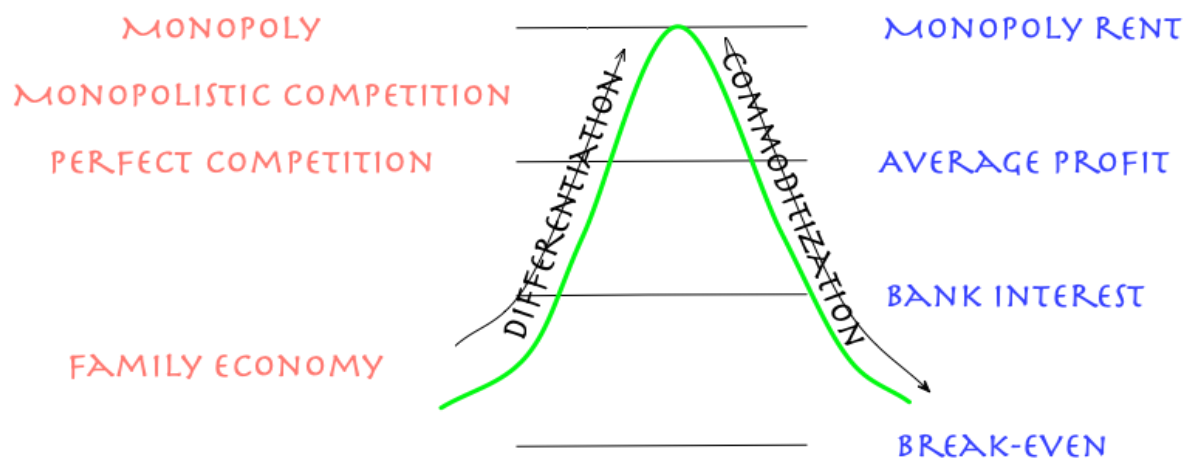
iPhone. Four years later, Apple had 75% of the profits and Nokia zero! In 2013 Nokia ceased as an independent mobile phone manufacturer. In 2016, Microsoft that had bought Nokia, announced that it would close the mobile phone business (although it later emerged as a low-cost phone essentially for emerging markets). From being the leading and dominant player, it was forced out of the market in 6 years.

"...it can always be understood ex post; but it can practically never be understood ex ante...", Schumpeter (1947:150).

Apple has over the last 15 years managed to have a profit level of around 25%, which is some 18% more than the average profit level.

Figure 2

Profit level



Source: Own elaboration.

Figure 2 shows the profit level in different types of markets: family economy (subsistence companies), with 0-2% profit, bank interest, 2%, normal or average profit in competitive markets (perfect competition), 5-7%, monopolistic competition, and monopoly, 25%.

We have discussed differentiation and the monopoly rent that can become the result of such differentiation. The monopoly rent is however temporal. Sooner or later competitors will catch up with the monopolist by launching similar or equivalent products. This will start a process of commoditization; the downward slope of the bell-curve in figure 3, increasing price competition, mergers and acquisitions, eventually reaching a monopoly based on cost-effectiveness.

Then there are no incentives for innovation. Customers will become dissatisfied as the product does not adapt to evolving needs. Then the industry is ripe for destruction by a new creative

destruction. Eventually this will also happen to Apple, even though it now has the dominant market share. As we showed, this was what happened to Nokia.

6. Volatility risks and the management of these

Capitalism becomes more and more volatile, because the increasing volatility associated with innovation and shorter life cycles (Philipson, 2019) We have now seen the mechanisms behind this spur of innovation and consequent short life cycles.

Destructive innovation covers the following five cases (Schumpeter, 1934:66, after Baumol, 1996):

1. *The introduction of a new offering* is one with which consumers are not yet familiar – or of a new quality of an offering.
2. *The introduction of a new method of production*, one not yet tested by experience in the industry. It might not be founded upon a new scientific discovery and can also exist in a new way of managing the offering commercially.
3. *The opening of a new market* – a market in which the offering does not exist presently.
4. *The conquest of a new source of supply of raw materials or components* – irrespective of whether this source already exists or whether it has first to be created.
5. *The carrying out of the new organization of an industry* – the creation of a monopoly position (for example through trustification) or the breaking up of a monopoly position.

The involved risks are managed on an ever-increasing scale, by:

- An *assortment of products* (shown by Carlin, Haskel & Seabright, 2001:70ff), Branding “...platforms have greater staying power on the market than the individual products.” (De Figueiredo & Kyle, 2006:261). Such an assortment of products means that the company can balance the risks of each individual product. If the assortment is well construed, the products does not contain the same risks.
- Several *plants* with different effectiveness (shown by Carlin, Haskel & Seabright, 2001:70ff), “...a capacity of multi-plant firms to manage the uncertainty of the market environment better than do single plant firms.” (Carlin et al., 2001:82). Workers in Sweden are normally more educated than workers in emerging markets, but their salaries are much higher. Hence, products and components with a high value-added are often produced in plants in Sweden and cost-sensitive products in emerging market countries. Short series are often produced near the selling market, because the company usually has to adopt quickly to changing demand.
- The presence in *different nations*, with different political risks (Gupta, 2013). Many emerging markets involve political risks, such as a military coup d’état in Thailand, social unrest, unclear legal conditions, etc.
- By organized *long-term supply-chain cooperation*. “To find the balance point between imposing and meeting requirements in dialogue with vendors.” (Kjellström, 2019) [emphasis in original]; the supply-chain cooperation allowing a ‘dumper effect’ of volatile

demand, by allowing the end-manufacturer to reduce or increase the amounts bought from co-operating suppliers as a function the evolution of market demand.

- A presence in *several industries*, reducing the risk of creative destruction (Philipson & Oghazi, 2013). This is what corporations do and which eventually leads to the concentration of capital.

7. The concentration of capital

These increasing risks are ultimately managed by the concentration of capital. This is one of the most important tendencies in capitalism, as suggested by Marx (1894/1970; 1973).

“Schumpeter’s great fear was that large firms would come to dominate the innovation process through economies of scale and control of resources (Schumpeter, 1942). This, in turn, would lead to the concentration of wealth in the hands of a few large corporations, and necessitate a transition to socialism.” (Spencer & Kirchhoff, 2006:153).

Studying the period between 1890 to 1910, Austrian economist Rudolf Hilferding (1919/2007), German minister of finance 1923 and 1928-29, called this financial capital, i.e. financial corporations owning many businesses, thus balancing off the risks.

Glattfelder (2010) showed that this concentration has now proceeded to such heights that 50 corporations’ control 40% of the global wealth. It shows that although the same risk management effects can be achieved by all types of corporate experience with generalized capital functions (Philipson, 1980; Philipson & Oghazi, 2013), 29 of the 50 corporations are still financial corporations.

A recent study shows an even higher concentration in the US: BlackRock, Vanguard, and State Street (assets management companies) are together the largest shareholder in 88 percent of the S&P 500 firms. (Fichtner, Heemskerk & Garcia-Bernardo, 2017).

Hence, it is no question that Marx, Hilferding, and Schumpeter were right; the concentration of capital is today extreme; but we don’t know the consequences yet. All three of them saw this as a forerunner of socialism, whether with enthusiasm, Marx and Hilferding, or fear, Schumpeter.

8. Commoditization and creative destruction

Usually the eruptive innovator is imitated by others that want a share of the monopoly rent, or by lower quality brands that are “eating up” the uniqueness of quality brands, as can be seen in apparel branding over the last twenty years. If the innovator or brander does not manage to re-engineer its uniqueness, competition between the companies, producing the same quality for a lower cost, will increase and will eventually, over mergers and acquisitions, become an oligopoly or sometimes a monopoly, based on economics of scale. Often the new innovation must come “from outside” of the industry, as there are no longer any incentives to innovate. Thus, industries

or business models have a lifecycle, whether it was department stores (150-200 years), landline telephones (125 years), or other industries.

Schumpeter's concept of creative destruction (1942) means that an innovation "changes the game", by launching an offering that makes an industry obsolete as a whole. Well-known examples are the mechanical calculator, which was replaced by the electronic calculator in just a few years and the mobile phone has globally replaced the land line, although that has been a much slower process.

"This is fundamentally different from general equilibrium theory, where competition is almost exclusively price-based. In Schumpeter's view, competition is not to be based solely on price – "the price variable is ousted from its dominant position" (Schumpeter, 1942:84) – but rather on non-price characteristics of a product such as capabilities and performance – shifting the basis of competition from the ability to minimize cost to the ability to innovate." (Spencer & Kirchhoff, 2006:147).

"...a firm's best – most loyal and most profitable – customers are the best precisely because they are heavily invested in the firm's current product offerings." (Christensen, 1997 after Spencer & Kirchhoff, 2006:150).

"...evolutionary technologies are driven often by customer demand for improvements of existing products; these improvements make products better without disturbing current customer behaviours. This type of innovation is often known as "demand-pull" innovation, because it is grounded in market research, identifying improvement desired by existing customers." (Spencer & Kirchhoff, 2006:151)

Other interpretations of creative destruction are the neo-classic economist Kirzner (1973, 1997), who based himself on Knight (1921), and Baumol (1993) (all after Spencer et al., 2008:11-13). Abernathy & Clark (1985) tried to appropriate the concept with a new name 'transilience' but were not successful.

Somewhat more successful in branding creative destruction as their own concept were Kim & Mauborgne, in rebranding it as "blue ocean strategy" as opposed to 'red ocean strategy', which take competition head on. These 'blue ocean' strategies are expected to give the company a higher monopoly rent and to be able to retain the temporary monopoly for a longer time. (Chan & Mauborgne, (2004, 2005a, 2005b; Kim & Mauborgne, 2005a, 2005b; Kaplan & Norton, 2008).

9. Sustainable creative destruction

Creative destruction must in the future encompass not only the industrialized countries but also the world's poor. If the bottom of the pyramid (Prahalad, 2011), the over four billion people, who live on less than \$2/day, shall be able to raise their living standards radically radical innovations must be made that can make products and services available to a fraction of present costs. Prahalad takes the examples of Tata's car for 2000 USD, cataract surgery for 50 USD, and mobile

phone time for 0.01 USD per minute. By others this has been called frugal innovations (Zeschky, Widenmayer & Gassmann, 2011).

But these new products and services will create real creative destruction, when they are not only available to the Indian or Malawian poor, but also to the equally poor European Roma or the white poor in the US Appalachian Mountains. Poverty and riches are no longer properties of the developing and industrialized countries respectively, but both exist in parallel in all parts of the world.

It is often difficult to innovate for innovators that do not share the needs of the potential customers. Creative destruction for the bottom-of-the-pyramid is more likely to be made by people emerging from the bottom of the pyramid, than people coming out of the US ivy league schools.

10. Conclusions and research proposals

Markets are seldom as suggested by neo-classical economists. The strive for monopoly rent and the consequential volatility of markets, the real anarchy of the market, forces solutions of managing the volatility. The concentration of capital, as forecasted by Marx, Hilferding, and Schumpeter is already extreme. It represents an unforeseen planning on the level of capital, limiting the markets to planned “islands” of competing supply-chains. Will this concentration continue?

The concentration of capital must be continuously monitored by research. Will popular demand put limit on this concentration, or will popular influence on the future (democracy) be completely replaced by the planning of a few corporate owners?

To understand the functioning of individual markets, firm’s profit share must be monitored, not the simplistic analysis of market share, which neither tells anything about real market leadership, nor about how the market functions.

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From internationalization to local markets poverty alleviation and competitiveness in the agro-industrial sector of Latin America

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Abstract

The objective of this paper is to analyse the proposal that the production units of the Latin American agribusiness sector evolve from internationalization to their products offers aimed at “the local”, in response to changes in the world scenario. To achieve the objective, a documentary and secondary source analysis were carried out, regarding the impact of COVID19 on the Latin American economy at the world stage. The main result points to the transversality of the creative industries with the agro-industrial sector to encourage creativity within the local business networks that were originally oriented at indirect internationalization. Value enhancement (revaluation) through creativity of orange economy and recognition of peoples' cultural assets, diversity and intangible heritage generates wealth. This transversality contributes to the alleviation of poverty, sustainability and competitiveness of agro-industrial companies.

Key words

Complex adaptive system, local development, COVID 19, internationalization.

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1. Introduction

The last decades of the 20th century and the first ones of the 21st century were marked by a propensity to trade internationally through global value chains (Calvo, 2020). This propensity was observed also in the agro-industrial sector (Rama, 2016; Stal, Sereia & Silva, 2010; Ates & Sen, 1999).

The small production units (Llambí, 1980) of the agro-industrial sector joined the logic of indirect export, i.e. through local business cooperation networks, which in turn were linked to international networks (Michalus, Pérez & Castro, 2009; González, 2007; Olivares, 2005).

However, the world economy is nowadays in a recessive period, accompanied by a global pandemic which subsequently has effects on international markets and the welfare level of the population (Atkeson, 2020; Bonaccorsi et al., 2020; Li et al., 2020; Martin et al., 2020).

If during periods of economic expansion it was an urgent subject matter to rethink “the local dimension” (Montoya, Juárez & Esteban, 2008; Albuquerque, 2004; Coraggio, 2003; Cárdenas, 2002), the new scenario leads to consider this thought with even greater urgency. The city has been exposed through its most basic elements: food security, health and basic income (ECLAC, 2020).

Guaranteeing a minimum income for the population is a challenge for Latin American countries. Health systems are collapsed in some countries, while in others they have come close to collapse. Food security is in doubt; if the curve is not flattened and if the economies keep their borders closed, it can be difficult to guarantee it. The areas with the highest concentration of population have been those with the most infections and deaths.

It is also these large cities that have the greatest dependence on food brought from abroad. The agro-industrial sector is directly related to the food security, inputs for the health system and job creation as well as general sustainability. For this reason, this paper focuses on the agri-food sector and on the proposal that production units move from internationalization to the offer of their products targeting “local dimension”.

This proposal aims to address the problems of Latin America; but it has an equal importance for Europe and other regions of the world; of course, considering the multidimensional reality that corresponds to the region.

While focusing on the underpinning of proposal for “internationalization towards the local markets” in the agro-industrial sector in order to alleviate poverty and increase competitiveness and sustainability, this study is divided into three parts, apart from the introduction and conclusions.

The first part of the work exposes the impact of COVID19 on aspects of international trade, the situation of companies and socio-labour one. The data provided by the Bank of Spain, the Inter-American Development Bank (IDB) and the Economic Commission for Latin America and the Caribbean (ECLAC) are presented for this purpose.

The second part presents an analysis of the local business network and the orange economy, which stresses the creativity. This part presents the way in which the logic of the local network is congruent with the objectives and nature of the orange economy. Local networks have been used in recent decades by agro-industrial production units to achieve indirect internationalization. These same networks have the possibility to go “local” and achieve greater impact through the orange economy.

The third and last part presents the possible effect of this process on the reduction of poverty and an increase in the competitiveness of the agro-industrial company and sustainability in general. The papers that address the orange economy hardly indicate the possibility of making it transversal with other sectors, more so with the agro-industrial sector. What is more, the flourishing of local agriculture can also bring the revitalization of traditional culture and art.

2. COVID19 impact in Latin America and Caribbean region

During the last decades, before the pandemic, global value chains (GVCs) accelerated. The commercial and financial policies of Latin American countries encouraged companies to join the GVCs. Multilateral organizations also suggested their insertion in order to reach greater competitiveness and positive impact on local economic development. This had four situations in favor: 1) technological innovation, which fragmented production and created new services; 2) the improvement of the communications infrastructure that made transportation cheaper and attracted Foreign Direct Investment; 3) trade and financial liberalization, and 4) the successful insertion of China and other Asian economies into the world economy (Calvo, 2020).

However, these chains have been shortened and regionalized (Baiget, 2020) in recent years. The world economy had been showing recessive effects and the symptoms of a depression were clear since the end of the last century (Stiglitz, 2010; Krugman & Wells, 2010; Krugman, 1999).

It is not surprising that, by the beginning of 2019, Latin America and the Caribbean presented possibilities of little growth, while China had also been slowing down its growth (Timini & El-Dahrawy, 2019; Xu, Roth & Santabárbara, 2019; BE, 2019). The slowdown in China only was causing havoc at the global level (table 1), as shown by simulations carried out by the Bank of Spain (of Spain, 2019).

Table 1

Impact under different perturbations on the real GDP growth (%) / (pp) and (bp)

				Trade channel				Raw materials channel				Financial channel				
Total Shock				Decrease of 1 pp of potential and final demand readjustment				-6.9% in petrol prices & -7.8% in metals prices				Decrease of 10% on stock markets, 50 bp rise of stock risk premium in stock exchange and 60 bp of long-term interest rates of the economies				
	China	Aver.	Emer.	World	China	Aver.	Emer.	World	China	Aver.	Emer.	World	China	Aver.	Emer.	World
	E.		E..		E.		E..		E.		E..		E.		E..	
T+1	-0.69	-0.27	-0.52	-0.41	-0.60	-0.07	-0.27	-0.19	0.07	0.08	-0.04	0.01	-0.09	-0.25	-0.15	-0.19
T+2	-0.68	0.14	-0.29	-0.11	-0.72	-0.04	-0.31	-0.20	0.15	0.18	0.15	0.16	-0.01	-0.02	-0.03	-0.02
Average	-0.68	-0.06	-0.40	-0.26	-0.66	-0.06	-0.29	-0.20	0.11	0.13	0.05	0.08	-0.05	-0.14	-0.09	-0.11

Source: Source: Bank of Spain (BE, 2019). pp – percentage point, bp – basic point.

The scenario simulated by the Bank of Spain (BE, 2019) resulted in a reduction in world growth of 0.4 pp in one year. This impact was given, in equal parts, by the commercial and financial channels, without the relevance of the decline in prices in the raw materials channel. In fact, in advanced economies, this last channel would have an expansionary effect, due to the cheaper imports of raw materials, which would limit the effect of other shocks, so that its joint impact on GDP would be – 0.3 pp.

The contraction in activity would be more pronounced in emerging economies (–0.5 pp). In case of these economies, it would fundamentally affect the producers of raw materials and also some Asian economies with strong interrelations with China. This scenario would generate disinflationary pressures, more pronounced in emerging economies, especially in raw materials producers (BE, 2019). In other words, Latin America would have faced a decrease even in the absence of COVID 19. Perhaps the real surprise is in the GVCs. It could hardly be elucidated that the advantages offered by GVCs would negatively impact the Latin American economies in 2020.

The United States, the European Union and China were introducing increasingly protectionist measures long before COVID19. The large economic blocs had already started a tariff war in strategic sectors, a situation that involved countries from the Middle East, Latin America, Africa and Asia (Castillejo & Silvente, 2020; González, 2020).

Oil marked historical drops in its prices and unprecedented in 2015; however, April 2020 marked the worst results (Ashfaq, Maqbool & Rashid, 2020; Favazza & Mahjoubi, 2020; Salisu, Ebu &

Usman, 2020). This was the scenario in which COVID 19 made its entrance; it did not provoke but it did exacerbate the world situation (Krugman, 2020).

The region in which the pandemic originated, China, was more involved in world events and in the strategies to maintain its economic power, as well as in sustaining social and political cohesion within its regime (La Gran Época, 2020).

This situation led to a slow and disjointed international response to the pandemic and a lack of connection between what was really happening in Wuhan and what China communicated to multilateral organizations (WHO, 2020). It is possible that in any other part of the world they would have reacted in the same way. Almost nobody thought that a virus of such capacity could appear on the world stage. No government or nation, except the scientific community that had already published something about it in 2003 (Nguyen-Van-Tam & Hampson, 2003).

Facing the global crisis nations were distracted; looking perhaps more for a way that could give them an opportunity to take a strong position both politically and economically on the world stage. Little by little, a greater understanding has been reached of how COVID19 behaves and what effects it causes, which in turn has led to changing lifestyles worldwide.

Among the immediate effects on the economy is the increase in the new poverty profiles. This occurs due to a reduction in non-essential jobs (Argyriades, 2020). There is a greater destruction of jobs compared to those that have been created in the new normal.

Another factor that influences, and that was also affected, is migration. The closure of borders worldwide harmed the migrant population. By preventing border crossing, many are literally left in "limbo." In addition, the pandemics encourages migration, thus worsening the situation (IDB, 2020).

In 2020, world output registered its largest contraction since World War II. In May 2020, the volume of world trade in goods fell by 17.7% compared to the same month in 2019 (ECLAC, 2020a). In the first five months of the year the drop was widespread, affecting more the exports from the United States, Japan and the European Union. China experienced a slower contraction than the world average because it "controlled" the COVID19 outbreak and reopened its economy relatively quickly. Latin American and Caribbean region is the most affected developing area (ECLAC, 2020a). (Table 2).

In case of Mexico, only the agricultural sector and extractive activities other than oil showed a slight increase, of 3.5% and 5.2% respectively (ECLAC, 2020a). Four Central American countries increased their exports. Costa Rica is one of them, due to the increase in demand for medical devices to face the pandemic, especially from the United States. Guatemala and Honduras also increased their exports of personal protective equipment, especially masks, and agricultural products. Nicaragua benefited from the rise in the price of gold and the export volumes of agricultural and livestock products (coffee, sugar cane, beans, tobacco, among others).

Table 2

Comparison of the value of exports of goods in Latin America (January-May 2018-2020, in percentage)

Region/subregion/Country	Jan-May 2018	Jan-May 2019	Jan-May 2020	April 2020	May 2020
Latin America and Caribbean	10.7	-0.3	-16.6	-29.5	-37.1
MERCOSUR	5.8	-4.1	-12.4	-11.7	-16.2
Argentina	7.0	3.2	-11.5	-18.4	-15.9
Brazil	6.6	-2.1	-6.5	-5.8	-13.1
Paraguay	7.5	-18.4	-8.2	-18.8	-11.2
Uruguay	4.5	1.0	-21.4	-21.0	-38.1
Venezuela	-1.0	-27.0	-65.0	-53.1	-47.7
ANDEAN COMMUNITY	16.6	-2.8	-23.1	-52.8	-41.4
Bolivia	24.3	-8.7	-23.8	-62.1	-58.5
Colombia	14.5	0.4	-25.0	-52.3	-40.6
Ecuador	13.6	3.1	-15.2	-44.4	-27.2
Peru	18.5	-7.3	-25.3	-56.3	-36.3
PACIFIC ALLIANCE	13.9	1.7	-19.8	-37.6	-49.4
Chile	21.3	-6.6	-8.8	-6.3	-15.2
Mexico	12.2	4.3	-20.8	-40.7	-56.7
COMMON CENTROAMERICAN MARKET	2.5	-1.8	0.4	-13.9	-8.0
Costa Rica	7.0	1.3	2.2	-11.6	-3.6
El Salvador	5.2	-1.0	-23.6	-51.0	-31.3
Guatemala	-1.3	-1.9	3.2	-8.1	-1.6
Honduras	-1.2	-8.5	2.3	-3.5	-5.7
Nicaragua	0.0	-4.1	14.1	14.7	14.6
Panama	11.7	0.7	-11.5	-30.8	-52.3
Caribbean Countries	11.2	4.5	-10.0	-32.1	-33.3
Cuba	-32.1	9.5	-29.8	-38.3	-51.6
Dominican Republic	7.8	4.9	-8.5	-27.4	-28.4
Caribbean Community	17.5	4.0	-9.7	-34.2	-35.2

Source: Source: Cepal (2020a).

Part of the economic resilience of these countries is explained by the importance of trade within the subregion itself. These contribute to cushioning the lower demand in its extra-regional partners (ECLAC, 2020a). In relation to the three large sectors, agricultural and livestock products were the least affected in the region (Table 3) as they are also essential products to a large extent.

Table 3

Year-on-year change in the value of exports in goods (January to May 2018 to 2020)

Sector	Participation in total (2019)	Jan-May 2018	Jan-May 2019	Jan-May 2020	April 2020	May 2020
All Sectors in total	100.0	10.7	-0.3	-16.6	-29.5	-37.1
Agriculture and Agroindustry	13.4	3.8	2.7	0.9	-5.2	-4.2
Mining and Oil	20.8	17.5	-5.1	-25.8	-41.6	-43.0
Manufacturing	65.8	10.3	1.0	-18.5	-31.2	-43.1

Source: Source: Cepal (2020a).

One possible explanation that ECLAC (2020b) offers for what is happening in the agricultural sector is that the demand changes due to the pandemic have favored this sector even if reduced consumer income and uncertainty have led to a drop in consumption in general.

It has also caused changes in consumer behavior. This has had a positive impact on the demand for goods and services related to cleaning products, disinfectants, durable foods and on communication and information technologies (Cepal, 2020b). In Mexico, the food industry registered an increase of 2.5%; in Argentina it grew 1%; and in Colombia, 6.1% (ECLAC, 2020b).

Social distancing is an important instrument to reduce the negative impact on the population welfare and on the world economy because it reduces the probability of contagion and allows economic reactivation while overcoming pandemics.

This social distancing comes to modify not only the way in which we conceive the interactions with others but also the manner in which transactions are carried out in the market. This measure to mitigate the effects of the pandemic has profound repercussions on consumer habits, the purchase decision and customer expectations regarding service satisfaction.

The proceedings to face the health emergency increased the companies use of digital technologies in their relationship with consumers, suppliers and employees, as well as in the organization of internal management processes (ECLAC, 2020b).

COVID19 has remodeled the capitalist system functioning, and a timely and clear understanding on the part of companies will allow them a rapid adaptation, which in turn, will increase their competitiveness. It is always good to remember that behind almost every social relationship there is an economic relationship. It implies that social distancing has to transform economic relationships as well as social ones.

This premise leads to propose the adaptation of the company to the new economic reality based on the logic of the local business network.

Based on what is stated in this section, the importance of the agro-industrial sector cannot be underestimated, mainly the production units or enclaves, initiating a process of localization and regionalization through the same local business network that at the time allowed them to internationalize.

This process is in line with the trend related to short circuits (CEPAL, FAO, IICA 2014) or proximity agriculture that, in addition to ecological benefits, especially savings in transport and packaging and its negative impact on the environment, allows the benefits to be focused on the farmers who receive a higher price due to the limitation of the role of intermediary companies and consumers in obtaining fresh, more ecological products by not having to endure long times before consumption (and the processing that it entails).

It is considered propitious to encourage the orange economy within these networks. New technologies can help to facilitate the creation of local business models consistent with social distancing. The fusion between the traditional and creative cultivation, production, processing, packaging and presentation of products, mostly organic, and the application of ICT to reach the consumer market will have a positive effect on alleviating poverty and increasing the competitiveness of companies operating in the agro-industrial sector. The transversality of the creative industries offers this possibility for this kind of local business network.

3. Local business network in the orange economy

The way in which a network is established and its basic operation is applicable to business ties (Harrell, Melamed & Simpson, 2018; Melamed & Simpson, 2016; Brolos, 2009; WU & GU, 2008;) that originate in “the local base” (a specific territory, enclave, niche; it can be a cluster or industrial district, determined in time and space). These links are in place due to various reasons that are not necessarily related to cooperation (González, 2007).

The more companies are part of a local network, the more links are created within it, with a greater probability that acts of opportunism or expediency will arise (Hill, 1990). Local networks are not weakened by acts of opportunism, because there is an interest on the part of businessmen to

remain close due to other reasons which are more relevant than opportunism (Santos, Pacheco & Lenaerts, 2006).

Local networks are maintained even when they are characterized by a greater existence of competitive links because there are centripetal forces independent from these links that keep companies concentrated in the same geographic area (Fujita, Krugman & Venables, 2000).

Although local networks are articulated with international networks, and vice versa, they are markedly different phenomena and the study of the former must be done considering these particularities without losing, or undermining, the importance of the latter (González, 2007).

This writing focuses on business networks that are local because it is in them that the orange economy should operate. In these networks, the production units or enclaves of the agro-industrial sector have worked over the years with the aim of exporting and internationalizing indirectly. These local networks have the possibility of directing efforts towards the national market in order to face and to adapt to the new reality. This allows the creation of new jobs in the locality, guarantees food security for the population and contributes to economic reactivation.

One of the centripetal forces that strengthens local networks is the learning, apprenticeship system. Businesses stay involved in the relational web because it offers learning. Knowledge can be recognized as “a commons” in the local networks of the agro-industrial sector (IN308008, PAPIIT, 2008; Ostrom, Hess 2007).

Learning facilitates the adaptation of economic agents to changes in the environment, no matter how unfavorable they may be (González & González, 2020). This works best when it comes to cultures in which the learning system has fostered creativity, knowledge as “a commons”, and family cohesion. These are characteristics of the local networks that operate in rural areas of Latin America. Thus, this is the reason why the orange economy model is considered viable in these localities (Benavente & Grazi, 2017). But what is the orange economy?

The orange economy is made up of the creative and cultural industries (Benavente & Grazi, 2017). Creativity is associated with aesthetics, that is, the appearance of goods and services and the emotional changes that these products generate in consumers. The fact that a good or service is aesthetically or emotionally desirable on a social or personal level does not mean that it lacks economic value or that it does not comply with economic rules; on the contrary, its production process requires working capital and knowledge (Benavente & Grazi, 2017). Thus, in the agro-industry the introduction of creative or author cuisine can be significant, especially when it remasters and relaunch the traditional gastronomy.

This economy refers to the set of activities that in an articulated way (in a local network), allows ideas to be transformed into goods and services, whose value is based on intellectual property (Benavente & Grazi, 2017), especially such as designation of origin, trademarks registry, trade secrets and also creative commons.

This economy requires the local network to have a learning system that have a positive impact on the locality. This is because talent and creativity are the main elements of the orange economy. To

be part of a locality, to be capable of generating employment, wealth and improving the quality of life, it is important for the orange economy to emerge among the economic agents that are part of the local network.

A local network of companies with a learning system that encourages creativity and talent requires being part of a larger ecosystem. This calls for the articulation of the local network of companies with other networks that include agents from the public and private sectors; with the local community; with end users and educational and even environmental institutions.

This articulation with other networks should not lose sight of the fact that the catalyst for creativity, for the impact to be greater, must be originated by the local network of companies. It is indeed companies that urgently require successful adaptation to the new reality and that offer workplaces. Placing the responsibility of the ecosystem on other economic, political or social agents can divert attention from reality and produce results beyond those required, reducing or nullifying the positive impact on local development.

Benavente and Grazzi (2017) suggest the national innovation system as an ecosystem for the orange economy, referring to the fact that public and private agents are the catalysts of the orange economy. However, in economies in which the national innovation system is disjointed (González, 2015) and its mechanisms for creativity and innovation are incipient, it is better if the local networks can be the catalysts. Finally, the latter is in congruence with endogenous development rules. Furthermore, the articulation of the local network with international networks will expand endogenous development, bringing better adaptation in periods of high protectionism, as well as in periods of greater openness (González, 2006).

4. A snapshot of the local dimension: alleviation of poverty, sustainability and greater competitiveness for the company

Creative industries alone do not guarantee development. Transversality with other sectors is required to achieve the orange economy. Hence the importance of local networks that consider learning and knowledge as a commons (Figure 1). This “a commons” approach facilitates transversality. The link between economic agents of the creative industries with agents of the agro-industrial, technological and educational sectors leads to a diversified impact. This is an attempt to link the abstract and symbolic dimensions (art and culture), with concrete and pragmatic dimensions (economy, market) (Vélez, 2013).

Figure 1

Impact of the orange economy on the economic agents of a local network

Source: Own elaboration.

4.1 Entrepreneurship

Formalization and business development are built through transversal entrepreneurship (linking creative industry agents with agents from other economic sectors). It opens the opportunity for new economic activities that contribute to sustainability, increase investment levels, grant access to specialized training and the strengthen local business networks (Olaya, 2018).

4.2 Resilience

A local business network is a complex adaptive system. It interacts with the environment, learns from experiences and adapts. The adaptative cycle (Holling, 1986) describes four phases in the change processes of complex systems as a result of their internal dynamics and external influence: growth, conservation, liberation or creative destruction and reorganization (Walker et al. 2006; Castillo & Velázquez, 2015).

The transversality of the creative industries with the agro-industrial sector, particularly with local networks of companies, contributes the creativity to guarantee the economic growth and sustainability of the local system in the face of highly unfavourable changes in the environment, particularly in the face of changes in nature (COVID 19).

The articulation of the local business network with other networks; as well as transversality contribute to panarchy. The latter refers to the adaptive and evolutionary nature of adaptive cycles that are nested with one another across space-time scales. The word panarchy derives from the Greek god Pan - universal god of nature - and represents the omnipresent and spiritual power of nature - role of creativity - and its paradoxical personality of destabilizer - destructive creative role - (Holling, Gunderson & Peterson, 2002; Castillo & Velázquez, 2015).

4.3 Employment creation

Entrepreneurship originated by transversality encourages the creation of formal jobs; while resilience helps to reduce job losses when unfavourable situations arise for the local economy. It also implies the quality, providing for a decent employment and in general improvements related to Future of Work.

4.4 Poverty alleviation

In a resilient system, individual nodes - people, businesses, communities, and also entire countries - are able to draw support and resources from elsewhere but are also self-sufficient to meet their essential needs in case of emergency. It is much more difficult for the local economic system to fall into the poverty trap. (Castillo & Velázquez, 2015).

4.5 Value and wealth generation

Value enhancement (revaluation) and recognition of peoples' cultural assets, diversity and intangible heritage generates wealth. It is necessary to assign an important place to culture as a constitutive force for exploitation, accumulation and economic growth. It implies the recognition and appreciation of human resources, the strengthening of solidarity in civil society, the innate wealth of communities based on culture; this is a transition towards self-management of communities and individuals based on culture (Vélez, 2013).

5. Conclusions

The world economic reality and the position of Latin America on the international scene lead to rethinking the tendency in terms of local economic systems towards internationalization. Global value chains were paralyzed by the COVID19 pandemic, which further affected the economies of Latin America.

The latter shows the importance of non-exclusivity of foreign marketplaces focus and maintenance of balance between international, regional and local markets. It is particularly important in sectors that are strategic for food security and supplies for the health system. The agro-industrial sector is fundamental in this extent. For this reason, it is considered important to direct the process of

internationalization of Latin American production units towards local markets supplies. This process is in line with the promotion of short circuits and their contribution to sustainability.

The transversality of the orange economy accompanied by the insertion of economic agents belonging to the creative industries in local networks increases the positive impact on the locality. This is understood under the consideration that these are local business networks with decades of existence, that have served for indirect internationalization and that have accumulated experience in articulating with other networks, as well as learning from situations of opportunism and from failure. Creativity within the local network facilitates adaptation to the new economic scenario, reducing poverty in the locality, addressing Future of Work and increasing the competitiveness of companies as well as sustainability.

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Voluntary flexible working arrangements and their effects on managers and employees

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Abstract

This paper explores the effects of flexible working arrangements on employees and their managers in a service sector. Analyzing a case study of a global management consultancy, the study concerns the impact of flexible working arrangements on job satisfaction, commitment and performance as well as well-being. While it is generally accepted that flexible working arrangements have a positive impact on employees, there has been only limited theorizing and research explaining how and why such impact is generated and which contextual organizational factors might be significant in shaping the outcome. The study provides mixed evidence for benefits from flexible working arrangements where potential for increased employee performance, well-being and job satisfaction is offset by work intensification, blurred work/home boundaries, professional isolation and perceived organizational injustice. Practical implications of the study results have been intensified by accelerated organizational transition into flexible working arrangements caused by restrictions imposed as a result of Covid-19 pandemic.

Key words

Flexible working, job satisfaction, well-being, performance, service industry.

How to cite this article

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1. Introduction

The 21st century is witnessing increasing pressures on organizations to reduce costs, increase productivity, address environmental concerns and attract and retain talent. Consequently, traditional ways of working are changing for knowledge workers and others who don't necessarily need to be present in an office at all working times. One topic with the potential to help address these challenges for employers and employees alike is the concept of flexible working. Flexible working is described in a multitude of different ways, but the majority of definitions include remote working (from home or otherwise) and reduced or different hours (either agreed or with some discretion over working hours on a day-to-day basis) (Kelliher and Anderson, 2008). Restrictions resulting from the current pandemic of Covid-19 virus forced most workers to work from home in a flexible manner (i.e. because of lockdown restrictions and/or childcare obligations) and it is expected that many will continue to do so even when the restrictions are lifted.

Flexible working can give organizations a competitive advantage by attracting talent from diverse groups. Participation in the workforce for women and mothers is increasing with 1.3 million women added to the UK workforce between 1981 and 2014 (Felstead and Henseke, 2017). Flexible working arrangements allow women to compete on a more equal level and for employers to better access this talent pool. Millennials or Generation Y (born between 1981-1996) are estimated to be 75% of the global workforce by 2025 (Winograd and Hais, 2014) and expect greater flexibility and autonomy from their employers (Forbes Coaches Council, 2017; Morris, 2018). 50% of millennials would change their job for the opportunity to work remotely full-time (Gallup, 2017). Regardless of generation, 80-90% of the US workforce say they would like to telework at least part-time (Global Workplace Analytics, 2017) and the average US worker would be willing to give up eight percent of their wages for the option to work from home (Mas and Pallais, 2017).

The environmental benefits of flexible working, increasingly important especially to upcoming generations, go hand-in-hand with cost savings for organizations and employees. Research from Deloitte shows between 30-40% of physical office workspaces are vacant during a traditional business day at an average cost of \$12,000 each per annum. Buildings make up 39% of US carbon emissions each year and commuting contributes 10-20% of an individual's carbon footprint (Deloitte, 2009). 25% of the computer manufacture Dell's workforce of 145,000 regularly work from home, saving the firm \$12 million p.a. in real estate costs and preventing 35,000 metric tons of associated greenhouse gas emissions (or the equivalent of taking 7,400 cars off the road each year) (Sahadi, 2016). Figures for the US, drawing from the 2017 State of Telecommuting in the US Employee Workforce Report, suggest the 3.9 million employees who work from home at least half the time avoided 3 million metric tons of carbon dioxide emissions in that year, equivalent to the annual carbon savings from powering 540,000 homes (Global Workplace Analytics, 2017).

In the UK, the percentage of employees who have used the 'arrangement to work from home' rose from 16% in 2011 to 33% in 2018 (CIPD, 2019). US workers who have telecommuted grew from 9% in 1995 to 37% in 2015 (Gallup, 2017). It is a similar story globally as according to Reuters and Ipsos via a survey of 11,000 respondents across 24 countries, 1 in 5 workers telecommute frequently and nearly 10% work from home every day (Reaney, 2012). The city of Tulsa in the US state of Oklahoma is offering remote workers a bonus of \$10,000 to relocate there, after Burlington,

Vermont and Alaska offered similar deals to attract workers priced out of their more expensive locations, but able to work from anywhere (Rothman, 2019).

Flexible working is clearly attractive to employees and provides environmental benefits and cost savings, but does it make employees and their organizations more productive? Homeworkers themselves certainly think so. Being 'more productive' was the top effect of flexible working according to 82% of 18,000 respondents in a 2018 worldwide study (Statista, 2019). A majority of Americans (both in and out of work) believe employees who work remotely are just as productive as those in an office, 58% in 2015 up from 47% in 1995 (Jones, 2015), showing how suspicions of home-workers' productivity and the culture surrounding 'presenteeism' is changing.

Not all organizations agree however, with two high-profile examples Yahoo! and IBM illustrating the counter argument. In an attempt to improve productivity by increasing innovation through face-to-face communication and collaboration, Yahoo! banned working at home in 2013, citing the business benefits of 'physically being together' (Felstead and Henseke, 2017). IBM's innovative corporate culture has long been established, with products such as the personal computer, hard disk drive and bar code scanner coming from its research departments. The firm, a pioneer in allowing remote working for its employees with 40% taking advantage in 2009 also saved over \$100 million in real estate costs between 1995-2009 as a result. However, IBM still decided to bring its employees back to the office in 2017, again citing the positive effects of face-to-face teamwork to develop trust and foster innovation (Weller, 2017). Although these examples show there is no consensus on the overall business benefits of flexible working practices, a growing number of firms are still adopting remote working for their employees, including Cisco, Vodafone, Thomson Reuters, Oracle and Deloitte (Thottam, 2018; Wiggins, 2019), this way of working is expected to gain prominence after Covid-19 restriction are lifted (The Economist, 2020) and reflect this growing trend across the globe.

Previous studies are mostly quantitative and focused on intentions of flexible working arrangements (Brummelhuis et al., 2012; Gerards, de Grip and Baudewijns, 2018; Van Steenbergen et al., 2018). Our study complements them as it provides fine grained and in-depth understanding of how employees and managers utilizing flexible working are affected.

A case study has been conducted in a global management consultancy with 50 offices in 36 countries and approximately 2,500 employees. The majority of participants are located in the DACH region (Germany, Austria and Switzerland) and are employed within one of four service departments (Research, HR, Marketing and Graphic Design), which consist of employees and managers working in company offices as well as at home.

This paper continues as follows. A literature review defines the flexible working concept for the purposes of this research then explores current research on the effects of flexible working, how this differs from traditional settings and how this impacts upon employee outcomes. A methodology section follows and outlines the approach to answering the research question. The findings are then presented, followed by a discussion and conclusions.

2. Factors affecting employees having flexible working arrangements identified in the literature

This chapter investigates published literature around flexible working practices and how it affects employees, managers and organizations as a whole. It starts with exploring the meaning of flexible working, continues with exploration of effects of flexible working on employees and concludes by discussing formal and informal work arrangements.

2.1 What is flexible working

A major difficulty in attempting to synthesize the literature on flexible working is the wide range of terms and definitions used. Although flexible working emerged in the late 1960s and early 1970s with mobile offices, videoconferencing and flexible workplaces (van Meel, 2011), today there is still no agreed definition of the concept (CIPD, 2019).

The concept of telecommuting hails from the US, has been used for several decades and is defined by the US Office of Personnel Management as work arrangements in which an employee performs officially assigned duties at home or other worksites geographically convenient to the residence of the employee, which is information technology mediated (Dahlstrom, 2013). The inclusion of ICT is an important and frequently cited element for most definitions, differentiating flexible working from simply taking work home (e.g. teachers marking schoolwork). A similar term, telework, is used by a majority of US research, adopted by many other countries and along with remote working is a broad term used to describe a variety of arrangements involving working away from the employer's main offices (Morganson et al., 2010). This approach focuses on flexibility in location only. However, flexibility in time of work is also important to support growing collaboration over different time zones, greater temporal flexibility for parents and to provide employees the flexibility to improve their work-life balance (Berkery et al., 2017).

One of the most concerted attempts to consolidate flexible working research under a single term comes from the Netherlands as the concept of New Ways of Working (NWW). NWW emerged from around 2010 and attempts to bundle the multitude of organizational factors surrounding flexible working into a workplace concept to supplement or replace traditional ways of working (Laihonon et al., 2012). One of the first categorizations of NWW follows the flexible working literature by combining flexibility in where and when employees can work with the communication medium (smartphones, email, videoconferencing) (Brummelhuis et al., 2012).

This research will refer to the concept as 'flexible working', and will assume the definition from the UK Government's services and information website which covers the two main issues of temporal and spatial flexibility: 'Flexible working is a way of working that suits an employee's needs, e.g. having flexible start and finish times, or working from home' (UK Government, no date).

2.2 Job-related outcomes

Due to the complexity and challenges of measuring knowledge work productivity and by extension the organizational effects of flexible working, the literature contains a multitude of concepts but with an overarching theme, using job-related outcomes as well as employee well-being as a proxy for productivity. The effects of flexible working are not self-evident (Laihonen et al., 2012) and as such most of the literature attempts to study employee performance through job satisfaction and organizational commitment to help assess the ultimate organizational goal, increased productivity and the search for competitive advantage.

Job-related outcomes are characterized in several different ways across the literature. Work engagement, or a 'positive, fulfilling, work-related state of mind that is characterized by vigor, dedication and absorption' (Schaufeli and Bakker, 2004) is used to study the effects of flexible working on employees by much of the NWW literature and UK-based research (Brummelhuis et al., 2012; Gerards, de Grip and Baudewijns, 2018; Griffith et al., 2018; Van Steenbergen et al., 2018). Organizational commitment in the literature encompasses loyalty, attendance, punctuality, an attachment to organizational goals and a desire to exert effort and maintain membership (Dahlstrom, 2013; de Leede and Heuver, 2016; Nijp et al., 2016; de Menezes and Kelliher, 2017). This research will use job satisfaction and organizational commitment as the two components to analyze employee job-related outcomes.

Job-related outcomes are positive for organizations and on the face of it, employees also. Job satisfaction and organizational commitment were higher for home-based workers across most of the literature (Morganson et al., 2010; de Menezes and Kelliher, 2011; de Leede and Heuver, 2016; Felstead and Henseke, 2017), but different direct, mediating and negative effects were presented by multiple authors making the establishment of root causes difficult. The very availability of flexible working itself can be seen by employees as a signal of the 'benevolent intentions by the organization' and care for their welfare (Bal and De Lange, 2015, p.147; Masuda, Holtschlag and Nicklin, 2017), therefore potentially raising organizational commitment without any actual changes in working practice.

Work intensification, or the effort put into work during normal hours can have negative outcomes for employees (Kelliher and Anderson, 2010), as can professional and social isolation which affects collaboration, knowledge-sharing and ultimately career prospects and productivity through reduced face-to-face interaction (Allen, Golden and Shockley, 2015; Hoornweg, Peters and van der Heijden, 2016). Research suggests that professional isolation is more severe the longer employees spend teleworking (Morganson et al., 2010) and at least one day a week should be spent in the office to prevent feelings of isolation (Tavares, 2017). Reduced opportunities for promotion and organizational reward (Dahlstrom, 2013) figure strongly in the literature. Remote workers were conscious of the significance of their visibility when working towards a promotion (Kelliher and Anderson, 2008) and slow career progression had a significant negative impact on the decision to participate in flexible practices (Giannikis and Mihail, 2011).

2.3 Employee outcomes

Health and well-being are often used together, but physical health is mentioned only very briefly (Tavares, 2017), cannot be differentiated sufficiently from the effects of office-based work, and no findings are presented. For this research, positive well-being is assumed to cover good mental health, happiness and lack of stress or overwork.

The findings related to effects of flexible working on employees' well-being are inconsistent and do not provide necessary depth of understanding of the phenomenon. In three similar surveys mental demands and workload were found to decrease through NWW (Van Steenbergen et al., 2018), increase stress and work-exhaustion through work intensification (Weinert, Maier and Laumer, 2015) and again lower well-being through increased stress (Nijp et al., 2016). Analysis of large-scale survey data in the UK found an increase in well-being by remote working, but at the cost of work intensification and the inability to switch off (Felstead and Henseke, 2017). Overwork was responsible for negative well-being following semi-structured interview analysis in a single UK organization (Grant, Wallace and Spurgeon 2013).

Work-life balance is cited by much of the literature as the primary reason for employees to request flexible working arrangements (and for employers to retain them). Hype over the positive effects for work-life balance is not supported by the studies on the subject and any positives seem to be counteracted by work intensification and overwork. Although respondents often feel a sense of balance between work and home life is important (Kelliher and Anderson, 2010), it is often reported that the border between work and family life becomes blurred when working from home and that this causes overwork through an inability to switch-off at the end of a working day or at weekends (Grant, Wallace and Spurgeon 2013; Felstead and Henseke, 2017). Working from home could also be detrimental for work-life balance through receiving a greater share of family responsibility and/or household tasks (Allen, Golden and Shockley, 2015). In a US study across four working locations (office, client, home and satellite office), home-based employees reported similar work-life balance support to office-based workers (Morganson et al., 2010).

Current research into individual effects on well-being and work-life balance seem to suggest any positives are outweighed by negatives from increased work pressures and that most benefit is received by the employing organizations through increased productivity. More qualitative research could help to give a clearer picture.

2.4 Formal vs. informal arrangements

The potential unfairness affecting well-being and job-related employee outcomes is further influenced by informal and formal flexible working arrangements. Employees are more likely to have an informal arrangement when working from home (CIPD, 2019), for example 82% described their arrangement as informal in a large organizational study from the UK (Kelliher and Anderson, 2008). This tends to be a loose agreement between manager and employee, and therefore much easier to implement than a change in employment contracts. This widespread and relatively simple arrangement can cause broader organizational problems, especially for the co-workers without

this benefit. Organizational Justice (OJ) is concerned with employees' perceptions of equity and fair treatment and unsurprisingly, office-based co-workers thought teleworking should be regulated by formal procedures from the single study addressing the topic directly (Fogarty, Scott and Williams, 2011). OJ in this context is not addressed significantly by this research even though it is important to recognize the impact of flexible working policies on those who do not or can not work remotely (Allen, Golden and Shockley, 2015).

Formal policies seem far from being the 'key to the success of organizations adopting e-working' (Grant et al., 2019, p.20) and the complexities of making flexible working 'available to everyone' (Anderson and Kelliher, 2009, p.16) have not been yet addressed.

In summary, the introduction of flexible working policies is positive for organizations, with an increase in productivity observed through improved job satisfaction and organizational commitment. This appears to be at the expense of employee well-being due to professional and social isolation, work intensification, reduced work-life balance and the blurring of boundaries between work and home life.

3. Methodology

The effects of flexible working practices upon employees is still the subject of debate in the literature, hence it was deemed appropriate to apply an inductive approach for the study as it uses data collection to explore phenomena to identify themes and patterns (Saunders, Lewis and Thornhill, 2016). A qualitative, exploratory, cross-sectional case study has been employed, collecting data through semi-structured interviews (Yin, 1984). This builds upon existing knowledge on flexible working (based predominantly on quantitative surveys) to explore the perceptions of employees and their managers in greater depth. A qualitative approach will allow patterns and themes to evolve over the course of the case study, informing its continuing direction.

This case study allows better understanding of the dynamics of complex situations in flexible working within clearly set boundaries (Saunders, Lewis and Thornhill, 2016) and focuses on members of four service departments within an international management consultancy (Research, HR, Marketing and Graphic Design). It involves employees utilizing flexible working arrangements as well as line managers directly responsible for such employees, themselves also working flexibly.

Non-probability sampling was used to select participants. Flexible working arrangements are not documented in the case study organization, hence a self-selection sampling method was initially utilized approaching all members of the case study. Snowballing was also used to identify participants, in particular at later stages of the data collection. Data collection stopped after reaching a point of saturation, where adding more participants was providing only repetitions of findings without adding new insights. 12 in-depth semi-structured interviews were conducted between 3rd and 25th May 2019, including 5 managers and 7 employees (see Table 1 for interviewee details).

The participants had a broad range of organizational and flexible working experience, with tenures ranging from six months to 15+ years and utilization of workplace flexibility over a similar period. All used ICT to enable this without significant issues. All employees worked flexibly on a voluntary basis and all managers allowed these working arrangements in their departments with most also working flexibly on a voluntary basis.

Table 1

Interviewee details

Position	Standard working hours	Time spent working from home	Formal or informal arrangement
Employee			
A1	Full-time	All hours	Informal
A2	Full-time	Average 4 days per week	Informal
A3	Part-time (60%)	3 weeks per month	Formal
A4	Part-time (80%)	2 days per week	Formal
A5	Full-time	3 weeks per month	Formal
A6	Full-time	3 days per week	Informal
A7	Full-time	2 days per week	Informal
Manager			
B1	Full-time	Average 2 days per month	Informal
B2	Full-time	Average 2 days per week	Informal
B3	Full-time	Average 1 day per week	Informal
B4	Full-time	None	Informal
B5	Full-time	Average 2 days per week	Informal

Source: Own elaboration.

Skype for Business video conferencing was familiar to all participants, being used in an organizational context on a daily basis and used for the interviews. All interviews were conducted by the first author whilst located in their home office during working hours within the standard working week. All employees interviewed were also located in their home office along with three of the five managers (the other two managers were located in a private room in their local office). Each interview began with some initial ice breakers and general conversation to relax the interviewees. The interviewer then explained the background and purpose of the interview, ensured the information sheet and consent form were read and signed, underlined the interviewee's right to not answer any questions and withdraw at any time and confirmed the agreement for the interview to be recorded. Interviews lasted between 41 and 95 minutes, all were audio recorded using Camtasia. The audio files were loaded into Express Scribe Pro and transcribed into MS Word directly following each interview.

Differing interview schedules were prepared for employees and managers (see Appendix 1 and 2 respectively) to ensure the major topics were covered and comparisons were enabled during analysis. The schedules also contained steps for the researcher's reflection process following each interview which played a vital role in ensuring the credibility and objectivity of data. The interviewer, guided by the interview schedules sought to draw out (although not explicitly) general feelings towards flexible working and the employing organization, deeper understandings and perceptions of job satisfaction, organizational commitment and well-being, as well as exploring other issues raised by the participants. Questions began around the origins and details of the interviewee's flexible working arrangements and then led to two main topics, the benefits and drawbacks of flexible working for them personally and their experiences and opinions of how being managed (or managing) remotely differs from proximally, which elements of this they appreciate and which could be improved. Interviewees were enthusiastic about the subject and spoke at length sharing their experiences. Both positive and negative aspects were explored by initial questions and subsequent probing.

Reflecting on the fieldwork, the question, 'what would you need more or less of from your manager' was deemed too personal from the interviewee's reluctance to give a direct answer. The question was changed after the first interviews to, 'what aspects of being managed remotely would you change'. Managers B1 and B4 both stated the upcoming interview had inspired them to reflect on the topic and to ask after their team members working flexibly. This was not deemed to affect the objectivity of the responses.

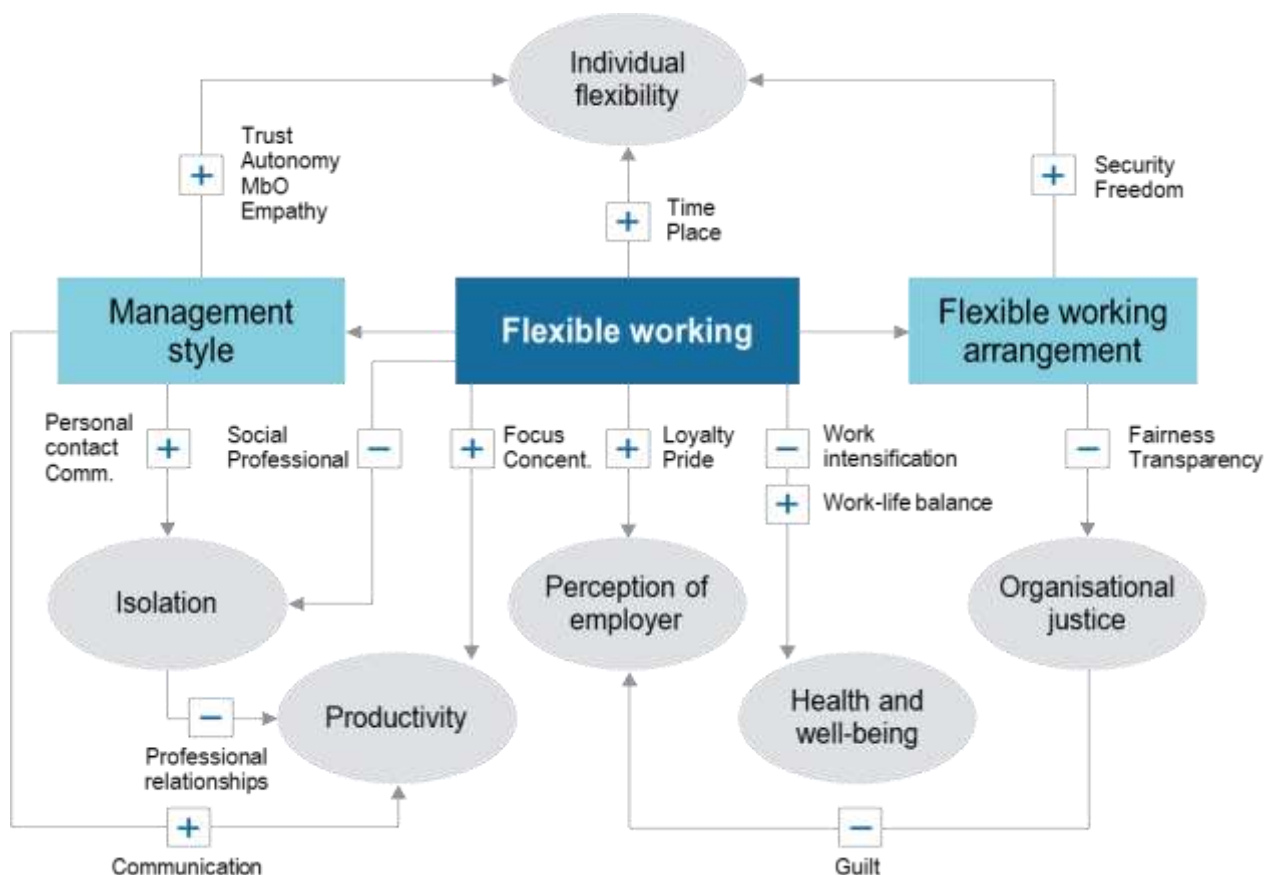
Thematic analysis was used for data analysis (Saunders, Lewis and Thornhill, 2016). Interviews were transcribed into an MS Word data table separated into rows containing one sentence or short paragraph with a single meaning. Each row also included a column for participant code, theme code (initially empty) and sequence number, for subsequent sorting, counting and analysis (LaPelle, 2004). A mind map was created following each interview to draw out initial themes and emerging issues. Each row of data was then assigned a theme code developed from participants' differing views and opinions as well as being informed by existing theory in the literature and by the research question. Following an inductive approach every unit of data was coded and a codebook built up. After each interview and following completion of the interviews the coding process was continued to remove, merge and rename codes and data units were split or duplicated as necessary to follow emerging themes. Through this data analysis, 31 codes under 5 broader themes were established through strength of opinion from interviewees and relevance to the literature and research question. To aid this process, and informed by Miles and Huberman's (1994, p. 67) approach, 'marginal remarks' were frequently used to highlight, clarify, reflect and question various pieces of data. This led to revisions to the original codes, while also aiding the identification of linked sub-themes. Subsequently, some 'rudimentary connections' (Baptiste, 2001) between the categories identified were established, and later refined. The data analysis process involved iterations between the empirical material and existing theory while being open to, and indeed searching for, unexplored and unexpected insights. Given the study's exploratory nature, its findings are not claimed to be representative of flexible working arrangements in any type of organization. Rather, the analysis of the case study was intended to broaden understanding of an impact that flexible working arrangements have and their contingent conditions.

4. Findings

The findings are structured according to the overarching themes of job-related outcomes (job satisfaction, organizational commitment and performance) and health and well-being – directly addressing the research question. A thematic diagram derived from the interview results highlights the direct and mediated effects of flexible working practices upon the respondents as well as the positive or negative contributing factors, see Figure 1.

Figure 1

Direct and mediated effects of flexible working practices



Source: Own conceptualization of findings

4.1 Job satisfaction and commitment

Overall, the interviews painted a positive picture of job satisfaction for the respondents, but feelings of isolation and guilt negatively impacted upon their experience. The largest positive contributing factors to respondents' job satisfaction were the individual flexibility allowed in time and location and the allowances made for personal and family commitments. This was enhanced

by the mediating effects of management styles employed and the type of working arrangement agreed with the organization or manager, either formal or informal.

The advantages of avoiding the daily commute to the office and the significant savings in time and costs were mentioned, with one employee citing this as a major factor prompting resignation from their previous job. Positive attitudes towards location flexibility were stronger still with all respondents commenting on the benefits. Location flexibility took several forms including being allowed to mix home and office working, working from home for prolonged periods due to an accident or family illness or the option to move your job to follow a spouse or partner with a more location-based role, highlighted by the following quotes:

- I see a big advantage for my team not to be in a certain place from then to then, to be more flexible. (Manager)
- I had an accident last year, I've only been in the office twice since then so I'm mostly at home, but that was fine, no one expected or pressured me to come. (Employee)
- I can live with my husband. That is very important for me, he changes jobs quite often so we move quite often and I can take my job with me which is wonderful. (Employee)

The most frequent positive responses were concerning the flexibility towards family and private commitments. Managers appreciated these opportunities for both themselves and their team members. Being able to run small errands, perform household tasks (e.g. the laundry), schedule medical appointments during the day, take care of children in the morning if needed, going to the gym, arranging home visits for tradespeople and even meeting friends for a coffee were all contributing to a positive view of the respondent's job and enhancing their work-life balance:

- I'm a single mum so I need to look after the kids and it's wonderful to be here when they come home from school. (Employee)
- It's given me a lot of freedom I have to say and one other aspect is it really helped with giving me the flexibility to finish my new house and the moving in process, I really appreciate this. (Employee)
- A lot of my happiness comes from this flexibility I am given. Some days I come later to work, I do my sports training before that and it's not an issue. (Manager)

The importance of this flexibility for job satisfaction was underlined neatly by one manager:

- If we insisted (on changing flexible working arrangements) I know I would lose some people, either fully or make them unhappy in their private life. (Manager)

Staff were enabled to work effectively in these flexible situations by the behavior of managers, which was shown to have an overall positive effect on job satisfaction via four overlapping themes; giving autonomy, showing trust, managing by output and displaying empathy. Employees working flexibly agreed that being allowed to work more independently without direct supervision increased their job satisfaction, and that this was supported by a mentality from all managers described by several participants as, 'as long as you do your work, we don't care where or when you do it'. A reciprocal relationship based on trust was identified as vital to enable a positive and productive work experience when working remotely. Empathy shown by managers (and from

senior management to middle managers) was also apparent from the majority of respondents. This covered a sympathetic understanding of situations including working late and long hours, reducing stress and childcare duties, as evidenced in the following quotations:

- In my opinion things are done with more motivation and better sometimes because people can do their own pace and have freedom, I don't care if they do it at 10 at night or 10 in the morning it just needs to be done. (Manager)
- It goes back to trust, I feel like I have more trust than I did when I was sitting in an office. I felt micro-managed when I was physically there and now I have more autonomy, I guess is the right word, to manage my time. (Employee)
- The CEO once said don't worry about a meeting when I had some family time scheduled, which company CEO does that?! It's something I really value. (Manager)

Along with management styles, the type of flexible working arrangement an employee (or manager) has with the organization also showed a positive effect on job satisfaction along with some smaller negative consequences. The arrangement to work flexibly for the majority of interviewees was an informal one, agreed between the employee and their manager and part of a departmental and (to a lesser extent) corporate culture. The situations arose from various origins including beginning as a freelancer, the type of role (e.g. constant travel to other offices or client sites) and negotiations following the threat to resign. Those with informal contracts were mostly happy with this arrangement and did not feel the need to formalize the arrangement, with one manager highlighting the drawbacks of formal agreements:

- The more you regulate and create rules you miss certain situations and makes you inflexible, that's the beauty of this is that it's so super flexible. (Manager)

Employees under formal agreements, with the right to work at home for certain periods written into their employment contracts were also positive and in fact held even stronger views about their situation:

- First of all it's a great relief to have it in writing, this is really great. (Employee)
- My personal life depends on it ... it gives me a little bit more security, I like that. (Employee)

However, some aspects of flexible working practices that negatively affect job satisfaction for the participants emerged. This included anxiety that the lack of a contractual agreement to work flexibly could affect their right to home working if the company culture changed; also the lack of a formal and by extension transparent arrangement caused difficulties as they felt pressure to explain and defend their situation on the rare occasions they visited the office. Feelings of guilt were raised, resulting from not being immediately available when a manager calls, having to explain to new managers or colleagues their flexible working arrangement or diverting from standard business hours, even though this flexibility was afforded to them. Managers were concerned that the lack of a formal arrangement could have adverse consequences for insurance in the event of an employee work-related accident:

- I always have this bad conscience, 'I hope he's not thinking that I just spend an entire hour doing something else, taking a nap on the sofa. (Employee)

- It's a different insurance between work and personal experience. I don't know what will happen if somebody has an accident in the home office. (Manager)

The most significant negative effect on respondents' job satisfaction, and in fact throughout all issues covered by these findings is that of isolation, or disconnection from the organization brought about by flexible working practices. Lack of social contact with colleagues when working remotely was seen as an issue. Being 'out of sight, out of mind' for social occasions such as invitations to lunch or signing birthday cards contributed to negative emotional feelings for three employees, where conversely another employee was happy to avoid joining in with office gossip. The lost opportunities to socialize were highlighted, with how to cope with employees who do not want to socialize anymore and, 'love their individual silo life', also raised by managers.

Employees and managers all agreed that some degree of regular personal contact with your colleagues is necessary for professional and organizational reasons, with employees more likely to raise this issue. Reasons included missing informal discussions and feedback, an inability to react and make quick decisions, being out-of-the-loop, losing a familiar shorthand with people affecting communication and understanding and opportunities for collaboration only regular face-to-face contact can bring, as mentioned in the following quotations:

- Maybe when the kids are a little older I may add another day at the office just for the personal contact. (Employee)
- You get isolated, you can't react to topics or you don't know about things going on that you could be part of or where you might be needed. (Employee)
- It's hard to bring the team together, it's kind of tricky. One time in the month I want everybody here to see each other. (Manager)

To combat the issues brought about by isolation, interviewees and especially the managers identified the importance of regular, and more importantly initial personal contact between manager and employee to establish a relationship face-to-face. Both employees and managers commented on this:

- My previous two managers I felt a disconnect, and if you don't even have personal connection then this is really difficult – it was not a good time for me. (Employee)
- Onboarding for us is personal. It's not just tools and technical, I want to meet you personally, be here for one week. Some common knowledge is important, you can work better with people you know personally. (Manager)
- I made a point of meeting my team in different offices at the beginning when I became their manager. Starting such a relationship should very early be personal. (Manager)

Allowing flexible working hours and home office, flexibility in circumstances such as illness or family issues and a focus on results rather than presence had a strong positive effect on all participants' organizational commitment. It was a source of pride in their employer and created a deep sense of loyalty raising levels of engagement for all. For several of those interviewed without this arrangement their commitment would be much lower and moving to another firm without flexible working had become highly unlikely. Managers' loyalty was also higher through the ability to work

flexibly and they appreciated the ability to increase organizational commitment through this benefit for their employees. The value of this flexible culture could be judged in financial terms when considering an offer from another firm:

- I'm eternally grateful to my employer for making this possible. (Employee)
- It pleases me very much, our company is very good at these things. As long as you do your work they don't really care and that is very modern and I appreciate it very much. If I wouldn't have this arrangement I probably wouldn't work for the company anymore. (Employee)
- It really creates a deeper bond for the company, it's such a positive you would think twice, it binds me more than a pay rise. (Manager)

Although only a relatively small proportion of respondents mentioned the negative effects of flexible working on their career, the impacts were significant. Employees felt overlooked for promotion and managers felt advancement was unlikely without a significant presence in the office:

- If you're ambitious it's not a good idea. (Employee)
- I think when you're in a leadership role, a manager role, this can even be a risk for your career and your power play in the setup. (Manager)

The lack of a transparent policy brought perceived (by interviewees) feelings of resentment from employees not given the opportunity to work flexibly, and guilt from those that were. Employees were reluctant to raise the issue with management for fear their agreement could be revoked. Managers felt this unfairness more keenly. They felt the flexibility given to their teams caused some employees to take greater advantage, requiring others less forward to work more in the office, causing resentment. A lack of transparency around flexible working arrangements gave both employees and managers interviewed, all of whom were very enthusiastic towards flexible working themselves, contradictory feelings. Feelings of unfairness towards other employees increased calls for greater transparency, but at the same time concern to maintain their own situation had the opposite effect, as illustrated by the following quotations:

- I know it caused a lot of waves when I started working at home for others in similar positions, they all started asking, and it was not granted to everybody, there's a little bit of resentment. (Employee)
- I see that some people take these opportunities more often and others don't, and I don't know if they really do it voluntarily or if they just don't dare ask. (Manager)
- I don't want to make too much fuss about who is working from home office and who is not officially. (Manager)

4.2 Performance

Insights gained from the interviewees were that flexible working has positive effect on performance, with their ability to focus and concentrate greater when working from home,

resulting in higher quality outcomes. Employees especially appreciated the lack of interruptions from other colleagues and distractions from general office noise, especially other peoples' phone calls. They also found flexibility of time useful to work on creative or more intense work when they felt better able to concentrate. However, an issue of controlling underperforming employees was raised as their remote working made it difficult to see what they were doing and therefore judge their performance. Respondents said:

- It gives me so much freedom, and productivity ... I'm sure it went up a lot with no distractions. (Employee)
- I'd never get these projects I do now done if I was in the office, just because of the activity and constant discussion. (Employee)
- When I look at people who have kids or look after their mum at home they are more efficient than a coffee here and a smoke here and chatty chatty here. (Manager)

Some comments were given to the increased requirement to structure and plan working days and weeks due to the physical distance between staff. Scheduling touchpoints with managers and task assignments were issues, increasing management time and effort and reducing the opportunity for spontaneous collaboration:

- It makes my manager and myself spend more time structuring the day and the task. (Employee)
- You try to be respectful so they can plan it into their individual schedule because I don't know what they are doing. (Manager)

Communication was a distinct issue when working and managing remotely. Extra time was required to write, read and respond to emails and make and receive phone calls rather than dealing with colleagues face-to-face. Lack of visibility also reduced efficiency as managers and employees' availability was not clear resulting in unanswered calls and delays for email responses. This issue however seemed to be mediated by regular scheduled communication. Managers were also aware of the importance of unscheduled communication with employees in this flexible working context and made themselves available accordingly:

- With the ones at home I'm exchanging more emails and more calls than the others and in some ways it's a bit more time consuming to manage those not in the office. (Manager)
- My manager is very quick to respond to all my questions ... When I need something, I ask for it and I get it, it's fine. (Employee)
- On Skype, looking at each other we get more accomplished. Face-to-face is still most effective to get things done quickly, even over Skype. (Employee)

4.3 Stress and well-being

Evidence concerning the health and well-being of flexible workers was less positive. Stress was reduced by employees avoiding a long commute and office noise, and by the trust and flexibility given to them by managers. However, always being available to remote colleagues and managers

was a source of stress, as were long periods spent alone at home. Feelings of guilt when sick led some to work as usual from home instead of recovering, and others mentioned the negative effects of spending too much time sitting down inside:

- The fact you feel you always have to be available causes anxiety. (Employee)
- When you're feeling sick you don't say you're sick you do home office. I was really sick with flu and I was always working. (Employee)

Most comments concerning well-being were focused around boundaries between work and leisure time, were equally important for employees and managers and detrimental to all. The inability to switch off from work and the subsequent longer working hours were mentioned by the majority of respondents. Without the physical act of going to or leaving the office many respondents missed this structure, took fewer breaks and therefore overworked, with work being more often on their minds outside of office hours. The importance of self-discipline to finish at a reasonable hour and leave laptops and mobile devices alone in the evening and early mornings was an issue. Respondents found this difficult and felt it affected their work-life balance, as illustrated by comments quoted below:

- Overworking is very, very easy to do, working longer hours than are necessary. The office environment keeps you on a clock, at home it's kind of a void. (Employee)
- You need discipline to decide when you're done working for the day, since it's always so easy to check your phone again and answer that email although it's not urgent. (Employee)
- You're always thinking of your work, you must take care of yourself and manage your level of stress, put some life in your work-life balance. (Manager)

4.4 Other issues

The inconvenience of home working regarding the lack of professional office set-up such as printers and sufficient internet speed was raised. One manager suggested specific technical information for home workers could be made available. Managers briefly discussed the cost aspect of flexible working, both savings from less office space rent and extra costs through travel and hotel costs when remote workers meet. The realization that home working is not for all was also raised, discussing how some prefer to come to the office including those at an earlier stage of their personal and professional life.

In the context of the case study organization flexible working, especially working from home has become less relevant and was now treated as normal by the respondents. As the staff work for an international firm, managers and employees are situated in local and international offices, at home, at client sites and some are frequently travelling. Virtual meetings are becoming normal using video-conferencing software to communicate and collaborate with colleagues wherever they are located. Due to this the skepticism surrounding home working is limited and its consequences for employees and managers considered a normal part of daily working life and therefore part of the company culture:

- It's so normalized for me. If I was sitting in the office, I'd still be working in exactly the same way, probably the same hours. (Employee)
- I've been doing this for such a long time most of this is quite normal, the whole team is remote, at home and in different offices. (Employee)
- If you don't have your team beside you, I think it doesn't matter. (Manager)

5. Theoretical implications

In researching the effects of flexible working practices on employee well-being and job-related outcomes, these results suggest that the effects are overall very positive. Once experienced, returning to standard hours based permanently in an office could be detrimental for job satisfaction and organizational commitment. Perceptions of the employer offering these working arrangements are positive but tempered by the lack of organizational justice for colleagues without this benefit. Productivity is raised by flexible working through increased focus away from the distractions of the office, but the extra communication, planning and structure required reduced the overall impact. The management of remote workers however helped to mediate the positive effects of flexible working through giving employees greater autonomy and trust and a focus on the importance of regular planned and unscheduled communication. Both managers and employees were subject to the most significant negative effects of flexible working, professional isolation, and the inability to switch off and keep the boundaries between work and private life clear, causing overwork and stress.

5.1 Job-related outcomes

In line with previous research (Dahlstrom, 2013; Nijp et al., 2016; de Menezes and Kelliher, 2017) job satisfaction and organizational commitment in the form of pride and loyalty felt towards the employer are high for all those working flexibly. This is explained by the ability to achieve better work-life balance, the fact all flexible workers volunteered for this arrangement and the positive signals sent by the organization in allowing these practices. The focus on employee work-life balance by the managers and the evidence of empathy has been a less obvious finding from the study. The managers also took advantage of flexible working practices and were able to have more empathy for their employees combining work and home life. The growth in remote working in general through global teams and multiple sites is part of the normalization of flexible working mentioned by many of the respondents and could be contributing to a gradual change to a more accepting culture.

In contrast with some previous studies, a perceived increase in productivity was also shown despite limited face to face time (Allen, Golden and Shockley, 2015; Hoornweg, Peters and van der Heijden, 2016). This was explained by the ability to better concentrate and focus, and choosing to work at more productive times. Potentially impacting on productivity claims however was professional isolation (Morganson et al., 2010), which was felt particularly strongly by employees. Communication and collaboration can improve work efficiency and opportunities for innovation,

but the flexible working practiced by the case study participants was an issue in achieving this. The nature of work at the case study organization could account for this with employees working in a collaborative environment focused on teamwork and projects with few repetitive tasks, where working face-to-face could potentially be more beneficial. Data showed that contrary to the existing literature, professional isolation was exhibited by staff regardless of tenure or intensity of remote work (Tavares, 2017). Communication frequency and channels may help to explain this. The managers studied were keen to stress the importance of an initial face-to-face meeting with employees on joining the firm or taking over their supervision, however less attention was given to consideration whether continued communication levels were high enough or used the appropriate channels for remote workers.

These findings suggest the following propositions as guidance for future research:

- **P1.** An extension of flexible work arrangements to line managers enables greater empathy and tolerance in the management relationship.
- **P2.** Flexible work arrangements are perceived as enabling greater employee productivity by both employees and their managers. This is explained by the ability to better concentrate and focus and being able to choose to work at most productive times.
- **P3.** Professional isolation is an issue in flexible work arrangements, in particular when tasks are non-repetitive and collaborative.

5.2 Employee outcomes

The issues of work intensification and blurred home/work boundaries impacts negatively on employees' well-being (Grant, Wallace and Spurgeon, 2013). Employees are working too hard and too long which puts a commonly perceived obligation towards line managers under such informal arrangements. Employees felt guilty when working from home and grateful for the opportunity, but managers gave little signs of assuming obligation and were in fact quite relaxed about employee working times. This is significant as this process may negatively affect employee's well-being raising their stress levels needlessly. Managers seemed unaware of this. The informality of flexible working arrangements by its nature lacks official guidance or training for employees and managers, and this issue could be detrimentally affecting employee well-being unnecessarily.

A possible implication from this study suggests the hierarchical divide between employees and line managers and therefore managers' influence has been lessened with a change from control- to trust-based supervision caused by the remote management context (Kingma, 2018). The continuing issues of work intensification and blurred work/life boundaries affecting well-being could be due to the reciprocation of trust from employee to manager and that this has merely formed another type of obligation.

Findings from the study showed that physical health was an issue not only through reduced activity, but also working whilst sick. Guilt from having the 'luxury' of working from home drove respondents to work through illness instead of recovering without intervention from managers

and potentially causing further physical harm. The remote context could account for this as sick employees are less visible to managers. We therefore suggest:

- **P4.** Flexible work arrangements need greater managerial attention to overcome employee overwork due to gratefulness for the more comfortable arrangements and limited direct control from managers.
- **P5.** Blurred boundaries during flexible work arrangements may also have a detrimental effect on employee health and well-being, since employees are prone to work through illness and/or recovery.

5.3 Formal vs. informal arrangements

The signal given by the organization by allowing flexible working is positive for the job satisfaction and organizational commitment of the case study participants but detrimental to co-workers, as perceived by those working flexibly. This perceived lack of organizational justice for employees in other departments, offices and regions is down to the informal nature of the arrangements and brings feeling of guilt, impacting the job-related and employee advantages given to the flexible workers themselves. This guilt is not apparent from the literature and exacerbated by employees' (and managers') unwillingness to highlight the problem for fear of losing their flexible arrangements. Interestingly, managers felt this lack of organizational justice for others more keenly, further reducing the likelihood of them expecting a reciprocal relationship affecting work intensification and demonstrating their increased empathy for flexible workers. This suggests organizational flexible working policies have wider consequences for those not working under such arrangements, and as proposed by Fogarty, Scott and Williams (2011), co-workers would prefer a formal policy to address these fairness issues.

The findings of the study demonstrate that formal policies can still be operationalized in the same way as informal arrangements and it is possible for them to work on similar flexible principles. The small number of formal arrangements in the study showed no reduction in productivity or autonomy for the employees. These 'semi-formal' arrangements (written into employment contracts but without being too prescriptive) gave security to the employees and removed some managerial influence and therefore the potential for generating an obligation towards them, whether consciously or not. Hence:

- **P6.** Organizational injustice may be perceived by both employees covered by flexible work arrangements (feelings of guilt) and those without such opportunities (feelings of discrimination). Formal policies are more effective than informal arrangements here.

6. Conclusions

This research set out to examine the effects of flexible working arrangements on organizational employees by evaluating job-related outcomes, specifically job satisfaction and organizational commitment, and employee well-being. Based on qualitative analysis of interview data from

employees and their managers, it can be concluded that overall job satisfaction and organizational commitment are enhanced by flexible working practices for both, and successfully mediated by the leadership styles employed by the line managers. The results indicate that flexible work arrangements have both positive and negative impacts on employee well-being. This is due to the negative effects of work intensification and blurred work/home boundaries causing overwork. This research contributes to the current literature by providing an additional layer of understanding of 'why' and 'how' to findings from the previous, mainly quantitative studies. The study design between the hierarchical levels of the case study organization brought the relationship between employees and their managers into consideration for analyzing flexible working arrangements and their effects on employees.

The current context of widespread flexible working arrangements forced by movement restrictions due to the Covid-19 pandemic makes the study particularly relevant to the practice of organizations. It is expected that flexible work arrangements will be considerably more prevalent even when movement restrictions are lifted in the future and as this paper is being written, management teams in a wide range of organizations across the world consider how to prepare their firms for these new ways of working (McKinsey, 2020). The current study provides recommendations on the aspects that need to be considered in the process of the transition.

Awareness among managers and their employees of the issues contributing to work intensification, blurred work/home boundaries, physical health problems and perceived employee obligations towards managers or the organization will help them to better manage the process of flexible working as well as relationships between the levels of organizational hierarchy. Flexible working evolved alongside the ICT used to enable it. To further improve communication whilst working remotely and therefore offset professional and social isolation, organizations could benefit from ongoing research and investment into richer communication channels (e.g. video, virtual/augmented reality). As demonstrated by the current research, more formal arrangements have the potential to give employees security and balance organizational justice across organizations whilst still offering the inherent flexibility enjoyed by staff. Policies need to be developed for the benefits from flexible arrangements to be more equally distributed across all employees. This recommendation is not without its difficulties. Different regions, managers and corporate cultures can have very different attitudes towards working away from the office making a blanket policy across an international organization difficult to achieve.

Further research is needed to determine the long-term effects on flexible workers' physical and mental health. This could go together with future studies into the relationships between remote working intensity and health and well-being, as well as job-related outcomes. Quantitative large sample studies could follow our research to provide more generalizable results.

Despite its merits, this study has some limitations worth noting. Wider-ranging implications and the generalizability of these results are limited by being a single case study with a small sample size. Given the study's exploratory nature, its findings are not claimed to be representative of organizations embedding flexible work arrangement into their practice. Rather, the analysis of the case study is intended to broaden understanding of the impact flexible work arrangements have on employees at different levels of organizational hierarchy.

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The antecedents of University Students' Entrepreneurship Intention. The Theory of Planned Behaviour Viewpoint

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Abstract

Finding out whether university students will take up entrepreneurship on graduation bodes well for any economy especially the developing ones. This is because it will help governments, and other stakeholders to plan better. Importantly, if university students embrace an entrepreneurial career, it will reduce unemployment and subsequently mitigate the scourge of poverty and inequality. This

study was quantitative targeting university students to understand how they perceive entrepreneurship, what they think entrepreneurship is, what they consider as the factors that may discourage them from considering an entrepreneurial career, and also whether they think of themselves as capable of venturing into entrepreneurship. Using SPSS, we analyzed the data which affirmed the three hypotheses that student's entrepreneurship intention can be positively and significantly motivated and persuaded. Also, the result confirmed that student's entrepreneurship intention could be positively influenced by their perception of what entrepreneurship is and the perceived characteristics of an entrepreneur. Some further research directions as well as implications are flagged.

Key words

Entrepreneurship intention, entrepreneurial career, entrepreneurship education, career development, perception, motivation.

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1. Introduction

As Africa remains increasingly challenged with high unemployment, researchers are increasing their efforts to find ways of combating the trend. In that strive, several remedies have been suggested, namely the obliteration of nepotism, favoritism, and enforcing good governance practice (Du Toit et al., 2018; Mainali, 2019; Yasin et al. 2019; Desta, 2019). Further, the literature suggests providing adequate support for entrepreneurs (Gwija et al, 2014), and intensive entrepreneurship education across all schooling levels (Nchu, 2015; Enombo 2015). Within the literature too is the question of whether students do have the intention to take up an entrepreneurial activity upon graduation from college or university (Iwu et al, 2019; Fatoki, 2019).

Adjunct to that is the call to determine what might motivate students to be entrepreneurially driven upon graduation (Ebewo et al., 2017; Iwu et al., 2016; Aderibigbe et al., 2019; Kim-Soon et al., 2016). It is important to understand how students perceive entrepreneurship, what they consider as the factors that may discourage them from considering an entrepreneurial career, and whether they think of themselves as capable of venturing into entrepreneurship. Entrepreneurship discourse (for instance Udo-Imeh, Magaji, Hamidu, & Yakubu, 2016; Potishuk & Kratzer, 2017; Tarekegne, & Gelane, 2019) argues that if students' perceptions of entrepreneurship, and their entrepreneurship uptake propensity on or after graduation, are determined, this will enable governments and other stakeholders such as businesses and education providers to understand required actions towards facilitating and sustaining their entrepreneurial intention. This is the

trajectory that this study follows bearing in mind that doing that will improve the socio-economic conditions of a country.

The 2015 UN Sustainable Development Goals (SDGs) make a strong call for quality education and sustainable economic growth especially for developing economies. It is fair to assume that the SDGs argue that quality education ideally furthers one's prospect of realizing decent work opportunities that advance the economic growth of a nation. To achieve this requires interventions across the value chain. An integral part of this value chain is the university or college (Sachs, 2015; Leal Filho, et al. 2019).

Education is a strategic tool for the development of South Africa's human capital potential (van Broekhuizen, 2016; Lau et al 2018; Martinez-Vargas et al 2020). Thus, located in the Western province of South Africa, this study aims to determine the factors that may influence the propensity of university students to pursue an entrepreneurial career on graduation. Surveying students of an institution of higher learning, we were able to derive in-depth answers to the underlying questions for this study using a self-administered questionnaire. The data obtained were analyzed descriptively with the help of SPSS.

In the following section, we introduce the Theory of Planned Behavior (TPB) to explain how a student's intention is moderated by factors such as beliefs, perceptions, and motivation. Subsequently, we were able to confirm the utility of the concepts of entrepreneurship intention and human motivation to explain why people (in the case of our study, university students) pursue certain objectives. It was equally clear through the literature review that perception matters in the way humans assess any perspective and so we offer a review of the concept of perception in the literature survey.

2. Literature Review

2.1 The Theory of Planned Behavior

The Theory of planned behavior (TPB) is a social cognitive theory that illustrates human intentions concerning their behavior. Founded on the theory of reasoned action (Fishbein & Ajzen, 1975; Ajzen & Fishbein, 1980), that seeks to understand behavior cues, TPB suggests three antecedents that influence an individual's behavioral intentions (Ajzen, 1991, 2011). These antecedents include personal attitude, subjective norm, and perceived behavioral control. The personal attitude of an individual is reflected in their specific behavior. Research shows that the beliefs, values, and capabilities of an individual affect the choices and decisions they make (Urban & Chantson, 2017; Huyghe & Knockaer, 2015; Ajzen, 2011). This perhaps suggests that individuals who believe and know that they can succeed in an entrepreneurial venture will do the needful to succeed. Further to this, Ajzen (2001, 2002) affirms that the perceived behavior of having the necessary characteristics to succeed in an entrepreneurial venture will likely influence the intention to engage in entrepreneurial activity.

The subjective norm reflects the behavior of family and friends towards an individual engaging in certain behavior. Urban and Chantson (2017) opine that the behavior of an individual is influenced by the beliefs and values of those close to the individual such as family, friends, colleagues, mentors, and role models. These influential individuals especially peers and role models affect the individual's intention to engage in any entrepreneurial activity. According to Kautonen, van Gelderen, and Fink, (2015), an individual will engage in a behavior when those close to him or her have a positive expectation towards that behavior. Hence, students are likely to be motivated to pursue entrepreneurship by the presence of role models and the acceptance and encouragement of their family and friends.

Perceived behavioral control denotes that an individual's ability to facilitate, hinder or engage in a particular behavior affects the individual's ability to engage in that behavior (Mwange 2018; Urban & Chantson 2017; Ajzen 2002). When an individual has greater control of exhibiting a behavior, there is a greater intention or effort made to achieve that goal or behavior.

In Ajzen's theory of planned behavior, the intentions of an individual are the immediate antecedents to perform the behavior. The higher the intention to engage in any given behavior, the higher the likelihood that the behavior will be executed. This theory posits that if a behavior is planned and intentional, it is more likely to occur.

2.2 Entrepreneurship Intention

Entrepreneurship intention literature documents several definitions. For example, Bird (1988) views entrepreneurship intention as the state of mind that directs and guides the actions of the entrepreneur towards the development and the implementation of new business concepts, while Thompson (2009) describes it as a self-acknowledged conviction by someone who intends to set up a new business venture and sets a plan to achieve it. On their part, Doan, Jeff, and Ehrhardt (2011) note that entrepreneurship intention is an individual's desire and determination to engage in new venture creation.

Entrepreneurship intention can therefore be said to be the trigger to the creation of an enterprise. However, simply having an intention does not equate to actions though an intention may lead to action. Intention thus constitutes setting up a plan of action. Urban and Chantson (2017) note that the cognitive activity of an individual can be portrayed through self-motivation and purposive action. This means that for an individual to engage in any activity he or she must be self-motivated to pursue that venture. Such motivation may have roots in sociological and economical imperatives and as such also influence the behavioral outcomes of an individual (Ajike, Nnorom, Akinlabi, Onyia & Kwarbai, 2015). Mwange (2018) argues that entrepreneurial intention can be considered as an important determinant of entrepreneurial behavior. The expectation, attitude, and belief of an individual determine his or her intentions and eventually influence his or her actions.

The antecedents of entrepreneurial intentions are critical to the understanding of entrepreneurial venture creation and success. Social factors such as values and beliefs have been found to affect the tendency of an individual towards entrepreneurship. Consumers' habits and lifestyles are some

of the social factors that influence how an individual operates and interacts. Other factors that motivate entrepreneurs will include the need for achievement, commitment and dedication, passion, perseverance, creativity and to have an eye for opportunity. Research has proven that these inherent psychological and personality traits play a vital role in shaping the entrepreneurial intentions of an individual (Karimi, Biemans, Mahdei, Lans, Chizari, & Mulder, 2015).

Intention arises from a deliberately planned behavior suggesting that it is important to understand why some people choose certain careers, such as becoming entrepreneurs. Understanding what motivates some people to become entrepreneurs is a complex process that involves the interaction of different elements.

2.3 Entrepreneurship Motivation

The motivation for entrepreneurship stems from the need for autonomy, to be in control of one's time and decisions (Udo-Imeh, Magaji, Hamidu, & Yakubu, 2016; Gwija et al, 2014, Iwu et al, 2016). Several other factors motivate entrepreneurs, some of which are profit-based, continuing a family business, loss of employment, and subsequently pushed into entrepreneurship by necessity, for social change and development, as well as a sense of purpose or achievement (GEM, 2020). Entrepreneurs, therefore, have a mixture of motivations depending on the context in which they are.

Entrepreneurship motivation is unique and different in everyone suggesting that what motivates one person to take up entrepreneurship is unique to that individual's background and context.

Some theories of motivation have shed some light on the reasons why people choose entrepreneurship as a career. Victor Vroom's (1964) expectancy theory argues that one will pursue a task if one is convinced that he possesses the requisite ability to understand and do well in the task. From a reward perspective, it can be argued that the ability to carry out a task is somewhat related to one's self-esteem which relates to one's pursuit of achievement need. While examining how role models persuaded students to take up an entrepreneurial career, Brunel, Laviolette, and Radu-Lefebvre (2017) found that students' self-efficacy and entrepreneurial intention were significantly influenced by their self-esteem. Drawing from Pihie and Akmaliah (2009), one's self-efficacy can lead to the choice of a career in entrepreneurship if universities enhance their academic strategies. Researchers have equally drawn from Abraham Maslow's hierarchical theory of motivation to explain how some people are drawn into survivalist entrepreneurship. As far back as 1995, Carland, Carland, and Carland said: "... entrepreneurship can provide the financial means to achieve basic needs, but it can also provide a vehicle by which an individual can obtain social acceptance and self-esteem by providing an opportunity to create a lasting and highly visible institution. Further, an individual could perceive his or her success in business as the zenith of self-actualization."

Entrepreneurs, therefore, have a mixture of motivations depending on the context in which they are a major driver of most economies. Government, policymakers, and all stakeholders ought to

know what motivates entrepreneurs, to better align the environment for entrepreneurship to thrive.

2.4 Perception

Perception is a crucial attribute when determining how an individual decides to engage in any entrepreneurial venture. Perception can be subdivided into 3 types, namely perception of self, perception of the environment, and perception of others (Gomezeli & Kusce, 2013; Peterson, 2017).

Peterson (2017) argues that the way an entrepreneur perceives himself/herself sets the pace for the business. This suggests that if someone perceives a positive internal locus of control, he or she may be reasonably persuaded to pursue an entrepreneurial career. A positive self-perception can be said to strongly influence entrepreneurial success. According to Gomezelj, and Kusce (2013) and Peterson (2017) entrepreneurs who have a positive self-perception towards their ability to succeed in their businesses have more satisfaction towards their business outcomes or successes. On the other hand, entrepreneurs who attribute their ability to succeed in external forces have less satisfaction in their business outcomes or successes. When successes are internalized, the individual is more likely to learn and improve on their business ventures. As entrepreneurs improve on their self-efficacy, their level of confidence to succeed would also increase (Pihie, & Akmaliah, 2009; Brunel, Laviolette, & Radu-Lefebvre, 2017; Liu, Lin, Zhao, & Zhao, 2019).

Perception of the environment in which an individual operates also affects their perception towards venturing and succeeding in entrepreneurship. How an individual interacts with the environment reflects the way he or she perceives the environment. The environment of an entrepreneur includes the government, competitors, customers, as well as other entities that the entrepreneur considers influential in business. If a budding entrepreneur perceives the process of formalizing his/her venture as cumbersome, this may discourage him from eventually setting up a business (Kaufmann, Hooghiemstra, & Feeney, 2018). A growing frustration of most businesses is dilapidated infrastructure. This may be perceived negatively by the entrepreneur (Tachiwou & Hamadou 2011). The perception others have of entrepreneurs also influences the success of their entrepreneurial venture. Entrepreneurs who are perceived positively by their immediate support network tend to succeed in their business ventures (Belwal, Al Balushi, & Belwal, 2015). Research has shown that there is a strong association between the way others view an individual and the success of that individual (Gupta, Sikdar, Turban & Wasti, 2009). Interestingly, Gupta and his colleagues suggest that the reason more males are into entrepreneurship is that entrepreneurship is perceived as a masculine discipline or profession.

Entrepreneurial perception has evolved over the years. A study by Crecente-Romero, Giménez-Baldazo, and Rivera-Galicia (2016), analyzing subjective entrepreneurship perception using the GEM report of previous years, indicates that the perception of entrepreneurial opportunities is not reliant on economic development alone but also on behavioral economics.

3. Research Methodology

Data collection was undertaken through a questionnaire survey involving students of a university of technology in South Africa. The decision to target these students was based on our understanding that universities of technology in South Africa offer vocation-based, career-focused programs with the overall hope that the students, on graduation, are likely to become entrepreneurial (Ozaralli & Rivenburgh, 2016).

The questionnaire was designed to elicit information regarding how students perceive entrepreneurship, what they think entrepreneurship is, what they consider as the factors that may discourage them from considering an entrepreneurial career, and also whether they think of themselves as capable of venturing into entrepreneurship. We made use of a combination of previously used questionnaires (e.g. Thompson, 2009; Liñán & Chen, 2009; Adediran & Onifade, 2013; Ozaralli & Rivenburgh, 2016; Udo-Imeh et al, 2015, 2016; Van Gelderen et al., 2008) to derive the instrument for this study. Besides, we also carried out a pilot study with 13 students and four academic staff. This enabled a review of the instrument and subsequently introducing more direct questions/items such as 'Would you be willing to take some risk (personal, financial) to increase your social and professional status?' and 'Do you think you are entrepreneurial?'

Before data collection commenced, permission was obtained from the Research Ethics Committee of the university. In applying for ethics clearance, we stated the following:

1. Participants were free to withdraw their participation at any time.
2. No participant's identity would be revealed. To this end, we did not require names or student numbers.
3. All information received would be for the research.

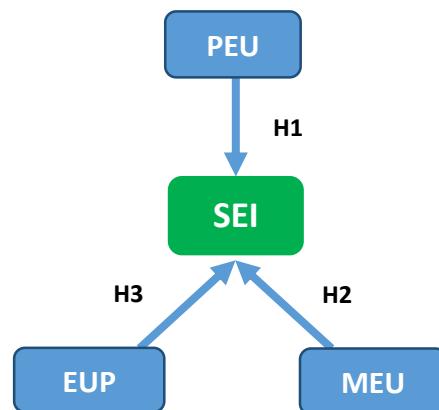
3.1 Conceptual framework

The theory of planned behavior (TPB) is well documented in the humanities, social sciences, and health sciences research. A crucial element in this model as posited by several researchers (including Ajzen 1991) is the behavioral foundation which suggests that the intention to behave in a certain way is driven by certain factors. Two common factors inherent in this consideration are the probability that the behavior will yield an outcome that was expected and the subjective evaluation of the risks and benefits of that outcome. Ajzen (1991) and many others (for example Han, Meng & Kim, 2017; Nabi et al 2018; Sussman & Gifford, 2019) have used this model to predict and explain a wide range of behaviors and intentions. We adapt this model to this research for the same reason: to try and determine factors that may influence a university student to pursue an entrepreneurial career on graduation. We developed a TPB-based conceptual framework and by doing so we formulated three hypotheses. The hypotheses are: firstly, students can be motivated (MEU) to increase their intention for entrepreneurship uptake (SEI); secondly, students can be persuaded (EUP) to increase their intention for entrepreneurship uptake (SEI); and thirdly, students' entrepreneurship perception (PEU) will influence their intention for entrepreneurship

uptake (SEI). All the variables – PEU, EUP, MEU, and SEI – are significant signals for entrepreneurship uptake as shown in Figure 1 below.

Figure 1

The Conceptual Framework



Source: Own elaboration.

Figure 1 conceptualizes three hypotheses:

- **H1:** Perception of entrepreneurship uptake (PEU) will associate positively with Students' entrepreneurship intention (SEI).
- **H2:** Motivation for entrepreneurship uptake (MEU) will associate positively with Students' entrepreneurship intention (SEI).
- **H3:** Entrepreneurship uptake persuasion (EUP) will associate positively with Students' entrepreneurship intention (SEI).

3.2 Model Specification

Using the extraction from the above conceptual framework, the model specification is defined as follows:

$$SEI = F(PEU, MEU \text{ and } EUP) \dots\dots\dots 1$$

When the equation (1) above is linearized, we have the model specified as follows:

$$SEI_i = \beta_0 + \beta_{i1}(PEU) + \beta_{i2}(MEU) + \beta_{i3}(EUP) + \epsilon_i \dots\dots\dots 2$$

Where:

SEI = Students Entrepreneurship Intention

PEU = Perception of Entrepreneurship Uptake

MEU = Motivation for Entrepreneurship Uptake

EUP = Entrepreneurship Uptake Persuasion

ϵ_i is the stochastic error term.

4. Findings

The demographics of the respondents in this study are summarized in Table 1, using descriptive statistics of frequency and percentage. The proportion of male participants is almost triple that of female participants. The male respondents covered 70.8% of the respondents, while 29.2% were female.

Table 1

The Participants' Demographics (n=220)

Variables	Categories	Frequency	Percentage (%)
Gender	Male	131	70.8%
	Female	54	29.2%
Level of studies	National Diploma	97	44.1%
	Bachelor degree	121	55.0%
	Masters	2	0.9%
Students Department	Entrepreneurship and Business Management	99	45.0%
	Graphic design	1	0.5%
	Other	120	54.5%
Nationality/Cultural Group	Black South African	174	94.1%
	Coloured South African	10	5.4%
	Black immigrant	1	0.5%

Source: Own elaboration¹.

¹ The gender question was responded to by only 185 out of 220 participants due to binary options and many may be unwilling to report their gender as the participants were free to choose the option that appealed to them.

The respondents were predominantly pursuing National Diploma and Bachelor degrees with the former covering 44.1% and the latter 55.0%. The rest, master's students, were less than 1%. The students' departmental information revealed that 45% of the respondents were from the Entrepreneurship and Business Management Department, while the remaining 55% were from other departments. Black South Africans accounted for 94.1%, due to the historical racial confinement of the university. The rest of the participants' ethnic configuration included Coloured South Africans (5.4%) and Black immigrants were (less than 0.5%).

The statistical results of the cross-tabulation analysis of students' entrepreneurship intention (SEI) depict the three-stage dimension of entrepreneurship uptake by the students. The items reveal the proportion of students who intended to take up entrepreneurship during their studies as 65%, which increased to 75% for those who considered it after their studies, while the proportion of those who would consider it long after their studies was 40%, as shown in Table 2. This implies the readiness and willingness of the students to take up entrepreneurship opportunities. An increase in this proportion of entrepreneurship uptake immediately after school can be nurtured by creating an enabling environment to grow the uptake intention to the level of actual uptake and ultimately foster sustainability of the businesses (Nxopo & Iwu, 2015; Potishuk & Kratzer, 2017; Sharma, 2018; Tih, et al. 2019; Wei, Liu & Sha, 2019).

Table 2

Cross-tabulation for Entrepreneurship Intention Items (N=220)

Question	Response			Total
	Yes	No	Don't know	
Do you wish to start your own business or to become self-employed during your studies?	144 65.5%	71 32.3%	5 2.3%	220 100.0%
Do you wish to start your own business or to become self-employed after your graduation?	167 75.9%	17 7.8%	36 16.4%	220 100.0%
Do you wish to start your own business or to become self-employed a long time after your graduation?	88 40.0%	46 20.9%	86 39.1%	220 100.0%

Source: Own elaboration

4.1 Normality of and Reliability Statistics for Factors

To ensure the suitability of the data for ordinary least square methods, normality and reliability tests were carried out. In this study, we conducted the skewness and kurtosis test, using the probability values of the result at a 95% confidence interval to affirm if the data were normally

distributed. Hair et al. (2006) indicated that to confirm appropriate normality assumption, skewness and kurtosis value should range between ± 3 . Based on the evidence in Table 3, a conclusion of the normality of distribution is legitimate.

Before gauging the association between PEU, MEU, and EUP and SEI, reliability estimates for each factor were checked based on the Cronbachs Alpha benchmark. At the .7 benchmark (Nunnally & Bernstein, 1994; Cohen & Swerdlik, 2010), satisfactory internal consistency was established for all factors in the conceptual framework (see Table 3).

Table 3

Normality and Reliability Statistics

Variables	Normality			Reliability
	Obs	Pr(kewness)	Pr(Kurtosis)	Cronbach Alpha
Perception of Entrepreneurship Uptake (PEU)	220	0.0016	0.0065	0.88
Motivation of Entrepreneurship Uptake (MEU)	220	0.0027	0.0021	0.79
Entrepreneurship Uptake Persuasion (EUP)	220	0.0211	0.0000	0.89
Students Entrepreneurship Intention (SEI)	220	0.0150	0.0304	0.82

Source: Own elaboration

4.2 Factor Analysis

To understand the latent variables for the explored factors (PEU, MEU, EUP, and SEI), a principal component analysis was undertaken. To do this, each factor was analyzed separately and SPSS was restricted to extract only one factor. Based on the evidence for each factor analysis, variables that were loaded below .4 (Field, 2009) were eliminated. In addition to retaining only variables that loaded at .4 or above, that analytical approach allowed for higher Eigen-Values and explained variance for each factor. In the factor analysis, the inter-item correlation for each factor was also examined to understand the closeness between the measurement items for each factor. The factor analysis results displayed in Tables 4 (Entrepreneurship Intention), 5 (Perception of Entrepreneurship), 6 (Entrepreneurship Uptake Persuasion), and 7 (Entrepreneurship Motivation) are satisfactory at the .4 benchmark (Field, 2005) and suggest that the measurement items are satisfactory measures of the conceptualized constructs.

Table 4

Principal Factor Analysis & Inter-item Correlation for Entrepreneurship Intention (n=222)

Items	EI1	EI2	EI3	EI4	Factor Loadings
EI1	1.000				.805
EI2	.744	1.000			.782
EI3	.685	.789	1.000		.837
EI4	.865	.714	.803	1.000	.898
Total Variance Explained: 81.14%				Determinant Significance:011	
Eigen-Value of PC1: 4.692				Kaiser-Meyer-Olkin Measure of Sampling Adequacy: 0.897 (.000)	

Source: Own elaboration

Table 5

Principal Factor Analysis & Inter-item Correlation for Perception of Entrepreneurship (n=222)

Items	PE1	PE2	PE3	PE4	PE6	Factor Loadings
PE1	1.000					.922
PE2	.486	1.000				.752
PE3	.657	.664	1.000			.932
PE4	.632	.691	.598	1.000		.788
PE6	.717	.765	.721	.683	1.000	.842
Total Variance Explained: 78.43%				Determinant Significance:021		
Eigen-Value: 5.928				Kaiser-Meyer-Olkin Measure of Sampling Adequacy: 0.779 (.000)		

Source: Own elaboration

Table 6

Principal Factor Analysis & Inter-item Correlation for Entrepreneurship Uptake Persuasion (n=222)

Items	EUP1	EUP2	EUP3	EUP4	Factor Loadings
EUP1	1.000				.805
EUP2	.706	1.000			.782
EUP3	.707	.704	1.000		.837
EUP4	.681	.801	.893	1.000	.898
Total Variance Explained: 81.8%					Determinant Significance:019
Eigen-Value of PC1: 5.698					Kaiser-Meyer-Olkin Measure of Sampling Adequacy: 0.856 (.000)

Source: Own elaboration

Table 7

Principal Factor Analysis & Inter-item Correlation for Entrepreneurship Motivation (n=222)

Items	EM1	EM2	EM3	EM4	EM5	Factor Loadings
EM1	1.000					.853
EM2	.736	1.000				.882
EM3	.721	.844	1.000			.937
EM4	.701	.734	.881	1.000		.811
EM5	.697	.832	.769	.796	1.000	.832
Total Variance Explained: 72.2%					Determinant Significance:031	
Eigen-Value of PC1: 5.488					Kaiser-Meyer-Olkin Measure of Sampling Adequacy: 0.885 (.000)	

Source: Own elaboration

4.3 Discriminant Validity

According to methodological literature, researchers must ensure that conceptualized constructs are unique, in other words, the factors should not correlate significantly (Field, 2005; 2009). In conformance, we carried out a correlation analysis of the four factors explored in this study, and the correlation coefficients (see Table 8) justify a conclusion of discriminant validity - there are no significant correlations between the four constructs.

Table 8

Discriminant Validity - Correlations Analysis

	Intention	Perception	Persuasion	Motivation
Pearson Correlation				
Intention	1.000			
Perception	.350***	1.000		
Persuasion	.447***	.479***	1.000	
Motivation	.521***	.381***	.196*	1.000

Source: Own elaboration

4.4 Multi-Variable Regression Analysis

Having confirmed reliability and validity for all four conceptualized factors, multiple regression analysis was carried out to examine the conceptualized hypotheses. Implementing the multiple regression analysis, we aimed not only to extract the regression coefficients (and significance levels) but also to understand clearly if there are multi-collinearity threats. At ($R^2 = 0.830$, F-Change of 98.578, and Sig. F-Change of 0.000), the regression results suggest a significant association of the independent variables (PEU, EUP, and MEU) on the dependent variable (SEI) (see Table 9). As documented in Table 9, students' entrepreneurship intention (SEI) is significantly a factor of PEU, EUP, and MEU. In other words, H1, H2, and H3 are supported.

Towards ensuring the validity of the findings from this study, further multi-collinearity diagnostics were examined to support the ballpark evidence (Draper & Smith, 1981; Field, 2005) (see Table 8). As evident in Table 8, there was no significant correlation at the .8 benchmark (Field, 2005) amongst the factors. The multi-collinearity diagnostics for this study match with benchmarks: the condition index for each factor was below 15 (see Table 10) (Belsley, Kuh & Welsch, 1980), and the variance inflation factor (VIF) and the tolerance levels are below the benchmark of above 10 (Myers, 1990) for the former and 0.10 or less (Field, 2005) for the latter. Therefore, there are no multi-collinearity threats in this study (Belsley, Kuh, & Welsch, 1980; Johnston, 1984).

Table 9

Regression Analysis Results

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
	B	Std. Error				Lower Bound	Upper Bound	Tolerance	VIF
(Constant)	-.622	.163		-3.819	.000	-.948	-.296		
Perception	.327	.076	.333	4.310	.000	.175	.479	.475	2.105
Persuasion	.557	.128	.316	4.339	.000	.300	.814	.534	1.872
Motivation	1.488	.162	.532	9.209	.000	1.164	1.812	.848	1.179

Summary of the regression result: Adjusted $R^2 = 0.830$, F-Change = 98.578, and sig. F-Change of 0.000.

*Dependent variable: Entrepreneurial Intention.

Source: Own elaboration

Table 10

Collinearity Diagnostics

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions			
				(Constant)	Perception	Persuasion	Motivation
1	1	2.945	1.000	.01	.02	.01	.02
	2	.871	1.839	.00	.17	.12	.00
	3	.121	4.943	.00	.62	.39	.64
	4	.064	6.775	.99	.19	.48	.34

a. Dependent Variable: Entrepreneurship Intention

Source: Own elaboration

In concluding this section, we reaffirm the following: Three hypotheses were formulated to explain the dependent variable (SEI). The regression result affirmed the correlation result and support the three alternative hypotheses that student's entrepreneurship intention can be positively and

significantly motivated and persuaded. Also, the result confirmed that student's entrepreneurship intention could be positively influenced by their perception of what entrepreneurship is and their perceived characteristics of an entrepreneur. The pre- and post-estimation analysis supported the assumption of the multivariable regression analysis and made the result of the model reliable and valuable for policy consideration. Policy options that will persuade, motivate and enhance positive perception of entrepreneurship development should be framed around the university of technology students. This will increase entrepreneurship uptake at a three-time dimension scale – during their studies, immediately after their studies, and long after their studies – and will likely save the country from unemployment crises.

5. Conclusion, Implications, and Future Research

Entrepreneurship remains a key ingredient for nurturing the growth and development of any economy. Because of this, it is necessary to empirically investigate this topic to shed light on how its contribution to the sustainability of an economy can be enhanced. Several studies (e.g. Pihie & Akmaliah, 2009; Kim-soon et al 2016; Ebewo et al, 2017; Peterson, 2017; Fatoki, 2019; Aderibigbe et al 2019) have considered the university setting in this regard. Emergent insights document a range of factors that influence a student's decision to take up an entrepreneurial career on graduation. Our study supports and enhances domain discourse. In our case, this range of factors has the potential to persuade, motivate, and enhance positive perception of entrepreneurship among university students. The question one therefore asks is: what is the role of the university within the larger entrepreneurial ecosystem? In answering this question, one draws from Mazzarol's (2014) entrepreneurial ecosystem where the university is identified as an important part of it. Further to identifying the university as an important player in the entrepreneurial ecosystem is the need to examine the following questions:

- Are universities training anyone to become entrepreneurs?
- How is entrepreneurship taught?
- Do the teaching styles support learning of entrepreneurship?
- What's the best method of teaching entrepreneurship?

The above questions can be explored empirically in future research.

If the dwindling economies of the developing countries (Hill, 2018; Prince, Halasa-Rappel, & Khan, 2018) coupled with graduates not possessing employability skills (Owens & Tibby, 2014; Iwu, Mandyoli, & Nxopo, 2018) are among the reasons why there is escalating unemployment, should researchers not turn their attention to universities to inquire whether they are sufficiently training students to become entrepreneurs. This may assist in resolving the argument that instead of training students to become job seekers, the university should thoroughly impart entrepreneurial skills to students.

Even though the majority of our participants considered entrepreneurship as something they would pursue after graduation, it was clear from our study that students' perceptions and attributes are critical to understanding whether the efforts of a university to train students to

become entrepreneurs can yield the necessary outcome. Ying (2008) questions students' attitudes, commitment, and mentality and whether they bode well for the entrepreneurship training. This perhaps suggests that to meaningfully achieve entrepreneurial outcomes during and after training, a student must have the willingness to pursue entrepreneurship on graduation (Tarekegne & Gelaneh, 2019). An important implication of this study is the question of whether these qualities – attitudes, commitment, positive mentality - can be nurtured during entrepreneurship education. Future research could assess the quality of lecturing, the methods used in teaching, and the learning of entrepreneurship. Enhancing this view, Iwu et al (2019, p.10) noted the "importance of ensuring an appropriately designed curriculum and competent lecturing team".

Some other researchers have also found similar attributes as significant contributors to the uptake of an entrepreneurial career. Ying (2008) noted the necessity of personal characteristics such as self-drive, creativity, commitment, a sense of direction, and the ability to manage risk. Iwu et al (2020) found similarly that risk-taking and creativity added to the likelihood of an entrepreneurial career.

To conclude, we recommend that to advance the teaching of entrepreneurship, some key value paths are necessary. These value paths include the following:

1. The Sustainable Development Goals (SDGs).
These SDGs not only serve as reminders of what we should be doing to better our world, they also serve as tools to teach. Goal #14 for instance looks at life below water. What does it say to us? This signifies that opportunities abound in an interdisciplinary method of teaching entrepreneurship. Beyond this, one can also start looking at the SDGs as meeting the goals of entrepreneurship. Goal #8 of the SDG addresses decent work and economic growth and resonates with the ideals of entrepreneurship (Ribeiro-Duthie, 2020; Moya-Clemente, Ribes-Giner, & Pantoja-Díaz, 2020; Basarud-Din, & Zainal, 2020). Perhaps universities can start focusing on how these goals may influence their curriculum?
2. Global Entrepreneurship Monitor (GEM) Reports.
Since 1999, the UK-based Global Entrepreneurship Monitor has been researching entrepreneurship ecosystems around the world. The report is put together by a consortium of teams primarily associated with top academic institutions in various countries. Important points to note here include the benefits of using the reports and the case studies in them to enrich the teaching and learning of entrepreneurship.
3. Any discussion of an entrepreneurial ecosystem includes the university. Mazzarol's (2014) entrepreneurial ecosystem framework depicts a relationship between the conditions that foster economic prosperity and wealth creation. So, in galvanizing an entrepreneurial mindset, Mazzarol (2014) argues for a morally sound government to develop policies that work, as well as appoint ministers who can 'play a critical role in fostering enterprise and innovation'. Mazzarol further argues that the promotion of inclusive economic growth requires the prioritization of small and medium enterprises (SMEs) development which means that governments should encourage investments in SMEs through a funding practice

that allows for easy access to finance, the creation of networks that offer mentorship and other assistance as well as instituting a culture that values entrepreneurship.

Finally, this study was conducted in the South African setting and this fact must be borne in mind when transporting the conclusions from this study on to other geographical settings, given that national culture conditions the mindset and ways of doing things (e.g. Opute & Madichie, 2017). Given the heterogeneity across national cultures, a major direction towards validating the finding from this study and improving overall domain discourse is to explore the extent to which the findings from this study hold valid (or not) in other cultural settings. Further within that target, future research could explore other antecedents beyond the conceptualization in this study.

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Promoting Pharmaceutical Companies' Reputation through Facebook: the case of Spain

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Abstract

This paper aims to analyse how the 100 most reputed pharmaceutical companies in Spain use Facebook for improving their corporate reputation. To do that, on the one hand, we carried out a literature review about corporate communication, health organizations and social media; and on the other hand, we analysed their Facebook corporate profiles by using ten indicators related to corporate communication. This paper concludes that pharmaceutical companies in Spain does not consider Facebook any more like a strategic tool for their corporate communication strategies because only 18 companies manage actively a Facebook corporate profile from their headquarters in Spain.

Key words

Corporate Communication, Reputation, Social Media, Health organizations, Pharmaceutical Companies.

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1. Introduction

During these last years, most health organizations around the world have had to reinvent their corporate communication strategies in order to better satisfy new stakeholders' demands. Health organizations' employees as well as patients, media companies and public authorities are increasingly interested in issues related to health education and prevention. Besides, they need to better understand why these health organizations' activities are useful for individuals and society. On the other hand, most stakeholders have also integrated a new communication logic based on new principles like instantaneity, transparency, feedback and content-oriented communications. Moreover, the financial crisis of traditional media and the increasingly reduced budgets for communication activities in health organizations have led these last ones to focus their corporate communication in social media. This paper aims to analyse how health organizations in Spain use social media for improving their corporate reputation. To do that, we carried out a literature review about corporate communication in health organizations (interpersonal, internal and external communication), brand architecture (identity, values, mission, vision and culture) and social media. And next, we analysed the Facebook corporate profile of 100 most reputed pharmaceuticals companies in Spain by using 10 indicators related to corporate communication. Finally, we proposed some ideas for improving their online corporate communication strategies.

2. From health communication to online reputation

Health organizations consider corporate communication like a strategic issue (Househ, Borycki & Kushniruk, 2014). Public hospitals, private clinics, pharmaceutical companies, health authorities, patients' associations and health insurance companies prioritize the professional management of corporate communication in order to better interact with their stakeholders, like media, clients or employees (Medina Aguerrebere, 2017). According to Van Riel and Fombrun (2007: 25), corporate communication is "the set of activities involved in managing and orchestrating all internal and external communications aimed to creating favourable starting points with stakeholders on which the company depends". Health organizations should understand corporate communication like a global concept involving several activities, like marketing, public relations, events or organizational communication (Mazzei, 2014). The main objective of corporate communication is to manage and spread internally and externally the organization's identity and its brand image (Frandsen, Johansen, 2013). In health organizations, corporate communication experts assume three main professional functions: a) interpersonal communication, b) internal communication and c) external communication (Medina Aguerrebere, 2017).

The interpersonal communication established between health organizations and their stakeholders (employees, media companies, public authorities, etc.) determines stakeholders' attitudes toward the first one (Archipoli et al., 2016). In order to improve the organization's efficacy, they should invest more money and time for helping their health professionals to also become experts in interpersonal communication (Jahromi et al., 2016). Thanks to interpersonal communication, health organizations can improve stakeholders' participation in the health system

(Chan et al., 2016), which improve their satisfaction with organizations' products and services (Al-Abri & Al-Balushi, 2014).

Besides the interpersonal communication, health organizations should also manage the internal communication established with employees and other internal stakeholders (suppliers, etc.). According to Welch and Jackson (2007), internal communication involves all communication initiatives led by managers for promoting stakeholders' engagement as well as their sense of belonging to the organizations. Thanks to internal communication, health organizations can spread corporate information that help employees to do efficiently their job (Rodrigues, Azevedo & Calvo, 2016). Disseminating some inputs like identity, vision or mission could also influence positively in the promotion of the internal corporate culture (Pelitti, 2016).

Health organizations also consider the external communication like a useful management tool for better interact with external stakeholders, like patients, public authorities or medias (Martini, 2010). Health organizations should constantly analyse new stakeholders' attitudes and adapt their communication strategies in order to efficiently promote the stakeholders' engagement with the organization (Moser & Greeman, 2014). Health organizations should also measure the impact of all communication initiatives in order to prove that this professional activity involves a real value for the company (Zerfass & Viertmann, 2017).

Most health organizations have their own Corporate Communication Department in charge of all interpersonal, internal and external communication activities. This department's main responsibility is to build a strong brand that helps the company to develop their business (Esposito, 2017). Organizations need to measure constantly their brand's impact in all stakeholders and, according on that, adapt their communication strategies (Veltri & Nardo, 2013). The professional management of a brand involves the definition of five corporate elements: identity, values, mission, vision and culture (Medina Aguerrebere, 2017).

Corporate identity refers the organization's essence and it is closely related to the organization's business strategies (He & Balmer, 2013). Organization's values are corporate inputs more accurate than identity that help employees to better understand the organization's logic and do efficiently their job (Sheehan & Grant, 2014). These values should highlight the human and ethical side of organizations in order to create a real engagement with stakeholders (Ortega & Sastre, 2013). Besides identity and values, health organizations should also define mission, vision and culture. According to Cady et al. (2011), the mission establishes a middle-term objective and proposes practical ways to help employees to apply this corporate element in their daily work. The vision establishes a long-term objective and proposes several ways to help the organization to achieve it (Singal & Jain, 2013). Finally, the internal culture refers to the unique way of working that allows a company to be different from its competitors (Nelson, Taylor & Walsh, 2014).

After having defined the brand architecture (identity, values, mission, vision and culture), health organizations should establish a communication strategy based in a quantitative evaluation system whose main objective is to spread these corporate elements among all internal and external stakeholders. Branding actions are strategic to promote the organization's reputation (Medina Aguerrebere, 2017). Health organizations need to reinforce their reputation in order to adapt to the changing context in which they interact (Kemp, Jilipalli & Becerra, 2014). Thanks to these

branding actions, these organizations can reinforce their credibility and their reputation (Martini, 2010). Corporate reputation influences directly in the organization's functioning: for example, in the hospital context, reputation can influence patients' choices (Tengilimoglu et al., 2007). Moreover, when hospitals are reputed organizations, patients and their family think these organizations propose a safe and professional environment (Mira, Lorenzo & Navarro, 2014). Branding actions have become a priority for health organizations interested in building a reputed company (Wang et al., 2011).

Branding through social media has become a strategic priority for health organizations interested in improving their corporate relationships with internal and external stakeholders (Fischer, 2014). The impact of social media in revitalising health organizations' relationships with stakeholders has led several authors to affirm that these platforms are the most important tool in health communication (Griffis et al., 2014). Nevertheless, these companies should solve some security problems related to social media, like confidentiality, usability and identity management (Househ, Borycki & Kushniruk, 2014). Thanks to social media, health organizations like hospitals or pharmaceutical companies can improve the making decision process established between patients and health professionals (Lim, 2016). The professional management of social media for improving relationships with stakeholders involves three main aspects: a) health organizations should spread accurate corporate information in each social media (McCarroll et al., 2014); b) these organizations should establish an innovative knowledge management system in order to use the stakeholders' feedback to improve the health services (Bubien, 2015); and, finally, health organizations must also use social media for better understand patients' behaviours and expectations (Rozenblum & Bates, 2013).

From a corporate communication point of view, social media have become a powerful tool to improve the health organizations' reputation (Liu et al. 2014). These companies use increasingly social media platforms like Facebook, Twitter, Instagram or LinkedIn to build active brand communities that influence stakeholders' perceptions (Laroche, Habibi & Richard, 2013). Since 2005, one of the social media most used by these organizations for improving their corporate reputation is Facebook. Five realities can justify this sentence: a) the professional management of Facebook allows health organizations to develop different health education initiatives, which help them to reinforce their brand credibility (Glover et al., 2015); b) the corporate information spread through Facebook influences positively in the stakeholders' engagement with the organization (Richter, Muhlestein & Wilks, 2014); c) most patients want to use Facebook to communicate with health professionals when having doubts or questions, which is useful for improving patients' perceptions about the organization's employees (Lee et al., 2015); d) patients can share in a corporate Facebook profile different information about their personal experiences, which reinforces the brand community built by the health organization (Hays, Page & Buhalis, 2013) and; e) Facebook proposes several applications to evaluate the stakeholders' satisfaction with health organizations' services, like for example the likes number (Timian et al., 2013).

3. Methodology

This paper aims to understand how health organizations use *Facebook* to promote their corporate reputation. To do that, we have focused on the pharmaceutical companies because - unlike hospitals, clinics, health authorities, health insurance companies and patients' associations-, these organizations, since many years ago, invest every year a great amount of money in advertising, public relations and corporate communication initiatives in order to reinforce their corporate reputation. We have analyzed the Spanish's most reputed pharmaceutical brands, which are ranked every year by *Merco*, one of the most important reputation audit companies in the world.¹ In 2018, the ranking about the 100 top pharmaceutical brands in Spain was led by *Novartis*, *Pfizer*, *Sanofi*, *Jansen* and *Roche*.²

Our main objective is to know if the Spanish pharmaceutical companies consider *Facebook* like a strategic corporate communication tool. In other words, do these companies spread through *Facebook* all corporate elements concerning their brand (identity, values, mission, vision and culture)? To do this study, we have only analyzed the corporate *Facebook* profile, and not those profiles made by some particular departments belonging to the pharmaceuticals companies. Concerning global brands, we have analyzed the Spanish company's *Facebook* profile, and, when they did not have an active profile, we have analyzed the global company's *Facebook* Profile. In order to analyze these profiles, we have focused on the "About" section and we have used ten indicators related to corporate communication³ (Table 1).

¹ Since 2000, *Merco* (*Monitor Empresarial de Reputación Corporativa*) analyzes the reputation of thousands of brands around the world. To do that, they use a multistakeholder methodology based on six evaluations indicators and 25 qualitative and quantitative sources of information. They apply this methodology to eight different rankings (Companies, Leaders, Corporate Government, Talent, Talent in University's Students, Consumerism, Digital and MRS) in twelve countries (Spain, Portugal, Argentina, Mexico, etc.). *Merco* is the first monitoring company in the world to be audited every year in order to guarantee accurate results. To know more about the *Merco*'s methodology: <http://www.merco.info/es/que-es-merco>.

² According to *Merco*, in 2018 the top 100 pharmaceutical brands in Spain were: 1) Novartis, 2) Pfizer, 3) Sanofi, 4) Jansen, 5) Roche, 6) Lilly, 7) Bayer, 8) MSD, 9) Astrazeneca, 10) GSK, 11) Abbvie, 12) Merck Kgaa, 13) Menarini, 14) Esteve, 15) Boehringer Ingelheim, 16) Rovi, 17) Amgen, 18) Kern Pharma, 19) Ferrer, 20) Chiesi, 21) Ipsen Pharma, 22) Almirall, 23) Gilead Sciences, 24) Novo Nordisk, 25) Bristol Myers Squibb, 26) Abbott, 27) Servier, 28) Astellas Pharma, 29) Baxter, 30) Allergan, 31) Celgene, 32) Leo Pharma, 33) Italfarmaco, 34) Sandoz, 35) Normon, 36) Nestle, 37) UCB, 38) Takeda, 39) Fresenius-Kabi, 40) Grifols, 41) Grunenthal, 42) Biogen, 43) Faes Farma, 44) Teva Pharma, 45) Cinfa, 46) Leti, 47) Mylan, 48) Lundbeck, 49) Angelini, 50) Adamed, 51) Alk-Abello, 52) Otsuka, 53) Isdin, 54) Ordesa, 55) B. Braun, 56) Daiichi Sankyo, 57) Shire, 58) Laboratorios Salvat, 59) Industrial Farmaceutica Cantabria, 60) Zambon, 61) Thea, 62) Pierre Fabre, 63) Ferring, 64) Eisai, 65) Casen Recordati, 66) Meda Pharma, 67) Alexion Pharma, 68) Norgine, 69) Mundipharma, 70) Altan Farma, 71) Gebro Pharma, 72) Vifor Pharma, 73) Alter, 74) Diater, 75) Biomed, 76) Bial Industrial, 77) Stallergenes, 78) Laboratorios Vinas, 79) Brill Pharma, 80) Tedec Meiji Farma, 81) Smith and Nephew, 82) Medtronic Biopharma, 83) Insud Pharma, 84) Bioiberica, 85) Gedeon Richter, 86) Vertex, 87) Bausch & Lomb, 88) Aldo Union, 89) Viiv Healthcare, 90) Reig Jofre, 91) Santen, 92) Biomarin, 93) Rubio, 94) Galderma, 95) Ern, 96) Ratiopharm, 97) Lacer, 98) Immunotek, 99) Uriach and 100) Stada.

³ We have carried out this analysis from 7th September 2020 to 3rd November 2020.

Table 1

Indicators related to Corporate Communication

Communication domain	Indicator
Corporate identity	1. Company's description 2. Links to other corporate websites 3. Company's history 4. Foundation date
Values	5. Values description
Mission	6. Mission description
Vision	7. Vision description
Culture	8. Health products 9. Corporate awards
Image	10. Logo like main image

Source: Own elaboration.

4. Results

Most health organizations use social media for disseminating corporate information related to their brand (identity, value, mission, vision and image). According to their organizational needs, they establish different online communication strategies for improving their reputation. In order to better understand how pharmaceutical companies in Spain use social media for ameliorating their reputation, we have carried out an analysis about their corporate profile on Facebook. According to our results, out of 100 most reputed pharmaceuticals companies in Spain, 57 have an active corporate profile on Facebook. Nevertheless, we must outline that out of these 57 companies, 23 do not have a local profile managed by the company in Spain, but a global profile managed by the company's headquarter in another country (United States, France, Germany, etc.). Furthermore, out of these 57 companies, there are also 16 organizations whose Facebook corporate profile not only is managed by the company's headquarter in another country but also is not linked to the company's website in Spain.

Out of 57 pharmaceutical companies having a corporate profile on Facebook, most of them respect only some indicators. According to the Table 2. Number of respected indicators, no company applies ten indicators, 38 companies apply between four and six indicators, and 87,72% of companies respect less than seven indicators. Only four organizations respect eight indicators (Roche, Amgen, Servier and Bial Industrial) and three companies apply seven indicators (Novartis, Leo Pharma, and Smith and Nephew).

Table 2

Number of respected indicators

Number of indicators	Number of companies
10	0
9	0
8	4
7	3
6	15
5	14
4	9
3	7
2	5
1	0
0	43

Source: Own elaboration.

Table 3

Overview about indicators

Communication domain	Indicator	Percentage
Corporate identity	1. Company's description	87,72%
	2. Links to other corporate websites	100%
	3. Company's history	49,12%
	4. Foundation date	70,18%
Values	5. Values description	0%
Mission	6. Mission description	47,36%
Vision	7. Vision description	0%
Culture	8. Health products	29,82%
	9. Corporate Awards	10,53%
Image	10. Logo like main image	96,49%

Source: Own elaboration.

Concerning the brand architecture, and only considering these 57 companies having an active Facebook profile, most pharmaceutical companies disseminate different inputs to influence

stakeholders' perceptions about their brand. Most companies respect the indicators related to the corporate identity – links to other corporate websites, foundation date and company's description- and the image –logo like main image in the Facebook profile-. Nevertheless, they do not respect the indicators related to values and vision (see Table 3).

5. Discussion

During several years, most health organizations had considered Facebook like a strategic tool for their corporate communication initiatives. According to several authors, Facebook is a useful tool for improving reputation and ameliorating relationships with stakeholders, especially with patients. Tsimonis and Dimitriadis (2014) consider that for companies interested in having full interactive communication with stakeholders, having a Facebook corporate profile is more appropriate than a corporate website. According to Gage-Bouchard et al. (2016), Facebook is a useful platform for helping patients share medical information and interact with health organizations. Moreover, Hutter et al. (2013) claim that Facebook is an essential tool for promoting branding. However, since several years, other authors had also published some papers about the Facebook's inefficiency like professional tool for corporate communication initiatives. For example, according to Huang and Dunbar (2013), Facebook is not a useful tool for improving corporate interactions with stakeholders because these last ones are not active in this social media, what represents a real problem for companies. Van der Verlden and El Eman (2013) claim that most young people do not like to use Facebook to disseminate their health personal information and interact with health organizations. Finally, according to Miller and Tucker (2013), health organizations very often cannot monitor conversations in Facebook, what constitutes a risk from a communication point of view.

Data obtained in this research show that most reputed pharmaceutical companies in Spain do not consider Facebook anymore like a strategic tool for their corporate communication initiatives. Three facts allow us to affirm this statement. Firstly, 43% of analyzed companies do not have a corporate profile on Facebook, but it does not mean that they do not use other social media. In fact, most of them have a corporate profile on Twitter and Youtube. More and more people use Youtube because they prefer to consult videos instead of texts, especially videos about health education issues (Huang, 2013). Secondly, no company disseminates information about its values and vision, what prevents stakeholders to fully understand these companies' brand architecture. Disseminating fully corporate information is essential to help the organization build a brand community and establish efficient relationships with its stakeholders (Laroche, Habibi & Richard, 2013). And thirdly, out of 57 companies, 39 use a global profile managed by the company's headquarter in another country; in other words, out of 100 companies analyzed in this study, only 18 companies manage actively a Facebook corporate profile. According to Huesch, Currid-Halkett and Doctor (2014), stakeholders evaluate health organizations' reputation by using different criteria, like for example the kind of information they disseminate in social media. That is why, for most pharmaceutical companies in Spain, their actual approach for managing Facebook could become a risk for their corporate reputation.

Social media have become a powerful tool for corporate communication initiatives (Park, Rodgers & Stemle, 2013). However, most Spanish pharmaceutical companies cannot be present in all social media platforms. That is why these organizations should implement an online strategy allowing them to reduce the risk of taking some decisions concerning the choice of social media platforms, the kind of content to post, the integration strategies between all social media platforms and the corporate website, etc. Nowadays, even if most health organizations prefer to use social media focused on image and videos like Youtube and Flick'R (Rando Cueto & de las Heras Pedrosa, 2016), these organizations can also integrate Facebook in their global social media strategy. After all, Facebook can become a useful tool for improving stakeholders' engagement with health organizations (Glover et al., 2015).

Despite the data obtained in this analysis, we can identify some limitations, like for example the lack of information concerning the social media strategies followed by these organizations, the available resources they have for digital communication (time, budgets and people) as well as the kind of information they disseminate in other platforms like Youtube or Flick'R. Researchers interested in this domain can go in depth in this kind of social communication through analyzing how these companies use Youtube, Twitter, Twenti, Flick'R, Instagram or even mobile applications for disseminating their brand architecture.

6. Conclusion

Managing efficiently social media for improving companies' reputation has become a priority for most health organizations around the world. They have to reinvent their corporate communication strategies, and to do that, they need to focus their communication in these new platforms. Nevertheless, this digital transformation represents a true challenge for most organizations. After having analysed how the 100 most reputed pharmaceutical companies in Spain use Facebook for disseminating their brand architecture (identity, values, mission, vision and culture) and considering the literature review carried out about these concepts, we can conclude this text with three last ideas. Firstly, most pharmaceutical companies in Spain do not consider Facebook any more like a strategic tool for their corporate communication initiatives, that is why only 57 have an active corporate profile on Facebook, and out of these 57 companies only 18 organizations manage actively this Facebook corporate profile from their Spanish headquarter. Secondly, no pharmaceutical company in Spain disseminates all brand architecture elements, what represents a reputation risk because stakeholders cannot understand the brand's essence. And thirdly, health organizations should consider recruiting experts in online corporate communication in order to implement tailored initiatives allowing these companies to better build their corporate reputation through social media.

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Book Review: Cyberdiplomacy: Managing Security and Governance Online

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Shaun Riordan, professor and former diplomat, bases the masterful work that is the subject of this review on his professional and academic experience. In this sense, as we will see below, he refers to how relevant diplomacy is for states that must face complex scenarios, such as issues related to cyberspace. In his opinion, diplomacy should be used to a greater extent in the cybernetic field. The attacks on democracy that have been provoked in the recent past should be considered in this regard. In a nonexhaustive list of such attacks, we can highlight the interference of Russia in the American elections of 2016, in which, against all odds, Donald Trump was the winner. Obviously, in this outcome, the manipulation of public opinion using the techniques of the British company Cambridge Analytica had a great impact. We could also highlight the cyberattack involving the Australian Parliament in 2018. Australia joined the United States and the United Kingdom in condemning the campaign of attacks against intellectual property and commercial data in different parts of the world, which was attributed to China. Such states referred to the group called Advanced Persistent Threat 10 (APT 10), linked to the Ministry of Security of China, as responsible for large-scale cyberaggression directed at certain service providers.

As a result of the technological developments that have been taking place with some frequency, it is necessary for diplomats to receive specific training in facing the new cybernetic scenario. Conveniently, diplomats are very attentive to any event that arises in the digital field. Thus, it should be noted that we are in a stage dominated by “fake news” and its extraordinary viralization through social networks. The term fake news became popular in 2016, when Donald Trump, president of the United States, described the news broadcast by media sources such as the New York Times and the Washington Post as fake news. From there, the concept became popular. It is true that fake news has always existed, but social networks have amplified its effects. There are

experts from various institutions working to limit the spread of fake news. For this purpose, artificial intelligence is often used. The reports of different organizations indicate that in 2022, there will be a significant amount of false news, which will make it very difficult to distinguish what is false from what is reliable. Such a situation is taking place at the present moment.

One sector of society is critical about the fact that Internet regulation has been left in the hands of technicians. Unfortunately, this has been the approach to regulation in recent years. It is likely that readers will have heard news about Huawei and 5G. Westerners sent technicians from government and industry to the important meetings at which new international standards were discussed; in contrast, the Chinese sent large diplomatic delegations. These different approaches had great relevance for both security and geopolitics. In effect, Huawei was forging the possibility of establishing a dominant position in the international standards related to the second stage of 5G. Regarding the Internet of Things (IoT), Huawei has been developing chips and software that allow companies to connect their factories to the Internet, using sensors to automate and control manufacturing lines. By the time the United States became aware of this move, too much time had passed for action to be taken. China seems to want to dominate international standards of a normative nature.

This example gives the impression that politicians and diplomats are transferring control to technicians, who should not be responsible for such issues. In reality, problems that arise in cyberspace are not technical and therefore do not require technical solutions; rather, they are problems of a political and geopolitical nature. Among them, we can highlight the regulation of the Internet, cybersecurity and cyberconflict/cyberattack.

On many occasions, as daily practice shows, the nature and type of problems that arise in the digital world reflect what is occurring in the physical world. All the handicaps that arise in cybersecurity have a notable impact on the regulation of the Internet. In all this order of issues, the loss of the global hegemony of the United States is also relevant. Likewise, diverse points of view regarding global governance are emerging. At the same time, the norms that regulate international economic and political relations are becoming fragmented. In cyberspace, these tensions are being noticed, and two large groups coexist: one in favor of free Internet and the other in favor of cyber sovereignty.

The design of international governance of the 21st century, which extends to the digital world, must consider all the changes that occur in the physical plane. Perhaps it would be advisable not to resort to intergovernmental agreements that lead to new international organizations that establish certain rules or norms (that would therefore be dictated according to a top-down approach). It would be more appropriate for new regulations of cyberspace to be developed in the opposite direction, that is, from the bottom up, through such approaches as network debates. Heterogeneous alliances or coalitions of a state and nonstate nature should be formed, such as those that gave rise to the Paris Agreements regarding climate change. Possible topics for the new normative debates that will occur in the near future are artificial intelligence, autonomous learning and genetic manipulation.

The diplomatic perspective of cyberspace is based on the concurrence of an international community in which groups comprised of members other than technicians should collaborate. In

any case, we could ask ourselves if the presence of an increasingly diverse group of nonstate actors would make the governance of the network more possible or more difficult to achieve. In the author's opinion, the difference between the physical and virtual world is increasingly tenuous. Diplomats, academics and strategists, in general, should work as if that the cybernetic world represents an extension of the physical world.

Diplomats should approach large Internet companies. However, they should not do so with commercial interest or with the aim of establishing friendly relations with their managers. They must go further. Note that these companies, which are true reference paradigms in the areas where they operate, have a significant impact on cyberspace. Although this may not seem to be the case a priori, the algorithms that these companies apply and the search engines they operate can facilitate the information war, since they provide the resources for the dissemination of erroneous information. Consequently, internet companies are geopolitical actors.

One of the purposes of the state is to safeguard its territory and citizens. With the famous attacks of September 11, the decline of the state's ability to protect its citizens from international terrorism was evident. It is well known that in this matter, only states have technological and financial means to prevent or react to attacks through protected targets or critical systems. Illegitimate actions can come not only from individuals but also from states. Awareness of countries' true intentions regarding certain issues continues to be a problem in the field of cybersecurity.

In cyberspace, it is sometimes difficult to discern an attack from a defense. The latest developments between the United States and China or Russia show that we live in a state of growing tension. Unlike the tensions that can arise on the physical plane - which can lead to the use of weapons of mass destruction - cyberwar might not be as risky. Note that there are no specific legal norms that regulate the entirety of this problem at the global level. We are facing a scenario in which governments will most likely have to modify their nineteenth-century rules of action to proceed with some speed. Similarly, diplomats will have to acquire skills in using search engines and in certain types of coding. The author masterfully describes the potential principles that must be applied in cyberdiplomacy. Among these, we can point out the necessary promotion of diplomatic qualities or attributes and adherence to current international law.

In short, the work that is the subject of this analysis brilliantly examines how the diplomatic perspective can address or manage cybersecurity, the online information war and the governance of the Internet.