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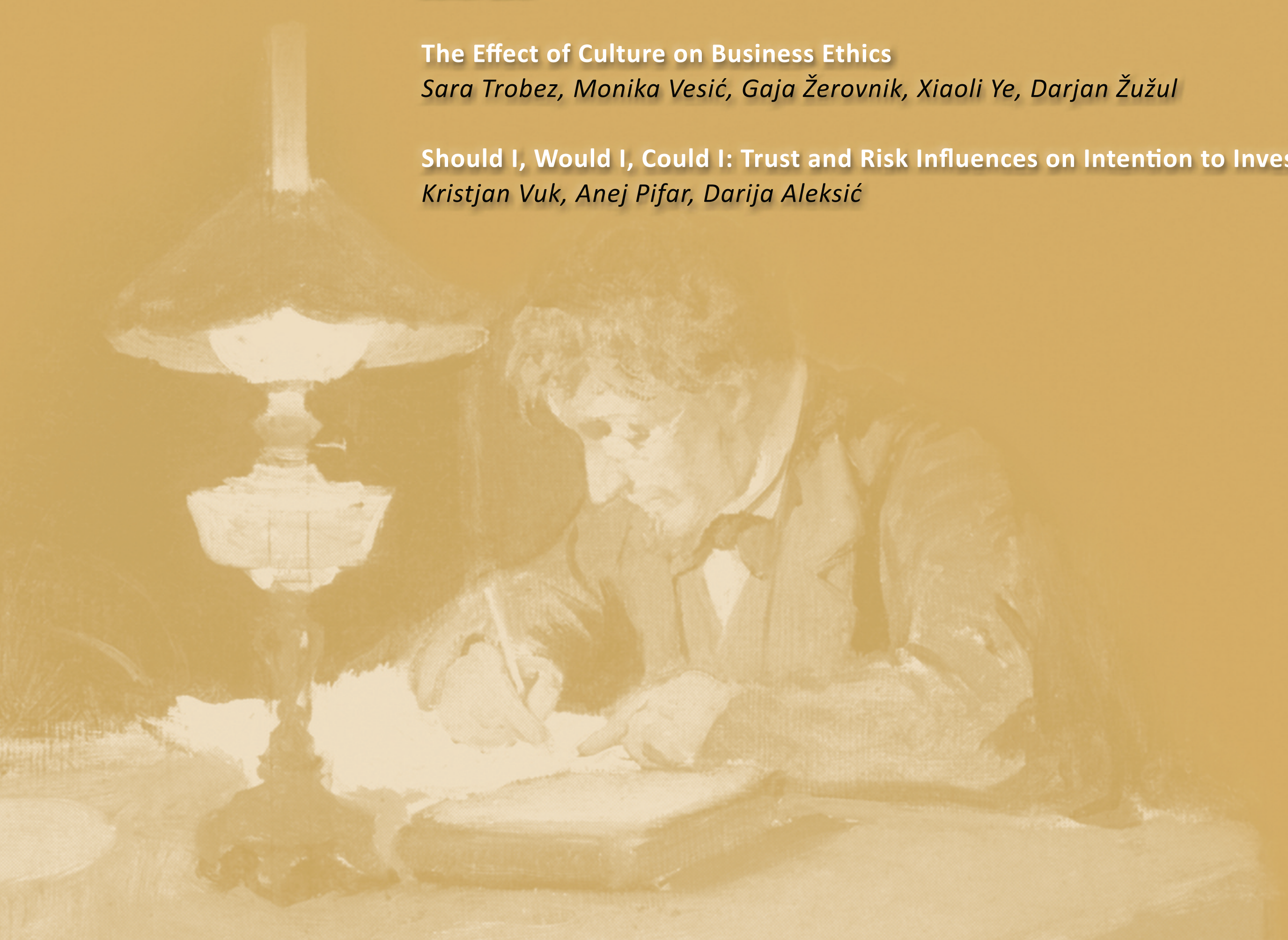

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Dynamic Relationships Management Journal

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Aims & Scope

The Dynamic Relationships Management Journal is an international, double blind peer-reviewed bi-annual publication of academics' and practitioners' research analyses and perspectives on relationships management and organizational themes and topics. The focus of the journal is on management, organization, corporate governance and neighbouring areas (including, but not limited to, organizational behavior, human resource management, sociology, organizational psychology, industrial economics etc.). Within these fields, the topical focus of the journal is above all on the establishment, development, maintenance and improvement of dynamic relationships, connections, interactions, patterns of behaviour, structures and networks in social entities like firms, non-profit institutions and public administration units within and beyond individual entity boundaries. Thus, the main emphasis is on formal and informal relationships, structures and processes within and across individual, group and organizational levels.

DRMJ articles test, extend, or build theory and contribute to management and organizational practice using a variety of empirical methods (e.g., quantitative, qualitative, field, laboratory, meta-analytic, and combination). Articles format should include, but are not restricted to, traditional academic research articles, case studies, literature reviews, methodological advances, approaches to teaching, learning and management development, and interviews with prominent executives and scholars.

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Call for papers

The Dynamic Relationships Management Journal (DRMJ) is inviting contributions for upcoming issues. The manuscript can be sub-mitted per e-mail to the editor (matej.cerne@ef.uni-lj.si) or using a form on a journal webpage at http://www.sam-d.si/Drmj-Home.aspx. Before the submission, authors should consult Author Guidlines, available at http://sam-d.si/Drmj-about.aspx. There is no submission or publication fee.

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FROM THE PRESIDENT OF THE SLOVENIAN ACADEMY OF MANAGEMENT

Professor Dr. Tomaž Čater
University of Ljubljana
Faculty of Economics

Dear reader,

It has been exactly one year since I accepted the position of the president of the Slovenian Academy of Management. I have to admit this was not an easy decision as I knew the previous (and founding) president, Professor Dr. Rudi Rozman, has done an excellent job of turning the Academy into a recognizable and respected organization in the Slovenian academic and business world. For this reason I would like to start this editorial by expressing a big gratitude to the previous management of the Academy, especially to the Executive Committee under the presidency of Professor Dr. Rudi Rozman and the Supervisory Board under the presidency of Professor Dr. Miran Mihelčič.

The new Executive Committee took over the managerial functions in the Academy in April 2016. It consists of five members, among which two were already members in the previous mandate. They are Associate Professor Dr. Darja Peljhan from the Faculty of Economics of the University of Ljubljana who still holds the position of the Academy's treasurer and Assistant Professor Dr. Nina Tomaževič from the Faculty of Administration of the University of Ljubljana who continues to work on the position of the Academy's secretary. The new members of the Executive Committee are Professor Dr. Andrej Bertoncelj from the Faculty of Management of the University of Primorska who was appointed to the position of the vice-President of the Academy, Assistant Professor Dr. Matej Černe from the Faculty of Economics of the University of Ljubljana who accepted the position of the new editor of the Dynamic Relationships Management Journal, and myself, Professor Dr. Tomaž Čater, from the Faculty of Economics of the University of Ljubljana as the president of the Academy.

Completely changed compared to the previous mandate is also the Academy's Supervisory Board. It now consists of the president, Dr. Vojko Toman from the Slovenian Intellectual Property Office, and two members, Professor Dr. Borut Rusjan from the Faculty of Economics of the University of Ljubljana and Assistant Professor Dr. Milena Alič from ALZIT d.o.o.

Despite personnel changes there will be no revolutionary changes in the key activities of the Slovenian Academy of Management. The Academy continues with its dedication towards uniting scientists, researchers and experts from the field of management in the Republic of Slovenia with the purpose of exploring, developing and expanding knowledge of management, organization, administration and similar areas. The Academy will continue to act in accordance with its mission by organizing conferences, consultations and other events, publishing scientific and professional literature in the field of management, as well as by other education, training and research activities.

While maintaining the main direction of the Academy's key activities, some challenging changes are to be made. One such change is just about to be seen – in a few weeks the Academy will have a new look in the form of a new website. The new website will not only present the Academy in a more modern light but will also provide its users with a modern dictionary in the field of management, enable authors to submit journal and conference articles easily and securely, enable members to easily manage their personal profiles etc.

Other, even more important challenges in front of the Academy are linked to the increase of the quantity and quality of its journal and conference articles. Both conferences, international and Slovenian, which are alternatively organized every year, continue to be managed by a highly dedicated and hard-working Program and Organizational Committee led by Dr. Aleša Saša Sitar. This year we organize a Slovenian conference, already 15th in a row. The conference, with the main topic on risk management, takes place on June 16th at the Faculty of Economics of the University of Ljubljana.

The Academy will also continue with the publication of the Slovenian journal titled "Izzivi managementu" (Challenges to Management). This journal, issued twice a year, is more practically oriented and dedicated mostly to helping managers at their everyday work. Besides managers the journal's targeted readers are also academics who wish to learn more about the practical aspects of management and the related areas. The journal's editor remains Assistant Professor Dr. Lidija Breznik.

With regard to the Academy's international journal, i.e. Dynamic Relationships Management Journal, one of the most important changes was the appointment of the new editor and the editorial board. The demanding task of improving the journal quality was entrusted to Assistant Professor Dr. Matej Černe. As I know, he is an outstanding researcher and a devoted colleague, I am confident he will do an excellent editorial job. Important news related to DRMJ is also that in January 2017 the Slovene Research Agency approved financing of the publication costs related to DRMJ for the first time in the journal's history. This will enable us to produce an even better journal, as the activities related to proofreading, technical editing and publication will now be carried out on an even more professional level. Therefore, we again invite academics and professionals to submit the results of their research to DRMJ. Manuscripts can include literature reviews, theoretical contributions as well as qualitative and/or quantitative research papers.

I am confident that everybody can find something interesting and useful in this issue of the journal. It includes six articles focused on dynamic relationships, but containing a spectrum of different topics, research approaches and levels of analysis. The first is a conceptual review paper by Professor Dr. Jon Aarum Andersen, who is wondering whether current management research is guilty of the oldest crime – not being relevant and helpful to managers. What follows are two articles that link dynamic relationships with the entrepreneurship world: Vesna Drofenik and Dr. Kaja Rangus engage in a thought-provoking analysis of the innovation ecosystem in Japan, whereas Professor Dr. Gazmend Qorraj looks into entrepreneurial venturing in transition countries with an empirical study of large firms and SMEs in Kosovo. The final three studies in this issue are placed at more micro levels, at the organizational-behavior domain. Sokol Loci examines the evolution of authentic leadership, and how personal legacy, education and identity contribute to the level of leaders' unique vision. Sara Trobez, Monika Vesić, Gaja Žerovnik, Xiaoli Ye and Darjan Žužul look into the relationship between culture and business ethics. Finally, to loop back into the entrepreneurship sphere, but looking at it from a trusting relationships perspective, Kristjan Vuk, Anej Pifar and Dr. Darija Aleksić examine how risk-taking and trust influence students' intention to invest.

Professor Dr. Tomaž Čater

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Dynamic Relationships Management Journal

LEADERSHIP RESEARCH AND THE OLDEST CRIME

Jon Aarum Andersen
Örebro University School of Business, Sweden
jon.andersen@oru.se

Abstract

In management and leadership scholarships, organisations are often regarded as entities established as vehicles for the owners so that the owners can achieve their goals. Arguably, the purpose of managerial leadership research is to provide managers with knowledge which benefits organisations. The purpose of this article is to assess whether current managerial leadership research is relevant and helpful to managers or not. Five studies (March & Sutton, 1997; Collins, 2001; Richard et al., 2009; Hiller et al., 2011; Andersen, 2013), which contain data from a total of 2,479 articles, have revealed that the relationship between formal leadership (management) and organisational effectiveness is seldom studied. When effectiveness is addressed it is rarely defined and almost never measured. It is, indeed, no surprise that six studies (Burack, 1979; Calas & Smircich, 1988; Astley & Zamuto, 1992; House & Aditya, 1997; Ghoshal, 2005; Brownlie et al., 2008) have shown that managers regard leadership research both irrelevant and useless.

Keywords: *managerial leadership, organisation, relevance, effectiveness, goal-attainment*

1. INTRODUCTION

The purpose of research is to solve problems. It is a question of what the problem is and who has the problem. The purpose of medical research, for instance, is to provide those who practice medicine with knowledge that enables them to cure diseases, to relieve pain, and to enhance individuals' health. Medical research thus benefits patients. Van Aken (2004) also used the analogy between management and medicine. The development of more instrumental management theory might be regarded as privileging only managers. However, Van Aken (2004) argued, this kind of research will also benefit other employees and owners.

Is current managerial leadership research relevant and helpful to managers? Private enterprises and public agencies are established in order to achieve specific goals. Managers' main task and prime concern is to contribute to the attainment of organisational goals. Hambrick and Quigley (2014, p. 473) have written: 'indeed, an understanding of executive effects can be thought of as fundamentally important for much organizational science.' Arguably, the purpose of managerial leadership is to provide managers with knowledge that benefits organisations and their owners. Is this the case?

2. WHY ARE ORGANISATIONS ESTABLISHED?

This article addresses the topic of leadership in formal organisations. Consequently, the question of how organisations should be studied emerges. As Scott (2003, p. 11) has written: 'Most analysts have conceived of organisations as social structures created by individuals to support the collaborative pursuit of specified goals. Common for rationalistic organisation theories is that organisations are oriented to the pursuit of relatively specific goals. Goals are specific to the extent that they are explicit, clearly defined, and provide unambiguous criteria for selecting between alternative activities. A common characteristic of open system theories is that they define organisations "as congeries of interdependent flows and activities linking shifting coalitions of participants embedded in wider material-resource and institutional environments" (Scott 2003, p. 29). The issue of whether or not organisations can be studied with a focus on the goals for organised action constitutes the watershed between the rationalistic and system perspectives.

3. RATIONALISTIC ORGANISATION THEORY

Organisations are social phenomena. Rationalistic theory views the organisation as an instrument, that is, a rationally designed means for the realisation of explicit goals set by a particular group of people (Scott, 2003). In management and business administration, organisations are regarded as contrived entities that are established as vehicles for the owners and their goal-attainment. One of the universal characteristics of organisations is the presence of a goal or purpose. A goal is a description of a future, a desired state. Some organisations are established where the owners are the prime beneficiary, namely, business enterprises (Blau & Scott, 1962). Goal-attainment is therefore the central issue and the basic definition of effectiveness in management theory.

The firm – as one type of organisation – is perceived clearly and undoubtedly as rationalistic in theories of business administration and management (Douma & Schreuder, 2002). The firm comprises one or more individuals who pursue the goal of generating dividends from the capital invested. This very goal motivates its establishment. The major difference between private companies and public agencies is the motive behind the establishment. A private organisation is in operation because some individuals (or other organisations) have decided to invest their funds into it. The enterprise is in operation as long as the owners wish it to continue and the market allows it. In contrast, a public organisation is in operation because a political decision has been made to establish it. The public agency remains in operation until a decision is made to cease its operations.

Rationalistic theory highlights the relationship between the owners and managers. Shareholders need to delegate control to a few directors and managers who can run the company on their behalf (Letza et al., 2004). The main goal of the organisation is not an issue for the managers. For the manager the goal is imperative, an order. As Maghroori and Rolland (1997, p. 80) have written on managers: 'They [the managers] do not exist for their own sake. They are to serve the organization's goal and mission and they remain at all times subservient to it.'

4. OPEN SYSTEM THEORY

Open system theory emerged as a reaction to and is an argument against rationalistic theory. This perspective is based on the seminal work of Katz and Kahn (1978). They rejected the idea of studying organisations on the basis of goals. It is imperative to note that Katz and Kahn (1978) did not address the issue of ownership. Organisations are dependent on other organisations and groups in order to acquire input and to find outlets for their products and services. Katz and Kahn (1978) have named other organisations 'constituent groups' or 'constituencies'. However, the concept of constituency is not well defined. Theoretically, all constituent groups are equally important (Katz & Kahn, 1978; Pesueux & Damak-Ayadi, 2005).

System theory does not regard the organisation primarily as an instrument for the realisation of the owners' goals. Katz and Kahn (1978, p. 244f) regarded survival as the sovereign criterion of effectiveness while goal-attainment is not a criterion at all. Rather, the organisation is perceived as a structure that responds to and adjusts itself to a multitude of demands from various constituents (stakeholders) and tries to maintain balance by reconciling these demands. Katz and Kahn (1978) have, however, regarded organisational goals as abstractions or generalisations of future activities and behaviours in organisations on a general level. System theory uses the notion of constituents to explain how goals emerge. Goals are formulated through a complex process involving different and possibly competing expectations from the constituents.

Rationalistic organisation theory regards the goal as an independent variable and as the primary controlling factor in the organisation's activities. In contrast, open system theory does not see goals as controlling the organisation's activities. Goals are conceived as a dependent variable, a product of the activities that take place in the organisation. Or to put it differently, according to rationalistic theory, the goal comes first and then the organisation is established. In system theory it is the other way round. Since all organisations have goals a question arises: whose goals are they? Rationalistic organisation theory is crystal clear on this matter: the goals for the organisation are the owners'. According to system theory the answer is, however, less clear. Rationalistic organisation theory focuses on owners, executives, and organisational goals. Most literature on organisation theory is, however, based on open system theory, which marginalises the importance of goals and owners.

5. ON GOALS AND GOAL-ATTAINMENT

Now, who decides the organisational goals? Is it the owners, the managers or the stakeholders? In the final analysis, the critical question is not who influences the organisational goals but who decides them. It is the owners (principals) of the organisation who have goals for the organisation they own. Official goals do not simply emerge. The founders (owners, principals) must state the main goals when the firm is to be registered with the authorities. The main goal of a specific business enterprise is a description of a permanent state in the future with a specific degree of profitability and risk desired by the owners based on their investment time horizon.

The company act confers to the owners (shareholders) the sovereign right to decide the overriding goals and to appoint the executive officer. Only owners have the right to change the business's objectives (Sternberg, 1997). Official goals do not simply emerge. The argument is, once again, that organisations are structural arrangements which are established in order to achieve specific goals. Therefore, in order to understand organisations, we need to understand their goals.

The main issue is if or to what degree the organisation achieves its goal. Consequently, goal-attainment becomes the core issue for the owners, the managers, and the other employees, as well as for researchers of organisations. Based on this premise of relevance, the question addressed here is to what degree current leadership researchers are engaged in solving problems relating to how leadership impacts organisational effectiveness. To put it differently, in what ways do present-day leadership researchers help business managers to enhance goal-attainment of their companies?

6. MANAGERIAL LEADERSHIP VS. POLITICAL LEADERSHIP

For theoretical development and empirical research it is imperative to distinguish managerial leadership from political leadership. Sayer (1992, p. 91) has posed the following questions: 'What does the existence of this object (in its present form) presupposes? Can it exist on its own as such? A key question could be: What cannot be removed without making the object cease to exist in its present form?' Now, if the study object is managerial leadership, we may ask what properties must exist for it to exist and to be what it is. What makes it possible? The argument here is that leader, subordinates, and tasks are the necessary properties for managerial leadership to exist and to be what it is. A formal leader (manager) is a person who is responsible both for the subordinates and for the results. In management and organisation theory the functions of leadership are tied to an organisation or a group. Managerial leadership pertains to formal organisations based on the goals of the owners. Managers lead business enterprises or public agencies and they have subordinates.

The core of managerial leadership is that managers are hired to contribute to the attainment of organisational goals, which can only be achieved by having subordinates performing tasks that lead to productivity and effectiveness. The goals of organisations are not a problem for managers. This is why they hold executive positions.

Managerial leadership and political leadership is not the same study object. Burns (1978) identified two types of leadership (transformative and transactional) on the basis of a qualitative analysis of the biographies of political leaders. Transformational leadership theory is a theory of political leadership defined by the properties of leader and followers but not by tasks. It is imperative to recognise that

Burns' (1978) focus was on leadership at the level of societies and movements. Political leaders lead political, religious, and humanitarian movements. Political and religious leaders have followers (e.g., supporters, members, participants). The goal is the goal of the leader or a common goal. The followers are not given specific tasks to do. Thus political leadership is pinpointed. To conflate managerial leadership with political leadership creates problems especially when it is argued that scholarship on political leadership is relevant and useful for managerial leadership (Pawar, 2003; Khanin, 2007).

It is imperative to note that the majority of empirical studies on leadership contain data from formal leaders, that is, managers in private and public organisations. Thus leadership theory is strongly linked to management and may even been seen and a part of management scholarship. Blake and Mouton (1985, p. 198) have noted that, 'Processes of leadership are involved in achieving results with and through others.' They have, indeed, pinpointed what may be seen as the dilemma of managerial leadership. The formal leader (i.e., manager) is responsible for results in accordance with organisational goals, but the manager can only achieve this through the efforts of subordinates and the actions of other people. This is why Nelson (1993) strongly argued that it is imperative for managers to link rewards and reward system to subordinates' behaviour that leads to the attainment of organisational goals. Managers cannot achieve the goals of the organisation by their own efforts alone. If that were possible, there would be need neither for an organisation nor for a leader.

7. THE CRITERION OF RELEVANCE

Several scholars have expressed concern about why organisational research is not more widely used. The academic debate on the relationships between rigorous research and relevance to management practitioners have been taking place since the 1960s. A large part of the literature addressing the academic-practitioner gap focuses on the alleged rigor of academic research in contrast to the perceived need for relevance on the part of practitioners. Van Aken (2004) argued that the relevance problem can be mitigated if research were to be complemented with prescription-driven research based on the paradigm of the 'design sciences'. Amabile et al. (2001) have argued that management research would be substantially strengthened by effective collaboration between researchers and practicing managers. Such collaboration may well become essential if research projects are to make any real difference in academics' understanding of or impact on management practice. Management research entails significant challenges at the interface between the world of the academic researcher and the world of the business practitioner. These challenges may best be met by academic-practitioner collaboration (ibid.). The primary interest of van Aken (2004) was to develop 'design knowledge', i.e. knowledge that can be used in designing solutions to problems in the field in question. Gulati (2007) also addressed the long-standing debate among management scholars concerning the rigor, or methodological soundness, of management research versus its relevance to managers. The author argued that 'tribes' were formed around rigor and relevance, sequestering themselves into closed loops of scholarship and dismissing the work of outsiders. A normative, seven step model of managerial research was proposed with recommendations for bridging the artificial rigor-relevance divide through problem-oriented research grounded in theory (ibid.).

Daft and Lewin (2008) have, however, argued that academic rigor and practitioner relevance are almost mutually exclusive. Some scholars argue that it is impossible to bridge the gap as science and practice are two systems unable to communicate with each other, while others have suggested ways in which this is possible (Finchham & Clark, 2009). Kieser and Leiner (2011) have argued out that the gap between rigour and relevance in management research is widening. By applying scientific management knowledge in their problem solving efforts managers can find out about its relevance. From the perspective of Kieser and Leiner (2011) it is only practitioners who are in a position to authentically attribute relevance to knowledge.

Management scholars have expressed considerable dismay about the failure of academic research to penetrate the practitioner society according to Rynes et al. (2001) and Rynes (2007). Related to the question of relevance is the issue of rigor versus relevance in research, that is, the academic-practitioner gap (e.g., Bartunek & Rynes, 2014). Learnmonth et al. (2011) challenged the wisdoms about the importance of 'useful' management scholarship. They suggested that usefulness and uselessness were contingent on issues of temporality and power, and advocated caution in assigning terms such as useful and relevant. These terms were inherently problematic. Usefulness should be viewed more as ideology than as empirical statements. The authors concluded by a call for reflexivity about what it is we are doing when we do 'useful' research, along with a greater concern for the values for which business schools stand (ibid.). Thorpe et al. (2011), however, recognised the substantive contributions made within a management journal to conducting research relevant to management at the level of individual studies. They indicated a range of ways knowledge can be translated and modified, embedded and otherwise found useful. The authors proposed that, to maximise relevance, knowledge must be reconfigured in multiple contexts, of which management research provides but one (ibid.).

What do we find if we briefly address the question of relevance in the field of management control and accounting? When Kaplan and Johnson (1987) argued that relevance was lost in management control almost 30 years ago, it was due to the fact that the contemporary research had not taken into account the fundamental changes in the structure of manufacturing companies. Burns (2000) provides insight into the dynamics of accounting change, but does not deal with whether or to what degree management accounting is based on research. Scapens and Bromwich (2010) noted that management accounting had come a long way as an academic discipline since 2000. They asked what the implications of all this theory was for management accounting practice. The editors refer to Baldvinsdottir et al. (2010), who claimed that the interest of academic researchers in the practical aspects of management accounting has waned. Researchers have neglected the technical core of their discipline and its problems, especially issues with direct, practical relevance (ibid.). A review by Rashman et al. (2009) of the literature on organisational learning and knowledge with relevance to public service organisation found an over-reliance on the private sector as the principal course of theoretical knowledge. The study of Pisani (2009) provides a comprehensive picture of the field of international management research. Some researchers have addressed the issue of relevance of project management research. Söderlund (2011), for instance, suggested that a better awareness of how to make use of the perspectives he identified would prepare researchers to frame more accurately the problems of contemporary projects.

This article addresses the question on relevance of leadership research in regard to relevance for what and relevance for whom. In managerial leadership research the concept of effectiveness is central. Goal-attainment is the core issue and the basic definition of effectiveness in management theory for private enterprises as well as for public agencies. Effectiveness (i.e., the dependent variable) and what causes effectiveness (i.e., the independent variables) must, however, be kept separate. In business administration profitability is seen as the major criterion of effectiveness for private enterprises. Profitability (i.e., return on investment, cash flow, and market-share change) is the most conventional measure of current business performance (Hambrick, 1983). The ultimate goal of a company is profitability (i.e., degree of return on assets) (Shetty, 1979; Nash, 1983; Walton & Dawson, 2001). For causal models in the field of management the 'bottom line' (or organisational effectiveness) is a much used result variable (e.g., March & Sutton, 1997). It is even assumed that relevant management research should always focus on overall organisational performance as dependent variable. March and Sutton (1997) have addressed the problems attached to effectiveness as the dependent variable. For the managers it is most relevant to know which factors that have a strong impact on goal attainment, and especially those factors which are applicable to the managers.

Leadership research, which does not deal with the question of organisational effectiveness, is thus irrelevant for those in managerial positions. As Jaques (1990: 5) has explained: 'The managerial role has three critical features. First, and most critical, every manager must be held accountable not only for the work of the subordinates but also for adding value to their work.' The supreme task of the formal leader (i.e., manager) is to contribute to organisational effectiveness. If current managerial leadership research neither directly nor indirectly addresses this problem then it is irrelevant and unhelpful to managers.

Indeed, managers themselves appear to perceive this inapplicability (Burack, 1979; Astley & Zamuto, 1992; House & Aditya, 1997; Ghoshal, 2005; Brownlie et al., 2008). Burack (1979) has noted that managers have regarded leadership research as useless to anyone in leadership positions and that much leadership research is leaderless. Calas and Smircich (1988) have also observed that the leadership literature seemed irrelevant to practitioners, and that researchers did not feel like they are getting anywhere. Nobody seemed to be happy.

8. METHODOLOGY AND LEADERSHIP

It appears that for some time leadership researchers have been more concerned with epistemological than with leadership issues. A number of leadership researchers became strongly influenced by the epistemological questions raised in social sciences in general. Some called for the importance of discourse, some for constructionism and re-constructionism, some others for social constructions of reality. The work by Callas and Smircich (1988) contains much of these influences as well as their arguments in favour of discursive practices as well as symbolic representations. They argued for direct participation, anthropological methods, and interpretations. Scientific discourse, narrative discourse, and the 'linguistic turn' became important. Callas and Smircich (1988, p. 212) asked: 'What kind of world will we make?' It would perhaps be more relevant to ask: 'What kind of understanding of the world (of leadership) can we obtain?' Leadership research has increasingly become method-driven due to researchers' fascination of specific approaches and methods. Consequently, some researchers begin their studies with a chosen method and then look for a problem to address.

Alternatively, research may start with the identification of a problem and the study object linked to that particular problem. Thus, the nature of the object under study is the 'fixed point' from where to begin regarding the choice of methods – it is the nature of the object that determines the possibilities we have for gaining knowledge about it (Danermark et al., 2002). Danermark et al. (2002, p. 41) have written: 'All knowledge is conceptually mediated and it is thus impossible to make neutral observations of "facts" about reality.' Observations are always theory-laden, but observations do not decide what reality is like. Again, reality exists independently of our knowledge about it. Our abstractions should primarily aim at determining these necessary and constitutive properties in different objects, thus determining the nature of the study object. In this context the term 'nature' refers to the type of an object, be it naturally or socially produced, to that which at a certain moment determines what a certain object is. The abstractions must show what it is in the object that makes it what it is and not something else (ibid.).

Once again, it is the nature of the object of study that determines the method. Consequently, there is no one best method in organisation and leadership research. This is critical because leadership research deals with many different objects of study like (1) leaders' personality, (2) leadership behaviour, (3) leaders' attitudes and values, (4) leadership skills, (5) leaders' activities, (6) leadership roles, (7) managerial work, (8) managerial functions, (9) processes of leadership, (10) leaders' perception and construction of their reality, (11) leadership situations/contexts, and (12) leadership effectiveness. There may be more than one method that captures the nature of the study object. However, it cannot be taken for granted that triangulation, that is, the use of two (or more) methods, is warranted.

Alvesson and Sveningsson (2003) have argued that more inductive, longitudinal and narrative work is needed to comprehend the phenomenon of leadership better. Alvesson and Sveningsson (2003) attack leadership research because it is based on 'forcing' respondents to respond to questionnaire statements. Interviews are the preferred method, they argue. This is simply incorrect: there is no one best method. Again, the nature of the object under study decides the choice of method.

If the purpose is to develop social-science explanations, it is not enough just to collect and repeat the interpretations and explanations that people themselves have of various social phenomena. Alvesson and Sveningsson (2003) have studied the meaning managers ascribe to leadership or construct their leadership, while Holmberg and Tyrstrup (2010) have explored the way in which managers perceive and describe the characteristics of their everyday leadership. Similarly, Kempster and Parry (2011) have examined how managers believed that they have learnt how to lead. Again, if the interpretations and explanations of others were the real explanation, there would be no need for social science (Danermark et al., 2002).

Alvesson and Sandberg (2013) argue that management researchers have lost sight of what is the goal and ultimate purpose of management studies, namely, to produce original knowledge that matters to organisations and society. What knowledge matters to organisations and managers? What kind of scholarly work is relevant and helpful to managers?

Leadership is totally independent of what researchers at any time think about it. Those who adhere to critical realism perceive social objects as relational. Social objects are not simply independent, for they are objects arising out of the relationship they form with other objects. It is a crucial realisation that the objects of social science are relational – they are what they are by virtue of the relations they enter with other objects (Danermark et al., 2002). This is the core of managerial leadership as it is related to individuals (i.e., managers and subordinates), tasks, and organisations.

Tushman et al. (2007) address the 'relevance-rigor gap' in organisation and leadership studies. If management is to be a profession, rigorous leadership theories can only be useful to managers if they grapple with the complexity of contemporary organisations (Uhl-Bien et al., 2007). Is the meaning that some managers ascribe to leadership and construct their leadership or the way in which some managers perceive and describe the characteristics of their everyday leadership useful for other managers to know?

Böhmel et al. (2012) have argued that application of objectivist methodological assumptions and overreliance on mathematical analysis can cause researchers to oversimplify reality. Rigorously derived theories and recommendations may be produced that lack practitioner relevance. By reflecting on lessons learned over years of practical experience with a robust mixed-methods approach specifically designed to bridge the academia-practitioner gap, the authors encouraged leadership researchers to adopt a more balanced portfolio of research methods that will simultaneously achieve research rigor and generate insightful practitioner-relevant theory.

9. RESEARCHERS' PERSPECTIVE VS. INVESTORS' PERSPECTIVE

A basis of divergence among those who study organisations is the theoretical perspective employed by the researchers. Again, whether or not organisations can be studied by a focus on the goals for organised action constitutes the watershed between the two perspectives. Rationalistic theory regards the goal as an independent variable and as a prime controlling factor in the organisation's activities. System theory does not see goals as controlling the organisation's activities.

It is imperative to distinguish between the perspectives on formal organisations that researchers have, on the one hand, and the perspectives that investors (owners of firms) have, on the other. Researchers' perspective on organisations may be that organisations do not have owners and goals or that goal-attainment is not a vital issue in the study of organisations and leadership.

Scholarship on corporate governance may cast some light on the issue at hand. Corporate governance is understood as the system by which companies are directed and controlled (Cadbury, 2000). Additionally, corporate governance can be conceptualised as a set of processes, customs, policies, laws, and institutions affecting the way a corporation is directed, administered or controlled (Mostovicz et al., 2011). Letza et al. (2004) have noted that through stock markets, share ownership has become dispersed and fragmented and shareholders are more like investors than owners. All the same, this observation does not change the fact that shareholders have the right to appoint directors of the board and thus to take part in major decisions regarding goals and strategies or can refrain from doing so. Letza et al. (2004) and Freeman (1984) have stated that owners not only want returns; they also want control. Owner control exists because an owner can expend resources in the form of voting power, voting for directors, voting to support management, or even 'voting' to sell their shares (ibid.). If we regard shareholders as investors, then we only imply that they have decided to be passive owners.

Micro-economic theory says that firms strive for maximum profit. In practice, the degree of profitability set as the goal of the firm depends on the investment horizon and the risk propensity of the owners. Not all shareholders hold similar investment horizons as some are 'transient' and some are 'dedicated' (Mostovicz et al., 2011). Any change in the structure of ownership may change the degree of profitability set as the goal of the firm. The perspective of shareholders and investors in general is that their goal is a certain degree of profit and an increase of the value of their assets. The corporation has legitimate obligations and the managers have a fiduciary duty to act in the interests of shareholders (Mayson et al., 1994). The profit margin set by the owners of the firm is the goal set for the managers to achieve. Whatever perspectives the researchers adopt, the owner's perspective remains the same.

10. IS MANAGERIAL LEADERSHIP RESEARCH RELEVANT?

Hambrick and Quigley (2014: 475) remind us the following: 'The academic field of management resides, in great part, on the premise that managers vary in their effectiveness in ways that have consequences for their organisations - that management matters.' What do management and leadership researchers study? Do they investigate the relationship between managerial leadership and organisational outcomes? March and Sutton (1997) have reported that 20 percent of the 439 empirical articles that they assessed dealt with performance, while Collins (2001) has reported that 'organizational performance' appeared in 19 percent of 54 studies. Additionally, Richard et al. (2009) have found that 'organizational performance' appeared in 17 percent of 722 articles. Hiller et al. (2011) have reported the occurrence of leadership effectiveness in seven percent of 1,161 articles. Hiller et al. (2011) have categorised profitability as tangible outcomes. The survey does not specify the number of studies which have applied return on assets and return on invested capital (profitability) as the criteria variables. Profitability is the major definition of organisational effectiveness for business enterprises. None of these four studies addressed the question on relevance. And none of them investigated the occurrence of organisational effectiveness in particular nor did they report whether or not the term has been defined or measured.

The study by Andersen (2013) narrowed down the four previous studies, that is, from a search for broad concepts to the occurrence of the specific concept of organisational effectiveness in leadership journals. Articles that include the term 'effectiveness' in the abstract or in the running text, or both, was scrutinised in order to assess whether the term had been defined and effectiveness measured or not. On the basis of this premise of relevance, a survey of 105 research articles written by 282 researchers and published in two international leadership journals in year 2011 revealed that the term 'effectiveness' occurred about one time for every thousand words. It was seldom defined and never measured (ibid.) If managers' prime concern is to contribute to organisational effectiveness, then it is no surprise that several scholars have found that managers regard leadership research to be irrelevant and useless.

11. REGAINING RELEVANCE

In business administration and management the firm is perceived according to the rationalistic theory (Douma & Schreuder, 2002). The firm comprises individuals who pursue the goal of generating dividends from the capital invested. This very goal motivates its establishment and a goal statement is required for the firm to operate according to the company act. When researchers apply the open system theory, the idea of studying organisations on the basis of goals is rejected. Thus, the basis for organisational studies is formally incorrect.

However, researchers' perspective on organisations may be that organisations do not have owners and goals or that goal-attainment is not a central issue in the study of organisations and leadership. Consequently, organisational goal attainment (effectiveness) is an irrelevant concept and not worth scientific endeavour. Organisational, management and leadership studies based on the rationalistic organisation theory imply that the main goal of the organisation is imperative.

The formal leaders (i.e., managers) are hired to be executives; that is, their main task is to contribute to the attainment of the goals as decided by the owners. The purpose of the organisation is the reason for management. If managers do not achieve the goals, the owners will (eventually) fire them. If the managers do not accept the goals, they may resign.

Ladkin (2010) has suggested that we should study leadership through the lens of philosophy, because philosophy teaches us how to live with uncertainty. To live with uncertainty is possible by asking questions. To conduct leadership research is, according to Ladkin, to ask questions. After more than 100 years of leadership research it may be timely to ask for answers. Arguably, the ultimate question in managerial leadership is this: how can managers act in order to enhance organisational goal-attainment.

Managerial leadership research would be relevant if researchers were more explicit on which problem they address and specify who has the problem. In other words, the relevance for the organisation and thus for the manager, must be made explicit. What managers need to know is how to act and behave in order to enhance organisational effectiveness. In order to achieve this, the relationship between leadership behaviour and organisational effectiveness needs to be the focus. What is the nature of the object of study of organisational effectiveness? If it is defined as the degree of goal-attainment it is an objective study object. Consequently, it is imperative that the research is based on methods that measure organisational effectiveness objectively. In that way, and maybe only in that way, can managerial leadership research become relevant and useful to managers and thus for the organisations in which the managers are appointed to enhance organisational goal-attainment.

The five studies referred to above, which comprised 2,479 articles, reveal that leadership research is irrelevant and useless to managers. However, six other studies also referred to have shown that managers themselves perceive leadership research unhelpful. They do not know why leadership research is irrelevant and useless to them. What managers probably do know is this: “betrayal is the oldest crime.”

EXTENDED SUMMARY / IZVLEČEK

V raziskovanju managementa in vodenja so organizacije pogosto opredeljene kot 'vozila' lastnikov za doseganje ciljev. Tako naj bi bil namen raziskovanja zagotavljati managementu znanje, ki bi koristilo organizacijam. Pričujoči članek se osredotoča na vprašanje, ali je sodobno raziskovanje s področja managementa dejansko relevantno za managerje ali ne, ter ali jim pomaga pri njihovem delu. Ker se dotika vodenja v formalnih združbah se poraja vprašanje, kako na pravi način raziskovati organizacije v njih. Izziv tega, ali je organizacije moč raziskovati z osredotočenostjo na cilje z namenom organiziranja dejavnosti, je pravzaprav na meji med racionalističnimi teorijami in teorijami odprtih sistemov. Racionalistična teorija se osredotoča na lastnike, managerje in cilje organizacije. Večina literature s področja organizacije pa temelji na teoriji odprtih sistemov, ki govori o tem, da je najprej opredeljena organizacija, šele zatem pa cilji.

Članek se osredotoča na pomembnost raziskovanja vodenja v smislu tega, zaradi česa in za koga je raziskovanje vodenja relevantno. V preučevanju vodenja v okvirih širšega področja managementa so ključni koncepti učinkovitosti in doseganja ciljev, ki predstavljajo ključne kriterije uspešnosti. Raziskovanje vodenja, ki se ne ubada s temi vprašanji, je torej nerelevantno za praktike na managerskih pozicijah, saj jim ne pomaga pri izboljšanju njihove učinkovitosti. Kritični pregled petih preglednih študij (March & Sutton, 1997; Collins, 2001; Richard et al., 2009; Hiller et al., 2011; Andersen, 2013), ki vključujejo podatke za skupno 2.479 člankov, je razkril, da je dejansko razmerje med formalnim vodenjem v okviru managementa in uspešnostjo združb le redko predmet preučevanja. Kadar se članki osredotočajo na to povezavo, je uspešnost le redko pravilno definirana in skoraj nikoli izmerjena. Tako ni presenečenje, da je šest študij (Burack, 1979; Calas & Smircich, 1988; Astley & Zamuto, 1992; House & Aditya, 1997; Ghoshal, 2005; Brownlie et al., 2008) pokazalo, da managerji dejansko razumejo oziroma zaznavajo raziskovalno področje vodenja kot nepomembno za njihovo prakso. Ne vejo pa, zakaj je temu tako. Česar pa se verjetno managerji zavedajo je, da "je izdaja najstarejši zločin".

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THE INNOVATION ECOSYSTEM IN JAPAN

Vesna Drofenik
ABC Hub, Ljubljana, Slovenia
vdrofenik@gmail.com

Kaja Rangus, PhD.
Faculty of Economics, University of Ljubljana, Slovenia
kaja.rangus@ef.uni-lj.si

Abstract

This paper will examine the status quo of the startup world, innovation systems and venture capital in Japan. Historically, Japan has always been special, and that seems to be the case even today. Whereas many European countries are plagued by high unemployment, driving people to entrepreneurship, Japan is experiencing a labour force shortage. Moreover, what is known about Japanese companies is that they constantly invested in in-house R&D for continuous innovation and new products, thus keeping one step ahead of the competition. This does not seem to be the case anymore – many Japanese companies are having trouble competing with Korean and Chinese corporations. So what drives entrepreneurial innovation in Japan today, what form does it take, in which fields? What is the role of venture capital, if any? These are some of the questions explored by this paper.

Keywords: *Innovation ecosystem, Japan, Start-up, Venture capital*

1. INTRODUCTION

Ever since the inception of the Internet, our transition to a globalized society has kicked into a higher gear. The ability to transmit large amounts of digital data to virtually any location on Earth in real time has opened up previously unimaginable opportunities for individuals and businesses alike. The business world has grown closer and closer together, even if its political counterpart seems to have lagged behind, if not taken a different path altogether. This is becoming increasingly true at an exponential rate in the 21st century – in the developed world, it has now become rare for an individual not to have a presence on online social media. According to Statista.com, the global leader in the social media industry, Facebook, had an astounding 1.59 billion active users in April 2016. A giant in mobile games, Finnish-founded and until very recently Japanese-owned (Osawa & Needleman, 2016) Supercell boasted 100 million monthly active users in March 2016, with revenues surpassing €2 billion out of an estimated total market revenue of €30 billion worldwide in 2015 (Needleman, 2016). Electric automobile producer Tesla Motors received a staggering 325,000 reservations for its upcoming new Model 3 in the first week alone, arguably making it the biggest product launch week in terms of implied sales of any product. All of these companies were founded after the year 2003[1]. It is unfathomable to imagine such fast growth in the past. All of these companies, though they have now grown into large multinational companies, were actually founded as startups.

This paper will examine the status quo of the startup world, innovation systems and venture cap-

[1] Facebook, Supercell and Tesla Motors were founded in 2004, 2010 and 2003 respectively (Facebook, n.d.; Supercell, n.d.; Tesla Motors, n.d.;).

ital in Japan. Historically, Japan has always been special, and that seems to be the case even today. Whereas many European countries are plagued by high unemployment, driving people to entrepreneurship, Japan is experiencing a labour force shortage (Martin, 2015). Moreover, what is known about Japanese companies is that they constantly invested in in-house R&D for continuous innovation and new products, thus keeping one step ahead of the competition. This does not seem to be the case anymore – many Japanese companies are having trouble competing with Korean and Chinese corporations (Wakabayashi, 2012; Cheng, 2012). So what drives entrepreneurial innovation in Japan today, what form does it take, in which fields? What is the role of venture capital, if any? These are some of the questions explored by this paper.

Additionally, the paper will attempt to explain the insights gained by industry data using the known characteristics and features of Japanese business culture. Many scholars from various fields of business sciences have stipulated that traditional Japanese values and character have influenced the development of its organisational behaviour and stakeholder relations (Wolf, 2013; Nishiyama, 2000; Haghirian, 2009). How are the concepts of risk aversion and group-oriented behaviour reflected in the image of contemporary entrepreneurship? What kind of problems have been spawned by this? Moreover, to turn the tables - are there any practices specific to the entrepreneurial culture of Japan that may be worth looking into by the Western business culture? Finally, the paper will conclude with a critical reflection on the status quo, implications as to the future and potential for exchange and improvement.

2. KEY CONCEPTS IN INNOVATION ECOSYSTEMS

Like many other sectors and industries, the world of startups has developed a kind of jargon to refer to the new concepts, relationships and institutions it has introduced. There is a stark difference between a startup and a small business, perhaps best explained by the purpose behind their business models – whereas the small business is looking to establish itself independently on the local market, the startup's intent is to disrupt the market with a scalable model and fast growth and become a large company and market leader (Pope, 2014).

On the other hand, even startups in the contemporary sense of the word have a number of definitions which vary depending on the viewpoint of the user, and they are still widely debated (Robehmed, 2013). Even governments use different requirements in policies targeting startups. For example, in 2015, India unveiled its new Startup India, Standup India policy, defining a startup in terms of age (up to 5 years), turnover, and technology sector (Bhushan Dwivedi, 2016); on the other hand, the government-sponsored Start:up of the year[2] competition in Slovenia defined a startup in terms of age (up to 3 years), ownership structure, investment to date, innovativeness and market potential (Start:up Slovenia, 2015). To be sure, the trendiness of the term itself attracts usage, diluting its meaning. In the context of this research, a startup is best defined as a company under 5 years old with a revenue run rate[3] under $50 million for 12 months, less than 100 employees, and a valuation below $500 million (Wilhelm, 2014).

A technology business incubator (TBI) is defined as an initiative providing its members (either existing or soon-to-be startups) support infrastructure, including business services, networking, access to professional services, university resources and capital (Mian, Lamine, & Fayolle, 2016). TBIs vary according to scope of function and location, and include institutions such as technology/business incubators, innovation centres, science/research/-technology parks, co-working spaces and business accelerators.

The accelerator is a relatively recent incubation model aiming to speed up the growth of new businesses by providing incubation services to startups in intensive, cohort-based programs with a fixed duration (Pauwels, Clarysse, Wright, & Van Hove,

2 Translated from the original: 'Start:up leta'.

3 The term 'revenue run rate' is used to forecast future revenue by extrapolating short term revenues over a longer period of time.

2016). Typically, accelerators will provide a small amount of seed capital in exchange for equity in the startup, office infrastructure, and a number of networking, educational and mentorship opportunities. The acceleration programs can last from 3 to 6 months, and often end in a large pitching event or "demo day" (Cohen & Hochberg, 2014).

One of the key roles in the lifetime of a startup are played by venture capital (henceforth VC), a segment of private equity investing in high-risk early-stage businesses. VCs provide capital funding for innovative ideas with high business potential who cannot obtain financing from banks due to lack of credit (Teker, Teker, & Teraman, 2016). Funding is done through an equity investment, where VCs become stockholders in the startup. VC is also considered a high-risk investment because it is illiquid – until the company matures enough and is acquired or publicly listed, the shares are essentially worthless. To protect their investment, VCs tend to be more involved in management (what is referred to as the hands-on approach), providing additional benefits such as networking and experience. The primary goal of a VC are financial returns gained by exiting investments, either by selling their share to an acquiring company or new investor, or through an initial public offering (henceforth IPO) (Metrick & Yasuda, 2010).

Naturally, all of the listed entities do not operate in isolation of each other, but in mutual cooperation, complementation and support. The various stakeholders form the innovation ecosystem, traditionally defined as "the complex relationships that are formed between actors or entities whose functional goal is to enable development and innovation" (Jackson, 2011). It includes both material and human resources that make up the entities who participate in the ecosystem, and comprises of the fundamentally research-driven research economy and the marketplace-driven commercial economy. Innovation ecosystems support and foster open innovation through the high social interconnectedness of the many innovation actors. Recently, digitalisation and public media interest have also been key features influencing the development of innovation ecosystems (Oh, Phillips, Park, & Lee, 2016).

3. ENTREPRENEURSHIP IN JAPAN

When we look at the state of economic development in Japan today, it is easy to forget how strikingly different life and trade here were just 150 years ago. The intangible cultural heritage has shaped the island nation's laws, policies, business and relations, enabling it to become the world's third-largest economy, and second-largest developed economy (as defined by OECD membership).

3.1. History of entrepreneurship in Japan

Like many other medieval societies, Japan had a feudal system of government. In 1603, after centuries of civil war, conflict and struggle for power among local and regional feudal lords (a period dubbed Sengoku after the Chinese Warring States period by Japanese historians), the Tokugawa period began with the appointment of Ieyasu Tokugawa as shogun. In the following centuries, Japan enjoyed a peaceful, but isolated period as its borders were closed and foreign trade limited to partners from China, Korea and the Dutch East India Company. The port city of Nagasaki on the southern island of Kyushu was designated as the only area where merchants from overseas were allowed to enter. The shoguns enforced strict control of Japanese trade, both external and internal (Sansom, 1974).

The political system of feudal Japan was heavily influenced by and based on Confucian philosophy. Agriculture was perceived to be the most important and morally pure source of wealth and prosperity, while the moral responsibility and obligation of the ruler was to govern in a way that would ensure stability and security for the people of the domain Under the Tokugawa peace, commerce eventually blossomed as peasants started producing a larger variety of crops to avoid the crushingly high tax on rice. Farmers engaged in additional activities with a higher added value, including the production of paper and writing materials, woven cloth, lacquerware etc. Merchants and artisans contributed to the urbanisation process of castle towns as they flocked there to service the needs of the garrisoned samurai and the lavish lifestyles of the daimyo. While wealth of the merchant class increased, the daimyo's strained budgets forced them to borrow from the former to supplement tax revenue. It was clear that the economic policy had not evolved with the times, and pressure began to build on the ruler to become more involved in trade and commerce on a regional and, later on, a national level (Sagers, 2006).

To understand the role entrepreneurship played in Japan's impressive economic growth, we need to fast forward to the 19th century, to the time of the Meiji Restoration. In 1853, a chain of events was triggered which led to the dissolution of the shogunate. Although some Western technology and knowledge, particularly medical sciences, did enter Japan in the previous centuries, in general, Japan lagged far behind the wealthy European empires, which had vast colonial resources at their disposal, and the vast, resource-rich United States. One of the key measures implemented by the Meiji government to promote entrepreneurship and industrialisation is the establishment of private property rights (Sagers, 2006) and the introduction of the joint stock company, or kabushiki kaisha (Fujimori & Nozawa, 1992), in the 1870s. As the domestic accumulation of capital was quite low due to restrictions of the feudal system, the joint stock company represented an important means of gathering numerous sources of capital, enabling the high-risk ventures of importing industrial technology from the West. They also allowed the separate functions of ownership and management. For the first time in Japanese history, it became possible to found large-scale industrial enterprises such as the Osaka Bouseki Kaisha, a cotton spinning corporation founded by business pioneer Eiichi Shibusawa with funds he had collected from about 30 noblemen and former samurai. The company would go on to become a successful industry leader both domestically and abroad, while Shibusawa – the son of a farmer - continued to play a big role in Japanese economic reform. He participated in over 500 ventures, founded the First National Bank - the first modern bank with joint stock ownership in Japan – Japan's first business association, the Takuzenkai, and helped set up the Commercial School, predecessor of the prestigious Hitotsubashi University (Clark, 1979). The rise of joint stock companies soon created an active equities market, as indicated by the founding of the Tokyo Stock Exchange as early as 1878.

From the turbulent early decades of Meiji and all the way through to the mid-20th century, many forces drove both economic and political change in Japan. One of those forces took the form of the zaibatsu, an organisation not unlike a modern-day holding company, combining large numbers of industrial companies and private financial institutions under an umbrella organisation usually owned by a single family (Clark, 1979). In order to drive industrial development, the Meiji government offered subsidies and materials to start new enterprises as well as favourable tax exemptions. These policies enabled early entrepreneurs like Yasuda, Iwasaki of Mitsubishi and Minomura of Mitsui to found a number of companies in different industries, linked by ownership and supplied with money from the same bank. The zaibatsu enjoyed high growth and exponential capital accumulation due to the fact that its member companies had the advantage of preferential trade amongst each other as well as the privilege of access to capital channelled from public deposits in the zaibatsu banks (Clark, 1979). As discussed previously, access to the high level of accumulated capital gave the zaibatsu a competitive edge as they took the lead in the development of capital-intensive industries, like engineering and chemicals.

The Japanese "post-war economic miracle" can be at least partially attributed to a number of capable entrepreneurs (Haghirian, 2009). One of the measures taken by the Occupation Forces under General MacArthur with the goal of "the democratisation of the economy" was the dissolution of the zaibatsu groups (Clark, 1979). This was done by the compulsory dispersion of the stocks and shares held by the corporate groups, effectively ending their monopolies on the enormous amounts of capital, promoting competition and lowering the barriers of entry for newcomer companies.

A well-known example of a post-war newcomer success story is global electronics giant Sony, founded in 1946 by Akio Morita and Masaru Ibuka. The story of Sony, as reported by Morita in his excellent autobiography, Made in Japan (1987), is a classic example of entrepreneurship, and many parallels can be drawn between it and the startups of today. The fledgling Sony faced a number of issues in its early years, including a lack of adequate infrastructure (their first headquarters were in a wooden shack with a leaky roof in war-torn Tokyo), a lack of funding (they often relied on Morita's father to loan them money), and the unavailability of raw materials and components. Their advantage was that both founders had an innovative spirit and ambition, and they as well as their employees were technology-oriented and highly educated (Morita et al., 1987). Sony would go on to become a multinational corporation and create a number of disruptive new products, for example the Walkman portable music player, the Betamax video recording system, and the PlayStation video game and multimedia system.

The path to success was hardly clear cut for small companies like Sony, who faced government regulation and institutions favouring "large producers over smaller ones, limiting 'wasteful' competition and channelling key resources like capital and labour to chosen sectors" (Haghirian, 2009, p. 251). The purpose of such interventions was to promote industrial growth by nurturing the selected industries, thereby allowing domestic producers to develop the competencies needed to compete on an international level (Y.-I. Lee & Trim, 2008). In light of this, some of the long-term effectiveness of the anti-monopoly measures taken by the Occupation Forces was lost, and would eventually lead to the decline in new business activity (Century et al., 2009).

The accumulation of capital from previous decades nevertheless ushered in a boom of venture companies in the period from 1970 to 1973, when economic growth slowed down. One of the trends from this period was the datsu-sara, or "corporate dropout", which was the slang term coined to counter the sarariman, or corporate employee. It was used to describe Japanese managers who decided to leave their companies, escape the sarariman life and go elsewhere (Solt, 2014). The flourish of venture companies was cut short by the oil crisis of 1973, and unfortunately, many venture businesses went bankrupt. The next boom took place from 1983 to 1986 as new companies were founded, inspired by the oil shock, to create new energy-saving solutions.

Electronics R&D, new materials, and biotechnology were some of the fields that would be the focus of new business at the time. Due to the credit relaxation of November 1983, access to capital was greatly facilitated for venture companies, which led to excessive investment and lending. When the high-yen recession hit in 1985, even powerful venture companies were forced to close down. The continued monetary easing policy of the late 1980s drove the Japanese economy into an asset price bubble, which culminated in its collapse in 1991 and introduced a period of stagnation known as the "Lost Decade". A third boom of venture companies began in 1993, when it was thought that entrepreneurs could overcome the economic slump, and efforts to support entrepreneurship began from both the government and the private sector (Haghirian, 2009).

3.2. Entrepreneurship in Japanese Culture

The attitude toward entrepreneurship in Japan is strongly influenced by the peculiarities of its culture, historical circumstances, and economic policies which have shaped business and labour practices. As discussed in this section, some of the main issues affecting the development of Japanese entrepreneurship include a general aversion to risk and fear of failure, the high importance of seniority and corporate loyalty, and the group-oriented nature of society.

Despite the success and renown of post-war entrepreneurs, entrepreneurship is still not seen as a good career choice. In 2014, the Global Entrepreneurship Monitor (GEM) report found that only 31% of the active population perceived entrepreneurship as a good career choice, slightly up from 28% in 2009. This is the lowest percentage in the region and less than half of the regional unweighted average, which is 63.4%. The reason is that the idea of going to a good school in order to get into a good university and secure a job at a good company is still prevalent among the Japanese (Haghirian, 2009). Corporations offer the highest salaries and perks that simply cannot be provided by small companies, let alone start-ups. Feedback from interviews conducted with entrepreneurs and VC representatives also shows that employment mobility is an issue, since a failed venture would be seen as disgraceful rather than a valuable learning experience, as it is in the West.

Perceptions of status and media attention for entrepreneurs are also below average: according to the GEM report, 55.8% felt that successful entrepreneurs enjoy high status compared to a regional average of 69.8%, while 58.7% felt that media coverage of successful business ventures contributes to the development of the entrepreneurial culture in Japan, as opposed to the regional average of 74.4%. The discrepancy in the perception of status between Japan and other Asian countries is not as great as in the perception of entrepreneurship as a career choice. More than half of the Japanese seem to understand the social and economic benefits of entrepreneurship. However, the aforementioned risk aversion and fear of failure traits kick in, showing once again that people are generally not willing to bear the cost of entrepreneurship. The best students prefer to choose the safer corporate career over joining a start-up, and are encouraged to do so by their parents. This phenomenon is described as "not in my backyard" entrepreneurship by Stanford University's William Miller (Haghirian, 2009).

4. INNOVATION ECOSYSTEM IN JAPAN

This Chapter examines the characteristics of Japanese innovation ecosystem and what sets them apart from their counterparts elsewhere in the world. Having in mind the following research questions: What drives entrepreneurial innovation in Japan today, what form does it take, in which fields? The questions were explored using the results of established research institutions and statistical data from official sources. The empirical part of the research was conducted in the form of one on one interviews with two venture capital firm partners, one entrepreneur and one academic researcher. In addition, we attended several industry events in Japan, discussing the topic with several participants from different fields of profession. The findings from the interviews were also supplemented by industry media reports and podcasts featuring interviews with startup entrepreneurs and other stakeholders of the innovation ecosystem.

4.1. Japanese unicorns

In 2013, the term "unicorn" was introduced to distinguish startups valued at over $1 billion by public or private market investors (A. Lee, 2013). Does Japan have unicorn startups? Compared to the boom of highly valued startups hailing from the US and, increasingly, China, Japanese startups have gotten off on a slow start. In Japan, venture capital is more conservative. Only in March 2016 did the first Japanese startup, Mercari Inc., a C2C mobile e-commerce company, reach the landmark valuation. The company raised ¥8.4 billion in its latest funding round from a number of investors, including major corporate groups as well as independent venture capital (Alpeyev & Amano, 2016). More recently, Line Corporation, the company providing the popular messaging service, also joined the unicorn party after the year's largest tech IPO on July 15th 2016. After listing on both the Tokyo and New York stock exchanges, Line's valuation skyrocketed to $8.6 billion in the same day (Reuters, 2016).

Based on an annual survey performed by Venture Enterprise Center Japan, 53.9% of all VC investments in 2014 were captured by startups in IT-related industries. The biotech, health and medical care industries accounted for 16.2%, the industrial and energy sectors received 15.3%, and the remaining 14.6% of investments went into products or service industries (Venture Enterprise Center, 2015). According to data available on Entrepedia.jp, an online database platform connecting startups with investors, the largest number of listed startups were in the HealthTech industry, followed by FinTech, CleanTech and EdTech. There is an underlying trend of traditional industries being disrupted by new technologies. Other important industries include biotechnology, software and hardware development, video games, consumer goods and services, and the global trend, Internet of Things.

4.2. Private Equity Venture Capital

In terms of funding, banks have always had a very important role in the Japanese economy. Banks were at the heart of every zaibatsu conglomerate, pumping money into as well as exercising control over the interconnected companies in the so-called main bank system (Sheard, 1989). While the main source of capital funding for US companies is equity, in Japan, businesses have traditionally been financed through bank loans based on the close, long-term relationship with the bank. This is consistent with the aforementioned risk-averse culture of Japan, since loans are generally speaking less risky than equity investments. Despite this, the Japanese financial industry today boasts a growing VC sector driven both by private capital firms, dedicated VC organisations, and corporate VC funds.

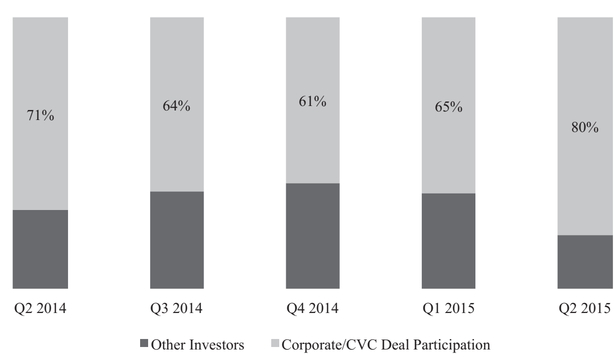
In 2002, the Japan Venture Capital Association (JVCA) was established as the country's "first and only organisation" aiming to assist VC firms and to support venture businesses. JVCA focuses on three major initiatives, with three groups of stakeholders in mind: the development of the venture ecosystem to aid the creation and growth of venture businesses or start-ups, the development of the fund-raising and management ecosystem to help VC firms, and the promotion of open innovation, which benefits society as a whole. As part of these initiatives, JVCA conducts independent research and analysis of the VC industry, hosts lectures, symposiums and other events to foster knowledge and skills, conducts its own testing and awards qualification certificates, collaborates with government agencies and represents the interests of the venture industry by making policy recommendations, and cooperates with various other stakeholders of the venture industry. As of July 2016, JVCA was composed of 59 VC members and 19 corporate VC members (Japan Venture Capital Association, 2016). In comparison, the National Venture Capital Association, a similar organisation based in the United States, was founded as far back as 1973 and has nearly 400 members (National Venture Capital Association, 2016).

Large investment deals are uncommon for the venture industry in Japan. While it is true that each VC has a unique investment style, most VCs tend to invest in the seed or early stages, with individual deals, or tickets, spanning from ¥5 million to ¥30 million. Indeed, seed and early stage investments accounted for over one half of the total amount invested by VC in 2014, 13.9% and 43.3%, respectively (Venture Enterprise Center, 2015).

4.3. Corporate Venture Capital

As already discussed corporations play a large role in the venture business. Besides providing in-house opportunities for innovation and new business development, many corporations also invest in external start-ups (Anokhin, Wincent, & Oghazi, 2016). While this is not unique to Japan, the impact of corporate investments on the venture ecosystem is substantial. A possible reason for this could be to the aforementioned risk-averse attitude of Japanese capital owners. Since the number of VCs as well as the amount of capital available from them is lower, the relative share of corporate-backed venture investments is higher than in other countries. For example, 80% of investment deals made in the second quarter (Q2) of the 2015 fiscal year in Japan were made with corporate VC participation (see Figure 1). In North America, their share in the same time period was only 23% (see Figure 2). It should be noted, of course, that the total volume of investment deals is much higher in the US than it is in Japan.

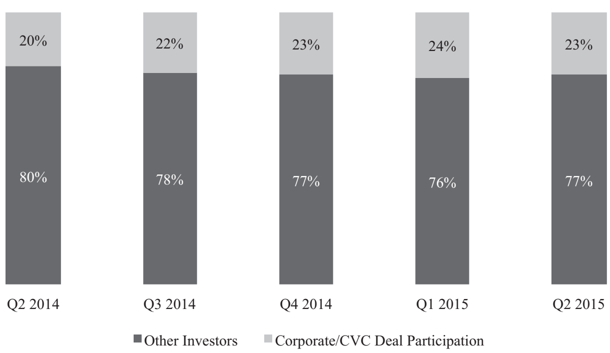
Figure 1: CVC participation in funding deals to VC-backed companies in Japan.



Source: J. Riney, Corporate Venture Capital Is King In Japan, TechCrunch.com, 2015.

The reasons for corporate investment in Japan are not unlike those elsewhere. The main purpose is not capital gain and financial returns, as is the case with investors from the financial industry; instead, the function of corporate venture capital is seen more in terms of R&D and corporate development (Riney, 2015). It is a means of gauging industry trends to protect and develop their own core businesses, as well as building business relationships with potential acquisition candidates or important long-term business partners. Seen from the perspective of traditional Japanese business values, where long-term stability and close relationships between business partners are favoured over short-term advantages and profits, the prevalence of corporate venture capital is even more understandable (Haghirian, 2009). Securing funding from an established company can also be advantageous for startups, which can benefit from the good reputation and stability of the corporation as well as the access to its business network distribution channels.

Figure 2: CVC participation in funding deals to VC-backed companies in North America.



Source: J. Riney, Corporate Venture Capital Is King In Japan, TechCrunch.com, 2015.

4.4. Exit Strategy

The relative strength of corporate VC discussed in the previous chapter might suggest that the most common exit scenarios are corporate acquisitions. However, this does not seem to be the case. According to James Riney, head of 500 Startups Japan venture fund: “Despite having a lot of cash on their balance sheets, Japanese companies historically have not been very active domestic acquirers. In most cases, they strongly prefer to build products and services in-house rather [than] buying.” (Riney, 2016) Riney adds that Japanese startups tend to go public with an IPO at a much earlier stage and lower market capitalisation than US startups. Indeed, the median IPO offer amount of venture-backed Japanese companies in 2014 was ¥2,273 million (a little under $19 million) (Japan Venture Research, 2015), while the average IPO offer amount for venture-backed companies in the US was $133 million in the same year (Thomson Reuters, 2015).

While some of these figures are not directly comparable, they do offer some insight. They are consistent with the main paradigms of Japanese business culture described in earlier chapters: being risk-averse, the Japanese capital owner prefers to make smaller and diversified investments to lower the risk factor, as discussed in previous chapters. VCs and other investors are not prepared to give large sums of money to young companies composed of teams and managers they have yet to establish a relationship with. When startups seek to raise a certain amount of funding, they have no choice but to opt for a public offering in order to secure a sufficient number of smaller investors.

5. KEY FINDINGS

5.1. Key issues of Japanese startups

The paper presents the effect that Japanese culture has on the state of entrepreneurship in Japan. It has been shown that it is risk-averse and that the Japanese are generally not inclined to start a company because they fear failure. This attitude reflects in all aspects that have been discussed, from the source of venture capital to the manner in which startups are founded. How do the characteristics of the Japanese innovation ecosystem shape the issues that are faced by startups?

Lack of experience: Japanese employees do not have the skills, knowledge or experience to start up and run a company. Often, they also do not know about the various support institutions available to them within the innovation ecosystem. They are too focused on the technical/technological aspects of the company, so they make mistakes in their business decisions. According to insights gained from interviewed VC representatives, many startup founders are former employees of banks and other financial institutions. The awareness of the lack of knowledge may also impact the fear of failure and reluctance to start up.

Lack of talent: Japanese startups have a hard time finding and hiring employees because their reimbursement offer can never compete with an offer from a corporation. Startups have very limited resources, so they often offer stock options in place of a higher salary. But the best talents would rather work for a large corporation, because the payoff is so much higher. Not only that, perspective entrepreneurs can be discouraged by their parents or life partners, who may desire a lifestyle with a secure income. This issue differentiates Japanese startups from startups based in other countries.

Lack of capital: Banks are still the primary source of capital for Japanese companies as a whole, and startups do not have the credit to obtain funding from banks. VC activity also focuses on tech hubs like Tokyo, Osaka, Nagoya and Fukuoka, so availability in smaller Japanese cities is low. While there are alternative funding options, for example the no-collateral Startup Loan Program, potential entrepreneurs might not know about it.

5.2. Future perspectives

We have demonstrated that Japan has fallen behind many of its competitors when it comes to entrepreneurship. The government has spent decades implementing government policy aimed at promoting entrepreneurship. Many large Japanese companies are in trouble because they have ceased to be competitive. In spite of the decade-long post-bubble recession in Japan, a major paradigm shift in the Japanese attitude toward venture business has not occurred. Can Japan regain its former status as a high-tech manufacturing leader, or find a contemporary niche for global success?

The truth is that Japan faces issues on a structural level. Its demographic structure is headed for an unsustainable situation in the future, and problems with elderly caregiving are already emerging. The shortage of labour promises to lead into a decline in output levels, which will hinder the economy. And yet, an optimistic mind will take these issues and look for a technological solution. For the labour shortage, at least, Japan has reserves in women, foreign workers, and robots.

Above all, what Japan needs is a clear strategic policy. The questions of labour shortage and aging population need to be addressed, and who better to find a solution than entrepreneurs? Prime Minister Shinzo Abe might have objectionable qualities, but he does seem to understand that Japan will not survive as a leading country without improving its entrepreneurial culture. The past year has seen a number of newcomers and new developments in the Japanese innovation ecosystem. At this point, it is really hard to judge whether the recent trends are enough for a turnaround – certainly, many long-term residents in Japan have given up hope. All the more reason to pay attention to Japan in the coming years.

5.3. Suggestions for further research

There are many interesting aspects of the Japanese innovation ecosystem that may merit being the subject of further research. Some possible questions to explore in the future are:

- How does Japan compare to the culturally similar Republic of Korea, or Taiwan?
- How does Japan compare to European countries?
- What is the impact of Fukuoka Startup City policies on the city's economic growth? On the success of hosted startups?
- What is the real scope of incubator activities and their impact on rural entrepreneurial development?
- Is there evidence of a multiplier effect in founder post-exit investment activity?
- What is the difference between entrepreneurially inclined Japanese and those who are not interested in new business?

Due to the lack of resources in English, further research should be done in partnership with a member of a Japanese university or research institution. Some quantitative data may be obtained from official sources, or there may already exist some research in Japanese covering some of the topics mentioned. New insights could be gained by using well-planned questionnaires. However, due to the nature of the startup industry, it could be easier to gain data individually. Some of the topics mentioned are sensitive, for example founders' investment activity, and would therefore be best investigated through qualitative individual interviews.

6. CONCLUSION

Over a century has passed since Japan opened its borders to foreigners in the latter half of the 19th century. The years of isolation as an island nation have shaped Japan firmly, and even today, it remains a society with perhaps one of the most distinct sets of rules and cultural peculiarities. The same pattern is true for business culture, organisational behaviour, innovation and entrepreneurship in Japan, as this thesis has demonstrated.

The ideas of risk-aversion and fear of failure permeate the Japanese society. While the first could be understood by outsiders as a natural development of an island-bound and disaster-plagued nation, the fear of failure is more complex, perhaps drawing influence from the past times of Japan's wartime glory and the bushido philosophy of medieval samurai warriors. In practice, these ideas manifest into concrete phenomena. A young graduate decides on a corporate career rather than starting their own business, to the approval of their parents. An inspired individual with a great idea struggles to find like-minded as well as competent co-founders. A startup company with no track record faces problems when trying to find an investor to fund their growth.

In spite of these issues, empirical research has shown that although it is relatively smaller and less developed than its US counterpart, a fast-growing innovation ecosystem has nevertheless emerged. It is made up of varied stakeholders ranging from private equity, corporate R&D initiatives, foreign VC ventures, and specialised media outlets, to public universities, state-funded incubation and support programs, and campaigns on a local and national level. In combination with influence and inspiration from abroad, the ecosystem acts as the breeding ground for Japanese startups.

There is good reason to believe that the innovation ecosystem will continue to develop, and that we can expect a boom of Japanese startups in the coming years. Perhaps the most telling evidence for this is the fact that the Japanese government itself sees the need for a better-developed entrepreneurial environment and is actively implementing policies and actions to stimulate and support startup activity. If history is any indication, Japan will once again absorb the best practices from the global innovation ecosystem and cultivate a new generation of successful entrepreneurs.

EXTENDED SUMMARY / IZVLEČEK

Ta članek pod drobnogled postavi trenutno stanje v svetu zagonskih podjetij, inovacijskega sistema in tveganega kapitala na Japonskem. Zgodovinsko gledano je bila Japonska od nekdaj nekoliko posebna, kar drži še danes. V nasprotju z razvitimi evropskimi državami, ki se v zadnjih letih soočajo z visoko stopnjo brezposelnosti, ki ljudi spodbuja k iskanju uspehov v podjetništvu, na Japonskem doživljajo pomanjkanje delovne sile. Ob tem so japonska podjetja znana po stalnem vlaganju v raziskave in razvoj, kar jim omogoča trajnosten razvoj inovacij ter ohranjanje konkurenčne prednosti. Kaže, da slednje ne drži več – marsikatero japonsko podjetje danes le stežka konkurira korejskim in kitajskim tekmecem. Kaj torej poganja podjetniško inovativnost na Japonskem, v kakšni obliki ta poteka in v katerih panogah? Kakšna je vloga tveganega kapitala? To je le nekaj vprašanj, na katera odgovarjamo v tej raziskavi.

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ENTREPRENEURIAL VENTURES UNDER INFORMATION ASYMMETRY IN TRANSITION COUNTRIES

Gazmend Qorraj
University of Prishtina, Republic of Kosovo
gazmendqorraj@yahoo.com

Abstract

The firm activities that drive economic growth cannot be sustained without financial support of credit institutions. Financial support to firms has been one of the most crucial challenges especially for banks in transition economies due to information asymmetry and transition deficiencies. Similarly, large firms and SMEs in Kosovo face liquidity constraints due to these inefficiencies. This paper explores credit activities under information asymmetry in functions of enterprise development. A survey conducted with 200 firms, including 100 large firms and 100 SMEs in Kosovo responds to the above dilemmas. The empirical results of this paper suggest that large firms that possess their own capital in Kosovo are more dependent on bank funding to grow, compared to small firms that survive with their own funds but do not grow much.

Keywords: *firms, ventures, adverse selection, moral hazard, information asymmetry*

1. INTRODUCTION

Agency problems are represented in all economic activities mainly as adverse selection and moral hazard. This paper considers the agency problem of information asymmetry in lending, which has a direct impact on entrepreneurship development due to limited financial sources. In transition economies there is a massive information deficiency that cannot be properly filled because of the lack of transparency in the enterprise and financial sectors, which are necessary to support prudent lending activity. In general, uncertainties in the business environment impose high interest rates, lower-term maturity loans, and credit constraints.

There are many theoretical contributions with regard to credit constraints, which impose obstacles to enterprise development due to agency problems. Kiyotaki and More (1997) developed a model with Stiglitz and Weiss–type credit constraints, which arise because lenders cannot force borrowers to repay their debts. Therefore, the lenders lack the necessary information to distinguish between good and bad borrowers due to adverse selection and moral hazard in the credit market. Rajan and Zingales (1998) presented industry-level evidence from a large sample of countries showing that firms that need external finance tend to develop slower in countries with less-developed financial markets. A large review of theoretical literature by Levine (1997) indicated the importance of financial issues through better identification of investment projects, lower costs of financing, and rational entrepreneur behaviour.

Furthermore, Evans and Jovanovich (1989) tried to explain entrepreneurial choice by taking liquidity constraints into consideration. They were inspired by the Schumpeter and Knight theories, suggesting that wealth does not impact entrepreneurial ventures. On the other hand, Knight recognised that entrepreneurs should finance themselves because capital markets provide little capital to entrepreneurs due to adverse selection and moral hazard problems (LeRoy & Singel, 1987).

Evans and Jovanovich tried to clarify the dilemma of whether the entrepreneur should be wealthy in order to undertake entrepreneurial venture. They analysed the importance of liquidity constraints as a parameter by employing a model of entrepreneurial choice. Jovanovich (1989) assumed that, in case of financial constraints, personal wealth will be the main source of support for entrepreneurship activities. In addition, Ando (1985) reported that two main conclusions should be drawn regarding liquidity constraints and new ventures. First, there is the critical role of savings and loans from relatives and friends, especially when it comes to business formation. Second, once the firm is established the role of personal savings diminishes because the investor assumes less risk and consequently will be able to provide more capital.

This paper explores how the entrepreneurship development in transition is effected by financial intermediaries taking into consideration the agency problems, adverse selection and moral hazard respectively. Based on the Jovanovich and Ando models, the following hypotheses are tested:

Hypothesis 1: Large entrepreneurs, despite possessing their own capital, use more external financial sources to expand their activities, compare with small firms, who barely survive.

Hypothesis 2: There is no significant development of small ventures and start-ups in Kosovo due to agency problems and difficult access to credit markets.

This paper analyses and compares data created through a survey specifically designed for this study, with theory introduced by Evans and Jovanovich (1989), which supposes that the main source of finance is personal wealth under the condition of credit constraints.

2. METHODOLOGY

In order to ensure and incorporate the best practices, the analysis is based on theoretical approaches but also supported by empirical experiences in transition economies. The first section is a literature review that introduces entrepreneurial approaches by exploring the recent literature.

The second section discusses a survey which identifies financial constraints faced by SMEs. The survey data were collected by interviewing owners and managers of randomly selected firms. The subject of the survey was the current situation and development of the SME sector in Kosovo. This survey enables identification of the role of finance in the firm development. The surveys were conducted with 200 firms, including 100 large firms and 100 small firms in Kosovo, and descriptive statistics analyses were performed in order to obtain empirical evidence regarding the comparison between large and small enterprises regarding their ability to obtain financial support.

The distinction between large and small firms is based on the number of employees. This distinction in large and small entrepreneurs is made in order to explore whether the access to financial sources is similar for the two categories. Analysis of entrepreneur behaviour is based on the entrepreneur behaviour model by Evans and Jovanovich (1989), which links limited financial sources with enhancement of the entrepreneurship ventures. Policy conclusions are derived from the research results.

3. THEORETICAL BACKGROUND

Information asymmetry problems are found to be especially relevant to transition economies because the subject originated with the description by Kornai (1979) of financing in centrally planned economies. Kornai and Roland (2003) broadly applied information asymmetry to the relationship between lenders and borrowers in transition economies.

Adverse selection is at the core of a vast literature dealing with overcoming this problem in lender–borrower relations. The most widely used class of these models is based on Besanko and Thakor (1987), who addressed the screening of the agents through the use of credit rationing and collateral. The model introduced by Townsend (1979) explained the moral hazard problem; the essence of the model is that the agent, who has no wealth of his own, borrows money from the principal to run an investment project. The outcome of the project is freely observed only by the agent. Furthermore, the present paper addresses other theories such as the theories of credit constraints of Kiyotaki and More (1997) and Leland and Pyle (1997) and adverse selection followed by credit rationing model of Stiglitz and Weiss (1981).

3.1 The impact of information asymmetry on lending

Agency problems are represented in all economic activities, but this paper considers agency problems specifically in lending relationships between banking industry and firms. All less-developed countries, in which bank activities are at a lower stage of development, are characterized by these problems. In addition, financial intermediaries are able to transform the risk characteristics of assets, because they can overcome a market failure and resolve information asymmetry problems. Moreover, banks are a critical source of liquidity even for large firms during economic crises (Seidenberg & Strahan, 1999). A reduction in the supply of bank loans increases the financing costs of firms that are dependent on banks for credit.

Bank-dependent firms are typically smaller in size (Gertler & Gilchrist, 1994). These firms tend to be bank dependent because their access to non-bank capital markets is poor because of reduced economies of scale with respect to intermediaries acquiring information about small firms. The bank-lending channel is likely to be more important in small, open economies than in large, closed economies because the proportion of small bank-dependent firms tend to be higher in smaller economies than in larger economies. A reduction of the supply of the bank credit reduces real activity. During the Asian crises in the second half of the 1990s, for example, the disruption in the supply of credit was the major factor in the recessions experienced by the affected countries. Banks in these countries were unable or unwilling to establish the credit facilities required for importers to provide overseas suppliers assurance of payment. Information asymmetries and the inability of lenders to monitor borrowers causelessly lead to agency costs, which creates a wedge between the cost of internal and external financing for the firm.

Kiyotaki and More (1997) developed a model with Stiglitz and Weiss–type credit constraints, which arise because lenders cannot force borrowers to repay their debts unless the debts are secured. Assets such as land, buildings, and machinery serve as collateral for loans, and borrowers' credit limits are affected by the value of the collateralised assets. When lenders lack the necessary information to distinguish between good and bad borrowers, it is said that adverse selection and moral hazard problems exist in the market for credit.

3.2 Adverse Selection and Moral Hazard

The common assumption for all the models is that entrepreneurs are better informed than investors, including banks, about the quality of the projects they want to develop. Leland and Pyle (1997) considered that entrepreneurs can signal the quality of their projects by investing more or less of their own wealth into these projects. In this way they can partially overcome the adverse selection problem, because good projects can be separated from bad projects by their level of self-financing. This signalling through self-financing is crucial in order to avoid adverse selection problems.

Entrepreneurs who are endowed with good-quality projects prefer to self-finance rather to sell the entirety of their projects at a low price; they can limit themselves to partial self-financing if they can convince investors that other entrepreneurs who are endowed with low-quality projects have no interest in self-financing. In other words, the decision to self-finance a project will signal to outside investors, including banks, that the project is good. In this way the bank has strong arguments to approve the project and to finance it. The main methods for solving adverse selection problems are to restrict the opportunistic behaviour and to equalize information (Perloff, 2004, p. 660).

The companies as borrowers send signals to banks about their activities and projects. This signalling, which is an action taken by an informed person or institution—in this case, the company as a borrower—is done to send the information to the less-informed institution—in this case, the bank as a lender. Screening is an action taken by uninformed persons or institutions, in this case to determine the information possessed by informed people or informed institutions. The banks try to use screening as a means to gather information on hidden characteristics in order to reduce the adverse selection. If the banks obtain better information, they could approve the loan to the company or sign the contract. A moral hazard problem between banks and borrowers arises from a contract form of a bank loan, under which the interest rate paid by a borrower is fixed when the loan is made. A borrower may increase the risk of its investments to obtain higher returns. In order to mitigate moral hazard problems, banks monitor and impose collateral requirements on borrowers.

Some firms require external financing, and there is a moral hazard problem between the entrepreneurs and their financiers—in this case, between the bank and the company—because the entrepreneurs can divert project resources towards private uses. That increases their private benefits but reduces the expected return of their projects. When a company is more indebted, a larger part of its return goes to the lender; from this point of view the entrepreneur has an incentive to increase his/her private benefits. Thus the greater the reliance on external financing, the more severe the moral hazard problem becomes (Repullo & Suarez, 2000).

3.3 Credit Rationing

Credit rationing has been the subject of a vast amount of literature. An example is the availability doctrine developed in the early 1950, followed by contributions of the Baltensperger (1978) and Stiglitz and Weiss (1981).

Usually, banks use financial ratios in order to assess the repayment capacity of companies, but in some examples Kosovo banks also have used character-based lending, which is characteristic for this region because of the lack of background of many companies, specifically credit history.

Information accumulated by banks through monitoring and screening can be shared among banks or credit providers in order to create a credit market environment with lower information asymmetry, and this leads to more-efficient allocation of credit. A credit information system is a very useful instrument in order to avoid adverse selection problems in lending. Unlike standard markets, in which delivery of a commodity by a seller and payment for the commodity by a buyer occurs simultaneously, in the credit market a loan received today is exchanged for a promise of repayment of the loan along with accrued interest in the future. One borrower’s promise may not be as good as another borrower’s promise, and there may not be an objective way to determine the probability that the promise will be kept (Meza &Webb, 1992). In general, banks are interested not only in the interest rate they receive on a certain loan, but also in the risk associated with it. The risk can be represented as the probability that a loan is paid back. This probability differs from one firm to another, but cannot be observed by the bank. The result is that the level of the interest rate reflects a hidden characteristics problem, because anyone willing to pay a high interest rate usually is a bad risk. A firm which agrees to pay a high interest rate could have a high probability of not repaying the loan.

The other issue with regard to credit rationing is the case when a bank offers two types of contracts: one contract that contains a low level of collateral and a low reduction in the interest rate, and a second contract that contains high level of collateral and high reduction in the interest rate. Self-selection occurs because firms with a small probability of repaying the money will choose the first type of contract.

4. INFORMATION ASSYMETRY PROBLEMS IN KOSOVO

Massive reconstruction activities in Kosovo during the early 2000s’ led to a high demand for bank loans. Therefore the banks in Kosovo applied higher interest rates because of higher demand as well as higher risk associated with the lending activities. This risk could not have been observed by the banks because they faced massive information deficiencies due to the lack of transparency in the enterprise sector. The result was that the level of the interest rates reflected a hidden characteristics problem. There was evidence that some companies were willing to pay higher interest rates because the probability of repaying the loans was small.

Banks and other lending institutions in Kosovo could not use the mechanism of credit history as a screening device, because in the beginning of their lending activities there was no credit information bureau and it was impossible to check the credit history of the customers. Therefore banks mostly used the other solution: requiring a high level of collateral in addition to an inflated interest rate. This offered the opportunity to design contracts in such a way that the various risk was selected over the various contracts and that no rationing occurs in equilibrium (Bester, 1985). The high level of the collateral required by the banks affect the demand of companies for credit. This caused withdrawal of some companies, and other companies tried to offer collateral that could not be properly evaluated.

The other challenge was that in Kosovo, banks could not rely upon courts enabling the enforcement of creditor's rights and contracts within a reasonable time and at a reasonable cost. An additional deficiency that characterised the Kosovo lending market was that companies did not have clear projects for their future prospects but in some cases imitated the actual businesses, which caused deficiencies in some economic branches, such as the service sector. Moral hazard or post-contractual problems occurred after the loans were approved when the companies changed their initial projects and used loans for riskier purposes. Banks have limited tools for controlling the way in which the money will be spent, which may have negative effects on the probability that the loan will be paid back as agreed.

In the case of Kosovo, most banks transferred money to company suppliers directly and not to company accounts in order to avoid the misuse of the funds. In the case of international suppliers this approach was successful, but with local suppliers this approach did not work. Firms used the credit line for trading activities instead of production, or they used money for current assets instead of fixed assets or machinery, equipment, etc. The other specific characteristic for Kosovo was that companies had hidden debts to other companies or creditors, which the banks could not observe, because most of the companies used cash operations. This is information that banks cannot observe during site visits, and therefore the banks cannot investigate the hidden debt. One way to reduce moral hazard problems is to approve credit lines only to companies that have additional sources of income or that have other project running; this means not extending credit to start-up companies, because in case of default of one project they cannot cover losses from other successful projects.

5. LARGE vs. SMALL FIRMS, WEALTH, AND FINANCIAL SOURCES WITHIN INFORMATION ASSYMETRY

Based on the Evans and Jovanovich model (1989), the borrowing constraints imply that personal wealth is positively related to the probability that the person will engage in entrepreneurship activity. The study of entrepreneurship in Bosnia and Herzegovina (BiH) (Demirgüç-Kunt, Klapper, & Panos, 2007) found that non-governmental organizations and government-supported programs that provide grants and transfers to promote entrepreneurship had a positive effect on the probability of becoming entrepreneurs. They also found that a wealthier person can start a venture with more efficient capital and thereby realise a greater return from investments than can a poorer person.

Survey evidence from Thai households (Paulson & Townsend, 2004) and BiH households (Demirgüç-Kunt, Klapper, & Panos, 2007) confirms this. Hence, wealthier households are more likely to produce the self-employed. Fazzari, Hubbard, and Petersen (1987) reported evidence of capital market imperfections, including for public manufacturing industries, in which case loans from friends and relatives could be a way to reduce liquidity constraints. There is evidence that the entrepreneurial success of some groups is due to their access to family capital and other financing networks. Ando (1985) also reported that loans from friends and relatives constituted approximately 10% of the start-up capital, whereas bank loans constituted approximately 41%. In transition countries, studies use household consumption as a wealth proxy instead of income, because income usually is under-reported.

Finally, it is important to discuss start-up or new firms which are connected with external as well as internal sources of finance. Start-up capital for an entrepreneurship activity can be acquired through financial institutions—banks, non-government institutions, or government grants—considered as external finance, whereas inheritance as a form of wealth is considered an internal source of finance. Different authors have reported that the propensity to start a business relates to inheritances received in the past (Holtz-Eakin, Joulfaian, & Rosen, 1994; Blanchflower & Oswald, 1998). Hurst (2003) reported that high-wealth households have a high propensity to undertake risk. This group of households is much more likely to switch to specific businesses, such as professional businesses such as law firms, medical practices, etc.

6. RESULTS

It is important to analyse limited financial resources and lending default as an obstacle to enterprise development in Kosovo, due to insufficient experience of Kosovo enterprises dealing with the credit market as well as due to agency problems. Despite the difficult access to financial sources, most entrepreneurs in Kosovo stated that borrowing from banks is not very useful due to short-term loan maturity and high interest rates. This paper reports data obtained by surveys with regard to financial sources for the enterprises.

From the empirical evidence, approximately 48% of the large firms surveyed used bank credit as a financial source, whereas approximately 18% of the firms used personal savings only. Other sources of finance are less important and therefore not significant. In contrast, the situation with small businesses is different. According to the surveys, the most important financial source for these firms is personal savings, approximately 36%, and only approximately 14% depended on banks, implying that small businesses have less access to bank financing.

In addition, non-entrepreneur's behaviour was analysed by surveying approximately 100 non-entrepreneurs in order to identify why they do not undertake the entrepreneurship ventures. According to the results, approximately 45% of them did not try entrepreneurship due to limited access to financial sources.

An additional survey was conducted by COSME (Europe's programme for small and medium-sized enterprises, 2014) with regard to financial support for firms in Kosovo. The results support the analysis in this paper: approximately 47% of small firms used their own savings, whereas only 29% of large firms used savings.

The other important issue is that only 3% of small firms refinance their ventures from their business turnover, whereas approximately 25% of large firms refinance their business ventures from their business turnover. With regard to banking loans, approximately 38% of small businesses are supported by banking loans whereas approximately 50% of large businesses are supported by the banking industry.

With regards to hypothesis testing, this analysis confirms the hypothesis that large entrepreneurs use more external financial sources, although their own capital is larger compared to small firms. This could be explained by the fact that large entrepreneurs have better access to credit markets than do SMEs, and therefore large firms own more capital which could be used as a screening device, namely collateral, by the financial institutions.

The second hypothesis, that development of small ventures and start-ups in Kosovo is hampered by limited financial sources, is also confirmed because these small companies cannot create sustainable development by basing their business plans only on their own capital, relatives, and other sources, especially taking into consideration the low level of welfare and personal wealth of people in Kosovo.

7. DISCUSSION

The entrepreneurship climate in Kosovo is fragile, and the most critical issues are growth of firms and creation of new jobs, optimisation of resource allocation, transfer of technology, and boosting entrepreneurship ventures. Despite important steps forward, entrepreneurs in Kosovo still face many obstacles during the process of starting a business and doing business in general, such as the lack of institutional and legislative transparency and unfair competition. Apart from the above-mentioned challenges, credit constraint due to information asymmetry is an obstacle for financial institutions, which therefore limits credit potential and increases the costs, and consequently it is an obstacle for entrepreneurship development. Banks usually use credit analyses such as financial ratios and cash flow analysis to assess the repayment capacity of the borrowers. However, in Kosovo, due to the lack of the appropriate financial data and audited reports offered by companies, banks combine financial ratios and character-based lending to evaluate the business.

7.1 Theoretical Contributions

The main contribution of this paper is in extending the limited literature on the financing of entrepreneurship ventures under information asymmetry in transition economies, focusing on the Kosovo case. Because of its recent past, Kosovo is characterized not only by economic and institutional challenges, but also by political challenges, all of which play an important role in developing entrepreneurship. Another practical contribution is to inform the stakeholders in Kosovo, such as banks, financial institutions, and firms, about the impact of information asymmetry in financing and firm growth. Compared to other theories and authors, such as the theory of Evans and Jovanovich (1989) stating that "the borrowing constraints imply that personal wealth is positively correlated to the probability that the person will engage in entrepreneurship activity", this paper finds that in the case of Kosovo, personal wealth of an entrepreneur is positively correlated with bank financing and lower information asymmetry. In contrast, less-wealthy small firms are financed with personal resources, including resources from close relatives, and do not make a strong case for bank financing, suggesting negative effects of information asymmetry.

7.2 Practical Implications and Limitations

Because of existing information asymmetry, banks limited credit lines to firms in Kosovo in the last decade. With the recent legal reform that introduced private bailiffs, the lending interest rates of commercial banks decreased, but the share of financing to small firms remains limited. The main limitation of this paper is a lack of availability of detailed firm-level data that would enable analysis of all the reasons behind the low level of bank financing of small firms; instead, this paper depends on a limited number of variables used in a survey.

7.3 Further Research Directions

Further research could be extended by analyzing the obstacles of the business environment in Kosovo, as well as technical capabilities of the small firms, such as their capabilities to represent to financial institutions the appropriate information, business plans, and other useful documents. Furthermore, analysing this improvement of small firms could facilitate their approach to financial sources, because most of the small firms surveyed indicated their difficulties in obtaining financial resources, whereas large firms have better access to financial resources from the banks. The main questions to be raised are: Can small firms meet the banking requirements given their limited capacities? Do banks still apply higher requirements for small firms, including more collateral, due to information asymmetry, so that small firms cannot easily meet these demands?

EXTENDED SUMMARY / IZVLEČEK

Aktivnosti združb, ki predstavljajo gonilo gospodarske rasti, ni moč ohranjati brez finančne podpore kreditnih institucij. Finančna podpora združbam predstavlja enega ključnih izzivov, predvsem vezano na aktivnosti bank v tranzicijskih gospodarstvih, predvsem zaradi informacijske asimetrije in pomanjkljivosti, ki izhajajo iz tranzicije. Tako se srednje velika in velika podjetja na Kosovem soočajo z omejitvami, povezanimi z likvidnostjo, ki izhaja iz prej omenjenih izzivov. Članek se osredotoča na kreditno aktivnost v luči informacijske asimetrije v funkciji razvoja združb in gospodarstva. Raziskava dvestotih združb (100 velikih in 100 srednje velikih in malih) na Kosovem odgovarja na izpostavljene dileme. Empirični rezultati nakazujejo, da so večja podjetja, ki posedujejo večji delež lastnega kapitala, bolj odvisna od bančnega kreditiranja v primerjavi z manjšimi, ki lažje preživijo z lastnimi sredstvi, a hkrati ne rastejo.

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AUTHENTIC LEADERSHIP: HOW PERSONAL LEGACY, EDUCATION, AND IDENTITY CONTRIBUTE TO THE LEVEL OF UNIQUE VISION

Sokol Loci
Faculty of Economics, University of Ljubljana, Slovenia
sokolloci@hotmail.com

Abstract

Authentic leadership has evolved because of the turbulent times the global market faces in the current century (Avolio & Gardner, 2005). An authentic leader's purpose is to create deep organizational transformation, which will increase the performance of the organization. Authentic leaders have a deep sense of purpose and a strong commitment to their values (George, 2003). They also work according to their individual values, which create unique values for the company as well. This article argues that a leader's unique vision makes connections between the leader's past experience, education, and personal identity and the leader's character, current organizational needs, and future desires or wishes. The research conducted for this article is theoretical, based on qualitative research including case studies, interviews, academic papers, and books. In addition, it involved a semi-structured interview with the leader of Peja Municipality in Kosovo, Mr. Gazmend Muhaxheri. The results of this paper emphasize that a leader's unique vision is influenced by six interrelated factors described chronologically: Past experience, education, identity, personal integrity, self-awareness, and personal authenticity. In order to transform a situation, leadership should set some future goals and then create the vision how to achieve these goals.

Keywords: *Authentic Leadership, Unique Vision, Past Experience, Education Background, Individual Identity*

1. INTRODUCTION

According to Avolio (2004), authentic leaders are individuals who are deeply aware of how they visualize, think, and know exactly how to act in a process. Authentic leaders are perceived by others as being aware of their own values, knowledge, and strength; aware of the context in which they operate; and confident, optimistic, and have strong character. Furthermore, self-awareness describes how an individual is conscious of his or her own behavioural habits, emotions, wishes, thoughts, and images that flow throughout his/her being (Kegan, 1982; 1994).

The main focus of this paper is to provide insight into the development of an authentic leader's unique vision. The paper aims to understand the impact of past experience, education background, and identity on leader cognition, which would be the basis for creation of a leader's unique vision. Leader cognition is manifested as a psychological state which a leader experiences, and through this process a leader knows how to influence his/her subordinates with respect to achieve his/her goals (Lord & Hall, 2005). "As a result, one often finds cognitive capacities to be one of the best predictors of leader performance" (Hedlund et al., 2003; Zaccaro, Mumford, Connelly, Marks, & Gilbert, 2000). Leader cognition is an important process for formulating plans and communicating them clearly to subordinates in order to achieve goals for organizational transformation.

The contribution of this paper is in attempt to understand a leader's unique vision as the way a leader operates within a certain situation. The concept of vision describes the path articulated to make a successful transition from the present situation to the future which is real, credible, and optimistic (Nanus, 1992). This paper further elaborates the uniqueness of the vision, which it explains as the correlation between personal authenticity characteristics and goal characteristics. This paper provides information about the correlation between personal legacy, education, and identity with authenticity. It also explains the relationship between personal authenticity as a source of information, knowledge, and creativity and unique vision as a personal planning horizon with each step elaborated in detail to determine the path that leads to success. Therefore, the specific research question of this article is: Are past experience, education background, and individual identity the determinants of having a unique vision that leads to an organizational transformation?

Furthermore, this paper explores personal legacy, education, and personal identity as roots of authenticity. It then will be easier to understand the leader's unique vision because authenticity is the source of people's actions and thoughts. Specific goals of this paper are:

1. To examine how much people take into consideration their life experience in their decision-making process;
2. To measure how childhood contributes to adult attitudes in order to assess whether the actions and thoughts of a leader are unique or borrowed;
3. To determine if authenticity is a process that evolves over time or remains unchanged;
4. To understand on what level education contributes to individual character, creativity, and knowledge;
5. To describe how personal identity affects a leader's success or failure;
6. To assess whether an authentic leader's behavior is affected by external factors or if a leader behaves based on their personal principals, knowledge, experience, education, and ambitions while making a decision; and
7. To understand the concept of being original while making decisions, and determine if this individual originality can help the leader to be unique and successful.

The next section of this paper explains a leader's unique vision and analyses how individual past experience, education, and identity affects the leader's unique vision. Thus, a leader's unique vision is developed as consequence of personality development and a leader's self-clearance is the way in which the three individual life factors (past experience, education, and identity) determine a leader's perceptions about the needs an organization and its future goals.

Sections 3 to 6 provide the methodology, results and findings, discussion and future research recommendations, and conclusions, respectively. This paper used the Peja Municipality as a case study for analysing its leader in order to provide evidence of how past experience, education, and identity affected his character and perceptions about the municipality's needs and future objectives.

2. LEADER'S UNIQUE VISION

A leader's goal is to create space for managerial manoeuvring for transformation of the organizational environment in order to increase the overall performance of the company. Authentic leaders are known as individuals who behave purposefully, which means they have a clear vision for an issue, great focus on the path to the goal, and know exactly the end of the desired goal (Moore & Diamond, 2000).

Vision is the main focus of this paper in order to clarify how an authentic leader visualize his/her objectives. Table 1 provides definitions of the concept of vision to understand its original meaning.

All definitions describe the importance of vision when an organization faces challenges. Just managing the situation is not enough to keep the organization safe; leadership should provide a well-articulated vision to create conditions for accelerated success in the future (Archbald, 2013).

Based on Figure 1, the final stage labelled Desired Goal is the tangible product or service (objective) accomplished as a consequence of the articulated vision in details that represent an intangible product or service (Idea).

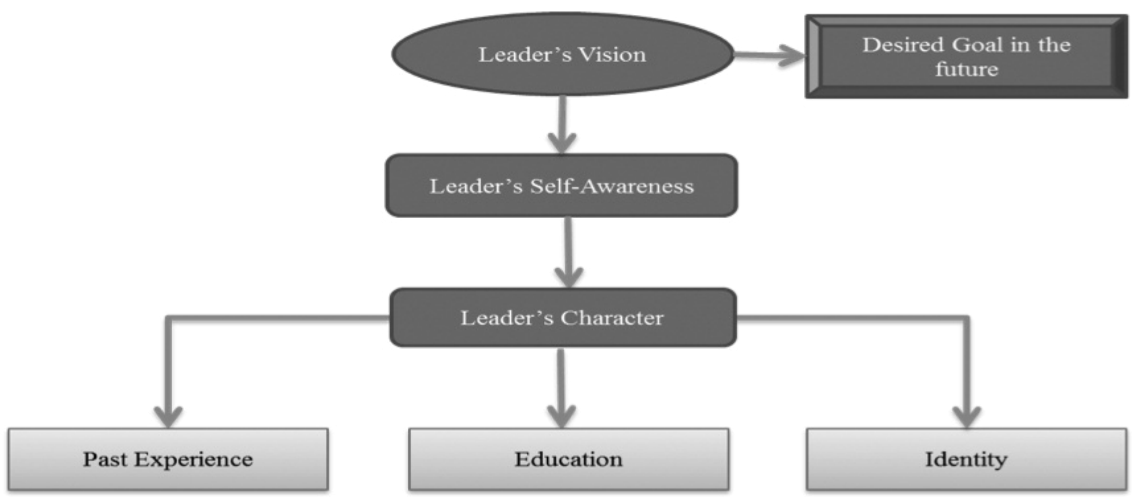
Moreover, goals have to be well developed so that each step needed to achieve all objectives can be articulated. A leader's goals and vision are the

Table 1. Definitions of the Concept of Vision by Different Authors

Author	Year	Definition
Nanus	1992	Vision is the path articulated to make a successful transition from the present situation to the future which is real, credible and optimistic.
Kotter	1996	Vision is the picture which describes the future where people want to be.
Wilhelm	1996	Leaders create their own vision to reach future trends successfully and they have abilities to articulate in detail the vision to their subordinates in order to delegate roles while transforming the vision in practice in order to achieve certain goal in the future.
Douglas, Burtis, & Pond-Burtis	2001	Vision is source of the presence which tends to move in the future in order to change the environment.

Source: Based on D. Archbald, Vision and leadership: Problem-based learning as a teaching tool, 2013, p 136.

Figure 1. The Theoretical Model of Article



same; there is only an idea transformation in reality but both contain the same values. In order to successfully transform an idea, vision must be in harmony with a leader's core values. Core values are insight standards which determine character and are considered a source of individual beliefs, attitude, behaviour, and skills (Grusenmeyer, 2016).

According to Kegan (1982, 1994), self-awareness refers to an individual being conscious of his/her own behavioural habits, emotions, wishes, thoughts, and images which flow throughout his/her being. Thus, individual character and self-awareness determine the level of unique vision.

Table 2 presents character strengths which a leader may have. Further analyses of past experience, education, and identity can explain how an individual thinks, acts, and visualizes objectives differently from others.

2.1 The impact of people's legacy on their personal development

This paper provides information about how past experience contributes to personality development. From the earlier psychological investigations into personality development by psychologists and researchers it can be seen that the substantial re-

Table 2. Character Strengths and their Meanings

No.	Character Strength	Description
1.	Honesty	An individual speaks and behaves authentically.
2.	Creativity	An individual has his/her unique way of doing thinks.
3.	Prudence	An individual hesitates to act.
4.	Judgement	An individual examines the possible results from every angle before making a choice.
5.	Love of Learning	An individual does not lose any opportunity to increase his/her knowledge.
6.	Perspective	Even when an individual does not feel self-confidence, others believe in his/her abilities.
7.	Bravery	An individual is consistent in his/her thoughts and acts based on his/her authentic beliefs and desires.
8.	Curiosity	An individual easily learns how to act in a process.
9.	Leadership	An individual has the ability to transform a situation and includes other people in the process.
11.	Fairness	An individual is involved in a decision-making process without considering his/her personal feelings.
13.	Hope	An individual creates, thinks about, and believes in the possibility of future successes.
14.	Perseverance	An individual is very consistent regarding work.
15.	Social Intelligence	An individual knows exactly how to motivate people to work hard and increase their performance.
16.	Spirituality	An individual believes in the purpose and acts with accelerated steps to fulfil his/her inner beliefs.
17.	Zest	An individual reflects high satisfaction and consistency in a process.
18.	Gratitude	An individual is aware of his/her advantages,
20.	Self-Regulation	An individual has control of his/her own feelings and actions, and likes discipline.
21.	Forgiveness	An individual always gives others a second chance.
22.	Teamwork	An individual leads the group by being loyal & charismatic.

Source: Based on J. Smith, Character strengths profile, 2011, p 4.

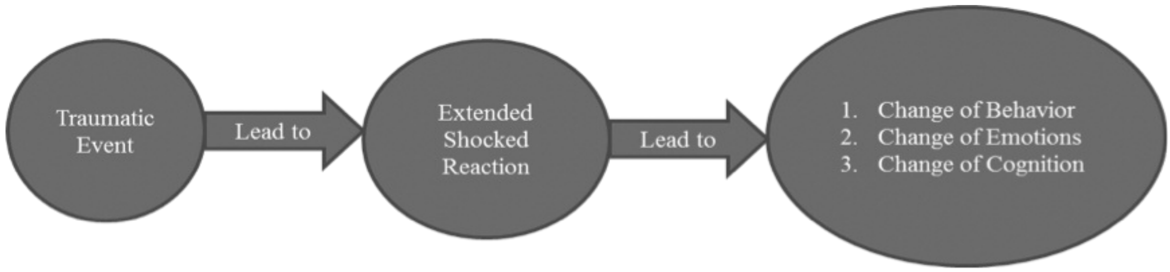
sults explain the strong relation between past experience and personality development. An individual's attitude is directly affected by his/her past decisions, and all information gained from past experiences affects future choices (Arad, 2012). According to Festinger (1957), the effect of past experiences on future choices is known as cognitive dissonance, which explains how people wish to have consistency in their way of making professional or life decisions. Most of time people tend to repeat their actions even if there is another, more attractive alternative to be chosen.

A leader's unique vision depends on how stable the personality of a leader is, including his/her thoughts, feelings, beliefs, and wishes (Tellegen, 1988). The causes of a personality change could be based on genetic factors, which is known as the essentialist perspective of personality change analyses, and environmental factors, which are described as the contextual perspective of personality change analyses (Neyer & Asendorpf, 2001).

2.1.1 Childhood trauma effects on adult personality

Traumatic experiences have deep influence on a child's physical, emotional, cognitive, and social development. Therefore, all children who survive traumatic events suffer later consequences on their way of living and on how they perceive community, and family, and they will not be fully aware of their core values (Perry, 2003).

Figure 2. The Impact of Childhood Trauma on Adult Personality



Source: Based on D. Perry, Effects of traumatic events on children, 2003, p 1.

While facing a traumatic experience, an individual's brain starts to organise for both mental and physical responses to the threat. If the threat continues for a longer period, the body undergoes deeper physical and mental changes to create proper responses to the threat (Perry, 2003).

Table 3. Cognitive, Behavioural, and Emotional Changes while Experiencing Traumatic Events

Cognitive Change	**Behavioural and Emotional Change**
Lack of free communication	Shows very aggressive behaviour
Low level of attention while engaging in a task	Lacks deep attention to both positive and negative behaviour
Low level of memory	Shows lack of desire to be involved in society
Lack of interest in developing one's own skills and abilities	Continuously imitates all experienced traumatic events, especially as an adult
Poor success in the learning process	Uses abusive vocabulary
Lack of self-awareness	Feels anxious, fears and avoids real life, instead creating an imaginary world that does not correspond to reality

Source: Based on National Child Traumatic Stress Network, Early childhood trauma, 2010.

The cognitive, emotional, and behavioural functions (feeling, facts, thinking, behaving, planning, and rationality) of these psychological components cause mental changes because of the consequences generated by the threat which are faced by the individual. While an individual experiences traumatic events, his/her feelings, behaviour, and thoughts are directed from the most primitive part of the brain. The individual starts becoming isolated from the external world and creates an inner world which is directed by his/her imagination (Perry, 2003).

Furthermore, traumatic events shatter an individual's self-esteem, security, and desire to create a vision for the future; instead, the individual fights against the threat because the event is always present for a long period for a person who experienced a traumatic event (National Child Traumatic Stress Network, 2010).

The brain cortex area is responsible for individual emotions, thinking, memory, language, awareness, and consciousness. As such, all these psychological components affect the IQ of a child who suffered a traumatic experience, and thus the person in later stages of life inherits inabilities to exhibit their true self, including thinking, emotions, awareness of their core values, and self-consciousness (National Child Traumatic Stress Network, 2010).

2.1.2 Actions in the past affect individual behaviour

This paper correlates past experience with an individual's current behaviour. A cognitive approach explains behaviour as the centre of individual attitudes and beliefs (Morris & Marzano, 2012). An individual uses actions from past experience as a key source of information to guide his/her behaviour in certain situations. This process is considered as an individual learning process when people through repetitive experiences formulate a way of finding a solution for a certain issue (Grings, 1973).

According to Bandura (1974), the concept of behaviourism is deeply related to the concept of conditioning, which describes the correlation of experiences throughout life. Therefore, the term conditioning describes the learning process that individuals gain from past experiences and then use to react cognitively in future decision-making processes. From this point of view, actions from past experience and current behaviour are related unconsciously. People act in the same way when situations are repeated. Most of the time, individual behaviours are made habitual, and thus the decision-making process is easier for an individual because the case is familiar for him/her (Triandis, 1980).

2.2 The effect of education on authenticity

This paper elaborates two characteristics of non-cognitive skills: nature characteristics describe how personality traits are heritable, and nurture characteristics explain how personality traits are formed by external factors such as social factors, family background, and environmental factors (Dahmann & Anger, 2014). Therefore, these two mechanisms (nature and nurture) are dependent on each other and are crucial factors which form an individual's skill advantages (Cunha & Heckman, 2007).

Nurture also includes the educational factor which does not affect directly personality traits (Dahmann & Anger, 2014). Therefore, the benefits of education for an individual include the gaining of knowledge and skills.

This paper uses the perspective of psychology to explain how educational experiences affect cognitive skills. Educational experiences increase an individual's critical reasoning and raise intelligence, so people can gather information about an issue and learn how to interpret the information to others when required (Rutter, 1983).

Consciousness is one of the five primary personality traits; the concept refers to being aware of one's core values, be self-organized and be active while planning to act (Barrick & Mount, 1993). People who are conscious about their actions know exactly in what experience they are involved. This personality trait (consciousness) is very much related to academic achievement during education (Abe, 2005).

Extraversion is a personality trait associated with interpersonal experiences. People who are extraverted are socially acceptable. During the educational period they learn how to work, behave, and contribute for the betterment of the group (Jackson, 2011).

Individuals who exhibit the neurotic personality trait may not succeed in the duties in which they have to provide solutions because since elementary school they have been emotionally unbalanced and cannot benefit from a teacher's instructions (Lounsbury et al., 2003). People with low neuroticism have less stress and can perform better in school and in the decision-making process (Jackson, 2011).

Openness to experiences is the final personality trait. Individuals who are open can create large horizons of life opportunities. For example, their career depends on individual abilities to accept every experience as a chance to learn something.

2.2.1 Education, cognitive skills, and vision

The most important goal of education is to equip an individual with appropriate knowledge to think critically and solve difficult problem in order to survive in the society (Kraft, 2016). Educational researchers study the learning process through different experiments and measures, but they make assessments in cooperation with psychological scientists, who claim that the learning process is totally related to individual cognitive skills (Borman, Hewes, Overman & Brown, 2003; Hanushek & Rivkin, 2010).

Psychological scientists study the development of cognitive skills. The focus is on the three most important cognitive abilities: processing speed, working memory, and fluid reasoning (Cowan et al., 2005). These three inter-related cognitive abilities change over time; they start to develop in the early stage of life or in childhood and continue throughout the adulthood, and it is this process that creates the differences between people's performances in certain decision-making processes.

Processing speed is a cognitive ability which describes how efficiently information can be processed (Kail & Salthouse, 1994). Working memory capacity is a cognitive ability which describes how the level of different information can be processed, and in the case of a high level, how much it is maintained in mind (Cowan, 2005; Gathercole, Pickering, Knight, & Stegmann, 2004). Fluid reasoning is a cognitive ability which describes the ability to find the best solution to a problem (Tuholski, Laughlin & Conway, 1999).

This paper further elaborates cognitive skills acquisition as the process of problem solving (VanLehn, 1995). Scientists are curious to analyze problem solving because facing a difficult problem can cause deep disorientation (Duncan, 1959). The problem-solving process is considered as a fundamental criterion of change from one situation to another in order to achieve the objective of transformation (VanLehn, 1995).

2.2.2 The development of rationality

Intelligence and rationality are two different concepts; an individual could be intellectual and irrational at the same time (Reyna & Farley, 2006; Stanovich, 2006). Both of these concepts (intelligence and rationality) are individual cognitive abilities which a person uses to manage situations. However, according to Toplak, West, and Stanovich (2013), judgment and decision making are two consequences of rational thinking because an individual must take into consideration all the information and analyze it in order to avoid uncertainty and provide balanced solutions for a certain case.

Thinking rationally means having a future objective with a clear vision including the usage of appropriate information, knowledge, and skills for a certain issue. Therefore, an individual has to be authentic and aware of his/her values and characteristics of the issue in order to reach the objective set in the beginning. Rationality is not inherited genetically but is developed as a consequence of many life experiences. Cognitive scientists mention two categories of rationality: instrumental and epistemic rationality (Toplak, West & Stanovich, 2013).

Instrumental rationality describes how an individual's behavior is in favour of profit maximization or utility maximization in a certain situation (Baron, 2008; Dawes, 1998). Epistemic rationality refers to how an individual uses his/her beliefs in a decision-making process; this type of rationality also is called theoretical rationality (Manktelow, 2004).

This paper further elaborates the development process of rational thought. A rational thought is divided into two main parts: crystallized rationality and fluid rationality. Fluid rationality is the basic component of rational thought because it describes how a person faces a problem through reflection, which leads a person to the desired outcome (Stanovich, 2011, p. 193). Individuals who use this concept of rationality (fluid rationality) are prudent when they provide arguments about an issue; they are totally aware of the advantages and disadvantages of certain decision process; they don't act emotionally in the process, but try to provide rational choices. Crystallized rationality is separated into two parts: facilitators and inhibitors. Facilitators refer to how important it is to use scientific arguments in order to make a successful decision about an issue. An individual tries to gather enough information about the problem and then behaves professionally during the analyses of this information (Toplak, West, & Stanovich, 2013).

2.2.3 The improvement of creativity

This paper evaluates how individuals develop creativity and evaluates sources of innovation in individuals. First, creativity means generating new imaginative ideas that cause a radical transformation of the situation while individuals are involved in a decision-making process (Newell, 1972). Therefore the main objective of creativity is for the individual to think beyond prevailing boundaries, raising individual curiosity and avoiding conventional procedures, ideas, and rules (Candy 1997; Schlange & Juttner, 1997). According to Amabile (1992), creativity has three main features: knowledge, creative thinking, and motivation.

Knowledge means gathering all information needed to make a relevant choice. Critical thinking describes how individuals behave based on their personality traits in a decision-making process (Amabile, 1992). There are four characteristics that form critical thinking:

1. Challenge arguments with others and try to get rid of the status quo in the decision-making process,
2. Draw on previous experiences from different life situations,
3. Dare to get in difficult situations and make the best choice possible,
4. Ability to step away from a situation and return to it later with a totally new perspective.

There are two ways in which motivation increases creativity. Intrinsic motivation describes how an individual works based on his/her internal satisfaction, interest, and values; whereas an extrinsically motivated person works in the short term in order to get immediate reward (Adams, 2005).

Schools are the most important part of the development of individual creativity and innovation. Numerous activities, programs, and techniques are promoted by schools in order to help students to increase their creative and innovative abilities. Brainstorming is one classroom activity which teachers should use in order to help students to develop numerous ideas for a certain issue independently and logically in their own way (Adams, 2005)

2.3 Personal identity as a source of uniqueness

The concept of individual identity from the perspective of psychology means how an individual uses his/her past experience in order to build a unique image. Self-identity connects dots from past experience, the current situation, and future goals to create a narrative identity. Therefore a narrative identity shows that there is a continual process between life periods which built the individual identity. Individuals try to create their self-identity in order to be definable and recognizable in the society in which they live. But the question is, does identity change over time or is it constant for a long period? The analyses show that there is a relation between numerous identities or being the same person and qualitative identity, which depends on whether an individual may be the same person with his/her past experiences or wants to develop his/her own identity based on future life goals (Bostrom & Sandberg, 2011).

2.3.1 Self-transcendence as an element of personal identity

According to many researchers, identity is considered as a false mask behind which an individual hides, not showing his/her true personality values. This happens for many reasons, one of which is that individual personality traits reflect an individual perspective and not a collective perspective. Self-transcendence means that an individual can communicate with other social factors in the world not by covering himself/herself with a false identity but by consciously using his/her inner core values to create wonderful interpersonal communication (Frankl, 1966).

Furthermore, an individual may see him/herself from different external angles and behave in a situation in an unlimited variety of ways (May, 1958, p. 74). Transcendent capacity gives an individual unlimited space for maneuvering to get the best solution in a situation. Therefore when involved in any situation a person can be motivated not by his/her inner core values but by universal values, which is considered to be a meta-motivational process (Maslow, 1971).

2.3.2 Intrinsic and extrinsic motivations will satisfy personal needs

Motivation describes how an individual is inspired by internal or external factors to act in a process (Ryan & Deci, 2000). Motivation reflects individual energy, direction, and consistency which leads to a desired goal. Therefore motivation is at the centre of psychological studies because such researchers find it to be part of biological and cognitive regulation (Ryan, 2000).

There are two measures of motivation: level of motivation, or how inspired an individual is while is involved in a task, and goal orientation, which means an individual can be motivated only in tasks in which /she shows interest (attitude, goals, and beliefs) (Ryan & Deci, 2000). Thus an individual's performance in a decision-making process is totally dependent on his/her leadership and motivational abilities (Nader, 2016).

3 METHODS

First, a theoretical literature review was conducted to gather data on current academic research papers published by different authors. Next, the leader of Peja Municipality was interviewed.

The complexity of the topic required the use of the qualitative method to gather data. To find what factors affect an authentic leader's unique vision, this study used credible data sources from e-libraries, books, websites, and YouTube interviews and lectures delivered by different professors.

Based on personality traits, individuals might be aware of their core values, which they then use to build a strategic plan to achieve their goals. Therefore qualitative research is better for analysing the development of individual personality and how personality is affected by past experience, education, and identity in the process of individual self-awareness, which is known to be a basic characteristic of the leader's vision. The president of the Peja municipal institution, Mr Gazmend Muhaxheri, was interviewed as a case study for this research.

The data for the first section of qualitative survey were acquired through a face-to-face interview with Mr. Gazmend Muhaxheri. The questionnaire was semi-structured, providing questions about individual past experience, education, and identity, and it lasted three and a half hours. Furthermore, Mr Muhaxheri allowed the researcher to participate in a cabinet meeting to observe whether some of the information given in the interview was consistent with a real situation the leader faces in practice.

4 RESULTS AND FINDINGS

The results from the interview were compared with the theoretical research. The overall results derived from this paper strongly emphasize the importance of having a leader with unique vision. A leader's unique vision is influenced by six interrelated factors, described chronologically:

1. Past personal experience (describes the correlation of personal culture, thoughts, and acts);
2. Personal education (education effects our way of thinking, feeling, and acting in certain situations);
3. Individual identity (consists of values, beliefs, and attitudes for operating with members of social groups);
4. Personal integrity (always behaving and acting based on values and beliefs);
5. Self-awareness (behavioural habits, emotions, wishes, thoughts, and images);
6. Personal authenticity (values, emotions, abilities, etc.).

Past personal experience describes the correlation of personal culture, thoughts, and acts. In very short sentences, Mr. Muhaxheri explained how past experience contributes to his level of unique vision. Mr. Muhaxheri claimed that unique vision means how individual core values are related to the individual's future goals. Therefore, Mr. Muhaxheri explained how his core values were affected by past experience and he elaborated his personality development across time.

Mr. Muhaxheri said that he was an independent child because his parents did not limit him to work based according their wishes. He claimed that he is creative just because of his parents' contribution. He insisted that family culture contributed to increase his mental capacities including judgement, vigilance, and communication. Mr. Muhaxheri claimed that his ego is evidently more developed because he was used to thinking about how to survive in difficult situations, and now in every circumstance he relies only on his thoughts and finds a solution based on his beliefs. Life experiences help him to be aware of his core values and be self-regulated.

Table 4 to 9 present results from the theoretical discussion and from a transcript of the interview. This paper analyses the degree of similarity of the results from both types of research in order to make its conclusion.

Table 4: Comparison of Results of Theoretical Research and the Semi-Structured Interview to Examine How a Leader's Unique Vision is Influenced by Past Personal Experience

Results from Theoretical Research	Results from Interview
An individual's attitude is directly affected by his/her decisions in the past, and all information gained from past experiences influence future choices (Arad, 2012).	Unique vision means how the individual's core values are related to the individual's future goals
An individual uses actions from past experience as a key source of information to guide his/her behaviour on a certain issue. This process is considered as an individual learning process when people through repetitive experience find their way of arriving at a solution (Grings, 1973).	An individual's past experience has an impact on the individual creative development
According to Festinger (1957), the effect of past experiences on future choices is known as cognitive dissonance, which explains how people wish to have consistency on their way of making professional or life decisions.	Family culture as part of an individual's past experience contributes to increasing his mental capacities including judgement, vigilance, and communication
Past experience (family culture) helps a child to build self confidence in a social group (Benabou & Tirole, 2001).	Past experience can develop an individual's ego

The leader of Peja claimed that if a student shows academic development, then automatically he/she creates a basis for cognitive skills development. Finally, cognitive skills development means having a great opportunity to be creative and build a clear vision for the objective an individual intends to achieve. Furthermore, the leader of Peja claimed that individuals in the early stage of life need assistance to make them realize their talents, and school is one of the first institutions which can provide both assistance and the experience of others to use as guideline to achieve success.

Table 5: Comparison of Results of Theoretical Research and the Semi-Structured Interview to Examine How a Leader's Unique Vision is Influenced by Personal Education

Results from Theoretical Research	Results from Interview
According to Heckman (2007), educational experiences lead to a change of non-cognitive factors	Personal education develops cognitive abilities
Educational experiences increase the individual's critical reasoning and raise the intelligence (Rutter, 1983).	Personal education prepares individuals to be creative and build a clear vision for the future
Personality traits have a neurophysiological construction that distinguishes the individual thoughts, behavior, and attitudes, which should be in harmony with the specific environmental criteria (Roberts & Jackson, 2008; Tellegen, 1991).	Personal education helps individuals to realize their talent
Rationality concept is not inherited genetically but is developed as a consequence of many life experiences, including education (Toplak, West & Stanovich, 2013).	Education affects individual judgement skills

Personal education affects our way of thinking, feeling, and acting about certain issues. According to Mr. Muhaxheri, efficacy helps students to develop cognitive abilities, which is a very important factor for an individual's intelligence such as being more creative, vigilant, and rational in a decision-making process.

Individual identity consists of values, beliefs, and attitudes to operate with members of certain social groups. Mr. Muhaxheri claimed that identity values and personality values have the same meaning, but there is one element which differentiates between these two concepts. The leader of Peja assumed that authenticity creates the distinction between personality and identity. He said that he works based on his core values, which means that his behaviour and attitudes are in accordance with his personality values.

According to Mr. Muhaxheri, he uses his identity in certain situation and he claims that identity as a concept includes his internal and external values. Therefore, Mr. Muhaxheri pointed out that individuals who use their identity to perform a task are not authentic because their behaviour, thoughts, and attitudes also depend on external factors.

Mr. Muhaxheri assumed that communication skills are part of identity because they help point out general values and make communication easier than using only personal values, which for the counterpart may be not acceptable, so that communication would be difficult, making it difficult to gain the required positive results.

Table 6: Comparison of Results of the Theoretical Research and the Semi-Structured Interview Examining How a Leader's Unique Vision is Influenced by Individual Identity

Results from Theoretical Part	Results from Interview
Self-identity connects dots from past experience, the current situation, and future goals to create a narrative identity (Bostrom & Sandberg, 2011)	Authenticity is the only element which differentiates between identity values and personality values
Personal identity refers to one's goals, beliefs, and values (Schwartz, 2001)	Individual identity includes both personality core values and external environmental values
Individual identity from the perspective of psychology means how an individual uses his/her past experiences in order to build a unique image of himself/herself (Bostrom & Sandberg, 2011)	Individual identity creates an opportunity for having better communication skills

Personal integrity means that leaders always behave and act based on their values and beliefs. Mr Muhaxheri claimed that part of his character is also his personal integrity which is developed based on his future priorities. He is not influenced by people's opinion about his activities and behaviour and never changes his priorities because of any difficult circumstances. All activities he selects to work on are based on his perception of future goals. He emphasised that the BOREA Ski Complex is a project which no one believes to be a success because it has required decades, but he believes in it and now is finishing it.

Table 7: Comparison of Results of the Theoretical Research and the Semi-Structured Interview Examining How a Leader's Unique Vision is Influenced by Personal Integrity

Results from Theoretical Part	Results from Interview
People use their thoughts in order to evaluate what behaviour to use and how to act in a decision-making process (Bandura, 1974)	High level of respect for hierarchical structure
People are used to acting in the same way when situations are repeated and they do not accept interference from any external factor (Triandis, 1980)	An individual with high personal integrity is not influenced by people's opinions about his/her activities and behaviour and never changes priorities

Self-awareness includes elements such as behavioural habits, emotions, wishes, thoughts, and images. Mr. Muhaxheri claimed that leaders should be aware of the advantages and disadvantages of their vision in order to build a set of goals which convert vision into reality. Furthermore, leaders must be aware of their skills, knowledge, and abilities. From that perspective, a leader should be successful in job delegation, which is the most important part of success.

Table 8: Comparison of Results of the Theoretical Research and the Semi-Structured Interview Examining How a Leader's Unique Vision is influenced by Self- Awareness

Results from Theoretical Part	Results from Interview
According to Kegan (1982, 1994) and Jordan (2002), self-awareness describes how an individual is conscious about his/her own behavioural habits, emotions, wishes, thoughts, and images which flow through his/her being	Leaders should be aware of their vision and core values and be aware of the environment in which they operate.

Personal authenticity (values, emotions, abilities, etc.) in the case of the leader of Peja show an authentic leader who creates his vision based on his own values and abilities. Mr. Muhaxheri claimed that he doesn't want to be a perfect leader, but he wants to advance his goals. He doesn't work based on his emotional state, but tries to be rational in his decision making. He works based on deadlines, under pressure, and believes that he can perform better in a task. He communicates his vision partially to his subordinates because he believes that the technical staff need daily orders. He works based on an individualist perspective and because of the responsibilities the president of Peja has in the status of his position, he does not allow anyone else to interfere. He believes in success only if everyone respects the hierarchy in the organization. Finally, the leader of Peja Municipality is a quiet person who talks directly to his subordinates, and each task is provided with a deadline that must be respected without further compromise.

Table 9: Comparison of Results of the Theoretical Research and the Semi-Structured Interview Examining How a Leader's Unique Vision is influenced by Personal Authenticity

Results From Theoretical Part	Results from Interview
Rogers (1959) described personal authenticity as the way individuals are in harmony with their basic nature and appropriately see their personality traits including values, emotions, abilities, etc.	An authentic leader creates his vision based on his own values and abilities
Authentic leaders are known as individuals who behave purposefully, which means they have a clear vision for an issue, great focus on the path to the goal, and know exactly the end of the desired goal (Moore & Diamond, 2000).	An authentic leader does not work based on his/her emotional state but tries to be rational in decision making
Rogers (1959) emphasised that authentic leaders are known as individuals who think and act based on their true character.	An authentic leader works based on deadlines, under pressure, and believes that he/she can performance better in a task

5 DISCUSSION AND FUTURE RESEARCH RECOMMENDATIONS

A leader's unique vision is a topic which must be analysed from the perspective of psychology, and further analyses of this topic are related to the individual's cognitive skills development. Factors which contribute to the level of unique vision are various, including past experience, education, modified identity, cognitive skills, self-awareness, self-regulation, self-integrity, level of creativity, level of rational choices, and a large spectrum of social factors.

This research provides information about how past experience influences a leader's unique vision. Cognitive dissonance describes how past experience influences an individual's future choices, where an individual is used to showing consistency in all undertaken steps to reach desired success (Festinger, 1957). The transcript of the interview with the leader of Peja provided sufficient information about the impact of past experience on the leader's consistency, including the following:

1. The leader of Peja sets deadlines for duties delegated to his subordinates and he is very strict about these deadlines.
2. The leader of Peja asks his subordinates for weekly reports in order to assess their performance in order to avoid status quo.

Education is very important for making rational choices, being creative, and developing cognitive skills. The effect of education on an individual is identified as a non-cognitive feature which depends on external factors including family and environmental factors (Dahmann & Anger, 2014). However, according to Rutter (1983), educational experience helps people to develop their cognitive skills including their reasoning capacities and interpretation of thoughts or information. Based on empirical research, education plays a basic role in the development of cognitive skills, including better information processing and interpretation of data.

The theory of this field shows that there is a relation between numerous identities or being the same person and qualitative identity, which depends on whether an individual may be the same person with his/her past experiences or wants to develop his/her own identity based on future life objectives (Bostrom & Sandberg, 2011). The empirical research supports the second alternative, in which an individual creates his/her own identity due to certain circumstances.

Individuals in Kosovo hesitate to be part of any social experiment when a researcher may gather real raw data about features of individual personality including their thoughts, beliefs, and behaviour. They suspect abuse of the results of any experiment, and therefore refuse to cooperate.

This research is the first effort to assess deeper performance of leaders in public and private institutions in Kosovo. Leaders in Kosovo are assessed based on their image and not because of their vision for achieving common goals. The main purpose of this research is to measure the vision of the leader of Peja municipal institution.

This research creates the basis for further research in order to better understand the leader's unique vision. Further analyses of differences between individual personality and individual identity would create an opportunity to assess the level of individual authenticity while performing a task. Further research into the differences between these individual psychological features (personality and identity) will make possible the identification of individuals who behave, think, and act based on authentic or false values.

One possible future research topic would be "Sustainable Leadership: Leaders' unique visions", whereby individual personality could be analysed and used for transforming the current situation into a new one which has better opportunities for the current and future generations.

6. CONCLUSION

The main idea of this study came from real-life experience and theoretical background. The success of an organization is measured based on its competitive advantages in a certain industry. All organizations should continuously transform their organizational abilities in order to be a step ahead of their competitors. In order to transform a situation, leadership should set future goals and then create the vision for how to achieve these goals. Vision determines the success of an organization and it is very important to examine how vision is formed. This paper explains that vision is composed of individual values and that past experience, education, and identity contribute to it.

Vision can be unique only if it is articulated clearly. A leader who has a unique vision express his/her personality including thoughts, attitudes, abilities, and knowledge of certain issues. From the perspective of psychology, not all individuals can clearly express their values. Individuals who cannot express themselves clearly cannot be authentic. Therefore, authentic leaders work based on their core values because they are aware of them, and they can use them in order to make correct calculations about how to achieve a certain goal.

Therefore, a leader should be aware of his/her core values, including abilities, skills, beliefs, and thoughts, in order to know how to act in a process of transformation. This paper concentrates on how past experiences, education, and identity contribute to personality development because a leader should have a good personality in order to have a good vision for an issue.

EXTENDED SUMMARY / IZVLEČEK

Preučevanje avtentičnega vodenja se je razvilo zaradi turbulentnih časov v poslovnem svetu v zadnjih desetletjih (Avolio & Gardner, 2005). Namen avtentičnega vodje je v ustvarjanju globoke preobrazbe organizacij. Avtentični vodje posedujejo globoko zavedanje omenjenega namena in so močno zavezani svojim vrednotam (George, 2003). V skladu z njimi tudi delujejo, kar ustvarja enovite vrednote njihovih združb. V članku pišemo o tem, kako je enovita vizija vodje posledica preteklih izkušenj, izobrazbe, osebne identitete ter karakterja vodje, pa tudi trenutnih potreb organizacije in bodočih potreb in želja združb. Pristop članka temelji na teoretičnem pregledu ter se kasneje nasloni tudi na kvalitativno raziskavo, ki vključuje študije primerov, intervjuje, akademske članke in knjige. Vključevala je tudi polstrukturiran intervju z vodjo občine Peja na Kosovem, g. Gazmendom Muhaxherijem. Rezultati članka poudarjajo, da je enovita vizija vodje pod vplivom šestih medsebojno povezanih dejavnikov, ki so opisani v časovnem zaporedju: pretekle izkušnje, izobrazba, identiteta, osebna integriteta, samozavedanje in osebna avtentičnost. Da se lahko prilagajajo posameznim situacijam mora vodenje postaviti cilje za prihodnost in nato oblikovati vizijo doseganja ciljev.

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THE EFFECT OF CULTURE ON BUSINESS ETHICS

Sara Trobez, Monika Vesić, Gaja Žerovnik, Xiaoli Ye, Darjan Žužul
Faculty of Economics, University of Ljubljana, Slovenia
sara.trobez@gmail.com; vesicmonika11@gmail.com; gaja.zerovnik9@gmail.com; xiaoli.ye@yahoo.com; darjan.zuzul@gmail.com

Abstract

This paper examines ethics, business ethics and the influence of culture on business ethics. We conducted a study using qualitative approaches involving 8 managers from Slovenia and Italy who work throughout the world. The results show that culture can have a big influence on business ethics, and that values are the key factor underlying this effect. Nevertheless, behaviours coincide in different countries, which is mainly due to the worldwide knowledge of ethics.

Keywords: *ethics, business ethics, international business, culture, values*

1. INTRODUCTION

From birth onwards we are expected to act in accordance with ethical rules. Most people follow these rules, but some individuals differ from the majority. Unethical behavior can be seen everywhere: at home, in school, in kindergarten and even at work. Most of the people at work do not know which principles are considered as the rules of business ethics and because of that they do not know how to act appropriately. The aim of this paper is to enhance our understanding of the influence of culture on business ethics behaviour. The goals of this study were to a) explore the influence of culture on business ethics and b) to test proposed hypotheses by conducting the interviews with leaders from Slovenia, Italy and America. Using this method of research, we wanted to explore the views, experiences and beliefs of leaders and to provide a deeper understanding on how culture influences business ethics. Our intention was to provide some insight into the cultural impact on business ethics. The paper is structed as follows. First, we briefly present the theoretical background of ethics and business ethics in order to develop our research questions. Second, we present the methodology used, the analysis, and the results. Finally, we discus the results and present the implications and future challenges.

2. THEORY

2.1. Ethics

Ethics is defined as philosophical thinking on morality and to what should a person commit in his/her moral judgement and decision making. It is the science of human actions that is based on the natural power of our mind (Stres, 1999).

Ethics is most generally defined with norms of conduct that distinguish between which behaviour is acceptable and which is not – between what is right and what is wrong. We learn ethics through our whole life, even though we acquire most of our knowledge in childhood (at home, in school etc.). Many people would say that ethics is just ˝common sense˝ because acting in accordance with certain norms seems perfectly logical. Some basic ethical principles are therefore: honesty, objectivity, integrity, openness, respect, non-discrimination and so on (Resnik, 2015).

Ethical behaviour can also be defined as acting in accordance with the norms of each culture. A norm is something to which people give a lot of value in principle – honesty, strength, wealth, kindness and so on. We ‘choose’ most of our values according to our surroundings, but we must know that values differ from culture to culture (Možina et al., 2002).

2.2. Business ethics

Ethics has many subtypes, one of them being business ethics. Business ethics studies how people should behave when they find themselves in a moral dilemma but on a business level in comparison with ethics where suitable behaviour is meant in a general way. It can be said that it is a form of ethics expressed with people's business decisions-making in organizations. But since all decisions in organizations are made by management, it can also be said that business ethics is in a way ethics of management (Glas, 1998).

We often don't know whether the decision that was made in an organization is ethically appropriate or not. Even nowadays, many organizations struggle with this. Many managers that were highly respected and praised in the past have now problems with questionable decisions that they have made, for example bribe or illegal agreement (cartel). But still, we cannot point fingers only at individuals. At the end of the day, lots of large companies have taken part in scandals (Boda, &Zsolnai, 2016).

Why is it important for managers to know how to behave properly in organizations? It is much easier to work in an environment where everybody can trust each other. Furthermore, employees are more motivated and consequently do their work much more efficiently than they would otherwise (Psihologija dela, 2017).

With high ethical standards organizations would not need to worry when collaborating with other companies. Therefore, the costs would be much lower for everyone and also conducting the business would become much more efficient than before. On the other hand, employees become more loyal to their company or organization. For organizations, behaving socially responsible would not mean only providing good effects to the society but also to themselves. Consequently they would get more respect and reputation in their line of business, build firm relationships with community, lower operational costs, motivate labour force and upgrade existing aspirations and inserts in the field of social initiative. If we want to make all of the above realistic in real life, we need to take some time and form a document where all trends would be defined to make decisions in business life easier (Hribar, 2013).

Many experts have tried to define basic rules that every manager should follow. Dunfee (1997) defined the following eight basic rules (Glas, 1998):

1. **Confidentiality:** It is quite common that both parties exchange confidential information in business relationships. The manager's responsibility is to use this infromation carefully and not against the expectations and permission of the person that revealed those information. Their role is also to make sure that those information don't get in hands of unauthorized people.
2. **Obligation for special responsibilities:** Managers are obliged to fulfil all duties, whether they are stipulated by laws, contracts or business relationships, mostly towards shareholders.
3. **Avoiding the possibility of creating clash of interests:** Businessmen must never get themselves in a situation where one could suspect for having interest in doing something just to harm either company or client. In case this still happens, a businessman is obliged to reveal the whole situation and other possible interests. Also, in extreme situations, they have to pass the decision to an independent person(s).
4. **To readily obey all the laws:** Every manager needs to comply with the meaning of the law. He has to avoid any attempts to bypass the meaning of the frame of the law. If there happens to be incompatibility between the law and regulation, he shouldn't make excuses, such as saying the laws are not good and that others are breaking them too.
5. **To work in good faith in negotiations:** Businessmen must work in good faith in all business relationships, which means that they should reveal all the important facts and should not keep them as a secret when negotiating. If he is for example presenting products, he shouldn't abuse the standards and conventions.
6. **Respecting public welfare:** All managers are obliged to respect both phisically and mentally the welfare of employees, consumers and others. Safety has to come first. That is why all employees and consumers have to be informed about all possible dangers and risks.

7. **Respecting the freedom and constitutional rights:** Even in cases where laws are not explicitly determined and there are no sanctions, managers must preserve freedom and constitutional rights. They have to disable the transgression of fundamental rights, which is for example the right to speak. Companies also should not encrouch on employees privacy.
8. **Deriving from principles of prudent master:** Managers should adhere to standards of professional competence and care operation. When facing decisions, they have to solve problems and predict possible consequences. They are also responsible for the acts of their subordinates.

2.3. The relationship between culture and business ethics

If we compared several cultures of the world, we would see that every one of them comes across five basic problems of social life. Every culture has developed its own answers to each of these problems. They are identity, hierarchy, gender, truth and values. The problem of identity is the relationship between an individual (individualism) and groups (collectivism). It is historically confirmed that people in the world's richest countries are mostly individualists because with the gradual enrichment they mostly turn to individualistic extremes. The cultures of the world's poorest countries are mostly collectivist. The balance between the individuals and others is always necessary. In collectivistic societies, people must suppress their individualistic identity so maybe they can feel lonely and isolated. The hierarchy or the degree of inequality between people is a part of the natural scheme of the world. We also call it power distance. Power distance is way smaller in wealthy countries than in poor countries which have limited resources. The problem with sex differences is division between sexes and different control over aggressiveness. Equal sex division in cultures is called women culture or focus on concerns. On the other hand, we have unequal sex division called men culture or focus on achievements. The Netherlands, Portugal and Scandinavian cultures are very feminine, meanwhile Germany, Switzerland and USA are distinctly masculine. The truth is shown in first reaction of people and their tolerance for unknown. Questions about the truth and values in societies are partly complementing one another, both being dependent on factors of time and tradition (Hofstede, 2006).

The culture of an organization and its environment are material and immaterial ways of people's behaviour, which are based on common values. The culture of an organization is influenced by the culture of the country where it exists. The course of its development is specific for each organization, where a big part is done by the founder who chooses a basic vision, mission and environment for the organization (Tavčar, 2008).

Habits, customs, culture and work in organizations differ from country to country, from province to province and from city to city. When we do business with other organizations, we cannot choose the person that we want to do it with. It is not enough to be tolerant of differences in other organizations, we must learn to understand the differences and use them in our and others favor. Every organization must generally behave in accordance with the culture of the country in which it operates. If the differences between cooperating parties are small than the business is more standardised (Možina et al. 2002).

Going from one culture to another is not always easy and simple, because we are faced with unusual behaviours which are based on the values of other people. Passing from home to a foreign country includes several stages. It starts with the preparation of the organization: they choose and prepare the potential candidates, take care of fitting in with foreign culture, they pass them basic knowledge about culture and local conditions, they also give them a possibility of improving language skills. After that, the candidate has to accustom to the new culture and overcome the differences between the two cultures (aka cultural shock). The organization accompanies and helps candidates with getting accustomed and establishing contacts with locals (Tavčar, 2008).

One of the fundamental questions making ehtical decisions is to consider how others would act in that case. The other three rules are the rule of private benefit, which means that we have to think if what we are doing can bring any benefit or harm to others. The second rule relates to the question of how it would be if other people did this and what would the consequences be. The third rule is a comparison betweeen the benefits and obligations, which means that we have to think if benefits exceed our obligations (Chmielewski, 2004).

Culture is not an universally accepted idea, that is why it has many definitions, but they all say that culture refers to social world. It includes individuals' lifestyles, the ways of evaluation and operations, which are passing from generation to generation. Culture encompasses morality. It determines what is right and appropriate for each group and it is also the basis for living in social enviroment. Culture is developing over time and it is also the continuation of the past. People form cultures but at the same time cultures form us. We start learning behaviour in accordance with our culture in the early years, so it affects us at a subconscious level. This is why we recognize the characteristics of our home culture only when we are in enviroment with a different one (Tavčar, 2008).

Culture has a significant impact on doing business with different organizations around the world. For example, it is typical for Great Britain to put a great deal of importance into the autonomy and independance of a company. They are also one of the rare countries who 'reject' long-term investments and focus more on the maximization of the current profit. On the other hand, Swedes encourage participation and teamwork. They strive for democratic decision-making and solidarity with their employees, which is also reflected in their salaries (equally high for the entire company). For the German system however, it is far more typical to promote the feeling of collective responsibility for decision making and also the policy of the company itself. Because of their social-market economy they are also constantly reminding of the importance of social security and employee benefits (Egan, 1997).

3. METHODS

3.1 Procedures and participants

Our main research question was how much impact the culture has on business ethics, since the importance of international business is constantly rising. Therefore, we wanted to analyze if the values truly are the biggest factor in distinguishing cultures between each other. We also wanted to learn what is the main reason that so many international businesses fail and also which are the most ethical countries in the world. Qualitative data were obtained through interviews with eight leaders who are experienced in the field of international business. The interviewees come from Slovenia and Italy but they work all around the world, so they know how much impact a culture has on the ethical behaviour in different countries. As the interviewees live all around the world it was impossible to meet everyone in person, so we had to contact some of them via Skype or phone call. Each interview lasted approximately an hour.

3.2 Results

We decided to perform interviews since it is more personal and it enables more detailed answers and with that a better understanding of the research problem. Our interview was composed of nine questions. At the beginning, we focused on defining the notions of ethics, business ethics and ethical behaviour. We continued with questions about values and culture influence on relationships and doing business in organizations. In this section we presented summarized answers from our interviewees for each separate question.

First question: *What do you understand under the notion ethics and business ethics?* The answers were quite likewise. Interviewees were mostly mentioning a way of people's behaviour, respecting social norms and moral principles, honesty, respect towards people you work with and considering good manners. Amongst all the answers honest behaviour and integrity were exposed. In the beginning we also asked them to define business ethics and the answers were similar to the first question but were differently verbalized, since they understood that the meaning of business ethics was the same as ethics but on a business level. Adhering to the agreements in contracts, respecting laws, employees and business partners, considering business secrets, keeping your word, respectful relations and honesty were the most popular answers. One of the interviewees (who works in Switzerland) also exposed the importance of environmentally friendly behaviour.

Second question: *Which ethical principles do you believe every company should/needs to follow?* The most vital principle was respecting payment deadlines and obligations regarding contracts, employee satisfaction and always putting customers in the first place. In their opinion, not respecting payment deadlines and obligations regarding contracts could lead to having liquidity problems, dishonesty towards employees and other participants in the business process. Having employees that are satisfied means better results when working and also better sales. Other common answers were also to respect legislation, meaning no frauds and bribery, but also considering the performance of employees with enabling their personal growth.

Third question: *Do you believe the company you work in follows the rules of business ethics? Why?* All of the interviewees answered that they follow the rules since they strive for employees' satisfaction, respect the laws, their partners and customers. Some of them also exposed the importance of the companies mission, because it has positive impacts on employees' behaviour if strong enough. One company even initiated employees' annual education on ethics. They also constantly warn about the importance of performing companies mission on daily basis. One of the interviewees (he is Slovenian but works all around the world) was also an entrepreneur who said that his company is operating fairly and in accordance with the laws. Despite following the rules, it still happened that he did not get paid for work. We can see from that example that fairness is not the only contributing factor.

Fourth question: *Which do you think are the weaknesess of your company considering ethical business behaviour? What could you improve and how?* For Italy they especially pointed out the problem of bribery (corruption), which is rooted in the system and without which many companies in Italy wouldn't even exist. Improvements would be difficult to achieve. People could only report offenders, but the measures would only last for a short time, since bribery is already standard practice in Italy (it is a continuous cycle). One of the companies from Slovenia mentioned the problem of disagreements between employees because of different nationalities, religions and cultures. As a solution they have in mind education for employees and possible grouping according to cultures etc. (this can be a double-edged sword). This doesn't seem to be a problem in another Slovenian company where employees get along very well with each other. However, the problem they are facing are rumors that are often inaccurate. One of the interviewees (a Chinese working in Slovenia) mentioned that it is difficult to determine what exactly is ehical behaviour, because they lack education in this field and because of the mixing of cultures. Two larger companies were of the same opinion that their business is very ethical, the only problem is being the size of the company (they operate throughout the world). The number of employees is consequently quite big and humans can sometimes make mistakes. In this case, we don't have a specific improvement, just constant reminding to the company's mission.

Fifth question: *What are your key values (under which you act) and list 5 values that you think are the most important in your native country/culture? Do you believe that your values are in accordance with the values of the culture you live in?* As we summed up the answers of our interviewees, we found out that according to them the values of Italy are openness, friendship, enjoying life and good food, family, kindness, traditon (for example loyalty to a football club etc.) and also laziness. Slovenians, on the other hand, are more closed people. Their key values are family, money, the importance of hardworking, education and peace. The interviewees were of the opinion that their values mostly match the values of the culture they live in.

Sixth question: *What do you think is the influence of culture on ethical behaviour in doing business in a company?* All the interviewees were of the same opinion that cultures absolutely have an influence on our behaviour. They believe that cultures with their values affect us from birth onward and are an important factor that determines how we will behave in the future. Because of all the different cultures in the world the habits and customs that are established differ a lot, and generally there are also different ways of thinking and prioritizing. Ethics is supposed to be a general and uniform notion, but even here there are some differences considering the variety of cultures. Some interviewees were of the opinion that culture affects the behaviour of almost every company in the country, since culture is used to establish certain standards and principles. However, there are always some exceptions.

Seventh question: *How do you percieve doing business with a company that doesn't have the same culture as yours? Are the differences obvious, disturbing or not, was it difficult to adapt?* Again, we got similar answers, saying that the differences are obvious, which makes doing business more difficult. The explanations did vary. Some of the interviewees told us that it depends on the company and its leader, but also readiness to adjust to foreign values and cultures. They exposed the value of respecting diversity and accepting compromises. Companies need to learn doing international business and adjusting to others, otherwise their businesses will fail. It was also mentioned that although it is necessary to accept compromises this doesn't mean that one of the participants is acting unethically, since differences are appearing because of diverse cultures which are consequently influencing people's behaviour. Differences are not disturbing because they define cultures, but on the other hand they can harden the start of the business. One of the questioned (who works in Switzerland) also mentioned that doing business with other cultures is a special experience which empowers you.

Eighth question: *If you work in a country that isn't your homeland, how do you get around in that environment? Does culture have an impact on ethical behaviour? Why?* In our interviewees's opinion it is not easy. At first you need to be open, you need to accept values and the culture of another society while adjusting to the new environment. It is essential to preserve a respectful relationship to other cultures, because one type of behaviour might be right for us and wrong for others. Most interviewees shared the opinion that cultures influence ethical behaviour, because they give us some values and directions, which we later use in our ethical decision-making. In some cultures, values are more expressed than in others, which consequently influences ethics. One of them (an Italian manager working in the USA) said that in her opinion culture does not have such a big impact on ethics because ethics is a universal value which varies just a little globally. Nevertheless, they all said that they interact well and successfully in foreign environment.

Ninth question: *Do you see/notice any differences between your native ethical behaviour and the ethical behaviour of the country you work in? Are meybe the most obvious differences in different values?* The majority said that differences are noticeable, while some of them said that there are no obvious differences because ethics is a consistent concept. One interviewee (an entrepreneur from Slovenia) mentioned that he does business only with fair principles and that he makes business deals only with those that operate in the same way as him. Therefore, there are no large variations in ethical behavior. To the second part of the question they answered differently. Some said that the biggest differences in ethical behavior are caused by different values. Values are an integral part of every culture and through the years we instil a certain ethical behavior. Others said that values only partially influence values because despite different cultures they can be quite similar. The only difference is in the way how people perceive and interpret them.

During our research we also found out some interesting and noteworthy facts about the general features of different nations with which our interviewees collaborated. As we summed up all the answers we came to these conclusions, which indicate our interviewees' informed opinions based on their experience, but also some stereotypes related to how business is done in each country.

4. DISCUSSION

4.1 Theoretical contributions and implications

According to the received answers to the first question, we can determine that people mostly know what the notion of ethics and business ethics mean and what basic features they include. It brings us to the conclusion that people know how to act under these basic rules and most of them also act in accordance with them, naturally, if they are moral enough.

Table 1: Perceptions of business features related to ethics by country

Country	Facts and general features according to our interviewees
Spain	open and sociable people, kindness
Italy	open and ready to help at all times, quite lazy and unambitious, they enjoy in good food and drinks
Switzerland	quite closed, strict rules, very respectful to others
England	they strive for the maximum profit
Germany	precise rules that everyone strictly follows, an innate sense for business ethics (they keep their promises and follow the settled arrangements)
Southeast Europe (Balkan)	very relaxed, they keep their promises (but mostly with a remarkable delay), Croats can quickly fool you, whereas Serbs are very fair, flexible and hospitable (if they like you, they are going to do everything for you)
Africa	they are not businessmen, they are still learning – they want to do something, but they still don't have enough organizational skills
Scandinavian countries	very ethical business, they put a great deal of importance on social values – great living conditions
Eastern European countries	human relations are not very important, they value power and strength
USA	they have the features of a competitive and very individualistic culture, they put a great deal of value in succes
China	honesty and courtesy, thoughtful when expressing themselves, they don't ask too many questions, they put great importance on respecting the elderly

Through the answers to our second and third question we deduced that honesty is very important in doing business, since it was one of the most common answers. We can count respecting contracts, payment deadlines etc. under the same concept. But we must take into consideration the other answers such as the happines of the employees and the importance of respecting the customers. All the selected companies follow these ethical rules very strictly, since this is their philosophy leading to success. The interviewees were also of the opinion that they are doing quite well and that their companies are very ethical in doing business. On the basis of these answers, we can conclude that the majority of companies strive for ethical business, but there can always be found some exceptions. For example, one of our interviewees told us that he did not get paid for the service he provided to another company, but that is a matter of ethics and fairness of the other company.

With our fourth question we wanted to dig deeper into the business of the selected companies and learn about their weaknesses. This is a hard thing to admit for a company but we got some promising answers. The biggest problem seems to be the difficulty of maintaining a strong enough mission for the company to follow in the eyes of the employees. Another common problem are the relationships between employees, because of their different values, which can differ a lot from individual to individual. We came to the conclusion, that this problem appears due to the increasing multiculturalism in countries, which leads to the mixing of different values that don't always harmonize. A surprizing fact was also the commonness of bribery in Italy. The interviewees in fact stated that without it at least a half of the Italian companies would not even exist. At this point, we can relate to an analysis which speaks of unethical businesses/operations.

Unethical behaviour includes bribery, knowingly selling faulty goods, hiding information etc. In some countries bribery is ˝a way of living˝, since no business can be done without it and a company who is against this kind of business is doomed to failure. Bribery is strongly prohibited in the USA, so some companies realy try hard to hide it, but on the other hand some countries are very tolerant towards it and even overlook it (Pitta, Fung & Isberg, 1999).

According to the answers to the fifth question we can conclude that personal values of the people in some particular culture are mostly in accordance with the general values of that culture. This can be easily explained as a result of growing up in our mother country and in its culture. As said before by Resnik (2015), we accept most of our values in childhood and we follow them through our whole life.

In our sixth question all of the interviewees were unanimous in saying that culture with its values has an effect on us from birth onward and that we transfer that kind of behavior onto the functioning of the organization. According to that, we can assume that companies around the world function very differently, because each leader of the company puts in it a part of its culture and the corresponding values on which he then builds his business. If we sum up the answers and the theory from the literature, it is apparent that ethics is a fairly equal term and that we interpret it similarly even though there is an apparent diversity between cultures. However, it is clear that there are also notable differences, since something can be completely acceptable in one culture and terribly wrong in another.

In our seventh question we were asking about differences in doing business with companies with different cultures from ours, since we thought that this question is suitable for today`s times where the importance of international business is constantly increasing. The interviewees were of the opinion that many businesses fail due to the lack of understanding between different cultures and because we simply can't reconcile with a different way of doing business. We have to adapt, accept and try to understand different values and cultures, but this is not always easy. We can support this statement in accordance with the conclusions made by Smeltzer and Jennings (1998), where they discuss the possibilities of adapting to other cultures and how this can be done.

A lot of managers from various companies are attending different international seminars where the emphasis is on learning how other cultures do business and how to adapt their way of doing business. To some companies, adapting to foreign cultures often requires ethical compromises. The issue that arises is whether it is possible to successfully conduct business in those countries where cultural issues require ethical compromises that could significantly affect business operations. Many businessmen think that cultural differences between (two different) companies from different countries can create or destroy operation between or in certain countries (Smeltzer & Jennings, 1998).

Regarding the answers to our eighth question we found out that people can quite easily relate and get around in a different culture. To do so, it is necessary to be open and understanding to the differences between cultures, it is also very important to try to addapt to a different behaviour and last but not least you need to be respectful. This is the only way for the inhabitants of a foreign country/culture to accept us.

The answers to our last, ninth question made us realize that there are some differences in ethical behaviour around the world but they are not very significant. This came quite as a surprise, yet it is logical that there are some basic ethical rules that are the same all around the globe. It is the explanation/-interpretation of these rules that differs, since every culture puts a bit of itself into them. Nevertheless we also found out that the biggest differences between cultures are in different values. We got some interesting answers, which we presented at the end of the 'Results' chapter. Scandinavian countries are known for their ethical business and as very social and ethical countries who care a lot about their inhabitants. But we must not forget Germay which is also known for its fair way of doing business, strictly following the rules and respecting business partners. We can support this statement with the conclusions made by Egan (1997), which we summarized at the beginning of our paper in the chapter 'The relationship between culture and business ethics'.

4.1. Limitations and future research suggestions

We chose this topic because we wanted to analyze the impact the culture has on ethics and business ethics. We expected significant diferences between cultures, but we soon found out that business ethics goes hand in hand throughout the world. The biggest limitation we had was the small number of interviewees – only eight. Since the theme of our paper is quite wide and it covers business globally, we had little time for a larger analysis. Results were based on qualitative research, while future researchers could include a quantitative one as well, prefferably longitudinal, which would really enable us to capture the causality in the proposed relationship between culture and business ethics. Therefore, our main recommendation to future researchers is to expand the analysis sample and include more interviewees for more accurate results. Another option would be a smaller area of research, since we focused on the whole world instead of only analizing for example Europe.

EXTENDED SUMMARY / IZVLEČEK

Dandanes obstaja le majhno število podjetij, ki ne poslujejo na mednarodni ravni. Za takšno poslovanje je potrebno imeti veliko znanja, saj se je potrebno neprestano soočati z različnimi kulturami in se jim prilagajati, če želimo imeti uspešno opravljene poslovne dogovore z drugimi podjetji. Na podlagi kvalitativne analize (osmih intervjujev z managerji, ki poslujejo s tujino) ugotavljamo, da kultura in njeno razumevanje ter interpretacija predstavlja pomemben dejavnih pri prakticiranju poslovne etike. Zanimivo dejstvo je, da mnogo stvari v italijanskih, ameriških in slovenskih podjetjih sovpada, kar pomeni da so si podjetja, ki delujejo v različnih državah z različnimi kulturami in vrednotami, precej podobna.

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SHOULD I, WOULD I, COULD I: TRUST AND RISK INFLUENCES ON INTENTION TO INVEST

Kristjan Vuk, Anej Pifar, Darija Aleksić
Faculty of Economics, University of Ljubljana, Slovenia
kristjan.vuk4@gmail.com; anej.pifar@gmail.com; darija.aleksic@ef.uni-lj.si

Abstract

This paper examines how risk-taking and trust influence students' intention to invest. The study employs a survey distributed to 84 students from business and economics programmes. Results show that trust does not have a direct positive impact on individuals' intention to invest. However, financial risk has a direct positive effect on intention to invest. Implications for theory are discussed and recommendations for further research are provided.

Keywords: *Intention to invest, trust, risk, investment, risk-aversion*

1. INTRODUCTION

Because financial development contributes to economic growth (Huang, 2010), the question of what stimulates an individual's intention to enter the financial market remains highly relevant. There has been increasing interest in understanding how personal factors shape investors' behaviour. Specifically, recent studies show that investors are not always as rational as they are assumed to be and that personal factors (e.g., emotions and cognitive abilities) play an important role while making decisions about whether and how individuals enter the investment markets (Shiv et al., 2005; Purohit, Saxena, & Satija, 2014).

This paper therefore examines how trust and risk influence individuals' intention to invest. Trust, defined as a belief that someone or something is reliable and will not cause harm, was found to be an important personal factor that influences investors' behaviour. In addition, research also suggests that risk, defined as the probability that something unpleasant will happen, influences individuals' intention to invest. Thus the goals of this study are to explore how those two factors (i.e., risk and trust) influence individuals' intention to invest and to test the proposed relationship in a student environment. To the best of our knowledge, the topic is not widely covered. Therefore the study provides better insight into the relationship between personal factors and students' intention to invest.

The paper is structured in the following way. The first section provides a briefdescription of factors influencing intention to invest and develops hypotheses. The next section provides a description of the methodology, the analysis, and the results. The last section discusses the results, presents the implications of the study, and provides some recommendations for future research.

2. THEORY AND HYPOTHESES

2.1. Intention to invest

Intention is an attitudinal construct that is based on intrinsic values and plays an important role in predicting individuals' future behaviour (Angelle, 2006). According to Ajzen (1991), individuals' future behaviour can be predicted by their intentions because intentions are a preliminary step to the subsequent pattern of behaviour. Consequently, intentions indicate the direction of possible behaviour of individuals in the future. In addition, Bird (1988) argued that a company's successive growth and success are the result of the owner's intentions transformed into reality.

Studies show that some entrepreneurs put more weight on non-monetary rather than monetary rewards (Hanafiah et al., 2016). Hanafiah et al. (2016) found that there is a positive relationship of economic gains and intrinsic rewards with intention to invest. The latter can be specified in terms of a sense of personal achievement and self-satisfaction, and results showed that intrinsic rewards are the most important factor in predicting entrepreneurs' intention to invest in the future (Hanafiah et al., 2016).

In addition, Aspara & Tikkanen (2008) found that when an individual establishes a positive attitude towards a company's product, this positive attitude is likely to be transferred to the company. In turn, this will have an effect on the individual's decision to invest in that specific company. Furthermore, an individual's motivation to invest in a specific company can also go beyond a pure incentive for maximizing his/her financial returns (Aspara & Tikkanen, 2011). It also has been shown that positive attitude towards a company were used for selecting specific stocks over others when difficulties estimating the financial return-risk of alternative stocks were present (Aspara & Tikannen, 2011).

When individuals form specific attitudes towards a specific company and its products, it can be expected that this will result in a greater intention to invest in that specific company. As Washington et al. (2015) argued, consumers' preferences, the value of the company, and the brand are positively related. Consumer-based brand equity (CBBE) is defined as value added to the product which usually goes beyond its functional purpose and can be attributed to the brand name; there is evidence that this would not occur if those products did not belong to the specific brand (Washington et al., 2015). Thus companies with strong CBBE will have stronger market positioning, consumers will be willing to pay a price premium for their products, and the perceived risk connected with the brands' product will be reduced. Those factors will all contribute to higher incomes and higher stock valuations, which will result in higher intention to invest in those companies (Keller & Lehmann, 2006). Ali (2011) also argued that brand familiarity contributes to lower perceived risk, which is combined with a higher inclination to trust the company. Specifically, emotional effects play an important role alongside cognitive factors in evaluating companies. Thus it is important for managers to engage in marketing strategies which may attract possible investors more than will good financial results alone (Ali, 2011).

2.2. Trust and intention to invest

There are several definitions of trust. One of the possible definitions defines trust as attributing subjective probabilities to the possibility of being cheated (Guiso et al., 2009). Guiso et al. (2009) found that individuals who are more trusting are more likely to invest in stocks and risky assets. Consequently, they also are prepared to invest a larger share of their wealth in stocks.

Trust also can be defined as the subjective belief that the opposite party will act honestly (Bottazzi et al., 2011). Bottazzi et al. (2011) argued that there are two types of trust: personalized and generalized. The generalized type of trust is shaped by the perceptions that people from one identifiable group have about another identifiable group of people, whereas personalized trust is connected with the relationship between two specific (individual) agents. Furthermore, Arrow (1972) argued that trust is an important element of every commercial transaction. When taking into account transaction costs (e. g. spending less time investigating one's broker), lack of trust between parties results in enforcement of more contracts. However, the relationship between trust and contracts is not so straightforward. On the one hand, sophisticated contracts can be used to overcome information asymmetries (trust and contracts are substitutes for one another), whereas on the other hand, trust can be a requisite for such contracts (trust and contracts are complements) (Bottazzi et al., 2011). Thus the level of trust towards other parties may influence an individual's intention to invest.

According to Bloom et al. (2009) trust also has an important effect in implementing managerial practices. Firms located in areas where the level of trust is high tend to be more decentralized. Thus sophisticated contracts are less likely to be needed and individuals spend less money protecting themselves from being exploited by other parties in transactions. Guiso et al. (2005) also found that trust plays an important role in selecting stocks in a portfolio. Individuals are more likely to invest money in local stocks in regions where perceived mistrust represents a lower obstacle. At the same time, a higher-trust society also contributes to easier collection and dissemination of information. Conversely, a low level of trust in society will cause people to invest more in holdings that are the least trust-intensive (Guiso et al., 2004). Similar behaviour can be expected in the moneylending segment, where low trust means more credit applications will be denied.

Trust also can be an important factor in explaining the lack of intention to invest among some social groups. For example, in Sweden, 2% of the wealthiest (top 5%) people do not trust in major corporations on the stock market and consequently 4% of the wealthiest (top 5%) do not invest in the stock market. A similar pattern holds also for the United States. On the other hand, a totally different situation is evident in Italy, where 29% of the wealthiest (top 5%) people do not trust major corporations and 35% of them (top 5%) do not invest in the stock market. In Italy, a low-trust country, the proportion of the population investing in the stock market is 8.2%, whereas in the U.S., a high-trust country, that proportion is almost 50% (Guiso et al. 2005).

Another factor influencing an individual's decision to invest in stock market also is determined by institutions. Societies with a low level of trust cannot sufficiently transform savings to sustain positive output growth. This "poverty trap" is more likely to happen in countries where institutions for punishing cheaters are weak or insufficient (Knack & Zak, 2001). La Porta (1997) also argued that the strength of the legal environment (which includes both laws and their enforcement) has a crucial impact on the size of capital markets. Laws that protect potential investors against expropriation raises people's trust and hence increases their willingness to exchange their funds for securities, which further expands capital markets. Thus an appropriate environment, characterized by a high level of trust towards others, positively affects people's intention to invest.

H1: Trust is positively related to intention to invest.

2.3. Risk and intention to invest

Risk-taking is behaviour in which an individual commits himself/herself to an act with an undetermined result. Benefits or unwanted consequences can be expected, but the outcome is not known until the end. To engage in the risky behaviour, anticipated benefits should be greater that the losses associated with the act. According to risk homeostasis theory, people have a certain target level of risk, and to reach this level they engage in activities that have the highest net balance of benefits over losses (Burns & Wilde; 1995). Olsen (2008) defined risk as a function of the probability of a loss. Moreover, he argued that risk is also a function of familiarity and control of the situation, trust, and fairness (Olsen, 2008). Kahneman & Tversky (1979) argued that people are not risk-averse but loss-averse. People tend to inflate their losses compared with profits of the same size and would prefer not losing 1 dollar rather than getting it. In addition, people also tend to overestimate low probabilities, which consequently is advantageous to the insurance industry (Kahneman & Tversky, 1979). Kiev (2002) depicted risk as one of the most important factors regarding investment behaviour. The capability to adapt to risk and to maintain a certain level of risk even when under the stress of making huge losses is what makes an investor successful.

(Financial) risk is usually assumed to be a function of variance of distribution of possible returns. The greater the variance, the greater the risk'' (Olsen, 2008, p. 3). Tolerance to risk is one of the characteristics most needed by an investor if he/she is to succeed. Cordell (2001) divided investment risk tolerance into four elements: attitude towards risk, financial capacity to incur a risk, knowledge, and propensity to act riskily. Risk tolerance is not static, but changes over time. In good times, when asset prices are rising, people tend to have a higher risk tolerance. On the other hand, in bad times the risk tolerance decreases to low levels (Grable et al.; 2006). Most of the macroeconomic models describe risk as an internal component of an asset. In contrast, prospect theory defines risk differently, connected not just to the asset but interconnected with the investor, and more precisely with his/her amount of wealth. An affluent individual has a different level of risk tolerance than does an individual with little to no wealth. Consequently, risk tolerance increases with increasing wealth (Chaulk et al., 2003). Additionally, risk tolerance is not related only to individual's amount of wealth. Individuals have a different level of risk tolerance due to different life experiences and differences in social and cultural background (Olsen & Cox, 2001).

However, Zuckerman (1994) developed the idea that risk is not connected to an individual's wealth but to his or her personality traits and seeking of excitement. In addition, Carducci and Wong (1998) expanded Friedman and Rosenman's theory of Type A and Type B personalities. The theory describes Type A people as competitive, impatient, eager to succeed, even hostile and aggressive. Type B people possess the opposite characteristics. Carducci & Wong (1998) found that Type A people are willing to take more financial risk than are Type B individuals.

H2: Risk influences an individual's intention to invest.

3. METHODS

3.1. Procedures and participants

Empirical data were collected in a student environment, examining students from Slovenia. Eighty-four students filled out a web-based questionnaire. The age of the students ranged from 19 to 26 years, with a mean age of 21.67; 46% of the students were male, 56% of the students studied an economics programme and 44% studied a business programme, and the majority of the students were enrolled in the second (48.8%) or third (40.5%) year of an undergraduate programme.

3.2. Measures

All the variables were self-reported and measured on a five-point Likert scale. The following describes the measurement scales used for focal and control variables.

Intention to invest. We measured intention to invest by using a six-item scale adopted from Ali (2011). We used a five-point Likert scale with the anchors "very low" and "very high". The items were general enough to fit a student population ($\alpha = 0.91$).

Trust. A five-item scale was used to assess an individual's general level of trust towards other people (Yamagishi, 1986). The scale was specially designed to measure two of the primary factors that form general factors: (1) belief that other people are basically honest and (2) belief that trusting others is risky. Responses were documented on a five-point Likert scale with 1 being "strongly disagree" and 5 being "strongly agree" ($\alpha = 0.75$).

Risk-taking. Risk behaviour was measured by using a 30-item scale developed by Weber, Blais, and Betz (2002) ($\alpha = 0.85$). The scale measured three content domains: financial decisions (10 items, $\alpha = 0.73$), ethical decisions (10 items, $\alpha = 0.79$), and social decisions (10 items, $\alpha = 0.66$). Students were asked to indicate the likelihood of engaging in each activity by providing a rating from 1 ("extremely unlikely") to 5 ("extremely likely").

Control variables. We included the students' gender, age, study programme, and year enrolment as control variables.

3.3. Results

Table 1 provides the descriptive statistics (means, standard deviations, and correlations) for the main variables analysed in the study.

Table 1: Means, Standard Deviations, and Correlations [a]

	Variable	Mean	SD	1	2	3
1	Intention to invest	3.48	0.72	—		
2	Trust	3.55	0.66	0.136	—	
3	Risk-taking	2.07	0.57	0.159	−0.066	—

[a] n = 84

A series of regression analyses was applied to test the hypotheses. To test Hypothesis 1, which predicted a positive relationship between trust and intention to invest, trust was added to the regression model as an independent variable predicting intention to invest. Trust was not positively related to intention to invest ($\beta = 0.15$, $SE = 0.12$, $p = 0.21$), not supporting Hypothesis 1. To test Hypothesis 2, risk-taking was added to the regression model as an independent variable predicting intention to invest. First, we tested the relationship between financial risk and intention to invest. The results revealed that financial risk was marginally significantly related to intention to invest ($\beta = 0.23$, $SE = 0.14$, $p = 0.10$). Second, we tested the relationship between social risk and intention to invest. The results revealed that social risk was not significantly related to intention to invest ($\beta = -0.09$, $SE = 0.15$, $p = 0.55$). Finally, we also tested the relationship between ethical risk and intention to invest. The results revealed that ethical risk also was not significantly related to intention to invest ($\beta = 0.02$, $SE = 0.13$, $p = 0.89$). Based on the results, Hypothesis 2 is only partially supported.

4. DISCUSSION

This article analyses the relationship between trust, risk, and intention to invest. We assumed that there is a positive relationship between trust and intention to invest. However, our results did not support our assumption; therefore, we had to reject our first hypothesis. In addition, we assumed that there is a relationship between risk and in individual's intention to invest. The results showed that the proposed relationship is marginally significant. Thus our second hypothesis is supported.

4.1. Implications

This study contributes to the literature of investor behaviour by providing evidence of how personal factors influence investment intention. First, the study contributes to the literature of investor behaviour by examining how trust, defined as a general trust towards others, influences an individual's intention to invest. The results revealed weak correlations between trust and intention to invest. One of the reasons for the rejection of our first hypothesis may be that the last financial crisis contributed to a lower intention to invest even among people who are per se more trusting. In addition, our study revealed that trust is not the strongest personal factor that influences investor behaviour. In situations when trust between investors and other parties is low, investors can use contracts in order to overcome the trust issues. Thus we assume that some other personal factors (e.g., self-confidence or personality traits) play a more relevant role in predicting an individual's intention to invest.

Second, we contribute to the literature of investors' behaviour by examining how risk-taking influences intention to invest. Although the results were only marginally significant, we argue that financial risk behaviour influences an individual's intention to invest. However, interestingly, the results revealed that social and ethical risk have no influence on an individual's intention to invest. Therefore we found additional support for the premise that risk taking is domain-specific rather than a reflection of stable attitudes or traits (Weber, Blais, & Betz, 2002). Thus if we want to promote an individual's intention to invest, we should increase his/her perception of financial risk.

4.2. Limitations and future research

This paper has several limitations. First, the survey sample was very small, consisting of only 84 participants. This limited the ability to conduct a more advanced analysis. Second, and related, this study examined only simple direct relationships between variables. Future research could improve this research design by including a larger sample of students and proposing and testing moderated or/and mediated relations between the construct.

Third, we collected the data only among students in the Faculty of Economics. These graduates are more likely to invest in the stock (security) market or to work in areas that are closely connected with investments. Thus future research could benefit from testing the proposed relationship on students from other faculties (i.e., natural science faculties). In addition, it also would be interesting to compare the different groups of students. Furthermore, future research would benefit from testing the proposed relationships among real-life investors. For future research, we also recommend inclusion of more personal factors that are assumed to affect intention to invest. If we understand how personal factors influence investors' behaviour, we could improve faculty programmes in a way that would promote personal characteristics that determine good investors.

Fourth, the data were cross sectional, which limits the ability to demonstrate causality. Future research would benefit from longitudinal designs, which could enable observations of variations in intention to invest and other variables of interest over time. Fifth, the data were all self-reported, which raises concerns about common method bias.

EXTENDED SUMMARY / IZVLEČEK

Danes živimo v okolju, kjer je prisotna čedalje večja participacija na trgu vrednostnih papirjev. Čeprav lahko kdorkoli vstopi na finančne trge, obstaja velika verjetnost, da bodo pomembnejše položaje na področjih povezanih z investicijsko dejavnostjo zavzeli večinoma posamezniki z dokončano ekonomsko izobrazbo. V naši raziskavi skušamo ugotoviti, kateri so tisti dejavniki, ki vplivajo na posameznikovo nagnjenost k investiranju. Med številnimi osebnimi dejavniki, ki vplivajo na vedenje investitorjev, smo se osredotočili predvsem na stopnjo zaupanja posameznika in pripravljenost za prevzemanje tveganja. Stopnjo zaupanja lahko opredelimo kot posameznikovo subjektivno oceno o (potencialni) verjetnosti, da bo prevaran. Rezultati prejšnjih študij so pokazali, da za posameznike, ki so po naravi bolj zaupljivi, obstaja večja verjetnost, da bodo investirali v trge vrednostnih papirjev. Poleg tega naj bi bili ti ljudje pripravljeni investirati večji delež svojega premoženja. Poleg zaupanja pa na nagnjenost k investiranju pomembno vpliva tudi posameznikova pripravljenost za prevzemanje tveganja. Tveganje označuje predvsem okoliščine, v katerih je končni rezultat negotov. Za prevzemanje tveganja je torej pomembno, da so bodoče koristi višje od morebitnih izgub. Postavljene hipoteze smo preverjali na vzorcu študentov Ekonomske fakultete. Rezultati so pokazali, da stopnja zaupanja ne vpliva na nagnjenost posameznikov k investiranju, medtem ko je pri pripravljenosti za prevzemanje finančnega tveganja zaslediti le manjši vpliv.

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