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VOLUME 13 · NUMBER 1 · SPRING 2018 · ISSN 1854-4231

# management

ISSN 1854-4231

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## INDEXING AND ABSTRACTING

*Management* is indexed/listed in DOAJ, Erih Plus, EconPapers, and EBSCO.

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## PUBLISHED BY

University of Primorska Press  
Titov trg 4, 6000 Koper, Slovenia  
[zalozba@upr.si](http://zalozba@upr.si) · [www.hippocampus.si](http://www.hippocampus.si)



Revija *Management* je namenjena mednarodni znanstveni javnosti; izhaja v angleščini s povzetki v slovenščini. Izid revije je finančno podprla Javna agencija za raziskovalno dejavnost Republike Slovenije iz sredstev državnega proračuna iz naslova razpisa za sofinanciranje izdajanja domačih znanstvenih periodičnih publikacij.



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# Compulsive Buying Behavior and Its Impact on Borrowing Habit

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The aim of this study is to analyze the effect of pocket money, peer acceptance, and money retention on Compulsive Buying Behavior (CBB) and borrowing habit, as well as the effect of CBB on borrowing habit and the mediating effect of CBB. The samples of this study were the undergraduate students. A total of two hundred questionnaires were obtained and analyzed by using Structural Equation Modelling (SEM). The result of this study showed that peer acceptance and money retention had an impact in determining the level of CBB. Meanwhile, pocket money and peer acceptance did not affect borrowing habit. On the other hand, only money retention that had the direct effect on borrowing habit. Moreover, this study also found that CBB mediated the effect of money retention on borrowing habit.

*Key words:* compulsive buying behavior, borrowing habit, pocket money, peer acceptance, money retention  
<https://doi.org/10.26493/1854-4231.13.3-17>

## Introduction

Economic theories claim that purchases are made to obtain utility. In fact, there are many people making purchases to get satisfaction from the purchasing process instead of achieving utility. Dittmar (2005) argued that this kind of people purchase in order to improve their mood as well as to increase their confidence. Besides, DeSarbo and Edwards (1996) stated that these people make purchases to escape from stress and anxiety. This kind of people is called compulsive buyers (O'Guinn and Faber 1989). The behavior shown by compulsive buyers in the study of consumer behavior is called compulsive buying behavior (CBB). The process of buying is considered as a pleasurable activity to compulsive buyers so that they are often labeled as the hedonists.

CBB can lead to addictive shopping. Some studies found that a high tendency of CBB is found in some countries like India (Jalees 2007),

Thailand and China (Guo and Cai 2011). This behavior is often classified as a behavioral disorder that needs to be prevented or removed from those who are now suffering from *CBV*. Many people have perceived this negative behavior as a common behavior in the world's materialistic culture. This action can be as difficult to stop as any other compulsions or addictions.

Previous studies, however, have investigated the relationship between many variables and *CBV*. Guo and Cai (2011) found that pocket money is a common factor that predicts *CBV*. Another determinant of *CBV* is the influence of peers (Moschis et al. 2013). In addition to both factors explained above, money retention is also proven influence *CBV*. People who are not careful in using their money are more likely to do *CBV* (Li et al. 2009). However, most previous studies investigated *CBV* within the scope of marketing. Four of them are the studies conducted by Vicdan and Sun (2008) that examined the relationship between *CBV* and online sales promotion; and also the study that was carried out by Jalees (2007); Bindah and Othman (2012) and Khaniwale (2015) that explored the determinants of *CBV*.

Furthermore, *CBV* generates several problems for the compulsive buyers themselves, their families, friends, and their colleagues (Ergin 2010). Many compulsive buyers will have problems with their debts. In the case of having one or more credit cards, Wilczaki (2006) found that many compulsive buyers have been crippled by their debts. When compulsive buyers do not have a credit card, it is possible that they will borrow money from their parents and friends to buy some stuff. Therefore, borrowing money repeatedly will end up with a high borrowing habit that leads to other negative effects. Meanwhile borrowing habit itself can be affected by pocket money, peer acceptance, and money retention. People with higher pocket money may borrow money more often because they believe that they have the ability to pay back, and vice versa. In the term of peer acceptance, people who need to be accepted by their peers will have a greater possibility to borrow money from their peers. If it is linked to money retention, it is easy to imagine that people who use their money carefully will rarely borrow money because they are good at managing their money.

Previous studies simply analyzed the *CBV* determinants without further analysis about its impacts. Therefore, this study will not only investigate the *CBV* determinants, but also its effects on borrowing habit. Moreover, to examine *CBV* from the financial point of view, this study would inspect the *CBV* impacts on borrowing habit and would particularly investigate the direct and indirect effects of

pocket money, peer acceptance, and money retention towards borrowing habit. Therefore formulated four research question are: (1) Do pocket money, peer acceptance, and money retention have a significant effect on CBB? (2) Do pocket money, peer acceptance, and money retention has a direct effect on borrowing habit? (3) Does CBB has a significant effect on borrowing habit? (4) Does CBB mediate the effect of pocket money, peer acceptance, and money retention on borrowing habit? This study could be considered as one pioneering study that investigated borrowing habit, since there has not been found any previous studies that explored and examined borrowing habit

## Literature Review

### COMPULSIVE BUYING BEHAVIOR (CBB)

CBB is a buying behavior that is uncontrollable and significantly distressing, time-consuming, or resulting in social or financial difficulties (McElroy et al. 1994). The definition used in this study is adapted from Black (2007) who sees CBB as excessive shopping cognitions that leads to distress or impairment. CBB may be affected by students' pocket money. Furnham (1999) stated that pocket money is 'the money that has been given,' in his study, for young people. Pocket money, based on when it is earned, could be divided into two types: regular pocket money and irregular pocket money. If it is earned in every specific period of time, then it is called as a regular pocket money. However, if it is earned not in every specific period, then it is called as an irregular pocket money. The influence of pocket money on buying behavior has been investigated by Lin and Lin (2005). They found that when people have a large amount of pocket money, they tend to spend more.

The second factor that may affect CBB is peer acceptance. Peer acceptance refers to the extent to which children are accepted or rejected by their peer group (Slaughter, Dennis, and Prichard 2002; Gifford-Smith and Brownell 2002). According to Bristol and Mangleburg (2005) peer acceptance about the extent to which peers exert influence on the attitudes, thoughts, and actions of an individual. Peer acceptance is best explained by the term utilitarian influence, in which an individual is willing to satisfy a certain group's expectation (Kelman 1961). People who have already been accepted by their peers don't do as much efforts to be welcomed as those who haven't. They also will buy something that their peers have already had to look the same with them. The study conducted by

Guo and Cai (2011) proved that peers are one of CBB determinants.

Money retention is the last element proposed in this study as an aspect that influences CBB. Taneja (2012) simplifies money attitude as the perception of money, and it is important because it plays a role as a money behavior determinant. One of the factors that influence consumer behavior is money attitude (Li et al. 2009). Yamauchi and Templer (1982) classified the money attitude in three domains: security, retention time, and power prestige. Besides having a significant effect on CBB, Taneja (2012) also found money attitude as a factor that shapes people's money behavior. This study focuses specifically on one money attitude domain: money retention. In this research, money retention is simply defined as being careful in using money (Furnham 1984). People who are careful in using money will be able to restrain themselves for not wasting money to buy things they do not need. These are the people with high money retention.

#### BORROWING HABIT

When people borrow money more frequently, it becomes a borrowing habit. Since an explicit definition of borrowing habit cannot be found in the literature, this paper defines the borrowing habit as someone's tendency to borrow money from other people. People who have a small amount of money tend to be less confidence in borrowing money because they do not believe in their ability to pay back the loan. Callender and Jackson (2005) discovered that students from low-income family tend to debt-averse. Another similar finding stated that the low-income students are more likely to commit themselves to minimal borrowing (Linenmeier, Rosen, and Rouse 2006; De La Rosa and Luna 2012). The same logical thinking can be used to analyze how of the amount of pocket money influence someone's borrowing habit. The tendency of students with lower amount of pocket money to borrow money is less because they do not believe in their ability to pay the loan back.

Besides affecting CBB, peer acceptance may also affect borrowing habit. A real example of that influence was found by Rindfleisch, Burroughs, and Denton (1997) who stated that peers could influence materialism. Moreover, Ponchio and Aranha (2008) detected that materialistic consumers are willing to carry heavier debt loads. If the credit card is seen as a person to whom people borrow money, then a number of money people borrow is too much when there is an overused credit. These findings suggest that it is possible that when peer acceptance is high, people tend to be more materialistic and to be materialistic increases their demand for money.



Money retention may also have an effect on borrowing habit. People with high money retention are capable of managing their money. These people have the tendency to be careful financial planners (Wong 2010). Because of their capability of managing their money, these people also have a very low need or preference for loans (Bhardwaj and Bhattacharjee, 2010). People with high money retention, who are called as budget-minded individuals by Engelberg and Sjoberg (2006), are found to have less favorable attitudes towards borrowing money.

Edwards (1993) revealed that many cases of excessive borrowing result from compulsive spending. Workman and Paper (2010) called the people who love to borrow money because of their compulsive buying behavior as a compulsive debtor. Consumption is influenced by the amount of pocket money, salary, and some other sources of money given to someone (Bonke 2013) The effect of pocket money on impulsive buying behavior has been investigated by Lin and Lin (2005) and Guo and Cai (2011). The authors found that impulsive buying behavior tends to increase when there is an increase in the amount of pocket money. People with the large amount of money will not only become compulsive buyers, but also experience unmanageable debts because of their CBB. In addition, the previous study held by Guo and Cai (2011) found that peers are one of the several determinants of CBB. For purchasing things or goods are recorded as one of the key success factor to improve peers, many people are trapped in CBB and debt problems. The indirect effect of money retention on borrowing habit is elaborated as follows. People who are careful in using money can restrain themselves for not wasting money to buy things they do not need. They prefer saving rather than spending, even when they have extra money. Hence, their buying behavior can be managed better, and they become more capable of controlling CBB. Thus, they are able to control their debt and make minimal borrowing.

Based on the theoretical considerations, we propose the following hypotheses:

- H1A *Pocket money has a significant positive effect on CBB.*
- H1B *Peer acceptance has a significant positive effect on CBB.*
- H1C *Money has a significant positive effect on CBB.*
- H2A *Pocket money has a significant positive effect on borrowing habit.*
- H2B *Peer acceptance has a significant positive effect on borrowing habit.*

- H2C *Money has a positive has a significant positive effect on borrowing habit.*
- H3 *CBB has a significant positive effect on borrowing habit.*
- H4A *CBB plays mediating role between pocket money and borrowing habit.*
- H4B *CBB plays mediating role between peer acceptance and borrowing habit.*
- H4B *CBB plays mediating role between money retention and borrowing habit.*

## Method

### QUESTIONNAIRE DESIGN AND MEASUREMENT

The survey questionnaire designed for this study was made up of two parts. Part A consists of questions requiring respondents to answer about their backgrounds, such as age, gender, origin, and some additional questions. Part B consists of questions related to borrowing habit, CBB, and three other independent variables: peer acceptance, money retention, and pocket money. The process of questionnaire development involved pilot questionnaire tested on 17 students to check its clarity and some improvements were made based on the pre-test questionnaire.

The measurement of CBB consists of four items adapted from a study by Valence, d'Astous, and Fortier (1988). The four items are having a strong urge and spontaneous desire to shop, having a difficulty to restrain the willingness to shop, purchasing unnecessary products, and considering shopping as a way to face the stress. The concept of peer acceptance was measured by using four items developed by Bearden, Netemeyer, and Teel (1989): using trendy products to get acceptance, using high-quality products to get acceptance, following friends to buy certain products, and using products that are favored by friends. Money retention measurement was based on the scale developed by Yamauchi and Templer (1982): not spending money easily, having the capability of managing money, saving money, and keeping track of the money. The pocket money was measured by the amount of money earned by students from their parents every month, and the amount was divided into five categories. Borrowing habit would be measured by four items: deciding to borrow money easily, considering borrowing as the easiest way to get money; not making much consideration before borrowing money, used to borrow money. Items were measured based on 5-point ratings of agreement (1 – strongly disagree, 5 – strongly agree).

### SAMPLE

The population of this study were all undergraduate students in the Faculty of Business and Economics, Satya Wacana Christian University, Indonesia. The total population was 1.095 students. This study was proposed to test the model by using SEM technique. Bentler and Chou (1987) suggested that in SEM the preferred ratio of sample size to a number of free parameters would be 10:1. Others also suggested a rule of thumb that ten subjects per item in scale development are prudent (Flynn and Pearcy 2001). In this study, the number of free parameters equals to 16. Therefore, a sample size of 160 is required. However, Hair et al. (2010) recommended a sample size of 200 to test a model using SEM. It is a 'critical sample size' that can be used in any common estimation procedure for valid results. Thus, this study used the minimum sample size of 200.

### DATA COLLECTION

Data collection was done by distributing questionnaires to certain classes, after getting the permission and having an appointment from the lecturer in charge. A total of 200 questionnaires were distributed to the target respondents, and they were given about twenty minutes to fill in the questionnaire. There were no incomplete questionnaires, so all of them were used in this study. The whole data was gathered within 3 weeks. The respondents' demographic profile showed that almost 64 percent of the respondents were female. Their ages ranged from 18 to 21 years, and most of them came from outside the area of the university. 76% of the students received less than Rp 950,000 per month as pocket money from their parents. Interestingly, 80% of the students admitted to set aside money for savings, and in case they experienced a lack of money, 60% of them choose to ask their parents for more money.

### Results

The first step in data analysis was to check whether the result showed a goodness of fit model or not. There are three independent variables used in this study, and SEM analysis required them to be tested using Confirmatory Factor Analysis (CFA). The result of the CFA was reported in table 1, using eight goodness of fit indices, it could be concluded that all criteria were good as expected. Then, in the endogenous constructs, CBB was considered as the intervening variable and borrowing habit as the dependent variable. The model evaluation reported that the model was good.

TABLE 1 Exogenous and Endogenous Constructs Goodness of Fit Indices

Goodness of Fit Indices	Cut-Off Value	Exogenous const.		Endogenous const.	
		(1)	(2)	(1)	(2)
Chi-Square	*	29.10	Good	20.26	Good
Significance Probability	≥ 0.05	0.26	Good	0.36	Good
RMSEA	≤ 0.08	0.03	Good	0.02	Good
CMIN/DF	≤ 2.00	1.16	Good	1.08	Good
GFI	≥ 0.90	0.97	Good	0.97	Good
AGFi	≥ 0.90	0.94	Good	0.95	Good
TLI	≥ 0.90	0.99	Good	0.99	Good
CFI	≥ 0.95	0.97	Good	0.99	Good

NOTES (1) result, (2) model evaluation. \* Expected to be low.

TABLE 2 Full Model Structural Goodness of Fit Induces Before and After Modification

Goodness of Fit Indices	Cut-off Value	Before modification		After modification	
		(1)	(2)	(1)	(2)
Chi-Square	*	172.92	Good	58.88	Good
Significance Probability	≥ 0.05	0.00	Bad	0.37	Good
RMSEA	≤ 0.08	0.05	Bad	0.02	Good
CMIN/DF	≤ 2.00	1.57	Good	0.15	Good
GFI	≥ 0.90	0.91	Good	0.96	Good
AGFi	≥ 0.90	0.88	Marginal	0.93	Good
TLI	≥ 0.90	0.94	Good	0.99	Good
CFI	≥ 0.95	0.95	Good	0.99	Good

NOTES (1) result, (2) model evaluation. \* Expected to be low.

Having passed the CFA for both constructs of exogenous and endogenous, we test the full model to make sure that the model was fit. The result of the model fit test was reported in table 2. Unfortunately, even though the full model had passed the CFA, it was found not fit since the score of three criteria was not good as expected. They are the chi-square (172.92), the significance probability (0.00), and the AGFI (0.88). Therefore checking the validity of all instruments must be done. Items with a loading factor of less than 0.5 were not valid and must be cut (Hair et al. 2010). All loading factor revealed four invalid items. They are buying unnecessary products (0.178); using products that are favored by friends (0.013); keeping track on the money (0.009); and considering borrowing as the easiest way to get money (0.013). After cutting those four items, the model fit test was done again and indicated that the model was fit.

After all indicators that had passed the validity test, we conduct

TABLE 3 Validity and Reliability Coefficient

Variable	Items	(1)	(2)
CBB	I often have spontaneous desire to shop	0.805	0.904
	I find it isn't hard to restrain my self not to shop	0.803	
	I believe that shopping is a way to face the stress	0.784	
Peer acceptance	I use trendy products to get acceptance	0.865	0.939
	I use high-quality products to get acceptance	0.803	
	I often follow friends to buy certain products	0.907	
Money retention	I don't easily spend money	0.812	0.896
	I am capable of managing money	0.810	
	When I have more money, I save it	0.732	
Borrowing habit	I try as much as possible not to borrow money	0.801	0.903
	I will not think carefully before borrowing money	0.840	
	I am not used to borrowing money, even though	0.881	
	I am in need		

NOTES (1) estimate, (2) construct reliability.

the reliability test by calculating the construct reliability score. The result of the calculation reported in table 3 showed that the lowest score was only 0,896, shown by money retention. They passed the reliability test because they had above 0.7 cutoff value, as recommended (Hair et al. 2010).

Before performing the model testing, the data was required to be normally distributed. Here to check the normality of the data by using critical ratio. The standard score used for the evaluation was  $\pm 2.58$ . The maximum score of critical ratio was 1.954, while the minimum score of critical ratio was  $-1.603$  and the overall measure was 2.390. It was less than the standard score  $+2.58$  so the data in this study was normally distributed in multivariate level.

Table 4 reported and proved that CBB would lead to a high borrowing habit since the effect was significantly positive. CBB itself was affected by peer acceptance and money retention. However, pocket money was not proved as a determinant of CBB. A borrowing habit that affected by CBB was also affected directly by a factor that influences CBB. It was money retention. Meanwhile, pocket money and peer acceptance did not affect borrowing habit. Therefore, only money retention had the direct and the indirect effect on borrowing habit. The result of this mediating effect was concluded by using the three steps test. The first step was to see the money retention influence on borrowing habit. The influence was significant and the standardized estimation was  $-0.543$ . The second step was to see the effect of money retention on CBB as the intervening variable, which

TABLE 4 Regression Weights

Item	(1)	(2)	(3)	(4)
CBB ← Money Retention	-0.371	0.085	-4.371	0.000***
CBB ← Peer Acceptance	0.289	0.072	4.045	0.000***
CBB ← Pocket Money	0.041	0.051	0.805	0.421
Borrowing Habit ← Pocket Money	-0.017	0.053	-0.319	0.750
Borrowing Habit ← Peer Acceptance	-0.083	0.077	-1.077	0.282
Borrowing Habit ← Money Retention	-0.549	0.101	-5.418	0.000***
Borrowing Habit ← CBB	0.172	0.097	1.775	0.076*

NOTES (1) estimation, (2) standard error, (3) critical ratio, (4) *p*-value, \*\*\* significant at 1%, \* significant at 10%.

resulted in a significant effect. The last step was to see the effect of money retention on borrowing habit by adding CBB as an additional predictor too. The effect was found to be significant, but the standardized estimation was  $-0.413$ . The estimation was lower than the estimation in the first step ( $-0.543$  to  $-0.413$ ). Therefore, partial mediation was supported. Money retention effect on borrowing habit was proved to be mediated by CBB.

## Discussion

Previous studies had shown differences in results with regard to the effect of pocket money and income towards CBB. Faber, O'Guinn, and Krych (1987) stated that the CBB problem might be confined to the middle or lower income individuals with eagerness to purchase things and little willpower to resist the urges. The different result came from Ergin (2010) who discovered that the level of income was a significant predictor of CBB. This study, however, appeared to clarify that compulsive buyers tend to come from all income groups as stated by O'Guinn and Faber (1989) and Scherhorn, Reisch, and Raab (1990). The additional information showed that the students' biggest spending was for food, telecommunication, and also for printing and copying papers and books. Besides, only a few of them had mentioned clothes, shoes, and makeup as their biggest spending. After spending much of their money on basic needs as students, many of them only had a little money left to save. However, most of the students still saved it. This habit proved that how much pocket money they received every month did not matter since they still preferred spending money on their basic needs and saving the rest of their money to spending it on buying things they did not need.

Although pocket money did not affect CBB, there were many antecedents of CBB revealed by previous studies. Personality was a

widely examined attribute that proved as a factor that influenced *CBV*. Shahjehan et al. (2012), for example, had examined the impact and effect of Big Five Personality Traits on *CBV*. Their investigation proved that *CBV* was positively influenced by the personality traits, even not by all of them. The same result also came from the research conducted by Milkolajczak-Degrauwe et al. (2012).

Chaplin and John (2010) commented on the relationship between peer acceptance and buying behavior: 'when adolescents communicate their consumption with their peers and see their peers' avid desires, they likely to model the same behavior to crave for similar things that their peers want or have.' Furaiji, Latuzynska, and Mawrzyniak (2012) also stated that reference groups have a significant influence on consumers' purchasing behaviors. The result of the current study was in line with the comment of Chaplin and John (2010) and Furaiji, Latuzynska, and Mawrzyniak (2012).

This study also proved that by having high money retention, the students are capable of restraining themselves to be compulsive buyers. They were able to manage their pocket money, even saving the remaining of their money as reported by the additional information that most of the students had to save. They did not spend money easily on buying things they did not need since they were capable of managing their pocket money. Therefore, the students could control themselves to be compulsive buyers. Wong (2010) stated that high money retention directed people to avoid unplanned purchases. The *CBV* is one form of the unplanned purchases.

Another finding of this study was that higher pocket money did not lead the students to have a high tendency of borrowing habit. Interestingly, even though the result is not significant, the proposition that pocket money affects the borrowing habit was found to be negative. It may be people with a large amount of pocket money had enough money to cover their needs and wants. On the other side, people who had limited or a small amount of pocket money would need extra money to meet their needs and desires. Therefore, they would borrow money to get extra money. The more they asked their peers to lend them some money because of their needs of extra money, the higher their borrowing habit would be. Peer acceptance was not found to be a predictor of borrowing habit in this study. Although it was not significant, the peer acceptance effect towards borrowing habit was negative. The students might think that borrowing money would make them look like 'poor' students in front of their friends. Thus, borrowing money might be seen as a way of getting the rejection from their friends. Then, it could be said that

the higher their peer acceptance was, the more careful they would decide whether to borrow money.

Money retention would help the students controlling and reducing their tendency to borrow money from their friends or relatives. The result confirmed that people who had most loans were the ones that knew the least about how to manage their money effectively and efficiently. The ability to manage their pocket money lead them to make saving even with limited pocket money. They also seldom experienced a lack of money since they were capable of managing it. This finding was in line with the study of Dittmar (2005) and Wilczaki (2006).

Money retention was very important for people since, in this study, it was found to have a negative effect on both borrowing habit and *cbb*. Students' ability to manage their pocket money brought them to a safe financial situation where they seldom experienced a lack of money. This capability also helped them to prevent themselves from being recurrent borrowers. This study also proved that the effect of money retention towards borrowing habit was mediated by *cbb*. It was the necessity to purchase something that now became a trigger for people to borrow money, especially when they wanted to buy things but they did not have any money. It was about consuming things at the moment that led people to borrow money. This logical thinking was supported by Andreou (2011) who provided an example of the need to buy things at the moment and the need to borrow money. She noted that for the people who were expecting higher income in the future, when they wanted to consume more than their present income allowed them to, it still could be done by borrowing money.

### Limitations and Future Research

This study does have certain limitations. Most of the students involved in this study were female and came from out of town. The likely balanced percentage of gender and origin is also important to be analyzed since these differences may affect the result. Some previous studies indicated that peer acceptance and money retention might differ between male and female and that ethnicity might have the effect on *cbb* and borrowing habit. Therefore, by obtaining a balance proportion of students in case of gender and origin, it is expected to obtain a more accurate result. It must be noted that undergraduate students have certain behaviors and attitudes, which may vary from other people as well.

Thus, the result of this study cannot be generalized to the public or



another group of people, except by adopting the model to a different group of people.

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# The Expansion of the Brand through the Establishment of the Mobile Kitchen System

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Vocational education tends to offer not only theoretical knowledge but also mostly practical skills and experience in the specific educational field. The school permanently looks for innovative ways of gaining knowledge. The mobile kitchen is one of the projects which would set the teaching and learning process out of the safe school environment into the real life situations. By carrying out the research among the students of the school, we tried to find out how the mobile kitchen establishment would affect the knowledge management and other school activities. The results of the research are the basis for creating the meals and products offer of the mobile kitchen. The results of the survey show that there exists a considerable interest for the mobile kitchen establishment. Based on this new model, sšgT Maribor would be defined as a new brand on the market offering its products and services under the unified logo and corporate image.

*Key words:* marketing, marketing mix, brand, knowledge management, mobile kitchen

*<https://doi.org/10.26493/1854-4231.13.19-31>*

## Introduction

Marketing of today differs theoretically as well as practically from the marketing of the past. It faces immense changes, which are the consequence of the quickly developing environment we live in, and the companies tend to adapt as appropriate as possible. Regular observation of the actions on the market in its near and far surroundings is a necessary act of the company, which counts on its long-term

existence. It is very important that marketing professionals understand and accurately respond to the changes in the environment. Business and products are being made through using all the advantages of the constant changes dynamics. Vukasović (2015, 29) sees marketers to be responsible for the recognition of the important changes in the environment. Marketers have to monitor the marketing of the company and look for the new opportunities, as well. The companies, which expect to be successful on the market, have to obey not only the factors of the marketing environment but also all the changes which affect certain factors in micro- and macro-environment, consumers' needs, habits, wishes and the way of life. The companies are expected to perceive these changes and adjust to them as soon as possible.

Throughout the time and development the meaning of the brand has been changing immensely and the term 'brand' has become a sort of symbol, a mark for the product. To form and develop a successful brand, time and money are necessary. They are actually the investment into the brand that could bring success and satisfaction. Kapferer (1997, 15–18) mentions the market being supersaturated with information and the marketing pressure over the consumers, and that the brand is a basis for quality, consistency and trust. We can sum up that the brand can make a purchase easier assuming the customer knows what to expect from the certain brand. It is interesting that Doyle (1994) defines a brand as a key source of the differentiation, which functions as a sort of promise to the consumer; functional as well as emotional. Nowadays it is very important for companies to create a strong brand, based on strategies and visions. Even more important is that the existence of the brand is based on the long-term strategy and quality.

Throughout the time and different historical periods, the society has changed, too. In the area of education and learning, we want to pass over from the theory to the practical knowledge. People learn from the different reasons, acquire all sorts of experience and enrich the knowledge. From the end of the 20th century until now, the meaning of the learning organisation has made it to the foreground. Senge (1990, 3) states that learning organisations are the places where people permanently improve competences for achievement of desired results; they develop new ways of thinking and learn how to learn together. The processes of the corporate learning relate to obtaining the information (transmission of information between the environment and the company – detection of mistakes, collection of data, transmission of information and expansion of results), inter-

preting the information in the organisation (processing and analysis of information, accessibility...) and its use for cognitive and behavioural changes (understanding of connections between the environment and the organisation, openness and readiness for new ideas, innovations, possibilities, for the development of new knowledge and for the increased competences of the company for new activities, etc.) (Dermol 2013, 23–24). Successful organisations are those who create new knowledge, use modern technologies and create new products and brands (Nonaka and Takeuchi 1995, 56–73)

Through various activities, we want to encourage interdisciplinary and intermodular cooperation that enables students to acquire different, practically useful skills. Professional education is nowadays based on concrete actions and it offers the opportunity to gain practical experience. Through the mobile kitchen, a modern, mobile way of preparing and serving food is being introduced. At the same time, students and other users are offered a healthy way of eating, even though it is about fast food.

sšGT Maribor with its activities, such as various projects, events, competitions, international student exchanges, offers a wide range of possibilities for obtaining implicit and explicit knowledge and skills. The school tries to equip the students with the necessary competences and makes them aware of happenings in many areas. In our study, we will collect data on what kind of food the students eat for lunch, on the response of the students to the mobile kitchen, and on the awareness of the students concerning the local and organic food. The collected data will be analysed and the research results will be presented.

## Literature Review

### BRAND MANAGEMENT AND BRAND EXTENSION

In the past, a brand was a sum of a name, symbol or a shape/combination of these elements, which are used for recognizing and distinguishing various products and services of a company or a group of companies from competitive companies. The purchase made by consumers is thus easier since they know which benefits they will gain by purchasing a product of the established brand. A strong and established brand provides the consumer – beside functional benefits – with emotional benefits as well. A brand is much more than just an element of attraction. It is a sum of all perceptions, notions, and associations about a product or a service that is being formed in consumers' heads. It is all about emotional comprehension of goods

that the consumer requires or seeks on the market. The primary importance of the brand is in establishing an emotional relationship between the consumer and the product. In any case, the consumers encroach upon products with good quality; however, the quality of the product is but a prerequisite for forming a brand. The latter has to have its own personality, its identity, an image and character. The brand is built on factors of the consumer's way of thinking: the image of brand, its familiarity and familiarity of the name, perception of quality, fidelity, positive associations and other benefits. Its advantages for the operator or the administrator of the brand are product differentiation, competitive advantage, higher margin, increased market share, strength to negotiate, quicker introduction of new products, decreased risk for consumers, communication of quality and more. We expect the top-notch brands to be perfect and to fulfil their promises 100 percent and higher. In short – all has to be of superior quality since one little mistake can ruin the brand's reputation (Vukasović 2009).

Managing a brand means to create emotional responses in consumers every time they use a certain product which carries the name of the brand. It means to take special care of in what light the media shows a company (the owner of a brand); in short, it means to maintain every single contact that develops between the product/brand representative and the consumer. Strategic management of brands, which is directed by new-age management, and the importance of the brand, exceeds the classical concept of brand management that was established by Procter & Gamble in 1931 (Aaker 1991).

Within the framework of the classical concept, the company does not expose any brands; however, it is possible that brands within one company compete between each other to gain a higher share of assets intended for market communication. The greatest disadvantage of the classical concept is the assessing of success of the brand based on short-term results. In the case of a short-term success and the increased trade of products of a certain brand, the decision for an additional investment into a selected brand can cause, in a long run, a decrease in profit while the results of assets invested into management of brands can only be seen on the long run. While comparing the classical and the modern concept (brand leadership model) of brand management, we are concentrating on the comparison defined by Aaker and Joachimsthaler (2000). Strategic management, which they defined in the modern concept, is implemented within the framework of higher positions on the hierarchical scale in an individual company where the manager of a brand is the leader of a team who has more competence and liability in comparison with the



role of a leader in the classical concept. The focus of management is the wealth of the brand and the assessment of this wealth. In comparison with the classical concept of brand management, the focus in the modern concept is emphasized on a larger scale, i.e. on a group, on several brands, and is globally oriented Vukasović (2009).

The architecture of brands is becoming increasingly complex. In the mass of competitive brands that are present on the dynamic food market, communication is successful only when both types of communication are combined, i.e. internal and external communication. The communicative purpose of the brand is to add its own characteristics to the product and thus inform the consumer about the advantages of such product over competition. The brand should create some kind of an image or ideal of a product. Systematic investments into development and marketing of one's own brands are a key factor of success for companies. It is essential that a company is able to control marketing processes and introduce new products under the framework of its own strong brands Vukasović (2009).

#### BRAND EXTENSION AS A MARKETING STRATEGY

Many companies adopt brand extension as strategy with the aim of benefiting from the brand knowledge achieved in the current markets. When a company launch a new product and market under the umbrella a well-known brand name, failure rates and marketing costs are reduced (Keller 1993). Keller (1993) states that more than 80 per cent of firms resort to brand extensions as a way of marketing goods and services. Competition forces firms to adopt strategies that create a competitive advantage for the firm. Creating a brand name with well-established associations is one way of achieving this aim. Firms invest heavily in developing a brand. It is a very costly process but has many returns once success is achieved Keller (2008).

Brand extension as a marketing strategy has become even more attractive in today's environment where developing a new product costs a lot of money and can be time consuming. Literature on extensions dominantly addresses the question of how the parent or core brand helps the new product during its launching stage. Although literature touches on the possible reciprocal effects of the new product launching on the equity of the core brand, their number is limited.

#### BRAND EXTENSION AS AN IMPORTANT ELEMENT IN THE PROCESS OF BRAND MANAGEMENT

The newly introduced brand extension capitalizes on the equity of the already established (core) brand name (DeGraba and Sullivan

1995; Pitta and Katsanis 1995) or even the company or corporate name (e.g. Coca-Cola). Consumer familiarity with the existing core brand name aids new product entry into the marketplace and helps the brand extension to capture new market segments quickly (Dawar and Anderson 1994; Milewicz and Herbig 1994). This strategy is often seen as beneficial because of the reduced new product introduction marketing research and advertising costs and the increased chance of success due to higher preference derived from the core brand equity. In addition, a brand extension can also produce possible reciprocal effects that enhance the equity of the parent brand (Chen and Liu 2004).

Market is a place of competition and cost associated with introduction of new brand always soars, many firms are trying to decrease the risks involved in new product introduction and market the new product using the name of already well known existing brand as brand extension. Many firms use brand extension strategies to enter new categories. According to Ambler and Styles (1997), it is common strategy of last decade that companies prefer brand extension rather than introducing a new product under new product name. Companies save their cost as well as minimize the risk by launching a new product as brand extension under the brand name of already well-known brand. Marketers believe that brand extensions are evaluated favourably by consumers because consumers transfer positive attitudes or affect toward the parent brand to its extension (Vukasović 2012; 2015).

### **Methodology, Data Collection and Sample**

The goal of our research is to find out whether the establishment of the mobile kitchen system as a new brand offering new ways of education and knowledge transmission makes sense in the first place. This system creates a new market niche (not only for the organisation but also for the individuals) and enables the cooperation with local food producers and the tourist economy at the regional and national level. The hypotheses will be checked through the research and connected with the education at sšGT Maribor. Our goal is to highlight the benefit of setting up a mobile kitchen system, which is the offer of freshly prepared food using the ingredients from the local area. We want to enrich the knowledge of the professional staff and the students and offer it to the consumer market. We want to highlight the activities of the school in order to show how the knowledge and work of young people in catering and tourism can improve this branch.

Based on analysis and on obtained results of the research, the following hypotheses will be tested:

- H1 *The students of sšGT Maribor are aware of the impact of the organic food on their health.*
- H2 *The male students of sšGT Maribor would spend more money on the school meal than the female students.*
- H3 *The price of the meal from the mobile kitchen plays more important role than the fact that the meal is freshly prepared.*
- H4 *The majority of the students would buy a meal from the mobile kitchen once a week.*

For the needs of research, qualitative and quantitative methods (the interview and the survey) were used. The survey was conducted among the students of sšGT MB who are planned to be the first target group using the mobile kitchen. The students being active in the mobile kitchen team will gain new knowledge outside the classroom. They will prepare and offer a different kind of meals to the consumers. The students and the consumers will thus be better acquainted with the local food and products. The interview was conducted with the management of sšGT MB in order to deal with the research issues more specifically. For analysing and interpreting the data, the statistical programme for quantitative data analysis SPSS was used.

For the purposes of quantitative research, a survey questionnaire with 14 questions has been prepared. The questionnaire was made in accordance with the guidelines of the Resolution on the National Programme on Nutrition and Physical Activity for Health 2015–2025 (Ministrstvo za zdravje 2015, 5). The questionnaire consists of open-ended and closed-ended questions. It also includes the questions formed according to Likert-type scale, which is the most widely used approach for scaling responses by a 5-level scale, meaning: 1 – strongly disagree, 2 – disagree, 3 – neither agree nor disagree, 4 – agree, 5 – strongly agree (Mesec 1998, 26). Vukasović (2012, 159) states that the quantitative research makes sense in case of greater number of participants responding to the mostly closed-ended questions, so that each respondent answers the same questions, and the respondents choose one or more options that are offered by closed-ended questions.

The survey was conducted using the online questionnaire between the 5th of February and the 5th of May 2016. There is a student community in the school and the students were (through their class representatives) informed about the planned research at a student com-

TABLE 1 Definition of Respondents by Age

Age	Absolute frequency	Structural percentage
15	1	0,5
16	59	29,8
17	40	20,2
18	56	28,3
19	30	15,2
20	11	5,6
21	1	0,5
15	1	0,5
Total	198	100,0

TABLE 2 Age of Respondents in Three Groups

Age group	Absolute frequency	Structural percentage
15-16	60	30,3
17-18	96	48,5
19-21	42	21,2
Total	198	100,0

munity session. The students were given detailed instructions by e-mail about receiving a web link to a questionnaire to click on. Carrying out the survey in the online environment 'Enklikanketa' was a rational solution as to the costs and time. There appeared some limitations in the implementation of the survey: the research was limited to the Middle School for Catering and Tourism Maribor, the possible reluctance of students to solve a questionnaire.

Before carrying out the survey in the online environment, we performed a pilot testing of the questionnaire. By performing the pilot testing of the survey eventual difficulties or confusion of the respondents in answering to the questions can be determined. We chose two random students who filled out the survey. No ambiguities or misunderstandings of questions showed up, so the originally compiled questionnaire was used in the survey. Based on the latter, we concluded that the questions were understandable and transparently raised. To fill out the questionnaire 15 minutes were needed. The main findings of the quantitative research are summarized below.

The target group were the students of 3- and 4-year vocational programmes – gastronomy and tourism. The study involved 199 respondents, of which 73 males, representing 36.7% of the respondents, and 126 females, representing 63.3% of the respondents. Participating respondents ranged in age from 15 to 21 years. Table 1 shows that the most respondents were 16 years old, representing 29,8% of the respondents.

To facilitate the evaluation of the respondents according to age, we performed recoding of age into three age groups (table 2). We can find out that the most of the respondents belong to the age group between 17 and 18 years, representing 48.5% of all respondents.

## Results and Discussion

The establishment of the mobile kitchen is a new project for the school. The mobile kitchen is a challenge in the education system and transfer of knowledge to the students. It represents a new market niche and a new part of the *sšGT MB* – brand that will offer homemade and attractive local food and related products. Therefore, we were interested in following topics: what kind of food do the students choose to buy for lunch; do they know the origin of food; how much money a day do they spend for school meals; are they aware of advantages of organic food.

The analysis of data showed that the vast majority, 101 (50.8%), of respondents chooses a warm meal that includes meat, side dish and a salad; probably because the meal is prepared in their school. Meals, provided by the mobile kitchen, will be prepared from ingredients that are grown in the local area. Therefore, it is very important to highlight the importance of organic and locally grown food.

The analysis of quantitative research showed that respondents attach great importance to the origin of food and thus support the local economy; the average score of respondents agreeing fact is 4 on a scale from 1 to 5. Taking into account the guidelines of a healthy diet and the importance of locally grown food, the respondents state that the current meal should include the fruit from the local environment.

Considering the importance of organic and locally grown food, the average estimates of agreement of respondents (from various educational programmes) were compared on a scale from 1 to 5. The students of tourism (4-year education), on average, most agree that organic food is healthier; their assessment of agreement being 3, 97. The students of gastronomy (4-year education) follow; their assessment of agreement being 3, 92, while the students of gastronomy (3-year education) reach the assessment of 3, 86. Based on the results the hypothesis 1 ( $H_1$ ) – ‘the students of *sšGT MB* are aware of the importance of the organically grown food for their health’ – can be confirmed.

The price is very important in the establishment of the mobile kitchen and sale of meals. It has to be formed and regulated according to supply and demand on the market and according to the target group; in our case the students of *sšGT Maribor*. Analysing the data we found out that the respondents spend, on average, 2.40 € a day for a school meal. 47.2% or 94 respondents spend 2 € a day for a school meal.

The data suggest that the rational price for the meals from the

mobile kitchen offer would be between 2 and 4 €. Using the Pearson Correlation two variables were determined; the distance from school in kilometres and spending money to buy a school meal. By choosing these variables, we wanted to determine the relationship between the two variables. For the purposes of the Pearson correlation test the additional hypothesis, the null hypothesis and the alternative hypothesis were determined.

$H$  *The students, who live far away from school, spend more money on meals.*

$H_0$  *There is no connection between the variables.*

$H_1$  *There is a connection between the variables.*

After defining the distribution, we carried out the test to get the matrix of correlation that is symmetrical over its main diagonal. 198 respondents replied to the question 'How much money do you usually spend on school meals per day?' 196 of 198 respondents replied to the question about the distance from school. Because the  $p$ -value is higher than  $\alpha = 0.05$ , the null hypothesis set, that there is no relationship between the two variables, cannot be rejected. Based on the findings the research hypothesis set can be rejected. There exist the differences in the pattern but their value is so low that the facts cannot be inferred with certainty for the entire population. The value of Pearson correlation coefficient, which is denoted by  $r$ , is  $-0.118$ . A negative value indicates that the variables are inversely proportional. Because the  $r$ -value is very low, we can see that the correlation between variables is insignificant and that the amount of money spent on school meals is also affected by other variables. The hypothesis ( $H_2$ ), 'Those who live further away from school, spend more money on meals,' can be rejected. We notice that respondents living closer to school spend more money on meals than those who live further away.

Using the Levene Test of Equality of Variances and the T-Test of Average Values (table 3), we found out that the  $p$ -value represents the lowest risk and is lower than 0.05. This means that the male respondents are ready to spend € 2.63 for a daily meal, while female students (female respondents) would spend € 2.27. Considering the results the hypothesis 3 ( $H_3$ ), 'The male students of sšGT Maribor are ready to spend more money on school meals than the female students of the same school,' can be confirmed.

Based on the analysis of the issues created according to the system of a Likert scale, we can find out that to the respondents the freshly prepared meal seems to be the most important. The latter factor was

TABLE 3 The Levene Test of Equality of Variances and the T-Test of Average Values

The Levene Test of Equality of Variances	<i>F</i>	13.633
	<i>p</i>	0.000
The T-Test of Average Values	<i>t</i>	2.217
	<i>df</i>	196
	<i>p</i>	0.028

chosen by 109 or 56% of the respondents. Among eleven given factors, the next important factor is the quality. This factor was chosen by 89 or 48% of the respondents. The price as a factor, which affects buying the school meal from a mobile kitchen, is only in third place.

Depending on the results obtained, the hypothesis 4 (H4), 'The price of the school meals from the mobile kitchen is more influential factor than the fact that meals are freshly prepared,' can be rejected.

The location is a part of the distribution channels and consequently one of the important elements of the marketing mix. Due to analysis of the research, we found out that the presence of the mobile kitchen at different locations depends on the potential customers. Most of the respondents, 51 (25.6%), would buy meals from the mobile kitchen 3 times a week, 20 (10.1%) respondents twice a week and only 6 (3%) once a week. Due to these facts the hypothesis 5 (H5), 'The most students would buy a meal from the mobile kitchen once a week,' can be rejected.

#### THE PROPOSAL FOR SETTING UP A MOBILE KITCHEN AT SŠGT MARIBOR

The mobile kitchen will be a part of the brand sšgt Maribor that can act as a market brand. For the school it is an important part of promotion and marketing activities. The mobile kitchen will be set in a light van that will also fit into the overall corporate identity and will be equipped for the needs of mobile kitchen activities. As mentioned above the mobile kitchen is also meant to be a part of promotion activities, like presentation of professions. At the same time, it will offer different school products and healthy meals. It will be a part of a commercial brand participating on the market with an appropriate logo, the mobile team will wear uniforms, and the packaging will be designed in neutral colours and made from environment-friendly materials. The 'Mobile Kitchen' project will also be present on the sšgt Maribor website and on its 'Facebook' page. The visitors will have the opportunity to follow the locations, working hours, the actual offer and accompanying activities (promotion, animation, show cooking, etc. ...).

As management and coordination of the mobile unit are very important, there will be a professional staff from the school and a mobile team of students responsible to manage it. It is also necessary to determine a reasonable and competitive price. Purchase decisions will focus on identifying consumer needs, searching for information, estimating of alternatives, purchase decision, post purchase behaviour. Culinary offer of the mobile kitchen will be upgraded with the products already offered on holiday markets. The mobile kitchen will also be a kind of 'mobile pantry of enticing flavours.' In establishing the overall system, it is important to develop a successful marketing strategy that will include promotion, define the presence of the mobile kitchen on different locations and themed events, and determine its offer to be attractive to the target group in terms of the offered products and price.

### Conclusion

In the article, we discussed the establishment of a mobile kitchen system. The mobile kitchen is intended to be a part of the sšGT Maribor marketing activities under the brand sšGT Maribor as well as a new way of education and knowledge transfer. Through the research we carried out among the students at sšGT Maribor, we analysed the data and found out that the establishment of the mobile kitchen system seems sensible and desired among students. By setting up the mobile kitchen system as a part of marketing activities and by maintenance of other activities of the new brand model, the school undoubtedly gains in recognisability. It is trading on the market as an economic entity with all its advantages and disadvantages. Undoubtedly, this is a challenge a school with tradition and quality staff certainly can be equal to.

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# Is a Mid-Sized Town Enough for the Generation Z? What is Needed to Keep the Young People in Their (Home)Town?

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My research focuses on the settlement aspects of nonbusiness marketing. It highlights a problem, which today many domestic and rural communities are struggling with: the out-migration of young people. This long-lasting problem in the rural environment has continued in the 2010s and affects not only villages, also small towns. Many research results indicate that retention of young workforce is a generic problem in Hungary today, almost in every settlement. In my empirical research, I take into account actors that act in a non-profit-making way but in the direction of social interests; that is to say, what can the non-business sector (local government, municipal government, public utilities, civil spheres, educational units) make in terms of marketing in order to accommodate talented young people. The interviews partly focused on the identity of the leaders, their impressions about the town, and partly on the percept characteristics of Generation Z; they also emphasized what such a non-business institution can do in order to keep them in the town. My research is given by two seemingly distinct areas whose relationship is nevertheless undisputed. The exploration of the characteristics and values of the Z generation is essential in order to find the proper way of communicating with them and to shape the future of a town that offers them a perspective. With it, you cannot avoid the migration of young people in the capital; however, it can offer an option for rural towns to slow down this process.

*Key words:* generation Z, middle-sized town, nonbusiness institutions, settlement development  
<https://doi.org/10.26493/1854-4231.13.33-48>

## Generations

### THE BASES OF GENERATION THEORY

The generation theory is based on the approach that people who were born in the same era, formed by the same period and have the same social markers on them are – in some respects – similar to each

TABLE 1 Different Generational Approaches, Delimitations

Howe and Strauss (1991)	Lancaster and Stillman (2002)	Oblinger and Oblinger (2005)	McCrindle Research (2012)
Silent generation (1925–1943)	Traditionalist (1900–1945)	Mature (before 1946)	Builders (1925–1945)
Boom generation (1943–1961)	Baby boomers (1946–1964)	Baby boomers (1947–1964)	Baby boomers (1946–1964)
Generation 13 (1961–1981)	Generation X (1965–1980)	Gen-Xers (1965–1980)	Generation X (1965–1979)
Millenium generation (1982–2000)	Millenium/Y/ Future Generation (1981–1999)	Gen-Y, NetGen, Millenium (1981–1995)	Generation (1980–1994)
–	–	Followers of Millenials (after 1995)	Generation Z (1995–2010)

NOTES Adapted from Bálint (2016) and Pierog, Erdei, and Gergely (2016).

other and can be described with common features. In other words, the generation is a group of people associated with the same age and life stage, living conditions and technology, events and experiences (McCrindle and Wolfinger 2009). Understandably, in a given historical period, people living in the same economic, political and social conditions are reached by the same impulses, so their peculiarities and common characteristics develop.

The generation theory is linked to two American authors, William Strauss and Neil Howe. In their book named *Generations* (1991) they found that the members of a given generation behave very similarly, they have a certain worldview and value system. Individual generations change each other approximately in every 20–25 years, naturally with soft passages, possibly overlapping. According to the authors, every generation has its own human type.

Several theories have been proposed to label and to appraise the generations, mostly depending on which country the approach comes from. Bálint (2016) and Pierog, Erdei, and Gergely (2016) pointed out that the generational classification was not even uniform. Different approaches are presented in table 1.

We can see that the generation theory itself begins to deal with people of the 20th century, and especially with those born after 1925. The generation born after the turn of the millennium (and is in the focus of this study) is by the literature typically referred to as a generation Z (Steigervald 2014; Tari 2015), but they are also referred to as ‘Facebook Generations,’ Digital Natives (Prensky 2001), Zappers, ‘Instant Online’ ages (Mutte 2004), dotcom kids, net genera-

tion, iGeneration, or C generation, which got its name after the word connection (Törőcsik, Szűcs, and Kehl 2014).

The above presented theoretical approaches have been developed fundamentally for the American society. According to Árvané et al. (2017) these approaches and names are today used in other continents and countries, however, differences are permissible.

The generation theory was widely criticized, since in many cases it is difficult to distinguish if something is really a property of a specific generation, or it simply comes from the age-specific features of the generation (Parry and Urwin 2011). Mannheim (2001) drew attention on the fact that the similarity of the date of birth is still not enough to be called a group of people a common generation. In his opinion, it is required for all members of a group called a generation to experience common events during their upbringing that may make them feel different from those who had been born before and later. Some also argue that there are significant differences between different generations (Eskilson and Whiley 1999; Levy et al. 2005).

In my research, I agree with the standpoint of Törőcsik, Szűcs, and Kehl (2014), that there are generational differences and similarities, but the relationship between the members of the given generations is loose. This means that even though the values are similar because of the perceived social, economic, political experiences, the individual lives can shade this picture significantly, therefore it is not possible to generalize. I accept, however, that there are differences between generations and similarities within the generations. Communication between generations is considered as a special type of intercultural communication, where conflicts are usually based on value differences (Malota and Mitev 2013; Malota 2011).

#### THE VALUES OF GENERATION Z

During my research carried out in Hungary, I regard young people as members of the Z generation who were born in 1995–2005. Some authors call this group postmillennialists, others 'Facebook generation' or even digital natives. Frequently called zappers, 'Instant online' age, 'dotcom' kids, netgeneration, iGeneration also. Others call them C generation, which is named after the word connection, and D, which refers to the digital word, but also to R, which is derived from the responsibility, i.e. liability (Törőcsik, Szűcs, and Kehl 2014).

These young people, who in 2018 are currently 13 and 23 years old, are fully in possession of digital knowledge. They are growing up (or had grown up) in families, where the parents have been well aware of the technological advances. The Z generation is the first global generation. Because of the Internet and worldwide connections, the

country's specific generational characteristics are less prevalent in their case, as members of this generation are affected by the same events all over the world and behave according to the same trends (Pál 2013). This virtual world gives freedom to them that they may be those who want to. The situation is made easier that they can easily retire from this life at any time, they can turn it off. According to György Csepeli, this space is about to become a drug for them, where everything can be realized (Csepeli 2006).

The members of Generation Z can be described by the following characteristics (Tari 2011; Levickaitė 2010; Ferincz and Szabó 2012; Csepeli 2006; Schlossberg 2016; Pierog, Erdei, and Gergely 2016; Cooman and Dries 2012; Hack-Handa and Pintér 2015; Hegedűs 2015; Zsarnoczky 2016):

- Because of globalization, this generation matures sooner and it grows up faster. Also for the sake of globalization, they can easily prosper in today's multicultural world.
- Both socially and technologically self-determined generation. Therefore, they do not like limiting them either online or offline, and they do not like rules, but they are much less likely to comply with them than previous generations.
- Social media is an important part of their lives, typical in sharing of different contents. They are characterized by narcissistic behaviour on social networks. They are constantly uploading images about themselves and their life events, which are presented as more beautiful as they really are. They handle technology in a professional way, and they use it most to express their personality. Members of this generation hide behind avatars as their virtual identities. Virtual existence seems to be much safer for them, so they are locked in, and they break down their circle of friends in their real lives.
- They belong to clit, which unites them in appearance and thinking, though they want to show their uniqueness.
- They find it difficult to express their emotions, but are very sensitive.
- They are not afraid of change because they live in an age of constant development and innovation. Because of this, they are brave, initiators, since there is no fear of change.
- They are characterized by a practical approach; they are creative, innovative, smart and have a good problem-solving ability.
- They are inexhaustible for knowledge, but they lack critical thinking.

- They adopt very few adult role models, and the most authentic faces are people from their age group who have a high level of achievement in some field, or at least a reputation. People who are present today do not want to look up, but face them.
- They can do more than one thing at a time (multitasking), though only for a short time, so speed becomes more important than precision. They'd rather trust only in themselves, nothing else really.
- As consumers, they have high expectations for the products they buy, but they are not brand-conscious, less loyal. The experiences gained during the purchase are of special importance to them.
- Compared to previous generations, they live in a much faster-paced life. In the world of work, they are self-confident, flexible and strive to secure their future. They have no doubts about their own abilities, their limitations, they also can be even unscrupulous, if needed.
- They respect the older generation, especially those who are their elderly family members. For example, members of the Z generation more willing to go on a holiday with their grandparents instead of closer family members.

Although the members of the Z generation are still young, some of their preferred values and patterns of thinking seem to outline what they consider important: personal freedom, sharing goods, free access to cultural goods, environment protection, digital information, blindly believe in everything that is conveyed by the celebrities, the role of externalities (mobile phones, clothing, etc.), the views of peer groups, cheerfulness, integration, speed, customizability, work-life balance, career, team spirit, cooperation, happiness – if that is not it, they go away (Ferincz and Szabó 2012; Tari 2011; Tari 2011; Pierog, Erdei, and Gergely 2016; Cooman and Dries 2012; Hegedűs 2015).

The beliefs that endorsed by the X and the Y generations of privacy, love, and family values have become obsolete for the Z generation. From the characteristics and values of the Z generation, young people are very mobile and success-oriented. The consequence is the easy abandonment of hometowns, the search for better and better opportunities, and the continuous intention for the improvement of living and recreational conditions. For this reason, keeping young people in town is a particularly difficult task (Berkesné, Birkner, and Ernszt 2017).

## Keeping Z Generations in Place

My research focuses on the problem with which many domestic and rural settlements are struggling: the migration of young people. This long-lasting problem in the rural environment has continued to ring in the 2010s and now affects not only villages, small towns, but also rural towns. The results of a research conducted in the Transdanubian region by executives of middle-size cities show that young people can be kept in the city by providing quality jobs, appropriate events, a good higher education system and further education opportunities, entertainment, cultural events, youth clubs, community spaces, business start-up support, identity enhancement within the school system, sport facilities, and safety (Berkesné, Birkner, and Ernszt 2017). The above-mentioned research emphasized that 'an opened management approach is also needed, that is able to set old patterns aside' and fits to the needs of future generations (Berkesné, Birkner, and Ernszt 2017).

In my empirical research, I take into account those actors that act in a non-profit-making way but in the direction of social interests; that is to say, what can the non-business sector (local government, municipal government, public utilities, civil spheres, educational units) make in terms of marketing in order to accommodate talented young people. I set up an interview questionnaire to help me assess the views of the representatives of the above actors. The territorial aspect of my research focuses on a Hungarian middle-town, where I had 21 interviews with the leader of non-business organisations between 6th and 28th of February 2018. I made personal interviews based on a structured questionnaire. The sample was given by the leaders of non-profit institutions, public utilities and public services. The interviews partly focused on the identity of the leaders, their impressions about the town, on the characteristics of Generation Z, and on what such a non-business institution can do in order to keep them in the town.

## Results of the Empirical Research

All the interviewed leaders can be called local patriots, since measured on a four-grade scale, their ties to the town average to 3.48. Only 1 person indicated his/her attachment 1 or 2, and 13 out of 21 mentioned that they are fully committed to the town. Since the analysed institutions belong to the non-business sector, it is not surprising: all the organisation is working in order to serve the public, the local people. Only a person that has the necessary knowledge and



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TABLE 2 Town Evaluation on a Four-Grade Scale, Total Number of Evaluators

Statements about the town	Scale				(1)	(2)
	1	2	3	4		
The town offers sufficient quality and range of employment opportunities.	0	8	11	2	21	2.71
Housing conditions are adequate in the town.	0	0	7	14	21	3.67
The quality of educ. in high school is high in the town.	1	4	8	6	19	3.00
There are many leisure events in the town for young.	2	10	7	0	19	2.26
There are plenty of community spaces in the town where young people can spend their free time.	4	9	4	0	17	2.00
The town has a vibrant community life.	7	9	4	1	21	1.95
There are plenty of sports facilities in the town.	0	6	11	4	21	2.90
City traffic is good enough.	2	1	16	2	21	2.86
Local public services are accessible on a high standard.	0	0	10	10	20	3.50
The town is the ideal place to start a business.	0	5	6	9	20	3.20
The town's future is predictable, safe.	2	9	8	2	21	2.48

NOTES (1) total, (2) mean.

tie to the town, and a kind of responsibility for the local people, can lead such an institution.

Based on the list by Berkesné, Birkner, and Ernszt (2017), I asked the interviewees to evaluate their home city. Not all the interviewed people could answer to all the questions on the evaluation sheet; however, we could calculate an average. In table 2 we can see how many interviewees mentioned a different value on the four-grade scale. We can see also the total number of evaluators and the mean of given answers. Regarding the work opportunities, the interviewees are moderately satisfied, the average is 2.71; however, two persons mentioned that the opportunities are absolutely given. The housing conditions got the highest mean (3.67), all the interviewees gave 3 or 4 points to this aspect. They also think that the education in the high schools is good, but the mean of the leisure events are modest (2.26). Nobody gave four for this aspect, just as in the case of community spaces. The lowest mean belongs to the vibrant community life (1.95), and here is the highest ratio of point 1 (seven interviewees indicated this scale value and further nine the 2). The sport facilities in the town could be better (2.90), as the traffic (2.86). On the other hand, the local public services got good evaluation (3.50). One of the most critical questions on this list was about the town's future. Two interviewees were pessimistic and said that not just the town, but also even the whole rural area does not have the future.

In order to get a deeper insight into their opinion on the town-



FIGURE 1 The Town As a Car Brand

scape, associative tasks were given to the interviewees: Imagine the city as a car brand! Which car brand and what features do you think are similar to the town's properties? In figure 1, I summarized all the car brands that were mentioned. Beside this perhaps even more important are the features on which the car brand/animals were identified by the respondents.

Six interviews mentioned that the town is an Opel, three of them said Suzuki and two said the Fiat. The other car brands were mentioned individually. In the table 3, I collected the features that the respondents mentioned regarding the car brands. Opel, as a brand, is considered as a solid, safe car, which is not the best category, but it could be enough. Overall, according to the respondents, the dynamism is lacking in the town, which is somehow oriental in style, less creative or innovative. Although it is functional and there are no problems, its capabilities are not exploited.

In the second part of my research, I focused on the generation Z and its characteristics. During the literature overview, I found lot of attributes identified by different researches. My initial thought was that these characteristics are not necessarily true of the members of the generation Z in Hungary; furthermore, some characteristics can be considered more age-edge peculiarity, and could be traced in all generations in their ten-twenties. To justify or reject this assumption I listed 23 attributes in my interview question list and asked the interviewees to decide: are they not characteristics of generation Z, are they characterizing some of young people but not in general, or are typical for almost everybody in the generation Z. The results can be seen in table 4.

TABLE 3 The Town's Characteristics If It Would Be a Car

Car brand	Feature
Opel	Groovy, mass car; reassuringly safe, non-aggressive, non-galloping car; not fast, but not slow, suitable for the purpose; never knock out; lower middle class; survivor
Suzuki	Not very dynamic, it's not modern but it works safely and works reliably; relatively reliable, accessible to many; but not a fast, non-luxury category.
Fiat	Not too big, relatively reliable, interesting car. Italian; ot on the stage, it is on a periphery, gotten-worn.
Cadillac	Large, slightly slow but powerful engine, it only needs to press the accelerator; it needs technological development.
Dacia	Eastern type, but there are Western features in it.
Daewoo	It looks more from the outside than from inside.
A grey auto	It may be nice, but mediocre; it could be better.
Hyundai	Eastern, capable of development, with leading indicators brand, open thinking.
Peugeot	It may also be good because the features are there, but there are some assembly problems that later expel.
Pickup	There is no full comfort feature; the conditions are good but there are missing elements. it is well loaded, it has many sticks, but it is not self-sufficient, it needs help.
Skoda	There are some features that are not necessarily the best, but it is doing its best to reach the peak and the top quality within these limits.
Trabant	Old, obsolete as time; it is not worth developing further, the wrinkle removal will not help.
Volvo	It's safe.

It is quite true for the generation living in the examined settlement that it is important for them to have fun and to be happy – if that is not the case, they leave. The members of the generation have a hedonistic attitude and the 'live for today' thinking is typical, so the happiness is an ultimate question for them. Like just everybody in the 21st century they have a fast pace of life. It means that they require quick information gathering, administration, and instant solutions. They are in constant rush. It is also typical that they do not really accept the adult models. In communication with this generation, this must be taken into account and they can invite to a program by involving actors, opinion leaders from their age. The 'multitasking' (attention-sharing, duplicate actions) and the denial of rules are also typical for them, as they do not like any kind of limitations and want personal freedom. This generation lives according to their own rules, do not like to depend on anyone. They want to do

TABLE 4 Characteristics of Generation Z According to the Respondents

Characteristics	(1)	(2)	(3)	(4)
Use a technology to express their personality	0	2	16	2.89
They have a fast pace of life	0	4	17	2.81
Do not like limiting them	1	2	18	2.81
Personal freedom is important to them	1	1	18	2.85
'Multitasking' (attention-sharing, duplicate actions)	2	1	18	2.76
It is important to have fun and happiness – if that is not the case, they leave	1	3	16	2.75
A provocative, extreme, spectacular, show-like serving is important to them	1	4	16	2.71
Accepting few adult models, the most authentic faces are people who are fame from their age	4	3	14	2.48
Does not like the rules	5	3	13	2.38
Clutches that unify them with appearance and thinking, even if they want to see their unique character	2	5	14	2.57
The information can only be received in digital form	2	6	13	2.52
Less loyal	3	7	11	2.38
They can hardly express their emotions	3	7	10	2.35
They are not afraid of the changes	4	6	11	2.33
Confident, do not doubt their own abilities	4	7	10	2.29
Narcissist	2	10	7	2.26
The uniqueness and customizability are important to them	6	5	10	2.19
Creative	5	7	9	2.19
To people who are sample today, do not want to look up, but face them	5	7	7	2.11
Brave, initiating	5	10	6	2.05
Good problem-solving ability	6	9	6	2.00
Intended to make sure their future	9	5	7	1.90
Practical features	7	13	1	1.71

NOTES (1) it is not characteristic of them, (2) characteristic of some young people but not in general, (3) almost everybody in the Z generation, (4) mean.

what they want, what is good for them, which is just the mood. Using technology to express their personality also belongs to the behaviour that they consider self-regained. The members of the Generation Z can be caught only by provocative, extreme, spectacular, show-like serving.

The interviewees declined that the young people in the examined town would belong be a pragmatic-minded generation; in fact, they reported that generation Z has very little practical knowledge or thinking. They also think that this generation live only for today and do not plan their future.

Regarding the other characteristics mentioned in the literature overview, I can say that it cannot be clearly stated that they are true for the Z generation in the examined settlement. Many respondents thought that although for some young people they are true, they certainly cannot be generalized for the whole Hungary. Many interviewees reported also that some properties, like being narcissist and self-confident, having no doubt about the own abilities or not being afraid of the changes were true also for them in their young age, or maybe even today.

I have started this chapter with a list of elements about what is important to the young people at a mid-size town. The aim of this research was to identify those elements which can help keep the young people in the (home)town. Based on this list, I have tried to reuse this research and asked my respondents about the importance of this factor in the Hungarian middle towns. I asked the respondents to name and rank three factors, which they consider as the most important for a young person at his place of residence. In table 5 is visible that the public services, the business start-up support and the urban transport has never been mentioned among the three most important factors. 20 person out of 21 mentioned the appropriate job opportunities among first three factors, so it seems that this is the most important factor. 11 interviewees out of 20 mentioned it at the 1st place, seven further at the 2nd place and two at the 3rd place. Nine respondents said that the most important factor is having a personal vision in the town (meaning carrier, family, safety, good prospects in all area of life). Two further mentioned it at the 2nd and four at the 3rd place. Total of 15 respondents put the vision to the podium. 14 interviewees think that the recreation options, like community places, events, and a vibrant social life are also crucial to the young people. Only one person put this factor in the 1st place, but eight mentioned it as a 2nd most important element and further five as a 3rd factor. The other items (education, housing, sport opportunities) are far behind, so the respondents' opinion on the key issues of keeping young people is clearly drawn. The appropriate job, the personal vision and the recreation options are the most important to the generation Z.

Finally, I would like to mention some suggestions based on the interviews that may help to keep the young people in a middle-size town. I present the ideas of respondents without name and organizational form.

Most of the suggestions (5) were related to the community building, especially developing different spaces to the citizens. Among the

TABLE 5 Rank of Factors That Can Help to Held the Young in the Hometown (Number of Mentions)

Factors	(1)	(2)	(3)	(4)
Appropriate job opportunities (quality, choice, income)	20	11	7	2
Vision (predictability, value systems, security)	15	9	2	4
Recreation (community life, youth squares, champagne, choice)	14	1	8	5
Education (adequate education system, standard, choice)	7	1	3	3
Housing (affordable, high quality, diverse)	5	0	1	4
Sport facilities	2	0	0	2
Public services (availability, level)	0	0	0	0
Business start-up support	0	0	0	0
Urban transport, accessibility (pedestrian, community, fast)	0	0	0	0

NOTES (1) all mentions among the top three, (2) mentioned at place 1, (3) mentioned at place 2, (4) mentioned at place 3.

ideas, the youth centre development, the youth community space establishment, and new entertainment facilities were mentioned, for both outdoor and indoor activities. A special idea also came up; it was the development of a lake next to the city with a range of recreational facilities. Three of the respondents said that before thinking about how we can keep the young in the town, the town has to define itself. Finding the unique characteristic, the identity, is crucial. However, the interviewees have not mentioned what could be this uniqueness. Interestingly, three ideas were related to different sport topics. An interviewee mentioned that by buying a professional sport team the local identity could raise and help to create a real community in the town, which is good to belong to. Three respondents think that by developing the education the young people would stay in the town. They are thinking about some specializations or those kinds of trainings for adults, which also can help to develop the local patriotism. The different scholarship programs also were mentioned three times at three different areas: scholarships to solve the skilled workforce shortage, scholarship in the form of training grants for students, and scholarship for the trainees to keep them after school. Two people mentioned that creating a knowledge centre would be a solution, because here the research and innovation would be supported, thereby creating value-added jobs. These incubators should be specialized on IT or geothermal resources. In addition, two ideas were about different concept-developments. It was said that creating a concept is needed before any action plan. The interviewees mentioned that professional companies should create the urban development policy, or to help with attraction of foreign investors.

TABLE 6 Proposed Actions to Keep Young People

Development of a community space (5)	<ul style="list-style-type: none"> <li>• youth center, youth community space</li> <li>• development of entertainment facilities</li> <li>• development of a lake next to the city with a range of recreational facilities</li> <li>• both outdoor and indoor</li> </ul>
Development of a unique attraction, image (3)	<ul style="list-style-type: none"> <li>• unique image, everything can be grounded on it, eg. stilts</li> <li>• tourist-attractant and economy developer attraction</li> <li>• initially, demand must be maintained artificially</li> </ul>
Sport (3)	<ul style="list-style-type: none"> <li>• buying a professional sport team (basketball, handball, futsal)</li> <li>• professional sport development (cycling)</li> <li>• sport infrastructure development</li> </ul>
Education (3)	<ul style="list-style-type: none"> <li>• specialized music school</li> <li>• community building camps, trainings</li> </ul>
Scholarship program (3)	<ul style="list-style-type: none"> <li>• solve the skilled workforce shortage in the form of training grants to the trainees to keep them after school</li> </ul>
Incubator and R+D (2)	<ul style="list-style-type: none"> <li>• specialized on the topic of IT or geothermic resource</li> <li>• where research and innovation be supported, thereby creating value-added jobs</li> </ul>
Development of a vision, concept (2)	<ul style="list-style-type: none"> <li>• international tender for the development of urban development policy</li> <li>• investment offeror</li> </ul>
Others mentioned by one-to-one respondents	<ul style="list-style-type: none"> <li>• supporting young people becoming entrepreneurs (1)</li> <li>• settlement pays (1)</li> <li>• a complete transition to renewable resources (1)</li> <li>• job creation (1)</li> <li>• improving working conditions at the institution (1)</li> <li>• institutional profile extension (1)</li> </ul>

Further thoughts were about supporting young people to become entrepreneurs, about a complete transition to renewable resources, and any kind of job creation actions. Two respondents highlighted their own institutions problem; in order to keep the young people in the town they would like to retain their own workforce. From this reason, they suggested to improve working conditions at the institution.

## Conclusion

The purpose of my research was explore characteristics and values of the Generation Z, and to reveal which characteristics of these are true to young Hungarians. As the emigration of talented youngsters touches not only villages, but also small and medium-sized cities, I wanted to highlight whether members of the Generation Z feel attached to their hometown and if such a city can offer them a good

vision. Based on the generation characteristics, which areas should be developed and what are the demands of today's 13–23 year olds.

By interviewing the local non-business sphere, I presented the judgment of the various settlement features through an example of a middle-town in Hungary. We could see that it more or less has the most important ingredients, except the issues related to the recreation. Local patriots think that the town do not have a vibrant community life, and that there are not many leisure events or community space for young people. Even these committed institution leaders are sceptic about the town's future and success of the developments. According to the respondents, the dynamism is lacking in the town, which is somehow oriental in style, less creative or innovative. 21 interviewees think that the town has no personality, no uniqueness. This is also confirmed by the fact that the respondents named 13 different car brands. The town is not courageous, non-initiator, rather shy, retractable. They see the town as a safe place, which is able to stick anything, but it should be dynamic, because it is very slow at present, the progress takes too much time.

Local actors believe that the members of the Generation Z use technology to express their personality; they have a fast-paced life; personal freedom is important to them; 'multitasking' (attention-sharing, duplicate actions) is typical; it is important to them to have fun and happiness – if that is not the case, they leave; the provocative, extreme, spectacular, show-like serving is important to them; accepting few adult models, the most authentic faces are people who are fame from their age. The improvements proposed by non-business institutions show almost complete consistency with these generation features. Most people have suggested the development of community spaces that create autonomy and happiness. A legitimate expectation of the generation Z that adults or older people do not appear in this space, they would only meet their own age group. For this reason, it is important to know what they want to do there – that is to say, the youngsters must be involved in the creation of spaces. The second most important suggestion was the finding of uniqueness and its provocative, astonishing interpretation. This is partly related to the previous ones with so many additions that young people expect a 'cool' thing that is extreme and what they themselves can be proud of. For this, the pool table and bowling are not enough. Experience is what we need to work for, and in what we can be a part, we are developing by it. You can imagine a climbing wall track, a laser battle track or simulation games in this area.

Overall, the directions in which the time passed away by genera-



tion Z in their hometowns can be considered as a real experience is very well outlined. The above activities and developments all provide for the possibility of enjoying personal freedom, extremity, multi-tasking and happiness; and finally yet importantly promote community raising. By the positive childhood and adolescent experiences, the bondage to the settlement and the identity will be strengthened.

### Acknowledgements

This research was supported by the ÚNKP-17-4 New National Excellence Program of the Hungarian Ministry of Human Capacities.

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# Global Value Chains: Government Policies for Enhancing the Role of Small and Medium Enterprises in Global Value Chains – A Case Study of Slovenia

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The purpose of our research is to identify key factors and government policies supporting small and medium enterprises' (SMEs) successful integration into global value chains (GVCs). Our main research questions are: How are economies involved in GVCs and does integration depend on the size of a country? What role do governments play in fostering upgrading the position in order to best derive benefits from GVCs? How is Slovenia seizing the opportunities of GVC integration? Our research shows increased engagement by all the selected countries in international production linkages in the period from 1995 to 2011, with participation index correlated with the size of a country (small economies being more integrated). A key finding is that a 'whole of the chain' approach is needed, and governments should implement policies and targeted support programmes linked to innovation, knowledge-based assets, etc. in order to best respond to the reality of more interconnected economies and draw the greatest benefits from engagement in GVCs. A case study of Slovenia shows the economy has been rapidly integrating into GVCs; however, we submit recommendations to policymakers on the subject of policies as a means to further promote the integration of SMEs and upgrade into GVCs.

*Key words:* global value chains, government policy, small and medium enterprise

<https://doi.org/10.26493/1854-4231.13.49-70>

## Introduction

World trade is undergoing major changes. Over the last decades, the progressive liberalization of cross-border transactions and advances in information, communication and transport technologies have provided firms with greater incentives to fragment the production process and to geographically delocalize them – in order to increase efficiency and lower costs. The complex and interconnected produc-

tion process that goods and services undergo from conception and design through production, marketing, distribution, and support to the final consumer is referred to as a global value chain (gvc) or an international production network (OECD 2013). With the growth of gvc's, economies are increasingly specialised in specific activities (processed with value added in the multiple countries that are part of the chain) rather than in industries. International trade involves extensive flows of intermediate goods and services. Today more than half of world-manufactured imports are intermediate goods – primary parts and components and semi-finished products (Backer and Miroudot 2013; Cusolito, Safadi, and Taglioni 2016). More than 70% of world services imports are intermediate services, and international competition increasingly plays out at the level of activities within industries (Feenstra 1998).

The high level of interconnectedness poses a variety of challenges and benefits for, and risks to countries participating in gvc's, with implications for many policy areas (trade, economic, development, education, etc.). The integration of companies into gvc's is becoming an increasingly important determinant of export performance and competitiveness. We argue that trade in tasks/intermediate goods (or 'vertical specialisation' i.e., import content of exports) offers new options to small countries and small and medium size enterprises (smes), due to the possibility to focus on a single segment of the industrial process and to reach cost competitiveness without having to develop fully fledged industries (Elms and Low 2013).

The goal of our research is to identify the factors important to the integration and upgrading of the position in gvc's as well as the policies' actions to encourage the integration of small and medium enterprises in order to derive the best benefits from gvc's for the economy.

Our main research questions are: How are economies involved in gvc's and does integration depend on the size of a country? What role do governments play in fostering upgrading the position in order to best derive benefits from gvc's? How is Slovenia, a small open economy, seizing the opportunities of gvc integration? A combination of methods is used in the study, namely desktop analysis (analysis of primary and secondary data) with a combination of quantitative and qualitative analysis. For Slovenia's case study, a participant observation method is also applied.

At the beginning, reference is made to the economic theories in relation to global value chains, small and medium size enterprise integration into gvc's, and related policy issues for upgrading.

We focus on *SMES*, as there is strong empirical evidence that *SMES* are socially and economically important as sources of employment and income. In developed and developing countries they account for the absolute majority of companies, generating more than half of formal jobs (60%); they are higher than their proportion in added value (50%–60% on average), but their contribution to overall exports is significantly lower<sup>1</sup> (between 20% and 40%) (UNCTAD 2007; OECD 2017b). In 2014, in the EU for example, *SMES* represented 99.8% of all enterprises, provided around 90 million jobs, and generated 58% of the value added. In Slovenia 99.8% of all companies are *SMES*, providing about 63% of the value added and nearly 73% of employment (European Commission 2015).

Then, we analyse the participation changes/trends of selected countries in the *GVCS* in the period from 1995 to 2011 (the latest available data in the OECD-WTO TIVA database).<sup>2</sup> We focus on the major economies: the EU integration, USA, Canada, China, Japan, and within the EU on five large (Germany, France, United Kingdom, Spain, and Poland) and seven small economies (Austria, Belgium, Ireland, Czech Republic, Slovakia, and Slovenia). We argue that integration in *GVCS* depends on the size of the country.

The data used for the analysis is taken from the World Input – Output Database (WIOD) and the OECD-WTO TIVA database of trade flows in value-added terms (TIVA) (that in our opinion provides a more complete picture of how country exports are interwoven with others and how value is distributed throughout value chains rather than trade measured in gross terms). In order to enhance the importance of the *GVCS* for small open economies, we apply a case study analysis of Slovenia. We analyse statistical data on *GVCS* integration (OECD-WTO TIVA database and relevant studies) and government policies/activities/instruments in place to support *SMES* integration and upgrading into *GVCS* (based on information published on government institution web pages and applied participant observation method). Based on review of the literature, analyses made, a case study, and a synthesis of findings, we submit recommendations to policymakers on the subject of policies as a means to further promote the integration of *SMES* and their upgrade into *GVCS*.

### Review of the Related Literature

In the literature, the debate on global value chains, value added, and trade and their policy relevance in terms of countries' strategies is not a new phenomenon. Mainly, the literature on *GVCS* has focused on organizational issues of *GVCS* and their relationship to interna-

tional trade patterns i.e., allocation of ownership rights along the value chain, specialization patterns of stages across countries, and the effects of trade costs on multiplied trade flows in the presence of gvcs (Antras and Chor 2013; Baldwin and Venables 2013; Consolito, Safadi, and Tagliani 2016; Costinot, Vogel, and Wang 2013; Yi 2003).

However, the work on the effects of gvc participation on domestic outcomes has evolved quickly. Studies have suggested that any analysis with respect to gains from trade should be based on net value added by trade (Porter 1985). Likewise, comparative advantage, which was typically expressed in terms of products/industries according to the earlier trade models, now requires a basis on *activities and tasks* (Gereffi 1999).

The literature on gvcs uses the measure of ‘vertical specialisation’ (defined as the import content of exports) to gauge a country’s competitiveness in gvcs. Studies have estimated vertical specialisation separately for intermediate and finished products to arrive at the relative competitive position of a country in the value chains (Banga 2013, 12).

A wide literature has developed over the last decade on the ingredients of successful upgrading by firms, and part of the literature is particularly concerned with the question of what role governments should play in fostering upgrading. For policymaking, understanding governance structures is important – in particular, to assess how policies can have an impact on firms and the location of activities. At any point in the chain, the production process is defined by a set of parameters. Value added depends upon tasks or business functions. Production is at the bottom and high value added is found *upstream* (research and development, design, logistics: purchase) or *downstream* (logistics: distribution, marketing, services). Enterprises looking to upgrade have different options depending on their capacity, e.g. technology, human capital, etc. Trade in tasks makes it easier to diversify, as different products may require executing similar tasks in the value chain. On the other hand, even small margins in production can be compensated by high volumes and can be a better option than diversifying. As stated by Gereffi (1999), moving in and up into gvcs requires fitting into existing corporate strategies and establishing close links with the lead firms. This leads us to governance structures and the actors that control the activities.

An important difference emphasized in the literature is between ‘producer-driven’ (high tech sectors) and ‘buyer-driven’ chains (low tech) (Gereffi 1999). The analysis can help policymakers identify the firms and actors that control and coordinate activities. In the

TABLE 1 The Main Differences between Producer and Buyer-Driven gvcs

Item	Producer-driven gvcs	Buyer-driven gvcs
Controlling type of capital	Industrial	Commercial
Capital/tech. intensity	High	Low
Labour characteristics	Skilled/high wage	Unskilled/low wage
Controlling firm	Manufacturer	Retailer
Production integration	Vertical/bureaucratic	Horizontal/networked
Control	Internalized/hierarchical	Externalized/market
Contracting/outsourcing	Moderate and increasing	High
Suppliers provide	Components	Finished goods
Examples	Automobiles, computers, aircraft, electrical machinery	Clothing, footwear, toys, consumer electronics

NOTES Adapted from Coe (2013, 11).

producer-driven gvcs (high-tech sectors), manufacturers are placed upstream; they control R&D and the design of products as well as most of the assembly, fragmented in different countries. On the other hand, in buyer-driven gvcs, retailers control the production by focusing on marketing and sales, and suppliers provide finished goods.

Upgrading is conditioned by factors internal and external to the firm. How to upgrade the position by moving into higher value-added activities in a global value chain is a challenge for countries and companies. gvcs are expected to bring gains to the countries in terms of improved competitiveness, better access to global markets, and expansion of production and jobs in these countries, but this is not automatic. Policymakers need to know what contributes to production at each stage of the supply chain and how to upgrade the position in the gvcs in order to improve growth and development. According to the literature, public support has a stronger impact on buyer-driven than producer-driven chains (Humphrey and Schmitz 2001).

A wide literature has developed over the last decade on the successful upgrading<sup>3</sup> of enterprises (Kaplinsky and Farooki 2010; UNIDO 2004; OECD 2013) that distinguishes between several types of upgrading:

- *process upgrading* (more efficient operations performance),
- *product upgrading* (higher quality goods or introducing new products faster than competitors),
- *functional upgrading* (assuming functions of the chain with greater value-added design, marketing, R&D, etc.),
- *inter-sectoral or chain upgrading* (new production activities, moving from one chain to another).



The value generation of a firm participating in gvcs is strongly related to the non-replicability of their products and services (OECD 2013). This refers to those elements of the value chain that cannot be rapidly provided by other firms i.e., *knowledge-based capital* (KBC) that includes *computerised information* (software, databases), *innovative property* (patents, designs, trademarks), and *economic competencies* (know-how, brand, etc.). Lately, management skills are also shown to be increasingly important factors in the quality of goods that are produced and the use of imported inputs as well as export performance (Bloom et al. 2013).

The increasingly complex trading environment requires a greater focus on domestic whole-of-the-government approaches. This calls for the complete and coherent design of related policies to move towards higher value-added activities in the gvcs and to best derive benefits from gvc participation. The literature proposes that governments (OECD 2007; 2008; Cusolito, Safadi, and Taglioni 2016), the business community, and international organizations facilitate SME participation in gvcs through *policies, practices, and targeted support programmes*, including:

- *policies for improving business environment* (well-designed structural policies, competition, international trade and investment, financial markets, labour market, education, and internationalization policies),
- *target support programmes* (access to finance, information, consultation, etc.),
- *collective action and co-operation* (supporting industry groupings, promoting clusters and networks – especially where there is a potential in knowledge-intensive and export-oriented market segments and for supporting R&D for continuous innovation),
- *promoting the capacity for innovation by local SMEs* (supporting skills development, upgrading products and processes, internationalisation, ICT implementation),
- *enhancing SME value obtained from intellectual assets and intellectual property* (providing guidance and financial and legal instruments to adopt IP rights developed in universities and research centres, facilitating filing the patents by SMEs),
- *facilitating the adoption of product quality and process standards* (providing information).

Creating a *business-friendly environment* that will attract investment, nurture efficiency, and build competitiveness is important



(horizontal measure). However, this may not be enough. Government policies and programmes also play an influential role in integration into particular sectors by designing incentives for the sectors where resources offer a comparative advantage (entrepreneurship and innovation programmes in order to build up capacities in different sectors). Low and Tijaja (2013) suggest broad-based policies relating to trade facilitation, connectivity, human capital, and innovation. As these policies may work less effectively or too slowly, sector-specific interventions (certain activities along the value chain) could be introduced. Different strategies include import substitution, export-led growth, domestic resource-based industrialization and, to some degree, industrialization through innovation.

In a nutshell, in order to best derive benefits from gvc participation, coordinated actions of all stakeholders are required (governments, businesses, and international organizations) in order to support public and private investments (investment policies, trade, business environment, skills upgrading). The ability to benefit from gvcs is linked to innovation and knowledge-based assets, such as R&D, branding, design, and software, to enable companies to differentiate their products and economies to strengthen their presence in gvcs.

### Analysis of the Integration of Selected Economies into gvcs

This section firstly explains the indicators for measuring participation in gvcs, followed by *evaluation (analysis) of selected countries' participation in global value chains in the period from 1995 to 2011*.

A comparative advantage in the new trade models requires them to be based on activities and tasks (Gereffi 1999), as trade measured in gross terms has been unable to reflect modern trade patterns, characterized by increased international production fragmentation (Jara and Escaith 2012).

Therefore, when analysing data and indicators of the selected economies, we apply a gvc approach, based on a decomposition of value added into the domestic and foreign components in order to better assess the challenges and the opportunities of higher production fragmentation.

Our goal is to find the trends and the differences between large and small countries and what are the factors to upgrade their position in the gvcs.

Analysis is based on the OECD – WTO TIVA database, jointly launched by the Organisation for Economic Co-operation and Development (OECD) and the World Trade Organisation (WTO) in 2013, and the

World Input-Output Database (WIOD), a joint product of 11 European research institutions,<sup>4</sup> as well as data published in the EU Industrial Structure Report 2013 and WTO International Trade Statistic Report 2015. For Slovenia, data is also gathered from the survey for Smart Specialisation Strategy (Burger and Kotnik 2014).

#### INDICATORS FOR MEASURING PARTICIPATION IN GVC

The indicator for global value chain participation (the GVC participation index), proposed by Koopman et al. (2010),<sup>5</sup> indicates the extent to which a country is involved in a vertically fragmented production process in relative and absolute terms. It distinguishes the use of:

- foreign inputs in exports (backward participation –  $vs$ ),
- the use of domestic intermediates in third country exports (forward participation –  $vs1$ ),
- the index of the number of production stages which shows how long global value chains are and highlights the domestic and international parts of the GVC.

The indicator distance to final demand (Backer and Miroudot 2013) points out the upstreamness of countries and their position in the value chain. Countries upstream produce raw materials or intangibles at the beginning of the production process (e.g. research, design), while countries downstream do the assembly of processed parts or specialise in customer services.

By combining  $vs$  and  $vs1$  shares, we can have a comprehensive assessment of a country's participation in GVCs, both as a user of foreign inputs (upstream links, i.e. backward participation) and a supplier of intermediate goods and services used in other countries' exports (downstream links, i.e. forward participation). An important aspect to look at is the extent to which countries are specialised in particular activities. The standard tool to analyse this is the *revealed comparative advantage* (RCA) index, which compares a country's share in world exports by product group or industry to its share in total exports.<sup>6</sup> In a case study of Slovenia, we use the ratio calculated based on GVC income.

To sum up, GVC participation ( $vs$  and  $vs1$ ) indicates the share of a country's exports that is part of a multi-stage trade process. It is the foreign value added used in a country's exports (upstream perspective) plus the value added supplied to other countries' exports (downstream perspective), divided by total exports (Coe 2013; Hummels, Ishii, and Yi 2001).

TABLE 2 Gross Exports, Exports of Final Products, Domestic Value-Added Exports and Foreign Value-Added Exports 1995–2011

Country	Exports (EX)			Exports final products (EXFP)			
	1995	2011	Index	1995	%	2011	%
	a	b	b/a	c	c/a	d	d/b
CA	204 244	523 357	256	75 432	36.9	156 032	29.8
US	770 710	1 908 453	247	342 245	44.4	742 362	38.8
JP	428 833	893 342	185	196 853	40.7	296 617	33.2
DE	543 064	1 431 864	263	230 150	42.3	531 486	37.1
FR	338 448	709 536	209	152 213	44.9	304 699	42.9
PL	30 933	213 576	690	13 188	42.6	85 746	40.1
ES	132 774	445 479	335	69 583	52.4	198 752	44.6
UK	314 934	738 630	234	129 401	41.0	261 908	35.4
AT	78 127	181 446	232	35 843	45.8	71 630	39.4
BE	131 045	241 230	184	52 746	40.2	81 529	33.7
CZ	27 484	153 595	558	11 255	40.9	61 293	39.9
IR	47 504	224 543	472	20 926	44.0	86 964	38.7
SK	10 022	70 231	700	3 968	39.5	26 306	37.4
SI	10 290	28 423	276	4 843	47.0	10 896	38.3
CN	143 426	1 969 214	1 372	70 619	49.2	868 112	44.0

*Continued on the next page*

#### EVALUATION OF SELECTED COUNTRIES' PARTICIPATION IN GLOBAL VALUE CHAINS IN THE PERIOD FROM 1995 TO 2011

In this section, we analyse the participation of the EU in GVCs in the period from 1995 to 2011 (the latest available data in the OECD-WTO TIVA database) and within the EU integration, five large (Germany, France, United Kingdom, Spain and Poland) and six small countries (Austria, Belgium, Ireland, Czech Republic, Slovakia and Slovenia) as well as four major EU partners (USA, Canada, China and Japan). Our aim is to identify common trends and differences of integration in GVCs.

Gross exports, exports of final products, and domestic value-added exports and foreign value added-exports in 1995 and 2011 are shown in table 2.

In all analysed economies, gross exports (EX) substantially increased in the period from 1995 to 2011 as well as the domestic value added in gross exports (DVA/EX), with the largest increase of both indicators in China, Slovakia, Poland, Czech Republic, and Ireland. However, in general the increase of the DVA/EX ratio was lower than gross exports. The data also suggests the quite generalised growing

TABLE 2 *Continued from the previous page*

Country	Exports (EX)			Exports final products (EXFP)		
	1995	2011	Index	1995	2011	Index
	e	f	f/e	g	h	h/g
CA	153 460	298 610	195	49 469	122 233	247
US	679 392	1 611 061	237	87 965	284 955	324
JP	453 335	757 991	167	26 950	130 431	484
DE	460 138	1 060 071	230	80 410	363 647	452
FR	278 167	527 612	190	58 244	177 097	304
PL	25 793	142 929	554	4 952	68 494	1 383
ES	106 916	323 392	302	25 341	118 890	469
UK	255 884	563 148	220	57 129	168 667	295
AT	60 881	129 268	213	16 614	49 835	300
BE	89 816	155 915	174	40 384	82 265	204
CZ	18 930	83 390	441	45 965	69 011	150
IR	29 010	124 134	428	18 151	96 039	529
SK	6 763	37 182	549.7	3 172	32 759	1 033
SV	6 963	18 058	259	3 322	10 235	308
CN	95 394	1 330 580	1395	47 802	630 828	1 320

NOTES Calculations based on OECD-WTO (2016). Estimates for certain TIVA indicators are now available for 2012–2014, however they are based on older data and therefore not included in the table.

importance of the acquisition of value added from foreign providers during the period, with the highest increase in Poland, China, and Slovakia, followed by Japan, Germany, and Spain. Further analysis of domestic value added in gross exports shows that the difference is smallest in the USA and Japan (15%), between 23% and 30% in larger EU countries, and higher in smaller countries (Austria being an exception). In all analysed countries, a share of final products in gross exports decreased, which is consistent with the theoretical background (Banga 2013, 4) on growing inter-linkages in trade where trade in intermediate products is growing faster than trade in finished products.

In order to estimate to what extent selected countries are involved in vertically fragmented production and exploit comparative advantages, we now look at the GVC participation indexes. These indexes show the extent to which exporters depend on foreign suppliers for intermediate inputs (FVA/EX) and share of DVA in foreign exports to third countries.

Table 3 reveals that in all countries the GVC index increased in the period from 1995 to 2011, despite a slight decrease of the backward

TABLE 3 gvc Participation Indexes for Selected Countries

Country	Participation index, backward		Participation index, forward		gvc Participation index		Distance to final demand		Number of production stages	
	1995	2011	1995	2011	1995	2011	1995	2011	1995	2011
CA	23.5	19.5	9.6	15.2	33.2	34.8	1.8	1.8	1.7	1.7
US	8.4	11.3	24.5	28.5	32.9	39.8	1.7	1.6	1.7	1.6
JP	6.8	14.8	22.4	33.0	29.3	47.7	1.8	1.8	1.7	1.8
EU27	9.0	12.5	15.2	17.8	24.1	30.2	1.8	1.9	1.8	1.8
DE	18.7	26.8	22.6	22.8	41.3	49.5	1.7	1.9	1.7	1.8
FR	17.8	24.7	21.9	21.1	39.8	43.0	1.7	1.7	1.6	1.7
PL	15.4	27.9	17.5	20.5	32.9	48.3	1.9	1.9	2.0	1.9
ES	20.6	20.7	17.7	21.1	40.3	41.9	1.8	1.9	2.1	1.9
UK	20.7	17.3	21.8	25.1	42.5	42.4	1.9	1.9	1.8	1.8
AT	27.5	31.6	20.9	24.2	48.4	55.8	1.7	2.0	1.6	1.9
BE	39.0	35.0	18.3	22.6	57.3	57.6	1.9	2.0	1.9	1.9
CZ	32.1	39.4	19.4	23.0	51.5	62.4	2.1	2.2	2.1	2.2
IR	38.4	42.3	13.0	18.8	51.4	61.1	1.9	2.1	1.9	1.9
SK	35.6	44.3	20.7	17.9	56.4	62.2	2.2	2.0	2.1	2.1
SV	30.7	34.4	14.7	18.2	45.4	52.6	2.0	1.9	2.1	1.9
CN	11.9	18.8	13.9	13.4	25.7	46.1	2.3	2.7	2.3	2.5

NOTES Based on data from the OECD-WTO (2016).

participation index in Canada and forward participation in France – showing stronger engagement in international production linkages. The highest increase of the gvc index was recorded in China (20%), Japan (18%), Poland (13%), and Czech Republic (11%), followed by Austria, Germany, USA, and Slovenia (7%). Index distance to final demand (Fally 2012) that measures how many stages of production are left before goods and services reach final consumers increased or remained at the same level. An increase in upstreamness shows the economies are now more specialised in the production of the inputs at the beginning of a value chain. The increase of indicators is high in China, followed by Austria, and we can see positive trends in Czech Republic, Belgium, Spain and Germany. Only USA and Slovenia recorded a decrease due to specialisation in goods and services more downstream (OECD 2013, 19).

Analysis of the gvc participation index of selected economies shows stronger forward linkages (DVA that enters other countries' exports) for Japan, United Kingdom, and USA and EU integration. Other analysed larger and smaller EU countries have stronger backward linkages i.e., they source more intermediate goods from abroad

and therefore their vertical specialisation is higher than in larger or more resource-rich countries. There is a positive relationship between the domestic value-added content of exports and economic size. Small and open economies source more inputs from abroad and the gvc participation index (over 50%) is higher for Austria, Belgium, Czech Republic, Ireland, Slovakia and Slovenia. Statistical data analysis confirms the argument on the participation index to be correlated with the size of a country.

### **A Case Study: Slovenia's gvc Integration and Policies for Supporting Upgrading**

After analysing the literature on gvc integration and upgrading and evaluating the selected countries' participation in global value chains in the period from 1995 to 2011, we apply a case study analysis of Slovenia, a small, open economy highly dependent on international trade.

#### **SLOVENIA'S GVC INTEGRATION**

This section utilizes the analysis of statistical data on gvc integration (OECD-WTO TIVA database and relevant studies) and government policies/institutions/instruments in place to support SME integration and upgrading into gvcs, based on information published on web pages of key government actors and the applied participant observation method.

A country's integration into gvcs (previous chapter) shows Slovenia has been rapidly integrating into world markets from 1995 when the gvc index was 45.4% (backward participation 30.7% and forward participation 14.7%) (OECD 2012; 2013). By 2011, the index grew to 52.6% and was, like in other analysed small economies (Austria, Belgium, Czech Republic, Ireland, Slovakia), amongst the highest, mainly driven by the use of foreign intermediates in exports (backward participation of 34.4% and forward participation of 18.2%). *Among manufacturing industries*; chemicals, basic materials, machinery, electrical, and transport equipment are those that source large amounts of intermediates from abroad and include them in their exports (European Commission 2013; OECD 2017a). Almost half of the final demand for manufactured goods and market services in Slovenia represents value added that has been created abroad. This is in line with the argument on smaller countries showing on average lower shares of domestic value added in final demand reflecting the fewer sourcing opportunities within their domestic economy. More than 30% of the value of Slovenia's manufacturing exports represents

services value added, especially business and distribution services (OECD-WTO 2015).

Sector specialization and revealed comparative analyses (RCA) for Slovenia in the period from 2000 to 2012 conducted by the European Commission (2013, 25–26, 76), shows increased sector specialization and RCA in: chemicals and chemical products, pharmaceuticals, rubber and plastic and other non-metallic mineral products, basic metals and metal products, electrical equipment, and motor vehicles, as well as other transport equipment and services transport and storage. Similar findings are in the study analysing RCA separately for intermediate and final products (in the period 2008–2012) by Burger and Kotnik (2014), where the productivity growth and RCA were shown in the manufacturing of electric motors, generators, transformers, and electricity distribution and control apparatus; manufacturing of medical and dental instruments and supplies, preparation, and spinning of textile fibres; manufacturing of products of wood; articles of cork, straw, and painting material; manufacturing of paints, varnishes, and similar coatings, painting ink and mastics and manufacturing of parts and accessories for motor vehicles. RCA advantages in both intermediate and final products were recorded in wood and products of wood and cork, pulp and paper products; rubber and plastic products; other non-metallic mineral products; basic materials and fabricated metal products; machinery and equipment; electrical machinery and apparatus; motor vehicles; where chemicals are only in end products.

In sum, data of revealed comparative advantages (RCA) and technological specialization show that a stable set of key economic activities (*pharma, materials, machinery and equipment, auto, electrical and rubber and plastics*) exists in Slovenia, representing a quarter of Slovenia's value added (SVRK 2015, 10). The integration is lower in companies from low-tech industry, with the exception of mostly foreign market-oriented leather and textile industries (European Commission 2013). Therefore, incorporating more domestic content in exports and moving up the value chain remains a challenge. With the majority of Slovenian companies belonging to the category of small enterprises, the challenging issue for policymakers is how to raise GVC integration among this segment.

#### INSTITUTIONS, POLICIES AND INSTRUMENTS SUPPORTING GVC UPGRADING

In order to make proposals for further improvements to policies supporting upgrading the position of small and medium enterprises into

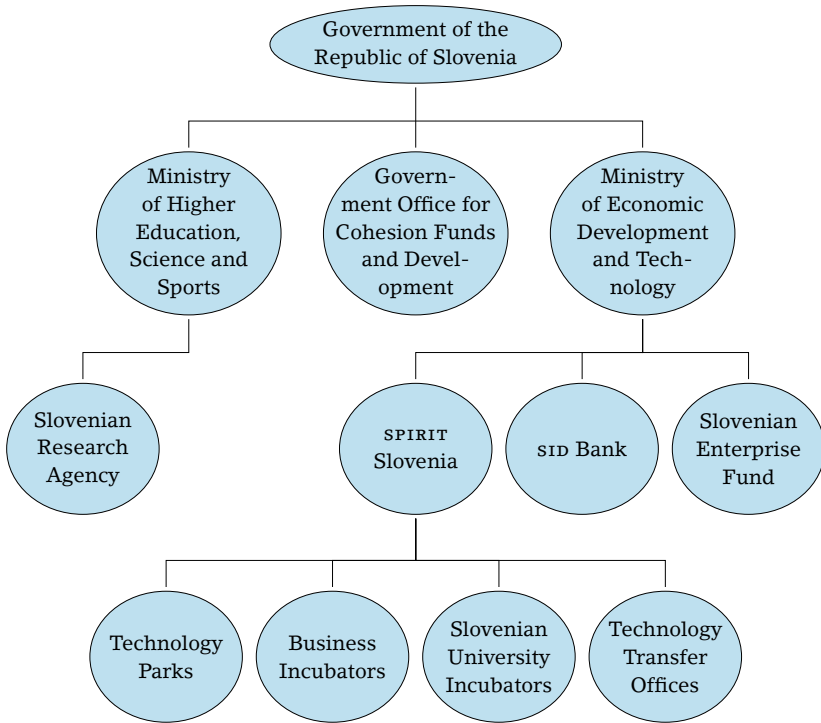


FIGURE 1 Institutional Structure for Supporting gvc Upgrading

gvcS, we analyse institutional structure (based on information published on the web pages, applied participant observation method), and implemented and planned policies/instruments aiming to enhance further integration and upgrading into gvcS.

Slovenia has a rather complex scheme of *institutions* supporting smes and innovation. In addition to the two ministries and a government office involved in the entrepreneurship and innovation policies i.e., Ministry of Higher Education, Science and Sports (MHES), Ministry of Economic Development and Technology (MEDT), and Government Office for Cohesion Funds and Development (GOCFD), there are several agencies and other intermediaries established for providing funding for the activities of innovation-supportive institutions and smes: Slovenian Research Agency (SRA), Public Agency for Entrepreneurship, Internationalization, Foreign Investments and Technology (SPIRIT Slovenia), Slovenian Enterprise Fund (SEF), and Slovenian Development and Export Bank (SID Bank Inc.)

Published documents and surveys (OECD 2012; 2013; Bučar, Jak-



lič, and Udovič 2010) show there are several policies for improving business environment, promoting the capacity for innovation, and targeting support programmes for SMEs already implemented in Slovenia. Several *instruments* were implemented for technology funding, addressing issues like innovation system (intra-firm, cooperation of different actors, skills, etc.). SPIRIT Slovenia employs a wide range of financial and soft i.e., consulting, support schemes that are directed either to SMEs or to intermediaries (technology parks, business and university incubators, technology transfer offices, one stop shop – VEM points, European Enterprise Network, etc.). Funding instruments for supporting RDI of SMEs run by the agency in the period from 2007 to 2013 were *voucher system for consultancy and training, innovation voucher, young researchers, co-financing of employment of researchers in enterprises, co-financing of one-stop shop services* – mainly funded by the Cohesion funds (see <http://www.spiritslovenia.si>). SEF specialises in financing for small and medium-size enterprises during the whole life cycle and offers the following instruments: *grants for start-ups, seed capital, venture capital, technology equipment subsidies, guarantees for bank loans with subsidised interest rate, and guarantees for bank loans for technological innovation projects and microloans*. The instruments for start-ups are associated with non-financial support (training, mentoring, promotional activities.<sup>7</sup> SID Bank Inc. mainly acts as a public export and development bank (export insurance, co-financing) and lately offers direct financing to support SMEs in financing RDI investments. In 2013, a Loan Fund for SME financing amounting to 500 mio EUR was established by MEDT and SID Bank to provide micro-financing, financing of investments, and employment and investments into RDI to the SMEs (<http://www.sid.si>). Some major instruments promoting innovation and business investment in research and development are also provided directly by the two ministries. In order to foster science-industry co-operation, MHESS financed 7 Competence Centres (45 mio EUR) and 8 Centres of Excellence (77 mio EUR) (<http://www.mizs.gov.si>). MEDT financed 17 Development Centres (179 mio EUR) and provided *grants for technological investments and strengthening of R&D departments in enterprises, and international development projects in the context of the initiatives Eurostars and Eureka* (<http://www.mg.gov.si>).

Analyses (Bučar, Jaklič, and Udovič 2010; OECD 2012; OECD 2014a; Burger and Kotnik 2014; SVRK 2015, 6) reveal strengths as well as some weaknesses of the Slovenian Innovation System. In spite of strong involvement of Slovenian stakeholders in international gvcs

and intensive research, development and innovation policy in the last 16 years, and a stimulating tax environment for R&D (100% tax deduction for R&D and 40% for investments) as well as an educated labour force and extensive investments, innovation is still insufficient – although expenditures on R&D have been increasing since the transition and institutions engaged in science, technology, and innovation are well-developed. Slovenia's potential for benefitting from technology spillovers through inward FDI is not fully realised due to small inflows of FDI compared to other countries (OECD 2012). There are also barriers to entrepreneurship, such as insufficient access to finance (OECD 2014a). The Slovenian innovation system also appears unable to maximise benefits of existing technologies for new innovative purposes, given the low level of patents and trademarks per capita and the small share of high technology exports. In addition, analyses show lack of co-ordination between government institutions, weak co-operation between knowledge institutions and companies, insufficient and complicated instruments, absence of systemic incentives within knowledge institutions, fragmentation of support institutions and instruments, implementation deficit, a discrepancy between good strategic papers and implementation, and several of the main exporting sectors investing insufficiently in R&D. We can also conclude there are apparently overlapping responsibilities (e.g. SEF and SID Bank, SPIRIT, and intermediaries).

The strategic documents recently adopted by the Government: *Research and Innovation Strategy of Slovenia 2011–2020 (RISS)*, *National Higher Education Programme 2011–2020 (NHEP)*, *Slovenian Industrial Policy 2013–2020 (SIP)*, *Smart Specialisation Strategy (S4)*, *Operational Programme 2014–2020 (OP)* and *Digital Slovenia 2020 (DS)* put emphasis on measures supporting entrepreneurship and a business-friendly environment, innovation, skills, and internationalization, and therefore respond to the challenge to increase the share of enterprises integrated in global value chains. However, Slovenia's development strategy for the same period is still in a preparation phase.

Like in other EU member states, the Smart Specialisation Strategy (S4)<sup>8</sup> is a key strategic document of the Government of the Republic of Slovenia in the field of innovation. The Strategy addresses a broad range of development policies related to innovation, in particular RISS and SIP. The Strategy also addresses some parts of the education system, international relations and regulatory environment, as well as the funding programmes and stakeholders. The aim is an

integrated strategic approach in providing a consistent policy mix for financial support to the identified priority areas, based on a clearly stated three-level governance system (Governmental level, National Innovation Platform and Strategic Partnerships) and the main objectives in the field of RDI: to increase the share of innovation active enterprises to 55% in 2023 and in the field of SMEs, to promote the creation and operation of businesses, especially start-ups and to increase the value added by SMEs. The documents clearly state the goal to increase the share of enterprises integrated in global value chains as well as to increase high-tech exports among total exports.

The planned measures put emphasis on networking and strengthening the links and synergies in the innovation system by targeting development of international consortia and partnerships, encouraging innovation processes and associated investment (development of new products, services, processes, investments in non-technological innovation i.e., new business models, eco-innovation, pilot lines and strengthening of development units in enterprises with multi- and interdisciplinary knowledge [creativity, design-management, etc.]), internationalisation and ICT implementation. In order to enhance SMEs' value obtained from intellectual assets and intellectual property, the Government also plans to provide guidance, financial and legal instruments to adopt IP rights developed in universities and research centres, and facilitation of the filing of patents by SMEs.

The S4 has a goal to strengthen the competitiveness of the economy by enhancing its innovation capacity and international dimension, including FDI, a key element of the policy mix, addressing efficient investments in RDI, upgrading competences and skills, entrepreneurship, and innovation, as well as innovative procurement. Special emphasis will also be given to encouraging participation in EU programmes, especially Horizon 2020 and COSME.

We can conclude the Government plans to implement some instruments based on proposals of European Commission (2011) and OECD (2012; 2014b) to further strengthen the innovation system, to foster productivity gains in all sectors, to attract FDI, and to diversify into economic activities in higher value added in order to maximise the benefits of GVCs. To boost innovation, the government plans to continue supporting technological and non-technological innovation, the enhancement of knowledge-intensive skills (engineering, design, marketing, information technology) and R&D and associated investments including advanced machinery, software, databases, branding, firm-specific human capital, and organisational capital.

In sum, analysis shows the policies with clear goals and the instru-

ments to support the integration of SMEs into GVCs in Slovenia exist, but we found the institutional network is fragmented, and due to a lack of co-ordination in some cases, instruments are overlapping. Moreover, more importantly, implementation remains a challenge. This could be improved by (a) institutional structure with clearly divided responsibilities, and (b) implementation of a monitoring and evaluation system on a horizontal level. Efficient co-ordination of all actors will have to be implemented when supporting SME integration and upgrading in GVCs.

### Conclusions and Recommendations

With the growth of GVCs, economies are increasingly specialised in specific activities (process and value being added in the multiple countries that are part of the chain). Integration of small and medium enterprises into global value chains is an important determinant of the export performance and competitiveness.

This paper evaluates the countries' participation in GVCs in the period from 1995 to 2011 and presents key challenges policymakers have to take into account when adjusting policy measures for increasing SME integration in GVCs in order to improve growth and development.

A key finding is that a 'whole of the chain' approach is needed with coordinated actions of all stakeholders – governments, businesses, international organisations, and that governments should implement policies and targeted support programmes, enabling companies to differentiate their products, linked to innovation, and knowledge-based assets, etc. in order to best respond to the reality of more interconnected economies and to draw the greatest benefits from engagement in GVCs.

For Slovenia, this study shows the country has been rapidly integrating into GVCs and has well-designed policies and a relatively extensive support network, but we propose some actions for further improvements. As the institutional network is fragmented, and due to a lack of co-ordination in some cases where instruments are overlapping, we suggest improving the institutional structure by clearly dividing responsibilities among institutions and to implement a monitoring and evaluation system on a horizontal level. We also point out the importance of continuity and keeping policy uncertainty to a minimum. Since the majority of Slovenian companies are SMEs, we propose targeted support programmes for SMEs by putting more emphasis on awareness raising on the potential of participation in GVCs, supporting technological and non-technological inno-

vation, enhancing knowledge-intensive skills and associated investments, attracting FDI, and promoting the development of industrial clusters, etc.

We suggest further analysis of value added creation on companies (size), on an industry-specific level, and geographic distribution. This would help policymakers adjust even more targeted measures to derive the greatest benefits from GVC participation. Therefore, in our opinion, investment in a scaling-up of microdata and existing data collections is needed. Currently, the availability of data on international trade by company size is limited (incomplete, inconsistent country coverage, differences in reporting standards across countries). OECD-WTO TIVA indicators should be extended to years that are more recent as well.

### Acknowledgements

I am grateful to Alejandro Jara, International Trade Lawyer (Former Deputy Director General, World Trade Organisation) for giving invaluable inputs to the content of the article.

### Notes

- 1 OECD-WTO TIVA database shows that indirect contribution of SMEs is several times greater than the direct participation in all countries for which data is available (see <https://stats.oecd.org>).
- 2 Estimates for certain TIVA indicators are now available for 2012–2014, however they are based on older data and therefore not included in our research.
- 3 Upgrading means innovating better or faster than competitors.
- 4 World Input-Output Database available at [www.wiod.org](http://www.wiod.org) and described by Timmer (2012).
- 5 A country is well-integrated into GVC if it sources many inputs from abroad and a large proportion of its own value added is part of third countries' exports relative to its total exports.
- 6 EU Industrial Structure Report (European Commission 2013, 25–27) shows sector specialisation indices of the EU member states for the period 2000–2012.
- 7 More data can be found at <http://www.podjetniskisklad.si>. In the period 2004–2013 the Fund approved 4.307 projects with 673 mio EUR and enhanced 1.24 bn EUR of SMEs investments.
- 8 Smart Specialization is a strategic approach to economic development through targeted support for research and innovation. It involves a process of developing a vision, identifying the place-based areas of greatest strategic potential, developing multi-stakeholder governance mechanisms, setting strategic priorities, and using smart policies to maximize the knowledge-based development potential of a region, regardless of

whether it is strong or weak, high-tech or low-tech. In line with the European Commission's overall growth strategy, EU2020, the Commission launched the Strategies for Smart Specialisation Platform (s3 Platform) in June 2011 to provide professional advice to EU member states and regions for the design of their Research and Innovation strategies for smart specialisation.

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# The People, Process and Goal Model versus the Sand Cone Model of Transformational Leadership: Critical Evaluation

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The aim of this paper is to compare and (self-)critically evaluate two leadership behaviour models that are based on the findings of the authors' previous studies. These are the *Sand Cone* model of transformational leadership and the *People, Process and Goal* model. The results expose the importance of leadership behaviour in both models. The elements incorporated in the *Sand Cone* model conceptualize and specify the effectiveness of transformational leadership behaviour, while different factors integrated into the *People, Process and Goal* model indicate the patterns of leaders' focus areas in real-life experiences. This paper contributes to the clarification of the values of these models and to the justification of prioritizing one model over the other. Both models can help leaders improve their skills and find the desired balance for their own organisational success. These empirical studies open an avenue for further research on leadership behaviour models in different types of organisations.

*Key words:* leadership behaviour; sand cone model; people, process and goal model; transformational leadership

<https://doi.org/10.26493/1854-4231.13.71-90>

## Introduction

It has long been understood that leadership behaviours are major factors that influence employees' motivation and to develop their work and activities (Antonakis, Day, and Schyns 2012; Fischer, Dietz, and Antonakis 2016). Leadership behaviours are activating the company resources towards the fulfilment of the organisation's mission. Leadership behaviours are also vital for organisational innovation, adaptation, and performance (Antonakis and House 2014). Leadership behaviours matter for teams, organisations and whole nations (Day and Lord 1988; House, Spangler, and Woycke 1991; Waldman and Yammarino 1999; Flynn and Staw 2004; Jones and Olken 2005; Yukl 2008; Crossan and Apaydin 2010).

Based on our four previous investigations, this paper aims to compare and self-critically evaluate two leadership behaviour models, the *Sand Cone* model of transformational leadership and the *People, Process and Goal* model. The *Sand Cone* model has been introduced and discussed in three peer-reviewed research articles (Ha-Vikström and Takala 2016a; 2016b; 2016c) where empirical data was collected via Analytic Hierarchy Process-based surveys from a global organisation (with approximately 18000 employees, located around the world). The survey was collected during two different periods in 2015 and 2016. In total 112 mid-level managers participated.

The *People, Process and Goal* model has been introduced in a recent peer-reviewed research article (Ha-Vikström 2017), for which the empirical data was collected via surveys and in-depth interviews of 20 managers across different organisational levels (Director, General Manager and Line Manager) from the same global organisation during 2016. This organisation was selected because the researcher has been working in this company during the last 20 years, which means the researcher intervenes in the environment (Gold 1958; McLeod 2015). This existence of a long-term relationship (between the researcher and the company) helped the researcher disclose the leaders' deeper thoughts and feelings better than otherwise would have been possible (Maclean, Harvey, and Chia 2012). In addition, as the studies focused on the leaders' behaviour and attitude, that perception could be effortlessly observed via social contact and business relationship.

The central focus of the *Sand Cone* model is to measure the effectiveness of leaders' performance from a transformational leadership perspective. While the central attention of the *People, Process and Goal* model is to measure the key focus areas of leadership in an organisation in terms of people, processes and goals. For practical implications, these models and their assessing methods can be used for recruitment, selection or promotion purposes for any organisation. These new theories provide ideas for developing training programs to support leaders and to take the organisation to the highest level of performance.

This paper not only enhances our understanding of the importance of leadership behaviours and how they can be analysed and measured, but also contributes to the clarification of the values of the two models and to the justification of prioritizing one model over the other.

The paper is structured as follows. The first the second section de-

scribe the *Sand Cone* model and the *People, Process and Goal* model. The third section discusses the models' major differences and similarities. The fourth section introduces the benefits and limitations of the models as well as how they could be combined or prioritized. Finally, the fifth section concludes with arguments about the findings and opportunities for further research.

### Description of the *Sand Cone* Model of Transformational Leadership

Transformational leadership theory has deservedly emerged as one of the most dominant leadership theories during the last three decades (Mhatre and Riggio 2014). The baseline and purpose of transformational leadership are to inspire, to encourage and motivate each other, to trust each other and to work together towards the common goal. In other words, transformational leadership describes how a leader seeks to meet the higher-order needs of followers (Banks et al. 2016).

The extensive reviews of the *Sand Cone* model of transformational leadership already exists (Takala et al. 2005; Takala et al. 2006a; 2006b; Takala, Kukkola, and Pennanen 2008; Takala et al. 2008; Havikström and Takala 2016a; 2016b; 2016c). Thus, in this section, we present briefly the description of this model.

The structure of this model is supported by four main levels; first, the highest level is the 'Directions of outputs.' The next level is 'Cornerstones' of transformational leadership followed by 'Results' level. The 'Resources' are at the ground level of the model. Each component contains different elements. Takala, Kukkola, and Pennanen (2008) and Takala et al. (2008) explain that 'each variable has been defined an optimal value, which should give the most balanced leadership. In theory, the optimal balanced leadership will be found when Directions of outputs (each 33%), cornerstones (each 25%) and resources (each 25%)' (Takala et al. 2013, 78). This distribution was defined according to the idealization theory and was introduced as follows:

1. The 'Resources' level is formed by four elements: processes (P); people, technology and expertise (PT); information systems (IT) and organisation groups and teams (OR). These four elements are built because when new tasks are given in new situations or new conditions; first, we would need people, technology and expertise, second, processes, then organisation and finally information system should be increased.

2. The 'Cornerstones' level covers a group of three 'I's' element/factor and building trust element. That is, Intellectual stimulation (IS), Individualised consideration (IC), Inspirational motivation (IM) and Building trust and confidence (BT). Jung and Avolio (1999), Bono and Judge (2003), and Judge and Piccolo (2004) have proposed these four factors as follows:
  - Intellectual stimulation (IS) characterizes leaders' capacity to encourage his or her followers to think out of the box, to take risks and to be innovative and creative.
  - Individualized consideration (IC) refers to leaders' ability to pay special attention to each individual follower's needs for achievement and growth.
  - Inspirational motivation (IM) describes those leaders who can provide a clear vision, encourage and set high standards for followers for future goals.
  - Building trust (BT) factor originates from 'Idealised Influence' by Bass and Steidlmeier (1999) to describe a role model leader for their followers. Leaders and followers relationship is based on mutual trust and demanding equality (Bass and Steidlmeier 1999; Dirks and Ferrin 2002; Judge and Piccolo 2004; Bass and Riggio 2006).
3. The 'Results' level includes three styles of leadership: passive leadership, controlling leadership (Takala et al. 2006a; 2006b) and dynamic leadership (Ha-Vikström and Takala 2016a; 2016b; 2016c) in which, passive and controlling leadership focus more on corrective actions and are least effective (Bass and Riggio 2006). In contrast, dynamic leadership is necessary because the world today becomes more complex and dynamic. Dynamic times require dynamic driven leaders (Williams 1998) who can lead with courage, passion and vision (Duffy 2006). Progen (2013) explains that dynamic leadership is a dual-focused form on both subordinates and on the situation of leadership, that allows a leader to react to changes by being proactive. Dynamic leadership accepts diversity and enables leaders to be effective leaders, and it is a source of organizational creativity and innovation. The optimal balanced leadership will be found when dynamic leadership 82%, and controlling- and passive leadership is 9% each (Ha-Vikström and Takala 2016a; 2016b; 2016c).
4. Direction of outputs incorporates three types of accomplishment: Effectiveness (EF), Satisfaction (SA) and Extra effort (EE). These accomplishments are also the main foundation of the

‘Prospector, Analyser and Defender model,’ which was invented by Takala, Kukkola, and Pennanen (2008). Extra effort (EE), or Prospector (oriented for the future and extra effort), Effectiveness (EF), or Defender (oriented for current results, less effort for future), Satisfaction SA, or Analyser (oriented between prospector and defender). Examples of the transformational leadership sand cone model can be seen in Ha-Vikström and Takala (2016a; 2016b; 2016c).

#### TRANSFORMATIONAL LEADERSHIP INDEXES (TLI)

Five equations calculate leadership indexes (Total leadership index (TLI), Specific index; Outcomes index (OI); Leadership index (LI) and Resource index (RI)) to measure the effectiveness of leadership behaviours constructed and used in three previous research (Ha-Vikström and Takala 2016a; 2016b; 2016c).

$$TLI = 1 - \frac{\sum \text{Absolute difference values}}{\sum \text{Optimal values}} \quad (1)$$

$$\text{Specific index} = 1 - \frac{\text{Absolute difference}}{\text{Maximal difference}} \quad (2)$$

$$OI = \text{Mean}(\text{Specific index}_{\{EF, SA, EE\}}) \quad (3)$$

$$LI = \text{Mean}(\text{Specific index}_{\{IC, IM, IS, BT, PL, CL, DL\}}) \quad (4)$$

$$RI = \text{Mean}(\text{Specific index}_{\{PC, PT, IT, OR\}}) \quad (5)$$

Table 1 demonstrates an example how to calculate TLI, Specific index, Outcome index, Leadership index, Resource index and Total transformational leadership index.

$$TLI = 1 - \frac{\sum \text{Absolute difference values}}{\sum \text{Optimal values}} = 1 - \frac{148.43}{400} = 0.63.$$

$$\text{Specific index} = 1 - \frac{\text{Absolute difference}}{\text{Maximal difference}} = 1 - \frac{21.3}{66.7} = 0.68.$$

$$OI = \text{Mean}(\text{Specific index}_{\{EF, SA, EE\}}) \\ = \text{Mean}(0.68, 0.98, 0.66) = 0.78.$$

$$LI = \text{Mean}(\text{Specific index}_{\{IC, IM, IS, BT, PL, CL, DL\}}) \\ = \text{Mean}(0.93, 0.95, 0.94, 0.94, 0.81, 0.98, 0.77) = 0.90.$$

$$RI = \text{Mean}(\text{Specific index}_{\{PC, PT, IT, OR\}}) \\ = \text{Mean}(11.6, 23.4, 9.5, 2.2) = 0.84.$$

TABLE 1 An Example of How to Calculate TL Indexes

TL components and factors	(1)	(2)	(3)	(4)
<i>Directions of outputs</i>				
Effectiveness EF	33.33	12.20	21.13	0.68
Satisfaction SA	33.33	32.00	1.33	0.98
Extra Effort EE	33.33	55.80	22.47	0.66
<i>Cornerstones</i>				
Individualized consideration IC	25.00	30.40	5.40	0.93
Inspirational motivation IM	25.00	29.00	4.00	0.95
Intellectual stimulation IS	25.00	20.30	4.70	0.94
Building trust and confidence BT	25.00	20.30	4.70	0.94
<i>Results</i>				
Passive leadership PL	9.00	26.00	17.00	0.81
Controlling leadership CL	9.00	11.00	2.00	0.98
Dynamic leadership DL	82.00	63.00	19.00	0.77
<i>Resources</i>				
Process PC	25.00	13.40	11.60	0.85
People, technology, know-how PT	25.00	48.40	23.40	0.69
Information system IT	25.00	15.50	9.50	0.87
Organisation (group, teams) OR	25.00	22.80	2.20	0.97
Total	400.00		148.43	

NOTES (1) optimal values, (2) response values, (3) absolute difference, (4) specific index. TLI = 0.63, OI = 0.78, LI = 0.90, RI = 0.84.

Table 2 (p. 77) presents the data analysis and inter-correlations between 14 factors and transformational leadership index. The correlation coefficients can vary numerically between 0.0 and 1.0. The closer the correlation is to 1.0, the stronger the relationship between the two variables. In this table, there are several correlation coefficients that indicate the existence of a medium to strong relationship, for example: (a) between effectiveness EF variable and extra effort EE variable (0.66); (b) between extra effort EE and satisfaction SA (0.52); (c) between dynamic leadership DL and passive leadership PL (0.85); (d) between controlling CL and passive leadership PL is (0.50).

### Description of the People, Process and Goal Model

The *People, Process and Goal* model is a normative model of leadership behaviour. The model is based on ideas that relate directly to organisational practice and the real life experiences of the leaders, it is not based on any abstract hypotheses. The model describes the leaders' focus areas across different organisational levels. The ex-

TABLE 2 Inter-Correlation Matrix for Variables in the Sand Cone Model

	IC	IM	IS	BT	PC	PT	IT	OR	EF	SA	EE	PL	CL	DL	TLL
Diff. IC	1.00														
Diff. IM	-0.40	1.00													
Diff. IS	-0.45	-0.05	1.00												
Diff. BT	-0.04	-0.54	-0.50	1.00											
Diff. PC	-0.03	-0.22	0.04	0.19	1.00										
Diff. PT	0.12	0.10	-0.23	0.02	-0.42	1.00									
Diff. IT	-0.13	0.12	0.06	-0.06	-0.38	-0.38	1.00								
Diff. OR	0.04	-0.04	0.20	-0.18	-0.10	-0.48	-0.19	1.00							
Diff. EF	-0.24	-0.02	0.21	0.03	0.03	-0.12	0.21	-0.11	1.00						
Diff. SA	0.12	-0.23	-0.16	0.26	-0.06	0.09	0.01	-0.07	-0.30	1.00					
Diff. EE	0.12	0.20	-0.06	-0.23	0.02	0.04	-0.19	0.16	-0.66	-0.52	1.00				
Diff. PL	0.20	-0.14	0.00	-0.04	0.12	-0.03	-0.12	0.03	0.07	0.04	-0.09	1.00			
Diff. CL	-0.05	0.03	0.06	-0.04	-0.13	-0.21	0.21	0.18	-0.07	0.04	0.03	-0.50	1.00		
Diff. DL	-0.20	0.14	-0.04	0.07	-0.07	0.15	0.01	-0.14	-0.03	-0.07	0.08	-0.85	-0.02	1.00	
TLL	-0.16	-0.09	0.10	0.12	0.03	-0.43	0.28	0.24	0.08	0.27	-0.29	-0.48	0.26	0.40	1.00

NOTES  $p < 0.05$ . Diff. ic = difference individualized consideration. The rest of abbreviations can be found in the description of the Sand Cone model.

TABLE 3 Inter-Correlation Matrix for Variables in the People, Process and Goal Model

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
(1) Facts	1.000												
(2) Philosophy	-1.000	1.000											
(3) Results	0.534	-0.534	1.000										
(4) Coach	-0.534	0.534	-1.000	1.000									
(5) Procedures	0.588	-0.588	0.913	-0.913	1.000								
(6) Human relations	-0.588	0.588	-0.913	0.913	-1.000	1.000							
(7) Introvert	0.212	-0.212	0.468	-0.468	0.307	-0.307	1.000						
(8) Extrovert	-0.212	0.212	-0.468	0.468	-0.307	0.307	-1.000	1.000					
(9) History	-0.043	0.043	0.126	-0.126	0.290	-0.290	-0.100	0.100	1.000				
(10) Future	0.043	-0.043	-0.126	0.126	-0.290	0.290	0.100	-0.100	-1.000	1.000			
(11) Laissez-faire	-0.139	0.139	-0.179	0.179	-0.289	0.289	0.104	-0.104	0.777	-0.777	1.000		
(12) Proactive	0.139	-0.139	-0.179	0.179	-0.289	0.289	-0.104	0.104	-0.777	0.777	-1.000	1.000	
(13) Unplanned career	-0.248	0.248	-0.254	0.254	-0.182	0.182	-0.010	0.010	0.536	-0.536	0.660	-0.660	1.000
(14) Planned career	0.248	-0.248	0.254	-0.254	0.182	-0.182	0.010	-0.010	-0.536	0.536	-0.660	0.660	-1.000

NOTES  $p < 0.05$ .

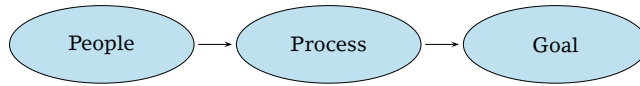


FIGURE 1 Essential Focus Areas of Leadership Behaviour: People Use Processes to Achieve a Goal

tensive reviews of the *People, Process and Goal* model was already explained in a recent empirical study (Ha-Vikström 2017).

Based on an investigation through a triangulation approach, the findings reveal seven specific pairwise categories reflecting leaders' behaviour and their actual deep meanings in real-life context (Ha-Vikström 2017). Followings is a succinct explanation of these seven pairwise categories:

1. *Facts versus philosophy.* *Facts* refer here being a doer, most people work as 'doers' or contributors, their primary responsibility is to perform tasks. *Philosophy* refers to being a thinker, who prefers to seek a wider context, imagines different possibilities of how things should be done, considers why or how everything connects and so forth.
2. *Results versus coach-oriented.* In a successful organisational setting, leaders may either use behaviours and orientations, in order to lead their followers towards delivering the highest level of performance (*results-oriented*), or collaborate and foster an individualized relationship with their followers in order to work together on reaching an agreed-upon destination (*coach-oriented*).
3. *Procedures versus human relations.* For evaluation purposes, we use the term *procedures* for process and *human relations* for people. *Process-focused* leadership is a behavioural approach in which the leader focuses on the process that needs to be performed. *People-focused* leadership is a behavioural approach in which the leader focuses on the satisfaction, motivation and general well-being of team members.
4. *Introvert versus extrovert.* *Introversion* (reserved and solitary behaviour) and *Extroversion* (talkative, outgoing and energetic behaviour) are personalities' pattern of behaviour. Stephens-Craig, Kuofie, and Dool (2015) insist that regardless of the preference for introversion or extroversion, each individual is capable of learning and compensating for one's own weaknesses in order to adapt and operate in the corporate world, a world that may be designed for extroverts.
5. *The past versus the future.* 'A past-oriented leader, for example,



may need a future-oriented person working with him to create an organizational vision and to drive strategic planning. A future-oriented leader may need a past-oriented person working with her to review past performance data and analyse trends in data to be used in future planning' (Thoms 2004, 45).

6. *Laissez-faire versus proactive*. In general, the laissez-faire attitude (letting things take their own course, without interfering) usually leads to lower productivity compared to a proactive attitude (take responsibility for their roles by engaging and cooperating with others, and always looking for ways to improve).
7. *Unplanned career versus planned career*. An essential element of leadership development is career planning. Career planning used to be considered as the responsibility of a leader. The leader either not plans his or her career for some reasons, or attempts to explore and progress his or her potential career path through different activities and set development goals.

Based on these categories, each participant's behaviour (obtained through in depth interviews, questionnaire and observations) was quantified by using a scale with five ratings: not at all (0), slightly (0.25), moderately (0.5), very (0.75) and extremely (1).

According to Brown (2003), personality is an outline of behaviour, while attitude is both a decision-oriented and learned behaviour. When we refer to a person's attitudes, we are trying to explain his or her behaviour, which in turn helps us to define how we behave towards a situation or object. With this aspect in mind, and by individually and collectively examining the data set, we found that leaders' behaviours could be categorized into different attributes. Consequently, a pattern of *people-, process and goal-focused* behaviours was discovered. Figure 2 demonstrates the pattern of leaders' focus areas (Ha-Vikström 2017).

Large oval on the left contains five leading attributes: Human relations\* (Hu); Philosophy\* (Ph); Proactive\* (Pro); Coach\* (Co); Extrovert\* (Ex). In addition, it contains two sub-attributes or non-leading attributes: Unplanned career (Un\_ca) and Past (Pa).

Large oval on the right contains one leading attribute: Procedure\* (Proc) and five sub-attributes: Facts (Fa), Introvert (In), Past (Pa), Unplanned career (Un\_ca), and Laissez-faire (LF).

Large oval in the middle contains three leading attributes: Results\* (R), Future\* (Fu), Planned career\* (Pl\_ca), and three sub-attributes: Introvert (In), Facts (Fa), and Laissez-faire (LF).

All leading attributes are categorized into one of the focus areas

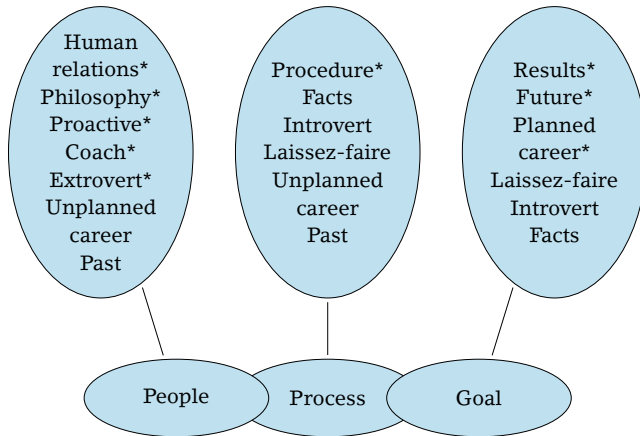


FIGURE 2 The Pattern of Leaders' Focus Areas

(e.g. human relations belongs to *People*, results to *Goal* etc.). In addition, as the sub-attributes do not naturally belong to one of the two remaining focus areas, we decided to split them evenly. With this split, the sum of all attribute pairs equals to 1, which ensures the validity of the mathematical model. This split is visible in the mathematical formulas where the sub-attributes are always divided by 2 (Ha-Vikström 2017).

Equation 1 was used to calculate *people-focused* leadership behaviour index:

$$People_{focused} = \frac{Ph + Co + Hu + Ex + \frac{Pa}{2} + Pro + \frac{Un\_ca}{2}}{7} \times 100, \quad (1)$$

where *Ph* = philosophy, *Co* = coach, *Hu* = human relations, *Ex* = extrovert, *Pa* = past, *Pro* = proactive and *Un\_ca* = unplanned career.

Equation 2 was used to calculate *process-focused* leadership behaviour index,

$$Process_{focused} = \frac{\frac{Fa}{2} + Proc + \frac{In}{2} + \frac{Pa}{2} + \frac{LF}{2} + \frac{Un\_ca}{2}}{7} \times 100, \quad (2)$$

where *Fa* = facts, *Proc* = procedures, *In* = introvert, *Pa* = past, *LF* = laissez-faire and *Un\_ca* = unplanned career.

Equation 3 was used to calculating *goal-focused* leadership behaviour index,

$$Goal_{focused} = \frac{\frac{Fa}{2} + R + \frac{In}{2} + Fu + \frac{LF}{2} + Pl\_ca}{7} \times 100, \quad (3)$$

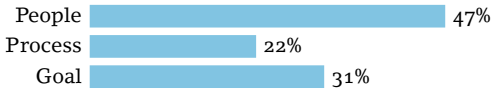


FIGURE 3 A Sample of Key Focus Areas from a Leader

where *Fa* = facts, *R* = results, *In* = introvert, *Fu* = future, *LF* = laissez-faire and *Pl\_ca* = planned career.

$$People_{focused} + Process_{focused} + Goal_{focused} = 100. \tag{4}$$

An example of how to calculate the people focus. For example, the received values from an informant based on the triangulation analysis are follows: Philosophy = 0.5, Coach = 0.75, Human relations = 0.75, Extrovert = 0.75, Past = 0.5, Proactive = 0.5 and Unplanned career = 1. We apply these values on Eq.1, the People-focused index will be:

$$People_{focused} = \frac{0.25 + 0.75 + 0.5 + 0.75 + \frac{0.5}{2} + 0.5 + \frac{0.5}{2}}{7} = 47\%.$$

To continue similarly with Equation 2 and 3 and by testing with Equation 4, we will get the result illustrated in figure 3.

Table 3 (p. 77) presents the inter-correlation matrix of 14 variables of the People, Process and Goal model. As mentioned in previous section, the correlation coefficients can vary numerically between 0.0 and 1.0. The closer the correlation is to 1.0, the stronger the relationship between the two variables. In this table 3, there are several correlation coefficients that indicate the existence of a medium to strong relationship, for example between the ‘human relations’ and ‘coach’ variables (0.91), or between the ‘proactive’ and ‘future’ variables (0.78). Conversely, the coefficient correlation between the ‘planned career’ and ‘introvert’ variables was very low (0.01) but this is logical and understandable because these two variables are independent of each other.

### Comparative Evaluation

This study is motivated by following research questions:

- What are the major differences and similarities of the *People, Process and Goal* model and the *Sand Cone* model of transformational leadership?
- What are the major benefits and limitations of these models and how could the models be combined or prioritized?

*What Are the Major Differences and Similarities of the People, Process and Goal Model and the Sand Cone Model of Transformational Leadership?*

The major similarities between the *Sand Cone* model and the *People, Process and Goal* model are that both are analytical and normative models. They are both aligned with organisational interests because the models can be taken as guidelines for leaders to follow and improve their leadership skills. Both models can be utilised as a compass for organisations when considering leadership-training programs. Finally, they can also be used for recruitment, selection or promotion purposes.

There are three main points indicate the connection between the *Sand Cone* model and the *People, Process and Goal* model. Firstly, the *people-focused* leadership behaviour has a direct relation to all elements included in the *Sand Cone* model, because four components of the *Sand Cone* (Resources, Results, Cornerstones and Direction of outputs) are always more or less focused on people. Secondly, the *process-focused* behaviour has a connection to three components of the *Sand Cone* model, (a) Resources component, because this component contains the process factor, (b) Results components and (c) Direction of outputs as different styles and performances involve processes. Thirdly, the *goal-focused* behaviour relates to the (a) Direction of outputs and (b) Results component of the *Sand Cone* model.

The differences between the *Sand Cone* model and the *People, Process and Goal* model are:

- The purpose of the *Sand Cone* model is to measure the effectiveness of transformational leadership behaviours, while the aim of the *People, Process and Goal* model is to measure the focus of leadership behaviours.
- The measurement of the *Sand Cone* model is reflecting the present situation, because the method using in the *Sand Cone*, the AHP-based questionnaire is measuring what leaders' behaviour and attitude is right now or in current situation. In contrast, the measurement of the *People, Process and Goal* model is reflecting future focus, because the aim was to investigate the leaders' behaviour in long terms aspects for example planned or unplanned career, human relations, proactive and so forth.
- The *Sand Cone* model uses Analytic Hierarchy Process-based survey, whereas the *People, Process and Goal* model is based on a survey, in-depth interviews and observations.

TABLE 4 Differences and Similarities between the Sand Cone and the People, Process and Goal Models

Differences	Similarities	Differences
<ul style="list-style-type: none"> <li>• To measure the effectiveness of TL behaviours</li> <li>• Reflecting present situation</li> <li>• AHP-based survey</li> <li>• Measuring method: mainly quantitative</li> <li>• Five measure-ments/equations</li> <li>• Has clear optimal target, clear indicators</li> </ul>	<ul style="list-style-type: none"> <li>• Analytical &amp; normative models</li> <li>• Aligned with organisational interests</li> <li>• Enhance leadership skills</li> <li>• Compass for leadership training</li> <li>• Recruitment tool</li> </ul>	<ul style="list-style-type: none"> <li>• To measure the focus of leadership behaviours</li> <li>• Reflecting future focus</li> <li>• Survey, interview, and observation</li> <li>• Measuring method: tri-angulation</li> <li>• Three measure-ments/equations</li> <li>• Has flexible target, acc. to organisational types</li> </ul>

- The measuring method for the *Sand Cone* model is mainly quantitative, while the measuring method of *People, Process and Goal* model is both qualitative and quantitative.
- Unlike the *Sand Cone* model, which uses five measurements or five formulas to calculate different indexes for leadership behaviours, the *People, Process and Goal* model uses three equations to calculate the leaders’ focus areas reflecting their real-life experiences.
- Finally, the *Sand Cone* model has a clear optimal target, with index 0 being the worst, and index 1 being the best. The common traffic light colour in the *Sand Cone* model is a clear indicator for leaders to follow. In contrast, the *People, Process and Goal* model has flexible targets according to organisation types, (non-profit versus profit organisation) such as the people-focused behaviour in a private company may not be the same as the people-focused behaviour in a public hospital and so forth.

Table 4 presents the differences and similarities between the Sand Cone and People, Process and Goal model.

*What are the Major Benefits and Limitations of These Models?*

By using these models, the leaders become more aware of their own competencies and opportunities. Subsequently, the leaders are able to improve their leadership skills and as a result, the skilful leaders have better prospect to retain their key followers. For the organisations, these models are practical, organisations not only can use them as a compass for leadership training programs but also as a recruitment tool for selection or promotion purposes. These models

TABLE 5 Major Benefits and Limitations

Model	Benefits	Limitations
<p><i>Sand Cone</i></p> <p>An analytical model to measure the effectiveness of transformational leaders.</p>	<p>The model offers a guideline for leaders to follow based on a profile with traffic light colours and numeric indexes.</p> <p>Can be used as a compass for leadership development training programs.</p> <p>Can be used for recruitment, selection or promotion purposes.</p> <p>Contributes to our understanding of how internal and external factors impact on leadership effectiveness (Ha-Vikström and Takala 2016b).</p> <p>A cost-effective of developing people to ensure organisational success.</p>	<p>Expertise is needed to interpret the leadership profile.</p> <p>The structure of the model seems to be less rational due to the ambiguous terminologies e.g. 'Results' and 'Direction of outputs' and might be less solid because of weak correlation between these two components.</p>
<p><i>People, Process and Goal</i></p> <p>A normative model to measure the key focus areas of leadership behaviour.</p>	<p>The model offers diagnostic feedback of leaders' key focus areas.</p> <p>Can be used as a compass for leadership development training programs.</p> <p>Can be used for recruitment, selection or to find the right competent leaders to the right positions.</p> <p>Contribute to our understanding of how leadership behaviour manifests across organisational levels.</p> <p>A cost-effective of developing people to sustain organisational success.</p> <p>The model opens an avenue for further research on leadership behaviour.</p>	<p>This model is constructed based on a single case study.</p> <p>The attributes in the model are blend of different categories (the attributes were defined based on the patterns in the interviews, survey and observations data).</p>

can be cost-effective ways of developing people because the models will give a positive impact on employees' performance and productivity. In the same way, they will ensure employee satisfaction and motivation. Consequently, they will support succession planning for the company as well as ensure organisational success. Table 5 presents briefly the major benefits and limitations of the Sand Cone model and the People, Process and Goal model.

It is worth noting that the questionnaire is based on the Analytic Hierarchy Process principle, which increases the reliability and value of the Sand Cone model. Furthermore, the results from this measuring method in a large scale of participants (see Ha-Vikström and Takala 2016b; 2016c) may offer an important contribution to our understanding of how cultures, genders, education, working experience or financial status would influence the effectiveness of transformational leaders. These key factors can help organisa-

tions to be proactive in developing their strengths and overcome the weaknesses, for example how to utilize the best resources or experiences/knowledge from senior leaders.

Alternatively, The *People, Process and Goal* model represents a unique aspect of leadership behaviour with specific consequences in three key focus areas for success in organisations: people, process and goal. This instrument and methodology for measuring the convergence of leadership behaviours will help businesses and organisations build consensus around common goals and ultimately achieve greater success.

#### SELF-CRITIC EVALUATION

The original Sand Cone model has its strength as many researchers have studied and developed it since 2005 (Takala et al. 2005; 2006; Takala, Kukkola, and Pennanen 2008; Kazmi and Takala 2012). Through a recent study by Ha-Vikström and Takala (2016a; 2016b; 2016c) to re-examine the model in a global business environment, some discrepancies were found in the transformational leadership index formulas. The model was improved with five new equations to provide accurate assessments to the leaders and a new comprehensive layout for the leadership profile. The improved *Sand Cone* model has now clear targets and clear indicators (to compare with the old one), which means all indexes are normalized by scaling between 0.00 and 1.00 (index 1.00 is the best and index 0.00 is the worst). In other words, the higher the index a leader obtains, the greater the essentiality of leadership effectiveness.

Despite several improvements have been done for the *Sand Cone* model, expertise are needed to interpret all details in a leadership profile in order to give 'a clear diagnostic comment to the leaders or coaching them to create a specific individual development plan' (Kang and Jin 2015). This is because two components (Results and Direction of outputs) in the *Sand Cone* model are to some extent ambiguous, as the terminology 'Results' can be interpreted similarly as 'Direction of outputs,' these two terms might not be a decisive description and may confuse the leader.

In addition, it may not be easy for a leader to understand the distinction between several elements in the model, for example between two elements 'people, technology, know-how' and 'organisation (groups, teams)' in the 'Resources' component, as to some extent both elements refer to people. Especially, the logical connection between the 'Cornerstones' component and 'Direction of output' as well as the defined optimal value for each element in the model

seems to be inexplicit. Thus, these limitations might make the structure of the Sand Cone model less rational and solid.

Turning to the *People, Process and Goal* model, despite the fact that the three focus areas are apparent and easy to understand (people, process and goal), some guidelines and recommendations from the top or higher level of management teams about the healthiest balance for their own organisations are still needed. Admittedly, the biggest shortcoming of the *People, Process and Goal* model might be the attributes patterned in the model; one could ask why the attributes were a combination of different categories (coach versus results; facts versus philosophy, introvert versus extrovert and so forth). The answer is that the model describes the behaviour and attitude experienced by the leaders across different organisational levels. Those attributes were the findings based on in-depth interviews, survey, and observations in a global business organisation.

Furthermore, as mentioned in table 5, another limitation, which need to be acknowledged is that, the *People, Process and Goal* model was constructed based on a single case study (Ha-Vikström 2017). However, this limitation opens an avenue for further research. Our first recommendation is to conduct quantitative and/or qualitative research on this model in different organisational settings, for example for-profit organisations versus non-profit organisations, or the private sector versus the public sector in order to validate and verify the model. Secondly, as the *People, Process and Goal* model only measures the focus areas of leaders (regardless the leadership styles), the model does not concentrate on the healthiest balance for different types of organisations. Thus, further research to explore the relation between *People, Process and Goal* model and organisational performance would be needed.

A third suggestion for further research is to conduct more quantitative research on the *Sand Cone* model in multiple case studies in order to fine-tune the model. Finally, further research to explore the relation between the *People, Process and Goal* model and organisational transformational leadership performance is also recommended.

#### HOW COULD THE MODELS BE COMBINED OR PRIORITISED?

As can be expected, these two models extend the theories of leadership behaviours. The *Sand Cone* model is being used for short terms prospects, as it describes how the leaders behave at present. Conversely, the *People, Process and Goal* model is being used for long terms opportunities, it concentrates more on how the leaders trans-



form his behaviour and attitude toward their followers. Based on these differences, each leader is recommended to utilise the *Sand Cone* model to enhance their leadership skills. While the higher level of management teams are recommended to use the *People, Process and Goal* model and to form or define the healthiest balance for their own organisation.

This implies that our studies on the two models have developed independently for partially different purposes. One model concentrates on the effectiveness of transformational leadership behaviour, while the other pays attention to the leaders' focus areas across different organisational levels regardless of the leadership styles. Therefore, this study suggests that every organisation should take the advantages of each model's strengths and apply on their own situation, as a golfer chooses his or her club, in order to maximize organisational effectiveness and success.

## Conclusion

Poor leaders create dissatisfaction, conversely, great leaders make a great difference for organisational success (Culp and Smith 2005; Prinsloo 2012; Kang and Jin 2015) but without any helpful measurement tool, how can we define the great leaders and the poor leaders?

This study offers a critical evaluation of two practical tools that can help leaders to improve their leadership skills and to find their desired balance for their own organisation's target. These models and their assessing methods can be used for recruitment, selection or promotion purposes for any organisation. The major theoretical contribution of this study is the clarification of the values of two models and the justification of prioritizing one model over the other.

Overall, these two models offer a novel perspective on how leadership behaviour can be measured and analysed to scholars and practitioners. Top executives should take the benefits of each model's strengths and apply strategically on their own situation, in order to meet the challenges in today's turbulent and uncertain environment as well as to achieve and sustain organisational success.

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