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CHANGES IN HIGHER EDUCATION: A COMPARISON OF KEY FACTORS CONCERNING UNIVERSITIES IN AUSTRIA AND SWITZERLAND

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ABSTRACT

Society has changed sustainably and universities have thus faced new requirements. As a result of competition and globalization, education and knowledge management had to be adapted. Universities were forced to establish a modern management system primarily known from the private sector and governments had to reconsider their legal and economic relationship to universities. In recent years, many countries have implemented new rules for their universities. Two of these countries were Austria and Switzerland. But even when they pursued the same goals, they have chosen quite different approaches and as a matter of fact achieved very differing results. The objective of this study was twofold. Firstly, we analyzed the challenges and contradictions when implementing a modern university model. Secondly, we investigated specific characteristics of the university systems of Austria and Switzerland to identify factors that may have impacted the performance and success of the universities. Referring to our first objective, a literature review has revealed severe contradictions between modern university management and the traditional understanding of it. While the traditional scheme has focused mainly on research, teaching is becoming more relevant in the new demand orientated university. Also, the freedom of science and teaching is limited by the strong orientation on goals that have been agreed upon with the government. Further contradictions can be identified in autonomy, budgeting, leadership, hierarchy, and employee participation. To examine the second research aim, we reviewed national and international databases and reports. Our results emphasize the importance of monetary aspects, the student-teacher-ratio, autonomy, and the relevance of the universities' reputation and acceptance within society and politics. Our findings can help to understand the different approaches which have been chosen to cope with global changes in higher education. They might serve as basis for decision-making in higher education policy.

Keywords:

management; higher education; university; autonomy

1. INTRODUCTION

In the recent past, Central European universities had to face many challenges like a high level of competition, an increase in societal demands, increasing expenses, and scarce state resources (Biedermann and Strehl, 2004). Citizens became more and more dissatisfied with university administrations and the willingness to finance public services was continuously decreasing (Fellmann, 2000). As a consequence, universities were forced to look for alternative funding sources, resulting in a competition about these resources. Thus, some authors critically attest a commercialization of the higher education sector (Badelt, 2004).

But not only financial factors influenced the development of the universities in the recent past. Due to Harvey and Williams (2010), demography, new generations attitudes, new technologies, and altered requirements of the labor market were further factors that reinforced competition during the last 15 years (Harvey and Williams, 2010). Also, the needs of students changed. They nowadays claim primarily an adequate professional training instead of a holistic academic education in the tradition of Wilhelm Humboldt (Kopetz, 2002). According to Michelsen (2010), even the former Humboldtian ideas of academic freedom and the unity of teaching and research were challenged by a new model of the European universities.

The globalization and the establishment of an European Higher Education Area (based on the Bologna Process) are other aspects that facilitated competition, compatibility, transparency and comparability of systems of higher education within the European Union (Michelsen, 2010; Pellert, 2006). One of the most well-known aims of these efforts was to become the most competitive and dynamic knowledge-based economy in the world" (European Council, 2000).

Another evidence for the highly competitive environment can be seen in the increased importance of international university rankings, which compare universities or higher education systems due to their quality and performance. No matter how controversial the meaning and the status of such a global university ranking is, it has become increasingly influential for student choices and academics in general (Mok and Wei, 2008) and therefore enhanced the pressure on universities.

Under these circumstances, reforms were highly needed (Biedermann and Strehl, 2004). A transfer from informal (unwritten) academic habits to formal (written) institutions, from corporate to managerial systems was required (Maciejczak, 2016). According to Maciejczak (2016) the challenge is to keep the academic freedom, but at the same time overcome the stiff bureaucracy and fulfill nowadays market requirements. In its attempt to meet those challenges, the government started to establish business management-orientated mechanisms at the universities (Badelt, 2004).

One objective of this study is to illustrate the issues and contradictions universities are confronted with, when this new management model is implemented.

However, with respect to international university rankings some countries handled the changes and challenges of a new management model better than others. For example, most of the Swiss universities are well ranked, while the Austrian universities are average in the majority. In the article at hand we investigate why the Swiss universities are performing better than the Austrian ones. We therefore compare the conditions and general facts in both countries and try to elaborate key factors that might explain the differences in the performance of the universities. This paper adds to literature as it systematically examines key facts of universities regarding students, staffing, organization, autonomy, and financing. The higher education sector is still in progression and politicians, practitioners as well as researchers are on watch for concepts that might develop this sector further on. This article can provide a basis for further considerations.

In section two of this paper we analyze the general developments and challenges in university management at Central European universities. In section three we compare the university landscape of the two Central European countries namely Austria and Switzerland, to find indicators for the different performances of their respective universities.

2. DEVELOPMENTS IN UNIVERSITY MANAGEMENT

Rybníček (2014) identified two management models at Central European universities: On the one hand, the traditional university model, which was established before the turn of the millennium and on the other hand a modern university model, which was implemented at many universities in the decades around the millennium (Rybníček, 2014). At this point, it has to be mentioned that public universities are predominant in the two investigated countries (see Section 3.1 *Universities*). For this reason, we focused on the situation at public universities. Nevertheless, also private universities are faced with the before mentioned challenges and therefore adapted their management too.

2.1. The Traditional University Model

According to Rybníček (2014) the traditional university is influenced by different concepts: Firstly, it is based on the ideas of Humboldt that defines universities as a place of free academic researching and teaching. Secondly, the universities are seen as a part of the public service and therefore questions in budgeting, financing and human resources are subject to governmental control. Thirdly, universities are highly democratic institutions in which diverse interests are discussed in several boards with changeable coalitions (Rybníček, 2014).

In the traditional university model, *research* is in the foreground whereas teaching and knowledge transfer are less important (Bruch, 2005). Scientists conduct

their research and teaching in absolute scientific freedom and independently from institutional requirements (Kopetz, 2002; Sieg, 2005). Research and teaching are strongly connected to each other; the students are advised to learn within the research processes as an integrative part of science (Bruch, 2005). Furthermore, these universities are characterized by *bureaucratic management* structures (Müller-Böling, 2000) and an intense *hierarchical mind-set* with important key groups e.g. professors, assistants, students, administration. In several committees and boards these groups are able to *participate in the decision making processes* and argue their conflicting views (Höllinger and Titscher, 2004). The *cameralistic accounting* system focuses on the norm-related use of budgets whereas the real needs are often neglected. The financial budget is often planned by the government and a transfer to other budget positions or to the following year is not permitted (Küpper and Tropp, 2001). As a consequence, the institutional *autonomy is barely existing* at universities and the government tries to control even details (Raschauer, 2004).

2.2. The Modern University Model

One of the most important changes in university management is caused by the concept of new public management. New public management tries to renew and modernize the public administration. It started in the Anglo-Saxon area and is now used in multiple variations throughout the world. The main goals of this reform are to implement economic instruments and methods, to establish a competitive environment and to create autonomous institutions that operate efficiently and aim-oriented (Schedler and Proeller, 2011). A lot of instruments of the new public management have been adopted by universities in recent years.

Universities should become more entrepreneurial, therefore they can better react to the continuously changing economic and social environment (Badelt, 2004; Titscher, 2000). Thus, *management-oriented elements* that are well known from the private sector are established at universities to professionalize management and leadership. Furthermore, universities should focus on efficiency and effectiveness (Titscher, 2000). The relationship with the government changes as the universities gain a *greater institutional autonomy* and are managed through objective agreements. Within this agreement, universities and the government define the goals and duties as well as funding (global budgets) and resources (Ziegele, 2008). The operational responsibility is sourced out to the universities; the government moves back but is still strategically and politically responsible (Mönch, 2002). This model is also characterized by an increasing internal and external *competition* (Dumont du Voitel, 1996), which can be noticed in the rising relevance of university rankings, benchmarking and evaluations (Eisenberger and Kramer, 2005). Furthermore, a stronger orientation on the societal demands is part of this university model. As a consequence, *teaching* became increasingly important due to the needs of students

for high-quality education (Badelt, 2004). A *lean hierarchy* as well as *strong and professional management* is needed to enhance the decision making processes (Daxner, 2000) and to manage the responsibility that comes along with the new autonomy (Rybníček, 2014).

2.3. Challenges in Implementation

Both university models have their advantages and disadvantages. The traditional university for example has a high level of individual freedom in research and teaching but is also characterized by massive regulations of the government in planning and decision making and the high amount of bureaucracy. The modern university however is more efficient and competitive but the commercialism of education has to be discussed and the freedom of research might be limited by objective agreements. In the following section we want to take a closer look on potential contradictions between the two models that might lead to resentments within the university when implementing new instruments and mechanisms.

Autonomy. One of the main goals of the reforms in recent years was to increase the autonomy of the universities (Rybníček, 2014). The traditional universities had limited institutional autonomy in the past. These universities were public institutions and had to obey the government in many financial or organizational circumstances. There were only some aspects for the universities, where they were allowed to decide on their own. Within the modern university model, the universities received higher autonomy. Due to global budgets and performance/objective agreements with the government, the universities are allowed to manage organizational or financial aspects by themselves. Nevertheless, the higher autonomy of universities also influences the individual autonomy of the researchers. The general objectives and strategic intentions of the whole organization may restrict the freedom of research and teaching as the university members have to take part in fulfilling the goals of the agreements with the government (Rybníček, 2014). This might lead to resistance within the universities.

Management and participation. Autonomous universities have to manage and organize themselves and can dispose their own budget. Therefore, a professional management with business-management related competences is necessary, which not only considers the needs of research and teaching but also economical requirements (Rybníček, 2015). Such universities are not necessarily profit oriented institutions but they need to have a professional leadership which accepts their responsibility (Badelt, 2004). This professional management contradicts the heavy democratic involvement for research staff in traditional universities. Rybníček (2014) states, that in many areas the intense participation of university members in the decision making processes is replaced by a strong and powerful management and that the leadership responsibility is transferred from committees to the

management board. This restricted participation is viewed very critically by many members of the universities.

Organization and hierarchy. The hierarchical “curia system” with the division in professors, assistants, students and administrative employees has become less important. Management and leadership positions at universities are filled on the basis of qualification and management skills, whereas the social status and the academic title has become less important - at least in theory (Rybníček, 2015). In combination with the replacement of committees and boards, the power has shifted within the university. Furthermore, the universities are allowed to determine their own structure and organization, whereas in the traditional university model many regulations from the government had to be considered.

Financing and goal orientation. The former cameralistic accountancy is transformed in a goal-oriented budgetary allocation (global budget). The government is no longer involved in the details of budgeting and financing. Hence, the universities have to plan their funds independently and on their own risk. As a consequence, distribution “battles” are no longer fought with the government, but within the universities. Furthermore, controlling and management changes from input-oriented (available money), to output-oriented (achieved goals) (Rybníček, 2015). This has an important impact on the freedom of research and teaching as the scientists are required to contribute to the goals that are agreed upon with the government.

Demand orientation. The modern university model requires an orientation on the demands of customers. These customers can be students as well as industry, society, and politics. The increasing number of students shows that there is a strong demand for education and high qualified employees. Consequently, some universities have to shift their priorities from researching to teaching or at least they have to establish appropriate study programs to meet these demands. This may counteract the former focus on researching in a traditional university.

Table 1. offers a summary of the comparison between the two university models and demonstrates the critical challenges for a new university management, which arise as a consequence of the fundamental changes.

Table 1.: Comparison of the traditional university model and the modern university model

	Traditional University	Modern University
Autonomy	• limited institutional autonomy • high individual autonomy of researcher	• high institutional autonomy • restricted autonomy of researchers due to institutional goals
Management and participation	• bureaucracy • democratic involvement in decision making processes	• professional management • business related tools • restricted participation of members • strong management
Organization and hierarchy	• "curia system" with division in professors, assistants, students and administrative employees • government restricts structure and organization	• replacement of committees and boards • management skills becoming more important • can determine their own structure and organization
Financing and goal orientation	• cameralistic accountancy • input orientation	• goal-oriented budgetary allocation • output orientation
Demand orientation	• focus on research (freedom of research)	• focus on teaching due to needs of customers (e.g., students and society)

Source: Author's

3. COMPARISON OF THE UNIVERSITY SYSTEMS IN AUSTRIA AND SWITZERLAND

The before mentioned challenges and contradictions might lead to resentments, for that reason change processes have to be implemented with caution. As we can see these challenges impact the universities' *financing, organization and autonomy* as well as *staff* and *students*. Referring to these aspects we want to compare the academic landscape in Austria and Switzerland to identify potential reasons why the Swiss universities are performing better than the Austrian ones.

Academic rankings constantly show the good performance of Swiss universities, whereas the Austrian counterparts play a minor role in the international academic context. Even tough Switzerland is - as well as Austria - a small country it always stands out with high performance and some of the best education and research institutions worldwide. In contrast the Austrian universities are usually far behind the top positions. Below we represent some of the most popular international rankings - the Times Higher Education World University Ranking, the Shanghai Ranking, and the U21 Ranking of National Higher Education Systems.

The Times Higher Education World University Ranking 2015 and 2016 listed 400 universities comparing the following indicators (Times Higher Education, 2016): Teaching - the learning environment (30%), research - volume, income

and reputation (30%), citations - research influence (30%), international outlook - staff, students and research (7.5%), industry income - knowledge transfer (2.5%). Within this ranking, seven Swiss universities can be found, but only one Austrian university is on the following places (Times Higher Education, 2016). The universities' international ranking is listed in Table 2.

Table 2.: Universities International Ranking - Times Higher Education Ranking

Rank 2016	Rank 2015	University
Switzerland		
9	13	ETH Zurich
30	34	ETH Lausanne
98	75	University of Basel
106	103	University of Zurich
110	132	University of Bern
137	107	University of Geneva
151	136	University of Lausanne
Austria		
161	182	University of Vienna

Source: Times Higher Education (2016)

A similar picture is depicted by the Shanghai Ranking, which is provided by the Shanghai Ranking Consultancy (2016) and offers data of more than 1.200 universities. The objective indicators to rank the world universities include the number of alumni and staff winning Nobel Prizes and Fields Medals, the number of highly cited researchers by Thomson Reuters, the number of articles published in Nature and Science, the number of articles indexed in the Science Citation Index and per capita performance of a university (Shanghai Ranking Consultancy, 2016). Table 3 lists the ranked universities of Switzerland and Austria and shows the development since 2005. For the year 2016 Swiss ETH Zurich is placed on the 19th place of the best 500 universities that are published. The best Austrian university is mentioned far behind between the 151st and 200th places in the ranking. As illustrated in Table 3., the Swiss universities show an improvement over the last couple of years, whereas most of the Austrian universities deteriorated.

Table 3.: Universities International Ranking - Shanghai Ranking

Rank 2016	Rank 2015	Rank 2010	Rank 2005	University
Switzerland				
19	20	23	27	ETH Zurich
53	-	-	-	University of Geneva
54	54	51	57	University of Zurich
92	101-150	101-150	153-202	ETH Lausanne
101-150	87	86	87	University of Basel
101-150	151-200	151-200	153-202	University of Bern
201-300	201-300	201-300	301-400	University of Lausanne
301-400	-	-	401-500	University of Fribourg
-	58	101-150	101-152	University of Geneva
Austria				
151-200	201-300	201-300	203-300	University of Innsbruck
151-200	151-200	151-200	85	University of Vienna
201-300	201-300	201-300	-	Medical University of Vienna
401-500	401-500	301-400	401-500	Medical University of Graz
401-500	401-500	401-500	301-400	Vienna University of Technol.
-	401-500	301-400	301-400	University of Graz
-	-	301-400	401-500	Medical University of Innsbruck

Source: Shanghai Ranking Consultancy (2016)

Another interesting ranking with a different focus is the U21 Ranking of National Higher Education Systems (Williams et al., 2016). This annual ranking does not compare universities but fifty national systems of higher education from all continents and evaluated them on the basis of 25 attributes. The countries are ranked and weighted in four areas, namely: resources (40%), environment (20%), connectivity (20%) and output (20%). The overall top countries are, in order, the United States, Switzerland, Denmark, the United Kingdom and Sweden. Austria is placed on the 13th position, behind Norway and Belgium (Williams et al., 2016).

These rankings provide some evidence that there are profound differences how both countries met the illustrated challenges. The following data are mostly gathered from the national university and academic databases and reports, as well as from analyses of the OECD and the EU. The comparison shows some interesting aspects; nevertheless, we have to point out that some of them cannot be compared one-to-one because of the different systems and data definitions in both countries. Furthermore, when interpreting the results, it has to be considered that even though there are a lot of similarities between these two countries, they also have a diverse form of government, structure and national economy (Gutschelhofer, Rybnicek and Suk).

3.1. Universities

The majority of the Swiss universities are in the responsibility of the cantons and only a few ones are federal universities. Universities' controlling and funding responsibilities are organized between the federal government and the cantons. Even though the Austrian universities seem to have more tradition, the participation and identification of the population with the universities seems to be stronger in Switzerland.

Austria has 22 public universities, 21 universities of applied sciences, 12 private universities (BMFW, 2015) as well as 14 colleges of education (BMBF, 2015). In Switzerland twelve universities (two of them are part of the Swiss Federal Institutes of Technology Domain, ETH Domain and ten cantonal universities), nine universities of applied sciences including music- and art universities (seven cantonal and two private institutions), two more music- and art universities, 15 private universities as well as 17 colleges of education. Furthermore, Switzerland has five university institutes supported by the government (educa.ch, 2015; Swiss universities, 2015). The two Swiss Federal Institutions of Technology comprises the Swiss Federal Institute of Technology Zurich (ETH Zurich) and the École Polytechnique Fédérale de Lausanne (EPFL or ETHL). Since 2000 the federal council of Switzerland leads the ETH sector, concerning performance and global budget, due to the ETH law. The ETH sector counts 20.000 students, 610 professors and about 13.000 full time staff members (SBFI, 2015).

3.2. Students

According to Bundesministerium für Wissenschaft, Forschung und Wirtschaft (2015) during the winter semester 2013 the universities in Austria reported 298.527 ordinary and extraordinary students. 273.280 were ordinary students (25% foreign students). At universities of applied sciences, 42.593 students were reported (15% foreign students). At the beginning of the winter semester 2013, in Austria 52.615 students were first authorized to an ordinary study at a public university (35% foreign students). 18.031 students started to study at an university of applied sciences (Bundesministerium für Wissenschaft, Forschung und Wirtschaft, 2015).

In Switzerland 142.170 people studied at public universities (29% foreign students) and 68.802 at universities of applied sciences (19% foreign students). 19.231 students started to study at Swiss universities in 2013 (22% foreign students). 16.268 students started at an university of applied sciences (Bundesamt für Statistik Schweiz, 2015). Table 4. and Table 5. show the age structure at public universities and universities of applied sciences, in both countries (Bundesamt für Statistik Schweiz, 2015).

Table 4.: Age structure of students at public universities

Age	<20	20-24	25-29	30-39	>40	Total
AUT	24.466	117.525	71.311	41.884	18.094	273.280
CH	10.193	67.553	37.538	19.632	7.254	142.170

Source: Bundesamt für Statistik Schweiz (2015)

Table 5.: Age structure of students at universities of applied sciences

Age	<20	20-24	25-29	30-39	>40	Total
AUT	2.623	22.271	11.145	5.733	1.821	43.593
CH	1.457	34.155	18.884	9.732	4.574	68.802

Source: Bundesamt für Statistik Schweiz (2015)

The OECD (2014) reports that 2011 the annual expenditure per student in the tertiary education sector in Austria was 13.815 Euro (9.616 Euro in teaching and 4.088 Euro in research). In Switzerland the expenditure was 21.223 Euro (9.291 Euro in teaching and 11.931 Euro in research). The average of the 34 OECD countries is 12.946 Euro (8.591 Euro in teaching and 4.138 in research) (OECD, 2014).

Since 1995, since the data is available, the OECD expected a 20% increase graduation rate at universities and universities of applied sciences in both countries (OECD, 2014).

3.3. Staffing

During the winter semester 2013, Austria employed 54.542 people (34.569 full time equivalent; FTE). In Switzerland 59.058 people (38.747 FTE) were employed. Both ETHs and the University of Zurich gain 50% of the resources; therefore they are the most important employers within the university area. In Austria 16.430 people (6.650 FTE) and in Switzerland 20.140 people (12.406 FTE) were employed during the winter semester 2013 at universities of applied science. Table 6. gives an overview of the staffing in public universities in both countries (2013) (Bundesamt für Statistik Schweiz, 2015; Bundesministerium für Wissenschaft, Forschung und Wirtschaft, 2014).

Table 6.: Staffing in public universities

	AUT		CH	
Employee category	Headcount	FTE	Headcount	FTE
Professors (including assistance- and associated professors)	3.300	3.184	3.995	3.609

	AUT		CH	
Assistant staff and scientific employees (including lecturers)	32.975	17.269	38.058	22.350
General employees (administration etc.)	18.267	14.116	17.005	12.788
Total	54.542	34.569	59.058	38.747

Source: Bundesamt für Statistik Schweiz (2015), Bundesministerium für Wissenschaft, Forschung und Wirtschaft (2014)

Due to the different basis of calculation in both countries, a direct comparison of the student-teacher ratio is not flawlessly possible (Gutschelhofer, Rybníček and Suk). The FTE teaching staff in Austria and Switzerland involves the same criteria, but in Austria only the active students ("prüfungsaktive Studenten") were the basis of calculation (2012/13), whereas in Switzerland the enrolled students ("immatrikulierte Studenten") were the basis (2013). Due to the higher fees in Switzerland it is assumed that the active student number is almost equal to the enrolled student number (Gutschelhofer, Rybníček and Suk). Table 7. highlights examples of the student-teacher ratio in some subjects.

Table 7.: Students per FTE teaching staff in certain department

Scientific field	AUT	CH
Social sciences	69	24
Economic science	64	30
Law	85	30
Natural science	21	13
Exact science	35	11
Health and social services	18	16
Teacher education	30	12
Agricultural- and veterinary science	23	10
Arts	11	7
Architecture	39	10
Engineering	34	9

Source: BFS (2015)

The student-teacher ratio in Austria and Switzerland concerning the field of arts is very low and almost on the same level. Whereas law studies with 30 students per teacher in Switzerland, and 85 students per teacher in Austria, is one of the most popular subjects with the worst student-teacher ratio. In general, the student-teacher ratio in Switzerland is in *all* areas better than in Austria.

3.4. Organization and autonomy

Swiss universities are allowed to establish study programs on their own and have the right for self-government. The cantonal universities have their own laws within the university context, where the organization of the universities is arranged (Gutschelhofer, Rybníček and Suk). In Austria the Universities Act 2002 gives the universities the right to determine their own structure, organization, and strategy. Besides the Universities Act, the performance agreement between the federal government and the universities is of special interest as in this agreement the goals and the financing are defined.

As a consequence, universities in both countries have a lot of individual regulations. Hence, a comparison is difficult. In our investigation we opposed the organization of the University of Graz which is organized according to the Austrian Universities Act, and the University of Zurich which is organized according to the cantonal university law. In both institutions we can find a strategic and supervisory board ("Universitätsrat") which is responsible for strategic decisions and the supervision of the university. The rectorate ("Rektorat", University of Graz) respectively the Executive Board of the University ("Universitätsleitung", University of Zurich) act as the operative management body. This body is responsible for the management of the university; chairperson is the rector with some specific competences. The academic board is the Senate ("Senat", University of Graz) and the Extended Executive Board of the University ("Erweiterte Universitätsleitung", University of Zurich). Those institutions are responsible for all academic matters. Even though when there are differences in detail, the main management structure is very similar. Also the organization in faculties ("Fakultäten") and departments ("Institute") is analog.

To compare the autonomy of the Austrian and Swiss universities we used the University Autonomy Tool of the European University Association (EUA). This tool compares the autonomy of the universities in 29 European countries regarding *organizational* (e.g. election of rectors, academic structure, and establishment of legal entities), *financial* (e.g. type of financing, credits, possession of buildings, and determination of enrollment fees), *staffing* (e.g. recruitment, salary, dismissals, promotions), and *academic* aspects (e.g. number of students, admission restrictions, launch of new studies, content/topic of new studies, teaching language and quality criteria). The following rankings were achieved (EUA, 2015):

Table 8.: Placement according to the University Autonomy Tool (EUA)

Autonomy	AUT	CH
Organizational	8th	20th
Financial	14th	13th
Staffing	13th	3rd
Academic	9th	9th

Source: EUA (2015)

Due to this ranking in Table 8., Austria can keep up with Switzerland when it comes to organizational autonomy. The financial and academic autonomy is almost equal in both countries. The staffing autonomy in Switzerland is, in contrast to Austria, higher.

3.5. Market orientation

In this section the links between universities and industry are investigated. To measure the intensity of this relationship we decided to focus on third-party funding. The success in acquiring third-party funds seems to be an adequate proxy for the cooperation between universities and industry. Industrial triggered research demands a strong orientation on the requirements of the market and allows knowledge transfer as well as technology transfer between universities and industry.

In 2013, the *third-party funds* in Austria represented 597.5 million Euro. This amount consists of the Austrian Science Fund (FWF), companies, the European Union, the Austrian Research Promotion Agency (FFG), other institutions and the federal government, states, and private institutions (Bundesministerium für Wissenschaft, Forschung und Wirtschaft, 2014). About 155.4 million Euro of these resources came from companies.

In Switzerland, the third-party fund volume 2013 was at 1.76 billion Euro. The most part originates from the Swiss National Science Foundation (SNF) as well as mandates for research from the private sector (Bundesamt für Statistik Schweiz, 2015). The part that was contributed by the private sector was 412 million Euro.

When comparing these numbers, it is obvious that Switzerland has almost the same amount of third-party funds in *one* year as Austria has in *three* years. Also the relationship between private companies and universities is more intense in Switzerland. It seems to be that the Swiss universities are more focused on the requirements of the industry and subsequently gain a higher financial commitment of local politics, society, and industry.

3.6. Financing

According to Bundesministerium für Wissenschaft, Forschung und Wirtschaft (2014), in 2013 Austria disposed an amount of 3.8 billion Euro of government expenditure for higher education (3.1 billion Euro for universities). During the time of 2013 until 2015 the universities rule an amount of approximately 9 billion Euro. The global budget for public universities in Austria during these years amounts 8.61 billion Euro (approximately 2.87 billion Euro per year). Table 9. gives an overview of the global budgets of the most important public universities in Austria (Bundesministerium für Wissenschaft, Forschung und Wirtschaft, 2014, 52). A part of the additional funds (450 million Euro) is used as "Hochschulraum-Strukturmittel" for certain projects and indicators.

Table 9.: Distribution of the global budget in Austrian Universities

University	Global budget (in million Euro)
University of Vienna	1.100
University of Innsbruck	568
University of Graz	507
University of Salzburg	339
University of Linz	312
Medical University of Vienna	950
Medical University of Graz	333
Medical University of Innsbruck	321
Technical University of Vienna	654
Technical University of Graz	379

Source: Bundesministerium für Wissenschaft, Forschung und Wirtschaft (2014: 52)

According to the Bundesamt für Statistik Schweiz (2015), in Switzerland the funds for higher education areas added up to 5.37 billion Euro in 2013 (7.12 billion Euro including third-party funds). 67 percent allotted to the ten canton universities and 33 per cent to the two ETHs. The University of Zurich (1.28 billion Euro), Geneva (789 million Euro) and Bern (721 million Euro) had the highest expenses. The expenses of the ETH Zurich added up to 1.49 billion Euro and the ETH Lausanne with a total of 823 million Euro. Approximately 90 percent of the ETHs were funded by the federation, whereas the other universities were mostly supported by the cantons with 53.5 percent (Bundesamt für Statistik Schweiz, 2015).

Table 10. illustrates the differences in financing (excluding third-party funds) on the basis of the University of Vienna and the University of Zurich.

Table 10.: Comparison of the University of Vienna and the University of Zurich

2013	Financing(excl. third-party funds)	Students	Alumni	Professors
University of Vienna	366 million Euro ("Globalbudget")	88.000	12.700	422
University of Zurich	1.042 million Euro ("Hochschulrechnung")	26.300	5.150	535

Source: Gutschelhofer, Rybníček and Suk

Another interesting aspect is the ratio between the governmental expenses for the universities and third party funding. In the Austrian higher education sector, the research and development expenses 2011 were 2.18 billion Euro, this is 25.6 per cent of the total research and development expenses in Austria. For the university research area, the public sector is the most important source of finance. Due to the

lower significance of private funds for university financing in Austria, the importance of a diversification of the source of financing at the European level increases (Bundesministerium für Wissenschaft, Forschung und Wirtschaft, 2014). The Austrian Science Fund (FWF) distributes 196.4 million Euro (23.1 Euros per capita) to Austrian universities.

In contrast, in Switzerland's higher education sector, the research and development expenses 2011 were 4.04 billion Euro. 75 per cent were funded by the Swiss global budget ("Hochschulrechnung") and 25 per cent were funded by third-party funds (Gutschelhofer, Rybníček and Suk). The government mandate for research accounted for 121.5 million Euro and the private mandate for research accounted for 420.6 million Euro (Bundesamt für Statistik Schweiz, 2015). The Swiss National Science Foundation (SNF) distributes an amount of 722.3 million Euro (98.8 Euro per capita) to universities in Switzerland.

The OECD (2014) mentioned the below average standard of the financial model in Austrian universities, as not internationally competitive to the leading ETH Zurich (OECD, 2014). The funds for higher education in Switzerland and Austria are significantly different. The Swiss university financing is about *two times higher* than the global budget in Austria and the third-party funding in both countries differ drastically from each other as well.

3.7. Overview

On the basis of this comparison, an overview of the most important facts of Austria and Switzerland is given in Table 11.

Table 11.: Figures of public universities

Figures	AUT	CH
Inhabitants in million	8,5	8,1
Number of universities	22	12
First-semester students	52.615	19.231
Regular students	273.280	142.170
Graduates	37.312	29.596
Cumulative expenses per student in Euro €	84.684	122.832
Expended share of university graduates in percent	20,7	38
Staff in FTE	34.569	38.747
Global budget (AUT) / „Hochschulrechnung“ (CH) per year in billion Euro €	2,9	5,4
R&D expenses in billion Euro €	2,2	4

Source: Gutschelhofer, Rybníček and Suk

As illustrated in this table, there is a significant proportion between Austria and Switzerland in the number of universities, number of students, expenses per student, staff and above all in financial budget.

Comparing the two countries, helps to understand how different the academic systems are and which factors may influence their performance and success. Austria and Switzerland are both traditional countries with a well-established university management, but when comparing them in detail, substantial differences become visible. Swiss universities are built on a totally different financial basis than their Austrian counterparts. As the results in Table 11 show, Switzerland's universities gain about 5.4 billion Euro (global budget) for 142.170 regular students per year. The Austrian universities global budget lies at around 2.9 billion Euro for 273.280 regular students per year (Gutschelhofer, Rybnicek and Suk). Due to that fact, the cumulative expenses per student is a lot higher in Switzerland than in Austria. Also the number of universities of each country differs significantly even though the inhabitants are similar in both countries.

The federal government is responsible for the financing of Austrian universities, this has a positive side, namely that there is less coordination efforts needed but also includes downsides for instance that the identification and the regional needs of the city or state are suffering. Successful universities should not only focus on the financial power of the government, but also generate financial resources out of third-party funds.

4. CONCLUSION

Central European universities have transformed in recent years. A modern university management model was established which contradicts in some points (e.g. autonomy, budgeting, leadership, hierarchy, and employee participation) the traditional management of universities. As a result challenges occur which impact the universities' organization, autonomy, financing as well as students and staff. In the paper at hand we analyzed the universities in Switzerland and Austria and compared key data regarding these aspects. The main goal of this investigation was to identify reasons why the Swiss universities continuously perform better than the Austrian ones when it comes to international university rankings.

We identified profound differences regarding staff and students as well as differences in organization and autonomy. However, the most significant discrepancies were identified in the funding of the universities. Swiss universities are built on a strong financial basis that differs dramatically from the financing of Austrian universities. The government spends 5.4 billion Euro per year in Switzerland, but only 2.9 billion Euro per year in Austria. The Swiss universities also generate more resources out of third-party funds.

Of course the performance of the Swiss universities is not only a matter of money but it cannot be denied that it is an essential basis for successful research and teaching. The organization of an university or its autonomy are important factors that can influence the performance of scientists. Nevertheless, a good financial basis is needed to take full effect of these measures. With an appropriate funding the universities are able to provide adequate infrastructure and resources for scientists as well as students. In the long run this will result in a better performance and subsequently a higher commitment of citizens and politicians to their universities. And this commitment is absolutely necessary because science is expensive and people have to see that their money is well spent. Politicians and practitioners should have this in mind when they reorganize universities.

Note.

Selected parts and analyses of this paper have also been reported in a German book.

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BUSINESS TRANSFER ECOSYSTEM IN CROATIA – MISSING COMPONENTS AND INTERACTIONS

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ABSTRACT

Business transfer is an important issue that the European Commission has been actualising since the early 1990s, when the first recommendations for the improvement of national business transfer ecosystems of the EU countries were created. Neglecting business transfer as a critical phase in the development of a company can have significant negative implications for companies, their owners and wide network of stakeholders. Business transfer is a particularly important topic for the Croatian economy where more than 5,300 businesses with around 57,000 employees represent a risk group whose owners underestimate the complexity and longevity of the business transfer process. The aim of this paper is to analyse the structure and quality of the business transfer ecosystem in Croatia. For this purpose, secondary research and a qualitative study in the form of interviews with representatives of key stakeholders were conducted. The Croatian business transfer ecosystem is benchmarked to the national business transfer ecosystems of Spain, Finland, Sweden and France, based on the data collected through the EU project BTAR. The research results indicate low level of development, interconnection and complementarity of individual components of the business transfer ecosystem in Croatia. Policy recommendations for improving the quality of the business transfer ecosystem in Croatia were identified.

Keywords:

business transfer; ecosystem; small and medium enterprises

1. WHAT IS BUSINESS TRANSFER, WHY IS IT IMPORTANT AND TO WHOM?

Long-term sustainability of small and medium enterprises largely depends on the continual ability to innovate and therefore any disruptive event which endangers it should be carefully managed. One of such disruptive events is a change in ownership / management of a company, like the withdrawal of the company owner / founder from the business. Business transfer process is most commonly associated with the retirement of the owner of the company, but retirement is just one of the reasons. The trend of earlier withdrawal from the business due to changes in entrepreneur's professional interests, a good opportunity to sell the company, or the desire to start a new entrepreneurial venture, is increasingly present in developed countries (Van Teeffelen, 2012). Emergencies, such as illness or death of the company owner, represent bad circumstances of business transfer, especially when those situations were not preceded by adequate preparation.

Due to the high rate of failure in the implementation of the process of business transfer in small and medium enterprises in the European Union, the European Commission has been monitoring the quality of national business transfer ecosystems in member countries for more than 20 years, and making recommendations for the improvement of the support system to policy makers at the national level. The European Commission's position is that systematic support to companies in this phase of the life cycle is equally important as the support to start-up companies, because taking over an existing company represents an equally important way of entering into entrepreneurship. Studies show a significantly higher rate of survival of companies that have gone through business transfer in relation to start-ups, higher revenues and profits of transferred companies compared to start-up companies, and a major shift in new employment (Geerts et al., 2004; KfW, 2009). Business transfer represents a unique opportunity for companies for strategic renewal and transformation of business, to which younger entrepreneurs are more inclined than those who are nearing retirement.

The complexity of business transfer is the result of legal, financial, tax, organisational and psychological aspects of this process. Business transfer in most cases requires multi-year, thorough and timely preparation. Many healthy and successful companies experience tectonic changes when they go through the business transfer process, and these changes may ultimately significantly undermine the market position of the company. Healthy financial situation, competitive product range, good company reputation - none of these are a guarantee of successful passing through the process of business transfer. Some of the elements that increase the chances for success are commitment of the owner to this problem, involvement of family members in making the decision about the future of the company, two-way communication with respect and appreciation of attitudes of everyone involved, and timely opening of this topic.

2. POLICY CONTEXT OF BUSINESS TRANSFER IN THE EUROPEAN UNION

Business transfer of small and medium enterprises represents a big challenge in the EU countries, where it is estimated that each year around 450,000 companies with around 2 million employees go through this process. It is further estimated that the issue of business transfer is not adequately approached in approximately 150,000 companies, which jeopardizes around 600,000 jobs (European Commission, 2011).

European Commission has been monitoring the quality of business transfer ecosystems in EU member states since 1994. Based on the assessment of the situation in individual member states and the identified key pillars of support that should be developed, the guidelines for activities of national line ministries and other relevant institutions for the creation of a support system for owners of small and medium enterprises in the business transfer process are identified.

The first recommendations to member states from 1994 (European Commission, 1994) were focused on improving legal, fiscal and administrative environment for business transfer, including the need for raising awareness among business owners on the importance of timely designed business transfer process in order to save jobs.

In 1998, the European Commission in its report on the transfer of small and medium enterprises stated that recommendations from 1994 were not fully implemented in improving national ecosystems for business transfer (especially outside of interventions in simplification of the legal system) and the importance of informing and educating business support actors was emphasized (European Commission, 1998).

In 2002, a special group of experts for business transfer made a report about the progress in implementing 1998 recommendations and the slow process of their implementation in national policies was again confirmed.

In 2006, the concept of business transfer as a new beginning and not as the end of business life cycle was explicitly introduced in the Communication of European Commission along with a warning that thousands of good SMEs are disappearing each year because they are not able to overcome obstacles / problems related to business transfer. At the same time, member states were invited to introduce special national policies and programmes for establishing a supportive ecosystem for business transfer, by paying special attention to raising awareness of the complexity of business transfer process and establishing transparent platforms for selling / buying businesses (European Commission, 2006).

A comprehensive EU policy intervention in building supportive ecosystem for business transfer of SMEs in member states was introduced through the Think Small First principle of the Small Business Act from 2008, which is advocating for creation of environment in which entrepreneurs and family businesses can thrive and

entrepreneurship is rewarded. Business transfer is also specifically emphasized in the Principle 4 (Make public administration responsive to SMEs needs); Principle 7 (Help SMEs to benefit more from the opportunities offered by the Single market) and Principle 10 (Encourage and support SMEs to benefit from the growth of markets).

In 2011 monitoring report on the implementation of the Small Business Act, member states were invited to create transparent virtual markets (platforms) as a meeting place for business transfer actors (sellers and buyers). Lack of awareness of the complexity of the business transfer process and knowledge how to deal with it were again emphasized as important obstacles to the effective business transfer process and member states were invited to deal with them through their policy interventions.

Additionally, a comprehensive analysis of recommendations related to business transfer ecosystems presented by the European Commission in 2011 („Business Dynamics - Start-ups, Business Transfers and Bankruptcy”) explicitly introduced the life cycle approach for integrating different phases of venturing (start-up, business transfer and closing the business) in order to get a better platform for designing coherent policies. A lack of systematic monitoring of business transfer in member states was identified as the result of different definitions of business transfer.

In the last monitoring report from 2013, the European Commission urges national governments (specifically relevant ministries) and other institutional stakeholders to engage in creating coherent supportive ecosystems for business transfer. Recommended interventions for creating supportive national business transfer ecosystems are: 1/ raising the awareness of company owners about the importance of timely preparation for the success of business transfer, and of everyone who, based on their profession, should provide support in that process; 2/ simple and tax-relieved legislative framework for business transfer; 3/ creating virtual platforms for connecting buyers and sellers of companies; 4/ creating financial instruments for easier takeover and purchase of companies; 5/ strengthening advisory support in the process of business transfer.

In „Entrepreneurship 2020 Action Plan”, the European Commission re-enforces integrative framework based on understanding inter-connectedness between different phases of the business life cycle as a platform for designing coherent policies in order to build a supportive ecosystem in which business transfer is happening.

3. THE IMPORTANCE OF THE ISSUE OF BUSINESS TRANSFER IN CROATIA

In Croatia, there is no statistical record of the conducted business transfer processes. Insight into the issue of business transfer in Croatia is provided by two studies - the Global Entrepreneurship Monitor - GEM research, which has been carried out in

Croatia since 2002, and the Business Transfer Barometer research, conducted in 2015.

GEM research is the world's largest survey on entrepreneurship, which, among other indicators, monitors the causes of discontinuation of business activities (Table 1.).

Table 1.: Reasons for discontinuation of the business, 2014 - % of exits

Reasons for discontinuation of the business	Croatia	EU
Opportunity to sell	0.83	3.32
Business not profitable	33.6	33.24
Problems getting finance	23.55	11.5
Another job or business opportunity	12.95	11.62
Exit was planned in advance	1.44	5.18
Retirement	2.51	6.08
Personal reasons	17.87	23.83
An incident	7.26	5.22

Source: GEM data base, 2014, prepared by S. Singer

Problems with the profitability are the major reason for discontinuation of the businesses in Croatia and in EU (on the level of one third of discontinuation cases). Lack of finance is much more frequent as a reason for discontinuation in Croatia than in EU, what is important information in discussion about the quality of ecosystem in which small businesses operate. Another important differentiated feature is how many exits were planned in advance - despite planned exits are among the three least reasons for discontinuation (besides retirement and opportunity to sell) in Croatia as well as in EU, there are almost 2,5 times more such cases in EU than in Croatia. This difference confirms the need for activities related to rising awareness of the complexity and longevity of business transfer process in EU, but especially in Croatia, as well as designing supportive ecosystem for it.

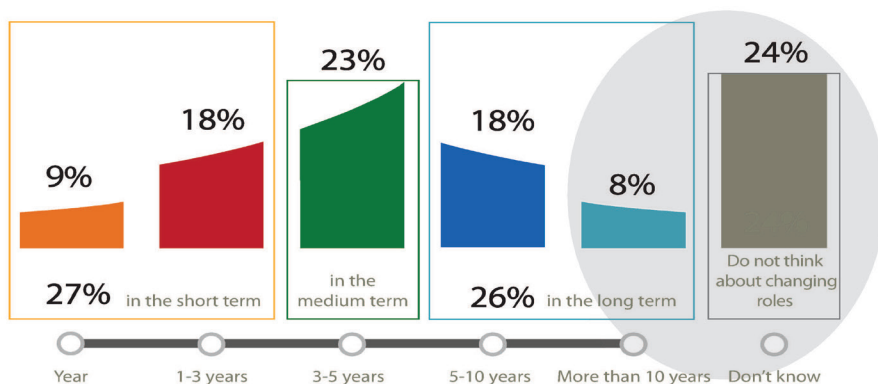
Besides of the reasons for business discontinuation, GEM provides insight in the health of business dynamics by collecting information on intensity of entry and intensity of exits from business activities. Low intensity of exits can be an indicator of status quo, or of a healthy economy, but high intensity of exits can indicate lack of successful business strategies and/or lack of a supportive business ecosystem (e.g. complicated regulatory framework, lack of appropriate financial instruments, lack of innovativeness...) (Singer et al., 2016).

The Business Transfer Barometer research started with identification of small and medium sized companies whose majority owners are of 55¹ or more years of age in the population of all companies with limited liabilities in Croatia. In 2014

¹ According to numerous studies (e.g. Varamaki, 2013) 55 years of age is considered a turning point in which it is necessary to start thinking about business transfer, since it is a process that usually takes several years.

there were 16,590 such companies in Croatia². These companies employ 179,087 employees, which is a 16.1% share in the total number of people employed in limited liability companies, and generate revenue of EUR 15,2 billion (18.9% of the total revenue generated by all limited liability companies in Croatia). Using the sample of 200 respondents from the population of businesses with limited liabilities³ whose majority owners have 55+ years of age provided a possibility to estimate that more than 5,300 companies with around 57,000 employees represent a risk group, whose owners underestimate the complexity and longevity of business transfer process. The research has shown that 32% of company owners that belong to generation 55+ are not aware of the inevitability of change of their role in the management and ownership function in the company (Figure 1.).

Figure 1.: Awareness of owners about the change of role in the management and ownership function in the company (Your role in the company will change in the next...?)

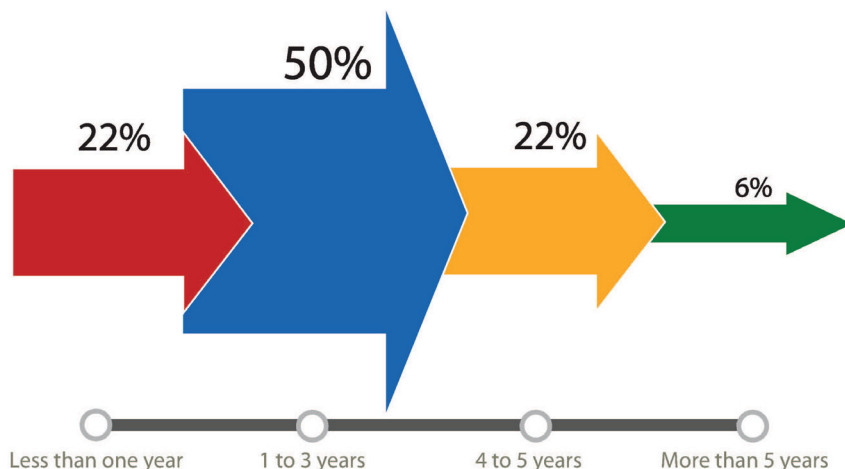


Source: Alpeza, M., Grubišić, N., Mikrut, M.: „Business Transfer Barometer Croatia”, CEPOR - SMEs and Entrepreneurship Policy Center, Zagreb, 2015

Business Transfer Barometer research in Croatia has shown that 22% of entrepreneurs underestimate the duration of the business transfer process and believe that less than a year is enough time for the transfer to take place, while 50% believe that it would take 1-3 years. (Figure 2.).

² Source: Bisnode Croatia, based on the data annual financial documents of SMEs in 2014 .

³ Within the Business Transfer Barometer research, 200 respondents who are majority owners of small and medium companies in Croatia, and have 55 or more years of age were surveyed. The sampling frame consisted of limited liability companies (Ltd.) with a minimum of one employee and with minimum annual revenue of 15,000 EUR. The survey was conducted using CATI (telephone survey) and CAWI (online survey) methods. The sample is representative by the company size for the SME sector.

Figure 2.: Perception of the time required for business transfer

Source: Alpeza, M., Grubišić, N., Mikrut, M.: „Business Transfer Barometer Croatia”, CEPOR – SMEs and Entrepreneurship Policy Center, Zagreb, 2015

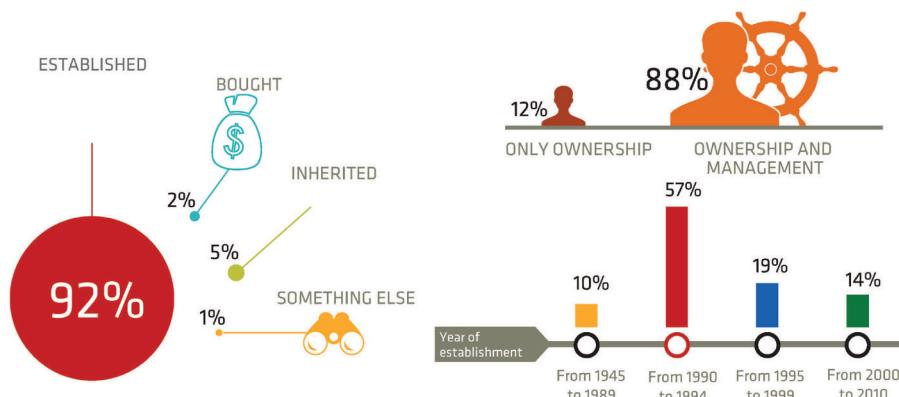
Among entrepreneurs aged 55+ there are 65% of those who believe that they will need support with various aspects related to business transfer. The most needed is in the activities of the technical implementation of the business transfer (43%), company valuation (42%), and harmonization of company and family interests when making the decision on the transfer of business (36%) (Figure 3.).

Figure 3.: Aspects of business transfer for which owners aged 55+ expect they will need advisory support

Source: Alpeza, M., Grubišić, N., Mikrut, M.: „Business Transfer Barometer Croatia”, CEPOR – SMEs and Entrepreneurship Policy Center, Zagreb, 2015

One of the characteristics of the business owners generation 55+ in Croatia is that most of their companies were established in the 1990s (76%), and that owners of companies are also their founders, without personal experience of participation in the business transfer process (Figure 4.).

Figure 4.: Ownership profile of business owners generation 55+



Source: Alpeza, M., Grubišić, N., Mikrut, M.: „Business Transfer Barometer Croatia”, CEPOR - SMEs and Entrepreneurship Policy Center, Zagreb, 2015

The results of Business Transfer Barometer research from 2015 indicate that 31% of all small and medium enterprises in Croatia are owned (and in majority cases managed) by the entrepreneurs aged 55+ who will be faced with the issue of business transfer in the coming period. It is estimated that 5,300 businesses with around 57,000 employees represent a risk group for business transfer. The research results indicate that 32% of business owners aged 55+ do not see that their role in ownership / management will be changed in next 10 years and that 72% of business owners think that time required for business transfer is less than 3 years. These are warning information which should be taken into account by policy makers, as well as other stakeholders responsible for the quality of the business transfer ecosystem in Croatia.

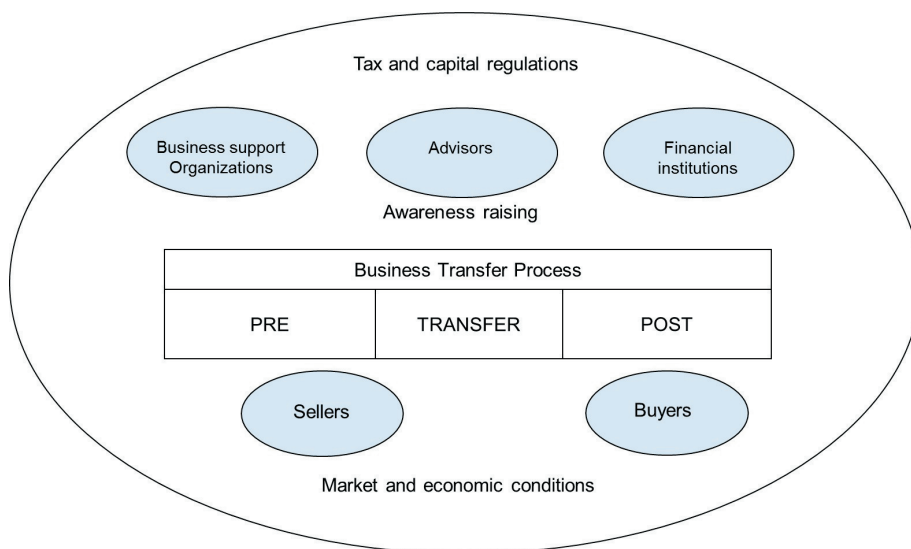
4. COMPONENTS OF THE BUSINESS TRANSFER ECOSYSTEM

Business transfer is not happening in a vacuum, independently of market conditions, regulatory framework and business infrastructural support system. When analysing the actors and factors of influence on business transfer processes, the main elements of business transfer ecosystem were identified as: market and economic conditions, tax policy, buyers, sellers, financial institutions and advisors (Van Teeffelen, 2012). Ecosystem is not a static concept, but rather a dynamic one, with the constant need to improve the ecosystem, bearing in mind the interconnectedness of its components (adapted from Isenberg, 2010). The goal of ecosystem is to enable individual actors to expand their capabilities beyond their own boundaries through collaboration with other actors (Singer et al., 2015).

Business transfer ecosystem is in the function of successful implementation of the business transfer process whose key actors are buyers and sellers, while the

function of other components of the ecosystem is to provide support and increase the level of success of the key actors in the implementation of the business transfer process (Figure 5.).

Figure 5.: The key elements and content of the business transfer ecosystem



Source: Varamaki, E.; Viljamaa, A.; Tall, J.; Lansiluoto, A. (2014), adapted from Van Teeffelen, L. (2012)

Analysis of the business transfer ecosystem indicates a significant influence of the government policy setting on most of the components, from tax and capital regulations, market and economic conditions and awareness raising actions to business support organizations, financial institutions and advisors whose activity can also be stimulated by favourable government initiatives related to business transfer friendly environment (Van Teeffelen, 2012).

The buyer and the seller are the essential ingredients for business transfer processes, and other components (business support organizations, advisors and financial institutions) can make significant positive impact on the quantity and quality of business transfer processes. Buyers and sellers, as the key actors of the business transfer process, often lack the necessary knowledge and experience to implement the business transfer process since it is most often a process they are facing once in a lifetime, especially in the case of aging entrepreneurs. The above indicates the importance of advisors in the business transfer ecosystem, whose role is to provide advisory support to buyers and sellers in solving organisational, financial, tax, legal and emotional issues (European Commission, 2011).

In addition to knowledge and experience, also present on the seller's side is the problem of insufficient preparation and planning of the business transfer pro-

cesses, which, because of their complexity, often last for several years. Activities for raising awareness of owners of companies about the importance of timely preparation and planning are important for increasing the success rate of business transfer. Financial institutions, banks in particular, play the key role in financing business transfers, and a negative decision on financing of acquisitions, that is, purchase of companies is among the most frequently cited causes of failure in business transfer (European Commission, 2002). In some countries (e.g. Spain), tax policy can represent a significant aggravating circumstance for the implementation of business transfer, which additionally emphasizes the importance of timely planning and preparation.

5. BUSINESS TRANSFER ECOSYSTEM IN CROATIA

For the purpose of research of content and quality of the business transfer ecosystem in Croatia, interviews were conducted with 20 national stakeholders - representatives of institutions, which, according to their missions, constitute the components of the ecosystem: financial institutions, providers of advisory support, business support organisations, and potential sellers and buyers of companies. Interviews were conducted during 2015, based on a prepared checklist with questions that make up the outline of the interview. The methodology of iterative clinical interviews suggested by Schein (1993) was applied in the conducting of interviews, in which the researcher interacts with an internal member of the organisation in which the research is carried out and invests significant effort to clarify the purpose and significance of the research. In this way, respondents find benefits in the implementation of the research for themselves, organisation and environment in which they operate, and their motivation to contribute to the research process and results is increased. In this research, the respondents were informed about the results of the Business Transfer Barometer research in Croatia, as well as the recommendations of the European Commission for the development of business transfer ecosystem in EU countries.

Secondary research was used to analyse the activities aimed at promoting the importance of business transfer in Croatia, as well to analyse general market and economic conditions, legislation, and tax system. The situation analysis of the national business transfer ecosystem in Croatia prepared within the EU project: BTAR - Business Transfer Awareness Raising⁴ was used for the purposes of this research. In the framework of the BTAR project, national ecosystems in other four EU countries were investigated (Finland, France, Spain and Sweden) and

4 The BTAR project is financed with the funds from the EU CIP programme in the 2014-2016 period. Project leader is the Seinäjoki University of Applied Sciences from Finland, and the project partners are Grenoble School of Management from France, Jaume I University from Spain, Faculty of Economics of the J.J. Strossmayer University of Osijek from Croatia and University of Skövde from Sweden.

the results were used to compare Croatia with the design of their respective business transfer ecosystems⁵.

The research results and information gathered through the conducted secondary research and primary qualitative research shown in Table 2 provide a parallel comparison of national business transfer ecosystems in Croatia, France, Sweden, Finland and Spain. Results of the comparison of the Croatian business transfer ecosystem with those in the aforementioned countries indicate weak development of the national business transfer ecosystem in Croatia in almost all components of the ecosystem.

5.1. Sources of information on SME business transfer markets (buyers and sellers)

In Croatia, a low level of transparency of the market for business transfer of small and medium enterprises is evident, as well as the lack of data on the number of active buyers and sellers, and the absence of channels through which contact could be established and preconditions for implementation of the business transfer process created. In contrast to Croatia, in other countries with which the comparison was made, there are virtual markets and it is possible to estimate the number of active sellers and buyers of small and medium enterprises.

5.2. Financial institutions involved in business transfers

Results of the analysis indicate the absence of financial instruments for the purchase of companies in Croatia, which significantly decreases the number of potential buyers of companies. In other observed countries, availability of funding sources is not identified as an obstacle to the implementation of the business transfer process.

Availability of expert advice

Lack of availability of expert advisory support for SME business transfer is also identified in Croatia, especially for the segment of micro companies. In this component Croatia significantly lags behind the business transfer ecosystems of developed countries in which there is a wide availability of both public and private consultants, and company owners regard experts as important stakeholders of the business transfer process.

5 In each country case data was collected by local research teams made of senior and junior academic scholars familiar with the ownership transfer phenomenon. A total of 16 researchers participated in the data collection, using the same conceptual framework in each country. As a result, the country ecosystems were explored by using of both primary (e.g. interviews, expert testimonials, field observations) and secondary (reports, barometers, statistics, etc.) data to build each country case (Viljamaa et al., 2015).

5.3. Business support organisations

Public business support institutions in Croatia do not recognise the specific challenges of the business transfer process for entrepreneurs and, accordingly, they are not developing services that would provide support in the process - neither at national nor local level. In other observed countries, there is space for improvement of both the services and cooperation, but it is evident that there is a developed support system.

5.4. Awareness raising activities

Activities aimed at raising awareness of entrepreneurs about the complexity and longevity of the business transfer process, and the possibilities of entering entrepreneurship by taking over a business venture are at a very low level in Croatia. The responsible institutions at the national, regional and local level are not initiating such activities, and they are rarely becoming involved as support in cases when awareness raising activities are initiated by private organisations.

5.5. Key legislation and tax laws effecting business transfers

Unlike other EU countries, especially Spain, in which the tax burden in the case of inheritance of a company ranges from around 95%, the legislative framework for business transfer in Croatia can be given a relatively positive grade.

The legal framework for business transfers in Croatia consists of the following laws: Labour Law, Crafts Act, Law on Local and Regional Self-government, Civil Obligations Act, Companies Act, Inheritance Act, Accounting Act and Family Law. Business transfer of crafts is regulated in 2013 with the "new" Crafts Law that represents favourable legal framework for business transfer in different occasions: death of the owner of the craft, retirement and transfer of the ownership of the craft to third parties. In case of company inheritance, the Companies Act stipulates that business shares can be inherited. The Inheritance Act also recognizes legal and testamentary inheritance, where in the first inheritance order the company is inherited by children and spouse, in equal parts. This law is regulating the inheritance process in detail, especially in case of testamentary inheritance. According to the Law on Local and Regional Self-government, the tax on inheritance and gifts is not paid by spouse, blood relative in a straight line, adopted children and adoptive parents of the deceased or the person giving the company. The inheritance of business shares for others is subject to tax on inheritance at the rate of 5%. In this case, the tax base is the market value of financials and other assets, after deduction of debts and expenses relating to the property on which tax is paid.

In case of selling the company, the cost of services of notary public is the only compulsory expense. Additional provisional costs are the lawyer costs and the cost of

changing the owner of the company which has to be published in the Official Gazette. The money that the seller gains by the selling the company is considered as capital gain, and as such it is not taxed in Croatia.

Unlike Croatia, other EU countries (e.g. France) use the tax system to encourage planning of the business transfer during the lifetime of the company owner, since tax burdens are more substantial if the issue of the company’s future is dealt with after the owner’s death. Also, in France and Spain there is an endeavour to protect the interests of employees that work in companies undergoing business transfer through the regulatory framework, and it is expected from owners to timely inform employees about the changes in the ownership structure of the company.

Based on the above, it can be concluded that 5 out of 6 aforementioned components of the national business transfer ecosystem in Croatia do not have a supporting effect for business transfer processes of small and medium enterprises. Also, given the underdevelopment of the key components of the ecosystem, there is no awareness of the necessity of their mutual cooperation, coordination and complementarity of activities.

Table 2.: Benchmarking of the Croatian national business transfer ecosystems to France, Finland, Spain and Sweden

Business Transfer Ecosystem Components	Croatia	France	Finland	Spain	Sweden
Key legislation and tax laws affecting business transfers	Legislation does not represent a barrier for business transfer: No inheritance and gift tax for spouse and children; No tax on selling shares of companies	Sellers have an interest in planning a transfer carefully, for the taxation is complex and fiscal consequences can vary; owner of a SME has to inform all employees about ownership transfer at minimum two months before the transfer takes place	Relatively stable legislative environment that does not inhibit business transfers	Tax on inheritance and donations is transferred to the regions and each of them has a specific rate and application (min 95%); the transferor and the buyer are required to provide information to the legal representatives of their respective employees	No inheritance and gift tax; the regulatory framework is technically complicated and aimed at large companies

Business Transfer Ecosystem Components	Croatia	France	Finland	Spain	Sweden
Sources of information on SME business transfer markets (buyers and sellers)	No matching platforms for business transfer of SMEs No transparent data on buyers and sellers	About 50,000 potential firms to be transferred each year; Several online market places for SMEs are available; Lack of transparency - one of the key problems on the SME business transfer market; Buyers spend on average 13 months in the business transfer process; Sellers do not know the business transfer process and are badly prepared	A number of platforms are available, although the volumes of offers are not great; About a fifth of aging entrepreneurs are planning to implement family succession Business transfers of small firms are a very local phenomenon Issues of valuation, asking high price and financing are important	Clear efforts to develop business transfer markets; Online platforms with a variety of services exist - one of them offers integral advice service with the web portal showing supply and demand; the number of transfers is expected to grow; the duration and complexity of the business transfer process is the main obstacle	Some commercial online platforms available; About 50 000 firms are assigned to the transfer risk category
Financial institutions involved in business transfers	No public financial institutions supporting the process of business transfer	The financing opportunities offered to buyers are well developed; Interest-free loans without guarantees are available for individuals from a public institution; There are public programmes to encourage individuals to buy firms; Private equity financing is well developed	Private equity financing not very well developed and rarely available for business transfers; Banking sector developments have led to increasing difficulties in financing small business transfers; State-owned financing organization involved in 50% of business transfers	There is a financing fund for business transfers but it is very scarce, and is mostly used for consulting; Access to financing is worse for family firms; There is also a crowdfunding platform for business transfers	Main actors in financing business transfers are banks, state owned organization (ALMI) and business angels; Loans dominate as instrument for financing business transfers; Lack of local financial capital and availability of risk capital for small firms business transfer

Business Transfer Ecosystem Components	Croatia	France	Finland	Spain	Sweden
Availability of expert advice	Little expertise available that is focused specifically on SME business transfers; Advisors with expertise and experience in dealing with SME business transfer issues are lacking; The Big Four consultancy companies provide expert services but are mainly focused on large and medium sized enterprises	Private sector advisors and their interests can be divided into two main categories: big firms and SMEs; SME business transfer market advisory services very fragmented in nature; Many independent consulting companies offer services	External advisors are important stakeholders in business transfers for sellers and buyers; Entrepreneurs underutilize competent experts and seek expertise at a too late phase of the business transfer process; Small firms tend to favour accountants, banks and auditors as advisors	Specific consultancy services for business transfer are scarce, but there is an emerging infrastructure of public consultancy for the sale of businesses; Lack of advice on family succession has been noted	A number of organizations provide advisory services in the field of business transfers, but it is usually not their main field of activity; The focus is on tax, legal and financial issues, whereas soft factors and strategic matters are underestimated
Business support organisations	Couple of support organizations for business transfers with different scope of activities; Majority of entrepreneurship supporting organizations not identified business transfer as a relevant issue, and not offering services in this matter	Business support infrastructure for business transfer very well developed - many support organizations for business transfers exists both at local and national levels	Variety of business support organizations, with some cooperation and coordination apparent among local actors	Business support organizations can be divided into two categories: public organizations and foundations/associations; A cooperation effort has led to a creation of a plan for business transfer support and continuity	Many support organizations for general business issues, yet business transfers represent a side issue and formal cooperation is on a low level; The business support organizations mainly focus on financial support; There is some cooperation among local actors

Business Transfer Ecosystem Components	Croatia	France	Finland	Spain	Sweden
Awareness raising activities	Awareness raising activities are still undeveloped; Annual conferences on family businesses and round table discussions are held but mainly with the focus on family business; First national research on business transfers conducted in 2015	Each year many thematic events about SME business transfers are organized by a variety of actors for both sellers and buyers; The level of awareness raising activities is quite high, but on the regional level room for improvement can be found	Variety of activities: activation letters, events, calls and visits, business transfer barometers mostly targeted for aging entrepreneurs	A number of activities: training workshops and other events and information materials.; Events are often regionally organized	Courses, booklets and brochures available, as well as a YouTube video for either aging entrepreneurs or SME owners

Source: adapted from Singer et al.: "Business transfer ecosystems: from assumption-based to evidence based design", RENT Conference Zagreb, 2015; Situation analysis of the national business transfer ecosystems in Croatia, Spain, France, Finland and Sweden conducted within the BTAR EU project

6. CONCLUSION, IMPLICATIONS AND POLICY RECOMMENDATIONS

Given the important role that small and medium enterprises have in the Croatian economy (68% share in employment, 52.1% of the total revenue), it is necessary, at the level of policies and programmes, to monitor the specific problems related to the development of this sector. Business transfer represents one of the specific problems that will be increasingly present in the future. The Business Transfer Barometer research has highlighted the impact that the companies which are faced with the business transfer process have on the small and medium enterprise sector in Croatia (16,590 companies whose majority owners have 55 or more years of age, which have more than 179,087 employees, and a share of 16.1% in the total number of employees and 18.9% of the total revenue generated by all limited liability companies in Croatia).

This paper has identified a low level of development of the key components that should comprise an efficient business transfer ecosystem in Croatia, whose role should be to build and connect the key components of support for the owners of small and medium enterprises in the implementation of the business transfer process. The conclusions about the weak development of the business transfer ecosystem

are based on the analysis of the components of the national business transfer ecosystem in Croatia and the comparison of the ecosystem with those of other four EU countries: France, Spain, Sweden and Finland. The underdevelopment of individual components of business transfer ecosystem in Croatia is accompanied with the absence of interaction and cooperation between the components of the ecosystem.

In order to develop a support system for business transfer and facilitate the sustainability of small and medium enterprises after the retirement of their owners, and to enable a safer starting of entrepreneurial activity for young entrepreneurs through taking over (purchasing) of entrepreneurial ventures, involvement of all the relevant institutions is necessary, especially those responsible for creating measures and policies that will provide support to small and medium enterprises in the business transfer process. For this purpose, it is important to act immediately to implement the recommendations of the European Commission from 2013, whose importance has been confirmed by the Business Transfer Barometer research and the conclusions of this paper:

- Launching campaigns aimed at raising awareness of owners of small and medium enterprises with 55 and more years of age about the importance of timely preparation for business transfer;
- Launching campaigns aimed to potential entrepreneurs about starting entrepreneurial activity through taking over (purchasing) of companies;
- Creating financial instruments for easier accessibility of purchasing (taking over) companies;
- Creating virtual exchanges that will allow connecting sellers and buyers of companies;
- Strengthening advisory support (lawyers, mediators, tax advisors, appraisers of company value) in the business transfer process, through train-the-trainers workshops and transfer of experience of successful European practice in solving problems in business transfer processes.

To ensure the sustainability and growth of the small and medium enterprise sector, it is necessary to pay balanced attention to all phases of venturing, from starting a venture to changing ownership / management feature of a business. For this later phase it is necessary to create an efficient national business transfer ecosystem in Croatia, which requires involvement of the line ministries and other relevant institutions responsible for the development of entrepreneurship.

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EUROPEAN FUNDING – IMPACT ON RESEARCH CAPACITY IN CROATIA

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ABSTRACT

Limited national budgetary resources for R&D in period from 2007 to 2013 imposed a need for Croatian researchers to apply for European research grants. A challenge for effective absorption of European Structural and Investment Funds in the period 2014 to 2020, highlight a need to assess the impact of this external funding on research capacity in Croatia in 2007-2013 period. Qualitative interviews with grant recipients from Ruder Boskovic Institute revealed intangible achievements in terms of research career, enhanced interaction and knowledge transfer to business community, improved research management competences and possibilities for collaboration with internationally recognized research teams. Similar results from studies carried out in other countries indicates the importance of intangible achievements of research grants, which are becoming more and more relevant in the context of public policies (networking, cooperation, strategic planning, knowledge management). The use of EU funds is an extremely complex process which requires a change of approach to the use of public funds and the introduction of the principle of transparency of procedures for all stakeholders in the process, equal access to information and sound financial management. Weaknesses of the Croatian scientific system and absence of will to support excellent research through competitive funding present real threats to successful participation of Croatian researchers in the European framework programs and other external research funding programs. Findings of the study provide valuable insight for national authorities in terms of effective management of national research and innovation programs while maximizing the potential impact of EU funds allocated.

Keywords:

research and development; research management; grants; intangible assets; innovation

1. INTRODUCTION

In terms of limited national budgetary resources for research and development, the possibility of using financial resources from EU funds and programs for less developed EU countries such as Croatia, are of particular importance. In other EU countries at similar income level, the share of EU funding devoted to research, development and innovation, represents about 160% of the national public R&D budget (GBAORD) in Latvia and Lithuania, about 120% in Estonia, Poland and Slovak Republic, and 60-80% in Bulgaria, Czech Republic, Hungary and Slovenia. During the period 2007-2013 a substantial amount of public funding for research in Croatia has come from international sources: World Bank and the European Union. In 2007-2013 the share of direct funding from the European Commission was roughly equal to funding from national sources. Looking at Eurostat's statistics on research and development Croatia has low gross expenditure on R&D as % of GDP (0,81 in 2013) compared to EU 28 (2,01 in 2013). Current unstable government budget with low priority given to research, and challenge for effective absorption of European Structural and Investment Funds in the period 2014 to 2020, highlight a need to assess the impact of this external funding on research capacity of Croatian universities and research institutions in 2007-2013 period.

A number of studies have analyzed the impact of research grants on research performance in terms of scientific production and education (Auranen and Nieminen 2010; Liefner 2003; Geuna and Martin 2003; Larsen 2011), but mostly in Western European countries like Denmark (Bloch et al. 2014) and Sweden (Melin and Danell 2006). Latvian government carried out the ex-post evaluation of results and impact of EU funded investments in the field of education and science in previous programming periods (after EU accession in 2004) and the major conclusion has been drawn that EU Structural Funds support was vitally important. Research conducted for the Western Balkans and Croatia is mainly focused on the analysis of the cause of a modest number of institutions that have managed to include themselves in the EU programs for research and development and difficulties in the process of inclusion and implementation of projects financed from international sources (Rivera Leon et al. 2010). In paper published by Matković and Radocaj Novak, the authors analyzed the participation of Croatian organizations in the Seventh Framework Programme in terms of specific programs, funding schemes and the coordinator organizations (Matković and Radocaj Novak, 2013). The findings of the study point to moderate success of Croatia's participation and provide policy recommendations to national authorities in order to increase the participation in future EU programs for science and innovation.

The research objective of this paper is to analyse the gaps in national science policy for effective research management in terms of EU funding opportunities. The research methods used are literature review and qualitative interviews with grant

recipients from Ruder Boskovic Institute regarding their experiences in using EU funds for research and development. This paper is structured as follows: in section II, overview of Croatian research funding system and evidence from participation in EU programs funding science and innovation. Section III discusses the benefits and constraints of EU funding policies while section IV analyses the concept of Smart Specialization Strategy as a strategic approach to economic development through targeted support to research and innovation. In the last section concluded remarks are presented.

2. THE IMPACT OF EU FUNDING ON COUNTRY'S RESEARCH POTENTIAL

The main principle of funding research at EU level is to support excellent research through competitive funding or competitive research grants. The structure of funding both at European and national levels increasingly gravitates towards project-based funding (Herlitschka et al. 2008). R&D funding schemes aiming at enhancing conditions for research and improving research output are major instruments in public research policy. A key reason for allocating part of national research funding through competitive grants is to target the most promising research projects and support the best researchers. The underlying idea is that competitive grant schemes can increase research performance and optimize funding impact (Langfeldt et al. 2015).

In this context should the scientific system in Croatia be considered. It is currently in the process of defining key reform elements that should structure Croatian science on the same principles on which it is built in scientifically advanced countries. Development plans and scientific and technological policy measures defined by the Croatian Government should result in the transfer of research results in new goods, services and processes, but also have a key role in defining the response to the challenges of social development, culture and environmental concerns. Achieving competitiveness on European and global markets implies economic growth based on knowledge, education and innovation, that is, the transition towards knowledge economy. Driving force of the knowledge economy is the capitalization of knowledge realized through innovation, thus integrating scientific research, its technological and commercial exploitation.

In Croatia, science is for the most part financed by public funds from the state budget. It is mostly used for salaries, material costs and, up until October 2013, for basic research projects (so called zProjects). This system of financing, rigid and conservative (Hasan et al., 2008), is based on the mechanism of "historical allocation" and does not provide medium and long-term planning, or the determination of strategic goals (Doolan et al., 2012). According to Eurostat's data on investment in research and development of the EU member states for the period 2003-2013,

expressed by GERD (Gross domestic expenditure on R% D - % of GDP), Croatian allocations for R & D in 2013 make 0.81 % of GDP, while the average of EU-28 countries in the same year was 2.01 % (Eurostat, 2015). In addition to worrying low share of investment in research and development, the more worrying is the structure of public spending where approximately 90 % of the total amount is spent on salaries of employees in the research and development sector. The question that arises is: how much remains for research and development projects, and whether the limited resources are allocated by clear and transparent criteria of excellence through competitive tenders?

As the base for the possible answer the following fact should be brought up: in the period of 2007-2013 the Ministry of Science, Education and Sport financed 2,314 research projects carried out by 5,622 scientists employed in public research institutes and universities: 2.43 scientists per project! During 2010, the number of projects was reduced to 2,089 projects in 2012 there were 1,919 projects, but it is still far from establishing a system of integrated research projects which would be able to establish a critical mass of internationally significant research groups. De facto the success rate was almost 100 %, and anyone that submitted their project received funding for research. Although these funds are very modest in terms of capacity to carry out internationally relevant research, still, for the national criteria they are continued to be acceptable. The problem is that such system of financing does not stimulate concentration of scientific research around the national strategic priorities, which would lead to significant scientific results. This makes the responsibilities of the institutes and universities for quality assurance and final social and economic potential of the relevant outcomes of scientific research more important. A unique approach that will link thematically related and complementary research and researchers, thus consolidate and strengthen their research and innovation potential, is the only way towards more relevant and internationally recognized research.

Therefore, in 2011 initiated a process to amend the existing Law on the Croatian Science Foundation with the goal of the Foundation to take a central role in the competitive funding system. The Foundation was established as an independent financing system formed like other research councils in the world. Since 2001 Foundation has developed the organizational and human capacities for the implementation of European standards in the evaluation, monitoring and financing of research projects and researchers. With the Foundation, one of the national competitive funding program for research was the Fund "Unity Through Knowledge" (UKF) set up in 2007 within the framework of Science and Technology Project funded by the World Bank, and ending 31.05.2011. By taking a central part in financing research projects in Croatia, the Foundation published in 2014 the first calls for proposals. So we can say that the system of competitive funding of research projects was established with a total annual budget of 6.75 million euros. More than half of the total amount is allocated for employment of doctoral students.

This brings us to the conclusion that, in the period from 2007 - 2013, significant funds for financing scientific research, development and technology projects were available only through external research funding programs. Most of it under the Seventh Framework Programme for Research and Technological Development of the European Union (FP7) and in small extent, under the Instrument for Pre-Accession Assistance (IPA) component IIIC Fund for Science and Innovation (Science and Innovation Fund - SIIF). Although Croatian scientists participated in European Framework Programs for Research and Development since 2006, the participation rate is not satisfactory and only relates to a very small number of research groups. The evidence from the participation of South East European / Western Balkan Countries (SEE/WBC) in European level programs funding science and innovation clearly point to progress over the last five years. However, the difficulty for the countries of the Western Balkans to compete in international level programs where excellence is the driving criteria is clearly visible (Rivera Leon et al. 2010).

During the period from 2007 to 2013 a substantial amount of public funding for research in Croatia had come from international sources: World Bank and the European Union. In 2007-2013 the share of direct funding from the European Commission was roughly equal to funding from national sources. Competitive funds and funders play an important role, since the provided funding is always linked to specific conditions and requirements with respect to the type of activities they support as well as in legal and financial terms. Consequently, these funding conditions and requirements developed significant influence and are closely interconnected with universities' management approaches in general and financial management in particular. „External“ funding of research is very important for ensuring excellence both in research and in research management, in areas of strategic development which are essential if universities and research institutions are to remain sustainable and competitive (Herlitschka et al. 2008). A number of studies have examined the use of performance-based funding in allocating public funding across departments and universities, and its impact on education and scientific production (Auranen and Nieminen 2010; Liefner 2003; Geuna and Martin 2003; Larsen 2011). The overall rationale for an increased reliance on competitive funding is that competitive financing mechanisms will funnel resources to those researchers and universities that are most qualified, with subsequent improvements in performance within both research and education. The results of the study carried out in Denmark indicate that while research grants have a positive impact on the research performed under the grant itself, there are very important secondary effects on research performance through positive effects on academic career advancement (Bloch et al. 2014). Qualitative interviews with grant recipients from Ruder Boskovic Institute provided insight into how grants impact their research careers, through improved academic skills and status, enhancing interaction and knowledge transfer to business community, improving research management competencies and improving chances for academic ad-

vancement, collaboration and other academic activities. Another study - comparing funded and rejected applicants for large 6-years grants to young researchers in Sweden - found no impact on the number of publications. Positive effects for the grant recipients were found in terms of a higher proportion of international co-authorship, as well as securing further funding for their research groups (Melin and Danell 2006). In 2011 Latvian government carried out the ex-post evaluation of results and impact of EU funded investments in the field of education and science in previous programming periods (after EU accession in 2004) and the major conclusion has been drawn that EU Structural Funds support was vitally important. National funding of education and research sector's development was moderated comparing it with EU investments. Thus, those investments stimulated the sector to develop in difficult economical years. 40% of overall allocation for higher education was invested in research potential growth i.e. grants for doctoral studies and postdoctoral research. Doctoral study support has had a positive effect - total number of research personnel in Latvia has grown by 29% from 2004 to 2009.

3. THE BENEFITS / CONSTRAINTS OF EU FUNDING POLICIES

The financial resources available through the European funds, for the less developed countries with limited national budgets particularly in the sector of research and development, opens the possibility of significant financial contributions to the already modest R&D budgets. This is an opportunity for integration into the European Research Area by participating in research projects and programs, and acquaintance with the process of decision-making on research policy at European level (Rivera Leon et al. 2010). The use of EU funds is an extremely complex process which requires a change of approach to the use of public funds and the introduction of the principle of transparency of procedures for all stakeholders in the process, equal access to information and sound financial management of EU funds. Although the biggest political responsibility for ensuring the implementation of these principles is on European Commission, a great responsibility is on national authorities as well, because almost 80% of EU funds are managed at the national level (shared management). The rest of the funds are managed by the European Commission through its departments ("Directorates-General") and the executive agencies (direct management). Funds are used to implement policies and strategies which affect the quality of life of all European citizens (innovation, cohesion, agricultural, economic, monetary, foreign, security, environmental protection, education and other policies). By these policies European Union complements and adds value to activities carried out by national governments, through EU funds which are instruments for the implementation of these policies. A necessary prerequisite for the use of EU funds is the existence of strategic development plans with identified thematic objectives and investments priorities, instruments for their implementation and measurable result indicators.

The Europe 2020 strategy is a strategy of growth in Europe in the period from 2010th to 2020th with which Europe is to respond to globalization and the economic crisis bringing back competitiveness to the European economy. Among the five areas of growth that Europe has recognized as the key to the further development are innovation, employment, climate / energy, education and social inclusion. Promoting innovation is an integral part of the concept of smart, sustainable and inclusive growth that Europe plans to achieve in the next 7 years. The instruments to achieve these objectives are defined through seven flagship initiatives of the Europe 2020 strategy: Innovation Union, Digital Agenda for Europe, Youth on the Move, Resource-efficient Europe, An industrial policy for the globalization era, Agenda for new skills and jobs and the European platform against poverty. Innovation Union aims to build a robust system of research and innovation synergy of all stakeholders. Europe wants to change a long-standing trend of lagging behind the US and Japan economies, by increasing investment in research and development as well as creating a more efficient model for the commercialization of scientific research results. Although Europe leads in the number of scientific publications in the world, it continues to lag behind in the application of research results. System of supporting innovation, in the context of legislation, financing and education, is still not sufficiently developed, in order to result in more efficient transfer of ideas to the market (http://ec.europa.eu/europe2020/index_en.htm).

Unlike Europe, which has identified its strategic priorities and investment areas for future development and consolidate all into one comprehensive document: Europe 2020, in Croatia we have 14 sectoral and horizontal strategies, but there is no national strategy for development. So, the question arises: based on which national priorities and analysis were these sectoral strategies adopted? Was it only just for commitments we have taken on accession to the EU, and a necessary condition for the use of EU funds? How else to explain the situation but vividly, exactly how Mrs. Tania Friederichs did, the coordinator of the European Commission for Croatia in the field of research and development: *"We are talking about the smart specialization, that is, the analysis of the national economy and goal-setting, in which to invest, so that Croatia could most efficiently and sustainably growth in the future, and from the Croatian government, we got amazing information that you if would like to focus on as many as 13 industries and more, and you are still asking whether such a large list could be extended to another two to three industries"*.

In view of the above issues, the question is: What can be expected from the National Innovation Strategy 2013-2020 in whose preparation work began following the signing ceremony of the memorandum on cooperation between the Ministry of Economy and the Ministry of Science, Education and Sports in May 2012, and that is still pending? Explanation of the purpose of adopting this strategy is very significant: *defining the institutional framework and innovation policies regarding the optimal absorption of EU funds, so that Croatia could withdraw funds from the EU programs allocated for*

science and innovation! From this explanation and the fact that most national strategies are based on priorities set out by the Europe which are relevant to the developed EU countries, and that it is not possible to find data on the financial framework of the implementation of these strategies (allocated budgetary resources), it can be concluded that strategies are a wish list of which will some perhaps be partly achieved mainly with the help of EU funds. In the operational program Competitiveness and Cohesion 2014-2020 that serves as a basis for the use of EU funds in that period, research and development sector can count on the part of the funds allocated to increase the competitiveness of the economy (1 billion EUR) and EUR 600 million from other segments of the operational program. To further strengthen the scientific excellence and support the processes of commercialization of research results, it is especially important to participate in EU framework programs for research and innovation. The participation of Croatian researchers in FP7, as measured by the total amount of national contribution paid into the EU budget and actual financial contribution to the total contracted FP7 projects, can be regarded as positive (Matković, 2013). However, the results could have been much better. Analysis of the results and plans for improvements of participation in the new Framework Programme started in 2013, in the last year of the FP7 program. The same year an Action Plan to raise the absorption capacity of the Croatian participation in the Framework Programmes for period 2013-2015 was adopted. The plan contains: measures that include all essential aspects of the implementation of the Framework Programme in the reality of Croatian scientific community, measures to improve administrative support and actions in terms of support to scientists in preparation and implementation of their projects, measures to reward successful applications and applicants in terms of additional funding and career advancement. Analysis of research and innovation infrastructure and identified priorities for future investment is one of the preconditions for participation in EU programs. Therefore, in 2014 a document called Croatian Research and Innovation Infrastructures Roadmap was drafted. Ministry of Science, Education and Sport, presented it as: *... foundation for future investment in national and international (infrastructure) projects, taking into account the feasible financial framework. The Roadmap is a living document which means it will be continuously updated. This document represents the first national Research and Innovation Infrastructures Roadmap with the purpose to identify research potential in Croatia in order to direct further development of research infrastructures. At the same time, the Roadmap should ensure support for the implementation of measures stated in the Strategy for Education, Science and Technology, the National Innovation Strategy and Smart Specialization Strategy.*

During the development of the Roadmap, a SWOT analysis was made, which showed the following weaknesses of the Croatian scientific system, relevant to the participation in European programs for research and development:

- Unclear rules and the legal framework for the project management of the Framework Research Programme.

- Possibility of career advancement, even to the highest scientific titles, without any recognizable international research carried out.
- Lack of motivation and effort to apply for international research grants, especially projects of scientific excellence of the European Research Council (ERC).
- Insufficient incoming and outgoing mobility of scientists, including insufficient number of Marie Curie projects, which results in modest participation in international scientific collaboration, programs and projects.
- A particular problem occurred with the projects requiring an open recruitment and employment of foreigners, and portability of grants (from foreign to national institution) where existing legislation proved to be extremely rigid, like Croatian citizenship as a condition to enter into Register of Scientists, special agreements for health and pension insurance and similar obstacles (Croatian Research and Innovation Infrastructures Roadmap, 2014).

These are the real threats to successful participation of Croatian researchers in the future framework programs:

- Retention of the existing situation in the system of promotion to higher scientific title, or non-inclusion of criteria of success in international competitive projects in the election to higher scientific titles would weaken the motivation of Croatian scientists and reduce the Croatian participation in international programs.
- Absence of a national awarding the best applicants on international competitive tenders, especially in projects of excellence of the ERC, will discourage excellent researchers and consequently force them to leave the country ("brain drain").
- Unclear rules of implementation and administrative management of international projects will allow different interpretations of the same issues by different research organizations and weaken the motivation of high-quality individuals to participate or coordinate international projects.

With all the obstacles that must be overcome at the national level, there is another element relevant for the entire EU, with an increasingly negative impact on the motivation for participation in European programs and funds. It is a problem of low success rates in the EU research funding programs, which began to seriously concern the European Commission. To quote Robert-Jan Smiths, European Commission's Director-General for Research and Innovation: "The EU's research program Horizon 2020 is more popular than ever before. But with our success rates we're heading to a situation where we have to be very careful not to scare away top researchers. In the UK, success rate is around 30% when applying to the major research councils. In the US, success rate is between 22% and 24% for the National Science Foundation and 18% to 21% for the National Institutes of Health. In Australia where public R&D funding has been cut, applicants to the National Health and Medical Research

Council have a 21% chance of success. Under FP7 success rate was from 19% to 21% and now in H2020 has dropped down from 12% to 14%. The success rate of South-east European countries in FP7 is highly variable year-on-year (2007-2010), which, probably, reflects specific calls targeted at SEE / WBC countries. The analysis of success rates and the patterns of success rates with specific partner countries tend to point to the WBC succeeding more and more in calls specifically aimed at their needs and potential. Moreover, the average success rate of 17% is still significantly below the EU27 average (21%) and that of the Baltic countries (22%) as a benchmark for the EU27 countries with a similar scale amongst the EU27 (Rivera Leon et al. 2010).

In addition to poor success rate, a large number of European researchers critically refers to some other elements of the Framework Programme which are becoming a decisive factor in obtaining the grants, such as, prediction or future values and possible commercial application of research results. "Expected impact" is one of the three criteria that can be crucial in making the decision to award the grant evaluated by independent experts. In a situation when the national R&D budgets are limited, EU funds and programs are also insufficient to support all good projects. In assessing the quality of the project one that can demonstrate impact on technology, society and the economy will have a greater chance of funding. In a survey conducted on 2,500 research projects funded through the three European framework programs in the period from 1998 to 2010, a request for the industrial and socio-economic application proved to be a key factor in assessing the quality of funded projects (Rodriguez et al. 2013).

At the institutional level for successful participation in EU programs and funds it is necessary to establish standards of professional management of universities and research institutions (Herlitschka et al. 2008). One of the tools for achieving a more efficient and transparent financial management at the academic institutions is the "full costing" method which was introduced by the European Commission in the FP7, as a possibility of budgeting and reimbursing the real cost of research in R&D projects. The use of full costing method assumes the existence of organizational and IT solutions implemented at the institution that carries out research projects. But this is not often the case in European universities, so the application of full costing model is not carried out to the extent which the European Commission expects. The expectations were based primarily on positive examples of participation of large and medium-sized companies in R&D projects, which are usually using calculations based on real costs of their operations. The only example of application of a full costing method as a model of sustainable funding in the academic community is TRAC and the UK (*"Transparent Approach and Costing"*).

At a time of budgetary restrictions and financial crisis, for the institutions and members of the European Union it is not easy to meet the requirements of co-financing and additionally that characterize the EU programs and funds. Following problem is term of payments of funds, where payments are sometimes extended on

for many years causing liquidity and solvency problems for beneficiaries. Nevertheless, analysis of the effectiveness of EU funds in the context of cohesion policy, demonstrate the potential long-term benefits in the less developed regions of Europe. Also, the terms of co-financing and additionally do not have a negative impact on the GDP, while revenues generated by effective investments from EU funds greatly outweigh the expenditure incurred through initial costs of participation (Varga et al. 2010).

4. RELATIONSHIP BETWEEN EU KNOWLEDE'S TRIANGLE AND EU FUNDING

Unlike the last century mostly characterized by the individual research, science at the beginning of the 21st century shifts towards research teams and networks. Particular science disciplines are orientated towards research areas, in partnership of the scientific and business communities. Knowledge is seen in the triangle of education, research and innovation that characterize open innovation, strong flow of knowledge, introduction of research results and innovative practices in education, strengthen partnerships and intellectual property management. In order to achieve this, we need a research and educational space that allows and encourages intellectual interaction and business environment that encourages and accepts the "new". The aim should be to investigate with an impact - scientific, economic, cultural and social, which is wider than research with impact factor.

In the aftermath of the economic crisis and to meet the challenges of globalization, there has been a general increase in demand for universities to actively participate in national and regional development processes. The traditional role of higher education institutions is to create knowledge and develop human capital through education and research. For many years now, a discussion about the active role of universities in transfer of knowledge and technology has been going on, as the "third mission" of universities, which is reflected in a direct contribution to the economy and society. Access to relevant competence has traditionally been an important issue for national and regional stakeholders. 30 years back, there have been different concepts which argued the thesis about socially acceptable role of universities as Triple Helix concept that includes strengthening of institutional relations between academia, business community and governmental agencies and bodies. Then the concept of "engaged university", specially developed in Nordic countries, which implies a developed third roll of university i.e. active social involvement, and illustrates the increasingly strategic and conscious role of higher education in regional development. Knowledge Triangle concept involves innovation, as a key element that defines today's modern society that based its development on knowledge (knowledge-based societies). All these elements form the backbone of the national innovation system, which may differ largely in defining stakeholders with a lead-

ing role in this system. In the "Triangle" model state has a major role in initiating innovation processes, as compared to other approaches to national innovation systems, which focus either on companies and their need for new knowledge and technologies (Etzkowitz et al. 2010). Could, and should, the academic community meet the expectations of the society in which it operates in a way that actively contributes to economic development, not only through education and research? It is a known fact that without qualitative research, there is no quality and relevant education. To what extent can you "direct" and limit time and the duration of the course of basic research to the possible application in the economy and society? Maybe this will remain an open question and the state. This trend is in literature described as "endless transition" model (Etzkowitz et al. 1998) in which the academic community carries out curiosity driven research (endless frontier) which may in the long run result in certain practical applications. Nowadays it is replaced with "endless transition" model that is most often driven by the state with different kind of "knowledge transfer" processes attempting to determine the direction and the expected outcome of basic research.

The contribution of science and new scientific disciplines to technological development and progress of our society is unquestionable. The potential of scientific knowledge has become a key factor of regional, national and international competitiveness. Regions with less developed research facilities are coming to understand the importance of applying science ideas and methods to strengthen local resources as the basis for future economic and social development (Leydesdorff 2000).

This concept is the basis of new strategy for strengthening the innovation potential in the European Union and it is called Smart Specialization Strategy (S3). S3 is a strategic approach to economic development through targeted support to research and innovation. It can be understood as a plan for the economic transformation of all EU regions based on research and innovation. The methodological approach entails, on the one hand, a serious analysis of local strengths and weaknesses in innovation performance, and identification of areas (sectors) where there are indications of innovative potential that could be strengthened by investments from European financial instruments (ESI - European Structural and Investment Funds, EIT / KICs - European Institute of Innovation and Technology / Knowledge and Innovation Communities, PPP - Public-private Partnership ...). The ideal approach in financing all stages of the innovation chain began with using funds from Horizon2020 programs where excellent science, future and emerging technologies, demonstration and pilot projects in the pre-commercial phase are financed. The results of these projects find their way to the market with the help of funds from ESI funds through procurement of scientific equipment and the construction of innovation infrastructure. It is a very complex process that not only includes a large number of stakeholders (scientific research institutions, universities, higher education institutions, SMEs, large companies, technology centers,

development and innovation agencies etc.), but implies a very effective coordination of two very complex programs with different implementing rules. Will it achieve the desired synergies in the use of the possibilities of both programs and what will the effects be? It will be interesting to investigate it at the end of the first half of the current financial perspective 2014-2020. It is usually a time when the European Commission and its analytical services conduct first analyses of the effects of implementing financial instruments and achievement indicators set out in the strategic documents.

In this context the effects of Smart Specialization strategy for Croatia will also be observed. The strategy is finally adopted by Croatian Government in April this year, although we are already at the end of the third year of the current financial perspective and strategy is a prerequisite for the use of ESI funds for thematic objective 1 (Strengthening research, technological development and innovation) and thematic objective 2 (Enhancing access to, and use and quality of, information and communication technologies) of Operational Programme Competitiveness and Cohesion 2014-2020. Indication of expected positive effects, regardless of the delay in the publication of the strategy and the relevant calls for proposals, is reflected in the fact that the national specialization areas in the Smart Specialization Strategy are chosen through the participation in the Seventh Framework Programme (FP7) for the period 2007 to 2013.

Table 1.: Specialization areas chosen in the smart specialization strategy of Croatia

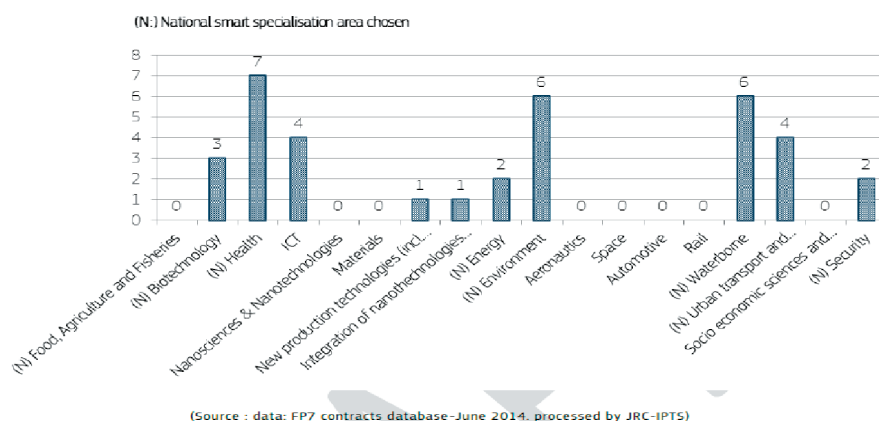
Description of chosen specialization area	Identified capability	Identified target market	EU priority connected to
Health and quality of life	Human health & social work activities	Human health & social work activities	Public health & security
Bio-economy	Manufacturing & industry - Biotechnology	Manufacturing & industry - Biotechnology	KETs - Industrial biotechnology
Security	Public administration, security & defense	Public administration, security & defense	Public health & security
Energy and sustainable environment	Energy production & distribution - Power generation/renewable sources	Energy production & distribution - Energy distribution	Sustainable innovation - Sustainable energy & renewables
Transport and mobility	Transporting & storage - Water transport & related services	Transporting & storage	Sustainable innovation - Smart green & integrated transport systems
Agro-food	Agriculture, forestry & fishing	Manufacturing & industry - Food, beverage & tobacco products	Sustainable innovation - Sustainable agriculture

Source: S3 web platform <http://s3platform.jrc.ec.europa.eu/eye-ris3>

This table shows the specialization areas chosen by Croatia in the design of smart specialization strategy, the regional capability for the priority, the target market that will be addressed and the EU priority to which this specialization area connects. Capability and market categories are based on NACE sectoral codes.

With the criterion of scientific excellence, that have the teams of Croatian researchers from universities and research institutes proven with successful participation in the very competitive FP7 program, the choice of areas of specialization influenced the number of technology-oriented small and medium enterprises in Croatia that successfully participated in the FP7 program. The table below shows the number of Croatian SMEs participating in FP7 program and area of their research, or so called FP7 thematic priority. These are companies for which innovation potential in the chosen field of national specialization is estimated (N - National smart specialization area chosen).

Figure 1.: Number of SMEs in FP7 research themes - Croatia



Source: FP7 contracts database - June 2014., processed by JRC-IPTS

5. CONCLUSION

This paper has presented, to a certain extent, the impact of external public funding for research in Croatia to the country's research capacity. Qualitative interviews with grant recipients from the Ruder Boskovic Institute provided evidences on positive effects of EU grants in terms of research career, enhanced interaction and knowledge transfer to business community, improved research management competences and possibilities for collaboration with internationally recognized excellent research teams. Similar results from studies carried out in other countries indicates the importance of intangible achievements of research grants, which are becoming more and more relevant in the context of public policies (networking, cooperation,

strategic planning, knowledge management). The use of EU funds is an extremely complex process which requires a change of approach to the use of public funds and the introduction of the principle of transparency of procedures for all stakeholders in the process, equal access to information and sound financial management. Furthermore, a necessary prerequisite for the use of EU funds is the existence of strategic development plans with identified thematic objectives and investments priorities, instruments for their implementation and measurable result indicators. Unlike Europe, which has identified its strategic priorities and investment areas for future development and consolidate all into one comprehensive document: Europe 2020, in Croatia we have 14 sectoral and horizontal strategies, but there is no national strategy for development. Weaknesses of the Croatian scientific system and absence of will to support excellent research through competitive funding present real threats to successful participation of Croatian researchers in the European framework programs and other external research funding programs. Limited administrative capacities is another important issue that affects successful absorption of EU funds. Therefore, an appropriate instrument should be designed and introduced by science policy officials for building knowledge and institutional capacity to support Croatian researchers to compete in European programs equivalent to their colleagues in the old member states.

Despite the well-known constraints of EU funding policies, especially affecting less developed EU member states (low success rates, co-financing, additionally, complex administrative and financial management), analysis of efficiency of EU funds especially in the context of cohesive politics, show potential of long term benefits in less developed European regions. These regions have less developed research capacities that result in reduced innovation potential. To address these issues European Commission introduced the new concept of applying science ideas and methods to strengthen local comparative advantages and mobilize innovation potential: Smart Specialization. The excellence of Croatian research teams from academic and business communities proved by their successful participation in the FP7 program is a key indicator of the research and innovation potential which will affect the success of implementation of Smart Specialization Strategy in Croatia in the period 2014-2020.

It would be interesting to investigate the effects of implementing European financial instruments like ESI funds and achievement of indicators set out in the strategic national programs supporting research, development and innovation, in order to provide valuable input for policy makers in Croatia in terms of effective management of overall portfolio of funds available.

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INNOVATIONS AND IMPLICATIONS OF THE TRANS-PACIFIC PARTNERSHIP AGREEMENT

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ABSTRACT

Twelve Pacific Rim countries that account for forty percent of world output and more than a quarter of world trade have signed a Trans-Pacific Partnership (TPP) agreement. Assuming that the agreement is ratified and implemented by the signatory countries, the TPP will have important implications for the world trading system. New ground is broken in this mega-regional agreement in a number of areas where progress has not yet been possible in the more comprehensive World Trade Organization negotiations. This paper provides an analysis of the innovations in the agreement, assesses their significance for the broader world trade regime, and considers the feasibility of extending them to the multilateral trading system. Synergistic effects on other ongoing mega-regional negotiations are also considered.

Keywords:

Trans-Pacific Partnership; trade policy; regional trade agreements; world trading system

2. INTRODUCTION

On 4 February 2016, twelve Pacific Rim countries signed the Trans-Pacific Partnership Agreement (TPP). Signatories of this agreement include the United States and Japan, two of the three largest economies in the world. Together the twelve member countries account for approximately forty percent of world Gross Domestic Product (GDP) and twenty-six percent of global trade, making this potentially the largest regional trading agreement to date. It is a comprehensive agreement, addressing a wide range of trade-related issues, comprising thirty chapters and 5,000 pages. The agreement will enter into force whenever it has been ratified by all of the signatory countries if that happens within two years. If not all countries ratify the agreement within the two year period, it will enter into force after being ratified by at least six countries accounting for at least eighty-five percent of the combined GDP of the signatory countries.

2. BACKGROUND

The Trans-Pacific Partnership Agreement is the outgrowth of a much smaller agreement among Brunei, Chile, New Zealand and Singapore, the Trans-Pacific Strategic Economic Partnership Agreement that was signed in 2005. In 2008 the United States joined first the financial services and investment negotiations, and later the same year entered into comprehensive negotiations. Also in 2008, Australia, Peru and Vietnam were invited and joined. Malaysia was invited to join in 2010, as was South Korea. Malaysia elected to join the negotiations but South Korea declined. The significance of the TPP was greatly enhanced by Japan's decision to join the negotiations in 2012. The twelve signatory countries are the United States, Japan, Singapore, Brunei, New Zealand, Chile, Australia, Peru, Vietnam, Malaysia, Mexico, and Canada.

Motivations for the agreement were both economic and geopolitical. Progress toward trade liberalization at the multilateral level through the Doha Round negotiations had stalled. Before the Uruguay Round agreements of the 1990s, multilateral trade negotiations had been dominated by the United States, Canada, the European Union and Japan,¹ with the least developed countries free-riding on the trade liberalization and little being demanded of them.² That dynamic changed when the Uruguay Round agreements were presented as a "single undertaking," with all members

1 "...the GATT was all about exchanges of market access, so market-size was the coinage of the realm. In the GATT period, the United States, European Union, Japan, and Canada—known as the Quad—dominated on this metric, accounting for two-thirds of world imports" (Baldwin, 2016: 107).

2 "For most of GATT's history, developing countries played only a marginal role, with few concessions made and few gains received. The domination of the US and its Western allies, in the GATT multilateral trade negotiation was challenged for the first time in the Uruguay Round. (Liang, 2016: 400). See also, Narlikar (2003).

of the newly-formed World Trade Organization expected to abide by all the provisions. Since that time, the number of effectively participating players in world trade talks has increased greatly, making agreement at the multilateral level extremely challenging. Instead, trade liberalization during the past fifteen years, which has been very significant, has occurred at either the unilateral or regional levels (Baldwin, 2016). That being the case, mega-regional agreements such as the TPP have great appeal. Not only are they viewed as the most effective way to achieve significant liberalization, but also are viewed as a way to begin crafting rules in new areas that could eventually serve as a template for global trade and investment relations within the multilateral framework.

On a geopolitical level, the United States has gradually come to realize the growing importance of Asia on the global stage. In terms of economic growth, Asia is the most dynamic region of the world.³ China's growing economic and political weight has raised concerns in both the United States and in China's neighboring countries, particularly after China's provocative projections of military activities and sovereignty claims in the South China Sea. Partly for this reason, the Philippines, Thailand, Taiwan, South Korea and Indonesia have all expressed interest in possibly joining the TPP, as has Colombia for different reasons. Beyond the anticipated gains from trade and investment liberalization, a major motivation for United States participation in the TPP was to demonstrate its commitment to the Asian region (Dawson, 2015). Membership is potentially open to all 21 of the Asia-Pacific Economic Cooperation (APEC) countries, and to countries outside the region if approved by member countries.

3. STANDARD FEATURES OF THE TPP AGREEMENT

In general, the TPP embodies the usual principles of the World Trade Organization such as nondiscrimination, transparency and reciprocity (Dawson, 2015). However, there are long lists in the annexes to the agreement of nonconforming measures, particularly for services, exempting countries from having to abide by the terms of the overall agreement in specific areas.⁴ After becoming embodied in the agreement, these nonconforming measures may be very difficult to unwind and could lead

3 Between 2006 and 2015, the average annual growth rate of Gross Domestic Product was 8.0% in Emerging and Developing Asia, in contrast to 1.4% in advanced Economies, 3.5% in the Commonwealth of Independent States, 3.1% in Emerging and Developing Europe, 3.4% in Latin America and the Caribbean, 4.4% in the Middle East, North Africa, Afghanistan and Pakistan, and 5.8% in Sub-Saharan Africa (Pasquali, 2015).

4 For example, in the United States, foreign companies cannot acquire oil and gas pipelines crossing federal lands, foreign airlines are restricted from offering domestic air services, and only registered US persons may offer bus or trucking services. In Australia, notification and approval by the government is required for investments in a variety of industries, transmission quotas are permitted for local content on radio and television broadcasts, and patent attorneys must be resident in Australia to offer services there. Japan reserves the right to limit the number of licenses to engage in various types of businesses, and also reserves the right to maintain restrictions on supply of services to broadcasting and space industries (USTR, 20165b).

to similar exclusions for countries acceding to the agreement in the future. Rather than having so many exclusions, liberalization with long phase-in periods where necessary would have been preferred (Scissors, 2015).

With regard to import tariffs, the TPP provides for the eventual elimination of all non-agricultural tariffs, albeit with long phase-in periods for sensitive products. Three-quarters of import tariffs will be eliminated immediately upon implementation of the agreement, as will an estimated ninety-nine percent in the long run (Freund, Moran, Oliver, 2016). Industrial tariffs are relatively insignificant for most products among the economically advanced members of the group, but are significant barriers still in developing countries such as Vietnam. Removal of these tariffs will expand trade with attendant improvements in economic efficiency.

Liberalization of trade in agricultural products is politically difficult in most countries, and for that reason the gains made in the TPP, while significant, are limited. Substantial concessions were made by Japan with regard to soybeans, beef and pork, but not for corn and rice. All of the TPP countries opened up their agricultural markets to some extent. Even though the United States is the world's largest exporter of agricultural goods, it did little to liberalize its agricultural trade in the TPP. Trade-distortive agricultural subsidies remain in place, as do quotas on sugar. (Hendrix and Kotschwar, 2016) Beef tariffs are phased out only after 15 years, and dairy tariffs only after 30 years⁵. Canada's highly trade-distortive supply management system for dairy and poultry products remains in place. (Hendrix and Koschwar, 2016)

Some progress is made in the TPP toward freeing-up government procurement. Most countries have regulations designed to direct government agency purchases to domestic firms. The World Trade Organization's Agreement on Government Procurement (AGP) that attempts to open government procurement to outside firms is a plurilateral agreement to which only five of the twelve TPP countries subscribe. These five countries did not make significant new commitments in the TPP negotiations. The governmental agencies of the seven countries that do not subscribe to the AGP will be more open to foreign suppliers because of the TPP, although many exceptions are written into the agreement. Little or no progress was made to free up purchases of subnational governmental agencies. Nevertheless, the progress made in the agreement could provide a foundation for further progress in subsequent negotiations, and as additional countries possibly accede to the TPP agreement in the future (Moran, 2016).

International trade in services is an important and growing component of international commerce, especially for developed countries such as the United States and Canada. The TPP agreement provides for considerable liberalization of services trade, particularly in the cases of Japan, Vietnam and Malaysia. Eight of the TPP countries are currently involved in plurilateral negotiations with 15 other countries

5 Article 24 of the General Agreement on Tariffs and Trade requires that preferential trade agreements remove tariffs on "substantially all of trade" among the participating countries "in a reasonable period of time," defined generally as not exceeding 10 years (GATT, 1994). One must wonder if a 15-30 year timeframe for phase-in is a reasonable period of time.

(42 if the European Union countries are counted separately) to establish a Trade in Services Agreement that could be completed in 2016. If completed, this agreement would include most of the services trade liberalization agreed in the TPP, but four of the member countries (Malaysia, Vietnam, Brunei and Singapore) are not part of these broader negotiations (Hufbauer, 2016b). A troublesome aspect of the TPP services agreement is that there are extensive lists of nonconforming measures that sometimes negate proposed liberalizations. These particularly hinder liberalization of trade in financial and transportation services (Scissors, 2015).

Modern trade agreements address more than trade, and the TPP is no exception. The agreement has numerous provisions affecting investment, including an investment chapter and a separate chapter on investor-state dispute settlement of investment issues. One of the more important investment provisions is agreement on a “negative list” for accepting foreign direct investments. This means that economies are open to foreign investments except for those specifically excluded. This will be important as new products and services are introduced. The liberalizations of trade in goods and services, increased transparency of regulatory regimes, and improved intellectual property protections will also all foster cross-border investments (Moran, Oldenski, 2016). There are many derogations from the agreement by specific countries to shelter favored industries, however, that dilute the investment provisions (Scissors, 2015).

Protection of foreign investments through investor-state dispute settlement (ISDS) is a controversial part of the agreement. Critics of ISDS contend that it is a threat to the regulatory authority of governments. The TPP agreement attempts to address these concerns by stating specifically that member countries have the right to regulate for protection of health, safety, environment and cultural diversity. It also puts in place procedures to increase transparency in investment dispute settlement cases, and gives arbitrators the right to allocate costs of ISDS cases as a way to discourage frivolous cases. It also attempts to clarify legal terms such as “fair and equitable treatment” and “indirect expropriation” that have been subject to varying and sometimes conflicting interpretations by arbitrators in previous ISDS cases (Hufbauer, 2016a).

4. INNOVATIONS IN THE TPP AGREEMENT

While provisions have been included in recent trade agreements to address trade-related environmental concerns, the environmental provisions of the TPP are more extensive than in any previous trade agreement (Schott, 2016). Parties to the agreement have committed not only to enforcing their own environmental regulations, but also to enforcing the terms of multilateral environmental agreements to which they have subscribed. Member countries undertake new obligations to protect biodiversity, prevent illegal trade in wildlife and illegally harvested wood, and to prevent overfishing. Dispute settlement procedures for environmental issues are the

same as for other parts of the agreement, with trade sanctions available as enforcement measures (USTR, 2016b: Article 20.23).

Despite the fact that poorer countries in the agreement such as Brunei, Malaysia, and Vietnam have very different labor markets and conditions than the more economically developed member countries, the TPP agreement goes beyond previous free trade agreements in extending protections to workers. Not only do the member countries commit to enforcing their own labor laws, but also to enforcing core international labor standards as articulated by the International Labor Organization: abolition of child labor, elimination of forced labor, freedom of association and the right to collective bargaining, and no discrimination in employment. The TPP parties commit to establish minimum wages and regulation of working hours, and to the establishment of occupational health and safety standards (USTR, 2016b: Article 19.3). New provisions in the TPP provide for protection of workers in foreign trade zones, and discourage trade in goods produced by forced labor. The language in the agreement is often vague, however, with a lot of regulatory discretion left to individual countries (Cimino-Isaacs, 2016). The labor chapter includes separate agreements between the United States and Brunei, Malaysia, and Vietnam focused on institutional reform and capacity building in these countries to enable them to adhere to the terms agreed. The provisions of the labor chapter are subject to the same dispute settlement procedures as other chapters, with trade sanctions potentially available for enforcement.

The telecommunications chapter of the agreement for the first time specifies network access rules to suppliers of mobile services that should open up competition in this sector, where it is often lacking. It is the first free trade agreement to address the issue of unreasonable mobile roaming rates that can add a significant cost to doing business internationally.

The TPP agreement has several provisions aimed at strengthening the enforcement of intellectual property rights beyond what has previously been agreed. It requires countries to have criminal sanctions for counterfeiting trademarks on a commercial scale, and requires them to have civil penalties that are in accordance with the losses incurred for violation of any of the intellectual property provisions. Since five of the TPP countries are on the United States Trade Representative's 2016 watch list for having "serious intellectual property rights deficiencies," these strengthened enforcement provisions would seem to be warranted.⁶ They will carry great weight in negotiations with countries such as Indonesia that have indicated an interest in joining the TPP.

Perhaps the most controversial part of the TPP agreement is that addressing intellectual property rights for pharmaceutical products. Nongovernmental organizations (NGOs), such as the highly respected Doctors Without Borders, have expressed

6 The named countries are Canada, Mexico, Peru, Vietnam and Chile (Chile is on the Priority Watch List) (USTR, 2016a).

serious concerns about how the terms of the agreement might deprive poorer countries of life-saving medicines. There is an ongoing debate about how to balance the conflicting goals of providing medicines at reasonable cost while at the same time leaving adequate incentives for the development of new drugs. There are no easy or certain answers to this dilemma. Dispassionate analysis of the terms of the TPP agreement and existing empirical work indicate that the consequences of the TPP intellectual property provisions will probably not be dire as feared by some, and in fact may have struck a reasonable balance (Branstetter, 2016a). Among other things, the agreement provides 5-year protection of the data submitted to regulatory agencies by pharmaceutical firms to prove the safety and efficacy of a new chemically-synthesized drugs, and 8-year protection for those produced through biotechnology (known as biologics). Pharmaceutical companies wanted 12-year data protection for biologics, while NGOs advocated for 5 years, and the compromise arrived at by negotiators was 8 years. This will delay somewhat the entry of certain generic drugs, but the TPP agreement does not infringe upon existing safeguards that allow countries to override patent rights in case of public health emergencies, and poorer countries in the TPP are permitted to delay implementation of the provisions for up to 10 years, with additional delays possible depending on the circumstances. Other TPP provisions relating to pharmaceuticals are very similar to those of free trade agreements of the United States dating back to 2010. Existing empirical work indicates that these provisions had no adverse impact on drug access or drug prices in the affected countries (Branstetter, 2016a).

Particularly relevant to the 21st Century, and an innovation of the TPP agreement, are provisions dealing with digital trade. A digital good is defined in the agreement as "a computer programme, text, video, image, sound recording or other product that is digitally encoded, produced for commercial sale or distribution, and that can be transmitted electronically" (USTR, 2016b: Article 14.1). Digital trade is growing much more rapidly than trade in physical goods, and most likely will continue to do so. The TPP extends the principle of nondiscrimination generally to digital goods, and prohibits the imposition of import duties on such products. Tariffs can still be applied to physical goods that are purchased online, but not to digital goods. Countries are not permitted to block foreign websites, except for purposes of national security or the protection of public morals. Cross-border data flows are to be unimpeded, and parties to the agreement cannot require that local computing facilities be established as a condition of doing business (Branstetter, 2016b). Many services are traded via digital goods, and the volume of such transactions is underestimated because they are often not recorded in trade statistics. Given the growing importance of digital trade, the precedents set in the TPP agreement for unrestricted trade in such goods will take on increasing importance as the share of such goods in world trade increases, and as additional countries accede to the TPP.

Another important innovation of the TPP agreement, both for the present and with an eye to the future, is the chapter dealing with state-owned enterprises (SOEs). The provisions in the TPP agreement go beyond commitments on SOEs found either in the World Trade Organization agreements or in other free trade agreements (Miner, 2016). They attempt to discipline the support and protections extended by governments to state-owned enterprises which provide unfair advantages for them in international commerce, such as subsidies and regulations tailored to their benefit. All of the TPP countries have some SOEs, but they are particularly important in Malaysia and Vietnam. Undoubtedly, the SOE provisions of the TPP agreement were written also with the prospect in mind that China might someday apply for membership. The United States and other TPP countries wanted to have rules regarding SOEs established before possible negotiations with China got underway.

SOEs are defined in the TPP agreement as enterprises that are engaged in commercial activities and in which the state has more than 50% direct ownership, controls through ownership interests more than 50% of the voting rights, or appoints a majority of the board of directors (or other governing body). Member countries are to provide a list of all their SOEs or to post such a list on a website, and to provide information on specific SOEs if requested to do so by another member country. SOEs are prohibited from discriminating against the firms of TPP member countries, and their purchases and sales are to be based on commercial considerations. Subsidies to SOEs that harm the firms of TPP member countries are prohibited. The SOE provisions in the agreement are subject to the agreement's dispute resolution provisions, with trade sanctions available as enforcement measures.

Other innovations in the TPP agreement include a chapter (Chapter 25) on regulatory coherence, the aim of which is to keep regulatory regimes from being protectionist or otherwise trade-distortive. It encourages interagency consultation and coordination, and promotes good regulatory practices such as impact assessment. Chapter 26 of the agreement provides the strongest disciplines ever on transparency and anti-corruption. TPP countries are required to provide readily accessible information about laws, rules and regulations concerning trade and investment within their borders. They are also required to have and enforce anti-bribery laws and to guarantee due process rights. According to the United States Trade Representative, Chapter 27 which deals with administrative and institutional provisions for the first time in a trade agreement requires the member countries to present plans and report on their progress for putting into effect the measures for which transition periods have been agreed.⁷

7 "For the first time in a trade agreement, the TPP requires Parties to report on their plan and progress in implementing those measures for which they have negotiated implementation transition periods. These transition periods support the development objectives of the TPP by providing lower-income TPP countries additional time to build capacity in specific agreed areas. Through the reporting requirements, Parties can monitor progress, address problems, and offer capacity building assistance if needed, ahead of the date for final implementation" (USTR, 2016c).

5. IMPLICATIONS OF THE TPP AGREEMENT

There has been an ongoing debate concerning whether regional trade agreements such as the TPP are, on balance, good or bad for the world trading system. Eminent international economists such as Jagdish Bhagwati have argued that they are discriminatory by nature, that they needlessly complicate the international trading system, and that they divert energies and attention from efforts to liberalize trade multilaterally (Bhagwati, 1998). Others, such as C. Fred Bergsten, argue that progress on difficult issues at the regional level can provide a template for progress along the same lines in multilateral negotiations, as the North American free trade agreement seemed to do for the Uruguay Round negotiations during the 1990s. (Bergsten, 1996) Where does the TPP agreement lie along this spectrum?

As delineated in the paragraphs above, the provisions of the TPP agreement break new ground in areas where progress has not yet been possible in multilateral negotiations. While still limited, significant progress was made in opening agricultural markets to increased competition. Market access for other goods and services was also pushed beyond what has been accomplished through the WTO. TPP countries agreed to significant liberalization of their investment regimes. Labor and environmental protections were extended even beyond those of the more advanced regional agreements. Rules designed to keep digital trade unrestricted and to strengthen protections for intellectual property could well provide a template for future multilateral negotiations. Disciplines on the activities of state-owned enterprises go well beyond those of previous regional or multilateral agreements, and very likely will be adopted more broadly in future negotiations. The main goal of international trade agreements is to provide a predictable legal and commercial framework for trade and investment through rules that are mutually advantageous. The TPP agreement makes real progress in that regard.

Nevertheless, there are shortcomings in the agreement that could be stumbling blocks for future trade talks. Being a free trade agreement rather than a customs union, the TPP has rules of origin to prevent trade deflection. The complexity of the rules and the requirement for ninety-percent within-TPP content for duty-free access places a burden on traders, especially small businesses. If and when new members are added to the TPP, the rules of origin will become even more complex. Of course, in multilateral trade talks this would not be an issue since the most-favored-nation principle would prevail and rules of origin would not be necessary. That some firms choose to pay import tariffs rather than go through the trouble and expense of satisfying rule of origin requirements clearly demonstrates their trade-distorting character.

Another troubling aspect of the TPP agreement is the number of nonconforming measures that exempt countries from particular provisions of the agreement. These are particularly onerous for financial and transportation services (Scissors,

2015). The extent of the nonconforming measures allowed make it likely that future members of the agreement will insist on such exemptions as well to protect their preferred sectors.

Also, the very long phase-in periods permitted for removal of restrictions on some agricultural and automotive products detract from the potential benefits of the agreement. While these may have been necessary in politically sensitive sectors for concluding the negotiations, an unfortunate precedent has been set for future negotiations at either the regional or multilateral level.

6. CONCLUSION

On balance, while it is far from a perfect agreement, the TPP agreement should serve as a template for progress on a number of issues in the world trading system. At the very least, it will upgrade and modernize the provisions of the trade agreements that already exist among several of the TPP countries. It seems already to be influencing the negotiations led by China for a Regional Cooperation and Economic Partnership that the participants hope to conclude in 2017. Some of its provisions will likely be adopted in the Transatlantic Trade and Investment Partnership negotiations now underway between the United States and the European Union. A possible blending of these three mega-regional trade agreements (should they come to fruition) sometime in the future could set the stage for the next multilateral agreement under the auspices of the World Trade Organization.

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INNOVATION AND ENTREPRENEURSHIP IN THE COOPERATIVE ENTERPRISE: A HORNET?

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ABSTRACT HEADING

In European economy system, one part consists of cooperatives. This paper aims to answer the following research question: "May cooperatives be considered an innovative ideal type of socially responsible enterprise?". The goal is to demonstrate that the mutual cooperative enterprises are the ideal type of innovative socially-responsible businesses and as such they have the strategic important vocation to disclose social and environmental information towards both internal and external stakeholders.

Keywords: cooperative enterprises; democracy; mutuality; accountability

1. INTRODUCTION

In the period of financial crisis cooperative enterprises demonstrated to be able to face better market and financial problems using social creativity and innovation processes. The theory of cooperative enterprise needs more contributions in order to analyze the strategic and operative management features that are typically of these enterprises. Indeed, theorizing about cooperatives, especially mutualistic cooperatives, is important to underline that cooperatives are positioned in an independent kind that is separated from the not from profit enterprises and the for-profit ones.

In this paper we want to answer to the following research question: "May cooperatives be considered an innovative ideal type of socially responsible enterprise?".

Research design involves deductive and inductive approach (Franceschi, 1990).

About the deductive approach, literature is focused on mission, governance and accountability model (MGA) (Matacena, 2010) of the mutualistic cooperative enterprise in Italy, because cooperatives are strongly connected to the cultural background of the countries in which they operate.

About methodology, we use inductive approach involving one research case (Naumes and Naumes, 2006) to test our assumptions coming from deductive approach. Therefore, we will analyze the case of the Bank "Malatestiana" to implement MGA model and to answer to the research question. The tools used are the semi-structured interviews, which are aimed at the entrepreneurial team and corporate management during the year 2013. About other specific areas of interviews, such as reputation analysis and governance atmosphere test we used one person that stayed there for 2 months' stage on 2012 and 2013. A second source of data collection derives from the consultation of corporate websites and the analysis of corporate documentation: statute, ethic code, certification, internal communications pertinent to the research case, financial statements; mission and social reporting (2013; 2014).

The paper is divided in different sections. The first section contains the general definition of cooperative enterprise, in order to better understand the principles that are involved in MGA model.

The second section is involving literature review about the most important principles that are at the base of mutual cooperative enterprise, such as: mutuality and democracy.

The third section is analyzing the MGA model to combine principles in the mission, governance and accountability processes of cooperative enterprise.

The fourth section is describing the research case and then we will show some conclusions and future steps of research.

In the following paragraph we will start to describe the mutualistic cooperative.

2. THE COOPERATIVE ENTERPRISE: A HORNET?

The otherness of the cooperative enterprise¹ and its diversity when compared to those profit-making ones, is to be traced back to the values and principles². Values and principles define it and regulate its working. Identity, values and principles have to be made evident and put into practice in a coherent way, without ever forgetting that the cooperative is an enterprise and as such has to act respecting the constraint of its business nature a constraint which weighs upon all businesses whatever their structure.

As far as the ICA is concerned, "the cooperative is an autonomous association of persons united voluntarily to satisfy their common economic, social and cultural aspirations and needs by creating an enterprise of common ownership as well as one controlled democratically". It is further established that "the cooperatives are based upon the values of self-sufficiency, self-responsibility, democracy, equality, equity and solidarity. In keeping with the tradition of their founders, the members of the cooperative believe in the ethical values of honesty, transparency, social responsibility and care towards others"³.

The above definition allows us to identify those qualifying elements of the cooperative enterprise (Matacena, 1999; Negri, 2006). The first one is: "...a production and consumption structure, which represents a protection of the workers (and over time, of consumers, savers, citizens)... and a protection of their rights of social protagonists... when faced with the degenerative processes of capitalism" (Salani, 2007:44).

The second feature of cooperative enterprise is that is acting upon the market by way of the use of a system of operative values and principles and this means that: "In cooperation ... there is a value system and a declination of it in terms of operative guidelines" (Ibidem: 45).

The third is presenting itself as market players watchful of other non-co-operator players; attention expressed by way of the teleological taking on of specific responsibilities; which evidently means a method of company management that guarantees congruence among: ends, aims, strategies and their coherence with those activities carried on in accountable management.

1 The term cooperative enterprise goes back to that experience of R. Owen in 1813 when he decided to cede his textile business, located in New Lanark, Scotland, to his employees. Remember that the cooperative movement came about, especially, where industrial capitalism was at its greatest development that is, in England, France and Germany; while in Italy, it was only in 1854 that the first cooperative was set up in Turin, this was the "Magazzino di Previdenza". See Casadio (2011) in this regard.

2 We particularly refer to the still-in-force Declaration of Cooperative Identity, a result of the congress of The International Cooperative Alliance (ICA), Manchester, 1995. This declaration contains seven principles (referred to later) that come from a precise definition of cooperative and from an explicit identification of the values that guide it.

3 Declaration of Cooperative Identity (<http://ica.coop/en/whats-co-op/co-operative-identity-values-principles>) and Barberino, 2009: 106.

The definition of cooperative enterprise allows us to identify the mission and the governance model present therein and to understand why the cooperative is like a hornet⁴, this because It takes on responsible practices in relation to the other market players who act and use the prevailing economic and profit oriented objectives and management practices.

Before to describe MGA model, in the next paragraph we will analyze same co-operatives identity principles, that are: mutuality and democracy.

3. THE PRINCIPLE OF MUTUALITY AND COOPERATIVE MISSION: CONCEPTUAL FRAMEWORK

Mutuality is the principle that is based on the exchange of services which comes about between members and cooperative. The exchange of services has the goal of, on the part of the cooperative, to carry out, with the contributions of the members, an economic activity directed towards supplying them goods and services at the least possible cost. Those activities are without speculative intent and more oriented to improve cooperative partners' economic, and social condition (Bonfante, 2006: 28; Bonfante, 2006b:4; Parnell, 1999).

Concretely, mutuality expresses the service that the cooperative makes to the members thanks to their contribution. Contribution whose nature normally defines the typology of cooperative, such as: workers cooperative; commercial cooperative, etc.

In other terms, it is to be considered a mutualist activity that one which is carried out, in the relationships between members and cooperative, through the elimination of capitalist intermediaries in the processes of production, exchange and labor. The activity is directed to optimize the cooperative advantage, economic or not, of the members and not to exploit a financial capital. In the cooperative enterprise capital constitutes only an instrumental factor for reaching the mutualist objective, while maintaining its function as guarantee towards third parties (Bulgarelli and Viviani, 2006:16; Holyoake, 1954: 28).

Notice, however, that what has been affirmed makes the first constraint for co-operative operations come to the surface. The second is the instrumentality of the financial capital with respect to mutualist finalization, which obviously discourage capitalist investment (Negri, 2011: 7).

The persons (as well as the needs they express) therefore represent the core of entrepreneurial attention of the cooperative as well as the entrepreneurial goal it

4 Here we refer to "the paradox of the hornet", according to which, in the case where the cooperative is interpreted with a logic of having a purely profit-making nature, it is a hornet, an insect that, on the basis of the laws of physics, should not be able to fly. The flight of the hornet is explained, notwithstanding its very small wings, by the fact that the insect manages to keep itself in the air by exploiting the turbulence created by "furious beating of its wings". The physics question is, in this case, one of "lift" which identifies the magnitude which holds an object in flight and keeps it from "stalling" and from its consequent vertical dropping. On this argument, see Barberini (2009).

pursues (Borzaga and Tortia, 2009:240). Moreover, the finalization towards the goal of mutuality, pursued through the elimination of intermediary profit, facilitates the emancipation demands of the co-operator members. Then the cooperative enterprise becomes a tool for the democratization of the market as the equalization function in the processes of distribution of wealth.

In other terms, mutualist cooperative, in pursuing mutuality towards members (so-called "internal" mutuality), determines market democratization and facilitates processes of entrepreneurialization, intervening in sectors in crisis or where there absconds, precisely, an entrepreneurial answer. Finally, it makes processes of social inclusion (work opportunities, life-quality improvement ... etc.) possible.

Concretely, the cooperative - in coherence with its own finalistic intents - produces those which traditional economic theory calls "positive externalities", all this makes it acquire, since its birth, an important social function.

Mutuality therefore affirms itself as a tool to regulate relationships between members upon whom it imposes a prohibition, of a speculative use of cooperative activities for personal ends. Mutuality is useful to improve the relationship between cooperative and market requiring the cooperative to bear the burden of processes of correlation and moralization.

It is mutuality, therefore, that represents "the intangible value nucleus of cooperation" (LEGACOOP, 2006), because mutual finalization expresses itself, first and foremost, in the privilege attributed to the members to use the cooperative for the purpose of satisfying their own needs. Moreover, it allows for the presence of "speculative" aspects within cooperative management if and in that the pursuit of "profit" in such circuits is an accessory to the mutualist management and instrumental to the same and as such it cannot be distributed to members.

Essentially, the speculative intent of the member and not that of the cooperative enterprise is believed to be negative for mutuality. All this may be accepted in that the cooperative, because of finalistic assumption, has to develop the mutualist intent above and beyond the sphere of the founder members.

Within the Italian cooperative, the member neither, therefore, aims at maximizing his individual capitalist benefit, nor at maximizing the individual cooperative benefit rather he submits them to a collective utility, by putting aside returns as unavailable reserve assets and building collective wealth in order to favor, through wealth accumulation, the continuity of the enterprise and intergenerational reproduction (Costi, 2004:175; Sapelli, 2006).

In brief, ever since its origins, the cooperative generates outcomes with contents that are economic but also of a social order. It having to "scrupulously employ all revenues deriving from business with not members who use its services; if these takings are not destined to personally encourage not members to request participation. They have to be used in such a way as to let the collectivity profit and not just the members of the society. These revenues should not in any way be

added to the management surplus to be divided among the members (Verrucoli, 1980:148).

Here we have, therefore, the "cooperative model", or rather an entrepreneurial model with the following features. The first that is internally characterized by a "sharing of returns and reinvestment of resources which is non capitalist rather mutualist, and with (...) a temporal horizon of intergenerational growth" (Mazzoli and Grazioli, 2009: 309). This allows reducing or eliminating phenomena of the free rider and opportunism of the social basis, besides guaranteeing continuity and self-development of the cooperative and creating, within it, an amount of capital of common property. The second is that It is externally characterized by responsible and commonly agreed behavior towards third parties. This to, as was said, reach the dimensional optimum and the finalist expansion in the ultra-mutualist sense. All this permits reducing or eliminating the presence of opportunistic asymmetries which might trigger off the relationship between cooperative, external interlocutors and surrounding collectivity (Salani, 2005:172-173).

Essentially, the different nature of the mutualist cooperative enterprise when compared to those profit-making ones depends on the constitution factor: in the former, it is the community of members and the surrounding area, in the latter, it is the financial capital.

Though, to understand today, in Italy, mutuality in a "full" fashion also means, especially, tying it to the idea of solidarity and to the principle of subsidiarity⁵.

Indeed, solidarity, meant as common feeling of reciprocal help (self-help) which expresses itself in wishing to act together and in pursuing its own interest through the pursuit of the interests of its neighbor (Zamagni, 2002) and It is naturally connected to the mutuality found within the establishment of the cooperative.

When the influence of the cooperative grows, the mentioned solidarity "affirms itself, in respect of the principle of Commitment towards the community, is combined with the principle of subsidiarity. Surrounding community which becomes whole collectivity when the action of the cooperatives is principally directed towards the production/distribution of services of collective interest or merit/relational goods in favor of disadvantaged players.

In short, we introduce the concept of "extended mutuality" and give life to cooperative enterprises, the so-called "multifunction or multi-stakeholder cooperatives" (Barberini, 2009:121), where the pursuit of meta-economic objectives is considered teleological assumption, that is, an element that qualifies the mission.

In this case, cooperatives are directed towards the production/distribution of wealth, both economic and social, activities that favor the collective welfare and that also permit the improvement of the overall efficiency of the market.

In other words, especially in Italian practice, a close connection between mutuality and solidarity has been proposing itself together with an evolution of internal

5 As regards the topic of the benefits directly and indirectly induced on the collectivity by the entrepreneurial cooperative forms, see Borzaga, Tortia (2004).

mutuality towards an external one, which reveals itself more and more as a solidarity behavior of subsidiary nature. Behavior to consider as a corrective of an "unbridled" economic liberalism. This has come about by way of the emerging of social cooperatives.

With the social cooperatives does internal mutuality abate, whilst their specific finalization emerges and which is that of creating collective utilities of an economic and social nature (the so-called collective benefit) linking the activity of the social cooperative to that of the welfare state. With social cooperatives emerges a special category of business: that directed to pursuing specific interests of a collective nature so as to promote the integration of citizens. This category of cooperative also characterized by a further element, such as: the possible presence within it of players different from internal members (such as: volunteer members, investors, etc.) with clear outcomes of widening the problematic issues relating to internal governance.

All this comes about, however, only if the cooperatives widen their dimension-al impact, come onto the social market and go so far as to directly involve a greater number of players to whom they are accountable for their being both economic and social players (Bulgarelli and Viviani, 2006: 19).

All this may be done, however, only if there is a mechanism of the exercise of property rights, which traces back its founding lemmas in equality and in the equal dignity of players. A governance therefore where cooperative management performs management behavior of a commonly agreed nature aimed at favoring the internal balancing of interests (Salani, 2005:170). Moreover, governance pursue the interests of co-operator members (in terms of not discrimination of one member in relation to another) and in which interests of the cooperative movement he belongs to, of not members, and of specific single and collective stakeholders (in terms of respect for social finalization pursued).

That which has been said leads us to examine the principles regulating governance within the cooperatives (Marcon, 2008: 26). About corporate governance we mean the modalities by which the structure of the enterprise is determined and the relations between players who operate therein are regulated. Essentially, speaking of the corporate governance of a cooperative means examining: the relationships between property and administrators and administration and control models adopted therein. This is the subject of the following section.

4. THE PRINCIPLE OF DEMOCRACY AND COOPERATIVE GOVERNANCE: CONCEPTUAL FRAMEWORK

If in external relations the cooperative may appear a socially responsible economic player, internally it is characterized to accept the principle of the democratic nature. A principle that is made clear, through the known postulates of the "open door" and of "one member, one vote" (Jossa, 2010:48).

With the first postulate mentioned - made plain by the Principle of free and voluntary participation according to which: "Cooperatives are voluntary organizations open to all people able to use their services and who wish to accept the responsibilities connected with becoming a member, without any kind of: gender, social, racial, political or religious discrimination" (Bonfante, 2011:2-3).

By the cooperative itself, becomes clear interests which are homologous and locally contiguous, owing to the obligatory existence of mutualist exchange and the already known principle of commitment towards the community, to those of already active members; a right which is not subject to any constraint of a discriminatory nature (Reali, 2011:71).

This right of participation is essential for the cooperative enterprise given that its mutualist finalism imposes the involvement of growing quantities of members upon it and determines the open nature of the cooperative organization. Even more, it indirectly reaffirms the prevalence of the mutualist relationship as regards capitalist contribution.

Moreover, we have to clearly understand, however, that in the case where the cooperative does not permit the exercise of this right the broadening of the social base however, must be made possible by it through an action of "cooperative promotion" facilitating the creation of a new cooperative competitor, carrying on, therefore, an obligatory activity of business incubator.

The "open door" and cooperative promotion identify elements of the cooperatives, such as: mechanisms of social inclusion; mechanisms of economic development of the area where the cooperatives operate; growth factors of the "human and professional subjective qualities of those belonging to the community" (Salani, 2005: 179; Borzaga, Depedri and Galera (2010: 125-146).

All this permits the cooperative to origin itself in the area it operates in (Matacena (2009:57-58) and to become, for the same, a fundamental generator of relational capital and of community identity (Salani, 2005; Vella, 2010:154; Putman, Leonardi & Nanetti, 1994).

It should not escape anybody, however, that territorial taking root, essentially a condition of not being able to decentralize matters, highlights the second constraint for cooperative activity: that one connected to possible development of the productive dimension.

The men and the women elected as representatives are accountable to the social base. In first-degree cooperatives, the members have the same rights to the vote (one member, one vote); also the cooperatives of other degrees are equally organized in such a democratic way (Bonfante, 2011:29; Tessitore, 1973 and 1990). We point out that, since the beginning, in the same cooperatives there are conditions of: "self-management" (in those that use remunerated, non-remunerated and/or charity social work); "direct participation" (in those where members bring goods or services different from their own type of labor and/or acquire goods and services produced by the cooperative) (Matacena, 1999).

It is clear, however, that the self-management or participation substantially exclude both the mutualist contribution, and the capitalist one but they are connected to the being a member (remember - "one member, one vote"). Essentially, the "per-capita vote", however, does not allow fully valuating the intensity of mutualist contribution and the quality of participation to cooperative life of every single member; all this highlights the third constraint for cooperative action. This that connected with administrative difficulties resulting from eventual disparities in the treatment of members and from social absenteeism which might derive from them.

Moreover, this latter postulate determines basic institutional layouts and specific running rules of mutualist cooperatives, different from the homologous ones in profit-making businesses.

To conclude, democratic governance, linked with the finalism pursued, should allow the cooperative enterprise to place within itself stable relationships of coordination among members, workers, manager and other third parties. Especially if it is a matter of social cooperatives, where the mission pursued is a prevalently social one, being called upon to generate utility of a principally collective nature.

In the following Table 1. we can see in synthesis mission and governance of co-operative enterprise.

Table 1.: MG (Mission and Governance) in the mutualist cooperative enterprise

MISSION	CORPORATE GOVERNANCE
PLAYERS: CO-OPERATOR MEMBERS	PLAYERS: COOPERATIVE ENTREPRENEUR
Mutualist benefit, that is, optimization of returns of social contributions, in whatever form they are carried out. This optimization of returns is in compliance with the constraint of corporate nature and in the necessary pursuit of cooperative objectives and collective solidarity. Moreover, it is in accordance with the specific social aspirations that are internally matured, and in agreement with the indications of the cooperative movement. Mutualist benefit which is accomplished by: 1. making the widening of the rights of members possible; 2. generating positive externalities; 3. welcoming specific types of mission of an ultra-economic nature. Multidimensional Mission.	Corporate governance is implemented in respect of the principle of the "open door" and of its democratic nature. It is achieved through management behavior, that is aimed at favoring the balancing of the interests of the co-operator members, and those of the cooperative movement and of individual and collective stakeholders. Corporate governance is characterized: 1. by running rules, that are centered on the equal dignity of members and on the authoritativeness of manager members; 2. by relations, between members and cooperative, which find the elements that determine loyal and faithful behavior of members as regards their cooperation in equality and reciprocity. Governance is characterized by the principle of solidarity Potentially Multi-stakeholder Governance.

Source: Autors' elaborations

After the analysis of mission and governance, in the next paragraph we will develop the content of mission, governance and accountability model.

5. THE ACCOUNTABILITY OF COOPERATIVE ENTERPRISE AND MISSION AND GOVERNANCE RELATIONSHIPS: MGA MODEL

We accept the hypothesis that company communication is a necessary tool for guaranteeing appropriate and loyal company-environment interaction processes. To analyze the cooperative information system, from where communication flows, we would need to verify that the company information systems were structured in such a way as to offer data useful for the decision and for the control of the results (data, that is, both for internal and external use). Moreover, the company information systems were the result of an explicit correlation between: objectives pursued by the individual company; organizational structure, which, having acquired the objectives to pursue, defines and implements strategies and policies necessary to their attainment and the whole of accounting, and not accounting procedures aimed at producing the information needed to decide and to control.

This all adds up to affirm that in all enterprises, explicit and coherent coordination between mission and governance should exist, and both the typology and level of accountability, there, should derive from the coherence of this coordination. Moreover, modifications to the mission, where they come about in an enterprise, should reflect onto the governance therein (and vice versa), with the obvious result that these modifications should have an effect upon the typology and the level of accountability (Matacena, 1999, 2010).

If this is valid, assuming full coordination between objectives of the cooperative and its information system. Broadly, assuming that the mutualist, solidarity and social mission pursued by way of a democratic type of governance, produces results made evident in terms of effectiveness, efficiency and productivity. There is the need therein of an information system able to coordinate, during the phase of strategic implementation, the mutualist, solidarity and social ends with the economic and financial constraint. Moreover, the information system will define the qualify / quantify the degree of mutualist, solidarity and social ends achieved, defining its incidence also in terms of economic-ness, solvency and capitalization. Finally, it must allow third parties, both internal and external ones, on the basis of specific options, to value such performances or constraints, in order to validate them or not.

Summing up, the accountability of a mutualist cooperative, developed towards social aspects, should be characterized by the co-presence of accounting information tools, and others. These tools should firstly guarantee the forms of management control aimed at verifying the subsistence of the condition of corporate nature, continuity and level of mutualist benefit in an economic sense, generated by cooperative activity. Secondly it will provide forms of institutional control aimed at verifying extra-mutualist impact, that is, solidarity and social impact, of the cooperative.

With regard to the first point, analysis of the level of mutuality may be dealt with informing on how the wealth structure, the financial situation and the economic re-

sult of the period of the individual cooperative, depend on and / or derive from flows of interexchange between member and cooperative.

Said information can be obtained through an analysis of the mandatory report of the financial year, an analysis that highlights accounting entries that explain said interconnections and weighs up their incidence in terms of being and becoming of the cooperative enterprise.

It will be a matter of, essentially, verifying the level of funding deriving from mutualist exchange and of the incidence of said funding in comparison with that resulting from the same mutualist exchange. Moreover, it will record and inform about the level of return of these contributions in the hypothesis that the pursued mutualist benefit is that deriving from management behavior aimed at optimizing all remunerations that may be attributed to the member. Optimization of remunerations, that presupposes management policies that privilege social returns but never to the detriment of the capacity for self-development of the cooperative.

Informing on internal mutuality pursued and reached essentially means accounting for the degree of financial dependence of the cooperative on contributor members, leaving, to the mandatory accounting documents.

These documents must give information about capitalization, which may be obtained by way of a vertical analysis of the active and passive entries of the statement of assets and liabilities. Information about finance and solvency situation, information which may be obtained by way of a horizontal analysis of the active and passive entries concerning the statement of assets and liabilities and by way of an analysis of the liquidity report. Moreover, it is need to know economic situation - information which may be obtained via close examination, in terms of efficiency and productivity, of the area of balance sheet. It is required to begin a process of successive separation of characteristic mutualist management from the characteristic profit-making management (that is, carried out with not members). That is in order to measure the result of the latter and its incidence on the overall characteristic management and to analyze modalities of use of the result if positive (Venditti, 1996:78).

With regard to institutional-type communication it must be, first of all, clarified that the said communication represents an identity obligation and not just a mere voluntary taking on of an obligation (or a law obligation) for the cooperative. Especially if we remember the Fifth Principle of the Declaration of cooperative identity (Education, Training and Information) which in the final paragraph establishes: "Cooperatives start information campaigns for the purpose of raising public opinion, particularly the youth and the well-known opinionates to the nature and benefits of cooperation". It is well knowing that the nature of said benefits (as above seen: positive externalities, increase in relational capital, protection of surrounding areas) are not easily quantifiable in monetary terms or using indicators of an economic nature (Vannini, 2005:139-155).

All this may be summarized in the following Table 2., which coordinates cooperative mission and governance at the level and typology of accountability therein.

Table 2.: MGA (Mission Governance and Accountability) in mutualist cooperatives

MISSION	CORPORATE GOVERNANCE	ACCOUNTABILITY
PLAYERS: CO-OPERATOR MEMBERS	PLAYERS: COOPERATIVE ENTREPRENEUR	PLAYERS: CONTROLLERS
Mutualist benefit, that is, optimization of returns of social contributions, in whatever form they are carried out. This optimization of returns is in compliance with the constraint of corporate nature and in the necessary pursuit of cooperative objectives and collective solidarity. Moreover, it is in accordance with the specific social aspirations that are internally matured, and in agreement with the indications of the cooperative movement. Mutualist benefit is also realized with: 1. making possible the widening of the rights of members; 2. generating positive externalities; 3. welcoming specific missions of an ultra-economic nature. Mission is therefore founded upon: self-help, "proselytism", territorial and intergenerational impact. Multi-dimensional mission	Corporate governance is implemented in respect of the principle of the "open door" and of its democratic nature. It is achieved through management behavior, that is aimed at favoring the balancing of the interests of the co-operator members, and those of the cooperative movement and of individual and collective stakeholders. Governance is characterized by the principle of solidarity, which, at the same time, represents an "organizational factor". Moreover, it is an element of interconnection among: cooperative enterprises, enterprise system and system of representation (as identity element which binds the cooperative to the movement that contains it). Cooperation governance is an organizational mechanism, that is based on solidarity thanks to which the acquisition of certain goods on the market is easier in the collective, rather than in the individual form". Potentially multi-stakeholder governance	Potentially information system from, which is aimed at bringing forward communication to pursue the controlling of the mission by way of the checking of the results. The main results are: 1. management results, useful for verifying the condition of the corporate nature and of the level of internal mutualist finalism achieved; 2. Institutional results, useful for verifying the level of external mutualist, that is finalism achieved and of the specifically undertaken social responsibilities. Overall control for all stakeholders. Control that may be: before, during and after the cooperative activity. This control is actuated for the purpose of guaranteeing intra-cooperative dialogue.

Source: Authors' elaborations

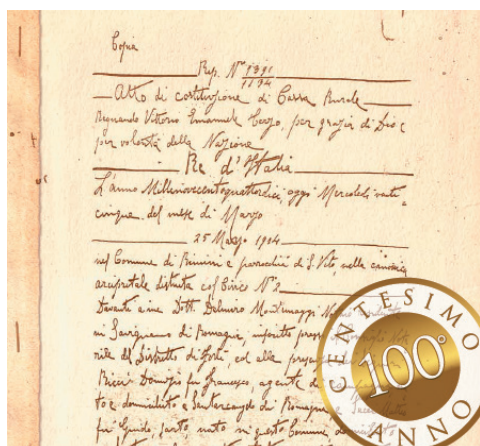
All this prompts us to deduce the content of the institutional communication of the mutualist cooperatives, at least the minimum content, from the interpretative paradigm M<->G<->A presented above.

With regard to the mission, the mutualist cooperatives are qualified as systems with the aim of producing economic benefits for, first of all, members and, eventually over time, economic and social benefits for a more or less broad collectivity and surrounding area. The solidarity-social aims can finalize mutualist management of cooperatives, while respect for economic and financial balance constitute, for them, a necessary condition for guaranteeing their survival, continuity and development.

6. THE IMPLEMENTATION OF MGA MODEL IN THE COOPERATIVE BANK "MALATESTIANA"

We decided to focus our attention on the case of Malatestiana Bank, because on 2014 It celebrated 100 years of activities, as you can see from the picture that is representing the first record of S. Vito Bank on 1914, that in 2002 became part of the present bank.

Figure 1.: The first record of S. Vito Bank on 1914



Source: S. Vito Bank

Indeed, Malatestiana Bank had been the result, in 2002, from the fusion of two Cooperative Credit banks (BCC) almost centenarian: BCC of San Vito and Santa Giustina, and BCC of Ospedaletto. Both of them had been founded in the years before the First World War (1914) as a result of the social action promoted by the Church. This strain was expressed in the encyclical of Pope Leo XIII: "Rerum Novarum", which promoted the cooperation as a necessity to deal with conflicts and abuses that were in the society of that time.

A present the total amount of patrimony of the Bank at the end of 2014 is: € 9.101.423,00 and It is the first BCC in the territory of Rimini with 4.885 members and an increase of them 22.7% from 2010 to 2014. The Bank is operating in Rimini Province- Italy with 28 agencies.

The mission of the cooperative is oriented to support the responsible and sustainable development of the territory as local bank serving the local area. Territoriality allows the bank to operate there through the collection of savings and then to mainly finance the enterprise members and the others of Rimini territory.

From the Statute on the bank, we can read, in the Art. 2, that mutuality is the main objective of the bank. They consider the different typologies of mutuality that

we analyzed before, such as: internal and external mutuality to the benefit of members and without speculative objectives.

About mutuality, we can underline the attention to the cooperative networks and territory social community.

Finally, the mission is based on cooperation and cohesion along with: respect, honesty and prudence. The Ethics Chart of BCC contains the guidelines to consider in the mission of the bank.

Especially, the principal objective is to "create trust" (Ethics Chart -Art.2). Another important principle (ART. 6) is that the income resulting from enterprise management is a measure of the cooperative managerial skills and organizational efficiency. It represents, at the same time, the wealth to share, to promote the welfare of cooperative members and the local area.

For the purpose of orientation to corporate social responsibility (CSR), On December 2009, the Board of Directors decided to meet all cooperative personnel organizing a convention during which the mission of the Bank had been analyzed from the point of view of "cultural and emotional features". These activities had the aim to make all employees more aware of sharing values.

The governance of Malatestiana Bank is involving democracy and the "door open", trying to satisfy members at first and all stakeholders too.

The most important governance organ is the Board of Directors, that is composed by 9 members. Among its members, the president is a woman and another member is a woman too.

The commitment of Bank Malatesta is not only aimed at improving the economic conditions of its members, but also the realization of initiatives and non-banking benefits to the members in relation to the principles and values, such as: solidarity and cohesion. Moreover, there are initiatives, including social appointments, social visits and scholarships. Relations with investors are focused on the transparency of financial, economic and social information.

The regulatory structure constitutes a system of governance aimed at prudent governance and internalization of the values, which the BCC are carriers. These values have led to a shift from the formal respect to innovation in social responsible governance. The accountability of the bank is based on different documents, but we will analyze some of them, such as: financial statement, mission and social report and other indicators about mutuality principle implementation.

About financial results, despite the financial crisis in 2011, which reduced the credit to the whole economy system, the network of Cooperative Banks was able to reaffirm its vocation claiming the territory, its customers and its members, by providing them the credit. The Bank, despite a reduction of net income in December 2011, maintained the equal amount of total deposits and lending to customers with a small increase of its members.

The Margin of Intermediation of 2014 had been 60.4 with an increase of 10% compared to that of 2013.

Regarding the economic situation, the indexes that were found to be most relevant are the following Table 3.

Table 3.: Economic Performance Indicators 2014

Profitability	Intermediation Margin	60.4 (+10%)
	R.O.E.(Net Income/ Total Assets)	1%
	Gross Operational Margin/ Total Assets	16.6%
	Interest Margin/Intermediation Margin	43.6%

Source: Financial statement 2014

About social and environmental accounting and accountability, the bank obtained some certifications, such as: ISO 9001; ISO 14001 / EMAS; SA8000; OHSAS 18001. The Bank decided to publish mission and social report starting from 2002, with the aim to "communicate in a clear and honest activities carried out", trying to verify "together with its partners" its mission based on the principles of mutuality and democracy. So the bank tried to demonstrate how Its governance can be defined as "different", especially if has satisfied the condition of reciprocity translated into benefit for the members.

The Bank uses the mission and social report for a better definition of its corporate identity, and aims to improve dialogue and commitment with all stakeholders. So, it is able to ensure a fair exchange of information and to provide, in a transparent way, a guide to all the activities. This work turns into the increase of internal and external "reciprocal trust".

In the following table we are going to see the Distribution of Value Added 2014.

Table 4.: Distribution of value Added- 2014

Members	317.396
Personnel	15.842.929
Suppliers	8.686.134
Territory community	499.944
Cooperative movement	82.459
Public Administration	8.023.937
Value added distributed	33.317.531
Malatestiana Bank	2.038.617

Source: Mission and social reporting 2014 (millions of Euros)

The evaluation of the performance of the cooperative mutual is important to verify compliance with the principles of cooperation.

For BCC are stated some "Social Performance Indicators", that are developed by the Federation of Italian BCC (Federcasse 2011) and in the absence of

adequate compulsory disclosure. We can see some examples of these indicators: social performance indicators; presence of women in the corporate organs; discrimination; presence and participation of women in the social; number of members that take part in the assembly the attention to araining; training hours per capita; mutuality and attention distribution to members; donations; value added distributed to members; solidarity and attention to community; donations to community; donations / net Interest. In the Bank these indicators turn out to be quite positive.

After the description of the case, in the next paragraph we are going to show discussion and conclusion.

7. DISCUSSION AND CONCLUSION

In this paper we analyzed MGA model theory about mutualistic cooperatives and we described the implementation the model to the Bank "Malatestiana".

We verified that the principles of cooperative enterprises, such as mutuality and democracy, are implemented in the case and are represented in accountability. Especially mission and social report is essential to check and to report the activities performed by the cooperative. It is involving the values constituting its identity and with the commitments made with the various stakeholders, that are declared in the mission. In fact, the concept of social responsibility in mutual cooperatives already implies, finding its legitimacy in the statute of the enterprise. Mutuality in all its forms (internal, external, network) and democracy that characterize the mission and governance of mutual cooperatives represent the otherness that should be considered in such enterprise, namely their "diversity". Such "diversity" should be expressed through innovation in governance behavior but also through a responsible use of the information system and accountability.

As for the needs of accountability, the administrative control of the results should be used to verify that they meet the legal rules. Management control should, however, be useful to define the internal objectives, that the cooperative achieved in terms of mutuality. The institutional aims are measured by the efficiency and social solidarity. Both dimensions: administrative and management are closely linked with the so-called legal accountability and therefore considered to be essential, as the financial statements derived from statutory provisions. The institutional dimension, most linked to the external reporting of the effects of the business, is voluntary accountability, that is not prescribed by law, but to which each company is free to decide whether to adhere or not, without incurring any sanctions.

Finally, we can answer to the research question: "May cooperatives be considered an innovative ideal type of socially responsible enterprise?". We showed about mission, governance and accountability model that cooperatives may be an innovative ideal type of socially responsible enterprise.

This because the importance attributed to certain values in the adoption of the social reporting process, have shown particular attention to the innovation in strategic value. In fact, in terms of governance, social accountability is important in terms of relationships with the Authorities. Authorities, that in the case of BCC have fundamental models proposed by ABI (Italian Banking Association) and the Italian Banking Association for Federkasse for the preparation of Social Report in the specific case of the BCC. The legitimacy is essential in the BCC to meet the characteristics required from them, because they belong to a system ("network system") that determines the political-strategic addresses credit unions.

The sense of belonging to a collaborative system is very strong and the regulatory pressures derive precisely from this status that result for the BCC, through the publication of mission and social report as an important tool in terms of values within the enterprise.

Moreover, it is thus able to increase the value of the organization and human resources, in terms of increased communication and dialogue and a continuous quality improvement and collaboration with other BCC associated with the system, trying to convey and reinforce identity values.

The awareness of belonging to a particular system that is named: "cooperative network", and want to share values such as: participation, cooperation and reciprocity, means that, even with regard to the hiring of conduct designed to CSR, it has an even take all internal of the system itself. Clearly also, the implementation of social responsibility policies has costs, but the convenience is the entrepreneurship innovative competitive advantage, that can be achieved only through a sincere adherence in terms of process to internalize values and principles, that underpin CSR.

In conclusion the cooperative is able to challenge the traditional economic and enterprise rules like a "hornet" that didn't fly using traditional physical rules. On the contrary, the "hornet" is able to fly as if the cooperative is able to easily survive especially in periods of crisis.

The limit of the paper is that we considered only one case about inductive approach. In the future steps of research, we will consider some others empirical cases to implement the theory.

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TALENT ENGAGEMENT FRAMEWORK AS A JOURNEY TO PERFORMANCE

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ABSTRACT

This conceptual paper proposes a framework for engaging talents at work that leads to business performance. The framework is built on concepts that are evolving and they are defined in several, in many cases confusing, ways in the literature. The research methodology is literature review. Therefore, the paper starts with overviewing the concepts of the knowledge economy, skills, knowledge, talents, work engagement, and organizational performance. Then, the suggested framework is presented and discussed. The paper contributes to a better understanding of the underlining conditions and processes of value creation through talent engagement, calling for more discussion around this phenomenon.

Keywords:

talent engagement (TE); organizational performance (OP); work engagement (WE);
knowledge economy (KE)

1. INTRODUCTION

The paper seeks to answer the question of how talents can be engaged at work in order to improve organizational performance. Learning, knowledge, and innovation are the key sources of the economic growth and competitiveness of organizations. In the knowledge economy there will be an increased demand for engaging talented employees in both tangible and intangible value creation. In the global knowledge economy organizational performance highly depends on the contribution of talented employees. This can be achieved by locating, combining, allocating, and employing the required skills and knowledge of talents. The task of managers and leaders is to engage knowledge workers at work by providing them meaningful work in which they are able to thrive. The challenge is maximizing the contribution of human capital. Therefore, the role of people management and leadership becomes pivotal in the knowledge economy.

Leading people requires more and more soft skills such as empathy, caring, helping, sacrificing, listening, understanding, and openness. Sinek (2015: 52-55) argues that a new wave of leadership is emerging where having empathy is the best strategic tool a modern leader has at their disposal. He believes that 'the job of the leader is not about being in charge, it's about taking care of those IN YOUR charge' (Ibid.: 52, emphasis original). According to Sinek the role of a leader is to create a '*circle of safety*', a working environment where people feel equal and can freely talk. He suggests that everybody in an organization needs to learn to become a leader. Leadership should become more about connecting and communicating and less about commanding and controlling people.

In the knowledge economy people create economic value by applying their skills and knowledge for the benefit of their organizations. Knowledge workers and talents do not want to have bosses and superiors who command and control them (Drucker 2008). Instead they need leaders who provide them an engaging working environment. Because talents and knowledge workers are able to manage themselves they need leaders who inspire them. 'Great leaders ... are able to inspire people to act' and they are able 'to inspire people to do the things that inspire them' (Sinek 2009: 6 and 227). When employees feel inspired they do what they know best, they love to go to work, they are more engaged at work, and they care about their colleagues and customers. Engaged and happy employees contribute better to organizational performance.

Obviously, work engagement (WE) has an impact on organizational performance because 'engaged employees are more productive, more profitable, more customer-focused, and more likely to stay. Highly engaged workplaces grow faster, adapt quicker, and innovate more. Organizations don't just benefit from employee engagement; they depend on it' (Quantum Workplace 2015: 5). Therefore, keeping talents engaged at work contributes to higher organizational performance. The

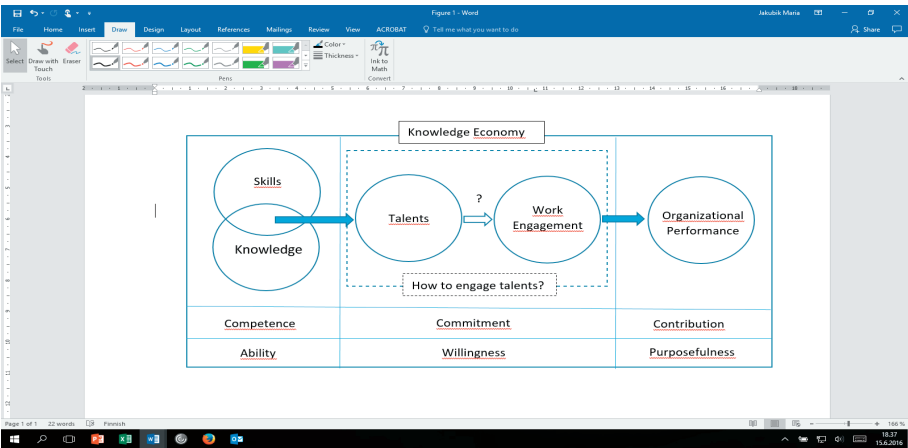
outcomes of the survey on employee engagement experience of knowledge workers by Jakubik and Vakkuri (2015: 25) show similar findings. When knowledge workers are engaged at work they feel energized, good, happy, driven, enthusiastic, motivated, satisfied, focused, excited and are willing to work harder. These demonstrate that emotions and feelings started to play vital role in work engagement. Knowledge workers and talents are highly mobile; they move freely to an organization where their skills and knowledge are needed. Consequently, engaging talented people at work is not only a challenge, but is also a necessary task of business leaders.

Because organizational performance highly depends on engaging talented employees at work this conceptual paper seeks to answer the question: *How can talents be engaged at work in the knowledge economy?* The goal is to propose a framework for talent engagement based on the review of the literature. The paper has three parts: the context of the talent engagement phenomenon is explained, the proposed talent engagement framework is introduced and finally, in the conclusions section the challenges of talent engagement are discussed.

2. CONTEXT OF TALENT ENGAGEMENT

The research question of this theoretical paper is, as stated above: *How can talents be engaged at work in the knowledge economy?* In this part of the paper the concepts related to the context of talent engagement will be presented. Because the proposed framework in the next section is closely related to these concepts therefore, clarifying them contributes to a better understanding of the 'talent engagement' phenomenon (dotted line on Figure 1.).

Figure 1.: Context of talent engagement



Source: Created by the author

In the knowledge economy (KE) there is a shift from the traditional factors of production (i.e., land, physical labor, capital) to knowledge, entrepreneurial skills, innovation, ideas, and to social and relational capitals. In the knowledge-based economy the human factor has become pivotal. Sheehan (1999) reviews the following five of the many features of the global knowledge economy:

- (1) '*growing importance of knowledge*, underscored through the increased investments of national economies in education, software and R&D, IT, hardware, services, and telecommunications
- (2) booming of the knowledge-based service industries (i.e., education, health, consulting, recreation, entertainment)
- (3) shifting from the goods industries to the knowledge and person-based industries
- (4) declining inflation
- (5) rising inequality within and among nations.' (Sheehan 1999: 7-13, emphasis added)

In addition, the World Bank (KAM Users Guide) has developed an aggregate index known as the Knowledge Economy Index, KEI, which represents the preparedness of a country for the knowledge economy (KE). The KEI combines four pillars of the KE:

- (6) '*economic incentive and an institutional regime (EIR) - this provides incentives for the efficient use of existing and new knowledge and the flourishing of entrepreneurship*
- (7) education and training - this helps create, share, and use knowledge more efficiently
- (8) innovation and technological adoption → research centers, universities, think tanks, and consultants can utilize global knowledge and adapt it to local needs
- (9) information and communication technologies (ICT) infrastructure, which can facilitate effective communication, dissemination, and processing of information.' (KAM Users Guide, emphasis added)

Further, Professor Romer, interviewed by Kurtzman (in Holsapple [Ed.] 2004: 73-87), argues that in the knowledge economy knowledge processing outweighs physical goods processing. He underlines the new role of government in promoting discoveries, creative ideas and investing in people and he sees the role of universities in the production of knowledge and distribution of new ideas. Romer raises the question and dilemma of pricing knowledge: 'in the physical economy, with diminishing returns, there are perfect prices, in the knowledge economy, with its increas-

ing returns, there are no perfect prices. ... as soon as you start to price knowledge, you get into awkward situation where your knowledge is not being as widely used as it could be' (Ibid.: 79 and 83).

Human skills and knowledge are essential sources of economic value creation. In the knowledge economy value is created and co-created by people collaborating, interacting, and communicating with each other, using advanced technologies. There are several people related challenges in the new world of work. First of all, managers and leaders should reinforce the knowledge sharing behavior and trust of employees. They need to identify, capture and efficiently allocate people with the right skills and competencies. Furthermore, motivating and leading talents, and engaging them at work are the demanding tasks of leaders. Finally, it is a leadership challenge to encourage and engage a multigenerational workforce at the workplace.

Competence of talents comprises both skills and knowledge (*cf.* Figure 1.). Skills (*techné*) are practical knowledge acquired through experiences and perceptions. This is the *know-how* that people develop during their work practices. Skills are important as they are the source and at the same time the outcome of intuitions, innovation, trying out new things, and questioning old practices. Skills together with knowledge form the competencies of a person, making them able to perform specific tasks. Knowledge (*epistémè*) can be considered as *know-what*. It should be stated that both *techné* and *epistémè* are dynamic, fluid, evolutionary concepts. They evolve together in the direction of *know-why*, i.e., objectives and goals. *Know-why* is the practical wisdom or *phronesis* that brings together *techné* and *epistémè*.

Knowledge can be defined from different perspectives. Here are a few definitions: Knowledge is a capacity of an agent that is built on information extracted from data. (Boisot 1995); Knowledge is 'justified true beliefs' (Nonaka and Takeuchi 1995); All knowing is personal knowing & participation through indwelling (Polanyi 1975); Knowledge is capacity to act (Sveiby 2001); All knowing involves skillful action; the knower necessarily participates in all acts of understanding. Knowledge proves itself in action (Drucker 2001). McDermott (1999) identified the following six characteristics of knowledge that distinguishes it from information: knowledge is a human act; knowledge is a residue of thinking; knowledge is created in the present moment; knowledge belongs to communities; knowledge circulates through communities in many ways; new knowledge is created at the boundaries of old (Ibid.: 105). From these definitions it can be concluded that knowledge is strongly related to the needs, interactions and actions of an agent.

Knowledge has not only several definitions but it has several taxonomies as well. Holsapple ([Ed.] 2004: 561-562) provides a summary of knowledge classifications based on the following criteria: knowledge versus data and information; levels of knowledge; types of knowledge, explicit and tacit; knowledge creation processes such as socialization, externalization, combination and internalization (SECI); knowledge

in business processes; and knowledge management practices. Jakubik (2007) presents a taxonomy of different types of knowledge from theoretical (*episteme*), practical (*techné*), commodity (embodied), and community (embedded) views. Skills and knowledge together build the ability of talents to perform their jobs well.

Who are the talents? What is their role in organizational performance? Ulrich and Smallwood (2011: 3, emphasis added) talk about the five rules of leaders, such as 'shaping the future; making things happen; *engaging today's talent*; building the next generation of talent; and investing in yourself. They argue that 'These leadership basics explain 60 to 70 percent of leadership effectiveness. The other 30 to 40 percent of a brand are the differentiators, or those things that are unique to leaders in our company.' Most importantly, they emphasize the role of talents in organizational performance and they offer their talent formula (Ibid.: 6) as follows:

Talent = Competence x Commitment x Contribution

Ulrich and Smallwood (2011) and Ulrich and Ulrich (2011 in Berger and Berger [Eds.] 2011: 523) argue that all these three components should exist when defining a talent. Competence means that the talent is *able* to perform a specific job because of his/her right skills (*techné*), right knowledge (*episteme*), right values and because the talent is in the right job at the right time. 'Highly competent employees who are not committed are smart but don't work very hard.' (Ulrich and Ulrich 2011: 523) Commitment and engagement mean the talent is *willing* to go the extra mile, willing to put his/her real self into the work. Committed employees 'work hard, put in their time, and do what they asked to do' (Ibid.) Contribution means finding the meaning and *purpose* in work and acting, performing. 'Talented employees must have skills, wills, and purposes; they must be capable, committed, and contributing' (Ulrich and Smallwood (2011: 6, cf. Figure 1.). The competitive advantage of today's organizations primarily depends on access to talents and then on their contribution. However, there is a shortage of talented workforce. Therefore, it is common to have 'wars for talents'. Ulrich and Ulrich (2011 in Berger and Berger [Eds.] 2011: 518-528) argue that the 'War for Talent' metaphor is about the fact that one party wins and the other loses. But it is more important to focus on how to work with talents during times of 'peace'. They argue that there is a new metaphor emerging that they call the 'Marshaling Talent' metaphor. This paper focuses on the period of 'peace' because the competencies and experiences of talents - as critical resources in the knowledge economy - are scarce.

Similarly, Buckingham and Coffman (2005: 82) write that 'Skills, knowledge, and talents are distinct elements of a person's performance.' They define talent as a 'recurring pattern of thought, feeling, or behavior that can be productively applied. ... Any *recurring* patterns of behavior that can be productively applied are talents' (Ibid.: 67, emphasis original). Based on their research Buckingham and Coffman identified three basic categories of talents:

- (10) 'Striving talents explain the *why* of a person. ...*why* he (*sic.*) is motivated to push and push just that little bit harder. Is he driven by his desire to stand out ... is he intensely competitive?
- (11) Thinking talents explain the *how* of a person. They explain *how* he thinks, *how* he weighs up alternatives, *how* he comes to a decision. ... Is he focused ... disciplined and structured ... a linear, practical thinker ... is he strategic?
- (12) Relating talents explain the *who* of a person. They explain *whom* he trusts, *whom* he builds relationships with, *whom* he confronts, and *whom* he ignores' (Buckingham and Coffman (2005: 84-85, emphases original).

Further, Buckingham and Coffman (2005: 149) argue that 'Every person has a unique set of talents, a unique pattern of behaviors, of passions, of yearnings.' 'Your skills and knowledge are relatively easy to identify. Your talents are simply your recurring patterns of behavior. They are your very essence' (Ibid.:101). However, these individual competencies, without working in teams, working with others and sharing those competencies are insufficient for organizational performance.

The most valuable organizational knowledge is created in collaboration with people of different skills, knowledge and competencies. The new world of work described by Tappin and Cave (2008: 118-124) as more international and dispersed, and globally located where remote working and increased collaboration will be supported by technology. In the future the workforce will be more heterogeneous and multigenerational which means that VETS (64-83 years, 5% of the total workforce), baby boomers (44-63 years, 37% of the total workforce), Generation X (24-43 years, 40% of the total workforce), and Generation Y (4-23 years, 18% of the total workforce) will be working together. Referring to the McKinsey Global Institute's report (2008) Tappin and Cave (2008: 120-121) compare these age generations based on the following characteristics: influences; attitude; resonant themes and characteristics; money; how they connect with the world; motivators; stressors; perception by other generations; and how they can be managed.

Leading a diverse and multigenerational workforce has both its advantages and challenges. Advantages are that combining the different skills and knowledge of these age groups could lead to a better business performance. However, 'leading a multigenerational workforce is one of the biggest challenges of leadership' (Ibid.: 123). Goriup and Šoba (2015: 109, emphasis added) conclude their empirical research about intergenerational learning by stating that the effectiveness of the knowledge society is influenced by 'the globalization processes and intergenerational integration, as well as (and in particular) the cultural capital of younger generations and last but not least, the *willingness of all generations to participate in the transmissions and acquisition of knowledge.*' The leaders' task is to create this 'willingness to share' working attitude by engaging talents at work (*cf.* Figure 1.).

The definition of generations is typically based on the period they were born.

According to this in the literature they talk about the following: veterans, the post-war generation, generation X, generation Y, generation Z. Obviously, generations have different experiences, skills, knowledge, attitude, and aims. But combining these differences and creating a sharing and supportive working environment leads to higher participation, motivation, self-actualization and consequently to higher organizational performance. Leaders ponder if they should motivate different generations differently. In Poland there has been quantitative research conducted (sample size of 700, 47 selected measurements of motivating people) with the aim of finding out what motivates different employee generations (Steinerowska-Streb and Wziątek-Staško 2016). The most important motivational factors were as follows: job security, a friendly atmosphere at work, good relations with co-workers, a recognition of the importance of the life-work balance, opportunities to demonstrate one's initiative and creativity, independence in decision making and performance, among others. The researchers conclude that 'despite the fact that there are a lot of generational differences, there are not key differences in the case of motivational factors for particular groups of people'.

In short, the tasks of leaders are to connect and communicate and to create a sharing and caring work atmosphere by engaging talents at work (*cf.* Figure 1.). This leadership challenge of the twenty first century knowledge-based economy requires that 'great leaders in the coming decade must embrace, encourage, and deploy difference ... They must provide the values, cultural glue, and leadership' (Tappin and Cave 2008: 124). These are necessary conditions for engaging talents at work.

Concepts of work engagement (WE) (*cf.* Figure 1.) and employee engagement (EE) are often used as synonyms. Employee engagement is an evolving concept and it can be defined in several ways. 'The definition and meaning of employee engagement is unclear and vague and has been interchangeably misused with many different terms' (Dagher, Chapa and Junaid 2015: 237). Dagher et al. (2015: 236-239) provide the historical evolution of employee engagement when they examine its relation to the self-efficacy construct. They argue that employee engagement 'promotes an integration of individual through a sense of satisfaction and by extension commitment to the company through continuous improvement ... engaged employees display emotional connection (emotion) while performing their duties and responsibilities (behavioral) and will display a mental absorption (cognitive) ...' (Ibid.: 234). Dagher et al. (2015: 240) offer fourteen definitions of employee engagement. When examining how these definitions evolved during the 1990-2009 period it could be stated that the three characteristics of EE, i.e. affective, physical, and cognitive, could be detected in almost all definitions.

There is a literature review on EE provided by Jakubik and Vakkuri (2015: 8-10) that discusses how EE is defined from different theories' perspectives (e.g., job demand-resources, conservation of resources, self-determination theory, social exchange theory, identity, social intelligence, theory of flow, knowledge creation

theory). The authors argue that EE in the literature is often presented as a very positive psychological state and that there would be a need to explore the negative sides of EE like burnout, exhaustion, workaholism, falling creativity, and deteriorating family relations. Ledford (2011: 293-294) argues that there are three concepts closely related to EE job satisfaction, job involvement, organizational commitment. He also discusses if high engagement is always a good thing writing that 'Several studies link high levels of job involvement to neuroticism and burnout' (Ibid.: 294).

According to Kahn (1990) the three psychological *conditions* that affect EE are meaningfulness, safety, and availability. Pratt and Ashforth (2003: 313 in Cameron, Dutton and Quinn [Eds.] 2003) present a model of meaningfulness in work and at work from an identity perspective. Meaningfulness in work is a feeling of an employee that his or her contribution of performing a task is valued. Meaningfulness at work is a feeling that is related to both to the role performed in work and to some kind of membership, belonging to a community. Safety means that that an employee is being able to work without a fear of making mistakes or any negative consequences of his or her actions. Availability means that an employee has the psychological, emotional and physical resources required to perform the job.

Similarly, according to Quantum Workplace (2015: 11-12) research on employee engagement based on responses from more than 440,000 employees at nearly 5,500 organizations the six top engagement drivers, with more than a 0.75 correlation, are: 1) The leaders of this organization are committed to making it a great place to work. 2) I trust the leaders of this organization to set the right course. 3) I believe this organization will be successful in the future. 4) The leaders of the organization value people as their most important resource. 5) I see professional growth and career development opportunities for myself in this organization. 6) I trust the senior leadership team to lead the company to future success. In brief, the top three themes emerging are: confidence in leadership, commitment to valuing employees, and positive outlook on the future. When talents feel appreciated and their contributions are valued, they find meaningfulness and purposefulness in their work (*cf.* Figure 1.).

Organizational performance (OP) depends on competences, commitment and the contributions of people they employ. However, people have their own demands from the organization they work for. They want 'gainful employment' (Lopez et al. 2015: 425-433). People are motivated, happy and satisfied at work when their competences are needed, their commitment is appreciated, and when their contributions are valued. According to Lopez, Pedrotti and Snyder (2015) gainful employment has nine characteristics: 1) happiness and satisfaction is at its heart 2) positive engagement and involvement 3) companioning of and loyalty to coworkers, bosses, and companies 4) a working environment that respects and appreciates diversity 5) safe working environment 6) variety of duties performed 7) purpose derived from providing products or services 8) sense of performing well and meeting goals 9) income for one's family and oneself.

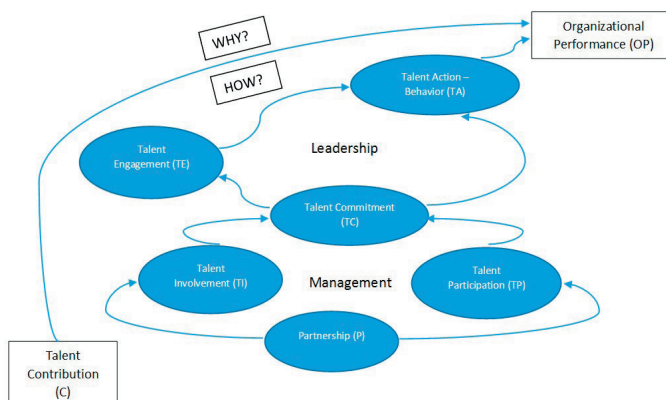
A general goal for all organizations is to become a high-performance work system (HPWS). The goals could be identified as measurable and as qualitative. On the one hand organizations want to be efficient, effective, productive, and profitable, to have a competitive advantage and economic success. On the other hand, organizations want to follow ethical and legal codes, they want to act with social responsibility, they want to provide place for socialization, belonging, community, well-being, happiness, satisfaction, and personal growth. The goal of this paper is not to measure the impact of talent engagement on organizational performance but to explore how talent engagement could be achieved. When leaders and managers succeed, then talents find meaningfulness in their work, they will become committed, engaged, and they will contribute to the goals of the organization.

Summing up, in this part of the paper the context of talent engagement (Figure 1.) and its main building blocks - the knowledge economy as context, skills and knowledge, talents, work engagement, and organizational performance - were briefly discussed. Understanding these concepts is the foundation of the talent engagement framework to be presented next.

3. TALENT ENGAGEMENT FRAMEWORK

The goal of this paper is to provide a framework that helps to understand how talents can be engaged in the knowledge economy and how this contributes to organizational performance. Figure 2 presents the proposed framework. In order to maximize talents' contribution (C) to organizational performance (OP) talents should be in some kind of *partnership* (P) with the organization. This partnership means a relationship between the employer and the employee. Foot and Hook (2011: 76) argue that partnership is an evolving concept and they came up with several definitions of partnership.

Figure 2.: Talent engagement framework



Source: Created by the author

The simplest definition is: partnership is when 'employers and employees working together jointly to solve problems' (ACAS 1997: 13). A more detailed definition of partnership includes the following: commitment to success of the enterprise, building trust, recognizing legitimate roles and interests, employment security, information and consultation, sharing success, training and development (Industrial Relations Services 2004: 15). Foot and Hook argue that the three commonalities between different definitions of partnership are the importance of security, the common aim of business success, and the employee voice.

Partnership is directly connected to talent *involvement* (TI) and *participation* (TP). If employees, talents are involved and actively participate in achieving the common business goals it will lead to *commitment* (TC). According to Ledford (in Berger and Berger [Eds.] 2011: 292) 'Employee involvement is a set of management practices that extend decision-making power, business information, technical and social skills, and rewards for performance.' Furthermore, he adds that involvement 'is a property of organizational systems and not individuals' (Ibid.). He distinguishes three types of involvements: suggestion involvement, job involvement, and the combination of both, which he calls high involvement. Participation is a distinct concept from involvement and it is related to power in decision-making. High productivity, efficiency, effectiveness, higher organizational performance are the results of high involvement and engagement. Managerial practices play a vital role in involvement and participation that lead to commitment (Figure 2.). Commitment is an attitude, it is a combination of cognitive, emotional, and moral skills. Moss Kanter (2001: 204-216) argues that commitment has three dimensions: mastery, membership, and meaning. She adds that money could be considered as the fourth M of commitment. Moss Kanter writes that commitment 'involves a set of linkages between people and organizations that build on human capabilities. People have cognitive, emotional and moral skills' (Ibid.: 206). With her words *mastery* she means caring about today and thinking about tomorrow; *membership* is cementing the We and caring about Me; and *meaning* is believing in a larger purpose.

Figure 2. shows that talent commitment (TC) as an attitude could drive *behavior, action* (TA) and at the same time TC could lead to a higher level of positive attitude toward work i.e., *work engagement of talents* (TE). Newman, Joseph and Hulin (in Albrecht [Ed.] 2010: 43-61) discovered strong correlations between job attitude - as they call it the '*A-factor*' - and job satisfaction (0.71), affective organizational commitment (0.84) and job involvement (0.63). Job attitude and employee engagement are highly interrelated (0.77) as well. Similarly, Ledford (2011: 295-297) examined how employee involvement leads to employee engagement, and how this results in organizational effectiveness such as increased job performance, increased citizenship behavior, and reduced withdrawal behavior (turnover, absenteeism, etc.).

Action and behavior (TA) depend on commitment (TC) and engagement (TE) but it has other influencers as well. Values, beliefs, motivational factors, passion,

drivers such as challenges, colleagues, and money can all play an important role in actions. Engagement is some kind of attitude of putting your real self (mental - cognitive, emotional - affective, behavioral - physical and social - moral) into your work. Talent engagement (TE) is when talents are passionate about their jobs and they are willing to go the extra mile. The transition from commitment (TC) to engagement (TE) depends highly on the intrinsic motivational factors (habits, attitudes, drives) but the role of managers or leaders is essential too. Good, open communication and prompt feedback, care, listening, appreciating, valuing, and providing clear goals and resources will facilitate a higher level of TE that could lead to higher level of contribution to the common goals and success of the organization.

Finding out the determinants of employee engagement (EE) and their impacts on both individual and organizational performance is a hot topic in contemporary research. Anitha (2014) based on causal study of 383 responses to 700 questionnaires found out that among the seven drivers of EE (i.e., workplace well-being, organizational policies, compensation, training and career development, team and co-worker relationship, work environment) the work environment and the team and co-worker relationship had the most significant impact on EE. 'This signifies the importance of a healthy work atmosphere and good interpersonal harmony with fellow members in the organization for anyone to be engaged positively at work.' (Ibid.: 318). Schroeder-Saulnier (in Berger and Berger [Eds.] 2011: 340-348) focuses on the relationship between EE and organizational performance, and argues that engagement matters because 'A direct line can be drawn through engagement to retention, productivity, customer satisfaction, and financial performance' (Ibid.: 340). She identified the seven drivers of organizational performance as follows: leadership; structure, roles and capability; people systems and processes; strategy; positive work culture; employee engagement; and customer satisfaction. In her conceptual model of organizational effectiveness (Ibid.: 342) employee engagement plays a central role. She argues that the role of leadership in EE is essential in creating a positive work culture (*cf.* Figure 2.).

How does the concept of talent engagement (TE) differ from EE? It could be argued that TE is a special dimension or a segment of EE. Employee engagement or work engagement is a broader category. Both EE and TE has their cognitive, affective, and behavioral dimensions. However, TE requires that competence as an ability, commitment as willingness, and contribution as purposefulness exist at the same time (*cf.* Figure 1.).

Summing up, here the talent engagement framework (Figure 2.) is presented with the aim of contributing to a better understanding of how talents can be engaged in the knowledge economy and how their contribution could lead to organizational performance. The following part of the paper is a discussion about the challenges of talent engagement.

4. CONCLUSION

The goal of this theoretical paper was to answer the following question: '*How can talents be engaged at work in the knowledge economy?*' by proposing a framework for talent engagement (*cf.* Figure 2.). The research methodology is literature review. The research question could have been formulated as a *why* question. In that case answering it would have been easier. There has been a lot of empirical research in this area (e.g., Quantum Workplace 2015; Dagher et al. 2015; Ledford 2011 and Ulrich and Ulrich 2011 in Berger and Berger [Eds.] 2011; Albrecht [Ed.] 2010; Gallup Employee Engagement) that emphasize the positive impact of work engagement on organizational performance. They argue that engaged employees contribute more, feel happier and more energized, and their organizations have higher profits, higher sales, and an increased market share (*cf.* Jakubik and Vakkuri 2005; Quantum Workplace 2015). Furthermore, there are numerous studies that show the relationships between engagement and its different influencers and dimensions. The number of engagement models is tremendous (*cf.* Albrecht [Ed.] 2010). However, all these models are context specific and have been created for proving specific hypotheses (e.g., Dagher et al. 2015 examine the relationship between dimensions of engagement and self-efficacy constructs in a non-western context).

Therefore, the author of this conceptual paper realized the need for a general framework showing *how* talent engagement happens, how the concept of 'Marshaling Talent' can lead to performance. The proposed model (*cf.* Figure 2.), as the outcome if this research, is a theoretical model. It shows the process of engagement and the connections of engagement-related concepts presented independently in the literature. The framework presents *how* they together lead to organizational performance. Because the proposed talent engagement framework is on a general level it is important to discuss how this process works, how the elements of the model are interconnected.

Next, the discussion will be about the following challenges of engaging talents at work:

- Are there any bosses and subordinates in the knowledge economy?
- What is the role of trust in the knowledge economy?
- Are talents loyal and committed to the organization?
- What factors are the drivers of engagement?
- What motivates talents to become engaged at work?
- Can talents be managed?
- Who are the good managers and good leaders?
- How can managers and leaders be the catalysts of engagement?

The knowledge economy (Figure 1.) relies on knowledge workers, knowledge professionals, and talents. According to Drucker (2008: 37) the three main characteristics of the knowledge economy are 1) the infinite nature of knowledge 2) up-

ward mobility and 3) the potential for failure as well as for success. He argues that 'knowledge workers are not *subordinates*; they are "associates" ... knowledge workers must know more about their job than their boss does - or else they are not good at all' (Ibid.: 71, emphasis original). Drucker believes that knowledge workers' talents cannot be managed; they have to manage themselves. The old ways of superior and subordinates working relationships will not work with talents in the future. Concurring with Drucker, Moss Kanter (2001: 226) argues that the new generation and talents would like to take control of their career, they want to take their future into their own hands, they do not want to be subordinates. Talents are seeking meaningfulness in their lives and in their work.

Partnership, involvement, participation (Figure 2.), cooperation, collaboration, and communication with colleagues and other stakeholders all have positive impacts on knowledge sharing behavior and on commitment. However, they require intra- and inter-organizational *trust*. Trust in the knowledge economy is the prerequisite for exchange of ideas and innovations. Sharing tacit and explicit knowledge effectively makes the organization more successful, as it lowers costs, increases productivity, and enhances innovation. The ability of an organization 'to develop and foster trusting relationships becomes a competitive advantage in the new business environment' (Zanini and Musante 2013: 488). Talent engagement requires a working environment where people trust each other and there is no fear of punishment if mistakes are made.

How can we maximize talents' input to the business performance? How can we provide for them meaningful and challenging work? How can we get their *loyalty* and *commitment*? How can we create an engaging atmosphere with collegiality where they will be ready to bring their cognitive, emotional and behavioral competencies to their work? The commitment and loyalty of knowledge workers is reinforced by providing training for future work, giving challenging assignments, having good colleagues, and a good salary. Moss Kanter concludes that 'The money has to be right, but you can't buy loyalty just with money. Building long-term commitment depends on the nature of the work itself, the opportunity to grow and stretch, the chance to speak up and be listened to, and the feeling of making a difference' (2001: 226). Loyalty depends on affection towards coworkers, a pleasant work environment, an easy commute, challenging work, and flexible work hours (Moss Kanter 2001: 205). However, Drucker has a different opinion. He argues that 'There is a lot of talk about trying to restore a knowledge worker's loyalty to their employing organization, but such efforts will go nowhere. Knowledge workers may have an attachment to an organization and feel comfortable with it, but their primary allegiance is likely to be to their specialized branch of knowledge. ... knowledge workers have mobility. They can leave. They own their *means of production*, which is knowledge' (Drucker 2008: 41 and 72, emphasis original). Knowledge workers are highly mobile. Their mobility is recognized by Moss Kanter as well (2001: 198-199) when she refers to Todd L. Pittinsky

who used the term *'knowledge nomads'* for knowledge workers. Moss Kanter writes that knowledge workers 'are loyal to an industry, to a technology, and to their profession, rather than to a particular company. This high mobility of knowledge workers and talents, however, makes the transfer from commitment to engagement (Figure 2.) at the same time more difficult and more important.

As it was mentioned earlier, moving from engagement and commitment to action and from action to organizational goals (Figure 2.) depends on values, beliefs, motivational factors, passion, and on other drivers such as challenges, colleagues, and money. Aon Hewitt (2010: 7) defines the six *drivers* of engagement as: 1) *quality of life* (physical work environment, work-life balance) 2) *work* (work activities, sense of accomplishment, resources, processes) 3) *company practices* (policies and practices, performance management, brand alignment, company reputation, diversity) 4) *people* (senior leadership, managers, colleagues, valuing people, customers) 5) *opportunities* (career opportunities, training and development) and 6) *total rewards* (pay, benefits, recognition). There are similarities between these six drivers and the seven determinants indicated by Anitha (2014) and the seven drivers of EE identified by Schroeder-Saulnier (in Berger and Berger [Eds.] 2011: 340-348).

Talented employees want to grow. The growth values according to Autry (1991: 158-159) are: spontaneity (risk, freedom); feeling connected to others; vulnerability; self-knowledge; wisdom (truth, ability to learn); authenticity (being the same wherever you are); truth at any cost (accept pain); communication with others; and potential. What *motivates* knowledge workers are the following: getting satisfaction from their work; performing challenging tasks; believing in the organizational mission; having the possibility for continuous training; and seeing the impact, the results of their work (cf. Steinerowska-Streb and Wziatek-Staško 2016). Collaboration with colleagues and sharing knowledge is an essential condition developing both organizational (innovation, knowledge) and individual (personal development, learning skills) capabilities. Human resources researchers, Iqbal, Toulson and Tweed (2015) found that extrinsic motivational incentives (i.e., financial reward and recognition) do not work with talents and that they have a minor, sometimes controversial, impact on their knowledge sharing behavior. They conclude that 'rewards are less effective in improving knowledge sharing behavior compared to HRM practices like employees' collaboration and participation' (ibid: 2015).

Managers and leaders play an important role in 'Marshaling Talent' during the journey to performance (Figure 2.). Can talents be managed? Who are good managers and good leaders? How can managers and leaders be the catalysts of engagement? Knowledge workers and talents (cf. Tappin and Cave 2008: 121) do not want to be managed by their superiors, they want to be equal partners at work, and they want to be lead. Knowledge workers have to manage themselves (Drucker 2008: 481-497) by asking: Who am I? Am I a reader or a listener? How do I learn? (cf. striving, thinking, and relating talents by Buckingham and Coffman 2005) What are my strengths? How

do I work? What is my contribution? Where do I belong? What are my relationships? (cf. Pratt and Ashforth in Cameron, Dutton and Quinn [Eds.] 2003: 313) What are my values? What are my responsibilities?

Engaging talents at work requires good managers and good leaders. According to Lopez, Pedrotti, and Snyder (2015: 434, emphasis added) the ten common characteristics of the very best bosses are that they: provide clear goals and job duties to employees; have personal awareness of biases and power differentials and strive toward cultural competency; are genuine and authentic in their interactions; are ethical and demonstrate moral values in their interactions; are honest and a model of integrity; *find employee talents and strengths and build on them*; trust workers and facilitate their employees' trust in them; encourage diverse views from diverse employees (cf. multigenerational workforce, Tappin and Cave 2008: 123; Goriup and Šoba 2015; Steinerowska-Streb and Wziatek-Staško 2016) and accept feedback about themselves; set high but reasonable standards for employees and for themselves; are not just friends to employees but can deliver corrective feedback. They argue that when a boss has these characteristics employees are more productive and happier at work.

Engagement is a higher level of commitment (Figure 2.). To make this jump in attitude is the challenging task of leaders. The role of management in this process is to become a 'catalyst'. The four core activities of the 'catalyst' role are *'select a person, set expectations, motivate the person, and develop the person'* (Buckingham and Coffman 2005: 56, emphasis original). They write about managers as 'catalysts' that: 'When selecting someone, they select for talent ... not simply for experience, intelligence, or determination. When setting expectations, they define the right outcomes ... not the right steps. When motivating someone, they focus on strengths ... not on weaknesses. When developing someone, they help him (*sic.*) find the right fit ... not simply the next rung on the ladder' (Ibid.: 63).

The author of this paper concurs with Buckingham and Coffman (2005: 164) in that 'for great managers, the core of their role is the catalyst role: turning talent into performance. So when they spend time with an employee, they are not fixing or correcting or instructing. Instead they are racking their brains, trying to figure out better and better ways to unleash that employee's distinct talents ...'. This catalyst role is the key to reach talent engagement from talent commitment that will lead to a behavior that adds extra value to organizational performance (Figure 2.).

On the whole, this conceptual paper has an ambitious goal: contributing to a better understanding of the complexity and challenges of increasing organizational performance through talent engagement in the knowledge economy. The outcome of the literature review is the proposed talent engagement framework (Figure 2.) as a journey to performance. It combines several concepts into a system that could clarify this phenomenon. However, it is apparent that both the framework and this paper have several limitations. The discussion about the challenges of talent engagement should be developed further. In the future the model should be tested in practice by

conducting empirical research with leaders and talents from a multigenerational workforce. It would be beneficial to receive constructive feedback, both from scholars and business practitioners, about developmental areas and the usefulness of the proposed model. The author of this paper calls for more discussion about 'talent engagement' as a challenging but important phenomenon.

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