

Volume 6  
Number 2  
Summer 2008

ISSN 1581-6311

*Managing  
Global  
Transitions*

EDITOR  
Boštjan Antončič

*International  
Research  
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# *Managing Global Transitions*

## *International Research Journal*

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# *Managing Global Transitions*

## *International Research Journal*

VOLUME 6 · NUMBER 2 · SUMMER 2008 · ISSN 1581-6311

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## *The Editor's Corner*

The journal continues focusing on the transition research as well as emphasizing the openness towards different research areas, topics, and methods, including international and interdisciplinary research nature of scholarly articles published in the journal. The current issue covers topics of serial entrepreneurship, country credit rating, knowledge acquisition, competition policy, and management training.

This issue begins with a paper written by Sergey Anokhin, Dietmar Grichnik, and Robert D. Hisrich, who examine serial entrepreneurs in China and Germany. In the second paper, Carl B. McGowan, Jr. reveals the use of country credit rating model in Japan, Malaysia, and Russia. The third paper by Barbara Hvalič Erzetič investigates the link between the time spent on knowledge acquisition and the effect this has on the success of an entrepreneur. In the fourth paper Arild Tjeldvoll studies the relevance of a school management training programme to Norwegian education policies and strategies. In the last (fifth) paper Alen Balde looks into the competition policy from the legal perspective and proposes to set up an autonomous international court for global competition cases.

Boštjan Antončič  
*Editor*



# *The Journey from Novice to Serial Entrepreneurship in China and Germany: Are the Drivers the Same?*

Sergey Anokhin  
Dietmar Grichnik  
Robert D. Hisrich

While in general entrepreneurs in emerging economies are significantly different from entrepreneurs in mature markets on most dimensions, serial entrepreneurs demonstrate certain similarities in their goals and motivations, skills and competencies, resources, strategies and other characteristics. The drivers governing the journey from novice to serial entrepreneurship – while consistent with the arguments advanced by Casson and Lazear – appear to differ somewhat between emerging and mature economies. Based on a cross-sectional survey of Chinese and German entrepreneurs, the study contributes to the understanding of entrepreneurship in emerging markets and extends the knowledge of serial entrepreneurship by analyzing whether the differences between serial and novice entrepreneurs can be attributed to the types of skills and competences possessed by the individuals, and whether particular motives for starting new ventures are more conducive to multiple business founding than others.

*Key Words:* serial entrepreneurship, emerging economies, China, Germany

*JEL Classification:* L26

## **Introduction**

Entrepreneurship is the main vehicle of economic development. Serial entrepreneurship is its quintessential core. What makes certain individuals but not others start multiple businesses (sometimes simultaneously)

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is an intriguing question. Only recently has this question drawn empirical attention, and the results to date are still modest although promising. Existing literature attempts to explain the differences with the types of start-up activities carried out during the gestation processes by nascent entrepreneurs, their behavior patterns, personal backgrounds, experiences, and resources under control (Alsos and Kolvereid 1998; Rosa 1998; Ucbasaran, Wright, and Westhead 2003; Van Osnabrugge 1998; Westhead, Ucbasaran, and Wright 2003; Westhead and Wright 1998; Wright, Robbie, and Ennew 1997).

We extend these studies by suggesting that further selection of novice entrepreneurs into serial/habitual entrepreneurs may be a function of particular skill levels and competencies. Based on the arguments of Casson (1982) and Lazear (2004), we hypothesize that entrepreneurs with above-average levels of general skills such as in negotiating, presentation and idea generation are more likely to start multiple ventures whereas possessing above-average levels of functional skills, for instance in finance or marketing, would have no noticeable (or have a negative) effect on the probability of becoming a serial entrepreneur. While prior literature has also suggested the importance of particular motives in the individual's decision to pursue an entrepreneurial occupation, relatively little is known about particular individual goals of the serial entrepreneur. We acknowledge the likelihood of differences in individual motives between novice and serial entrepreneurs while leaving the directionality of such differences to empirical investigation.

In international comparisons it must be taken into account that the individuals' characteristics, inclinations and motivations – such as proclivity to start-up – are influenced by the institutional and cultural background of the entrepreneurs' country of origin (Hunt and Levie 2003; George and Zahra 2002; Hofstede 2001; Busenitz and Lau 1996). According to intercultural entrepreneurship research studies (Hayton, George, and Zahra 2002), behavioristic phenomena like attitudes and motivations are culture-specific, so that cross-cultural comparisons are either aimed at inter-culturally valid phenomena, or require a context-dependent result interpretation. This holds true especially for a cross-sectional comparison between entrepreneurs in mature and emerging markets, where institutional differences and their impact on human skills and competencies are perhaps most salient. In this study, we account for the entrepreneur's country of origin when testing factors capable of affecting a novice entrepreneur's decision to move on to another venture,



and also of developing a better understanding of the particularities of the entrepreneurial processes in emergent markets. Chinese entrepreneurs are compared to their German counterparts (including separate comparisons to East and West Germany) on a number of dimensions covering a wide institutional range from the developing economy in China to the highly developed economy in Germany, including the still in transition after the reunification of the Old and the New Laender economy of East Germany.

### **Background and Hypotheses**

The background and hypothesis will review the relevant research findings as an introduction to the development of the specific hypothesis to be tested.

#### REVIEW OF THE RELEVANT FINDINGS

There are different definitions of multiple or habitual entrepreneurship (Starr and Bygrave 1991; Kolvereid and Bullvag 1993; Birley and Westhead 1994; Hall 1995). Following Westhead and Wright (1998) we define habitual or multiple entrepreneurs as those owners-managers of businesses who have either founded, purchased or inherited more than one venture, either sequentially (serial entrepreneur) or simultaneously (portfolio entrepreneur). Novice entrepreneurs on the other hand, are those individuals that have no previous entrepreneurial experience as founders, purchasers or inheritors of a business.

Following MacMillan's (1986) call to study serial entrepreneurs in order to learn more about entrepreneurship, a stream of research has focused upon several aspects of this phenomenon. So far there is growing empirical evidence that multiple entrepreneurs do not constitute a homogeneous group in many respects (Ucsbasaran, Wright, and Westhead 2003). Regarding their motivations, there are two interesting issues. First, although there is a considerable diversity among habitual entrepreneurs, a pattern does seem to emerge. Serial entrepreneurs have been found to be more concerned with personal development and pursuit of an idea for a product (in some cases following a family tradition) than portfolio entrepreneurs. Portfolio entrepreneurs, on the other hand, tend to report more often the need for security and have an instrumental view of some of the ventures in their portfolios, which were started in order to benefit from tax exemptions. Novice and portfolio entrepreneurs seemed to be more reactive, i. e. they reported more often than serial entrepreneurs

'the exploitation of an opportunity that appeared' as a motivation. The second interesting issue is that motivations of habitual entrepreneurs seem to change between the first and subsequent venture. While first ventures have been found to be motivated by financial considerations, second ventures have been found to be motivated by more personal reasons (continue the challenge of owning a successful venture) and by security considerations (reduce risk exposure, take advantage of tax exemptions). There is no clear evidence that novice, serial and portfolio entrepreneurs differ in terms of their 'growth orientations' and 'materialistic reasons' (Rosa 1998; MacMillan 1986; Wright, Robbie, and Ennew 1997).

Ucbasaran, Wright and Westhead (2003) report a considerable motivational diversity among habitual entrepreneurs. The desire to work independently was mentioned by every entrepreneur in this study as a motivation for the first venture and remained as the most frequently reported motivation for subsequent ventures. Financial motivation was emphasized especially in the case of first ventures. This held not only for different types of entrepreneurs but also for each type over time. Regarding subsequent ventures, more personal reasons were given as motivation to start new businesses, such as the desire to continue the challenge of owning a successful venture. Starter entrepreneurs were more likely than acquirer entrepreneurs to strive for independence and autonomy. Habitual starter entrepreneurs were also more likely to be proactive searchers of business opportunities, whereas acquirers, who stressed the importance of networks, tended to be more reactive and used the networks as the providers of business opportunities. Motivations were also found to vary with the type of venture owned by habitual entrepreneurs. Westhead, Ucbasaran and Wright (2003) provide support that habitual, either serial or portfolio entrepreneurs are more likely than novice entrepreneurs to stress organizational routines oriented towards innovation, growing the business and professional management. Portfolio entrepreneurs were more likely to focus upon managerial competence and human capital resources. They were also more likely to show higher levels of competences that provide a greater understanding of why and how they own several businesses at the same time.

Westhead and Wright's (1998) novice entrepreneurs were more likely than serial entrepreneurs to be motivated by the 'need of independence' and they were more likely than portfolio entrepreneurs to have reported the 'need for approval' as a motivation to start a venture. However, they

were less likely than habitual entrepreneurs to have started a business to 'continue a family tradition' ('follow role models'). Habitual founders were more likely than novice founders to have emphasized 'perceived instrumentality of wealth' and 'need for personal development' as reasons for start-up. Portfolio founders were on the other hand, more likely than novice and serial founder to stress 'security' ('perceived instrumentality of wealth') and 'to have access to indirect benefits such as tax exemptions'. Serial founders were more likely than novice entrepreneurs to be motivated by the willingness to 'develop an idea for a product' ('need for personal development'). However, they were less likely than the others to have reported 'to have more influence in my community' as a reason for starting a venture. Westhead and Wright do not find support for the hypothesis that portfolio and serial founders were more growth oriented than novice founders. Birley and Westhead (1994) found that multiple (portfolio and serial) entrepreneurs were more likely than novice entrepreneurs to emphasize materialistic reasons for starting a venture, whereas Westhead and Wright (1998) found that portfolio founders were more likely than serial founders to have stated this reason. They provide further support that habitual entrepreneurs can not be treated as a homogeneous group.

Rosa (1998) determined that the process of multiple business ownership is an entrepreneurial one. According to his research, subsequent new ventures were not typically driven by managerial considerations alone. Even when some founding was motivated by the need to exploit tactical advantages or to deal with financial difficulties, entrepreneurial added value was always involved. Regarding the construction of generic types of entrepreneurs, Rosa felt that the diversity often exhibited by entrepreneurs over time in terms of their motivations and strategies for starting each new venture makes it difficult to construct a typology of habitual entrepreneurs. He does not find clear evidence to support the construction of a mapping from homogeneous types to entrepreneurial behavior.

Wright, Robbie and Ennew (1997) postulate that there are no obvious reasons to expect the motivations, personal characteristics and behavior of serial founders to be less diverse than those of novice founders. The motivations stated by the subjects in their study ranged from the desire for independence and autonomy, frustration with the present job to a sense of duty and the desire for wealth creation. Motivations are also found to change over time. For instance, in cases where monetary gain was perceived as an important factor in the first venture, it was consid-

ered less important in the second. The desire for a challenge and/or to develop an idea was very strong in the case of second and subsequent ventures. The desire to reduce the exposure to financial risk was present as well. And even if entrepreneurs committed a smaller proportion of their personal wealth in subsequent ventures, they emphasized the importance of being personally committed to them. This study also found that previous entrepreneurial experience influenced the way in which subsequent ventures were undertaken. For instance, some individuals were reluctant in further ventures to risk their reputation as successful entrepreneurs.

Empirical studies have failed so far to identify significant differences in performance between novice and multiple founders and between the two types of habitual founders (Kolvereid and Bullvag 1993; Wright, Robbie, and Ennew 1997; Westhead and Wright 1998). Rosa (1998) also asserts that it is empirically open and unresolved how far aggregate value (i. e. the sum of all employment, sales turnover, and capital assets) in the cluster of firms created by habitual entrepreneurs outperforms that of the single firm entrepreneurs.

Regarding the lack of conclusive findings, Westhead and Wright (1998) indicate that 'there is a need to take note of the heterogeneity of types of entrepreneur and to consider the entrepreneur as the appropriate unit of analysis rather than simply the firm'. They also assert that further research should focus upon the entrepreneur as a unit of analysis to allow a better understanding of the nature and contribution of entrepreneurship. They claim that 'the organization should not be the sole unit of analysis, because some entrepreneurs attempt to resolve their personal materialistic aspirations through the growth of a portfolio of businesses' (Birley and Westhead 1994). MacGrath (1999) and Sarasvathy and Menon (2002) confirm this when they suggest that firms have an instrumental role in the career of an entrepreneur. Rosa (1998) also asserts that the snap shot approach of just comparing the latest (habitual) and new venture (the novice) is incomplete and can lead to premature evaluation of the relative contribution of these types of entrepreneurs to economic development.

Cultural particularities can also help explain differences in entrepreneurial activities (McClelland 1961). To grasp the cultural context on a national level (Ulijn and Brown 2004; Ulijn and Fayolle 2004) most studies draw on Hofstede's cultural concept (Hofstede 2001). Following Hofstede's definition of culture as the 'collective programming of the mind which distinguishes the member of one human group from another'

(Hofstede 1991, 5), the cultural context can be seen as a sounding board for entrepreneurship by predisposing entrepreneurial behavior psychologically via attitudes, beliefs and the motivation of the entrepreneur and sanctioning entrepreneurial activities socially via common shared values and norms within a society (Hunt and Levie 2003). Hayton, George, and Zahra (2002) identify in a meta-analysis a positive impact of Hofstede's cultural dimensions on entrepreneurship in high levels of individualism and masculinity and low levels of power distance and uncertainty tolerance. Though the latter provides a direct link to human resources in emerging and mature markets, recent literature indicates that Hofstede's cultural dimensions were developed for established companies and are not specific enough for new ventures (Busenitz, Gomez, and Spencer 2000). These recent studies (Busenitz and Lau 1996; Tan 2002) suggest a separation of the cultural background and cognitive dispositions and human characteristics for a better understanding of their impact on entrepreneurial behavior. Following the results of this research, goals and motivation, skills and competencies are considered in this study as endogenous and the cultural context as an exogenous determinant of serial entrepreneurship.

#### HYPOTHESES DEVELOPMENT

The hypotheses concerning differences between serial and novice entrepreneurs attributed to the types of skills and competences possessed by the individuals are based, in part, on the arguments of Casson (1982) and Lazear (2004).

Casson (1982) defines an entrepreneur as somebody who specializes in taking judgmental decisions about the coordination of scarce resources and proposes a set of skills required by decision making. These consist of self-knowledge (or knowledge of the principal's objectives), imagination, practical knowledge, analytical ability, search skill, foresight, computational skill and communication skill (in formulating instructions). Casson infers that the entrepreneur needs to be more a generalist rather than a specialist and formulates that it is important to be reasonably good at all aspects of decision making instead of being very good at some and bad at others. However, not all of these qualities are equally important, nor are they equally distributed among the population. Those unequally distributed will have a considerable economic importance and will be peculiar to the entrepreneur. Some of these skills are almost innate, such as imagination, but most are capable of enhancement, either by training

or experience. The crucial point is that somebody who wants to become an entrepreneur will have to be proficient in many aspects (or extremely good at delegating and organizing).

Lazear (2004) offers a model explaining why this may indeed be the case. He first assumes that people are endowed with some basic talents regarding two<sup>1</sup> different skills and that they can augment these by acquiring certain types of human capital. He then introduces two types of income functions that he assigns respectively to specialists and entrepreneurs. These functions are mappings from skills to income. The income of the specialists equals the value of the skill with the highest level. The income of the entrepreneurs on the other hand, is determined by the value of the skill with the lowest level. Investment in human capital to augment the skill levels is costly.<sup>2</sup> If individuals are born with different levels of talent concerning both skills, then for different arrangements of the parameters, depending on whether they have the income function of a specialist or that of an entrepreneur, they may adopt different investment strategies. Individuals, who have the income function of a specialist, have an incentive to invest in one of the skills to maximize returns. On the other hand, individuals who have the income function of an entrepreneur, have an incentive to invest in this skill up to the level of the other and afterwards they optimize by investing in human capital to reach a similar level of talent in both skills.<sup>3</sup> Because investment in human capital is costly and the cost function is convex, there will be a limit to the optimum level of skills and therefore a limit to the increment of income derived from them. We hypothesize that serial entrepreneurship can provide a way to boost this process.

To summarize these thoughts we agree with Casson (1982) that self-selection into entrepreneurship could be a function of skills and competences possessed by an individual. In particular, individuals with general, not functional skills are more likely to start new businesses; those with high functional skills (e. g. finances) are more likely to choose professional careers. In terms of Lazear's (2004) statements that entrepreneurs are expected to have a more balanced set of skills than non entrepreneurs, and that serial entrepreneurs can be seen as novice entrepreneurs who are committed to the career, we extend these arguments by suggesting that further selection of novice entrepreneurs into serial/habitual entrepreneurs may be a function of the levels of particular skills and competencies. In particular, we hypothesize that entrepreneurs with above-average levels of general skills (e. g. oral presentation, writing ability, idea gener-

ation) are more likely to start multiple ventures whereas above-average levels of functional skills (e. g. human resource management, finance, marketing) would have no noticeable (or ever have a negative) effect on the probability of becoming a serial entrepreneur. Thus, our two main hypotheses are:

- H1 *Novice entrepreneurs with higher levels of general skills are more likely to start multiple ventures.*
- H2 *Novice entrepreneurs with higher levels of functional skills are less likely (or not significantly more likely) to start multiple businesses.*

Prior literature – as shown in the background review (Ucbasaran, Wright, and Westhead 2003, Westhead and Wright 1998; Wright, Robbie, and Ennew 1997) – has also suggested the importance of particular motives in the individual's decision to pursue an entrepreneurial occupation. At the same time, relatively little is known about particular individual goals in the serial entrepreneurship context. We acknowledge the likelihood of differences in individual motives between novice and serial entrepreneurs while leaving the directionality of such differences to empirical investigation leading to the following hypothesis:

- H3 *Entrepreneur's goals and motives significantly differ between novice and serial entrepreneurs.*

To address the impact of the cultural environment on the role of human resources in entrepreneurial ventures, we control for the country of origin. Previous literature – as shown above (Hunt and Levie 2003; George and Zahra 2002; Hofstede 2001; Busenitz and Lau 1996) – indicates apparent cultural differences between entrepreneurs in transition and developed economies. Accordingly, since cultural environment is looked at in the literature as an exogenous component affecting entrepreneurship, we expect 'average' entrepreneurs in emerging and mature economies to demonstrate significant differences on most characteristics and attributes. At the same time, as we conceptualize serial entrepreneurs as 'ultimate venturers' committed to their entrepreneurial careers and having comparably composed sets of skills and competencies regardless of their national origin, we expect serial entrepreneurs to demonstrate significantly more similarities with respect to their characteristics and attitudes such as motivations, strategies, and resources. These results are reflected in the final two hypotheses:

- H4 *Most characteristics and attitudes significantly differ between Chinese and German entrepreneurs.*

- H5 *Compared to ‘average’ entrepreneurs, serial entrepreneurs in China and Germany show more similarities with respect to their motivations, strategies, characteristics and resources.*

To test these hypotheses, the following methodology was applied.

### **Methodology**

The methodology will be discussed in terms of the data, the variables, and the data analysis methods. The data of our hypotheses are tested based on cross-sectional data collected in Germany and China. The questionnaire used was based on a previously validated instrument originally developed by Hisrich and his co-authors and used in a number of studies in a range of economies including Israel, Russia, Ukraine, and the United States (Hisrich and Grachev 1995; Lerner, Brush, and Hisrich 1997). It was translated into German and Chinese and administered to German and Chinese entrepreneurs. The list of questions used is available from the authors. Out of 315 returned questionnaires (seventy percent from Germany and thirty from China), 39 were deemed unusable since respondents indicated their position as managerial rather than entrepreneurial resulting in a final sample of 276 responses.

82.1 percent of Chinese entrepreneurs in the sample were males compared to 75.0 percent in Germany. The age of Chinese entrepreneurs varied from 24 to 55 years with the mean being 37. German entrepreneurs were five years older on average (42) with reported age varying from 27 to 63 years. 10.0 percent of German entrepreneurs reported having started more than one venture (serial entrepreneurs) compared to 12.5 percent in China.

### VARIABLES

Our dependent variable – serial entrepreneur – was coded 1 if the entrepreneur indicated that the current business was not his first entrepreneurial venture and coded 0 otherwise. We tested 25 independent variables as potential predictors of becoming a serial entrepreneur. In particular, we examined 10 items of the entrepreneur’s goals/motivations (personal achievement, status and prestige, economic necessity, flexibility in work/family, independence, learning and personal growth, desire to test one’s own ideas, money and wealth, recognition, and satisfying work relationships); 8 items of functional skills (finance, human resource management, marketing, operations, organizing and planning, problem analysis/solving, information systems, technology); and 7 items



of general competencies (negotiating, idea generation, oral presentations, writing ability, quantitative competencies, motivating employees, developing personal business relationships). We included entrepreneurs' age, gender and country of origin dummies as controls. For the cross-cultural comparison between Germany (East and West) and China, 4 items in job satisfaction, 20 items in resources, 11 items in strategy and 10 items in industry characteristics were included.

#### DATA ANALYSIS METHOD

Descriptive statistics and bivariate correlations are presented in table 1. Given the binary coding of the dependent variable, the most appropriate estimation technique is binary logistic regression (models 1–4, table 2). Model 1 only includes control variables. Model 2 adds entrepreneurs' goals and motivations to the set of predictors. Model 3 builds on model 2 by adding general competencies to the equation, and model 4 augments the set of predictors with functional skills.

We acknowledge that due to the limited sample size, a relatively small proportion of serial entrepreneurs in the sample, and substantial number of independent variables, we may not achieve statistical significance for some coefficients even if the proposed relationships hold true. Nevertheless, we were reluctant to deliberately oversample particular groups of individuals (serial entrepreneurs) so as not to distort the underlying properties of the sampled population. Instead, we resorted to a non-parametric resampling technique known as bootstrap to check whether relationships reported by the logistic regression as significant are a mere artifact of the sample size or reflect true properties of the data at hand (Bollen and Stine 1992; Efron and Gong 1983; Stine 1985). By doing so we make an assumption that our sample is representative of the overall population, which appears to be the case. Otherwise, the bootstrap results are only generalizable to this particular sample. To arrive at bootstrap estimates, 250 random samples were drawn with replacement from the original dataset (that is, some observations are likely to appear in more than one sample) each of which is used to re-test our initial model. The resulting coefficients for each regression are then averaged over the 250 regression runs. The standard deviation of each coefficient is then divided by the square root of the sample size to arrive at the standard error of the mean. A *t*-value is then estimated for each coefficient by comparing the coefficient's average to its standard error. Bootstrap estimates are only used to confirm the relationships rendered as significant

TABLE 1 Descriptive statistics

	M	SD	1	2	3	4	5	6	7	8	9	10	11	12
1	.10	.30												
2	4.28	.90	-.01											
3	2.96	1.15	.10	.20										
4	3.93	.98	-.07	.13	.13									
5	3.95	1.05	-.03	.13	.14	.04								
6	4.26	.88	.00	.16	.18	-.03	.40							
7	4.03	.84	-.12	.35	.15	.04	.19	.24						
8	3.93	.92	.05	.34	.16	-.10	.06	.14	.39					
9	3.51	.98	.00	.19	.41	.14	.05	.15	.05	.14				
10	3.65	.99	.01	.27	.47	.14	.09	.23	.28	.20	.29			
11	4.04	.88	-.09	.18	.11	.05	.26	.22	.28	.20	.00	.31		
12	3.08	1.08	.07	.03	.11	.00	.09	.09	-.02	-.08	.02	.10	-.03	
13	3.74	.85	-.04	.21	.03	.05	.07	.21	.28	.15	.04	.19	.07	.15
14	3.28	1.06	.05	.13	.10	-.13	-.02	.02	.14	.19	.09	.11	-.02	.12
15	3.43	1.20	.02	.13	.08	-.13	-.02	.01	.16	.36	.09	.05	.00	.05
16	3.51	1.06	.02	.08	.06	-.06	.00	.06	.11	.16	.16	.09	.05	.07
17	3.68	1.89	.01	.15	.01	-.04	.06	.10	.05	.18	.07	.12	.04	.05
18	3.03	1.25	.09	.09	.06	.09	-.04	.10	.12	.06	.08	.01	-.04	.08
19	3.08	1.27	.02	.14	-.02	.15	-.03	.01	.14	.08	.12	-.06	-.09	-.04
20	3.36	.80	.12	.19	.16	-.04	.03	.11	.10	.16	.12	.21	.05	.06
21	3.55	.76	.17	.11	.14	-.10	.00	.11	.02	.07	.06	.10	.00	.05
22	3.25	.87	.10	.16	.03	-.05	.06	.22	.20	.10	.05	.08	-.05	.16
23	3.55	.83	.01	.12	.09	-.06	-.11	.04	.04	.09	-.03	.04	-.06	-.01
24	3.30	.88	.08	.06	-.03	-.08	-.03	.08	.00	.01	.08	-.04	.00	.21
25	3.34	.77	.03	.19	.07	.14	-.07	.07	.14	.13	.18	.12	-.04	-.07
26	3.40	.98	.01	.09	.23	.08	-.04	.10	.06	.12	.15	.16	-.08	.01
27	40.80	7.88	.05	.06	-.19	.11	-.08	-.06	-.16	-.04	-.11	-.17	-.04	.10
28	.76	.43	.08	-.01	.01	-.11	-.12	.01	-.11	.05	.08	-.15	-.08	-.07
29	.19	.40	.05	-.01	.21	.00	-.15	.01	.06	.18	.17	.20	-.15	.11

NOTES 1 – serial entrepreneur, 2 – personal achievement, 3 – status and prestige, 4 – economic necessity, 5 – flexibility in work/family, 6 – independence, 7 – learning and personal growth, 8 – test my own ideas, 9 – money and wealth, 10 – recognition, 11 – satisfying work relationships, 12 – finance, 13 – human resource management, 14 – marketing, 15 – idea generation, 16 – operations, 17 – organizing and planning, 18 – managing information systems, 19 – technology,

*Continued on the next page*



TABLE 2 Regression results (dependent variable – serial entrepreneur)

Variable or statistic	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>Functional skills</i>							
Finance				0.16 (0.26)			
Human resource management				-0.65 <sup>a</sup> (0.37)	Yes	Yes	
Marketing				0.28 (0.29)			
Operations				-0.01 (0.28)			
Organizing and planning				-0.20 (0.36)			Positive <sup>a</sup>
Problem analysis/solving				-0.77 <sup>b</sup> (0.36)	Yes	Yes	
Managing information systems				0.59 <sup>b</sup> (0.29)	Yes	Yes	Negative <sup>b</sup>
Technology				-0.27 (0.27)			
<i>General Competencies</i>							
Negotiating			0.30 (0.34)	0.28 (0.37)			
Idea generation			-0.08 (0.19)	-0.24 (0.24)			
Oral presentation			0.71 <sup>a</sup> (0.38)	1.01 <sup>b</sup> (0.43)	Yes	Yes	Positive <sup>a</sup>
Writing ability			0.27 (0.25)	0.55 <sup>a</sup> (0.31)	Yes	Yes	
Quantitative competence			0.11 (0.25)	0.14 (0.31)			
Motivating employees			0.28 (0.38)	0.55 (0.47)			
Developing personal business relationships			-0.44 (0.29)	-0.65 <sup>b</sup> (0.32)	Yes	Yes	
<i>Goals and Motivations</i>							
Personal achievement		0.07 (0.28)	0.00 (0.30)	0.27 (0.35)			
Status and prestige		0.42 <sup>a</sup> (0.26)	0.54 <sup>a</sup> (0.28)	0.45 (0.28)			Positive <sup>a</sup>

*Continued on the next page*

TABLE 2 Continued

Variable or statistic	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Economic necessity		-0.34 (0.271)	-0.21 (0.26)	-0.23 (0.28)			
Flexibility in work/family		0.06 (0.29)	0.03 (0.24)	-0.01 (0.25)			Positive <sup>a</sup>
Independence		-0.01 (0.27)	-0.04 (0.29)	-0.10 (0.31)			
Learning and personal growth		-0.43 (0.29)	-0.51 <sup>a</sup> (0.31)	-0.73 <sup>b</sup> (0.36)	Yes	Yes	Negative <sup>a</sup>
Test my own ideas		0.23 (0.28)	0.34 (0.30)	0.50 (0.35)			
Money and wealth		-0.23 (0.26)	-0.31 (0.28)	-0.35 (0.32)			
Recognition		0.05 (0.31)	0.05 (0.33)	0.22 (0.37)			
Satisfying work relationships		-0.36 (0.26)	-0.45 <sup>a</sup> (0.27)	-0.52 <sup>a</sup> (0.32)	Yes	Yes	Negative <sup>b</sup>
<i>Controls</i>							
Age		0.03 (0.03)	0.02 (0.03)	0.03 (0.03)	0.02 (0.03)		
Gender		0.63 (0.56)	0.36 (0.60)	0.43 (0.63)	0.59 (0.69)		
China		0.46 (0.49)	0.09 (0.56)	-0.24 (0.62)	-0.40 (0.72)		
Constant		-3.96 <sup>c</sup> (1.21)	-1.27 (2.27)	-5.27 <sup>a</sup> (2.75)	-3.59 (3.08)		
Nagelkerke R <sup>2</sup>		0.02	0.11	0.20	0.28		
Change in R <sup>2</sup>		-	0.09	0.09	0.08		

NOTES Column headings are as follows: (1) model 1, (2) model 2, (3) model 3, (4) model 4, (5) relationship confirmed – 100 runs bootstrap, (6) relationship confirmed – 250 runs bootstrap, (7) interaction with ‘China’. Standard errors in parentheses. <sup>a</sup>  $p < 0.10$ , <sup>b</sup>  $p < 0.05$ , <sup>c</sup>  $p < 0.01$ , <sup>d</sup>  $p < 0.001$ .

by the initial logistic regression and are not used to claim support for our hypotheses if only the bootstrapped but not the initial results show significance. Two columns in table 2 indicate whether or not model 4 results are confirmed by the bootstrap testing based on 100 and 250 random samples.

To obtain a better understanding of different characteristics and atti-

tudes of Chinese entrepreneurs, we also compare them to the subsamples of West and East Germany-based entrepreneurs. These comparisons were made for the broad population of average entrepreneurs and for the smaller group of serial entrepreneurs (see table 3). For the latter the last column in table 2 indicates a positive or negative interaction of the results in models 1–4 with China country membership. Table 3 shows the extended analysis of differences among average and serial entrepreneurs from China, East and West Germany. In addition to comparing the above mentioned goals and motivations, skills and competencies, we include several items on job satisfaction, resources, strategy and industry characteristics into consideration to fully illustrate the differences between emerging and mature environments within which entrepreneurs operate.

### **Findings**

The findings are mostly based on model 4, our main model. As suggested by the Hosmer and Lemeshow test, binary logistic regression fits the data adequately. The  $\chi^2$  of 12.14 is not significant ( $p = .15$ ), indicating acceptable fit. The Nagelkerke  $R^2$  is .28, and overall the model correctly classifies 90.7% of entrepreneurs. The large number of different measures of entrepreneur's motivations and competencies can potentially create a multicollinearity problem. However, the diagnostics did not reveal any indications of this problem; the largest VIF is only 2.07. The highest correlation between independent variables is .52 between two general competences (motivating employees and developing personal business relationships), which is well below the .7 threshold. Since our study employs a cross-sectional design with the answers being self-reported, there is a potential threat of a common method bias. If this were the case, such bias would have manifested itself in the correlation table, and the observed correlation between theoretically uncorrelated constructs would have reflected it. Since the smallest correlation is .00, this implies that even if the common method bias is present, its magnitude is negligible.

As our results indicate, general skills are successful in explaining the probability of a novice entrepreneur becoming a serial entrepreneur. Thus, both superior oral presentation and writing ability are positively associated with the start of multiple future ventures by a novice entrepreneur.<sup>4</sup> This lends support to hypothesis 1. Negotiating, quantitative competence, and employee motivating skills do not differentiate novice from serial entrepreneurs. Contrary to our expectations, a com-

TABLE 3 Means comparison: China to Germany; China to West Germany; China to East Germany

	Entrepreneurs				Serial entrepreneurs			
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
<i>Goals and motivations</i>								
Personal achievement	4.27	4.28	4.43	4.20	4.08	4.27	4.50	4.14
Status and prestige	3.41	2.84 <sup>c</sup>	2.81 <sup>b</sup>	2.87 <sup>c</sup>	3.62	3.05 <sup>a</sup>	3.38	2.85 <sup>b</sup>
Economic necessity	3.91	3.93	4.17	3.78	3.77	3.68	3.75	3.64
Flexibility in work/family	3.66	4.03 <sup>b</sup>	4.04 <sup>a</sup>	4.02 <sup>b</sup>	3.72	3.86	4.25	3.64
Learning and personal growth	4.16	4.01	4.13	3.96	4.00	3.86	4.25	3.64
Test my own ideas	4.29	3.85 <sup>c</sup>	3.72 <sup>c</sup>	3.92 <sup>c</sup>	4.08	4.05	4.25	3.93
Money and wealth	3.86	3.42 <sup>c</sup>	3.19 <sup>c</sup>	3.53 <sup>b</sup>	3.87	3.23 <sup>b</sup>	2.88 <sup>b</sup>	3.43
Recognition	4.05	3.55 <sup>c</sup>	3.68 <sup>b</sup>	3.45 <sup>d</sup>	4.00	3.55	3.75	3.43
Satisfying work relationships	3.79	4.11 <sup>b</sup>	4.09 <sup>a</sup>	4.11 <sup>b</sup>	3.90	4.00	3.88	4.07
<i>Skills and competencies</i>								
Finance	2.86	3.14 <sup>a</sup>	3.22 <sup>a</sup>	3.10	3.21	3.23	3.13	3.29
Dealing with people	3.61	3.77	3.87	3.71	3.41	3.64	4.00	3.43
Marketing	3.68	3.17 <sup>c</sup>	3.20 <sup>b</sup>	3.16 <sup>c</sup>	3.46	3.32	3.75	3.07
Idea generation	3.73	3.37 <sup>b</sup>	3.30 <sup>a</sup>	3.41 <sup>a</sup>	3.54	3.50	3.38	3.57
Operations	3.38	3.53	3.32	3.59	3.44	3.43	3.71	3.29
Organizing and planning	3.73	3.64	3.64	3.67	3.46	3.72	4.14	3.46
Managing information systems	3.59	2.86 <sup>d</sup>	2.85 <sup>c</sup>	2.86 <sup>d</sup>	3.59	3.36	3.25	3.43
Technology	3.39	3.00 <sup>b</sup>	2.96 <sup>a</sup>	3.00 <sup>b</sup>	3.51	3.05	3.25	2.93
Negotiating	3.80	3.24 <sup>d</sup>	3.30 <sup>c</sup>	3.23 <sup>d</sup>	3.74	3.45	3.75	3.29
Oral presentation	3.86	3.46 <sup>d</sup>	3.60 <sup>a</sup>	3.43 <sup>d</sup>	3.62	3.73	3.88	3.64
Writing ability	3.46	3.21 <sup>b</sup>	3.43	3.13 <sup>b</sup>	3.85	3.41 <sup>a</sup>	3.75	3.21 <sup>b</sup>
Problem analysis/solving	4.02	3.43 <sup>d</sup>	3.43 <sup>d</sup>	3.43 <sup>d</sup>	3.77	3.41	3.25	3.50
Quantitative competence (math skills)	3.39	3.26	3.22	3.26	3.72	3.45	3.25	3.57
Motivating employees	3.71	3.24 <sup>d</sup>	3.23 <sup>c</sup>	3.24 <sup>d</sup>	3.28	3.27	3.50	3.14
Developing personal business relationships	3.98	3.26 <sup>d</sup>	3.22 <sup>d</sup>	3.27 <sup>d</sup>	3.82	3.23 <sup>b</sup>	3.75	2.93 <sup>c</sup>
<i>Satisfaction</i>								
Satisfied with how I do my job	3.48	4.13 <sup>d</sup>	3.98 <sup>c</sup>	4.17 <sup>d</sup>	3.67	4.09	4.25	4.00
Satisfied with the income I earn	3.09	2.86	2.61 <sup>b</sup>	2.93	3.28	2.91	2.38 <sup>b</sup>	3.21

Continued on the next page

TABLE 3 *Continued*

	Entrepreneurs				Serial entrepreneurs			
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
Satisfied with the people who work for/with me	3.46	3.86 <sup>c</sup>	3.75 <sup>a</sup>	3.86 <sup>c</sup>	3.00	3.70 <sup>b</sup>	3.71	3.69 <sup>a</sup>
Satisfied with the future prospects of this company	3.73	3.05 <sup>d</sup>	2.78 <sup>d</sup>	3.13 <sup>c</sup>	3.41	2.73 <sup>b</sup>	2.38 <sup>c</sup>	2.93
<i>Resources</i>								
Technological and computer equipment	2.18	3.70 <sup>d</sup>	3.89 <sup>d</sup>	3.66 <sup>d</sup>	1.85	3.59 <sup>d</sup>	4.38 <sup>d</sup>	3.14 <sup>d</sup>
Business facilities and offices	2.86	3.56 <sup>d</sup>	3.74 <sup>d</sup>	3.49 <sup>c</sup>	2.56	3.59 <sup>d</sup>	3.50 <sup>b</sup>	3.64 <sup>c</sup>
Business location	2.50	3.45 <sup>d</sup>	3.51 <sup>d</sup>	3.40 <sup>d</sup>	2.54	3.52 <sup>c</sup>	3.43 <sup>a</sup>	3.57 <sup>c</sup>
Operating/manufacturing plant and facilities	2.66	2.94	2.96	2.94	2.77	2.73	2.50	2.86
Cash/liquidity	2.66	2.76	2.78	2.72	2.72	2.55	1.88 <sup>a</sup>	2.93
Experienced workforce	2.54	3.62 <sup>d</sup>	3.74 <sup>d</sup>	3.52 <sup>d</sup>	2.82	3.45 <sup>b</sup>	3.50	3.43
Customer relationships	2.61	4.10 <sup>d</sup>	4.04 <sup>d</sup>	4.11 <sup>d</sup>	2.62	4.09 <sup>d</sup>	4.00 <sup>c</sup>	4.14 <sup>d</sup>
Cost efficiencies	2.82	3.17 <sup>b</sup>	3.13	3.17 <sup>b</sup>	2.72	3.00	2.75	3.14
Innovation capability	2.75	3.41 <sup>d</sup>	3.17 <sup>a</sup>	3.52 <sup>d</sup>	2.69	3.27 <sup>a</sup>	3.00	3.43 <sup>a</sup>
Flexibility/ability to adapt	3.02	3.82 <sup>d</sup>	3.80 <sup>d</sup>	3.83 <sup>d</sup>	3.03	3.73 <sup>c</sup>	3.75 <sup>a</sup>	3.71 <sup>b</sup>
Reputation/image	2.79	4.02 <sup>d</sup>	3.96 <sup>d</sup>	4.03 <sup>d</sup>	2.41	4.00 <sup>d</sup>	3.88 <sup>c</sup>	4.07 <sup>d</sup>
Expertise/knowledge of employees	2.66	3.63 <sup>d</sup>	3.81 <sup>d</sup>	3.52 <sup>d</sup>	2.74	3.59 <sup>c</sup>	3.75 <sup>b</sup>	3.50 <sup>b</sup>
Shared purpose/values among employees	2.95	3.03	3.08	2.96	2.92	3.24	3.71 <sup>a</sup>	3.00
Partnerships/alliances	2.73	2.41	2.34	2.47	2.87	3.18	2.88	3.36
Access to debt financing	3.04	2.41 <sup>c</sup>	2.27 <sup>c</sup>	2.55 <sup>b</sup>	2.95	2.40	2.13 <sup>a</sup>	2.58
Access to equity financing	2.66	2.35	2.33	2.35	3.00	2.43	2.38	2.46
Access to qualified employees labor force	3.52	2.62 <sup>d</sup>	2.75 <sup>c</sup>	2.54 <sup>d</sup>	3.03	3.10	3.38	2.92
Access to market information	3.68	3.46	3.46	3.52	3.67	3.43	3.38	3.46
Access to technology	3.46	3.46	3.44	3.52	3.46	3.14	3.13	3.15
Access to distribution channel	3.64	2.65 <sup>d</sup>	2.46 <sup>d</sup>	2.77 <sup>d</sup>	3.64	2.57 <sup>c</sup>	2.38 <sup>b</sup>	2.69 <sup>b</sup>
<i>Strategy</i>								
Quality control	4.20	4.18	4.35	4.14	4.36	4.23	4.13	4.29
Satisfaction of customer needs	4.11	4.51 <sup>d</sup>	4.57 <sup>c</sup>	4.48 <sup>c</sup>	4.18	4.45	4.38	4.50
Product/service development innovation	3.98	3.61 <sup>c</sup>	3.47 <sup>c</sup>	3.67 <sup>b</sup>	3.90	3.59	3.63	3.57

*Continued on the next page*



TABLE 3 Continued

	Entrepreneurs				Serial entrepreneurs			
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
Innovative marketing	3.82	3.05 <sup>d</sup>	3.02 <sup>d</sup>	3.08 <sup>d</sup>	3.82	3.18 <sup>b</sup>	3.63	2.93 <sup>c</sup>
Quality service/product	4.18	4.10	4.15	4.08	4.18	4.05	3.75	4.21
Customer service	3.89	4.03	4.09	4.03	3.82	3.91	4.00	3.86
Partnerships/alliances	3.38	2.61 <sup>d</sup>	2.79 <sup>b</sup>	2.57 <sup>d</sup>	3.62	3.00 <sup>a</sup>	3.25	2.86 <sup>b</sup>
Cost reduction	3.80	3.51 <sup>b</sup>	3.64	3.41 <sup>b</sup>	3.79	3.77	3.88	3.71
Technological innovation	3.82	3.19 <sup>d</sup>	3.31 <sup>b</sup>	3.14 <sup>d</sup>	3.82	2.86 <sup>c</sup>	3.00 <sup>b</sup>	2.79 <sup>c</sup>
First with new products/service	3.75	2.81 <sup>d</sup>	2.78 <sup>d</sup>	2.83 <sup>d</sup>	3.74	2.86 <sup>c</sup>	3.25	2.64 <sup>c</sup>
Operational efficiency and employee productivity	3.80	3.25 <sup>d</sup>	3.40 <sup>b</sup>	3.20 <sup>d</sup>	3.79	3.45	4.13	3.07 <sup>b</sup>
<i>Industry characteristics</i>								
Growth	2.51	2.18 <sup>a</sup>	2.25	2.16 <sup>a</sup>	2.21	2.41	2.75	2.21
Number of competitors	3.18	2.37 <sup>d</sup>	2.37 <sup>c</sup>	2.38 <sup>d</sup>	3.18	2.68 <sup>a</sup>	2.88	2.57 <sup>a</sup>
State regulation	2.93	1.72 <sup>d</sup>	1.71 <sup>d</sup>	1.74 <sup>d</sup>	2.69	2.24	2.38	2.15
Foreign competitors	3.14	1.18 <sup>d</sup>	1.06 <sup>d</sup>	1.25 <sup>d</sup>	3.18	1.75 <sup>c</sup>	1.88 <sup>b</sup>	1.67 <sup>c</sup>
Speed of technological change	3.23	2.58 <sup>c</sup>	2.02 <sup>d</sup>	2.80 <sup>a</sup>	2.90	2.76	2.63	2.85
Ease of new company entry into industry	3.25	2.85 <sup>b</sup>	2.52 <sup>c</sup>	3.01	3.00	3.55 <sup>a</sup>	3.50	3.57 <sup>a</sup>
Supplier pricing	3.09	2.50 <sup>c</sup>	2.21 <sup>d</sup>	2.62 <sup>c</sup>	2.72	2.68	2.38	2.86
Retailer pricing	3.11	2.21 <sup>d</sup>	2.08 <sup>d</sup>	2.28 <sup>d</sup>	2.97	2.73	2.88	2.64
Customer demand	2.63	3.08 <sup>c</sup>	2.98 <sup>a</sup>	3.11 <sup>c</sup>	2.64	2.95	2.63	3.14
Substitute products/services	3.55	2.01 <sup>d</sup>	1.55 <sup>d</sup>	2.19 <sup>d</sup>	3.26	2.68 <sup>a</sup>	2.63	2.71

NOTES Column headings are as follows: (1) China, (2) Germany, (3) West Germany, (4) East Germany. <sup>a</sup>  $p < 0.10$ , <sup>b</sup>  $p < 0.05$ , <sup>c</sup>  $p < 0.01$ , <sup>d</sup>  $p < 0.001$ .

petence in developing personal business relationships is negatively related to the probability that a novice entrepreneur would start another venture. This is further examined in the discussion section.

Relationships between human resource management skills and analytical and problem solving competencies are negatively related to the dependent variable. None of the other functional skills (finance, marketing, operations, organizing and planning, technological expertise) are significantly different between novice and serial entrepreneurs. These findings support hypothesis 2. At the same time, entrepreneurs with superior understanding of information management processes are significantly

more likely to start more than one venture, which is not in line with this hypothesis. This is further discussed below.

The findings lend some support to hypothesis 3. Novice entrepreneurs that have higher rankings on learning and personal growth, and satisfying work relationships are significantly less likely to start a new venture. Also, personal achievement, status and prestige, economic necessity, flexibility in work/family, desire to test one's own ideas, money and wealth, and recognition do not differentiate between novice and serial entrepreneurs.

Significant differences between Chinese and German entrepreneurs were found on a number of dimensions. Overall, entrepreneurs in China and Germany demonstrate many significant differences. These findings are consistent with hypothesis 4. Serial entrepreneurs appear to show more similarities across countries. This lends support to hypothesis 5. We realize, of course, that for serial entrepreneurs only large differences could be detected due to the sample size limitations, and do not claim the results to provide a final answer. While in general German entrepreneurs tend to demonstrate higher urge for flexibility with West German entrepreneurs scoring highest on this goal, serial entrepreneurs showed no significant differences with respect to this goal at all. Generally, Chinese entrepreneurs are more likely to be driven by the desire to test their own ideas compared to German entrepreneurs (again, the contrast is highest with West Germans). Serial entrepreneurs in both countries are no different on this dimension. Chinese entrepreneurs care more for recognition associated with their entrepreneurial status and less for satisfying work relationship compared to their German counterparts. For serial entrepreneurs this difference vanishes. Goals of personal achievement, economic necessity, learning and personal growth are equally important for Chinese and German novice and serial entrepreneurs.

The same pattern also occurs in terms of the skills and competencies of entrepreneurs in China and Germany. In general, Chinese entrepreneurs tend to have a lower level of finance skills, and higher scores on marketing skills, idea generation, managing information systems, technology, negotiating, oral presentation, writing abilities, problem solving, motivating employees, and developing personal business relationships. At the same time, the differences are significantly less for serial entrepreneurs – only writing skills and developing personal business relationship skills differ significantly between China and Germany (Chinese respondents score higher on both dimensions). The rest of skills/competencies

demonstrate statistical indifference between serial entrepreneurs in the two countries.

While entrepreneurs in China tend to be less satisfied with how they do their job, serial entrepreneurs in both countries show no noticeable differences with respect to this characteristic. All entrepreneurs in China showed higher satisfaction with their income and future prospects of their companies and lower satisfaction with their employees compared to German entrepreneurs.

Entrepreneurs in China and Germany differed considerably with respect to their resource endowment. German entrepreneurs surpassed their Chinese counterparts in terms of the availability of technological and computer equipment, business facilities and offices, business location, experienced workforce, innovation capabilities, reputation, image, expertise and knowledge of employees and other resources. This was also the case for serial entrepreneurs. The Chinese seem to have a slight advantage with respect to cash/liquidity over West German entrepreneurs which reflects, in part, the lower costs of doing business in China. On average, entrepreneurs in China have better access to debt financing and distribution channels. Interestingly, despite claiming to have a less experienced workforce, Chinese entrepreneurs were higher on their estimate of having access to qualified employees.

While in general entrepreneurs in China paid less attention to the satisfaction of customer needs, being more concerned with product/service development and cost reduction than their German counterparts, strategies adopted by serial entrepreneurs in China and Germany demonstrate remarkable similarity. Quality control, satisfaction of customer needs, product/service development and quality assurance, customer service and cost reduction were equally important for serial entrepreneurs in both countries. Chinese serial entrepreneurs based their strategies more on innovations in marketing and technologies, introduction of new products and services, and increasing efficiency and productivity than did their German colleagues. They also relied more on partnerships and alliances.

Serial entrepreneurs in both countries were also significantly closer in their estimates of their industries than average entrepreneurs. While generally entrepreneurs in Germany and China saw their industries in a very different light (Chinese respondents tended to conceive of their industries as being more competitive, dynamic and regulated), serial entrepreneurs in the two countries provided statistically similar estimates of their

industries with respect to industry growth, regulation, speed of technological change, supplier/retailer pricing, and customer demand.

On average, entrepreneurs in China employed more family members than their German counterparts. Yet, for serial entrepreneurs the differences were not statistically significant. While males start more businesses in China than in Germany, for serial entrepreneurs there is no difference with respect to gender. Overall, entrepreneurs' ventures in China demonstrate higher growth rates as compared to Germany.

Neither the presence nor absence of these differences between the entrepreneurs in China and Germany indicates whether or not these characteristics are related to the likelihood of a novice entrepreneur becoming a serial one. The interaction effect of characteristics deemed important in explaining the probability of becoming a serial entrepreneur was tested with the respondent's country of origin (binary variable 'China'). Since the number of variables in our final model is large (close to thirty), a separate testing of the interaction effect for motivations-general competencies- and functional skills-based predictors. The results are summarized in the last column of table 2.<sup>5</sup>

As is indicated in table 2, satisfying work relationships and learning and personal growth are less important predictors of becoming a serial entrepreneur in China compared to Germany. At the same time, status and prestige associated with entrepreneurial occupation, and greater flexibility in work/family balance mean more to the Chinese respondents who have decided to start more than one venture. Superior oral presentation competencies as well as organizing and planning skills appear to be more important predictors of self-selection into serial entrepreneurs in China compared to Germany while managing information systems skills seem to be more important in Germany than in China.

### **Conclusions**

This study contributes to the entrepreneurship literature in several ways. First, the results have discovered and explained a number of new findings with respect to serial entrepreneurship in general. Second, by comparing 'average' and serial entrepreneurs in emerging economies to their counterparts in the developed ones, the results further the current understanding of the cross-culture differences affecting entrepreneurship.

In addition, the findings indicate a possible relationship between the entrepreneur's experience and the probability of starting more than one venture. Novice entrepreneurs with more salient learning/personal

growth motivations are less likely to start multiple companies. This may indicate that novice entrepreneurs prefer to learn by their mistakes at the first venture in order not to replicate them later. It is also apparent that those who value satisfying work relationships tend to stay at the same place longer, thus making emotional investment in social capital. This suggests that serial entrepreneurs do not very much value their social relationships within their current ventures, and easily move on to another project once they see the opportunity. Also, entrepreneurs that rank themselves relatively high on management development, training and communication skills are less likely to launch more than one venture. This may indicate that those who are more able in this regard are more likely to achieve success at their first venture and thus have no need to initiate other projects. Alternatively, it may mean that such entrepreneurs emotionally invest more in their companies and are more committed to them than those who become serial entrepreneurs. Since launching a new venture puts a heavy burden on the entrepreneur in terms of information processing, it is no surprise that individuals who ranked themselves higher on data collection and information management skills are more likely to become serial entrepreneurs.

The results also point out that entrepreneurs with superior competences in developing personal business relationships are less likely to launch more than one venture. These entrepreneurs may be more likely to become overly successful with their first venture to the extent that they do not want to engage in another one, or are so emotionally invested in these relationships that abandoning them for an uncertain new project is too high an opportunity cost. If the latter is true, it may be an indication of bonding rather than enabling social ties. Novice entrepreneurs with superior analytical/problem solving skills are also less likely to become serial entrepreneurs. This finding is consistent with the results on entrepreneur's overconfidence. To go ahead, the entrepreneur must be confident in his/her strategy; and superior analytical skills may actually impede future business foundings as the entrepreneur would spend most of the time trying to foresee and address possible contingencies. To succeed, entrepreneurs need to effectively communicate their ideas to others both orally ('elevator pitch') and in writing (formal business plans). Our data confirms that novice entrepreneurs with superior oral presentation competence and writing ability are more likely to become serial entrepreneurs.

Finally, overall, there are a significant number of differences between

entrepreneurs in China and Germany. In general, entrepreneurs in the two countries show numerous dissimilarities in their goals, skills and competences, job satisfaction, venture strategies and resources as well as operate in quite different industries. For serial entrepreneurs these differences are significantly reduced. Although some differences could have resurfaced had we had a larger sample at our disposal, it appears that serial entrepreneurs are more similar across countries. This similarity notwithstanding, mechanisms determining further self-selection of novice entrepreneurs into serial entrepreneurs differ significantly between China and Germany. Whether or not these findings generalize to the larger population of entrepreneurs in emerging countries needs further studies.

### Notes

- 1 Without loss of generality.
- 2 This cost function is increasing in the level of both skills and is convex.
- 3 Entrepreneurs could have different patterns of investment in human capital, depending on the parameter of the optimization problem. In any case, the goal of the investment strategy is to reach similar levels of aptitude in both skills.
- 4 Given a large number of variables in the model (29) we use the somewhat less stringent significance level of 0.10 as an indication of (possible) relationships between a certain variable and a probability of a novice entrepreneur becoming a serial entrepreneur.
- 5 Extended results are available from the authors upon request.

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# *An Illustration of the Impact of Economic and Political Risk Using the Country Credit Rating Model for Japan, Malaysia and Russia*

Carl B. McGowan, Jr.

In this paper, we demonstrate the use of the country credit rating model in Japan, a developed economy, Malaysia, an upper middle-income economy, and Russia, a lower middle-income economy. We find that the country credit rating model tracks the gradual and minor deterioration of the economic condition of Japan, the financial crisis that occurred in Malaysia in 1997–1998, and the shock that hit the Russian economy in 1998 when the government defaulted on bonds, and the subsequent recoveries in both Malaysia and Russia.

*Key Words:* corporate finance, foreign direct investment, economic growth, government policy, political economy

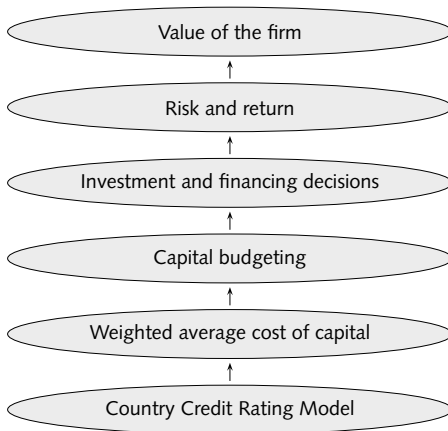
*JEL Classification:* F43, G18, G31, P16

## **Introduction**

The objective of this paper is to demonstrate the use of the country credit rating model to determine the opportunity cost of equity capital for multinational corporations for foreign direct investment decisions in specific countries, as shown in exhibit 1. In the context of the US economy, corporations are able to determine a cost of equity capital using the capital asset pricing model. For foreign direct investment, the CAPM does not hold for a number of reasons. In particular, international stock market segmentation and the absence of an international risk free rate of return, make computing systematic measures of risk difficult, if not impossible. Alternative methods of computing an international cost of equity using a risk free rate plus a risk premium based on sovereign bond rates such as proposed in Mariscal and Lee (1993) is not applicable because neither a risk free rate nor a bond rate is available for most countries. An alternative risk premium model using a bond rating plus a risk premium composed of a political risk premium and a business risk premium such as proposed in Godfrey and Espinosa (1996) is not applicable because neither bond ratings nor stock markets are available for all countries. The

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*Managing Global Transitions* 6 (2): 143–156



The value of the firm is determined by the risk and return characteristics of the firm which are determined by the investment and financing decisions of the corporate decision makers. Capital budgeting is the method by which firms evaluate long-term investment decisions. The weighted average cost of capital is used in the capital budgeting process to calculate the discounted present value of the future cash flows of a capital budgeting project. The Country Credit Rating Model is used to determine the cost of equity for foreign direct investment in a country.

EXHIBIT 1 The relationship between the country credit rating model and the value of the firm

country credit rating proposed by Erb, Harvey, and Viskanta (1996) does not require a risk free rate of return, a bond rating, or even a stock market. This model uses country credit ratings and returns on stock markets where available to determine a market price of risk. This market price of risk can be used to determine the risk premium for any country with a credit rating. The risk premium is simply the country credit rating (subtracted) from 100 times 0.35, from McGowan and Tessema (2004) which is added to the risk free return of 10.4%.

### Valuing the Multinational Corporation

The objective of corporate financial management is to maximize the value of the firm. The value of the firm is the market capitalization of the firm, that is, the number of shares outstanding multiplied by the price per share. The value of the firm is determined by the risk and return characteristics of the firm. Firms that want to earn higher rates of return must be willing to assume greater levels of risk and firms that want to have lower levels of risk must be willing to accept a lower rate of return. The risk and return characteristics of the firm are determined by the investment and financing decisions made by the corporate financial managers.

The process that multinational corporations use to make long-term asset decisions is called capital budgeting. Farragher, Kleiman, and Sahu (1999) define an eight step capital budgeting process. Stage one involves

strategic analysis – determining areas in which the firm has a competitive advantage, Porter (1980) and Myers (1987). Stage two involves determining investment goals – minimum required rates of return and maximum levels of risk for investments. Stage three is the process of finding investment opportunities. Stage four is forecasting future cash flows from projects. Stage five is determining the value of the project under consideration. Stage six is the determination of which projects are acceptable. Stage seven is the implementation of accepted projects. Stage eight is the post-audit of accepted project outcomes.

When making long-term investment decisions, wealth maximization is achieved when the firm invests in all available projects that have a positive net present value. To compute the net present value, the firm needs to know the appropriate discount rate to use to discount the future cash flows from the project. This discount rate is the cost of capital, which is the minimum required rate of return on investment. The cost of capital represents the opportunity cost of funds for the firm, that is, the minimum rate of return that the firm or investors could achieve in another investment.

Modigliani and Miller (1958) develop a model of the overall cost of capital for the firm that is computed as a market value weighted average of the costs of each of the components of capital used by the firm. Modigliani and Miller use long-term debt and common stock as the components of capital. The weights used in the computation of the weighted average cost of capital are the market value proportion of the capital structure represented by each of the cost of capital components. The component cost of each component of the weighted average cost of capital is the marginal cost of capital for each of the capital components.

To determine the cost of equity, we use the capital asset pricing model in which only market wide risk is priced which is systematic or non-diversifiable risk. Systematic risk reflects the covariance between returns on the investment and the return on the market. Markowitz (1953) shows the gains from portfolio diversification and Grubel (1968) shows the gains from international diversification in an environment with two countries and two assets. The effect of portfolio diversification increases as the covariance between the investment and the market decreases, that is, the gains from international diversification are greater between countries that have less correlated stock markets. Since segmented stock markets have lower covariances with respect to external stock markets, market segmentation leads to greater gains from international diversi-

fication. The types of barriers that lead to market segmentation would include differences in trading costs, information availability, generally accepted accounting principles, legal and political systems, taxes rates, investor expectations and preferences, and government restrictions on stock ownership. For examples, see Errunza and Losq (1985), Errunza, Losq, and Padmanabhan (1992), and Bekaert and Harvey (1995). Block (2000) reports for a survey of Fortune 1000 firms, that 68.7 percent of the 146 respondents indicate that foreign investment increases the risk exposure of the firm and 31.3 percent indicate that foreign direct investment decreases the risk exposure of the firm. Myers (1998) finds that companies use higher cost of capital rates for foreign investment relative to domestic investment.

### **The Gains from International Diversification**

The World Bank defines emerging markets as those that are ranked as either low-income economies or middle-income economies. Hooke (2001) finds 156 countries in the emerging market category, that is, with gross national product per capita below \$9000. Keppler and Lechner (1997) find that only sixty of these countries have functioning stock markets and only twenty-five countries meet the International Financial Corporation definition of having functioning and regulated stock exchanges. There are also a number of OPEC countries that meet the gross domestic product requirement for developed markets but do not meet the institutional criterion of having a functional stock market as defined in Khanna and Palepu (1997).

The benefits of international investing are numerous. First, as Grubel (1968) has shown in a two country, two-asset model of portfolio theory, that international investment provides more efficient portfolios. That is, internationally diversified portfolios provide a higher rate of return for a given level of risk or a lower level of risk for a given rate of return than strictly domestic portfolios. Levy and Sarnat (1970) show that adding developing markets to the investment universe improves the efficient frontier, even if the developing markets provide poor performance individually. More recently, Barry, Peavy and Rodriguez (1997) use the Sharpe Index to show that emerging markets out performed developed market during the period from 1986 to 1995, but under performed developed markets during the period from 1990 to 1995. The advantage of a low correlation portfolio effect is evident, returns for developing and emerging stock markets are offsetting.

Reeb, Mansi, and Allee (2001) find that international firms have bet-

ter credit ratings and lower cost of debt. The cost of firm debt financing is inversely related to the degree of firm internationalization while firm credit rating is positively related to the degree of firm internationalization. Firms with a higher degree of internationalization have better credit ratings and a lower cost of capital. The authors state that the existence of market imperfections and the ability of firms to exploit market imperfections are necessary for multinational diversification to benefit the firm, i. e. reduce the cost of capital. Caves (1971) and Hymer (1976) develop the concept of internalization and Errunza and Senbet (1981) suggest the need to be able to exploit international imperfections.

Reasons for a lower cost of capital for multinational firms revolve around increased cash flow that results from exploiting international market imperfections and the risk reduction benefits of the portfolio effect on cash flow. Barriers that would allow multinational firms to achieve a lower cost of capital would be such things as controlled interest rates, credit restrictions, market segmentation, and variable prices of risk. Robbins and Stobaugh (1973) suggest numerous means by which multinational enterprises can exploit market imperfections. The weighted average cost of capital can be reduced by the effect of international diversification. By investing in a number of markets, multinational firms benefit from the portfolio effect of international diversification. Diversification leads to lower cash flow volatility and reduced probability of insolvency both of which lower the riskiness and cost of debt.

Emerging markets are more volatile than developed markets but the volatility varies across time and across markets, Errunza, Hogan, and Jung (1999), Solnik, Bourcelle, and Le Fur (1996), and Michaud, Bergstrom, Frashure, and Wolahan (1996). Erb, Harvey and Viskanta (1996) argue that emerging markets are segmented because of information problems, institutions shortcomings, less transparent accounting standards, and barriers to foreign investment. Bekaert, Harvey, and Lumsdaine (2002) show that real regulatory environment changes lead to increased foreign portfolio investment. Reduced segmentation leads to larger and more liquid markets and returns that are both more volatile and more correlated with global markets. Increased market integration leads to a lower cost of capital, a higher credit rating, real foreign exchange rate appreciation, and increased real economic growth.

### **The Country Credit Rating Model**

Erb, Harvey and Viskanta (1996) provide a simple model for estimating the required rate of return for investments in a particular country:

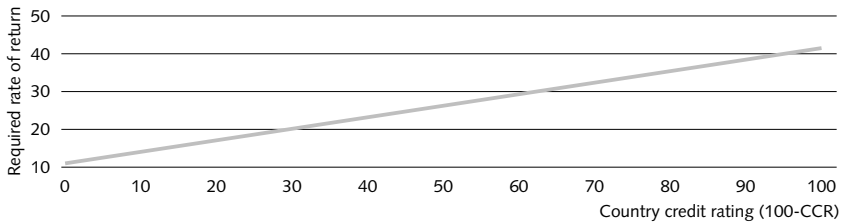


EXHIBIT 2 The International Capital Market Line

The International Capital Market Line (McGowan and Tessema 2004, 40) is a graph of the required rate of return as the dependent variable and (100-country credit rating) as the independent variable. The United States has a country credit rating of 93.5 and a long-term equity market rate of 12.7 percent and the international capital market line has a slope of 0.35. Thus, a country with a country credit rating of 100 would have a cost of capital of 10.4 percent. Countries with lower country credit ratings would have a higher cost of capital. The cost of capital for different countries increases by 0.35 percent for each one-point increase in the variable (100-country credit rating). A country with a country credit rating of 80 would have a cost of capital of 17.4 percent and a country with a country credit rating of 40 would have a cost of capital of 31.4 percent.

$$R_{i,t} = a_0 + bi \cdot CCR_{i,t} + \xi_{i,t}, \quad (1)$$

where,  $R_{i,t}$ , is the expected return in US dollars for country  $i$ ,  $a_0$ , is the intercept term,  $bi$  is the regression coefficient for the country credit rating,  $CCR_{i,t}$ , and  $\xi_{i,t}$  is the residual term. Erb, Harvey and Viskanta show that the country credit rating model can be used to estimate a cost of capital in emerging markets, even if the particular country does not have a stock market.

McGowan and Tessema (2004) apply the Country Credit Risk Model of Erb, Harvey, and Viskanta (1996) to develop an International Capital Market Line that can be used to determine the required rate of return for investments in emerging markets, even if those markets do not have stock markets. The Country Credit Rating Model used in this paper uses country credit ratings by *Institutional Investor*, *Euromoney* and *International Country Risk Guide* to develop an International Capital Asset Pricing Model. The results of this model are used to construct an International Capital Market Line that uses the United States long-term equity market return of 12.7 percent and the *Euromoney* Country Credit Rating of the United States that is 93.5. The slope of the International Capital Market Line is 0.35, which is the standardized regression coefficient for the regression between the required rate of return and the *Euromoney* Country Credit Rating. Thus, we can determine the required rate of return for any country for which a country credit rating is available.

Exhibit 2 shows the International Capital Market Line (McGowan and Tessema 2004, 40) which is a graph of the required rate of return as the dependent variable and (100-country credit rating) as the independent variable. The United States has a country credit rating of 93.5 and a long-term equity market rate of 12.7 percent and the international capital market line has a slope of 0.35. Thus, a country with a country credit rating of 100 would have a cost of capital of 10.4 percent. Countries with lower country credit ratings would have a higher cost of capital. The cost of capital for different countries increases by 0.35 percent for each one-point increase in the variable of (100-country credit rating). A country with a country credit rating of 80 would have a cost of capital of 17.4 percent and a country with a country credit rating of 40 would have a cost of capital of 31.4 percent.

### **Euromoney Country Credit Ratings**

The country credit ratings used in this study are taken from the World Bank's *World Development Indicators 2002*, which publishes country credit ratings from a number of sources, including the *Euromoney* ratings. The *World Development Indicators 2002* is the source of the country credit ratings used in this study that are from *Euromoney* that reports country credit ratings twice a year, March and September. The following discussion of the *Euromoney* variables is taken from *Euromoney*, September 2002, pages 207–14. The country credit ratings are from zero to one hundred with one hundred representing less risk. The overall country credit risk score is a weighted average of nine variables. For each category, the highest rated country is given the full variable value and the lowest rated country is given a value of zero. Intermediate countries are given a value equal to  $[a - (a/(b - c)) \cdot (d - c)]$  where  $a$  is the category weighting,  $b$  is the lowest value,  $c$  is the highest value, and  $d$  is the individual value. Debt indicators represent ten percent of the index value. Assume that the highest value is nine and the lowest value is one. The country with the nine would receive ten points and the country with one would receive zero points. A country with a rating of five would receive  $[10 - (10/(1 - 9)) \cdot (5 - 9)] = 5$ . The overall country credit rating is the sum of the nine weighted indices.

Both political risk and economic performance have weights of 25 percent. Political risk measures the likelihood of non-payment of financial obligations with countries rated from ten to zero, with a higher rating indicating less political risk. Economic performance is based on GNI per

capita (Atlas method) and a poll of economic forecasts with both factors weighted equally. Debt indicators, debt default or rescheduled, and credit ratings each have weights of ten percent. Debt indicators are a weighted average of total debt to GNP ( $a$ ), debt service to exports ( $b$ ), and current account balance relative to GNP ( $c$ ). The Debt indicator value is equal to  $a + 2b + 10c$ . The debt default value is the proportion of debt in default to total debt. OECD countries receive a rating of ten and developing countries that do not provide complete debt reports are rated zero. Credit ratings are based on ratings of bond rating agencies. Access to bank finance, access to short-term finance, access to capital markets, and discount on forfaiting are each weighted five percent. Access to bank financing is measured as loans to GNP. As with the debt indicator, OECD countries are rated five and non-reporting developing countries are rated zero. Both access to short-term finance and access to capital markets are rated by experts from zero to five. Discount on forfaiting is measured by the average, maximum tenor for forfaiting and the average spread over riskless countries. Countries where forfaiting is not available are given a rating of zero.

### **Application of the Country Credit Rating Model**

Table 1 contains the values of the *Euromoney* Country Credit Ratings for Japan for 1992–2003. The overall country credit rating for Japan fell from a high of 99.55 in 1992 that ranked Japan as number 2 in the world to, 88.30 in 2003 that ranked Japan as number 19 in the world. The financial crisis in East Asia in 1997 to 1998 led to a five point decrease in the country credit rating for Japan to 88.03 and a rank of number 23 in the world in 1998. The political risk ranking fell from 24.65 to 23.39 in 1998. The economic performance rating fell from 20.80 in 1997, to 15.85 in 1998 as a result of the regional and world-wide recessions. The debt indicator value fell from 30.00 in 1998 to 28.96 in 2003. Credit indicators fell from 20.00 in 1997 to 19.63 in 2003.

Figure 1 contains a graph of the *Euromoney* Country Credit Ratings for Japan from 1992 to 2003 and the required rate of return. Although debt indicators and credit indicators have recovered all but 1.3 points to the pre-crisis level, political risk is still 1.5 points below the pre-crisis level and the economic performance indicator is 6.0 points below the pre-crisis level. The economic performance indicator will likely recover as the world economy recovers. Figure 1 shows the required rate of return for Japan based on the *Euromoney* Country Credit Rating. The *Euromoney*



TABLE 1 *Euromoney* Country Credit Ratings: Japan (1992–2003)

Year	PR	EP	DI	CI	CCR	RROR
1992	20.00	19.50	30.00	20.00	99.55	10.56
1993	24.47	22.71	30.00	20.00	97.18	11.39
1994	24.70	21.65	30.00	20.00	96.35	11.68
1995	24.84	21.88	30.00	20.00	96.72	11.55
1996	23.21	20.80	30.00	20.00	94.01	12.50
1997	24.65	18.38	30.00	20.00	93.03	12.84
1998	23.39	15.85	30.00	18.79	88.03	14.59
1999	23.26	19.31	29.58	18.71	90.86	13.60
2000	23.51	18.41	29.58	19.19	90.69	13.66
2001	23.45	18.94	29.17	19.01	90.57	13.70
2002	21.50	19.26	28.75	19.17	88.68	14.36
2003	22.95	16.76	28.96	19.63	88.30	14.50

NOTES PR – political risk, EP – economic performance, DI – debt indicators, CI – credit indicators, CCR – *Euromoney* Country Credit Rating, RROR – required rate of return.

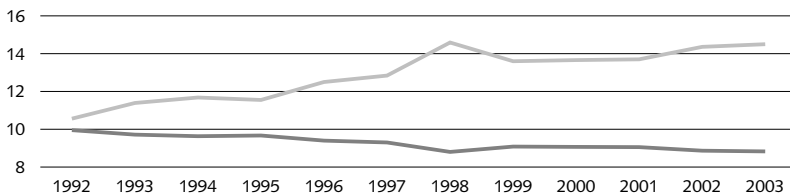


FIGURE 1 Required rate of return for Japan (light gray) based on *Euromoney* Country Credit Ratings (dark gray, divided by ten), 1992–2003

Country Credit Rating for Japan has dropped from 99.55 in 1992 to 88.30 in 2003. This reduction in the Country Credit Rating implies an increase in the required rate of return for investment in Japan from 11.39 percent in 1993 to 14.50 percent in 2003.

Table 2 shows the values of the *Euromoney* Country Credit Rating for Malaysia from 1992 to 2003. The overall country credit rating rose from 73.61 in 1992 to 83.31 in 1997 just prior to the Asian Financial Crisis of 1997–1998. After the financial crisis, the rating dropped to 41.90, then rose to 63.80 in 2001, before falling to 61.00 in 2003. The financial crisis in 1997–1998 led to a decrease in the political risk rating from 21.49 in 1997 to 15.25 in 1998, and a further decrease to 14.25 in 1999, before rising to 16.42 in 2001 and then dropping to 15.47 in 2002, and again rising to

TABLE 2 *Euromoney* Country Credit Ratings: Malaysia (1992–2003)

Year	PR	EP	DI	CI	CCR	RROR
1992	8.60	15.30	24.40	25.30	73.61	19.64
1993	22.49	18.09	25.58	12.36	78.50	17.93
1994	22.78	20.93	25.59	12.61	81.90	16.74
1995	22.45	18.59	26.32	11.26	78.60	17.89
1996	20.98	17.59	27.09	14.52	80.20	17.33
1997	21.49	18.78	26.70	16.36	83.32	16.24
1998	15.25	12.47	5.93	8.24	41.90	30.74
1999	14.25	9.22	24.09	9.50	57.05	25.43
2000	15.86	10.08	24.30	10.89	61.11	24.01
2001	16.42	10.86	25.35	11.15	63.80	23.07
2002	15.47	9.67	24.25	11.42	63.05	23.33
2003	15.74	9.57	24.97	10.74	61.00	24.05

NOTES PR – political risk, EP – economic performance, DI – debt indicators, CI – credit indicators, CCR – *Euromoney* Country Credit Rating, RROR – required rate of return.

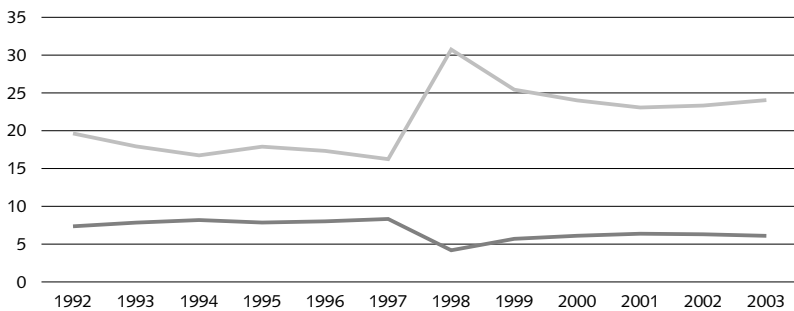


FIGURE 2 Required Rate of Return for Malaysia (light gray) based on *Euromoney* Country Credit Ratings (dark gray, divided by ten), 1992–2003

15.74 in 2003. The economic performance rating rose from 15.30 in 1992 to 20.93 in 1994, but then fell to 9.22 in 1998 and rose during 2000 and 2001 to 10.08 and 10.86, respectively, but fell 9.57 by 2003. The debt indicator ratio rose from 24.40 in 1992 to 27.09 in 1996 before falling to 26.70 in 1997, and 5.93 in 1998, but returned to 24.97 by 2003. Access to short-term financing rose from 12.36 in 1993 to 16.36 in 1997, but fell to 8.24 in 1998, before returning to a level of 10.47 in 2003.

Figure 2 provides a graphic representation of the required rate of return and the *Euromoney* Country Credit Rating over the study period

TABLE 3 *Euromoney* Country Credit Ratings: Russia (1992–2003)

Year	PR	EP	DI	CI	CCR	RROR
1992	2.90	6.80	6.00	6.00	21.77	37.78
1993	7.49	7.18	8.77	1.25	24.69	36.76
1994	7.75	5.28	10.00	1.25	24.28	36.90
1995	9.68	5.48	8.26	3.99	27.40	35.81
1996	11.47	8.33	17.99	4.83	42.62	30.48
1997	9.66	8.09	20.70	5.53	43.97	30.01
1998	5.35	8.26	1.20	2.86	17.67	39.22
1999	4.40	4.98	11.76	1.88	23.02	37.34
2000	8.02	6.65	17.30	5.91	37.88	32.14
2001	7.35	5.15	18.99	5.88	37.60	32.24
2002	11.74	8.26	18.97	6.05	45.03	29.64
2003	9.74	8.15	21.79	6.14	45.98	29.31

NOTES PR – political risk, EP – economic performance, DI – debt indicators, CI – credit indicators, CCR – *Euromoney* Country Credit Rating, RROR – required rate of return.

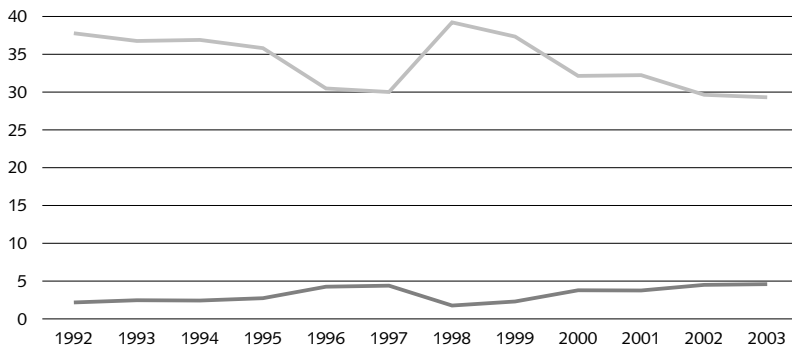


FIGURE 3 Required Rate of Return for Russia (light gray) based on *Euromoney* Country Credit Ratings (dark gray, divided by ten), 1992–2003

for Malaysia. The required rate of return fell to 16.24 percent in 1997, before rising to 30.74 in 1998, and then dropped to 24.05 by 2003. Thus, one can track the influence of the steady improvement of the country credit rating prior to the Asian Financial Crisis in 1997–1998 which caused a decrease in the country credit rating and a subsequent increase in the required rate of return, which has not dropped substantially since then.

Table 3 shows the values of the *Euromoney* Country Credit Rating for Russia from 1992 to 2003. The overall country credit rating rose from

21.77 in 1992 to 43.97 in 2003. After the bond default, the rating dropped to 17.67 in 1998 and then rose to 45.98 in 2003. The financial crisis in 1998 led to a decrease in the political risk rating from 9.66 in 1997 to 5.35 in 1998, and a further decrease to 4.40 in 1999, before rising to pre-crisis levels by 2003. The economic performance rating rose slightly in 1998 to 8.26 from 8.09 in 1997, but then fell to 4.98 in 1999, before rising to 8.15 by 2003. The debt ratio rose from 6.00 in 1992 to 20.70 in 1997 before falling to 1.20 in 1998, but returned to 21.79 by 2003. Access to short-term financing fell from 5.53 in 1997 to 2.86 in 1998, and 1.88 in 1999, before returning to a level of 6.14 in 2003.

Figure 3 provides a graphic representation of the required rate of return and the *Euromoney* Country Credit Rating over the study period. The required rate of return fell to 30.01 percent in 1997, rose to 39.22 in 1998, and then dropped to 29.31 by 2003. Thus, one can track the influence of the steady improvement of the country credit rating with the interruption of the 1998 financial crisis.

### Summary and Conclusions

In this paper, we demonstrate the use of the country credit rating model in Japan, a developed economy, Malaysia, an upper middle-income economy, and Russia, a lower middle-income economy. We find that the country credit rating model tracks the gradual and minor deterioration of the economic condition of Japan, the financial crisis that occurred in Malaysia in 1997–1998, and the shock that hit the Russian economy in 1998 when the government defaulted on bonds, and the subsequent recoveries in both Malaysia and Russia. The *Euromoney* Country Credit Rating for Japan gradually increased over the test period from 1992 to 2003, reflecting the lack of economic performance. For both Malaysia and Russia, the *Euromoney* Country Credit Rating changed dramatically in response to financial crises, a general financial crisis in Asian – in the case of Malaysia – and a specific default in the case of Russia. In the case of both Malaysia and Russia, the required rate of return increased because of the crisis.

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# *Means of Knowledge Acquisition of Entrepreneurs and Their Success*

Barbara Hvalič Erzetič

The goal of this paper is to analyze different approaches to acquiring new knowledge. We analyze what means of knowledge acquisition are used by entrepreneurs, such as formal education process, one and more day professional development workshops, professional counselors, professional literature and information on the world wide web. When making a decision on what means to use in order to increase one's knowledge, entrepreneurs employ different assessment criteria: time and money investment as well as pedagogical techniques used. Time shortage is the most frequently cited reason that entrepreneurs do not invest more personal resources into knowledge acquisition processes. The main hypothesis we test, postulates that entrepreneurs who invest more time and money into knowledge acquisition processes are more successful. Success is measured with an average annual degree of growth of sale, profits and number of employees in the last four years and with entrepreneur's opinion concerning success of the company's business. Finally, we develop the implication for public policy and educational institutions on the means that need to be employed so that entrepreneurs would invest more resources in knowledge acquisition processes.

*Key Words:* entrepreneur, knowledge, success

*JEL Classification:* D, I, M

## **Introduction**

Entrepreneurship and management education are important in developing knowledge and skills of entrepreneurs. In the era of globalization and continuously changing business environments, the need for continuing education and training is becoming ever increasing. Knowledge acquisition and learning have been well emphasized as important factors to successful entrepreneurship over the last decades. Learning involves acquisition, distribution, storage and interpretation of information (Huber 1991). A qualitative study by Sexton et al. (1997) revealed that entrepreneurs decide what they want to learn, where they want to learn and

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*Managing Global Transitions* 6 (2): 157–175

how they want to learn. When learning, entrepreneurs are content – not process – oriented and search for specific knowledge rather than general information. In addition, they search for information that solves their immediate needs while allowing them to plan for the success of an organization and upcoming problems (Sexton et al. 1997). Failure to acquire new knowledge and learn can cause a firm to be unable to keep up with technological progress in an industry and to anticipate shifts in customer requirements since it may be incapable of producing technology standards (Sullivan 2000). In all, several studies demonstrated that education of entrepreneurs is a key factor of a new venture success (Postigo, Iacobucci, and Tamborini 2003). Entrepreneurship education can be defined as structured, formal conveyance of entrepreneurial knowledge; entrepreneurial knowledge meaning the concepts, skills, and mentality individual business owners use during the course of starting and developing their growth-oriented businesses; and entrepreneurial learning meaning the active and cognitive processes individuals employ as they acquire, retain and use entrepreneurial knowledge (Young 1997). Entrepreneurs need to learn continuously through self-directed learning, as well as through formal education and training to be able to secure the business performance of their ventures. How are decisions on knowledge acquisition process made? When thinking about gathering new knowledge, entrepreneurs most probably consider the following factors: satisfaction with prior knowledge development processes experience, quality perception of prior learning and training experiences (Antončič and Hvalič Erzetič 2004) and miscellaneous factors such as expected benefits of learning, price and time investment into learning, geographical premises, preliminary knowledge, institutional references and alike. Although structural ways of knowledge acquisition processes have been clearly given salience, evidence shows that entrepreneurs mostly tend to rely on self-directed learning, in comparison to pre-entrepreneurs that engage in entrepreneurial education and training. Reasons for their apparent avoidance of formal education and training might be: ‘perceived immediate need for required knowledge, lack of availability of the precise class or workshop that meets their needs, lack of time to engage in a formal learning program, the desire to structure the learning effort as they like, the desire to keep the learning styles they use flexible, the desire to take advantage of their own learning styles’ (Young 1997).

What is the situation like in Slovenia? Slovenian firms were not prepared to invest enough in education in the past decade, only one fifth of



companies invested in research and development in year 1997. The problem was not in lack of means, but in no interest of management to invest in knowledge. From the point of view of demand of the economy regarding knowledge, we must mention the period of socialism up till 1990, when the demand was for unskilled labour. After 1991 the demand for knowledge dropped, because there was a tendency of management to reduce the value of companies and to legally gain property in the company. Decrease in knowledge was not visible or at least not in such measure, only in explicitly export guided companies and small companies, which were managed by their owners. A negative attitude to knowledge in the entire society appeared because of such circumstances, especially the attitude to learning among young people (Ostan and Hvalič Erzetič 2006). In the last years Slovenia has been quite comparable with European countries in primary and secondary school education, but we can not say this for adult education, where also entrepreneurship education and training are placed. In Slovenia only 31% of adults educate themselves, whereas this proportion is, for example, higher in Finland, Denmark, Sweden, and Norway (50%), as well as in Great Britain, Switzerland, and the Netherlands (40%), and lower in accession countries such as Hungary (19%) and Poland (14%) (Gaber 2000). Also Sočan is warning against this problem when he says that, although Slovenia has been placed among developed countries from 2000 on, it invests in complete knowledge (education, research and development and various shapes of training employees, unemployed and business functions of companies and institutions) only 8.5% GNP (education – 6%, research and development – 1.5% and various shapes of training employees, unemployed and business functions of companies and institutions – 1%). If Slovenia wants to be compared with Germany, Sočan thinks that it has to increase investment into training adults and business functions (+300%), research and development (+67%) and education (from +8 to 17%) (Ostan and Hvalič Erzetič 2006). Success of companies and society is connected with investment into education and training. Birch (1993) alleges 5 factors for increasing the development of dynamic companies: in the first place there is education infrastructure, quality of employees (it is connected with education and training), quality of government, telecommunication and quality of life.

In summary, the development of learning in its various guises of individual, team and organizational learning has been recognized by many as being a critical factor for our economic prosperity (Sullivan 2000).

The hypotheses were formed on the supposition that one of the characteristics of the successful entrepreneur is eagerness to learn (Wickham in Olsen 2002). Learning and knowledge, which must be gained continuously (Antončič et al. 2002; Penrose 1995; Timmons 1999; Solymossy and Penna 2001), is an important factor of success (Gartner 1988; Ripsas 1998). Knowledge, gained by formal education, is connected with success (Coleman 1988; Davisson and Honig 2003; Kubr 2002; quoted in Ravasi and Turati 2005). A positive link between formal education and success was confirmed also by Stuart and Alberti 1990, Brush and Hisrich 1991, Dyke, Fischer and Reuber 1992, Kolvereid 1992, Box, White and Barr 1993, Dolinsky 1993, and Reid and Smith 2000 (quoted in Drnovšek 2002). The positive link between training and superior firm performance was established by different researchers (Olsen 2002; Bharadwaj, Falcone, and Osborn 2004). Cosh, Duncan, and Huges 1998 (quoted in Kotey and Folker 2007) believe that training is a powerful agent for the development capabilities and for the growth and profitability of the firm, it should greatly improve SME survival and performance (English 2001, Lattimore et al. 1998, Jennings and Beaver 1995 quoted in Kotey and Folker 2007). Reid and Harris (2002) noted that the most successful SMEs provide more employee training than average. When we formed our hypotheses we did not find any researches which would establish a link between learning by reading the professional literature and by browsing the world wide web, but Mandel (2004) argued that the success of US entrepreneurs is in converting ideas to products during the Internet boom in the 1990s, and the use of networks was a feature of achieving success (McKeon, Johnston, and Henry 2004). Kubr (2002) also thinks that today knowledge is easily accessible for all entrepreneurs through IT and the World Wide Web.

We do not engage in the content and quality of enterprise programmes at this point, but if we draw conclusions on learning in entrepreneurship from the existing literature we propose the following relationships:

- H1 *Entrepreneurs who invest more time and money into formal education degree knowledge acquisition processes are more successful as measured with objective and subjective indicators of entrepreneurial performance.*
- H2 *Entrepreneurs who invest more time and money into professional workshop acquisition processes are more successful as measured with objective and subjective indicators of entrepreneurial performance.*
- H3 *Entrepreneurs who invest more time and money into one-day semi-*

*nar knowledge acquisition processes are more successful as measured with objective and subjective indicators of entrepreneurial performance.*

- H4 *Entrepreneurs who invest more time and money into professional literature knowledge acquisition processes are more successful as measured with objective and subjective indicators of entrepreneurial performance.*
- H5 *Entrepreneurs who invest more time and money into world wide web knowledge acquisition processes are more successful as measured with objective and subjective indicators of entrepreneurial performance.*

The aim of this research, which was done among micro and small companies in Slovenia (98,440 companies were registered in Slovenia in the year 2006, 91,306 (93%) of them were micro (0–9 employees) and 5,597 (6%) were small (10–49 employees)), is to analyze what approaches small entrepreneurs use in knowledge acquisition processes, what importance they ascribe to different types of knowledge acquisition processes, and how this affects their ventures' performance.

We expect that such empirical findings will provide helpful evidence for public policy as well as institutions in the business of entrepreneurship education and provision of training programs.

### **The Empirical Study**

In this section, the methodology (data collection, sample and analysis) is presented.

#### **DATA COLLECTION**

The data for the empirical study were compiled in fall 2006 by a cross sectional, mailed, self-administered questionnaire to the sample of micro and small (less than 50 employees) privately owned Slovenian firms. We chose Dillman's (1978) Total Design Method (TDM) as the foundation of the survey instrument design and mail implementation.

#### **SAMPLE**

The final sample included 303 entrepreneurs from Slovenia (sample characteristics are summarized in table 1 and table 2).

Responding entrepreneurs are between 30 to 50 years old: most of them (35%) are from 30 to 40 years old. 73% of respondents are male,

TABLE 1 Sample characteristics: entrepreneurs

Age	30–40 years old 35%, 40–50 years old 33%, 50–60 years old 19%, 20–30 years old 11%.
Gender	Male 73%, female 27%.
Civil status	Married 67%, single 19%, divorced or widowed 14%.
Education	Secondary school 62%, high school or professional 20%, university 15%, post-graduate 2%.

67% of them are married, 62% of respondents have a secondary school certificate.

Firms included in the sample are engaged in different industries, but their business activity is predominantly in trade and services. 60% of respondents classified their companies as low-tech companies and the majority of respondents (52%) have had their private businesses for more than 10 (up to 20) years. The organization form of 51% of companies is limited liability, 44% sole proprietorship; other respondents classified their companies under the organization format as 'other'. The size of the responding companies is relatively small: 28% have 3–5 employees.

Success is measured by the average annual degree of sale growth, profits and number of employees in the last four years and with by entrepreneur's opinion concerning the business success of the company. Most (25%) of the responding entrepreneurs have an average annual growth rate of sales between 5 to 10% in the last four years, 31% of respondents have an average annual growth rate of profits of up to 5% in the last four years, 40% of respondents have an average annual rate of increase in number of employees of up to 5% during the last four years.

Altogether 54% of respondents spend approximately less than 10% of their sales on future growth and development and most of the respond-

TABLE 2 Sample characteristics: entrepreneur's company

Business activity	Wholesale trade 47%, business services 22%, construction 16%, personal services 13%, transportation 8%.
Technical classification	Low-tech 60%, medium-high-tech 33%, high-tech 7%.
Age of activity	0–3 years 11%, 3–5 years 9%, 5–10 years 18%, 10–20 years 52%, more than 20 years 10%.
Organization form	Limited liability 51%, sole proprietorship 44%, 'other' 5%.
Number of employees	1 17%, 2 14%, 3–5 28%, 6–9 12%, 10–25 14%, more than 25 12%.

TABLE 3 Sample characteristics: successfulness\*

Average annual rate of growth of sales (in %) in the last four years	Negative 11%, 0–5 23%, 5–10 25%, 10–15 13%, 15–20 9%, 20–30 9%, 30–40 3%, more than 40 7%.
Average annual rate of growth of profits (in %) in last four years	Negative 12%, 0–5 31%, 5–10 26%, 10–15 12%, 15–20 10%, 20–30 4%, 30–40 1%, more than 40 4%.
Average annual rate of increase in number of employees (in %) during last four years	Negative 30%, 0–5 40%, 5–10 9%, 10–15 6%, 15–20 4%, 20–30 6%, 30–40 2%, more than 40 3%.
Percentage of sales invested for future growth and development	Not invest 33%, 0–10 54%, 11–25 11%, more than 26 2%.
Annual sales (in 000 €)	0–120 44%, 120–200 10%, 200–400 8%, 400–800 11%, 800–2,000 10%, more than 2,000 11%.

NOTE \*The rate and the portion represented by the rate (in %).

ing ventures are relatively small: 44% of entrepreneurs reported under 120,000€ of annual sales (sample characteristics are summarized in table 3). When assessing subjective indicators of venture performance, we found the most important perceived indicators of success were the quality of products and services (mean = 4.43; min = 1; max = 5), followed by autonomy and independence (mean = 3.92), followed by self-realization and control over one's future (mean = 3.58).

#### ANALYSIS

In order to assess knowledge acquisition processes we used measures that included types of knowledge acquisition that the entrepreneurs used, such as formal education process, short professional development workshops, relying on advice of professional counselors, professional and industry specific literature and information on the world wide web. We also measured time spent and money invested in the knowledge acquisition processes and reasons for not investing more time and money in the different manners of obtaining knowledge.

To analyze the benefits of investment into the knowledge acquisition process we also measured venture performance results. We assessed venture performance with the following indicators: annual degree of sales growth; profits and increase in number of employees over the last four years, perceived quality of products and services and a potential for future growth. We also included subjective measures of performance from the entrepreneur's viewpoint: autonomy and independence, a potential for offering employment to family members and control over one's fu-

ture on a Likert-type scale following previous entrepreneurship research practice (Welter 2001; Wiklund 2001).

The empirical data were analyzed using SPSS 13.0 software, employing univariate and bivariate data analysis and cross-tabulation. We executed several of Spearman's tests to study relationships between variables and test significance of statistical relationships between pairs of variables.

### **The Results**

In the following issues we sequentially report the results from our empirical study: knowledge acquisition process by type of institution; time invested into the knowledge acquisition process; financial resources invested into the knowledge acquisition process; reasons that guide entrepreneurs in assessing the time and finance needed to obtain new knowledge, and contingency of relationship between resources invested into the knowledge acquisition process and venture performance.

In order to analyze contingencies, we first assessed current growth characteristics of responding entrepreneurs and their ventures. 18% of entrepreneurs gain new knowledge through a degree type of education (high school, college and university education process), 39% of them gain new knowledge through short (2–3 days) professional development workshops, 72% participate in one-day seminars, 40% of respondents visit professional counselors, 79% educate themselves by reading professional literature and 69% of respondents gain new information by browsing the world wide web. Respondents were able to choose several answers. The most common knowledge acquisition process seems to be through one-day seminars.

In our sample, 9% of respondents correspondingly achieved a one degree higher education during the time they were starting their company.

What is the intensity of the knowledge acquisition process? Entrepreneurs who participate in degree type education processes spend more than 30 days per year doing so (17%). Those who participate in short professional workshops (24%), spend from 1 to 5 days per year for such purposes; 51% of respondents who participate in one day seminars spend from 1 to 5 days for these seminars; 38% of respondents spend 1 to 5 days per year visiting professional counselors; 35% of respondents spend more than 30 days per year reading professional literature, and 42% of them spend more than 30 days per year gathering information on the world wide web.

Reading literature and gathering information from the world wide

web seems to be the most intense means of the knowledge acquisition process. This is probably related to the fact that those techniques are the most flexible for entrepreneurs.

We also measured money invested per month for different purposes in the knowledge acquisition process on a scale ranging from '0€' to 'more than 400€'. The majority spends between 20€ to 200€ per month on all types of the knowledge acquisition process (12% for degree education type, 27% for professional development workshop, 48% for one day seminars, 25% for professional counselors, 39% for professional literature and 42% for information from the world wide web). 66% of those entrepreneurs who are involved in degree type education processes do not spend any money for short professional development workshops.

We found that, in general, entrepreneurs consider gaining new knowledge a time and finance consuming process. Naturally one would expect that entrepreneurs would dedicate more time and energy towards gaining new information through reading professional literature and browsing the world wide web because these are the cheapest ways of obtaining knowledge.

*In our research we want to know how significantly the investments into knowledge education processes are related to firm performance.*

We tested the main hypotheses for relationships between quantity of time and finance invested into knowledge acquisition processes and venture performance.

Hypothesis 1 stated that the entrepreneurs who invest more time and money into formal education degree knowledge acquisition processes are more successful as measured with objective and subjective indicators of entrepreneurial performance. We found that entrepreneurs, who spend more time (Spearman's  $\rho = 0.178$ , sig. = 0.009, sig. < 0.01) and money (Spearman's  $\rho = 0.139$ , sig. = 0.049, sig. < 0.05) for gathering new knowledge of the degree education type, think they have a potential for growth. Entrepreneurs who spend more time in gathering new knowledge of the degree education type think they have better opportunities for employing a family member (Spearman's  $\rho = 0.149$ , sig. = 0.03, sig. < 0.05).

Hypothesis 2 stated that the entrepreneurs who invest more time and money into professional workshop acquisition processes are more successful as measured with objective and subjective indicators of entrepreneurial performance. We found that the entrepreneurs who spend

more time on gathering new knowledge by participating in a several-day professional development workshop:

- have a higher realization (Spearman's  $\rho = 0.179$ , sig. = 0.009, sig. < 0.01),
- have a higher average annual degree of growth of sale in the last four years (Spearman's  $\rho = 0.153$ , sig. = 0.027, sig. < 0.05),
- have a higher average annual degree of growth of profit in the last four years (Spearman's  $\rho = 0.141$ , sig. = 0.043, sig. < 0.05),
- think they have a potential for growth (Spearman's  $\rho = 0.131$ , sig. = 0.047, sig. < 0.05),
- think the firm gives them more self-control over the future (Spearman's  $\rho = 0.153$ , sig. = 0.021, sig. < 0.05).

We also found that entrepreneurs who have a higher realization, spend more money on gathering new knowledge by participating on several-day professional development workshops (Spearman's  $\rho = 0.284$ , sig. = 0, sig. < 0.01).

Hypothesis 3 stated that entrepreneurs who invest more time and money into one-day seminar knowledge acquisition processes are more successful as measured with objective and subjective indicators of entrepreneurial performance. We found that entrepreneurs who spend more time on gathering new knowledge by taking one-day seminars:

- have a higher realization (Spearman's  $\rho = 0.185$ , sig. = 0.005, sig. < 0.01),
- have a higher average annual degree of growth of sale in the last four years (Spearman's  $\rho = 0.157$ , sig. = 0.018, sig. < 0.05),
- estimate (feel or mean) that they have higher sales (Spearman's  $\rho = 0.134$ , sig. = 0.033, sig. < 0.05),
- consider that they have a greater range quality products and services (Spearman's  $\rho = 0.174$ , sig. = 0.006, sig. < 0.01).

We also found that entrepreneurs who spend more money on gathering new knowledge by taking one-day seminars:

- think that they have a profitable firm (Spearman's  $\rho = 0.142$ , sig. = 0.024, sig. < 0.05),
- consider that they have a potential for growth (Spearman's  $\rho = 0.192$ , sig. = 0.002, sig. < 0.01).



Hypothesis 4 stated that entrepreneurs who invest more time and money into professional literature knowledge acquisition processes are more successful as measured with objective and subjective indicators of entrepreneurial performance. We found that entrepreneurs who spend more money on gathering new knowledge by using professional literature:

- have a higher realization (Spearman's rho = 0.291, sig. = 0, sig. < 0.01),
- consider that they have a potential for growth (Spearman's rho = 0.168, sig. = 0.007, sig. < 0.01).

Hypothesis 5 stated that entrepreneurs who invest more time and money into world wide web knowledge acquisition processes are more successful as measured with objective and subjective indicators of entrepreneurial performance. We found that entrepreneurs who spend more money on gathering new knowledge by browsing the world wide web:

- have a higher realization (Spearman's rho = 0.263, sig. = 0, sig. < 0.01),
- consider that they have greater chances for employing a family member (Spearman's rho = 0.135, sig. = 0.039, sig. < 0.05).

*The significance of these relationships indicates that time and money invested into knowledge acquisition processes in general is connected with measures of venture performance, but the connection is small.*

We also found a connection between the entrepreneur's investment in growth and development of annual sales, and investment time and money for different modes of obtaining knowledge. Statistically significant relationships are reported in table 4.

We found that the entrepreneurs who invest more money in growth and development of annual sales spend more time and money on gathering new knowledge of the degree education type, by participating in several-day professional development workshops, by taking one day seminars, by visiting professional counselors, by reading professional literature and by gathering information on the world wide web than do the entrepreneurs who spend less money on growth and development.

We also analyzed reasons that the entrepreneurs listed for not spending more time on different types of knowledge acquisition processes and their performance records.

TABLE 4 Relationship between entrepreneur's investment in growth and development of annual sales, and investment of time and money for different modes of obtaining of knowledge

Time spent on/money spent on	Spearman coef.	Sign.
Time for university work/ money for university work	0.17 0.15	0.02 0.04
Time for professional development workshops/ money for professional development workshops	0.29 0.27	0.00 0.00
Time for one-day seminars/ money for one-day seminars	0.20 0.15	0.00 0.02
Time for professional counselors/ money for professional counselors	0.14 0.28	0.04 0.00
Time for professional literature/ money for professional literature	0.24 0.25	0.00 0.00
Time for World Wide Web/ money for World Wide Web	0.19 0.21	0.00 0.00

The most frequent reason for not spending more time on knowledge acquisition processes was that 'it takes too much time' (62% of respondents for degree type of education processes, 59% of them for short professional development workshops, 64% of them for reading professional literature and 69% of them for browsing the world wide web). Indeed, 41% of respondents do not spend more time on one-day seminars because they 'do not bring expected benefits', and the main reason given by 60% of respondents for not visiting professional counselors was that they are 'too expensive'.

We found statistically significant relationships between performance records and the main reason for not spending more time and money to gather new knowledge by reading professional literature and browsing world wide web because 'it takes too much time'.

*By reading professional literature:* the highest percentage (31%) had annual sales growth of 10% and more in the last 4 years while the lowest percentage for this reason was up to 5% (8%) in the sales growth group. Chi square tests were significant at 0.01.

The highest percentage (27%) had an annual profit growth of more than 5% in the last 4 years, while the lowest percentage for this reason was up to 5% (11%) in the profit growth group. Chi square tests were significant at 0.05.

The highest percentage (34%) had an annual increase in the number of employees of more than 5% in the last 4 years, while the lowest percentage for this reason was in the employee growth group of up to 5% (13%). Chi square tests were significant at 0.01.

*By browsing the world wide web:* the highest percentage (2%) had an annual sales growth of between 5 to 10% in the last 4 years, while the lowest percentage for this reason was in the sales growth group of up to 5% (13%). Chi square tests were significant at 0.05.

The highest percentage (35%) had an annual increase in the number of employees of 5% and more in the last 4 years, while the lowest percentage for this reason was in the employees increase growth group of up to 5% (19%). Chi square tests were significant at 0.05.

We can say that those entrepreneurs who are more successful stated that reading professional literature and browsing the world wide web takes too much time.

We also found statistically significant relationships between performance records and the main reasons for not spending more time and money on gathering new knowledge by formal degree education type, by participating in short professional development workshops and by attending one-day seminars because 'it is not important' and 'it does not bring expected benefits'.

*Through formal education degree:* the majority (22%) of entrepreneurs who think that 'it is not important' recorded sales of between 20,000 and 80,000€ and the lowest percentage of entrepreneurs that listed the reason as unimportant was in the group of less than 20,000€ of annual sales (11%). Chi square tests were significant at 0.05. Most entrepreneurs (16%) were in the group of negative increase of employees. The fewest entrepreneurs were in the group with increase of employees of more than 5%. Chi square tests were significant at 0.05.

*Through professional development workshops:* the highest percentage (8%) of entrepreneurs who listed 'it does not bring expected benefits' as the predominant reason for not being involved in professional workshops of knowledge acquisition had an annual sales growth of up to 5% in the last 4 years, and the lowest percentage for this reason was in the sales growth group of more than 10% (1%). Chi square tests were significant at 0.05. The highest percentage (11%) of entrepreneurs who listed 'it is not important' had annual sales growth of up to 5% in the last 4 years, and the lowest percentage for this reason was in the sales growth group of more than 10% (4%). Chi square tests were significant at 0.10.

*Through one-day seminars:* the highest percentage (27%) of entrepreneurs who listed 'it is not important' as the predominant reason for not being involved in one-day workshops had an annual negative increase in the number of employed people in the last 4 years, while the lowest percentage for this reason was in the employee growth group of up to 5% (12%). Chi square tests were significant at 0.05.

We can say that those entrepreneurs who are less successful stated that gathering new knowledge by formal degree education type, by participating in short professional development workshops and by visiting one day seminars are not important and do not bring the expected benefits.

### **Discussion and Conclusions**

Acquiring formal education as well as professional skills is an important input to the individual's social, professional and personal development. It is also an important success factor. Given the ever increasing pace of economic and societal changes we face, knowledge needs to be regularly updated.

The empirical analysis was done on a sample of 303 small entrepreneurs, half of whom have limited liability companies and 45% of whom hold sole proprietorship. One third of them have 3 to 5 employees; their predominant industries are trade and services, and the majority of ventures are low rather than high tech. One fourth of responding entrepreneurs have an average annual sales growth rate between 5 to 10% in the last four years, an average annual growth rate of profits in the last four years of up to 5%, and an average annual rate of increase in the number of employees during the last four years of up to 5%. Half of them spend approximately less than 10% of their sales on future growth and development, and most of the responding ventures are relatively small: 44% of entrepreneurs reported under 120,000€ of annual sales. Two thirds of entrepreneurs included in the sample have a high school education; more than 70% of them are male of 30 to 50 years of age. The majority of them have been small business owners for 10 to 20 years.

Empirical analysis indicated that the majority of entrepreneurs (72%) use one-day seminars and reading professional literature as their preferable knowledge updating processes. Most money and time is spent on acquiring formal education degrees, yet only 18% of respondents in the sample are involved in such processes. In general, some 1 to 5 days per year are spent on visiting professional workshops, one day seminars and

business consultants. The majority of them spend between 20€ to 200€ per month for all types of knowledge acquisition process.

We found that entrepreneurs who invest more money in growth and development of annual sales spend more time and money on gathering new knowledge of the degree education type, by participating in several-day professional development workshops, by taking one-day seminars, by visiting professional counselors, by reading professional literature and by gathering information on the world wide web than do entrepreneurs who spend less money on growth and development.

When we tested the main hypotheses for relationships between quantity of time and finance invested into the knowledge acquisition processes and venture performance, we found that the time and money invested into knowledge acquisition processes in general is connected with measures of venture performance, but the connection is small. The statistically most significant relationships between time and money investment in gathering new knowledge and venture performance were found at professional workshop acquisition processes and in one-day seminar acquisition processes.

We searched for reasons for not spending more time and money on gathering new knowledge, if this is connected with company success. Shortage of time is listed as the most important reason for not being more intensely involved in such processes.

When reasons for not being involved more intensely in knowledge acquisition processes were significantly related to business performance, two interesting relationships surfaced. Entrepreneurs who have ventures with lower performance results do not engage in knowledge acquisition processes because they do not find them relevant and do not see any practical benefits that could be obtained from such processes. On the other hand, more successful entrepreneurs do not spend much time on knowledge acquisition processes through reading professional literature and browsing the world wide web because they found them to be time consuming. Given that the internet has become the most important channel to access new information and business opportunities, the success of those companies could be additionally leveraged if those entrepreneurs were more intensely involved in those processes.

The study has some limitations. In Slovenia we can speak about freer enterprise only for the last 15 years or so – most entrepreneurs started their own firms in this period. In our sample the largest number of entrepreneurs have had their own business from ten to twenty years, so that

we cannot make conclusions about entrepreneurs with a long experience. The second problem is that our sample included small firms with 3 to 5 employees, their predominant industries are trade and they are low tech. We think that we would obtain different results if we had more high tech companies and more with higher added value.

A potential general implication from this type of research could instruct institutions and influence the policy to design measures stimulating intrinsic motivation of entrepreneurs to be more intensely motivated to acquire new knowledge and to realize the importance for their current performance as well as future success and development in doing so. They would have to concentrate on a group of fewer successful entrepreneurs, that be them with help of market grips, convinced concerning meaning of knowledge for larger success. They would have to think about a manner of training more successful entrepreneurs, which would impose the least possible time load on them. Hills et al. (1996) proposed that in order for the entrepreneurs to gain new entrepreneurship knowledge with education and training, institutions must choose a target group, trainers and training and proceed to an analysis of entrepreneurs' needs at different levels. They must determine the goals and adapt teaching approaches, shapes, procedures and characteristics of entrepreneur trainers (Gibb 1994). Glas and Drnovsek (1999) suggest that in the field of education and training, entrepreneurship must be included in all formal education types, training must be adapted to a target group, society must stimulate education for technical occupations and institutions must educate in the entrepreneurship sense.

Developers of qualification and training programs for post-secondary education and training of entrepreneurs and potential entrepreneurs should (Labuschagne, Nieuwenhuizen, and Kroon 2001, 17):

1. Identify and integrate the outcomes from existing subjects in the field of economic and management sciences that relate to the success factors of entrepreneurs.
2. Supplement these outcomes with case studies, experiential exercises and practical activities that will enable learners to integrate the knowledge and skills obtained in such training of entrepreneurs and to apply these skills and knowledge in an entrepreneurial environment.

For further research, the question is raised concerning the efficiency of enterprise education and training in Slovenia – entrepreneurs can

invest time and money for obtaining knowledge, but the question is whether education and training mean quality. Košir explains that Slovenia is above the OECD average regarding formal education, yet in relation to functional literacy (ability in understanding a text) among the worst. Functional literacy is important also for successful husbandry (Ostan and Hvalič Erzetič 2006).

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# *School Management: Norwegian Legacies Bowling to New Public Management*

Arild Tjeldvoll

The purpose of the study was to investigate the relevance of school management training programmes to current Norwegian education policies and strategies. A specific question was asked: How relevant is the teaching professors' understanding of school management competence? The findings indicate a split understanding of policy relevant understanding of school management. A majority of respondents had an understanding of school management coherent with the national policies and strategies. A minority did not. They saw the headmaster primarily as a communicative facilitator for teachers' work, and an 'administrative caretaker'. In an international perspective the findings represent a Norwegian particularity. There is a collision between Norwegian anti-management legacies of running schools and the Government's need for effective and accountable management. This may imply a slower speed of implementing educational reforms in Norway.

*Key Words:* school, management, training, education, reform policies, pedagogy

*JEL Classification:* I, O

## **Introduction**

HEAD<sup>1</sup> is a Norwegian four years' comparative research project focusing on the quality of school management training in Norway, Finland, France, UK and US. The objective is to produce new knowledge about school manager training of quality internationally, which can be relevant for quality improvement in Norway. This objective will be accomplished by country reports taking stock of relevant knowledge in the five countries. In this report the focus is Norway. More specifically, the case of Norway will be studied by identifying how the function of school management is actually *understood* by those responsible for training school managers.

The rationale of the HEAD study is that the school manager is a particularly important link in what has been labelled 'the education value

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*Managing Global Transitions* 6 (2): 177–205

chain'. The chain's starting point is the goals of the current national education policies, and the end point is satisfaction among key stakeholders and Norway's ranking in international comparisons of school achievements.

#### THE CHAIN

1. National education policies,
2. university trainers' understanding of school management,
3. the professional quality of the school manager,
4. the quality of teaching and learning activities, and
5. the quality of students' learning achievements on the one hand and, on the other:
6. stakeholders' satisfaction (parents, higher education institutions and working life representatives) and
7. Norway's ranking in international comparisons of learning achievements as indications of the country's competitive edge in the global knowledge economy.

This study focuses on point (2.) in the Chain above, that is, *the understanding of the school management function among the training staffs at three main Norwegian providers*, The Norwegian University of Science (NTNU), University of Oslo (UIO) and Norwegian School of Management (BI). Although these three institutions are responsible for the bulk of training in the country, there are several other providers (colleges).

#### RESEARCH QUESTIONS AND ASSUMPTIONS

The overall research question is: *How relevant is Norwegian school management trainers' understanding of school management in relation to the goals and strategies of present national education policies?* Before responding to this question, two others have to be answered:

1. How is 'school management' understood by the trainers at NTNU, UIO and BI?
2. What are the similarities and differences in understanding school management at the three institutions?

Hence, the 'research object' of this study is delimited to the trainers' *understanding of the school management function*. One assumption made is that a particular Norwegian legacy of understanding the school management function as primarily an auxiliary for the teachers may now

be challenged by influence from corporate life, expressed in the principles of *New Public Management* (Pollitt 1995). These principles from market-based corporations (goal-orientation, client-centred, competition, assessment and accountability) are increasingly seen by mandators and clients as more valid for implementing current policies in the public sector. From this line of reasoning it is, moreover, assumed that there may be found differing understandings, and perhaps tensions, among Norwegian trainers of school manager trainees, which may be dysfunctional for policy goals.

#### KEY TERMS

Staff understanding of school management is the core element of a key link in the education value chain. For the effectiveness of the training programme's organisation it is paramount what sort of understanding the trainers transfer to the trainees. Two terms applied are school management/manager and school leadership/leader. Although their conceptual content is frequently debated, in this study 'management' is seen as a neutral, overarching term, comprising decision-making, leadership and administration tasks. These terms are used interchangeably in the literature and in policy documents. That is also the case in this report. School management is operationalised into three dimensions: Management of learning, personnel management and organisation management.

#### **Norwegian National Education Policies from 2001**

The national policy document *Competence for Development*<sup>2</sup> suggests directions in which the new reforms should be implemented, as well as describing the areas of responsibility for their realisation. Whilst recognizing that a network of providers who offer further education is already in place, the report suggests that there should also be: 'further development of the programmes, so that they cover both the competence required for leading knowledge organizations in a process of change and development, and the more reform specific requirements' (UFD 2004, 7). These developments are to be enacted in conjunction with a wider group of stakeholders than merely the programme providers embodied in higher education institutions. Moreover, this is described as a priority.

#### THE QUALITY REFORM OF TEACHER TRAINING: 'DIVERSE, CHALLENGING AND RELEVANT'

The white paper on teacher training reform (UDF 2002) reported important changes in educational policy directions, which have been further

applied and built upon in the 2004 white paper (UFD 2004). Chapter 15 of this official document outlines the purpose, character and practice of capacity building<sup>3</sup> for both teachers and leaders. From this document it is clear that it is the overall responsibility of the employer<sup>4</sup> to provide for, and encourage capacity development by mapping needs, assuring the availability of programmes and setting up opportunities for employees. The employers, in this instance, are the individual local and regional authorities. It is the declared responsibility of the higher education institutions to respond to these demands by offering programmes complementary to the owners' needs.

From the amended Education Act from 2005 (*Lov om grunnskolen og den vidaregåande opplæringa*) it is even more clearly noted that the responsibility for in-service provision lies with just the local authority.<sup>5</sup> Whilst the State continues to control the direction of education policies, the greater freedom for local government ensures the development of an interesting education map of Norway. With greater demands for increased competence, institutions begin to compete for course participants, while at the same time many are involved in collaborative networks of providers. This is also now developing into competition for providing localized programmes for local and regional authority mandators.

A speech given by the Norwegian Minister of Education in June 2005,<sup>6</sup> suggested that there would be a continued divergence from the traditional educational orthodoxy of Norway, at least as long as the Conservative Party was in power. Despite the introduction and development of more Master's degrees, and locally based programmes, the Minister referred to a continued dissatisfaction with the narrow recruitment base, constricted development of schools as knowledge forming, learning organizations, and concern over weak evaluation and limited capacity for observation. This led the Minister to hint at more focus upon developing the Norwegian national quality assurance systems. At the same time, the Minister implied that there would be no centrally steered plan for school leadership training, despite the suggestions to the contrary, outlined in *Culture for Learning* (UFD 2004).

#### POLICIES SUMMARISED

Since 2001, increasing developments in policy have changed the map of the educational field in Norway. The system is now characterized by a greater freedom for local school leaders, whilst simultaneously demand-

ing greater accountability. There is a greater focus upon the content and achievements of schooling. The ministry has highlighted curriculum knowledge, national testing, competition and privatization, as the key areas of change. The ensuing demands upon school leaders have been outlined in recent government white papers, particularly in the above-mentioned *Culture for Learning*. With the suggested requirements for greater competence within these areas, the Government has supported the development of Master programmes in the field of school leadership, with overall responsibility for the capacity building in the hands of the employer; the local and regional authorities. This has led to an increase in Master level programmes, which has in turn led to increased competition both at the home institution, and in locally based qualifications mandated by the local government.

### Theoretical Framework

It has proved particularly difficult to find research directly focusing on *the training provider* (curriculum and organisation/staff). This fact is, however, highly stimulating for the HEAD programme. It is filling in on a knowledge gap. As proxy for such knowledge, existing studies about school management as such have had to serve. Findings from the HEAD Pilot Study (Tjeldvoll and Welle-Strand 2003) indicate that the bulk of research internationally on school management and management training is done from ‘within’, that is – by education researchers seeing the school from within and related to education sector specific conditions. The HEAD research initiative has, partly, been motivated by observed limitations of such an ‘inside’ approach, e. g. not taking much into account effects of globalisation and experiences from knowledge management in corporate life.

#### EDUCATION ‘INSIDE’ RESEARCH

According to reports from the HEAD Preparation Project (Tjeldvoll and Welle-Strand 2003; Tjeldvoll, Welle-Strand, and Bento 2003) research on education management is scarce in three of the five countries involved. In Finland, France and Norway not much systematic research has taken place. Among the few publications found, typical foci are case reports, technical evaluations and handbooks, and next to none published in English. For UK and US the situation is different. A considerable amount of publications have been identified.

In Norway between 1998 and 2003 39 publications were traced. Among

these 15 were evaluation reports and project case descriptions and ten were master theses (Paulsen 1998). Most of the remaining 14 were of the department/institute series-type, practical guides and working documents (Paulsen 1999). Only a few were ordinary research publications (e. g. Lillejordet 2003; Grøtterud and Nilsen 2001). No articles in referee journals were found. A careful assessment of the status quo in Norway is that hardly much systematic research has been going on. All of the works found applied an 'inside' and practical approach, and most of them have an unreflected normative approach, aiming at improvement of the existing system and 'unified school-thinking'. These understandings to a fair degree run contrary to the new public management thinking of the government in 2004 (UFD 2004).

As far as Finland is concerned, from online databases only two articles of interest were identified (Eratuuli and Nylén 1995; Leino 1984). Eratuuli and Nylén (1995) made a comparative study of school managers in Russia, Sweden and Finland. They found that Swedish and Finnish principals were more general and practical-oriented while the Russians were more concerned about the principles of leadership.

French studies are frequently concerned about the centralisation-decentralisation problems (Simon 2000; Louis 1994; Bonnet, Dupont, and Godin 1995), and the efficiency of leadership, sometimes in a comparative perspective (Jumentier 1995). French research has also focused on theories, methodology and practices in order to improve school communication. Head teachers are regarded as the main link of the communication chain and they are required to improve their skills continuously (Etienne and Amiel 1995). The French studies indirectly reflect an understanding of the school manager as 'an extended administrative arm of the Republic', not including much room of action for decentralised action by the school leader.

In UK there has been much written about the development educational leadership and management. Brundrett (2001) points out that unlike US, with UK it was only in the 1960s that programmes offering systematic training and development opportunities for senior staff in schools began to appear. The United Kingdom, like USA, has witnessed a period of intense concern about the quality of school management. Brundrett's recent research has revealed a patchwork of provisions including certificate, diploma, MA, MBA, MEd, MSc and EdD courses which provides a comparatively structured provision of progressive academic qualifications grounded in both theory and practice. Slowly the



purely academic basis was being changed. The concepts of 'leadership' and 'management' are being rethought.

According to MacBeath (2003) leadership is a term full of ambiguity and with a range of interpretations. It is a humpty – dumpty word that can mean just what we want it to mean. His essay goes on to discuss 20 different definitions of leadership, of which many are similar and overlapping. He discusses the trend in education over the last few years to shift from notions of management to re-brand movements, projects and organisations under the leadership banner. This is to create a distance between leadership and 'management', the latter seen as a more limited concept and too closely associated with managerialism, a somewhat discredited approach based on rational, 'scientific' principles (ibid.).

In the US, Studies of leadership have a long history. The first publications about educational leadership appeared by the 1950s. One important discussion throughout the years has been about the possibility of the implementation of management theory in education. While some authors have argued that schools should be administered like any other organization, others believe that the management of educational institutions is intrinsically different from other branches since their purposes are more difficult to conceptualize than the purposes of industrial organizations (Wagner 2001; Murphy 2001).

The last decade witnessed profound changes in how educational leadership has been regarded in the United States, with the establishment of the Interstate School Leaders Licensure Consortium (ISLLC) Standards for School Leaders,<sup>7</sup> developed by the National Policy Board for Educational Administration and by representatives of 23 state departments of education. This document is composed of six standards, all beginning with the sentence 'a school administrator is an educational leader who promotes the success of all students by:

STANDARD 1 Facilitating the development, implementation, and stewardship of a vision of learning that is shared and supported by the community

STANDARD 2 Advocating, nurturing and sustaining a school culture and instructional program conducive to student learning and staff professional growth.

STANDARD 3 Ensuring management of the organization, operations, and resources for a safe, efficient, and effective learning environment.

STANDARD 4 Collaborating with families and community members, responding to diverse community interests and needs, and mobilizing community resources.

STANDARD 5 Acting with integrity, with fairness, and in an ethical manner.

STANDARD 6 Understanding, responding to, and influencing the larger political, social, economic, legal and cultural contexts.'

These six standards can be seen as education policy quality criteria for much of the research on education management training programmes taking place in the US, as well as influencing the rest of the world.

### *The 'Inside-Research' Summarised*

The very scarce Norwegian proper research identified tended to be non-reflective, normative and practical in approach, aiming at an improvement of the existing 'unified school model'. *The relation* between teaching staff and manager was a key dimension. The international research field is dominated by studies from England and the US. The former is characterised by a centralised-decentralised strategy for effective implementation of national policies at school level. Effective school managers are seen as crucial. In the US a strong stress on a manager leading processes for improving local culture for learning and care in an ethical perspective is replacing a former more administrative model. International research has a focus on the strengthened manager, while the (scarce) Norwegian research is focused on improving the existing model.

### CHANGE LEADERSHIP, KNOWLEDGE MANAGEMENT AND INNOVATION

At the end of the education value chain is now found the global, market-based knowledge economy with its users and customers. It requires the optimal growth of human capital from kindergarten to universities. Policy makers increasingly see knowledge as the core resource and dynamic of modern economies, and prerequisite of global competitiveness. The main source of productivity and competitiveness in modern economies is knowledge, both as input, but increasingly as production process itself (Castells 1996; Stehr 1994). Knowledge is seen as both scientific knowledge as well as know-how, or competence vested in nations' and firms' human capital (Gibbons et al. 1994; Fosstenlökken 2003). The quality of learning in kindergarten, primary and secondary schooling (K-12) is the

foundation for what a nation can harvest later in its higher education. In order to become learning and knowledge societies, the competence of *managers of schools as organisations for learning* become vital.

HEAD draws upon concepts of leadership developed in other organizational contexts, particularly situational/contingency, and transformational leadership (Yukl 2002; Bass 1996; Busch, Johnsen, and Vanebo 1999; Burke 2002), whilst discussing how the Norwegian school context functions as a setting for constructive and creative decision making. According to Bess and Goldman (2001) research on leadership in educational organization is often rhetorical, even moralistic, and empirically immature. Hence, they see the need for more empirical work, and particularly research that attempts to test common assumptions or myths of leadership in education organisations.

HEAD also draws upon theories of *knowledge management* and *change leadership* based on empirical studies of corporations, in order to establish their relevance for understanding what is happening to schools as organisations under globalization. One of the largest challenges in today's global competitive environment is to create innovations and changes for organisations to stay ahead in the competition, or to be able to cope with new demands from their stakeholders. According to Barney (1997) resources must be valuable, rare, imitable and organizational to create sustainable competitive advantage.

Only a few years ago there was almost no competition in some markets, while hyper-competition is now dominating (D'Aveni 1997). Decentralized organisations, networks and virtual organisations have been answers to recent competitive pressures. Especially Løwendahl and Revang (1998) have focused on increased complexity internally and externally, because of competitive pressure and societal changes in the post-modern society.

The HEAD Project intends to keep attention directed to the interface between new organizational forms, innovation and knowledge management, and relate these processes to the K-12 education sector. Especially important is the network form, as many organisations tend to change their view on organization towards network, as a more collaborative form has been recognized

Today there are two research areas of particular interest, first the knowledge orientation towards the enterprise, and second insights into change management. By combining these two it is possible to extend our insights into how knowledge management can be performed in innova-

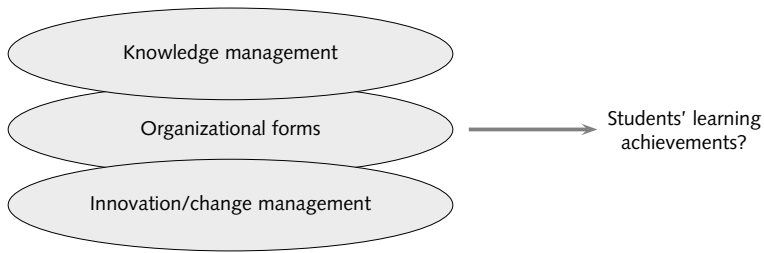


FIGURE 1 Knowledge management, change management and organizational forms

tion contexts (Choo 1998; Nonaka, Ichijo, and von Krogh 2000; Wagner 2002). Burgelman (1980) has studied the relationship between strategy and innovations as the innovation system follows its own type of action rationality that is separate from the management system. It is on the border between these two systems that innovations are seen. To create changes involves exploring something new and unknown and not existing (Berg, Martinsen, and Thompson 1998). This requires analyses of knowledge management, change leadership and innovations (Friedman and Olaisen 1997, Araujo and Harrison 2002; Lorange 2002).

#### *Summary of 'Corporate Way of Thinking Learning Management'*

The focus is on relations between 'change leadership', 'knowledge management' and innovation. Typical for successful enterprises in the market is that the management is able to make and implement decisions and restructure in a way that produces learning/new knowledge among staff, as a foundation for being innovative. Learning new knowledge and being innovative are preconditions for survival in a competitive context. Knowledge management means leading by making staff learn – to see themselves what has to be done – to survive.

#### *Literature Review Summarised – Assumptions Revised*

While the 'inside' research over and above reflects what governments, communities and educational researchers think about how schools should be run to be goal-effective, the knowledge management view is roughly concerned about what are necessary conditions for encouraging staff to learn in order not 'to burn'. There are indications that especially the English public policies are beginning to be influenced by knowledge management thinking. This tendency is reflected in strong efforts to empower the school leader, e. g. by establishing the National College for School Leadership.

#### *Managing Global Transitions*

The overall research question of this study seeks response to the degree of coherence between national education policy goals/needs for school leader competence on the one side, and, on the other, university trainers' understanding of 'school management'. One assumption is that the Norwegian trainers have a bias towards an 'inside-education sector-thinking' reflecting a particular Norwegian legacy of seeing the school manager primarily as 'administrative care taker'. This implies an understanding of 'school management' as being a tool for teachers' work, more than the teachers being a tool for the management's efforts to implement national policy ambitions. However, there is also assumed to be found indications of a movement towards NPM-thinking (new public management), reflecting an influence from corporate thinking about knowledge management. Moreover, the Norwegian Legacy of understanding school management as a service for the teachers is assumed to be still very strong.

### **Trainers' Understanding – Assumptions Operationalised**

Figure 2 is an attempt to visualize HEAD's framework of thinking about the links of the Education Value Chain, from national policies to the school managers as change agents at school level. The new national policies require reforms of the education system, e. g. the universities taking responsibility for training the school managers. Their training programmes (organisation, staff, curriculum/evaluation, training methods, use of ICT and stakeholder relations are expected to change. Within this framework the present study concerns two areas: a) Understanding of school management among the trainers at the university, and b) the content of the school management function, or the competence that is expected to be achieved in the training programme, and to be applied at school level.

#### OPERATIONALISATION

The overall research question is: *How relevant is Norwegian school management trainers' understanding of school management in relation to the goals and strategies of present national education policies?* The Government has stated the following specific strategies in order to reach reform goals:

- Legal room of action – the leaders' autonomy, for implementing quality schooling taking local conditions into consideration.
- Understanding of national goals.
- Understanding of 'quality'.

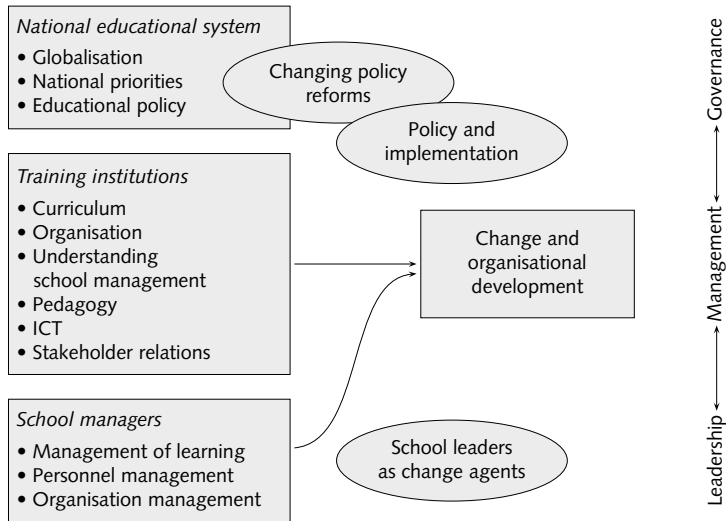


FIGURE 2 Framework for understanding school management in the education value chain

- Use of ICT.
- Competence for ‘didactical effectiveness’.
- Competence for ‘organisational efficiency’ – effective use of resources.
- Practical skills to restructure the school to meet new national policy goals in the local school’s context.
- Competence to develop schools as ‘knowledge organisations’ becoming ‘learning organisations’ and the leaders becoming ‘learning managers’.
- Competence in ‘evaluation of staff and achievements’.

Understanding of the content of three sub-functions of the school management function is assumed to illuminate a trainer’s understanding of the nine Government strategies. The three sub functions are *learning management*, *personnel management* and *organisation management*. They are operationalised by certain issues substantiating each sub function. The issues are:

1. Management of learning
  - Research-based knowledge
  - Education policy goals

- The national curriculum
  - Planning skills
  - Implementation skills
  - Assessment skills
2. Personnel management
- Care
  - Personal crisis
  - Personal and academic development
  - Improve own competence
  - Health
3. Organisation management
- Financial resources
  - School context
  - Organisational restructuring
  - Stakeholders' involvement in key organisation processes
  - Appointments and dismissals of teachers
  - Legality and accountability
  - The superior administrative level
  - Interactive communication with stakeholders
  - Network relations
  - ICT and Internet

### **Methodology**

This study is rooted in two sociological paradigms (Burrell and Morgan 1979). Its rationale is anchored in a functionalist paradigm, because national education policy goals and strategies are a frame of reference for investigating how consistent university school management trainers' understanding is with policy goals and strategies. This is the logic of goals and means. Simultaneously, the study is rooted in an interpretative/humanist paradigm, when it comes to methodology. The overall research strategy is qualitative. A research 'object' like 'understanding of school management' is not seen as convenient to be measured and counted. It has to be interpreted.

In addition to 'trainers' understanding of school management', another research object is 'policy documents'. These are not measured quantitatively, but interpreted qualitatively.

The data collection technique is on line with interpretative thinking. The interviewing of the trainers was based on a semi-structured interview. For each of the issues operationalising the school management function, the interviewee was asked an introductory question about knowledge and/or skills needed for a school manager in relation to the specific issue. Following, the respondent was free to give all the comments he/she found necessary. After the interview, there were transcribed, and returned to the interviewee to be corrected or supplemented with more opinions, if they thought it necessary. Among the 22 respondents only two had comments on their interview and were given the opportunity of supplementing more information.

Internal validity in a qualitative study normally has limitations. The specification of the management function into three sub functions is based both on 'grounded experiences' from management practice, as well as from traditional organisation logics. In terms of interviewees' responses, interpretations by their own nature vary. However, the way the 22 interviewees responded to the sub function issues was mainly quite similar, indicating a common understanding of the contents. That said, there was a tendency towards more direct 'communication validity' by interviewees who had themselves served in a school management position. In terms of external validity it is claimed that the information collected is valid for the staffs of the three institutions, only, not for the whole country. Moreover, in terms of reliability, there is fair reason to think that the same questions given to the same respondents once more in the near future would have given roughly the same answers.

## **Findings**

### NTNU'S UNDERSTANDING

Summarized, a rough dichotomy is found in the understanding of school management competence amongst respondents. In terms of seeing the leader as a *learning manager*, the majority of respondents stressed competence based in research on learning. They favoured a functionalist-rationalist consistency between curriculum and school organisation/management. Moreover, they saw the present policies as subject-oriented and with strong emphasis on quality and assessment. These policy orientations expressed in the national curriculum were taken as a positive challenge for societal interests. They wished to have rational planning, long-term strategies and systematic goal-relevant as-



sessments. The minority group stressed the school leader's learning from the practice of the teachers. He or she ought to be critical towards the new policies, applying a social-constructivist theoretical frame of reference. The new policies might be threatening to democracy in schools. The national curriculum implied more decentralisation than schools could yet cope with. The leader ought not to be a 'manager', but a facilitator in teachers' work. Evaluations ought to be based on a 'goal-free' model, and primarily based on reflexive discussions between manager and staff.

For views upon the school leader as a *personnel manager* there was also found a dichotomy. A minority group was clearly more teacher-centred than the others. One person put very high priority on the care dimension in its own right, compared to all other tasks. This priority was even stronger if a staff member was in a personal crisis. In terms of personal and academic development the minority group saw this as an effect from an inspired collective, left to be decided upon by the single teacher, and without any feeling of competition. Most important for the leader's health was the inspired strength following from work with children and from social communication processes. The majority group saw the staff's need for care in relation to professional demands, and a task that could be delegated to other persons in the leadership team. When a staff member experienced a personal crisis, and the leader was trying to solve this problem, the leader also had to take into account effects for the rest of the staff. In terms of the staff's personal and academic development the group saw this as a policy issue for the school leader. He/she ought to have a policy for in-service training, anchored in the school's rationale and ambition for quality results among students. In terms of protecting the leader's health, those who had themselves been in a leadership position expressed that they enjoyed the position, and found this joy as a main condition for staying healthy.

The dichotomy in understandings of the school manager continued when asking about the function of *organisation management*, except for the issue of financing, where there was total agreement about its importance. The divide within the group came to the surface in views upon the school context. A minority was most concerned about the actor-level; communication ought to be directly between the actors in the school (teachers) and actors outside, e. g. parents. This group was reluctant or apprehensive towards school restructuring. In terms of involving external stakeholders this ought to be done by the teachers, more than

the leader. While there was considerable agreement about being careful and having well prepared procedures for appointing teachers, this group was reluctant to consider sacking a teacher, even if the person was professionally weak. For these respondents the superior level (municipality/superintendent) was felt as somewhat 'a danger from above'. IT-based professional networks might have some merit, but could easily have dehumanising effects. The majority group of respondents had a system rational approach and were clearly concerned about accountability towards external stakeholders, also those other than parents. They were open to school restructuring, if this would make the school a better instrument to become more goal-effective and accountable. It was seen as a leader's responsibility to involve external stakeholders. In terms of appointments/dismissals of teachers, this group expressed a more managerial attitude. In order to better serve students and other stakeholders it ought to be easier to dismiss a professionally poor teacher. A positive attitude was expressed to the level above, considered important to develop creative links with e.g. the municipality education office. There was a generally positive attitude to applying ICT, given that the use was goal-effective for either learning or administrative purposes.

#### UIO'S UNDERSTANDING

Among the nine respondents there was agreement about several aspects of school leadership, but the group splits into two subgroups on several issues.

#### *Common Understanding of School Management*

There is shared understanding of the present national education policies as focusing knowledge, testing and accountability, and about the national curriculum as mainly concerned about knowledge-based competence, basic skills and individualised learning. Moreover, there is full agreement about the need for further education for school leaders, for their participation in professional networks and for setting boundaries and for creating free spaces off job. All respondents see externally funded projects as a main extra source of funding. There is agreement about the necessity of organisational restructuring and about involving stakeholders into the school's work in order to create a school culture. Further there is agreement about the main steps to take when appointing or dismissing a teacher. The unions are normally no problem. There is agreement about the problems of communication with the school's owner,

due to lack of understanding at this level of specificities of the school's mission, organisation and curriculum. Implied here is agreement about the need for the school 'to educate' the school owner. Networking activities are important, but the leader should not be too much absent from school. ICT is an advantage, but there should be awareness of the darker side of the technology.

### *Differences in Understanding of School Management*

In terms of research-based knowledge about learning, a majority is focusing on the classroom level, and some of them see socio-cultural learning theory as the primary research knowledge foundation for understanding learning in schools. Others include learning in the school as an organisation, and it is stated that a sociological/system perspective is necessary for understanding learning. In terms of how the recent educational policies are assessed, some fear negative effects from underlying ideological tensions as well as from system rigidity. The majority of respondents express a constructive attitude to the new policies and the curriculum, and one favours NPM as the relevant leadership thinking. When it comes to planning, implementation and assessment there are two principally different opinions in terms of placing either the teachers or the school leader as key actor in these processes.

In terms of personnel management, there are distinct differences in the group when it comes to care, crisis situations and teachers' personal and academic development. One sub group stresses the stronger role of the leader and necessity to take the school's goals as frame of reference for actions, while the other stresses the role of the staff and the needs of the individual teacher.

There are different views in terms of getting extra funding. Some state clearly that all public education should be publicly funded. Others are open to sponsoring and cooperation with different external agents in a way that would provide extra revenues for the school. In terms of context some are mostly concerned about the parents, while others take a wider view. There are different views about conditions for organisational restructuring, and which role external stakeholders should play. Some are reluctant towards external influences, while others express a market-oriented thinking. Several are in favour of trial lesson for new teachers, but one is strictly against. Some are thinking that too much care for the individual teacher may harm the school as a collective. The relation to the superior level (the school owner) is also seen differently. Some are

reluctant, advising scepticism, while others are suggesting active means to make this relation productive.

#### BI'S UNDERSTANDING

Among the five respondents there is much agreement about how to understand school management. However, certain aspects are emphasised.

#### *Common Understanding of School Management*

There is overall agreement in the group about the necessity of solid research-based knowledge about learning for school leaders. And, they all think that current national education policies are focusing on knowledge, personalised learning, accountability and the economical dimension of education. There is agreement that curriculum consequences are decentralisation, local adaptations, individualised learning and more effective assessment/measurement of achievements. Teachers should have great freedom in implementing goal-effective policies.

There is general agreement about the personnel management issues. It is a leader's responsibility to be visible, accessible and be demonstrating concern for what teachers are challenged to. Concrete actions could be appraisals, regular visits to the class room and follow-up meetings with the team – or 'management by walking around'.

The leader should be aware of existing staff competence. Each teacher should have a career plan. Teachers' professional development is cheaper than changing personnel. Teachers' development plans should be aligned to the goals of the school. Teachers are often moderately interested. The big challenge is teacher motivation, and the connection between teacher motivation and the needs of the school. There is agreement about being active in increasing funding for the school, about behaving proactive to the school's context, and about getting parents as active partners to achieve learning goals for individual students. Restructuring of the school is important in order to make the school a more effective instrument for national policies and for parents/students interests. Academic achievements or 'classical school tasks' are seen as the core of the school's work. There is agreement about procedures for appointing new teachers and for sacking them. Accountability to the school's owner is accepted as a fact. Simultaneously, it is seen as a problem that the school owner, in many cases, does not really understand 'the school business'. There is agreement about academic life – long learning for school leaders. The Internet and ICT has considerable potentials for increasing learning and

for being a useful administrative tool. However, it is warned against over-belief in the new technology.

### *Certain Emphases*

Within the group's broad agreement about what constitutes relevant knowledge and skills (competence) for school leaders, there are also some interesting different emphases among the respondents. There are some who take the school as an organisation, as a frame of reference for their understanding, and, simultaneously stress the importance of general leadership thinking. Some express scepticism about the relevance of pedagogy as a knowledge base for understanding school leadership. One points to classroom discipline as an important area for improvement. Some see the new policies as primarily rhetoric. PISA taught Norwegian politicians about the need for a knowledge orientation. This need had been presented by researchers in 1990, but due to 'democratic dysfunctions' it took more than a decade to be acknowledged.

Some state that development must be based in the staff as a collective, aiming at team teaching. The leader's responsibility and ability to motivate teachers are underlined more strongly by some respondents. Twined to the motivation strategy, the leader has to assess and monitor 'the chain of effects in the classroom'. It is held that many Norwegian teachers are not necessarily interested in such attention from the leader. Many want to have freedom without control. The leader monitors by goal-dependent incentives. Norway has been poor at using incentives. To motivate teachers is difficult in Norway, because education does not have such a high value. This is partly a dysfunction of the successful Welfare State. Testing should be effective, but not 'clumsy'. From the test results there should be back tracking to the learning processes in the school. The leader should check staff's plans and basic structure of work, but avoid 'micromanagement', although visits in classroom should be normal.

For improving *the leader's own competence*, one group stresses higher academic learning and continued participation in discussions among professionals in the field. The other group is rather critical towards the present competence level of Norwegian school leaders, claiming that Norway has the wrong focus on knowledge production. More training will not have so great an impact if the candidates have academically weak backgrounds. The better training for school leaders would be involvement in empirical research themselves, as well as in continuous evaluation and experimentation with their own school.

SIMILARITIES AND DIFFERENCES  
AMONG THE THREE INSTITUTIONS

What are the similarities and differences in understanding school management at the three institutions?

For the three staffs as a whole, respondents' opinions illuminate a rough split between two different frames of reference, when considering what relevant school management competence is. One group is, moreover, applying a *humanist approach*, where teachers and their well-being is centre stage for all other considerations. If teachers are motivated, students will be motivated, and experience a positive learning process. Hence, national policies for more goal-effectiveness, competitiveness, effective management and accountability towards external stakeholders become dubious, and even threatening for the situation of the teachers, and, by implication, for the students. Such policies and their implementation ought to be viewed critically, and even be resisted. The other group is mainly applying a structuralist-economic frame of reference. National policies are seen as a mission presented by the Ministry as Mandator – on behalf of a democratic society. These policies ought to be implemented as effectively as possible, for the good of the students, for other stakeholders and for country. The management position is seen as crucial. Poor teachers are an obstacle. A possible effect of these two different frames of reference is that the 'humanists' in their teaching in the programme will be steered by primary attention to the teacher-student relation, and the effects on it from the new policies. The 'structuralists', on the other hand, are likely to focus more on the manager, as an instrument to make teachers apply goal-effective learning strategies for the students.

### Discussion

The purpose of the empirical investigation of three Norwegian providers was to find information to answer the question: How relevant is Norwegian school management trainers' *understanding* of school management in relation to the goals and strategies of present national education policies? The findings have indicated that the Norwegian Legacy has had to bow to New Public Management. Why?

THREE INSTITUTIONS – THREE PROFILES OF UNDERSTANDING

In terms of understanding school management the three institutions show three somewhat different profiles. The minority group of the NTNU-dichotomy is the most distinct critique of the present policies,

curriculum and emphasis on school management. Teachers, not management, are the key to school development. At the other end of an envisaged scale, there is BI, who is completely in line with the new national policies, and has the whole programme tailored to meet the implementation needs of these policies. In between, there is UIO. In common with BI, there is a majority group with a clear-cut management orientation and distinctively positive attention to the surroundings. There is willingness to restructure the school, in order to meet both national policies and local stakeholder needs. In common with NTNU there is at UIO a minority group apprehensive towards the new knowledge and accountability-policies and towards NPM-like management thinking. Moreover, similar to NTNU, a minority group strongly expresses that socio-cultural theory for learning is the preferred knowledge foundation. The teachers should be the driving force in development, the leader principally in the role of a facilitator of staff relations.

While all BI staff have a keen policy-relevant understanding of school management, NTNU and UIO are inclined towards ambiguity. The minority groups at the two institutions are resistant to or reluctant to accept national policies and strategies, reflecting an alternative understanding of the purpose of schooling and of how schools should be led. This understanding is in line with traditional Norwegian ways of viewing school development, characterised by being critical to 'management of teachers'. These trainers do not really enjoy the idea of a manager. A school leader ought primarily to be a coordinator of relationship building among the teaching staff. This view is contrasted with those clearly seeing the necessity of a manager, accountable to stakeholders at local and central levels of the education system. Theoretically, the minority group's understanding of schooling is founded in 'scientific pedagogy' based, mostly on an 'education sector inside' understanding of the purpose of education. In terms of understanding how learning takes place, socio-cultural learning theory is dominant. For NTNU and UIO, as programme providers, this cognitive split (between majority and minority groups) presents the target group (the trainees) with a blurred message of what school management is. It may have problematic effects for the trainees to handle being taught and tutored from two different understandings. Without taking a stand as to what is ultimately the 'true' understanding of school management, or to what are 'correct' education policies, it is fair to assume that the identified split-situation may have dysfunctional effects for the trainees.

## INCREASED RELEVANCE – AND RESISTANCE

Compared to assumptions made before the study started, the relevance of trainers' understanding of school management (competence) in relation to national strategies is higher than expected. The group expressing either resistance or reluctance towards present policies is small. The great majority accepts the policies, has a rather clear understanding of learning being the focus, of present policy goals as they are expressed in the curriculum, and of the need for relevant planning and assessment skills. Also on personnel policies most respondents favour a manager who simultaneously takes care of personnel, of the school and of him/herself. In terms of organisation management, the great majority envisages a manager that aims at leading the school effectively in order to simultaneously reach national policy goals and meet local stakeholders' needs. Evaluation is seen as crucial both for making the school organisation effective, and for being able to report (accountably) to stakeholders about student achievements.

However, the resistance is still there, in the understanding of minority groups at NTNU and UIO. There is reluctance to place too much focus on knowledge, at the cost of the school's wider socialisation responsibility. In essence, there is disagreement about what is really the quality of schooling. Moreover, there is resistance to 'managerialism'. Distinct leadership is seen as counterproductive to professional teacher and staff independence. Too strong a stress on management may be threatening to democracy in schools. The resistance group is more concerned about school improvement in the way teachers would address it, than about school effectiveness processes led by a distinct manager. Implied is much reluctance to strict assessment procedures. Negative effects of the evaluation's control function are feared. The resistance of the minority groups is seen as rooted in what can be termed a particular Norwegian legacy of 'teacher power' in terms of understanding school development and school administration.

THE NORWEGIAN LEGACY CHALLENGED  
BY PISA AND GLOBALISATION

Why did the 'Norwegian Legacy' come into existence? A glance at the history of school development and school management in Norway may help understanding. Until recently, Norway was primarily a rural country, with small schools run by a few teachers. Administrative tasks at school level were taken care of by one of the teachers, formally titled (literally)



an 'Over-Teacher', an administrative 'care taker'. Historically, the curriculum tradition was encyclopaedic – subject-centred, with many subjects. Good education was an important means for social mobility. Motivation for education was high. Until ca 1970 students finished compulsory schooling at the age of 14.

Around 1970 a curriculum philosophical paradigm shift occurred. Compulsory schooling age was raised to 16. A principle of non-streaming was gradually introduced. Curriculum tradition changed from encyclopaedism/subject centred to student-centred progressivism. Due to an increased number of students in general, and the merging of schools' catchments areas, school size increased significantly. Broader study programmes, a more diverse student body, non-streaming, increased school size required more administrative capacity at schools. Regular school management positions appeared. However, the old teacher-dominant culture stayed on, heavily guarded by a strong union. Parallel to this, a recruitment policy for teacher training accepted students with quite low academic standards from secondary school. A reduced academic standard for recruitment as well as an adaptation of Progressivist pedagogy also in the teacher training colleges, affected gradually a lower academic standard among Norwegian teachers at large. An embedded effect of this development was reduced teacher authority, and a contribution to a lowered social status for teachers in Norwegian society.

Into the 1980s problems of students' motivation increased. Simultaneously, there was a growing awareness of the nation's need to stay competitive in the increasingly more global knowledge society. A traditionally strong concern about the value of equality in all aspects of life, also in education, was confronted with the need for quality of education, in order to be internationally competitive. During the 1990s, the Labour Party Minister of Education, Sociology Professor Gudmund Hernes, radically restructured the whole education system of Norway – in order to create more 'quality of equality – and competitiveness' (Tjeldvoll 1998). Hernes' legacy is especially connected to two issues. He re-established as Labour-policy, 'a knowledge school' as something valuable, implying a slight return to more encyclopaedic curriculum thinking. Secondly, he simultaneously reduced the power of the teacher trade unions, and changed the function of the school leader from just being an 'administrative care-taker' – the first among equals – to a manager as part of the municipality or county governance structure, accountable to the school owner.

Right after the turn of the last century, an OECD-comparative study

of skills in reading, maths and science, as well as of classroom behaviour (PISA) – sent shockwaves throughout Norwegian society – because of Norway’s relative poor ranking – in relation to the country’s high financial investments in education (Welle-Strand and Tjeldvoll 2002). A conscious national policy to improve the quality of Norwegian education followed from 2002, symbolised later in the telling label – *The Knowledge Promotion*. Essential ambitions of this reform were subject knowledge, individualised teaching, assessment and accountability. These ambitions were to be achieved with reform strategies delivering improved quality of teachers and school managers.

The empirical findings from NTNU and UIO of how school management is understood indicate a clash between the former teacher-ruled, student-centred pedagogy, without particular attention to efficiency/learning achievements – and a managed, subject-centred, efficiency-oriented school. An effect of the traditional understanding of school management has been that the programme has focused more on teachers and relations between teachers and leader, than on management professionalism. This is reflected in the syllabus of the NTNU-led programme.

*The present ‘split’ in understanding of school management found at NTNU and UIO may be seen as affected by the global trends of the knowledge economy (Dimmock and Walker 2005). These trends may now be colliding with Norwegian legacies of teacher-led schools. The global trends of education policies are today most clearly seen implemented by the British labour government (Tjeldvoll 2005). Especially, the NTNU-study simultaneously illustrates the strength of the Norwegian legacy, and the fact that international efficiency trends have reached Norwegian shores forcefully. The prevailing strength of the Norwegian legacy is likely to reduce the training programmes’ relevance to policies.*

### Conclusion

The purpose of this study was to investigate policy relevance of school management training programmes in Norway. More specifically, the question asked was: How relevant is the teaching professors’ understanding of the school management function to national policies and strategies? The staff of three major providers was interviewed. The main assumption had been that because of particular Norwegian traditions in school development and school administration there would be considerable resistance to a policy and strategy that implied a more clear-cut

management thinking in schools. This assumption was soon afterwards refused by the pilot study at NTNU, since only a minority of staff expressed resistance to new policies. At NTNU the programme syllabus was also analysed, and the syllabus had an overload of texts expressing a critical and reluctant view of the new policies. Hence, the NTNU syllabus confirmed the resistance assumption to a considerable degree. For UIO and BI the syllabi were not analysed. Only the staff's understanding of the school management function was investigated.

When opinions from all respondents at the three institutions are seen as a whole the resistance assumption is in the mayor part refused. The majority of staff at NTNU and UIO and all the staff at BI express agreement with the new policies. There is a high level of relevance between the goals of national policies and strategies and the understanding as to which competence school management should have. Key issues are subject knowledge, individualised learning, effective assessment and accountability to school stakeholders. There is keen awareness of being ready to restructure the school organisation at the balancing point between national policies and local stakeholders' needs. A professional school leadership is seen as paramount for successful policy implementation. A common concern of the majority is, however, the lack of 'school competence' at the school mandator level.

Minority groups at NTNU and UIO express resistance or reluctance to the policies. They are concerned about the mission of the school under these new policies. Will the mission change from being an agent for socialisation of all Norwegians into a democratic society to becoming a 'competence machine' for economical needs of the national and global economy? Parallel concern for the minority groups are the position and role of teachers as individuals and as a professional collective. Will their traditionally strong and independent position in Norway now become overruled by business style managers? Moreover, there is a reluctance to other stakeholders becoming too deeply involved in the school sphere. If external agents are to be involved, this ought to be via teachers. In terms of identifying the real strength of the minority group at UIO it would be interesting to carry out the analysis of the programme syllabus. Would the analysis reflect a similar resistance, as it was the case with NTNU? Or, would its ethos match the policy and management understanding of the majority at UIO?

Over and above the 'Resistance Assumption' has been refused. The major Norwegian providers of school management training are on line

with international trends. But, the 'Minority Resistance Group' identified may slow down reform implementations.

### Notes

- 1 The HEAD project on international school leadership training (2003–2008) is conducted at Norwegian School of Management BI, under the leadership of Professor Anne Welle-Strand, in cooperation with Professor Arild Tjeldvoll, University of Oslo. The project is financed by the Norwegian research Council.
- 2 See <http://www.kunnskapsloftet.no/filer/strategiforkompetanseutvikling.pdf>.
- 3 Etterutdanning is equated with INSET provision in the English translation of this Act (see [www.lovdata.no](http://www.lovdata.no)) and later described as updated competence rather than formal education (videreutdanning).
- 4 Although there also appears that the State has or will, on occasions, prioritise areas and ring fence funding for these.
- 5 Or the County in the case of upper secondary schools.
- 6 At the University of Oslo, June 20, 2005.
- 7 See <http://www.sru.edu/depts/educatio/National%20Standards%20Principalship.doc>.

### Abbreviations

- BI Norwegian School of Management  
HIST Sør-Trøndelag University College  
ICT Information, Communication and Technology  
ILS Department of Teacher Education and School Development, University of Oslo  
ISLLC Interstate School Leaders' Licensure Consortium Standards for School Leaders  
KS Norwegian Association of Local and Regional Authorities  
NFR Norwegian Research Council  
NPM New Public Management  
NTNU Norwegian University of Science and Technology  
OECD Organisation for Economic Cooperation and Development  
PISA Programme for International Student Assessment  
UFD Ministry of Education and Research  
UIO Ministry of Education

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# *Competition on the Global Market: A Way Towards an Autonomous International Court for Global Competition Cases*

Alen Balde

Competition policy is a field where economists and lawyers have to work hand in hand to achieve efficiency and, in the international arena, global welfare. At the present, there is no internationally recognised official authority under the auspices of which there would take shape the global competition policy and, simultaneously, set up a core of global competition rules. Competition policy, still national or supranational in its nature, is, as a consequence, under strong influence of other national or supranational policies and so regulated by various laws that in their specific way address competition cases including those with an international element. Overlapping of jurisdictions, conflicts between substantive and procedural laws are unavoidable. Considering that full and simultaneous compliance with all those laws is a hard task to fulfil, it makes cross-border transaction much more risky, time consuming, and costly than is necessary. By setting up an autonomous international court for global competition cases not only would we get rid obstacles to efficient enforcement of competition but we could make global welfare flourish without depriving developing countries of their economic growth.

*Key Words:* Global competition, global market, international court, enforcement, World Trade Organization

*JEL Classification:* K21, L40

## **Introduction**

In the era<sup>1</sup> when ideas, goods, services flow without any difficulties through all around the World, when information about producers, products or services they offer is easily accessible, when it is less and less dangerous and risky to move the production to the countries where the costs of production are lower, the question that arises out is: can we really speak about global competition?

With the difference to the regulation of international trade, there exist neither a set of international competition rules nor an international in-

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*Managing Global Transitions* 6 (2): 207–222

stitution which would deal with global competition problems and solve competition cases with an international element. This leads us to the conclusion that at least for now we cannot, from the legal point of view, talk about global competition law or global competition policy. Having regulated international trade without considering or, rather, without having the necessary framework to consider, competition issues that arise from such a trade cause serious problems in legitimising any state's policy trying to preserve a high level of welfare for its citizens.

### **Why is Global Competition Law Needed?**

Despite the fact that we cannot yet talk about global competition law<sup>2</sup>, this does not mean that competition on the global market does not exist. Before we look closer at the way in which international competition cases are dealt with, we should pose ourselves the question about justification to make competition on global level legally regulated. Considering that the us antitrust law was originally enacted not for preserving but stopping benefits deriving from competitive behaviour<sup>3</sup>, that perfect competition and so perfect efficiency can never exist, someone could even think that competition law is something that can cause more evil than good. Further on we would see that there is even a bit of truth in this, which is the case if e. g. competition authorities or courts, when dealing with the competition issues, legitimise as competition policy those practices, or better those aims that undertakings try to achieve, and that have nothing to do with competition.

Pure competition certainly does not need any regulation. Everyone is able to compete with his rivals in any way he finds efficient to win the primary position over his rivals. Where this kind of practice can lead us, it is not difficult to imagine. Concentration of wealth, power, and the ability to decide about the quality of life of other people in the hands of some winners is something that should not be allowed. On the other hand, too much restriction of freedom of action and much higher protection of competitors than is necessary can cause the stagnation of progress and reduction of welfare. At what point of the scale between these two extremes is the competition policy of the relevant market going to be at a certain period of time, it is hard to predict well in advance. Competition policy, which could be fully recognised only through decisions of competition authorities or court judgments, has never as its legitimate object just allocative efficiency. Through competition policy there are pursued also policies like social, environmental, employment and even political (e. g. achieving a single market in the EU).<sup>4</sup> And as soon as there is a

clash between various, in general allowed, recognisable policies it is hard to predict which of them is going to prevail and so decisively influence the decision of the case, except there, where the main objective of the sovereign institution which either makes or decides upon implementing various policies can be realised directly from hierarchically the highest legal act binding on it (e. g. achieving a common market in the EC Treaty).

But how about deciding on a competition case in which there is present also an international element? This could happen in the following cases:

1. National undertaking is acting and causing anticompetitive effects wholly outside national or supranational (e. g. the EU) territorial borders<sup>5</sup> of the institution hearing the case.
2. Foreign undertaking is acting and causing (anti)competitive effects within the national or supranational territorial borders of the institution hearing the case.
3. National or/and foreign undertaking is/are acting outside the national or supranational territorial borders of the institution hearing the case but causing the anticompetitive effects within it.
4. National and foreign undertaking are both acting and causing (anti)competitive effects within and outside the national or supranational territorial borders of the institution hearing the case (international merger).
5. National or foreign undertakings, each of them located and performing within different national or supranational territory and offering different products but at the same time enabling their customers access to all their products at once, which gives to this network a monopoly position (new-one network product).

In one of these situations, the institution dealing with a case, would not, after deciding to have a jurisdiction to hear the case, immediately apply<sup>6</sup> its competition law, but would be primarily balancing whether and to what extent national interests or, rather, the interests of its customers and undertakings, are affected compared with the interests of foreign ones. Taking into account that no institution would act against the national interests or in such a way as to reduce the welfare of its own citizens, in practice this means that in case 1 above, the institution is in general<sup>7</sup> not going to prohibit the anticompetitive behaviour of its national undertaking if the anticompetitive effects of such behaviour are going to rise and remain only and wholly outside its national or supranational territorial borders without at the same time causing its home cus-

tomers and consumers to be worse off.<sup>8</sup> In this case foreign customers' and consumers' welfare is not considered<sup>9</sup>, which can have the effect that, on the global level, allocative efficiency is below the level at which it could eventually be.

The same could happen with foreign customers' and consumers' welfare and overall allocative efficiency in case 2 above, regardless of the legality of the undertaking's action and its effects. In a case where there is found an obvious breach of competition law which would at the end result in being obviously worse off, the case raises no concern. Such an undertaking<sup>10</sup> would be found guilty for breaching competition law. But what if the foreign undertaking is behaving in conformity with competition law and at the same time there exists a risk that other producers within the importing country would run out of business?<sup>11</sup> If it eventually happens that competent authorities of the importing state, as a reaction to such a situation, take antidumping measures or either limit or completely prohibit the import of such goods or services and so causing customers and consumers to be worse off, this kind of practice is, in our opinion, not really in conformity with competition law, despite the fact that it could be in conformity with international trade law.

We are going to talk about other reasons that require enactment of international competition rules in the next chapter, in order to avoid unnecessary repetition of some problems that have to be dealt with together.

At this point, we could conclude only that until the time when we would not have uniform global competition rules, we could not talk about global competition, because deciding a competition case with an international element by using or being subjectively influenced by national interests cannot contribute to global allocative efficiency and to global welfare. Apart from this, we should consider that for achieving real global welfare, the efficiency gains should be distributed appropriately among the countries despite the continuous willingness of the business firms to move their production and resources to wherever the costs are lower.<sup>12</sup>

### **How to Deal with a Global Competition Case?**

#### PRESENT SITUATION

The first thing that the institution in front of which the competition case is pending has to do is to assess under its own private international law

whether it has jurisdiction to hear and decide the case (enforcement jurisdiction). Without going too deep into this issue we can, in general, say that this issue is dealt with either under the incorporation test,<sup>13</sup> place of conduct test,<sup>14</sup> purpose availment tests<sup>15</sup> or, as regards mergers, the threshold test.<sup>16</sup>

After concluding that it has such a right, the next step is to determine the relevant market. This is nothing more than determining what exactly are the products that compete between them (relevant product market); on which exact territories the undertaking in question is in competition with the other undertaking producing the competitive products (relevant territorial market); taking into account that the present situation can reasonably change in a determined period of time, thus making the present anticompetitive behaviour allowed under competition law and vice versa.

The test to determine the relevant market can vary from country to country or supranational legal entity<sup>17</sup> and its application is limited to the relevant market located within its territorial jurisdiction.<sup>18</sup>

When dealing with a global competition case, the relevant market can extend even beyond national or supranational territorial borders. The case would be e.g. if some countries would promote research and development in the way that for others it would be hard to determine well in advance the characteristics and time when a new competitive product would enter the market, or capability of the products produced beyond the territorial borders of the present relevant market that could enter it far more easily and far more rapidly (e.g. through information technology network) than we could consider at the moment when dealing with the case in issue. In addition, there could also be a case when, considering the behaviour of undertakings on their nationally or supranationally territorially limited relevant market, no anticompetitive concern would be caused; but as soon as we take into account their global network and so the ability to jointly offer the customers a completely new, worldwide product (case 5 above), the case could be quite the opposite.<sup>19</sup> For such cases, the present approach – by trying to deal with competition cases with an international element by application of national competition laws – is by no means appropriate. This is another argument why the global competition law is needed.

After deciding about the jurisdiction issue and determining the relevant market, there remains nothing else than application of the substantive<sup>20</sup> competition law of the forum. What kind of policies competition

law can embrace we have already seen earlier in this article. The issue that has raised the most international concerns was that of legal permissibility and legitimacy to enact the law<sup>21</sup> to regulate the conduct that occurs wholly outside the territory of the forum but whose effects occur within it. This is the so called problem of extraterritoriality, i. e. extraterritorial application of the national law.

The problem was caused by the us court judgment in the Alcoa case<sup>22</sup> and it has not yet been solved. We agree that we should not allow the intended conspiracies to cause an anticompetitive effect, or behaviours causing an anticompetitive effect to be safe merely because they were agreed on or managed wholly outside the country of the forum. But on the other hand, there should not be considered just the national interest of the forum where anticompetitive effects occurred, but also the national interests and competition policy of the country of which the undertakings in question are nationals, and the national interests and competition policy of the country where the action de facto occurred.

The cases in which the court, apart from considering the effect, took into account also the intention of the parties, and the national interest of other countries are, for example, the us cases Timberlane,<sup>23</sup> Uranium cartel,<sup>24</sup> and Hartford Fire<sup>25</sup> – but the main problems still remain. It is hard to imagine that the institution dealing with the case would objectively and impartially balance the national interests of the forum and national interests of the other states (Maier 1983, 590–592; Meessen 1984, 788). It is also hard to accept the decision taken in the Hartford fire case that there is no ‘true conflict’<sup>26</sup> between competition laws, if the competition law of one country does not regulate one kind of behaviour or merely allows it (but does not require it) and competition law of the other country explicitly prohibits it, thus allowing for the institution of the forum (i. e. a national competition authority or a court) to decide the case. This is evident interference with the competition policy as a part of the economic policy of another sovereign state, especially if the state chooses the policy neither to order nor to regulate the competition within its territory (Lowe 1981, 265).

The same concern would occur if it would be allowed for the undertakings, when concluding the agreement which could raise some anti-competitive issues, to stipulate the submission clause about which state’s competition law is going to apply when assessing their behaviour. That is why this kind of contract clause is not permissible.<sup>27</sup>

It is evident that each single sovereign state has its own right to decide

over its economic policy,<sup>28</sup> on the other hand, it can abuse such a right for pursuing aims that are clearly in breach of competition law and the policy of other sovereign states without facing any legal consequences. This can happen either if a state acts in its own authoritative power<sup>29</sup> or if it enacts a law that compels private parties to behave in an exactly determined way<sup>30</sup>, thus causing the anticompetitive effects within others' national or supranational territorial borders.

#### WHAT SHOULD BE DONE IN/FOR THE FUTURE?

We have seen above that determination of competition policy and its implementation through enacting the competition laws and enforcing them is within the complete power of each sovereign state. This means that there are states that have not yet enacted their competition law statutes, states that have enacted them but their substance is quite the opposite or else interferes with the competition policy of other states, and there are states whose competition law and policy is in conformity with the competition law and policy of other states. For this assessment, comparing merely the letters of the articles or decisive sentences in the judgments or administrative decisions is not enough. What should be done is to compare the real values and national interests that crucially dictate the final solution of the case. Only at the point when these kinds of values and national interests are going to be shared all around the World are we going to be able to say that we have legitimate, uniform and completely effective global competition law.

At least for the present,<sup>31</sup> it is irrational to expect that such common values and national interests are going to be shared all around the World. Requiring that the undertakings from the poor and undeveloped countries should respect the same rules when acting and competing with undertakings from developed countries, without at the same time considering also the socio-cultural differences and environmental protection (see Jones and Surfin 2001, 1073; Bushman 1980, 253, 255–56), is something that really cannot be seen as fair especially if, with such an expectation, we hinder the economic progress within those countries. But this does not mean that there is nothing that could be done towards fostering the progress towards global competition law.

Under OECD recommendations,<sup>32</sup> some countries with almost the same level of development and quite common sharing of the competition policy values have concluded bilateral agreements for cooperation and coordination in dealing with global antitrust cases. Personally, we do

not believe that global competition law can be regulated in such a way. Mergers like Boeing/McDonnell Douglas or Gencor/Lornor can clearly show that despite such agreements there are always national interests affected in the concrete case (Peck 1998, 1169) to dictate the final solution. Apart from this, such an agreement can hardly be fully invoked in front of judicial authorities because it is always in the hands of the court to decide if acting in conformity with all the provisions of such an agreement is allowed under national or supranational law. There could be, for example, a different level of protection of privacy and/or important commercial information that would not allow for institutions having the jurisdiction to hear the case to exchange such information. This was evident also in the Microsoft case. The only real positive contribution towards global competition law that could be found in such bilateral agreements is the positive comity provision, under which the affected state is obliged<sup>33</sup> to ask the affecting state to take the action against its undertaking causing anticompetitive damages in the territory of the affected state before the latter is allowed to start enforcement under its own national law.

A completely separate question is that of how to solve international merger (case 4 above) when it is allowed under the national law of one country, but not under the national law of the other. Deciding on the merit, international merger should not be distinguished radically from other global competition cases, but there is one thing that could be done to avoid these contestable decisions.

By harmonising the thresholds that confer jurisdiction in international merger cases it would no longer be possible that conflicts of jurisdiction could arise. To achieve this, states should first of all (Fiebig 2000, 242) diminish their hegemony and reduce their budget monetary funds dedicated to dealing with so many (some of them not even important) international mergers.

The only solution that could properly deal with global competition cases is by setting up a new, completely autonomous international court for global competition cases. Embodied with the power to decide not only on hard-core anticompetitive practices but on all kind of activities performed by either states or private entities which can raise competition concerns and by considering some private international law issues,<sup>34</sup> considering objectively and impartially various national interests involved in each single case without forgetting to pursue the aim of moving towards uniform global competition law that is necessary if



we wish to achieve the real international – global – trade and worldwide welfare.

### **A Step away from the World Trade Organization**

Someone could legitimately pose the question of why we need to set up a completely autonomous international court for global competition cases if we can take advantage of the already established dispute settlement body within WTO (Mitchell 2001, 358) – some of its agreements already covering competition matters (Mitchell 2001, 359–61; Matsushita 2004, 364) – and what counts the most, to deal jointly – within the same case – with both, trade and competition issues?

By regulating competition policy within the framework of the WTO and at the same time modifying the existing WTO settlement rules that would allow<sup>35</sup> also<sup>36</sup> private parties to bring the claim, both against the WTO member states and other private parties, we could obtain the complete trade liberalization, with fully opened markets, fair and equal business opportunities for every participant in the market, transparency and fairness in the regulatory process, the promotion of efficiency, and the maximization of consumer welfare<sup>37</sup>.

It is more than evident that, merely under the existing set of the WTO rules, such an aim cannot be achieved. Within the ambit of purely protectionist rules<sup>38</sup>, where the looking on the global trade is from each single national market perspective (Drexel 2004, 446) and where governments are allowed to undertake countervailing measures for protecting domestic industries regardless of the fact that in such a way they may trade off the economic well-being of their people, there is no room for effectiveness and distribution of welfare. The case is even more serious as there exists the real and lawfully supported<sup>39</sup> opportunity for the private restraints of international trade.

Whether there is any worth in having such an international legal system, in which the prohibition of governments' obstacles to the international trade could not be circumvented by private parties' practices, is an issue beyond the scope of this article; what does count, however is that this problem was made evident, and not only at the WTO Singapore Ministerial Conference in 1996 – when the WTO Working Group on the Interaction between Trade and Competition policy was established – but also in distant 1948 when the Draft fundamental document for the International Trade Organization (Havana Charter<sup>40</sup>) was written.

The attempt to regulate competition policy within the WTO finally

failed at the Ministerial Conference in Cancun in 2003, when developing countries did not accept the proposal (prepared by wto Working Group on the Interaction between Trade and Competition policy – and mostly forced by EU Countries) to set up competition law rules within their national territories considering minimal standards agreed at international level. There is no necessity for deep analysis of the real reasons<sup>41</sup> for the Cancun failure, but what was even more than evident was the fact that by accepting the wto Working Group proposal, the developing countries would give away the advantages of special and differential treatment that they had been enjoying till then under the wto rules.<sup>42</sup>

Three points to consider are: that there really exists a huge gap between the levels of the economic situation, competition regimes, legal tradition, and cultural context among various states; that there have to be considered various national interests in deciding a specific global competition case; that there are products or national resources that raise the global competition problems without having anything to do with trade<sup>43</sup>. Therefore, from our point of view, the most efficient way to deal with the global competition issues, is by setting up an autonomous international institution which would consider in every single case all the relevant (national) interests, objectively and impartially balancing them, taking into account the positions, rights and duties conferred on the parties by bilateral and multilateral international treaties and, of course, always having in mind the main purpose of promoting, achieving, and protecting global competition and ensuring appropriate and fair distribution of welfare among consumers of various parts of the world.

### **Some Procedural Problems in Enforcing a Competition Case**

Everyone would agree that it would be worthless to have properly balanced competition law that mirrors the competition policy perfectly without being able to enforce it. As we have seen above, until the time when there would be an international institution that would have the power to primarily deal with global competition issues there would be national courts and national competition authorities dealing with such cases.

Being a competitor acting not only within national borders but also within the territories of other states<sup>44</sup> or being merely a consumer, who was a trade-off of the benefits that would otherwise occur in the case of fair competition, you should be aware which authority can decide on competition issues, for what purposes the authority is dealing with the

case, who has a right to start and conduct the procedure till the final decision on the case is taken, who has to provide the evidence of anti-competitive harm, and who pays the costs of procedure.<sup>45</sup>

We are not going to discuss all those issues in depth, but what everyone should know is that, if you wish to obtain damages for anticompetitive harm you have occurred, it is up to you to start the civil procedure in front of the court that has the right, under the private international law of the forum, to hear the case and to provide all the evidence necessary to prove your allegations. Considering that national legal systems differ among one another, that each of them has its own rationale, each of them mirrors its tradition, culture, state of development business firms and their advisors and so must learn to keep abreast of a multitude of legal systems. That such diversity in legal systems, and so in legal standards, increases the costs of doing business<sup>46</sup> around the World is not hard to realize.

In addition to all these concerns, we should not be surprised if, from time to time, we find ourselves, when presenting the case, in the position when it would be legally not possible to obtain the evidence or sensitive data located within the jurisdiction outside the forum, or when we could be deprived from full enforcement of the final judgment, which could be the case if the defendant did not have any assets within the jurisdiction of the forum. Additional obstacles to full enforcement of our rights could derive from so-called blocking statutes enacted by other states to protect their citizens from extraterritorial enforcement of other states' competition law.<sup>47</sup>

### **Conclusion**

It is not yet possible to speak about global competition law. Dealing with the competition cases having international element there are (supra)national competition authorities or (supra)national courts, deciding on jurisdiction and merit by applying their own laws and giving a partial priority to their national interests (Fox 2003, 923–24; Soma and Wiengarten 2000, 42; Fiebig 2000, 234–37).

Objective and impartial dealing with such international cases would be possible only by having a completely autonomous international court for global competition cases that could contribute to the expansion of those kinds of values and interests that would enable global competition law to be formed and enforced all around the World, and so making international trade fully beneficial for our common welfare.

**Notes**

- 1 About the changes in global economy see also Fox 1995, 8.
- 2 That is, in the sense of having a core of international – global – competition rules that would be binding all around the world.
- 3 See DiLorenzo n. d., 6.
- 4 Competition law has potent historical, economic, political, and social roots that make it a market nation's ultimate forum of public law. Short of reading a written constitution, a nation's competition law will tell you the most about its economic and political system and whether it puts its faith in the commands of the government or the operation of the market (Waller 1997, 395).
- 5 At this point, we intentionally avoid to using the appropriate form of the term jurisdiction in order to avoid confusion with the explanation hereafter.
- 6 As a legal act through which the state is implementing its competition policy at the concrete behavior.
- 7 Subject to the positive comity provision in the eventually existing international bilateral agreement on cooperation in competition matters. Concretely, we are going to discuss this provision hereafter.
- 8 The EU Commission decision about allowance of export cartels could be found in the Cobelaz case, 6 Nov. 1968, JO 1968, L 276/13, 19 and 29 (see Bellis 1979, 661).
- 9 The ECJ case that confirmed as legal such a behavior of national undertakings of the EU member states is *Javico* case (*Javico International and the Javico AG v. Yves Saint Laurent Parfums SA* (Case C-306/96). For the comparison see Guzman 2000, 6; Tuttle 2003, 322–27.
- 10 Also when acting through its agents, sub-agents, branches or even through its subsidiaries that which do not have their real autonomy (the EC Commission case: *Dyestuffs* case (*Aniline Dyes Cartel* (1969) CMLR D 23; the ECJ Case: *ICI v. Commission* case 48/69, (1972) ECR 619) or by direct, active sales to the purchasers located within importing territory (the ECJ case: *Woodpulp*s case (*Ahlström OY v. Commission* Case 89/85, (1988) ECR 1593).
- 11 Consider the ban the EU posed on the import of Chinese textiles.
- 12 The same Fox 1995, 12 and Drexel 2004, 440.
- 13 Assessing the place where the undertaking was incorporated, i. e. either has its seat or board of directors.
- 14 Here we consider whether the undertaking in question was actively conducting business within the territory above which the institution hearing the case has jurisdiction.
- 15 The test under which we have to assess whether the undertaking in question has an intention or was aware that its products can enter into

- the territory above which the institution hearing the case has jurisdiction.
- 16 Legal acts that regulate mergers clearly state in which cases the competent institution is going to hear and decide upon merger.
  - 17 For example, within the EU the test used is SSNIP and the percentage in price changing that is stated to cause switching of consumers is in the range between 5% and 10%, (see Wish 2001, 27–8).
  - 18 Jurisdiction – right – to hear and decide the case determined by the territory over which this right extends.
  - 19 See Soma and Weingarten 2000, where they present such a multinational network effect on the case of Broadcast-Media and News corporation.
  - 20 Some of the procedural law issues will be analyzed more closely in the chapter of this article.
  - 21 So called prescriptive jurisdiction, i. e. the right of states to make their laws applicable to persons, territory, or situations (Jones and Surfin 2001, 1039; Wish 2001, 392; Maier 1983, 582).
  - 22 *United States v. Aluminium Company of America*, 148 F. 2nd (Second Circuit, 1945).
  - 23 *Timberlane v. Bank of America*, 549 F. 2d 597 (9th Circuit) 1976 and *Timberlane v. Bank of America*, 749 F. 2d 1378 (9th Circuit) 1984.
  - 24 *In Re Westinghouse Uranium*, 563 F. 2d 992 (10th Circuit) 1977 and *In Re Uranium Antitrust Litigation*, 617 F. 2d 1248 (Seventh Circuit) 1980.
  - 25 *Hartford Fire Insurance Co. v. California* 113 S Ct 2891 (1993), 61 US Law Week 4855.
  - 26 Which only would require, under the principle of international comity, the necessary balancing of national interests that would be harmed by application of the law of the forum on the foreigners' conduct occurred abroad.
  - 27 People who live within a national territory have the right to decide on the basis of the self determination about the public order that would be in force within this territory and so about the economic policy that makes part of it. As a consequence, state lacks the power to enforce the foreign competition policy as part of a wider foreign economic policy. (See Lowe 1984, 519, 522, 524–525; Rosen 1981, 217, 222; Lowe 1981, 277.)
  - 28 It derives from the right of the citizens to decide about the conditions and the quality of the life they wish to live as a politically and legally organized society within clearly determined territorial borders. About the rule of noninterference in the field of competition, see Meessen 1984, 804.
  - 29 This case is regulated by the Act of State doctrine. For example, the countries, members of the OPEC can decide about exploitation of

- their national resources without being under supervision of any other supranational or international organization that would be able to assess on the merit the OPEC's decisions with regard to the anticompetitive effects such decisions can cause (see Sornarajah 1982, 142–143).
- 30 In this case private parties could rely on the so-called compulsion defense (see Jones and Surfin 2001, 1043; Sornarajah 1982, 144; Bellis 1979, 677).
- 31 As is evidenced also in unacceptance of the International Antitrust Code, prepared by the so-called Munich group.
- 32 About them see Waller 1997, 361–62.
- 33 This is not the case when the affecting country has no jurisdiction to hear the case or it is not prepared to deal actively with the case, or not expeditiously enough (see Jones and Surfin 2001, 169).
- 34 In the same way as the ECJ ruled about understanding of the Rome convention on the Law Applicable to Contractual Obligations, these being a consequence of the diversity of law of contracts and torts among various member states.
- 35 Under the present regulation, this is not possible, except for cases of dumping, state trade monopolies and companies enjoying exclusive or special privileges (Castrillon 2001, 101). See also Matsushita 2004, 370; Fox 1995, 9.
- 36 The WTO rules seek to supervise government restriction on trade (Charnovitz 2003, 829).
- 37 This is the key concept common to both, the WTO and competition policy (Matsushita 2004, 364).
- 38 See Mitchell 2001, 363, Griffin 1997, 40.
- 39 At least not prohibited (see the footnote 35).
- 40 See Fox 1995, 2–3.
- 41 For them see Stewart 2004; Drexel 2004, 435–37.
- 42 Consider Nottage 2003, 33–34, 44, where he also stressed the problem of capability and costs that the developing countries would incur in setting up the efficient competition law system.
- 43 In this regard see also Leon 1997, 164, 175 and Griffin 1997, 39.
- 44 The physical presence within the territory is completely irrelevant. What count are the results and effects of your activity.
- 45 For the reasons why private enforcement of the competition law in the US is much more frequent than in the EU see Baundenbacher 2002, 365.
- 46 About this, see also Fox 1995, 14.
- 47 About the British blocking statute see Jones and Surfin 2001, 1045, Wish 2001, 393 and, 407, Rosen 1981, Bushman 1980, Lowe 1981.

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## **Intercultural Dialogue and Management**

An International Conference  
organised by the University of Primorska,  
Faculty of Management Koper, Slovenia,  
University Centre for Euro-Mediterranean  
Studies, Slovenia, and the European  
Institute of the Mediterranean, Spain

**26–29 November 2008**  
**Barcelona, Spain**

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The Conference will focus on intercultural dialogue as the consequence of increasing multi-ethnic, multi-cultural and multi-religious societies. Due to their complexities, the knowledge as to how to manage these processes is still limited. Conference participants are expected to contribute to the sharing of new theoretical, methodological and empirical knowledge to improve understanding of these processes and to bring to light best practices, in particular in the field of management and intercultural dialogue. Special attention will be given to the Euro-Mediterranean Partnership, also known as the Barcelona Process, which is the most recent of several attempts by the European Union to consolidate and strengthen its economic relations with eight Middle Eastern Arab countries and North African states.

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■ Intercultural education for intercultural dialogue ■ International business  
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*Late registration:* October 15, 2008

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# Managing Global Transitions

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Annual subscription (four issues): individual rate € 39, institutional rate € 49. Prices include postage.

### INDEXING AND ABSTRACTING

*Managing Global Transitions* is indexed/abstracted in the International Bibliography of the Social Sciences, EconLit, REPEC and DOAJ.

*The journal is supported by the Slovenian Research Agency.*

*Printed in Slovenia*

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