



# ***ENTREPRENEURSHIP***

**South-west University "Neofit Rilski"**

**Faculty of Economics**

**Issue II, Volume IX, 2021**



IX, 2021

# ENTREPRENEURSHIP

Academic edition for scientific research

South-west University “Neofit Rilski”  
Faculty of Economics



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ISSN (online) 2738-7402  
University publishing house „Neofit Rilski“  
Blagoevgrad, 2021

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Year IX, 2021  
Issue 2, DOI: 10.37708/ep.swu.v9i2

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## SYSTEMATIC REVIEW ON ACADEMIC ENTREPRENEURSHIP INDICATORS

**Fernando Almeida<sup>1</sup>**

Received: 01.06.2021, Accepted: 11.07.2021

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### **Abstract**

*This study aims to explore and synthesize the academic entrepreneurship indicators that can be used by university institutions to understand their degree of development and maturities in supporting entrepreneurship processes. To this end, a systematic review is used to characterize the studies published in the last decade, the researchers who have led this research field, the adopted methodologies, and the structure and dimensions of indicators. The results allowed us to identify a set of 29 indicators distributed by 8 dimensions such as patents, university spinoffs, infrastructures, industry engagement, process creativity, process efficiency, process outcomes, and training. This study is innovative in focusing its analysis on academic entrepreneurship indicators. The knowledge of these indicators is relevant from a conceptual and practical perspective and will help universities to improve their technology transfer processes which will serve as a fundamental element in the implementation of the university's third mission.*

**Keywords:** *entrepreneurship; technology transfer; third mission; entrepreneurial university; innovation*

**JEL Codes:** *L26, O32*

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### **1. Introduction**

The study of entrepreneurship has gained the interest of political agents, academic, and business community. According to Schumpeter (1934), entrepreneurship is directly linked to the economic development of a country, being a fundamental element in its economic growth. In this regard, increasingly financial programs have appeared to support the creation of new companies, which is mainly designed to assist the creation of new jobs for highly qualified young people. At the same time, companies look to entrepreneurship as a business strategy that aims at exploring opportunities and meeting customer needs in a creative, innovative, and sustainable way.

Universities traditionally focused on teaching and scientific research, in which the knowledge produced by the research was disseminated through teaching and

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academic publications, has gradually assumed an increasingly important role in society. With this, the concept of "entrepreneurial university" created by Etzkowitz (1993) arises, in which a series of changes in the relationship between universities and society are presented, emphasizing the role assumed by universities in the transfer of knowledge to the economy. According to this view, universities assume a more active role in the direct commercialization of research outcomes and emerge the appearance of several mechanisms for transferring knowledge to external entities. In this sense, universities assume a predominant role in the economic development of their region and in the dynamization of economic activity and attraction of talent.

One of the most recognized forms of technology transfer promoted by higher education institutions (HEIs) involves the creation of new companies, designated by various authors as academic spin-offs (Rasmussen, Mosey & Wright, 2011; Fini et al., 2011; Fayolle & Redford, 2015; Siegel & Wright, 2015). In this sense, the main adopted indicator is the number of academic spin-offs launched in the market. This indicator, despite its importance, is clearly incomplete and does not encompass all the efforts and results obtained by universities in this field. Therefore, this study intends to present a comprehensive overview map of the various dimensions involved in academic entrepreneurship. The manuscript is organized as follows: Initially, the process of performing the systematic review is described considering its various phases. After that, the results of this study are presented regarding the established research questions. Consequently, the results are discussed considering their relevance to understanding the phenomenon of academic entrepreneurship. Finally, the main results of this study are described, and their theoretical and practical implications are presented.

## **2. Methodology**

The systematic literature review is one of the most widely known types of literature review and aims to summarize all existing information about a phenomenon in an impartial and complete manner. In contrast to the non-systematic process, a systematic review is done in a formal and meticulous form. According to Kraus et al. (2020), this means that researchers must follow the plan defined in the review protocol that is responsible for establishing the sequence of steps. The framework for conducting systematic literature reviews proposed by Xiao and Watson (2019) was adopted, which establishes a set of sequencing steps (e.g., specification of research questions, selection of primary studies, assess quality, synthesize data, report findings, among others) in three key phases (i.e., planning the review, conducting the review, and reporting the review). The following sections present the stages performed and describe the actions taken in each phase of this process.

## **2.1. Research questions**

The following research questions that guide this study have been established:

*RQ1: What studies have been published on academic entrepreneurship indicators?*

*RQ2: What is the adopted methodology?*

*RQ3: Which countries and researchers are leading this research?*

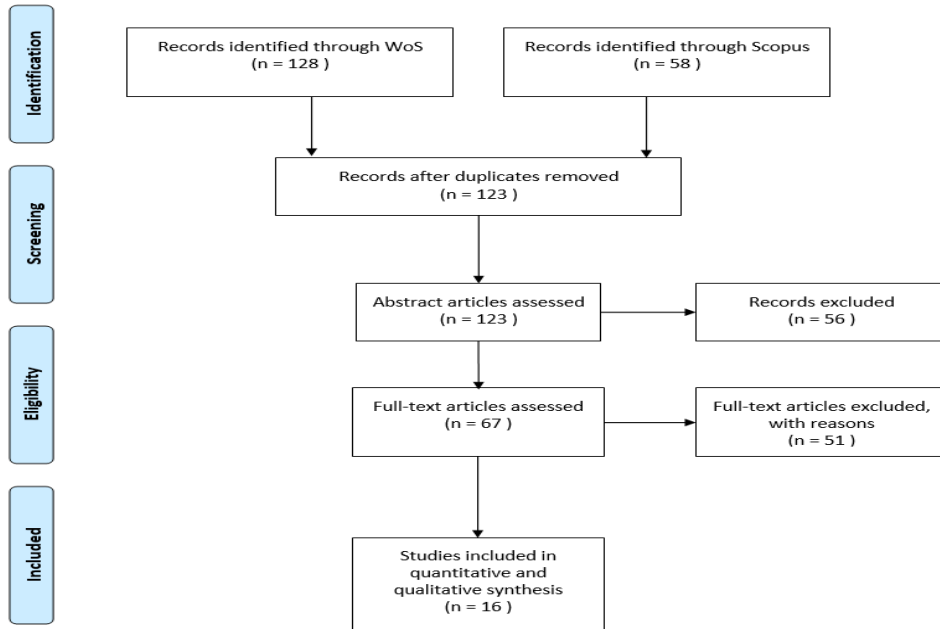
*RQ4: What kind of indicators can be identified?*

The established research questions are aligned with systematic reviews carried out in the entrepreneurship field such as Bazan et al. (2020), Champenois (2020), and Liñán and Alain (2015) in which the research questions drive the process of detailed analysis following a systematic review protocol using PRISMA as a framework to include, exclude and analyze the relevant studies. In this study, the same approach was adopted in which the relevance of each research question was previously evaluated. RQ1 is relevant to reveal the evolution of studies published in this area over the last decade; RQ2 allows exploring the methodologies used in these studies (e.g., quantitative, qualitative, mixed-methods, literature reviews, among others); RQ3 identifies the countries and researchers that have led this area of research, which is a piece of relevant information for the establishment of future research partnerships; and RQ4 is key to identifying the typologies and characteristics of each indicator.

## **2.2. Protocol development**

Xiao and Watson (2019) protocol was used in the process of identification, collection, and analysis of the studies considered in the systematic review. This protocol comprises a set of eight sequential steps that include: (i) formulate the problem; (ii) develop and validate the review protocol; (iii) search the literature; (iv) screen for inclusion; (v) assess quality; (vi) extract data; (vii) analyze and synthesize data; and (viii) report findings. Xiao and Watson (2019) recommend that in the process of identifying the studies to be included in the systematic review, the title, abstract, keywords and full-text should be carefully analyzed. Figure 1 presents the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA), in which the number of studies included and excluded in each phase is indicated.

Figure 1. PRISMA diagram



Source: Own source

A total of 123 publications were identified after the removal of published studies that are simultaneously indexed on the Web of Science and Scopus. After that, the abstract was analyzed to ensure that the studies specifically address academic entrepreneurship metrics. 56 articles were excluded because they address other topics such as the entrepreneurial education process or the economic impact of an HEI entrepreneurial. After this step, there were 67 articles for full-text analysis, of which 51 papers/chapters were excluded for discussing the topic of the entrepreneurial university, but not presenting specific indicators to measure its performance. In the end, a total of 16 studies were considered, respectively: Astebro et al. (2017), Bai and Han (2017), Choudhry and Ponzio (2019), Hayter et al. (2018), Henrekson and Sanandaji (2019), Holgersson and Aaboen (2019), Lai et al. (2017), Marzocchi et al. (2019), Matt and Schaeffer (2018), Mehlhorn et al. (2015), Secundo and Elia (2014), Siegel and Wright (2015), Skute (2019), Sungur and Zararci (2018), Tseng and Raudensky (2014), and Vinig and Lips (2015).

### 2.3. Inclusion and exclusion criteria

Only scientific studies published in the last decade (i.e., from January 1, 2010 to December 31, 2019) have been included. Only studies published in or translated into English have been considered. Also included were only peer-reviewed studies published in journals, national/international conferences, and book chapters indexed

by the Web of Science and Scopus (regardless of quartile). Gray literature of scientific articles without peer review and indexed by other bibliographic indexers were excluded. Duplicate studies (e.g., indexed simultaneously by the Web of Science and Scopus) were also excluded. Dissertations and theses were also excluded. Finally, all studies published before 2010 were ignored.

#### **2.4. Data collection and search terms**

All publications were collected from September 21, 2020 to November 9, 2020. The publications were mapped in an Excel file. In the first phase, the collected studies were analyzed considering the title, abstract, and keywords. After that, and only the studies that passed this 1st phase were analyzed considering their full-text. After that, and in a 2nd phase only the relevant studies on academic entrepreneurship indicators were considered. For each of these publications, the following information was collected: (i) identification of the authors considering their name, affiliation, and country; (ii) the title of the article; (iii) the title of the scientific journal, conference or book where it was published; (iv) the year of publication; (v) the scientific indexer; (vi) the type of study (i.e. qualitative, quantitative, mixed-methods, and literature review); and (vii) quality evaluation. Furthermore, a summary of the main conclusions of the study and its academic entrepreneurship metrics was also performed. Four teams of three students/researchers in the field of entrepreneurship and innovation participated in this process of collecting and evaluating scientific publications.

The research strategy considered the combination of three groups of keywords: (i) academic and university; (ii) entrepreneurship; and (iii) indicators, measures, indexes, and benchmarks. This combination of keywords resulted in eight search terms: (i) academic entrepreneurship indicators; (ii) academic entrepreneurship measures; (iii) academic entrepreneurship indexes; (iv) academic entrepreneurship benchmarks; (v) university entrepreneurship indicators; (vi) university entrepreneurship measures; (vii) university entrepreneurship indexes; and (viii) university entrepreneurship benchmarks.

#### **2.5. Quality assessment**

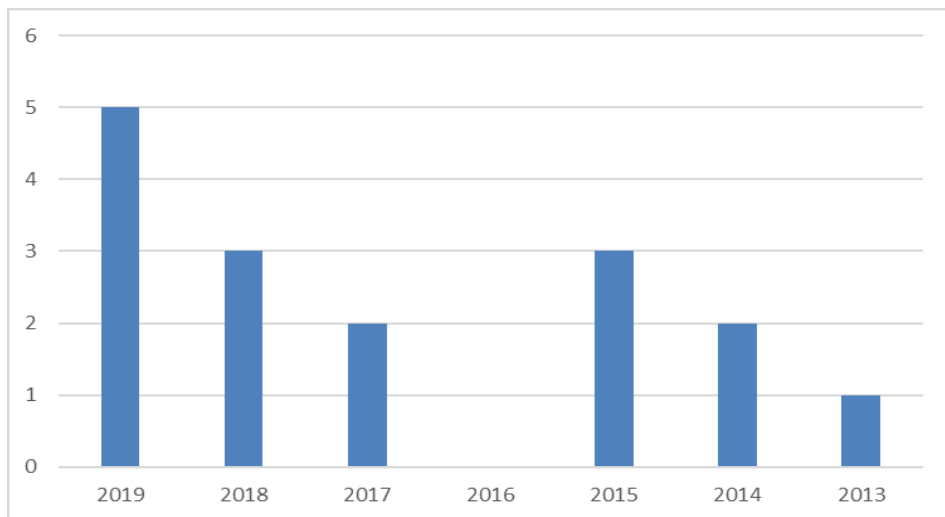
The involvement of a total of 12 students/researchers allowed the process of data collection and evaluation of each study to be distributed. Each study was evaluated by two different teams using a three-level Likert scale (not adequate, undecided, adequate). In case of disagreement in the evaluations, a third team is involved to eliminate inconsistencies. In assessing the quality of each study, the recommendations of Xiao and Watson (2019) were followed, in which the accuracy of the methodology adopted and its theoretical and practical relevance in identifying measures to evaluate the process of academic entrepreneurship undertaken by HEIs were evaluated. All studies with an average evaluation below 50% were rejected.

### 3. Results

#### 3.1. RQ1: What studies have been published on academic entrepreneurship indicators?

Figure 2 shows the evolution of the number of publications in the last decade on academic entrepreneurship indicators. The first study on the subject appears only in 2013. From this year on there has been a gradual growth in the number of publications until 2015. However, in 2016 it was not identified any publication in the area, appearing again growth in the number of publications in a sustainable way from 2017. The year 2019 is the one with the highest number of publications, representing more than 30% of publications in the last decade. Furthermore, most of the publications are published in indexed scientific journals: 14 of the publications are in scientific journals, while only 2 of them are in national and international conferences. No book chapter type publications were found.

*Figure 2. Evolution of publications*

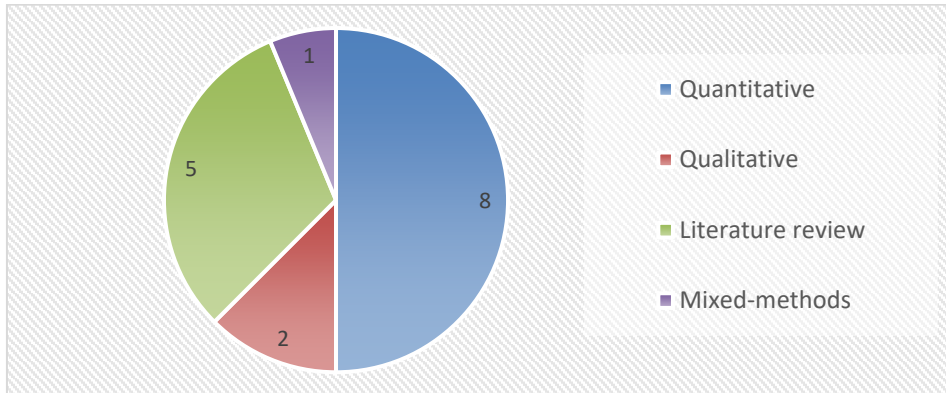


Source: Own source

#### 3.2. RQ2: What is the adopted methodology?

Figure 3 concisely shows the distribution of the studies considering the methodology adopted. Four types of methodologies were identified: (i) quantitative; (ii) qualitative; (iii) literature review; and (iv) mixed-methods.

Figure 3. Distribution of methodologies



Source: Own source

The quantitative methodology is the methodology that has been most used in studies published in the field. Half of the published studies apply quantitative methods for data exploration. Several approaches have been used as regression analysis, factor analysis, and meta-data analysis. The use of quantitative methodology has allowed studies to use local panels of data from several educational institutions in which the efficiency of technology transfer processes is assessed. This knowledge has been used to improve policies to support the launch of new academic spin-offs and to improve the processes of teaching entrepreneurship.

Secondly, the literature review is a methodology that has been used to understand the academic entrepreneurship ecosystems. However, contrary to this study, these literature reviews do not specifically focus on indicators of the academic entrepreneurship process but focus their analysis on understanding the characteristics of entrepreneurs and the entrepreneurial university. Several methods are applied like the grounded-theory and benchmarking.

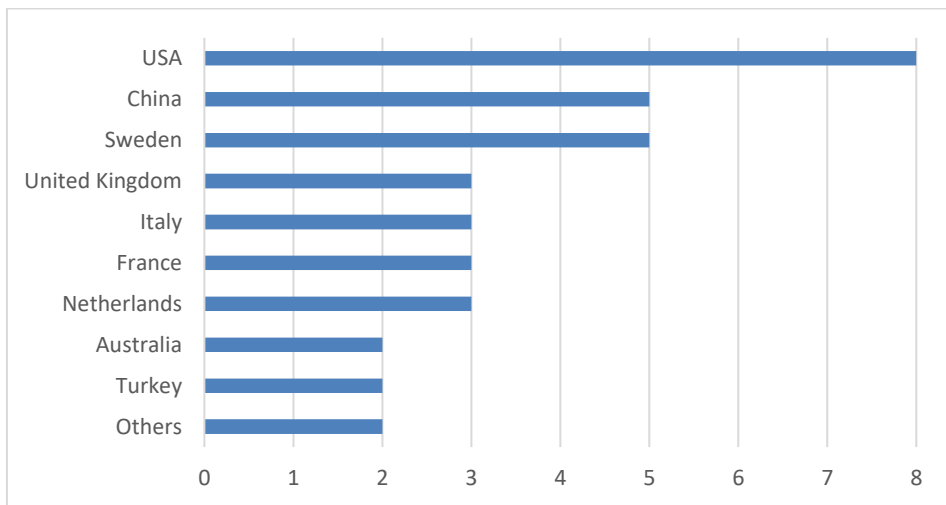
Finally, and with less representativity, qualitative and mixed-methods methodologies emerge. The qualitative methodologies apply the case studies and focus group methods. These approaches become useful to understand the phenomenon considering the unique aspects of each university and research center. Mixed-methods allow combining quantitative and qualitative techniques in a single study. Only the study by Mehlhorn et al. (2015) complements the quantitative analysis of a survey distributed among university agricultural programs in the USA, Australia, and New Zealand with a qualitative study that explores several strategies to improve entrepreneurship programs.

### 3.3. RQ3: Which countries and researchers are leading this research?

Figure 4 shows the countries that have led this line of research. The USA stands out as the country that involves the greatest number of studies in this field, followed

by China and Sweden. Interest in this phenomenon does not appear to be concentrated in a single country but is distributed in a relatively balanced way among the various geographical areas. Overall, Europe has more published studies than the USA and China as a whole. The researchers involved in this area of science have been quite diverse, there is not any researcher with more than one publication in the area. In this sense, it is confirmed that there is no geographical concentration in the analysis of this research theme.

*Figure 4. Geographical distributions*



Source: Own source

### **3.4. RQ4: What kind of indicators can be identified?**

A total of 29 indicators aggregated by 8 dimensions were identified in Figure 5. The patents dimension includes indicators related to the process of new patents granted and transferred to the business sector. The university spinoffs dimension provides a diverse set of metrics related to the number of spinoffs created from the university. However, not only the total number of spinoffs is relevant, but it is also important to understand the profitability of these spinoffs considering a distinct set of elements such as turnover, market share, created new jobs, among others. The infrastructure dimension looks at the physical structures that are made available to support entrepreneurial activity such as technological labs, incubators, and science parks. The industry engagement dimension explores the role of the relationship with the business fabric through four metrics: (i) Cooperative Research and Development Agreements (CRADAs); (ii) User Facility Agreements (UFAs); (iii) publications with industry partners; and (iv) consulting services. The training dimension considers that it is equally important to look at the role of the entrepreneurial educator. Several

indicators can be identified. From one perspective, indicators on the number of existing courses and the number of participants in each of these courses arise, but also indicators that seek to understand the dynamics of this training, particularly in exploring the multidisciplinary dynamics of teams and the increase in risk-taking propensity. Finally, three dimensions emerge related to the various phases of the entrepreneurial process from creativity, efficiency, to outcomes. In creativity, metrics related to the innovative ideas and inventive concepts emerge; in efficiency, we find transaction times, time needed to find a licensee (TNFL), and bureaucratization level; and, in outcomes, we have research projects, prototypes, pilot applications, and number of products and services developed.

Figure 5. Academic entrepreneurship indicators



Source: Own source



#### **4. Discussion**

Patents are widely highlighted in the literature as key elements to protect inventions and ensure technological development (Crass et al., 2019; Rockman, 2020). The protection of intangible assets has gained increasing prominence and not only manifests itself at the time of protection of the invention but can be fundamental to know what can be explored and how it can be exploited. A simplistic way to evaluate the success of a patenting process is through its acceptance ratio (Choi et al., 2015; De Beer, 2016; Horner, 2014). However, as Holgersson and Aaboen (2019) point out, this single metric does not allow us to understand the phenomenon of intellectual property rights by not exploring how the transfer technology offices manage intellectual property or support inventors. In this sense, complementary metrics like filing ratio and transfer ratio have emerged that allow increasing visibility on the various phases of the licensing process from patent filing to licensing and commercial exploitation.

The number of university spinoffs launched by each university is an indicator that has also gained quite notoriety (Hunady et al., 2019; Mathisen & Rasmussen, 2019; Miranda et al., 2018). It is an indicator that has become more important as the 3rd mission of the university has consolidated itself in scientific circles. The link to society and the economic role of universities is nowadays recognized as a relevant element that can complement university funding (Berghaeuser & Hoelscher, 2020; Compagnucci & Spigarelli, 2020; Rubens et al., 2017). Several indicators are used in this dimension and exploit the results obtained by these spinoffs such as turnover, market share, and number of created jobs. In particular, the latter indicator has a double effect since, according to Scholten et al. (2015), spin-offs are able to attract qualified employees from universities. Consequently, they also act as tools for the advanced training of students and facilitate their integration into the labor market. Another highly relevant indicator associated with the results obtained by academic spin-offs is their survival rate. Furthermore, another relevant indicator is related to the process of financing start-ups. The way these companies can attract external funding is also another indicator that allows us to gauge the economic impact of spin-offs on society. There are also indicators related to infrastructures for the process of creation and development of technology and spin-offs. The technological labs emerge as central elements in technology research and development, often assuming the commitment to advise the government in scientific areas for the preparation of public policies (Osorio et al., 2019). Incubators are relevant elements to encourage entrepreneurial activity by supporting the development of new businesses in a technical and managerial way (Carrasco & Aceytuno, 2015; Hess & Siegwart, 2013). Finally, and in a more mature phase, the science parks host technological start-ups in an environment of great proximity and sharing of resources among the start-ups hosted there. Lamperti et al. (2017) point out that science parks are instruments that

facilitate technological policies associated with innovation policies that foster synergies between business, government, and educational institutions.

Besides the traditional processes of creating an academic spin-off, other forms of technology and knowledge transfer emerge. In the systematic review process carried out, two authors stand out who explicitly address this issue and present specific indicators. Choudhry and Ponzio (2019) suggest the measurement of the number of CRADA and UFA. Hayter et al. (2018) present two other metrics related to the consulting services performed and the number of publications with industry partners. Although scientific production is a widely recognized indicator in the 2nd mission of universities, this new approach is distinct in emphasizing that it is important to distinguish publications that are made in conjunction with industry partners. This suggestion is in line with the model advocated by Bentley et al. (2015), in which the importance of universities combining basic and applied research is highlighted.

Indicators were also identified that analyze the process of academic entrepreneurship. At this level Secundo and Elia (2014) present indicators related to the analysis of creativity and outcomes of this process. Creativity is seen in entrepreneurship as an indispensable element. According to Fillis and Rentschler (2010), this relationship is driven by entrepreneurship to provide the creation of a product or service to solve some problem or facilitate the lives of its consumers. The outcomes are also important elements to understand how the processes of technology transfer are effective in the emergence of research projects, prototypes, and pilot applications. These elements are also fundamental to understand how the innovation process has generated results for organizations (Almeida et al., 2019). Besides analyzing the effectiveness of these processes, Choudhry and Ponzio (2019) argue that the efficiency of these processes should also be explored, thus giving rise to indicators related to TNFL and debureaucratization of technology transfer processes.

Finally, indicators emerge that explore the functioning of the processes of teaching entrepreneurship. Entrepreneurial education has been an emerging area of training offered by universities (Aadland & Aaboen, 2020; Linton & Klinton, 2019). If compared to the traditional educational model, whose main concern is the teaching of curricular contents, the training focused on entrepreneurship provides the student with complementary skills that make the individual more competitive in the corporate world. Therefore, entrepreneurial education does not exclusively seek to develop new entrepreneurs. Almeida and Amaral (2019) state that entrepreneurial education allows the development of skills to adapt to new situations and fosters the autonomy, strategic vision, persistence, and proactivity of students. Besides basic indicators related to the number of courses and participants in this field, other indicators suggested by Marzocchi et al. (2019) like the team dynamics and risk-taking propensity also emerge. The way in which these indicators can be measured becomes more complex, often being collected from surveys or semi-structured interviews.

## 5. Conclusions

The analysis of the phenomenon of academic entrepreneurship is a relatively recent topic, and therefore the first study that explicitly presents a proposal for indicators to measure the performance of universities in this field appeared only in 2013. Countries such as the USA, China, and Sweden that have stood out as the most-innovative economies have taken the lead in this area of research by conducting essentially quantitative studies that aim to understand the performance of technology transfer processes on a national, regional, or local scale.

Although the number of spin-offs and patents launched by each university is the most prevalent indicator, it is important to highlight the role those other complementary indicators can play in characterizing academic entrepreneurship processes. In this sense, it has been proposed indicators that seek to characterize the existing infrastructures to support entrepreneurs (e.g., technological labs, incubators, and science parks). Knowledge and analysis of the technology transfer process emerge as a pillar for the emergence of new indicators that allow us to characterize this phenomenon according to the perspectives of creativity, outcomes, and efficiency. The relationship and proximity with the industry have also served a field that has led to the emergence of indicators such as CRADA, UFA, publications with industry partners, and consulting services. Finally, the relevance of entrepreneurship education for universities has also served the emergence of indicators relating to the success of entrepreneurship education considering multiple perspectives such as the number of courses, number of participants, team dynamics, and risk-taking propensity.

This study offers both theoretical and practical contributions. In the conceptual dimension, this systematic review of the literature has enabled the synthesis of a diverse and complementary set of indicators that characterize academic entrepreneurship. This information is of great relevance to university institutions and technology transfer offices that can use these indicators to assess the degree of maturity of their processes in the academic entrepreneurship field. As a result, it is possible to define quality policies that enable institutions to diversify their sources of funding and increase their visibility at an international level. However, this study presents some limitations that it is relevant to recognize. First, the local context of each of these indicators is not explored, which may become more relevant in the specific context of each university. Secondly, the relative importance of each of these metrics for universities, polytechnics, or research centers is not specified. Finally, no specific and detailed information is given on how each of these metrics can be calculated. In this sense, and as future work, we consider that it is relevant to explore this topic so that associated with each indicator there may be a set of metrics and benchmarking.

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## LOYALTY PROGRAMS: DO COMPANIES REALLY MAKE CONSUMERS LOYAL?

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Received: 09.10.2021, Accepted: 20.10.2021

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### Abstract

*In the markets of different products and services, the interests of both, companies and consumers collide. Companies that offer products and services expect a return on investment and higher profits. They can achieve these goals only if they have regular consumers, preferably loyal who will buy products and services more often or in larger quantities. The companies are interested in achieving long-term and sustainable relationships with the consumers and they want to minimize the churn and their switching to competitors. Consumers, on the other hand, have more sophisticated demands and expect more value for less money. They are interested not only in the quality of the product, but also in packaging, discounts, cashback, rewards, additional customer services, free shipping, maintenance, special treatments, reputation, etc. To meet these consumer expectations, companies offer many promotional activities, including loyalty programs. Loyalty programs, as part of the CRM (customer relationship management), are marketing programs that reward consumers for their repeated purchases over a longer period of time. Unlike other promotional tools, loyalty programs need to build a long-term relationship between companies and their consumers. But despite the offer of such programs, many studies show that consumers are not loyal and do not fully enjoy the benefits of the programs. Do companies give “something for nothing” and spend their money in vain? What are the reasons for the downfall of loyalty programs? This paper aims to investigate the reasons for consumer disloyalty despite the offered companies' loyalty programs. The paper will also provide guidance for companies to design loyalty programs that will attract more consumers.*

**Keywords:** loyalty program, consumer loyalty, customer retention, promotion, customer relationship marketing (CRM), rewards

**JEL Codes:** M31, M37, M39

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## **1. Introduction**

Having in mind the current business environment in which many companies operate, characterized by strong competition, high customers' expectations, their new sophisticated needs and requirements, intensive use of advanced technology (social platforms, mobiles), relatively homogeneous offer of goods and services on the market, companies are under pressure to find new ways to attract new or to retain the existing consumers. Every company has two main goals: to increase popularity of the brand and attract new customers while improving value to existing ones and strengthens their loyalty. (Zlateva, 2016, p. 95) However, acquiring new customers is difficult, but retaining them is even harder. Companies are struggling for consumers (existing and potential) because they depend on them, their survival, turnover and profitability.

Nowadays, companies offer a wide range of different promotional activities for their consumers. Some promotional activities, such as sales promotions, are temporary (short term) reward programs and they are valid for a limited or pre-determined period. This kind of promotion is more convenient for new, potential consumers. However, in order to build long-term customer relationships, and stimulate repeat and more frequent purchases, companies use loyalty programs. Loyalty programs are more related to the existing consumers. They are part of the CRM (customer relationship management) that helps companies to build and grow customer relationships across the entire customer lifecycle. Loyalty programs are not new. The first loyalty program was launched by American Airlines in 1981 that invited customers to collect air miles that later could be redeemed for free flights (Oracle, 2005). Historically, loyalty programs are implemented in different ways, through different instruments, with different technology, but their purpose remains the same. Both in the past and now their goal is to identify, reward and retain consumers. Their purpose is to stimulate repeated and frequent patronage, as well as to keep consumers from defecting to competitor's products.

Today, companies are increasingly paying attention to marketing relationships aimed at establishing contact with the customer, promoting and maintaining his loyalty. (Zlateva, 2020, p. 173) On the other hand consumers love the promotional activities of companies. They perceive them as fun and entertainment that give them something more than they purchase or deserve. According to some studies in most developed markets, more than half of the adult population is enrolled in at least one loyalty program. According to Nielsen, 84% of consumers worldwide will likely choose retailers that offer loyalty programs (Nielsen, 2013). Consumers are guided by the saying that "if it's free, it's for me!" That is why the same Nielsen survey shows that customers are mostly interested in discounts and free products.

But Nielsen's report also notes a worrying fact. Namely, the survey that was conducted in 58 countries, for 16 different product categories and covered 29,000 Internet users, showed that more respondents professed no loyalty than complete

devotion to brands, service providers and retailers. According to another study, each consumer, in average, possesses from 10-15 loyalty cards in their wallet from companies that offer the same or similar products. This shows that consumers are not completely loyal to companies.

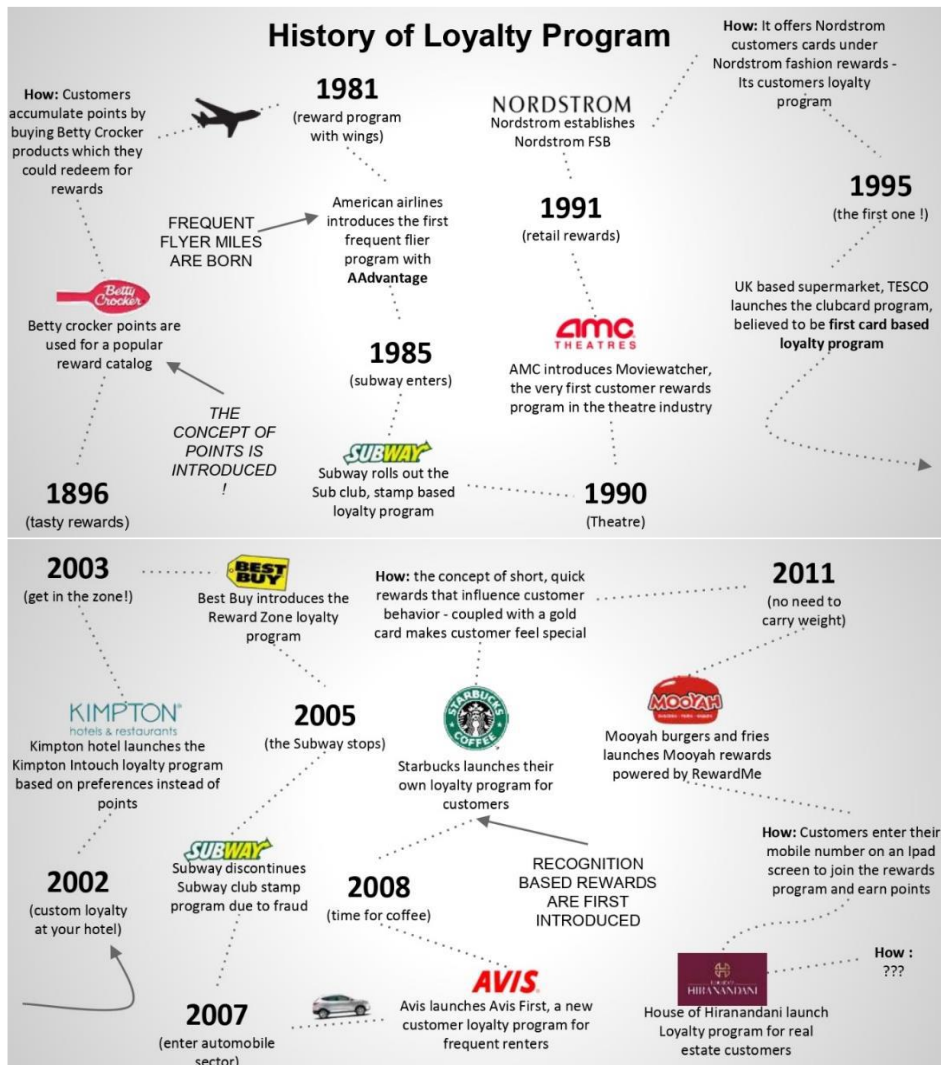
## 2. Literature Review

Before discussing loyalty programs in more detail, it is important to determine what is meant by loyalty. Loyalty is defined in different ways and most often it is correlated with satisfaction. However, in order to have loyalty, the satisfaction of the consumer is a precondition, but not every satisfaction leads to loyalty. These two terms are different. “**Loyalty** is a positive belief in the value that a company provides, leading to increased purchases over time” (Oracle, 2005). Customer loyalty is a measure of a customer’s likeliness to do repeat business with a company or brand. Customer loyalty is an ongoing positive relationship between a customer and a business. It’s what drives repeat purchases and prompts existing customers to choose your company over a competitor offering similar benefits (Qualtrics, 2021). According to Kotler, Bowen and Makens, customer loyalty is “how likely customers are to return and their willingness to perform partner-shipping activities for the organization” (1999, p. 351). Kotler urges that two factors are critical for loyalty to grow. The first factor is customer’s emotional attachment toward one certain product or service. The second factor is customer’s repeat purchase. Loyalty programs are a ubiquitous instrument of customer relationship management. **Customer satisfaction** is an “opinion measure” about company performance and how customers feel their needs were met in past interactions or by past purchases, whereas customer loyalty is a results measure that includes expectations of future behavior (Oracle, 2005).

So, how loyalty program is defined? “**Loyalty programs**, sponsored by retailers and other businesses, offer rewards, discounts, and other special incentives as a way to attract and retain customers” (Chen, 2021). They are designed to encourage repeat business, offering people a reward for store/brand loyalty. Typically, the more often a customer patronizes the merchant, and the more they spend, the greater their rewards. Loyalty programs are the programs offered to the customers in order to build an emotional attachment to the brand. Customer loyalty programs are incentives companies use to get people to return to their store or website.

There are a lot of **different names given for these programs**. For instance, in the hotel industry, the loyalty program is often named as Guest Frequent Program; while in the airline industry, it is called Frequent Flyer Program. In other industries, it is also named as Bonus Program, Customer Club, Customer Card, Fly Buys and so forth (Butscher, 2002). However, those different names basically do not differentiate one program from the others. The key differentiators are the types and the benefits offered by the programs. **The historical development** of loyalty programs is best illustrated by Nandal and all:

Picture 1. Historical development of Loyalty programs



Source: Nandal, N., Nandal, N. & Malik, R. (2020). Is Loyalty Program as a marketing tool effective?, Journal of Critical Reviews, Vol.7, Issue 6, ISSN 2394-5125, p. 107

**How loyalty programs work?** To join a loyalty program, customers typically register their personal information with the company and are given a unique identifier, such as a numerical ID or membership card. They use that identifier when making a purchase. In terms of membership, there are **two types of customer loyalty programs**, namely **limited and open**. A limited loyalty program cannot be joined by just everybody. There is a formal procedure to become a member of the program such as paying joining fees and sometimes there are certain criteria in order to be eligible

as a member such as certain purchase volume and minimum income. On the other hand, an open loyalty program can be joined by every individual and usually does not have formal criteria and application procedures. Additionally, in terms of the benefits offered, there are two types of benefits namely **hard and soft benefits**. Hard benefits are tangible benefits which are immediately recognizable by all members and lead to savings in some form or another. In most cases, hard benefits are financial benefits, for example discounts, rebates or coupons. These benefits can be easily imitated by competitors. Soft benefits are the special offers, the value-added services, the special treatment, the recognition and reward that the customer is looking for. It is mostly intangible, company and product related and less copied by competitors (Butscher, 2002).

A properly executed loyalty program can deliver significant, **long-lasting benefits** to the host company, such as:

- Product and service differentiation and get ahead of competitors;
- Customer retention;
- Profitability;
- Greater customer knowledge;
- Find new customers;
- Improve brand/ company reputation;
- Improve customer engagement & experience;
- Increased customer lifetime value.

There are **several types of loyalty program** such as (E-Satisfaction, 2021):

- **Point program:** Customers earn points on each purchase. This is the most common and the simplest program, based on a principle: “Spend more to get more”. Customers who purchase more will earn more points that later can be translated into some types of reward (discount, special treatment, additional services, tickets, free gifts, etc.).

- **Tiered program:** This one is based on how much loyal the customer is. Companies divide consumers into different tiers depending on their purchase volume. On every purchase customer gets certain points. As the points increases, the level of loyalty also increases.

- **Paid program-VIP member card:** Customer pays annual or monthly fee to join the VIP member club with access to special services, discounts, unique perks, exclusive rewards. This loyalty program is based on subscription and it’s not for free.

- **Partnered program:** The host company together with its partners offer variety of rewards to customers. On one side this program is good for companies which could deepen their cooperation and partnership with other businesses and on the other it is very effective for consumers who have a wider choice of rewards.

- **Game program:** Sometimes loyalty programs are boring. Companies need to make them more involving and interesting. They can do it by converting loyalty programs into game application to encourage repeat purchases. As soon as the

consumer completes a certain level of the game, he/she receives a certain reward. Higher level of games needs to ensure more exclusive rewards.

- **Cashback loyalty program:** Customers earn money after crossing a certain spend limit. They can then spend this earned cash on their future purchases.

- **Hybrid program:** In this program, two or more different systems are merged. For example, a merge of tier and game program means that whenever customers completed a certain level of game, they reach a new level of loyalty and can get more rewards. The most commonly used combination is point-based system with tier program because in this calculation of points is easy for the customers and motivates them to so for next loyalty level by making more purchases.

### 3. Methodology

The methodology applied in this paper is descriptive in nature. For data collection, secondary resources are used. Various studies, reports, papers, expert opinions, blogs have been referred in the present research. The sources from where the data has been collected for the present study is listed below:

- Research paper on related topic;
- Web resources related to the topic;
- All the other published material has been referred during the research.

### 4. Analysis and discussion

Although loyalty programs can be very expensive to develop and maintain, many studies show that they do not achieve the desired goals. They either do not cause significant repeated or frequent purchases or do not improve the company's profitability. Around 77% of loyalty programs fail within their first two years (Davis, 2021). The key reasons why loyalty programs fail are:

- **Wrong reward selection:** Consumers are not fully aware of what loyalty programs offer. A study by Edgell Knowledge Network investigating the loyalty programmes of 60 retailers found the vast majority of customers (81%) weren't aware what their rewards entitlements consist of or how they're redeemed (Wheeler, 2018). Also, sometimes the terms and conditions of loyalty programs are not clear, or are very complicated and do not align with the business offerings. Customers do not see the benefits and the real added value of the programs. Complicating the process only serves to turn customers off, as they lose interest as soon as the program seems like too much effort.

- **Unappealing or unattainable rewards:** Loyalty programs can fail because they do not offer tangible benefits. Sometimes they require an unreasonable amount of commitment in order to attain them. Consumer enthusiasm and excitement diminishes if they are asked to perform many transactions or spend more money than planned to redeem the rewards. One of the top reasons that loyalty programs fail is

that customers perceive the rewards as too difficult to earn, causing them to favor a competitor with an easier rewards system.

- **Poor program promotion and marketing campaign:** The company's lack of clear communication with consumers is considered to be one of the main reasons for the failure of loyalty programs. Often times, companies do not put sufficient efforts to manage communication with the customer. As a result, the program may not get the response as expected. So, how can consumers “reap” the benefits of programs if they do not know about them? It is not enough for consumers to get involved in loyalty programs. They need to be constantly reminded of their status in the program, gained reward points and awards that follow. That communication can be realized via social media, emails, direct mail, telephones, etc. Otherwise, the purpose of the program may not be fulfilled.

- **Lack of fun and engaging elements to provide “thrills”:** In order to boost engagement and to retain consumers, companies need to offer something interesting, innovative perks, gamified functions in the programs, unexpected gifts. Consumers love surprises, freebies, discounts, more value for less money.

- **The omnichannel experience is non-existent:** Omnichannel engagement means customers can interact with company via its in-store staff, website, social media channels, over the phone and numerous other mediums with no gaps or faults in the customer experience. A digital loyalty program needs to be integrated with all the other channels.

- **Personalization and tiering the consumers:** In this day and age, a ‘one-size fits all’ approach simply doesn’t work. Consumers who spend more on a brand should receive higher rewards. Also, a more detailed personalization strategy could be more impactful.

**So, what do customers want from a loyalty program?** Customer loyalty in 2021 is very different to what it was 10 years ago. According to Davis, the following list of consumers’ list is very important for companies when designing a loyalty program:

- **Simplicity:** Loyalty program needs to be simple so that customers can understand it easily.

- **Value-add marketing:** Companies need to provide their consumers with high quality content that will enhance their overall experience.

- **Setting right rewards:** Consumers need to be interested in gaining the rewards. Studies show that they prefer hard rewards (financial rewards, such as bonuses, free gifts, cashback), but they also like soft rewards, that are intangible, such as additional services, tickets, special treatments, exclusive gifts, etc.

- **Usage of tier programs:** Tiered program is one of the best ways to reward the best customers with greater deals.

- **Better communication with consumers:** Companies need to remind their customers to use the earned points. Hence, they need to send customized email/SMS messages based on buying habits.

- **Surprise and delight:** Surprising and delighting the consumers with spontaneous rewards and unexpected gifts can enhance their experience with the company or its brand. It could be a random “double points day”, or an unannounced gift on the anniversary of their loyalty program registration. An upfront reward just for signing up to the loyalty program is also a welcome surprise. It provides the customer with a sense of instant gratification, and gets them motivated to earn points and redeem more rewards.

- **Personalization:** By storing and analyzing customer data, company has valuable insights to customer spending habits, and can send tailored communications based on each individual customer’s previous transactions and various other interactions with the brand. Perhaps one customer would appreciate 50% off all ties and collared shirts for one week only, while another customer would prefer free shipping on their next purchase of jewelry and accessories.

- **Gamification:** Everyone likes games and playing. So, instead of boring loyal programs, companies can offer different types of games and their different levels could bring different rewards based on purchases.

- **Omnichannel engagement:** Omnichannel engagement allows the customer to interact with the brand seamlessly across numerous channels, consistently picking up where they left off last time.

The current state of customer loyalty has been impacted by the global COVID-19 pandemic. It could be expected an increased focus on developing technology that will further enhance personalization through segmentation, as well as a continuing shift towards customer lifetime value based on the consumer experience, rather than the value of the product.

## 5. Conclusion

Loyalty programs are profitable if they are conducted right. A company which provides loyalty program benefits enjoys a competitive advantage over their competitors. The aim of each loyalty program is to attract consumers to purchase more in quantity or in frequency. Also, it helps in building a long-term and profitable relation with customers as well as building a personal relation with them. However, loyalty programs should be implemented carefully so that the profitability does not get impacted. There should be a proper mechanism for feedback from customers by which one can identify the response towards its loyalty program.

The implementation of loyalty programs is not an easy task for companies. Repeated purchases do not guarantee the customers loyalty towards the company.

Customers are very vulnerable and easily switch to other brands or companies as they have a lot of options to choose. Thus, managers should fully understand that

making customers loyal to the company means not only to encourage them to make repeat purchases, but also to build customers' emotional attachment to the company.

The best way companies to meet the expectations of consumers is to do a thorough marketing research of their needs and wants. Based on the results, companies need to offer a tailor-made, personalized, entertaining loyal programs. Having in mind the new technology, it is also recommendable to use innovative concepts in the online space.

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## COVID-19 PANDEMIC AND CURRENCY RISK ANALYSIS IN GEORGIA

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Received: 30.09.2021, Accepted: 15.10.2021

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### *Abstract*

*This article discusses the main problems, challenges and peculiarities of monetary policy in Georgia. Analyzes the currency crisis caused by the covid-19 pandemic and outlines ways to overcome it. Presents a comparison of the Georgian lari with the most stable currency in the world over the last 100 years (against the dollar). At the end of the publication, given the current reality, some predictions and recommendations are presented. The paper also argues that in order to properly assess and manage currency risks, first of all, it is necessary to properly understand the essence of money, which even today, in the conditions of accelerated economic processes, is not clearly defined. In particular, whether money should be a tool for conducting monetary policy.*

**Keywords:** Covid-19 Pandemic; Pandeconomy; Currency Risks; Georgian Lari; US Dollar; Crypto Currency

**JEL Codes:** F31, G01, H12

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### **1. Introduction**

In any textbook of economics, money is defined as a measurement of value, means of circulation, payment, accumulation and international exchange. To perform these functions, it must have a number of properties, so it must be: recognizable, easily portable, durable, divisible, recognizable, difficult to forge, and limited in quantity. All these qualities are necessary for money to perform all five of its functions well. In one particular country it is possible to have money that represents value to the local population and meets most of the features listed above. In that case, it will be real money for the people of this country, so it will be possible to exchange various items in it (voluntarily).

However, today there is no such country locked in its head and, consequently, there is a need for the function of money to be performed by something that will have value for a country with all cultures and traditions. In this case, a serious problem

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arises - if for some reason one country has a decisive advantage over others, it has the opportunity to dictate its terms to others (for example, if resources are limited to everyone except one country).

Since there is a lot of political interest in the formation of world money as a barrier, it will take humanity a long time to get there. Until then, the task of each country, in the current situation, is to find the best solution for itself in the matter of money.

In this regard, we think it will be interesting to review the main challenges of monetary policy in more detail. In general, currency regimes can be divided into two groups:

1. The country does not have its own national currency;
2. And, the country has its own national currency.

In the case of owning national currency, the issue of its relationship with the currencies of another country arises, which then raises some problems. These problems are obstacles for business (and not only business) entities in their activities.

Due to the recent events in the world, it can be boldly said that today the main players are not the governments of the country, but the national banks and the action programs developed by them. From the beginning of this year, the currency crisis is obvious and in case of inaction, it can turn into a financial crisis and, especially, a currency collapse. Therefore, the monetary policy pursued by central banks serves two main purposes: on the one hand, to encourage weakened economic activity and, on the other hand, to curb inflationary processes caused by the depreciation of the local currency (Abuselidze, 2019).

Below we will talk in more detail about the currency crisis caused by the covid-19 pandemic, as well as compare the Georgian lari with the most stable currency in the world over the last 100 years (against the dollar). At the end of the article, given the current reality, we present some predictions and recommendations.

## **2. Literature review**

The issue of foreign exchange risk management, especially in the context of the Covid-19 pandemic, is a topical issue for both foreign and Georgian scholars. It is as a result of the processing of many literatures and statistical data on this issue that our paper was prepared.

We can especially highlight the works of the following authors: R. Aggarwal and A. L. Demaskey (1997), S. Al-Thaqeb et al. (2020), U. Broll et al. (1999), J. Campbell et al. (2010), M. Choi (2010), K. Czech et al. (2020), C. Elgin et al. (2021), J. Glen and P. Jorion (1993), B. Hofmann et al. (2021), M. Jaworek et al. (2020), S. Lahmiri and S. Bekiros (2020), A. Salisu et al. (2021), A. Samadi et al. (2021), A. Syahri and R. Robiyanto (2020), X. Wei and L. Han (2021), Y. Zhao and B. Duncan (2018), etc. However, despite the multifaceted discussion of the problem of foreign exchange risk management (especially in the context of the Covid-19 pandemic), it

has been insufficiently studied and discussed in the world literature and scholarly publications.

Due to the unpredictable nature of the Covid-19 pandemic and the crisis caused by this pandemic, there is a lack of scientific papers that would comprehensively take into account and thoroughly characterize the global picture, make effective recommendations for countries with different economic development individually.

Among them, the economic shocks caused by the pandemic were reflected in the exchange rate of the Georgian lari, which has been relatively volatile against the dollar since the beginning of 2021. The National Bank started direct interventions, which managed to strengthen the GEL exchange rate slightly. In recent times, foreign exchange inflows have decreased, which has raised negative expectations in the society and led to a significant devaluation of the Georgian lari.

### **3. Results and Discussion**

#### *Significant currency crises in Georgia*

Since gaining independence, Georgia has gone through several major currency crisis periods:

1. 1998-1999. The crisis started in Indonesia, moved to Russia and affected the Georgian currency (the first currency crisis in Georgia);

2. 2008-2009. This crisis period is associated with two important facts: the war between Russia and Georgia and the global financial crisis. The first and second monetary crisis of the Georgian lari is observed on the basis of historical perceptions, and at present, it is an ongoing issue and special attention is paid to the study of its causes.

3. 2014-2016. The monetary policy of the US Federal Reserve has been tightened for the period. The stronger US dollar, its impact on the world monetary system and the Georgian case is the third and most serious financial (monetary and currency) crisis in Georgia.

4. From 2020 to the present. This period is associated with the global pandemic - Covid-19 and the crisis caused by this pandemic, which is not over yet.

Georgia's economy, as a small open economy, is sensitive to regional and global challenges. In particular, this emerged against the backdrop of a global pandemic as the country's economic relations slowed and the negative impact of external shocks continued, leading to global factors such as the collapse of stock market indices, unfavorable economic conditions in trading partner countries and the devaluation of regional currencies (Abuselidze, 2020; 2021). At the present stage, the problems of economic development of Georgia are reflected in the devaluation of the Georgian lari, rising prices and slowing economic growth.

This time, we will focus on the crisis caused by the current pandemic. Against the background of the COVID-19 pandemic, as a result of the restrictions imposed by the states, necessary for human life, the economic activity of 2020 faced special

difficulties both in Georgia and in the rest of the world. A sharp drop in demand, on other equal terms, would significantly reduce inflation. However, in a given short period of time, other conditions are not equal. Also, a significant challenge is the outflow of large amounts of capital from developing countries, which puts an upward pressure on the exchange rate and, consequently, on inflation.

In addition, delays in production processes (labor productivity) and supply chains significantly increase companies' costs, which also puts pressure on price growth. As a result, according to the current data of the National Bank (26.09.2021), inflation is much higher than the short-term target (3%), it is within 12.8%.

In the conditions of the pandemic, the Georgian lari reached its historical maximum. The GEL exchange rate against the US dollar exceeded 1 \$ = 3.5 GEL. At present, the exchange rate is much lower (1 \$ = 3.11 GEL, as of 26.09.2021), however, whether the Georgian economy will be able to return to the point at which it was before the advent of Covid-19, is still doubtful.

However, among the determinants of the unpredictable future can be named:

1. The psychological expectation of an undesirable change in the value of the national currency, which makes it difficult for economic entities to plan business and make decisions;

2. Expectations of a sharp change in the value of the national currency, making it impossible to determine the fair value of existing property, plant and equipment. Consequently, it is difficult to calculate the cost of production factors;

3. An increase in the number of output needed to reach the zero (or loss) point, which leads to relevant decisions from business entities to reduce activity in certain directions in order to maintain positions over the rest;

4. Reducing the motivation of investors to bring money into an already risky market;

5. The expectation of volatility of the national means of payment, which poses an increased risk to financial institutions, leading to higher prices for their products;

6. Continuous recalculation of existing commitments and cost of planned projects in the presence of international agreements.

In addition, for countries with small open economies, monetary policy has a significant impact on a country's economic activity and political decision-making. In turn, not only the economic situation of the country, but also the level of development of social and political institutions is reflected in the monetary policy of the country.

Since gaining independence, Georgia has repeatedly experienced a major economic crisis, in some cases due to poor monetary policy and exchange rate volatility. Exchange rate volatility continues to have a negative impact on the development of a country's economy and slows its growth.

Therefore, if not for the electronic currency (crypto currency) market, which would connect economic entities in Georgia with foreign markets, economic entities in Georgia would have little chance of engaging in international currency trading. It

is through the electronic currency (crypto currency) market that corporations and Georgian citizens have the opportunity to acquire the necessary knowledge and experience, as well as to be constantly informed about the current processes in the world foreign exchange market.

Overall, the negative impact of the coronavirus on the Georgian economy is growing, however, a full review of the data will take some time, after which we can make a more complete assessment, forecasts and peculiarities.

*Comparison of USD and Georgian GEL in dynamics with respect to own fixed year (1995)*

It should be noted that the US dollar is the means of payment against which the value of almost all other currencies and not only currencies is considered. Among them, the GDP of countries is estimated in dollars. This is understandable, because despite the many problems that the dollar has under the existing system, it is still the most reliable currency in the world today. Therefore, it is clear that we will try to compare the US dollar with the value of the Georgian national currency (GEL). The exchange rate of the Georgian lari against the US dollar during the entire 26 years of the lari's existence is given in Table 1:

*Table 1. Value of Georgian Lari (GEL) against US Dollar (USD), 1995 – 2021\**

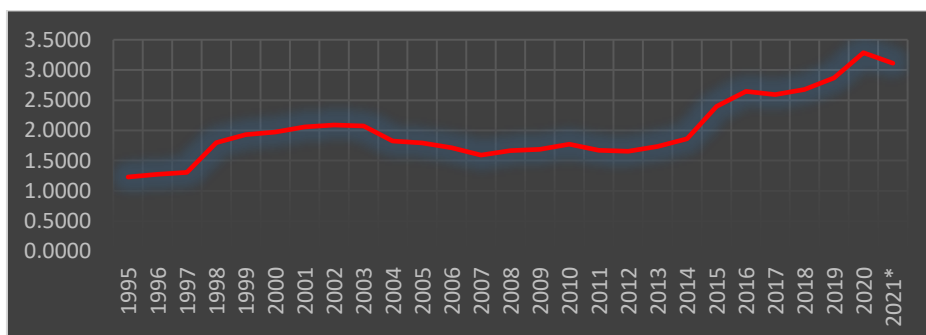
Year	USD / GEL	Year	USD / GEL
1995	1.2300	2009	1.6858
1996	1.2760	2010	1.7728
1997	1.3040	2011	1.6703
1998	1.8000	2012	1.6567
1999	1.9300	2013	1.7363
2000	1.9750	2014	1.8636
2001	2.0600	2015	2.3949
2002	2.0900	2016	2.6468
2003	2.0750	2017	2.5922
2004	1.8250	2018	2.6766
2005	1.7925	2019	2.8677
2006	1.7135	2020	3.2854
2007	1.5916	2021*	3.1104
2008	1.6670	-	-

Source: National Bank of Georgia, 2021.

\* Note: Currency data for 2021 are given as of 25.09.2021.

The relationship between the Georgian lari and the US dollar based on these data is shown in Figure 1 below:

Figure 1. Relationship between GEL and USD in dynamics, 1995-2021\*



Source: National Bank of Georgia, 2021.

\* Note: Currency data for 2021 are given as of 25.09.2021.

The depreciation of the Georgian lari against the US dollar is obvious, but if we take into account that the depreciation of the US dollar was 66.81% during this period, it becomes clear that comparing the value of the lari with its fixed year value, below shows this depreciation. 1995 was chosen as the year of fixation and inflation rates were taken for each year (Table 2).

Table no. 2. Value of Georgian Lari (GEL) in relation to the value of a fixed year (1995), 1995 – 2021\* (GEL1995 = 1)

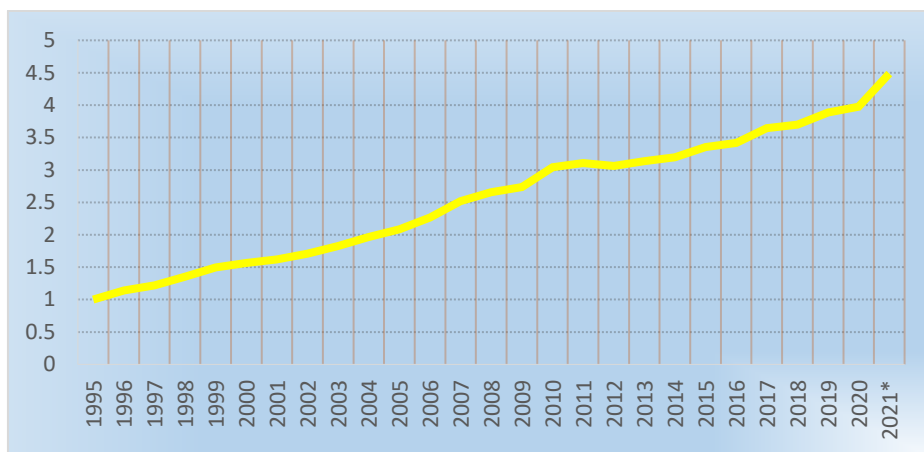
Year	GEL 1995/ GEL current value	Year	GEL 1995/ GEL current value
1995	1.0000	2009	2.7367
1996	1.1381	2010	3.0443
1997	1.2207	2011	3.1064
1998	1.3509	2012	3.0638
1999	1.4980	2013	3.1365
2000	1.5674	2014	3.1977
2001	1.6208	2015	3.3537
2002	1.7087	2016	3.4151
2003	1.8275	2017	3.6445
2004	1.9642	2018	3.6997
2005	2.0856	2019	3.8848
2006	2.2687	2020	3.9780
2007	2.5176	2021*	4.4871
2008	2.6573	-	-

Source: National Bank of Georgia, 2021

\* Note: Currency data for 2021 are given as of 25.09.2021.

Based on these data, the relationship between the value of the Georgian lari (GEL) and the value of the fixed year (1995) (according to 1995-2021 \*) is constructed, which is shown in Figure 2 below.

Figure 2. Value of Georgian Lari (GEL) in relation to the value of a Fixed year (1995) in dynamics, 1995 – 2021\* (GEL1995 = 1)



Source: National Bank of Georgia, 2021

\* Note: Currency data for 2021 are given as of 25.09.2021.

The decline in these 26 years is quite visible. The situation becomes even clearer if we compare the data in USD and GEL in one table (Table 3) and then build a diagram based on these data (Figure 3).

Table 3. The value of the Georgian lari (GEL) and the dollar in relation to the value of the fixed year (1995), 1995 - 2021 \* (GEL1995 = 1, USD1995 = 1)

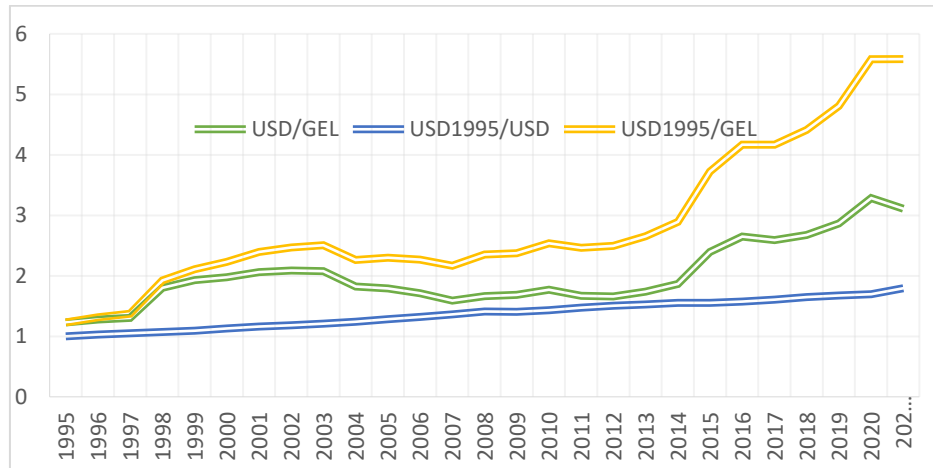
Year	USD / GEL (1)	USD1995 / USD (2)	USD1995 / GEL (1)*(2)	Year	USD / GEL (1)	USD1995 / USD (2)	USD1995 / GEL (1)*(2)
1995	1.2300	1.0000	1.2300	2009	1.6858	1.4077	2.3731
1996	1.2760	1.0295	1.3136	2010	1.7728	1.4308	2.5365
1997	1.3040	1.0531	1.3732	2011	1.6703	1.4760	2.4654
1998	1.8000	1.0696	1.9253	2012	1.6567	1.5065	2.4958
1999	1.9300	1.0932	2.1099	2013	1.7363	1.5286	2.6541
2000	1.9750	1.1299	2.2316	2014	1.8636	1.5534	2.8949
2001	2.0600	1.1614	2.3925	2015	2.3949	1.5552	3.7245
2002	2.0900	1.1804	2.4670	2016	2.6468	1.5748	4.1682
2003	2.0750	1.2073	2.5051	2017	2.5922	1.6084	4.1693
2004	1.8250	1.2395	2.2621	2018	2.6766	1.6477	4.4102
2005	1.7925	1.2815	2.2971	2019	2.8677	1.6775	4.8106
2006	1.7135	1.3228	2.2666	2020	3.2854	1.6982	5.5793
2007	1.5916	1.3605	2.1654	2021*	3.1104	1.7951	5.5835
2008	1.6670	1.4127	2.3550	-	-	-	-

Source: National Bank of Georgia, 2021; US Inflation Calculator, 2021

\* Note: Currency data for 2021 are given as of 25.09.2021.



Figure 3. The value of the Georgian lari (GEL) and the dollar in relation to the value of the fixed year (1995), 1995 - 2021 \* (GEL1995 = 1, USD1995 = 1)



Source: National Bank of Georgia, 2021; US Inflation Calculator, 2021

\* Note: Currency data for 2021 are given as of 25.09.2021.

Comparing the USD and the GEL with respect to their own fixed year (1995) will allow us to draw more interesting conclusions (Table 4).

Table no. 4. Comparison of GEL and USD with 1995 situation, 1995-2021\*

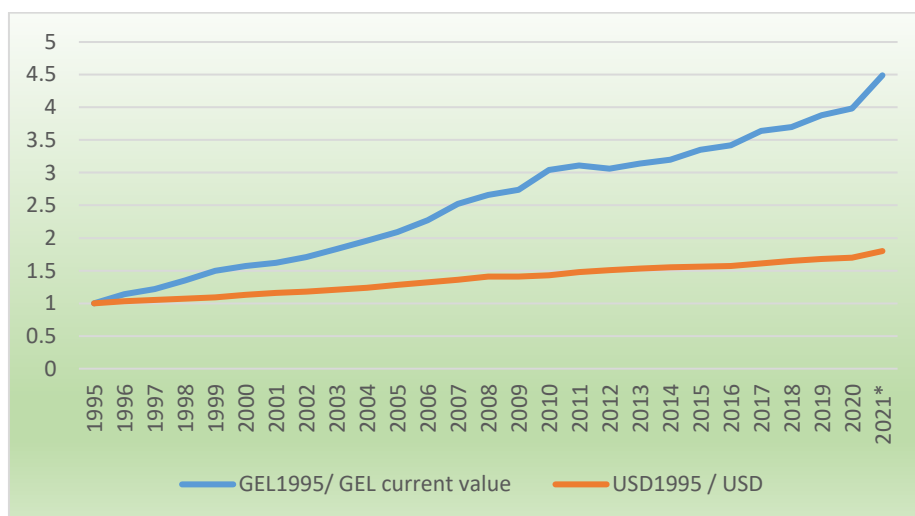
Year	GEL1995/ GEL current value	USD1995 / USD	Year	GEL1995/ GEL current value	USD1995 / USD
1995	1.00	1.00	2009	2.74	1.41
1996	1.14	1.03	2010	3.04	1.43
1997	1.22	1.05	2011	3.11	1.48
1998	1.35	1.07	2012	3.06	1.51
1999	1.50	1.09	2013	3.14	1.53
2000	1.57	1.13	2014	3.20	1.55
2001	1.62	1.16	2015	3.35	1.56
2002	1.71	1.18	2016	3.42	1.57
2003	1.83	1.21	2017	3.64	1.61
2004	1.96	1.24	2018	3.70	1.65
2005	2.09	1.28	2019	3.88	1.68
2006	2.27	1.32	2020	3.98	1.70
2007	2.52	1.36	2021*	4.49	1.80
2008	2.66	1.41	-	-	-

Source: National Bank of Georgia, 2021; US Inflation Calculator, 2021

\* Note: Currency data for 2021 are given as of 25.09.2021.

The graph based on Table 4 will be as follows (Figure 4):

Figure 4. Comparison of GEL and USD with 1995 situation, 1995-2021\*



Source: National Bank of Georgia, 2021; US Inflation Calculator, 2021

\* Note: Currency data for 2021 are given as of 25.09.2021.

Based on the above statistical data, we can conclude that during the 26 years of the Georgian lari's circulation (1995), it has depreciated almost 4.5 times. (More precisely, 26 years after its existence, 1 GEL1995 = 4.4871 GEL). In addition, it should be borne in mind that each change was completely unexpected for each business entity. All of this, in turn, created and still creates expectations for an unpredictable future.

The US dollar, even the world's most recognizable currency, in the presence of the central bank (The Federal Reserve) fails to meet the condition of stable prices (while stable prices make the economy healthier). What to say about the currency that shows itself so many times worse... Given the existence of such means of payment as the Georgian national currency, it is inconceivable to talk about stable prices, long-term calculations and, in general, a healthy economy.

This economic situation is further aggravated by managed inflation. The absolute majority of economic entities suffer as a result of managed inflation, the overall efficiency of the business decreases, while the government and the entities close to it benefit. The only way out of this situation is to limit the area of monetary policy implementation by the government as much as possible, one of the means of which is to create a Monetary Council and bind the national currency to a fixed foreign currency, and then strictly adhere to fiscal discipline.

#### *Currency risk assessment of companies in Georgia*

In Georgia, the most widely used foreign currency is the US dollar (hereinafter, the euro). This is not surprising, since it is known that all large value objects or items

are valued in US dollars (car, apartment, or something commercial building, land area). Consequently, it is easier for people to evaluate in US dollars than in any other means of payment (it is easier for people to evaluate in US dollars than even in the Georgian national currency - GEL). If you ask how much he bought his car for, it will be difficult for most of them to even name the exact numbers. This circumstance clearly shows that, in fact, the US dollar is the means of payment in Georgia.

Especially noteworthy is the fact that there are many companies in Georgia that, on the one hand, say that they do not use foreign currency in their activities, but, on the other hand, they say that their activities are affected by the variability of foreign exchange rates. Of course, this impact is secondary (or indirect), but due to its systematic, unpredictable and dramatically changing nature, this secondary impact is also very painful for each business entity. It is clear that companies that directly use foreign currency in their operations are even more affected by exchange rate volatility.

Of course, there are a small number of companies in Georgia that believe that such volatile exchange rate fluctuations have a more positive than negative impact on their operations (some of them manage to reap some benefits from such a situation). There are several possible versions of this:

- First, the company is somehow directly involved in foreign exchange operations and sees more profit when the buying and selling margin of the currency is large. This margin is even greater the more frequently this course changes.

- Second, the company has liabilities in GEL and income in foreign currency; therefore it has to convert less foreign currency to cover current liabilities. In this case, it is assumed that the situation will be beneficial for the company when the exchange rate of the national currency falls against foreign currencies. However, since this is mostly the case, this process is, for the most part, more beneficial for similar companies.

- Third, in the face of exchange rate volatility, it is easier to catch more price differences in your own products. This, of course, is justified to cover the increased risk. Even if the risk does not arise (i.e., when the exchange rate does not change in the expected unfavorable direction), the company will have more profit left.

In addition to the above, an important issue is the method used by this or that company, how to solve the currency problem. The low percentage of use of so-called hedges indicates that:

- on the one hand, not many companies have the opportunity to enter into contracts of a similar nature;

- And, on the other hand, there is little relevant knowledge about this tool.

Nevertheless, many companies invent their own methods to protect themselves, which in some ways replace hedging. For example, reflecting the value of your own goods or fixed assets in a foreign currency (or any contingent unit) and its periodic revaluation in GEL. This method is essentially what was mentioned above - the

recognition of foreign currency (in this case, the US dollar) as the main means of payment, while the Georgian lari is perceived only as an additional means.

It is due to these factual circumstances that every appraisal company or commercial bank, whenever it evaluates any real estate, uses US dollars, and not - Georgian lari. It should be emphasized that no matter how strictly the state requires the use of only GEL, all these entities still make assessments in dollars and only then convert them to GEL (when legal documents are drawn up).

Another proof that the dollar is, in fact, the main means of payment, is how contracts are made. Most companies sign an agreement not in Georgian Lari, but in US Dollars, and since payment in US Dollars is not allowed under Georgian law (no bank will make a foreign currency transaction if it is written between Georgian companies), a note is made: at the current exchange rate of the National Bank.

In some ways, it is a futures transaction that incorporates elements of hedging. In other words, this means concluding a transaction in foreign currency, provided that the payment is made according to the exchange rate at the time of payment, which is one of the most common methods of self-insurance in Georgia.

From the given analysis it is easy to see that the Georgian national currency is understood by companies in Georgia, on the one hand, as a necessary national attribute of the Georgian state, but, on the other hand, it is clearly perceived as an additional problem for the business, which constantly needs attention from the company, so that the possible rapid decline of the national currency does not lead to loss of their company or even bankruptcy.

In addition, it is important to give a brief overview of the classification of exchange rate regimes developed by the International Monetary Fund. Therefore, we will rank the given classification as the following 5 main currency regimes:

1. When a country uses foreign currency;
2. When the national currency is fixedly tied to any foreign currency;
3. When the national currency is conditionally pegged to any foreign currency;
4. When the national currency is quoted on a free market basis in relation to other currencies;
5. And, when the national currency of the country is not the only means of payment, but is in free competition with any other currency.

Here, it should be noted that some small countries, by not creating their own national currency, avoid many of the problems that inevitably follow the existence of a national currency. In this regard, the example of Montenegro (the euro is recognized as its own currency) is important, because Montenegro does not have the problem of pursuing the right monetary policy.

In case the country chooses the regime of pegging the national currency to any foreign currency, there is also no need to pursue a monetary policy. The governing body of this regime, called the Monetary Council, only needs to ensure that it always has a sufficient amount of money to ensure a smooth exchange in the event of any

request. This is shown by the examples of Estonia, Lithuania, Bosnia and Herzegovina, Bulgaria and other countries; if a country adheres to fiscal discipline and it contributes to its success in managing foreign exchange risks.

Notwithstanding the above, most countries choose the path that implies the possibility of conducting monetary policy, as this path is one of the levers of governance for them (the authorities). This is why very important circumstances are not taken into account, according to which the existence of monetary policy presupposes the satisfaction of the interests of certain entities at the expense of other entities. This is bad not only for the specific entity whose interest has been damaged as a result of this or that decision, but also for the overall economic climate.

As a result, the direct economic loss of one, caused by this or that decision of the government, creates distrust of other entities towards the future. There is an expectation in business entities that the future decision may be against their interests.

It is also essential to understand that for a developing country like Georgia, there is no foreign currency that can be fully trusted; The situation in the world today, especially in the conditions of the Covid-19 pandemic, is that there is no real money at all and any means of payment used in cash is fully controlled by any state and, at the same time, prevents the appearance of real money on the market. The US dollar itself, as money, was the most reliable before the creation of the Federal Reserve, and the most unreliable after the link between the dollar and the gold standard finally disappeared.

#### **4. Conclusion and Recommendations**

Although foreign currencies are also facing serious problems, Georgian national currency users are facing a much bigger problem, especially in the context of the COVID-19 pandemic.

Therefore, it is easy to imagine the situation of the decision makers who run the business. Data from the National Bank's website, which show that the Georgian lari against the dollar has repeatedly come as a complete surprise to business entities (and not only to business entities), in some cases even falling by 20-30 percent during the day, naturally creates a corresponding inflation expectation. .

In total, since the launch of the Georgian lari (1995), the Georgian lari has depreciated almost 4.5 times in its 26 years of existence. (More precisely, 26 years after its existence,  $1 \text{ GEL}_{1995} / 1 \text{ GEL}_{2021} * = 4.4871 \text{ GEL}$ ). In addition, it should be borne in mind that each change was completely unexpected for each business entity. All of this, in turn, created and still creates expectations for an unpredictable future. Such an expectation naturally reduces the motivation of each manager of the business entity to make a decision to increase or expand the activity.

Based on the analysis of the above statistical data and the current reality, we can make the following recommendations:

1. For businesses whose large share of the business involves relationships with foreign partners, it is best to have the ability to conduct financial accounting in one of the solid foreign currencies (or the national currency firmly pegged to that currency);
2. For business companies operating only in the local market, it would be better if they make their accounting in any fixed year GEL and evaluate their business growth history and future prospects accordingly;
3. It will be better for the economy if the government changes the current monetary policy, converts the national currency into a reliable currency or the country moves to one of the stable currencies.

Overall, the relationship between national and international currencies is highly dependent on the state monetary policy. Without this, it is impossible to analyse trade policy and international monetary policy. We must also take into account the fact that monetary policy is determined by many factors, including domestic and international macroeconomic conditions, as well as the level of development of political institutions.

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## INVESTMENT ATTRACTIVENESS OF WELLNESS SECTOR

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Received: 29.09.2021, Accepted: 15.10.2021

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### Abstract

*Wellness has become vital to our daily life. The sector is rapidly growing and evolving and turning into a megatrend. This megatrend is cutting across sectors ranging from personal care to well-tech and many more. Several factors are contributing to the growth of this sector in the last years such as digitalization that is altering its landscape progressively. The wellness sector is full of new trends and those trends and innovations keep the sector moving ahead as they help in maintaining the interest of the consumers as well as establish investments. The current pandemic has revealed the importance of wellness tourism and switched, even more, the focus toward it. During the last two years, we have noticed an accelerated need for health and wellness tech solutions, so it has speeded up the funding in the field. All this resulted in a newly formed subsector, named well-tech, aiming to help its users' maintaining good health and better well-being levels, using innovative digital solutions. The wellness sector is flourishing and continues to be attractive to investors. This paper aims to examine in detail the current state of investments in the sector and to evaluate if it's worth investing in it or not.*

**Keywords:** investments; wellness; digital adoption

**JEL Codes:** Z32, O30, G24

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### 1. Introduction

The COVID-19 pandemic has highlighted the crucial importance of investment in innovations related to both health and wellness. In the past several years, the health and wellness sectors have been an important focal point for investors. According to Deloitte report, funding for health tech innovators amounted to more than \$7.4 billion in 2019 alone. Furthermore, 2018 and 2019 saw rapid increases in investments into well-being and care delivery innovators, as well as innovators leveraging artificial intelligence (AI), machine learning (ML), and the Internet of Things (IoT) to enable their products and solutions (Deloitte, 2020, p. 2). A separate analysis, conducted by Pitchbook, noted that venture capital funding in wellness technologies in 2019 resulted in \$2.6 billion itself (Pitchbook, 2021). These numbers speak alone of the importance of wellness in our everyday life. The wellness sector is increasingly intertwined with technology nowadays and the aforementioned statements of

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investments' flow can only re-confirm that. Health and wellness are highly attractive fields for investors due to the high yield, ensured by the widespread use of health and wellness technologies, applications, and devices. The main scope of wellness investments is undoubtedly in the new digital solutions. Wellness tourism is gaining traction, as it stands for approximately 17% of global tourism expenditures. More and more people choose to travel for wellness, given the numerous benefits associated with it. The tourism digital adoption has changed and exceeded travellers' expectations to other heights, so technology is no longer distant in the future opportunity but a mandatory condition for development. Most of the tourism industry's spending comes from beauty/personal care, clean eating, wearable fitness devices, and wellness tourism which makes those areas highly appealing to investors.

## **2. Wellness sector development in terms of digitalization**

There has been an outbreak in the health and wellness sectors over the last years as more consumers demonstrate a willingness to invest in wearable devices and technology-enabled fitness gear. People keep trying to understand how to optimize their nutrition, exercise habits, mental health, sleep, and stress levels properly and efficiently. The emerging trends in the wellness sector in the last couple of years include virtual fitness training, intuitive eating, and mental wellness. All-new digital solutions related to that sector require solid funding. To dig deeper into the topic, firstly, we need to systematize the top technology trends ahead of health and wellness sectors, as follows:

- All kind of smart technologies and devices;
- Wide scope of technology solutions – a huge number of investors are actively exploring investments in technologies that address previously underserved conditions, such as devices and apps based on behavioural science that can help us control anxiety or sleep more restfully;
  - Virtual/augmented reality - the potential of innovative devices utilizing virtual or augmented reality (VR/AR) technology is quite a discussable and attractive area for investors. VR/AR-based devices are already widely being used in different therapies associated with physical/ psychological or pain relief;
  - Artificial intelligence (AI) – AI has the potential to radically transform the health and wellness space and dramatically improve health outcomes;
  - Robust data sets — at the same time, the effectiveness of AI, VR/AR, and other innovative technologies are ultimately dependent on the quality and applicability of the data sets that are used. For investors, data aggregators are at the center of that effort;
  - Human-centered design - “tech and touch” is the mantra for developers of the next generation of health and wellness technologies (Zhou, 2020);
- Blockchain;
- Internet of Things connection;

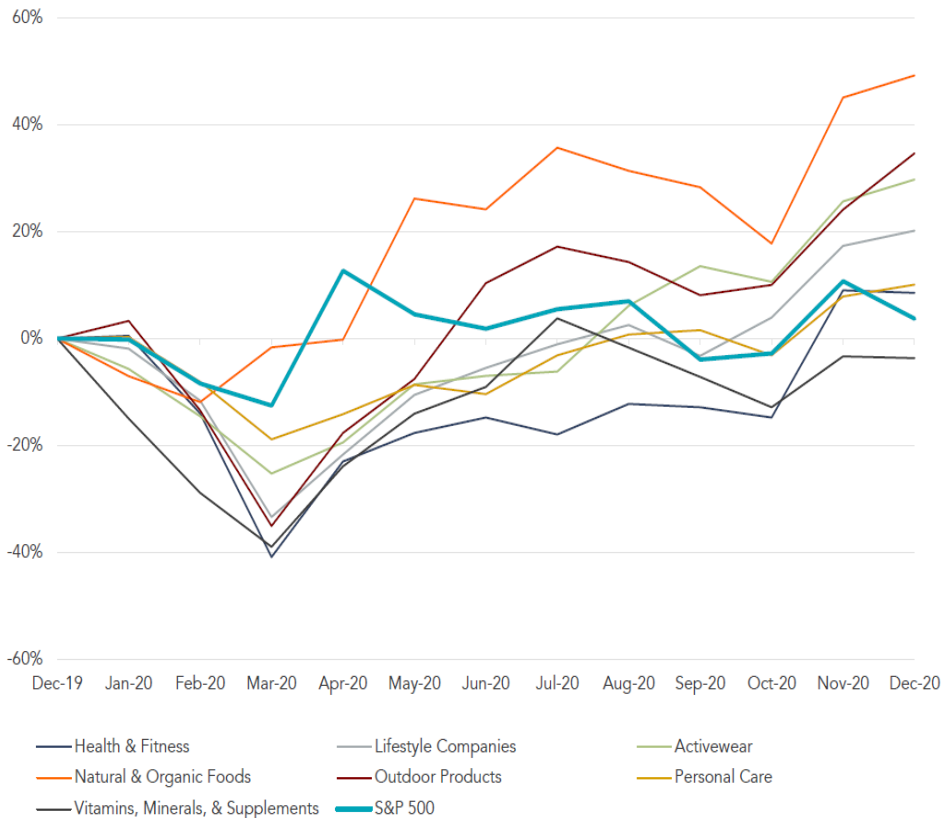
- Digital connectivity;
- Robots.

Everything said so far, directs us to a newly formed well-tech sector that can be described as an ecosystem of technology, connecting us to support our goals and strive for health, happiness, and well-being. Obviously, the health and wellness sectors are one of the broadest, including health supplements, wearable devices, tech applications, nutraceuticals, etc, all geared to help people in their wellness journey. All subsectors have been in the spotlight since 2020 during the coronavirus spread, as people have become more aware and concerned about their health and well-being. As the pandemic has spread, research found out that wearable fitness trackers designed to help people monitoring general health may also help detect symptoms of Covid-19 and bolster public health efforts (Scripps Research, 2020). According to PwC research of 2018, wearable devices are the new wellness movement, especially when used properly for their fitness-related functions. Fitness wearable devices offer users essential data concerning their heartbeat, stress levels, number of calories burned, steps taken, oxygenation levels, and many more. Additionally, they also serve as personal fitness coaches, since they can encourage people to be more active, while also precisely tracking their physical activity and food intake. The PwC report has determined that the wellness wearables market will reach \$27 billion by 2022. Based on that study, 70% of respondents expect their wearable devices to help increase their lifespan, 63% expect it will help them keep healthy body weight, whereas 62% would like their devices to reduce the cost of insurance premiums (PwC, 2018, p. 20-45).

We can conclude that wearables are mostly purchased for their health and fitness tracking functionalities, rather than other purposes. Along with wearable devices, home fitness solutions have achieved better popularity. Fitness equipment manufacturers had a rough time keeping up as gyms were forced to close and people sought better home fitness equipment. Sales of Peloton home spin class equipment and subscriptions were up 172% during the pandemic and Peloton posted its first-ever quarterly profit in September. Home fitness companies became household names: Soul Cycle, Mirror, and more. To keep up with orders, Peloton in December of 2020 acquired global fitness equipment manufacturer Precor in a 420\$ million deal. In the second half of 2020, Lululemon acquired subscription-based home fitness platform Mirror for \$500 million. And tech-driven Tonal home fitness scooped up \$110 million in additional funding- including investments from Amazon and others (SDR Ventures, 2020).

These examples are confirming that health and wellness devices are booming the market as people have developed new health focuses. At the end of 2020, the global medical app market was estimated at \$4.2 billion, with the U.S accounting for more than a third. By 2027, analysts predict the global market will reach nearly \$21 billion, with substantial growth in China (PRNewswire, 2020). Many of the subsectors of health and wellness made a significant profit during 2020.

*Figure 1. Health and wellness segments vs. S&P 500, Segment Market Cap Performance vs. YE 2019*



Source: SDR Ventures

Figure 1 gives us a glimpse into a growth in each of the aforementioned subsectors, where we can summarize all reached better performance compared to 2019. Companies focused on personalized food and nutrition, diagnostic trackers, and stress management are among those likely to see more growth from consumers and investors alike in the future, as those areas are where innovations and investments are flourishing. The idea of personalized nutrition has lasted for quite a while now, even that it hasn't reached widespread adoption yet. There are already several companies that use online assessments to provide a comprehensive overview of a client's body gut health. Then, the client has an option of ordering personalized vitamins, supplements, and probiotics all tailored to individual goals or deficiencies. Along the same lines of understanding how inputs like food impact each of us differently, investors have zoomed in on the metabolic health area as a key to growth in the

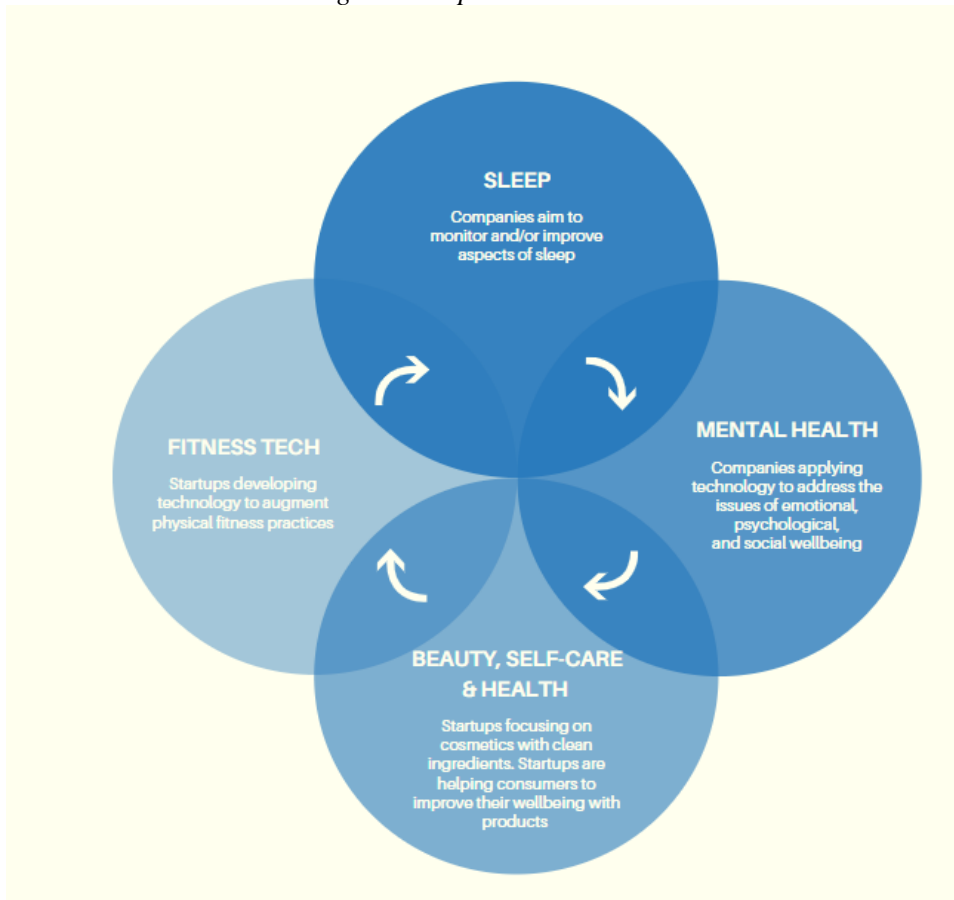
wellness market. A great example of a company in that field we can mention is Levels. It is a company that makes a ‘bio-wearable metabolic sensor’ that enables people to receive data on how foods impact blood sugar levels.

The last couple of years have brought with it massive amounts of capital into the sleep and recovery area. A huge number of companies are seeing big capital infusions to help people solve many of the common sleep problems, resulting in billion-dollar valuations. That area of the industry had been pretty much focused on mattress height or sleeping positioning previously now has evolved into one where biometrics and data measurement dictates new changes in mattress temperature and comfort. The last two years have revealed and switched the focus to another area such as mental health. Covid-19 has accelerated the deterioration of our collective mental health and well-being. The pandemic has exposed the wide gap between mental health needs and mental health resources, as well as our vulnerability to mental distress even when we do not have a diagnosed mental illness (World Health Organization, 2020). This disturbing statement is an alert for us and for the business world to put more focus on it. According to GWI, the global mental wellness industry was worth \$120.8 billion in 2019. Further details are given, and sleep is the largest subsector, which amounted to \$49.5 billion, followed by brain-boosting nutraceuticals & botanicals (\$34.8 billion) and self-improvement (\$33.6 billion). Meditation & mindfulness is the smallest subsector, at \$2.9 billion but it is important to keep in mind that millions of people practice meditation, but only a small fraction of them spend any money on the practice (GWI, 2020, p. 39). All listed examples show us the direction of development of this type of tourism, which is closely linked to new technologies.

### **3. The current state of investments in the wellness sector**

The current pandemic has certainly increased our dependence on telemedicine, remote diagnostic, and wellness technologies. Home-based health and wellness solutions are very much common and consumer preferences for virtual or home-based care have been growing for years since it provides more options for actively engaging with health and wellness professionals. Funding for health exceeded US \$7.4 billion in 2019 and funding data shows that investors continue to be interested in investing in the health and wellness tech fields (Deloitte, 2020, p. 3). Well-being and care delivery are the main focus of those investments. Fundings aim to enhance care quality, reduce costs, improve access, facilitate communication and interaction with users. Taking everything into account, we can outline the following wellness subsectors as the most appealing to investors, respectively the most demanded from consumers’ point of view: **sleep, fitness tech, mental health, and beauty & self-care.**

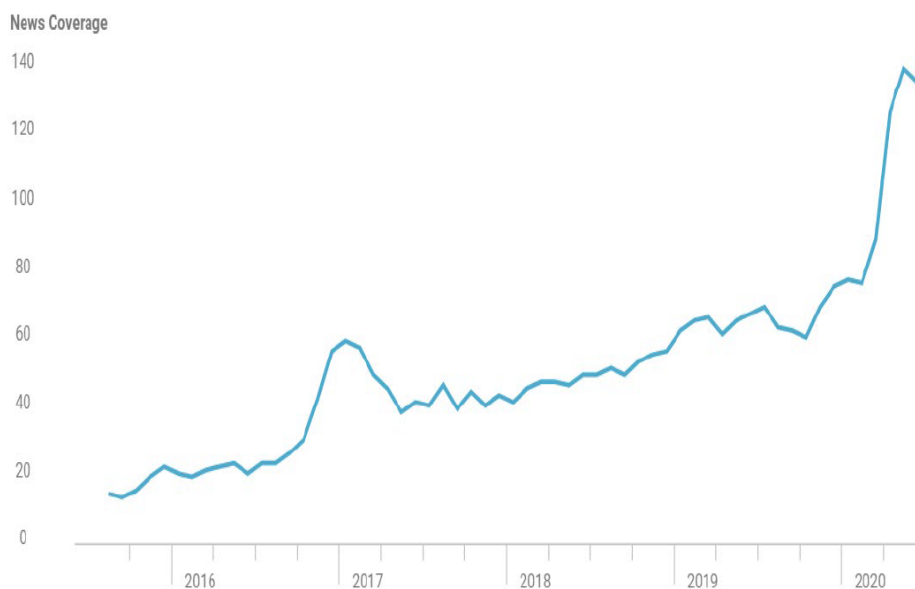
Figure 2. Top wellness subsectors



Source: Author

In this paper, we already discussed why the fitness tech field of wellness, including its wearables and smart devices, is coming to the forefront. Mental health start-ups realized over \$1B in funding in the first half of 2020, which automatically turned it into one of the most important subsectors of wellness tourism. Investors have flooded \$1B into mental health and wellness start-ups so far in 2020 (CB Insights, 2020, p. 7). To provide a better understanding of the investments' movement in the wellness sector, we will have to take a deeper look into each of the mentioned subsectors. Fitness tech deals rebound, and wearable devices seem to be at the core of it. In 2020 we see a huge boost in mental health funding, which comes as no surprise due to the coronavirus and its effect on the population. Beauty deals hit the lowest level of funding in recent years, such as the self-care companies see a decline. Despite the funding shortfall, self-care, and health interest are still on the rise in terms of media interest (CB Insights, 2020, p. 10-57).

Figure 3. News coverage of self-care and health, August 2015- June 2020

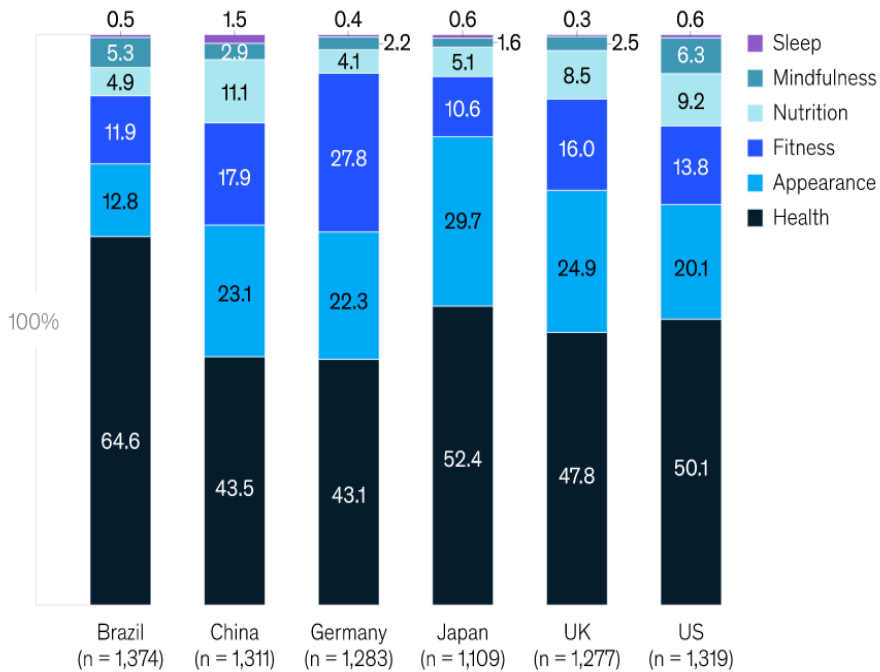


Source: CB Insights, 2020

In our point of view, we can expect the entire wellness industry to grow with top subsectors such as fitness tech, mental health, and sleep health. There is an ongoing interest in wellness tourism that will last. Investors' attention to digital and at-home wellness solutions grows in the wake of Covid-19. The pandemic has accelerated the trend of bringing wellness products and services, from sleep to fitness tech, into the home as individuals seek to reduce infection risk from visiting physical businesses in general. Technology solutions will be a critical enabler in the future of health and wellness. Tech-enabled wellness solutions are rising fastest, including business models focused on mental health/wellness, fitness, women's health, sleep, beauty, and personal care. To sum up, despite the huge economic fallout of coronavirus, and for investors, and an initial pivot towards caution, in 2020 the wellness industry continued to experience an influx of venture capital, mergers and acquisitions (M&A) deals, and successful crowdfunding campaigns. According to us, tech innovators focused on the future of health and wellness will likely continue to receive the lion's share of funding in 2021 and beyond.

When assessing the area of new investments, one of the most important parameters for pre-verification is current trends, supply gaps, and consumer demand. To gain a profound understanding of the current topic, we need to pay special attention to customers' needs and their demands. Customers' spending is an essential barometer of the current demand, so the data depicted in the figure below give us the needed information.

Figure 4. Wellness spending split by category, % of annual spending on wellness products and services



Source: McKinsey Future of Wellness Survey

The data is displayed per country, but we can notice a general trend of spending in health, appearance, and fitness fields. Nutrition, mindfulness, and sleep take the lowest share, contrary to the massive flow of funds in sleep devices and solutions. Maybe the investors discovered a new field for improvement and expect to popularize it with cutting-edge technology and advanced marketing. In overall spending, consumers expect to increase their purchases of both wellness products and services over the next year. We can expect a greater shift toward services, especially those such as personal training, nutritionists, and consulting. The global wellness market is healthy and growing. Most consumers have the plan to increase their spending, especially in some categories, including memory/brain enhancers, anti-aging products, beauty supplements, non-invasive cosmetic procedures, nutrition, and meditation/mindfulness offerings. The future of wellness is promising and digital.

#### 4. The importance of investing in wellness tourism

Modern people tend to pay attention to their health and wellness levels. Rising healthcare costs, medical systems struggling, overwhelming stress associated with modern-day living have only given us added vitality toward better living. The investment we make in our well-being can only have a positive effect on our overall

health, longevity, and energy levels. The combination of travel and wellness, partially driven by the aging world population or the failure of conventional medical systems, or even occurred due to the increased globalization of healthcare and the rise of chronic diseases aims to provide relaxation, good overall feeling, and well-being. There are numerous benefits we can extract from wellness tourism. The spectrum of wellness is so broad that there are available products and services for all needs that wellness tourists may have that will guarantee them recharging afterward feeling out of the stressful living we are all facing. Considering that chronic diseases have reached epidemic levels, wellness opportunities in tourism are designed to create moments that remove people from everyday stress. The development of an immense, international wellness market reflects consumers' changing relation with the health care sector. Perhaps more people are prioritizing lifestyle, making health a priority, and spending money on their own well-being. Consumers' health awareness and disappointment with health care options are the main factors pushing people to experience wellness services. The future of wellness is shifting towards selling consumers a holistically healthy lifestyle, integrating various products and services. Just like the way technology has become a new value driver in many industries, so would wellness impact industries and reshapes consumers' expectations. We are witnessing tourist demand of a new type, which in its scale, trends, and essence is the results of the growing strictness of customers and the entry of new competitors, working with innovative models. The new market conditions provide a development only to those destinations and even separate organizations that are flexible to the changing environment and able to anticipate the needs of their customers (Velikova, 2018, p. 65)

According to us, wellness is worth in investing as it helps people to improve their health and enhance their lifestyle, all in all. Wellness tourism will continue evolving and we expect even a higher influx of investments in the next years for fields such as well-tech, sleep, and mental health. The tech world is creating a future that promises to entertain consumers, save them money, and help them live healthier lives. Technology companies' interest in health and wellness has sparked the creation of a myriad of devices and tech solutions, from fitness bands that monitor activity and sleep patterns to flexible patches that can detect body temperature, heart rate, and more. This potential is fuelling venture capital investment in digital health and wearable tech.

According to CB Insights, the number one reason why start-ups fail is that there is no market need (CB Insights, 2021). It is important not only that the business solves a customer's pain but there is a shout for that. A business solution that could have a strong positive impact on someone's life has a higher chance of ensuring profit. Another important factor that guarantees you prosperity is sector attractiveness. Not all sectors are created equal, but wellness is one of the most attractive in the last decade. Well-tech has over 9.4K start-ups that comprise companies that provide



solutions that help consumers maintain their physical and mental well-being. Fitness and well-tech are some of the most active sectors for investors, with overall funding of USD 12.1B in over 1.5K companies. More than half of the fundings has been raised in the last 2 years (Tracxn, 2021).

## 5. Conclusion

Wellness investors offer strong evidence of how innovative technologies continue to bring new and effective health and wellness solutions to market, while also helping to reduce healthcare costs and to improve access for all people. Future investments in innovative technologies are vital in supporting the ongoing transformation of the wellness sector. By making targeted investments in emerging health and wellness platforms, we support users' health and innovative approaches of a new generation of developers and entrepreneurs. Wellness, together with digitalization will make a genuine difference in the quality and effectiveness of health and wellness technologies and services in the 21st century. As the health tech market continues to grow, successful innovators should move beyond pilots to demonstrate a market opportunity to their customers through improved quality, decreased costs, and/or a better experience. Innovators, investors, and developers take important responsibilities towards the entire wellness sector in general. Providing capital, investors take the role of coach and help to move the sector to a new level. The pandemic accelerated funding in alternative forms of care delivery, such as remote monitoring, virtual health, wearable devices, tech sleep remedies, and home fitness solutions. We conclude that the major focus areas for 2021 and beyond include on-demand health, outside of traditional health care settings, mental health, fitness, and wearable devices. The wellness sector has huge attractiveness to both investors and tourists, it will continue growing and evolving, together with the technology, and it is worth investing in it.

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## CHARACTERISTICS OF BUSINESS NETWORKS AND THEIR ROLE FOR STRATEGIC COMPANY DEVELOPMENT

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Received: 10.10.2021, Accepted: 29.10.2021

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### *Abstract*

*The processes of globalization and internationalization impose the need to change the traditional thinking and reorganize the strategic corporate governance. An important prerequisite for the strategic development of the modern organizations is the construction of flexible business network structures for intercompany interaction. In this regard, the purpose of the paper is to study the specifics of the business networks and on this basis to justify their role in the process of strategic corporate governance. In connection with the goal realization, the following tasks are solved in the article: presentation of the theoretical bases of the business network organizations; consideration of the development of the theory; identification of their main features; presentation of the network business structure as a system; argumentation of the importance of the business networks for the strategic company development.*

**Keywords:** *business networks; network structures; strategic development; strategic management*

**JEL Codes:** *M0, M21*

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### **1. Introduction**

The constant intensification and complication of competition between the enterprises in the domestic and international markets is caused by the intensification of the processes of globalization in the field of the economy and the dynamically changing market conditions. In addition, as a result of the rapidly evolving processes of internationalization, the need for creativity in entrepreneurial business arises today (Kyurova, p. 356). Increasing the competitiveness of the small and medium enterprises is one of the prerequisites for surviving in the fierce competition and achieving business success.

On the basis of the economic models traditionally used in practice, these challenges cannot be effectively overcome. In order to adequately respond to the

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ongoing dynamic changes and the new type of information technology environment in which the business develops, the application of new approaches is required. On the basis of the economic models traditionally used in practice, these challenges cannot be effectively overcome. In order to adequately respond to the ongoing dynamic changes and the new type of information technology environment in which the business develops, the application of new approaches is required. The competitiveness in the modern economy is based on the information, knowledge and innovation. They allow the business organizations to adapt to the ever-changing conditions. One of the prerequisites for its growth in the globalizing economy is the application of a new model of development. It is based on the interaction between the enterprises on the basis of common economic interests. Thus, network associations are created for carrying out joint economic activity (Atanasova, 2020, p. 6).

The beginning of the 21st century is characterized by the presence of the necessary conditions for the emergence of networked business organizations. This is also facilitated by Bulgaria's accession to and membership in the European Union, which provides an opportunity for the Bulgarian nation and economy to be included in a complex economic and legal system of regulations and adjustment mechanisms (Marin & Dimitrov, p. 221). There is an intensive integration into the global information society and building global competitiveness of business organizations.

The development of the network business organizations and organizational structures is determined by the increasing importance of the factor "time" and its transformation into a key factor for the competitiveness of the organizations (Andronov & Alexandrova, 2004).

## **2. Definition and characteristics of the network business structures**

The network organizations are a new organizational form of business, which arises due to the need to apply coordination principles of inter-firm interaction. In this regard, V. Petrov mentions that the companies are reorienting from centrally coordinated hierarchical structures at multiple levels of traditional pyramidal type to more flexible network-type structures (Petrov, 2008).

J. Johanson and L.G. Mattsson look at the business networks in the context of industrial markets. According to them, the companies in the industrial markets are interconnected by long-term relationships. The two sides of the relationship are important to each other; they establish and develop complex inter-company information channels and social and technical connections with each other. The main internal relationships are more developed and stronger than the external ones. In addition, many of the external relationships are also important and long-term. The authors consider the relationships in the networks in the context of their importance for the functioning of industrial markets and the market strategies of the industrial companies (Johanson & Mattsson, 1988).

S. Rosenfeld's definition of the business networks in his book „Industrial strength strategies: regional business clusters and public policy“ defines them as groups of companies with limited membership and specific, often contractual, business goals related to achieving of financial benefits (Rosenfeld, 1995).

In his work „The competitive advantage of nations“, M. Porter examines the business networks in terms of their importance for the regional development. He reveals that well-functioning business networks contribute significantly to the regional development and they are determinants of nations' competitive advantage (Porter, 2004, p. 106).

Regarding the development of the network economy, K. Todorov (2000) points out that the network as a higher form of organizational design in its various dimensions appears because the traditional organizational structures and isolated companies can no longer cope with ever-increasing competition and globalization of the business activities. As an expression of the processes of hierarchy elimination and of process management perception, which have been going on for the last three decades, the networks of cooperative business organizations are a network business structure that accepts different configurations. It is fragile, flexible, adaptable and adapted to the consumer needs and market requirements (Cravens et al., 1997). Its members are independent and specialized and are connected by the process of resource allocation and the management potential of various relationships (Grigorova, 2018).

Strategic business networks are defined by Carlos Jarilo as flexible structures without centralized management of production activities. According to him, the networks can be used to position companies in strictly competitive positions. A characteristic feature of the networks is the possibility for the participants to compete with each other, to attract new partners and to place their goods independently, at the same time coordinating the joint activity (Jarilo, 1995). Intercompany networks are also considered by H. Torelli, who presents them as a bridge between markets and hierarchies (Torelli, 1986). The companies participating in the network operate in a complex environment in which the relations between them are manifested. He believes that the division of labor and the variety of missions lead to two conclusions:

First, in order to achieve its mission, the company must engage deeply and continuously in a battle for the necessary resources;

Secondly, for the sustainable development and stability of a network, a minimum of unanimity between the participants must be ensured, although a change in the field of activity is possible.

According to the same author, the struggle for the necessary resources for survival and development could transform conflicts and frictions in the internal network into cooperation (Torelli, 1986).

It can be said that the business network is a modern (though still insufficiently researched) higher form of organizational design, which is in constant motion.

Manufacturers, suppliers, sellers, customers and potential business participants can enter or leave the network especially when their overall goals change (Todorov, 2000). The cooperating companies in a business network are not bound by location, size, sector or number. They are open to new partnerships that help them to stay competitive.

To clarify the nature of the network business organizations, it is necessary to add some of their organizational parameters. They create a unified mission for all members of its structure, a common vision of the end results in the maintenance of synchronized and coordinated operations, as well as common goals and values (Andronov & Alexandrova, 2004). The independent role of the network structure members is combined with the voluntary pooling of the partnership efforts and the voluntary interconnection and interdependence between the members. The fact that network structures (most often cluster associations) are extremely flexible and that allow their member organizations to compete with each other, attract new partners and at the same time organize and coordinate the activities of their members in a common network, unites two opposing principle - competitiveness and cooperation. The challenge between companies is known as 'cooperation between competitors' or co-opetition. Getting the most out of the association is a common goal of the participants and this is done only due to the stakeholders through their commitment to the community, communication between the cooperative competitors, leadership and good experience, clear delineation of tasks and comprehensiveness of action (Atanasova & Vladov, 2014).

For the participants in the network business structure, the cooperation is not a goal, but a tool for achieving the goals. They tend to cooperate with their competitors to achieve goals that prove unattainable without the help of their direct rivals in the business. Facilitating relationships through the exchange of information, integration and optimization of processes is due to the Internet and mobile technologies, which increasingly create the need for companies to cooperate and at the same time continue to be competitors.

Brandenburger and Nalebuff (1996) pay close attention to the concept of co-creation through cooperation and competition. The neologism is used to represent the cooperation between competitors who can cooperate in order to create greater value for the business, which can be shared between them, and at the heart of this statement is "The Game Theory".

The main market participants (customers, suppliers, competitors and suppliers of complementary products and services) are an organized, systematized network for creating added value. Brandenburger and Nalebuff present the complementor as a competitor whose product is valued more when consumers own two competing products than if they own a product of only one of the competitors (Brandenburger & Nalebuff, 1996). The benefits for the entrepreneurs are based on the added value they

bring to others. The added value is equal to the difference between the total value with the entrepreneur and the total value without him.

Based on the statement that a key prerequisite for the successful implementation of modern business is the understanding and study of the consumer behavior (Yaneva, 2013), we must add that the assessment of the added value is made only if the company can put in the place of the user. Theorists advise going beyond the "box" or consciousness, where goods are created and the entrepreneurs evaluate themselves. Moreover, according to Palamarova and Vassilev, business networks provide an opportunity to enter new markets and market segments and the goal is to build a strong brand that will ensure successful positioning among stakeholders and at the same time attract new members (Palamarova & Vassilev, 2017).

In connection with building a clearer idea of the business networks nature, we consider that it is necessary to summarize their main characteristics.

First, it needs to be clarified that in terms of their development prospects, the business networks only pursue business goals (Rosenfeld, 1995). It is very important to determining their location. It should be borne in mind that the business networks can be built in different territories and the way of building is voluntary and the inclusion is based on a contract between the participants. Relationships between them are based on both cooperation and competition. In this regard, Jarilo clarified that the entrepreneurial networks enable the companies included in them to maintain their competitive advantages over non-networked companies. At the same time, the organizational and managerial interactions in the network are carried out mostly by the management of a company - a leader, chosen by consensus, which has the task of coordinating plans and current activities and organizing information exchange (Jarilo, 1995). The relations with companies and other organizations outside the union should not be neglected either.

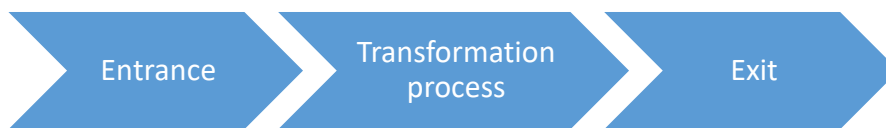
### **3. The network business structure as a system**

Madgerova and Karashtranova maintain that the system is defined in time and space a set of elements with known properties, forming a single whole and located in certain relationships and established relationships with each other, which is designed to achieve certain goals (Madgerova, Karashtranova et al., 2012). On this basis, we must note that it is important for the development of business networks to apply a systematic approach to their formation, operation and management.

We believe that the systems approach helps to analyze the objective reality, the characteristics of the systems and their structure. According to Bertalanffy, considered its founder, it is defined as a set of certain principles and methods for studying objects as a system that unites in a whole set of interconnected elements (Bertalanffy, 1951). In this approach, the elements, internal and external connections affect the functioning of the system, as the goals of each element are formed depending on the overall

importance of the system. The simplest model of a system is the transformation model, which can be represented as follows:

*Figure 1. Transformation model of the system elements*



*Source:* adapted from Atanasova, A. (2020). Cluster integration to increase the competitiveness of the small and medium enterprises, Neofit Rilski Publishing House, Blagoevgrad

The main characteristics of the system can be reduced to the following:

- it is a set of components connected together in an organized way;
- the components are affected by being in the system and the behavior of the system is affected if any of the components leaves it;
- this organized set of components does something;
- this set is of interest to someone (Atanasova, 2020, pp. 42-43).

Based on the above, it can be concluded that the network systems reflect the relationship between the components of the internal environment and the factors of the external environment for the organization. Formation of the networks with their specific network connections is aimed at achieving organizational goals in accordance with the needs and expectations of the partners and the economic situation. The network systems are equally applicable as systems for internal organizational cooperation and for cooperation between individual organizations and groups of organizations (Andronov & Alexandrova, 2004).

#### **4. The business networks as an important prerequisite for strategic company development**

As it turned out, some researchers define business networks as a form of inter-firm cooperation that allows companies located in different regions or countries to cooperate on the basis of common development goals expressed in a cooperation agreement. Companies decide to join with their strengths, share information and create synergies to become more innovative and competitive in the domestic and international market. At the same time, they retain their autonomy and do not create a separate legal entity. The main advantage is that this model of cooperation is suitable for any type of business or sector. In today's network economy, the joint creation of added value through cooperation and competition is a powerful tool for identifying



new market opportunities and developing business strategies. This, in turn, is the basis of the strategic management. In line of this, Ivanov and Usheva (2021), proved a significant interdependency between various work outcomes. Therefore, underling the importance of applying the strategies on the work place (Ivanov & Usheva, 2021, p. 93-94).

The need for strategic management and marketing decisions with its long-term orientation correlates with the achievement of the company goals by creating certain conditions and attracting the necessary resources. The researchers of the networked business organizations argue that the mutual interest of the organization's members is transformed in the pursuit of joint cooperation in order to achieve results that would be difficult to achieve by each company individually. In this regard, we will emphasize that the company synergy is obtained as a result of the interaction of the different parts of the organization. The concept of synergy relies mainly on the positive effect that is obtained in each organization, thanks to the common support activities. The aim is to increase the efficiency of the company in unstable external conditions and to make it more resistant to economic and other changes. In this case, a synergistic effect is observed in the business network, i.e. the results of the aggregate actions in the network business structure have a higher effect than that of the sum of the individual enterprises. Synergism is a subject of great attention of the managers, as the cumulative positive effect ( $2 + 2 = 5$ ) significantly increases the overall results of the various business corporations compared to the level of efficiency of each of them individually (Campbell & Luchs, 2004, p. 11). It includes suppliers, customers, developers, third party distributors and others. These third parties usually have a good reason to maintain the network and remain active in it. Recognition of their interdependence motivates all the members of the business network to share information and cooperate. In this way, they are much more interested in contributing to the improvement of the final product, rather than simply fulfilling their contractual commitments (Petrov, 2008, p. 323). Moreover, Kyurova and Kiryakova-Dineva (2019, p. 361) maintain the thesis that a successful business partnership depends to a large extent on the effective implementation of the business communication between professionals from different countries. In this regard, other lines of analysis can be found, such as the state of the issues under consideration against the background of communications and intercultural dialogue between the business representatives of different nationalities (Kiryakova-Dineva & Chankova, 2021). Based on the well-developed and balanced relationships and communications, the company's potential is increased and a competitive advantage is built. This favors the permanent stabilization of the company's competitive position in the market.

According to Bogdanova and Tsvetanova (2012, p. 200), the communication between the participants in the business network is a source of uncodified (tacit) knowledge, a result of accumulated experience and its sharing in the closest environment, i. e. in terms of the social contacts, not the formal relationships. This in

turn favors the development of the innovation systems by making reliable innovative decisions (Bogdanova & Tsvetanova, 2012, p. 212). Filipova and Yuleva maintain the thesis that through their partnership with other businesses, the innovation activity and strategic development increase (2020, p. 461).

Based on the voluntary principle on which the network structures are built, a higher degree of engagement is observed. Unlike the other structures, in the networks the division of labor and power is based on the knowledge and competence (Hadjiev, 2017, p. 158). Thus, through the use of experience, the additional value is created through the cooperation. This facilitates the sharing of the assets by the all participants in the value chain (Petrov, 2008, p. 323).

As Johanson and Mattsson (1988) point out, the external relationships are important for the network development, for the formation of industrial markets, and for the marketing strategies of the network firms. Business chains make it easier for companies with the same subject of activity to join the complex business. However, they do not generate demand for more companies with similar or related activities such as clusters. In interaction with companies outside the union, business networks attract the necessary specialized services in the region. Thus, they create conditions for the companies' development providing specialized services. This creates preconditions for increasing the competitiveness of the local market, economic growth and regional development.

At the same time, the business networks are an important prerequisite for adapting to the growing and dynamic requirements of the market. Facilitating communication and effective interaction with the consumers leads to a fuller satisfaction of the consumer tastes and needs, which is one of the main directions of the strategic marketing management.

There are some advantages that distinguish the network business structures from typical economic models. In this regard, we will emphasize that the processes and operations are standardized. The concentration of the economic activity of the organization on priority areas of specialization or on unique business processes increases. There is a positive trend of significant reduction of costs, rationalization of their structure and increase in revenues, as well as optimization of the work process and the workforce.

## **5. Conclusion and Recommendations**

The rapid change of the modern economic relations imposes the need to search new ways to adapt the business to the modern market conditions. A new look at the competitive relationships is established. They grow into inter-company cooperation and collective commitment. At the same time, the relationships and trust with stakeholders are being strengthened. This lays the foundations for the emergence of the networked business organizations, which play a key role in strategic corporate development.

In this regard, the authors' research has unlocked new scientific directions for study on the topic of future scientific contributions, such as problems in identifying individual business structures - clusters, alliances, consortia, virtual business networks, joint ventures, etc., as well as problems related to the organization and management of the networks, coordination and interconnections between the enterprises on the occasion of their operation.

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## COMPARISON OF HRM IN INDUSTRIAL AND IN PUBLIC SECTORS IN GREECE

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Received: 03.07.2021, Accepted: 02.10.2021

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### ***Abstract***

*In contemporary socio-economic conditions, both private and public organizations focus on higher growth rates. This can be achieved through streamlining the human resource management in the organizations to enhance productivity. In this respect, it is essential to understand the prevailing HRM practices and their impact on the public and private employees of Greece. The current study to enable the transition of firms' effective and flexible organizations undertakes a comparative analysis of the prevailing HRM practices. The comparison of the perception of employees reveals similarities in terms of internal, HRM, and leadership factors. While, there is a difference in opinion for the factors of external, leadership, employee commitment, ownership culture and people, policy plus the process which is observed among private and public sector employees.*

**Keywords:** HRM; Human Resource Management; Industrial Sector; Public Sector, Greece

**JEL Codes:** H83, J24, O15

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### **1. Introduction**

In conjuncture with the global economic crisis of 2007-2008, Greece continuously witnessed high deficits of the current account balance with the problem of oversized gross external debt. To address these economic problems, reforms were undertaken to ensure greater coordination and liberalization in the public and private sectors (Economakis, Frunzaru & Zisimopoulos, 2016). The industrial relations systems in Greece consequentially have been transformed. However, the public sector remains a major employer in Greece. Also, concerning the human resource aspect of employment rights and status of public servants and private sector employees, there exist differences. These include access to employment, setting of working hours, wages, and trade union rights (Ellis, 2018; Karakioulafis, 2008).

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There are concerns in HRM that affect both public and private sectors in Greek firms including those of leadership, organizational culture, work-life balance, career scopes, and training programs for employees (Xanthopoulou & Kefis, 2019). However, with the presence of dual structure in the economy, that is, both public and private sector, the human resource management (HRM) practices are also dualistic. While the public sector practices are inclined towards unionization and standard practices. On the other hand, organizations in industrial sectors in Greece use formalized mechanisms of HRM practices. These are flexible, personal, and based on the involvement and participation of employees and employers (Psychogios & Wood, 2010). In this context, the current paper seeks to compare the HRM practices in the public and industrial sectors prevailing in Greece. The current study aims to compare the HRM practices prevailing in the industrial and public sectors in Greece.

## **2. Literature review**

To guide the present study and attainment of its aim, the current section will present an analysis of previous studies and academic literature. In this section, the HRM practices in the industrial and public sectors of Greece are analyzed.

### *a) HRM in the industrial sector of Greece*

The HRM practices in the industrial sector of Greece are impacted by the cultural context of the local community and prevailing conditions of job insecurity among the employees. In this conservative climate, HRM strategies and practices are largely directed to build the ethos in the private firms to generate credibility and trust among the employees (Freed, Hyatt, Papachristou & Papalexandris, 2012). A report published by OECD in 2012 suggests that HRM framework in the industrial sector in Greece protect employee by providing rights such as those of unionization, strike, and job protection against dismissal of the employees. Additionally, a study by Katou, Budhwar & Patel in 2014, suggests that in prevailing conditions of the industrial sector in Greece, HRM practices of a firm play important role in improving the psychological capital and preventing employees from feeling unsafe or discouraged (Katou, Budhwar & Patel, 2014). Thus, the studies suggest that HRM in the industrial sector in Greece focuses on the development of confidence and optimism among employees to improve both employee and organizational performance.

### *b) HRM in the public sector of Greece*

Public sector organizations in Greece face HRM issues such as over-burden on employees, misconduct, high levels of bureaucracy, and productivity. This is the result of stagnation in grade promotions and unexpected pay cuts. In this respect, the HRM strategies of incentive and rewards, participation in decision making, leadership behavior, designing of appropriate work positions, and benchmarking outcomes are some methods for improvement of the efficiency level of the personnel (Rossidis,

Aspiridis, Blanas, Bouas & Katsimardos, 2016). Also, at the same report that published by OECD in 2012 suggests that the HRM framework in the public sector has legal provisions to protect the rights of the employees. These include the practices of providing social security to employees, pensions, the right to strike and form a union, and guarantees for long-time employment opportunities. Also, HRM in the public sector organization in Greece is increasingly involving practices inspired by private companies. These include the adoption of practices such as performance management, management of employees through objectives and results, business process reengineering, and training for the inclusion of new-age technologies (Xanthopoulou & Kefis, 2019). Thus, the public sector in Greece requires HRM practices and measures to enhance competitiveness and improve efficiency.

### **3. Research Methodology**

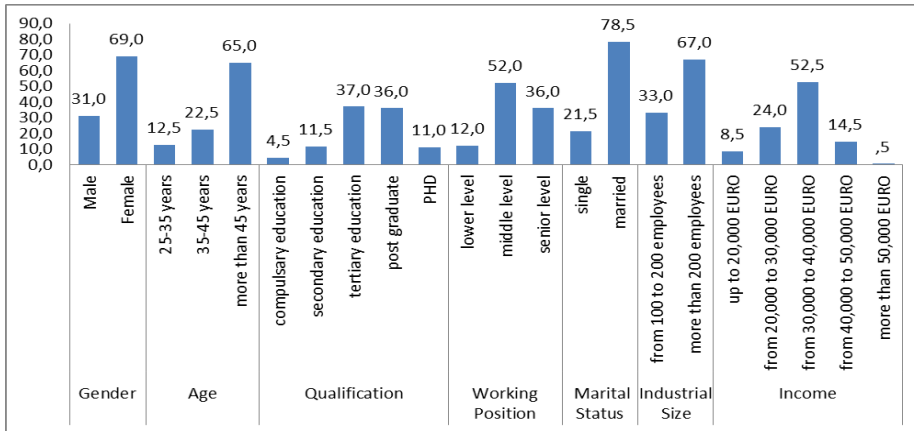
To present the comparative analysis of HRM in public and private sector organizations in Greece, the current paper will use deductive research philosophy. The philosophy is selected to understand employee's perspective regarding prevailing HRM practices and how it impacts their individual and organizational productivity. To analyze the same, primary research using quantitative data is undertaken in the study. Using purposive and snowball sampling methods, the study gathered responses from 200 public and 200 private-sector employees to understand their demography, background knowledge, and perception on job satisfaction, policies of HRM policies that impact organizational productivity and success. The data gathered was analyzed using statistical analysis tools of frequency distribution and SPSS to provide results discussed in this study ahead.

### **4. Data Analysis**

The data gathered from 400 hundred respondents was analyzed using a quantitative method using statistical and mathematical modeling. The demography to understand the respondent population of public and private sector employees is analyzed first. Figure 1 presents the demographic characteristics of public sector employees in the region of Eastern Macedonia of Greece and Thrace.

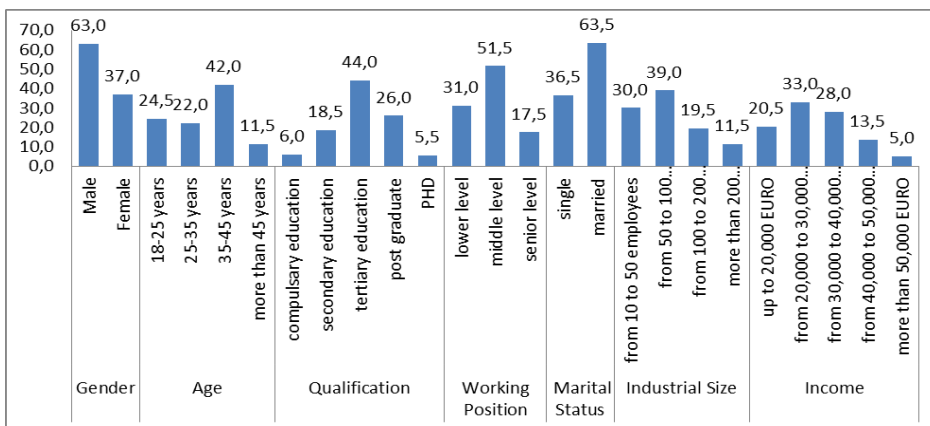
The demography suggests that public sector respondents are mostly female, of age more than 45 years married, have an educational qualification of tertiary level, working for firms employing more than 200 employees in the middle management level, and earn between 30,000 to 40,000 Euros per year. Similarly, the private sector demography is presented below.

Figure 1. Public Sector Demographic Analysis



Source: authors' own research, 2021

Figure 2. Private Sector Demographic Analysis



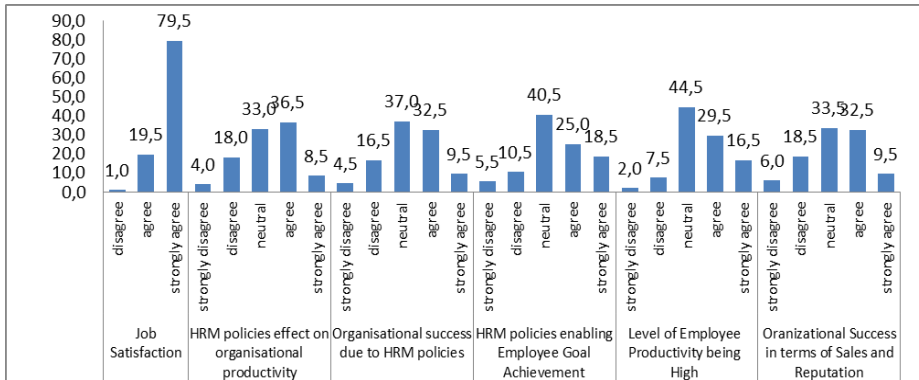
Source: authors' own research, 2021

Figure 2 presents the results of a demographic survey for private-sector employees. Maximum participants to the survey in the private sector are male, between 35 to 45 years of age, married, educated to tertiary level, working in firms with 50 – 100 employees, employed at the middle level, and have annual earning between 20,000 to 30,000 Euro.

Similarly, the findings on background information attained through the questionnaire for the public sector employees are presented in the figure below.



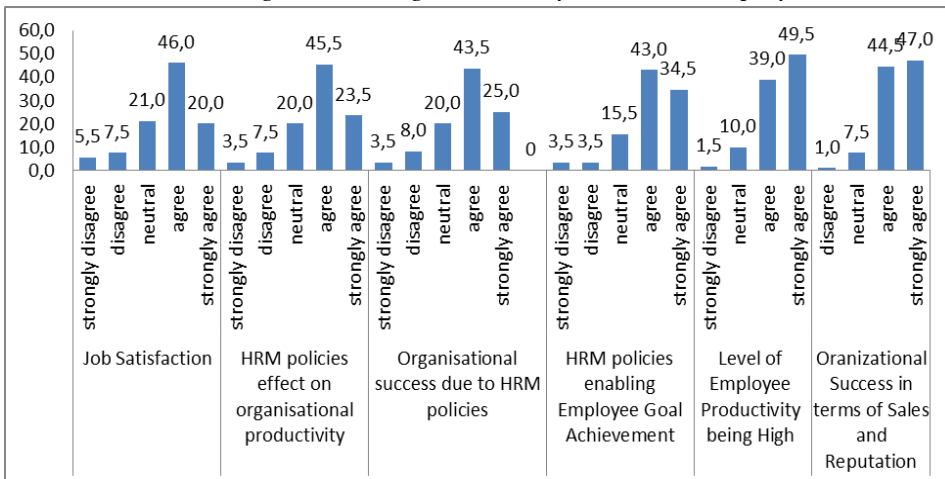
Figure 3. Public Sector Background Analysis



Source: authors' own research, 2021

Figure 3 shows that maximum public sector employees have are neutral or in agreement with the perception of being satisfied with their job, the role of HRM policies in impacting organizational productivity, organizational success, and employee goal achievement, level of high employee productivity, and organizational success in terms of firm's reputation and sales. Likewise, the background analysis for the private sector employees was also conducted and presented in the figure below.

Figure 4. Background Analysis Private Employees



Source: authors' own research, 2021

The Figure above shows that maximum industrial sector employees are in agreement or strong agreement with the perception of being satisfied with their job, the role of HRM policies in impacting organizational productivity, organizational success, and employee goal achievement, level of high employee productivity, and organizational success in terms of firm's reputation and sales.

Having collected the demographic and background data, the responses of 200 public and 200 private-sector employees were comparatively analyzed to understand their perception of different factors of HRM including internal factors, external factors, leadership style, HRM practices, ownership culture, employee commitment, people, policy and process. The coding for the statements is presented in Table 1 in appendix.

#### *a) Reliability Analysis*

With the specification of the codes for the considered statements representing various factors of HRM in the public and private sector, the examination of efficiency and reliability needs to be done. In this study the Cronbach's alpha test to measure internal consistency in a related set of items was conducted, the results of which are presented in Table 2 in appendix.

Also, the previous referred table shows the total Cronbach's alpha value and item-wise Cronbach's alpha value for statements representing various factors of HRM. For all factors total Cronbach's value for the statements is higher than the required value of the minimum value of the reliability of 0.7. Thus, they are effective enough in the representation of the factor. Further analysis is undertaken based on item-wise Cronbach alpha value if an item is deleted for statements. Only those statements having an item-wise value less than the total Cronbach alpha value are considered for further analysis. Thus, the variables C4, D1, E4, F3, I2, J1, K5, and R1 are eliminated from the model.

#### *b) Inferential analysis*

The selected statements are examined using inferential methods to conclude differences in the HRM practices for public and private sectors. Herein, hypothesis-based analysis is conducted based on data gathered from the two group's formulated i.e. public employees and private employees. To comparatively analyze the difference in perception of employees concerning factors of HRM factors affecting the work environment in organizations in Greece, the below hypothesis was tested.

H01: There is no significant difference in the different HRM factors of internal environment, external environment, HRM policies, leadership, employee commitment, ownership culture, and people, policy, and process in affecting the work environment, job satisfaction, and organizational productivity in organizations of public vs. private sector organizations in Greece

HA1: There is a significant difference in the different HRM factors of internal environment, external environment, HRM policies, leadership, employee commitment, ownership culture, and people, policy, and process in affecting the work environment, job satisfaction, and organizational productivity in organizations of public vs. private sector organizations in Greece

To summarize the dataset for factors internal environment, external environment, HRM policies, leadership, employee commitment, ownership culture,

and people, policy plus process for both private and public organizations, descriptive analysis is presented in table 3 in appendix.

Table 3 represents the descriptive statistics for the difference in opinion of the public and private sector respondents based on different HRM factors. The descriptive statistics presented suggest that the mean values for internal factors and HRM policies are more relevant for private industry employees. While, the external factors, leadership, employee commitment, ownership culture, people, policy, and process of HRM are more relevant for the public sector employees. The standard deviation is close to 1 for both public and private employees and varies from disagreeing to strongly agree for both public and private employees. As the standard error value is close to 0, it denotes there are fewer biases present in the results. Further, Levene's Test for Equality of Variances and T-Test for equality of means is conducted to derive the significance of this test, the results for this are presented in Table 4 in appendix.

Levene's test for equal variances at a 95% confidence level for the maximum HRM factors reveals that the significance value is less than 0.05 or the required significance value. This denotes that equal variance is present in the dataset and further t-test for equal variance assumed data will be conducted. For maximum variables denoting HRM factors, the p-values are less than the significance level of 0.05. This suggests that the null hypothesis of no significant difference in the different HRM factors of internal environment, external environment, HRM policies, leadership, employee commitment, ownership culture, and people, policy, plus process in affecting the work environment, job satisfaction, and organizational productivity in organizations of public vs. private sector organizations in Greece is rejected. Thus the two groups of public and private sector employees are impacted differently in terms of work environment, job satisfaction, and organizational productivity in organizations by the HRM factors of internal environment, external environment, HRM policies, leadership, employee commitment, ownership culture, and people, policy plus process.

## **5. Conclusion**

To attain the aim of comparatively studying the prevailing HRM practices in the public and private sector in Greece, a quantitative analysis method is used to find a linkage between the variables. The survey was taken from 200 public and private sector employees respectively to gather their perception of HRM practices prevailing in Greece. The findings suggest that based on hypothesis examination at a 5% level of significance, the employees find the parameters of internal and HRM policies to be more relevant for the private sector employees. While, the factors of external, leadership, employee commitment, ownership culture, and people, process, and policy are more relevant for the public sector employees. Hypothesis based analysis further suggests that for different HRM factors of internal environment, external environment, HRM policies, leadership, employee commitment, ownership culture,

and people, policy, and process, the public and private sector employees perceive a difference in a work environment, job satisfaction, and organizational productivity in Greece. Thus, public sector organizations could focus on implementing transformational leadership style, and adapting new parameters of dependability and trust or having regular monitoring for having better accountability and responsibility of civil servants. Further, private sector organizations could have modernization of their institutional framework or development of cooperation based working to enhance the capacity and HRM effectiveness. Due to limited time and resources study is restricted to 200 employees of each organization and some regions only, thus, future studies could widen this scope by having inclusion of wider sample size and region along with determining the impact of respective factors on job satisfaction of employees.

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## APPENDIX

Table 1. Coding for statements

Factors	Parameters	Statement	Coding
Internal Factors		Preferences of management match with that of the employees.	A1
		Priorities of management are conducive to the work environment	A2
External factors		Government regulations are complied with seamlessly in the organisation	B1
		Organisation adapts easily to the economic conditions of the country.	B2
HRM Practices	Absence Management	Organization has absenteeism policies like disciplinary action	C1
		Organization arranges for substitutes in case of absenteeism	C2
		HRM has policies to prevent absenteeism like attendance bonus	C3
		Employee health and well-being activity is designed to promote good physical health, good lifestyle choices and good mental health	C4
	Behavior management	Bullying is prohibited at the workplace	D1
		Abusive conduct/ language is penalised	D2
		Organization has strict rules against gossiping and usage of social media	D3
		Insubordination is penalized	D4
	Career Management	Training programs offered has improved my performance	E1
		Efficient training needs assessment methods are put in place	E2
		HR team counsels and advises employees on career moves	E3
		Psychological testing, career planning workshops and pre-retirement workshops are arranged regularly	E4
	Downsizing	Organisation has early retirement policy	F1
		Organization has voluntary termination policy	F2
		Organization has compulsory termination policy	F3
		Laid off employees are treated with respect	F4
		Employees are given options on how to exit the organization	F5
	Job Evaluation	Evaluation process is designed to reflect inputs from all levels of the organization	G1
		System measures results as well as how they are achieved	G2
		I believe the system is fair and legally defensible	G3
		Ratings are actual and reflect true performance	G4
		Evaluation meetings are meaningful and productive	G5
		Appraisal process is continuous and simple	G6
	Employee relation	Workplace conflicts are resolved seamlessly	H1
		Organization tries to foster better relationship with employees	H2
		Organization involves employees in decisions that affect them	H3
		Employees are provided opportunity to offer suggestions for improvement	H4
		Communication methods are friendly and approachable	H5
		Organization cares about overall happiness of employees	H6

	Knowledge Management	Organization has a system in place for knowledge sharing and transfer	I1	
		Documented procedures centrally stored for ease of access across the firm	I2	
		Knowledge creation is everyone's job and everybody contributes to it	I3	
		Organization has culture to encourage good communication, teamwork, innovation and lifelong learning	I4	
		Latest technology like video conferencing, DSS, e-learning, and MIS are used for knowledge management	I5	
	Performance appraisal	Your immediate director involves you in performance appraisal system	J1	
		You receive constructive feedback throughout the year	J2	
		Your director maintains a positive approach towards your appraisal	J3	
		Appraisal system is beneficial in improving skills	J4	
		Appraisal system is practical, achievable and realistic	J5	
	Work Life Balance	You feel tired and depressed due to work	K1	
		You are unable to spend time with family due to work	K2	
		You work in shifts	K3	
		You are not able to get the time for working out and maintaining a healthy diet	K4	
		Organization has a separate policy for work life balance involving flexible working hours, days off, job sharing, counselling, career sabbatical, and family support programs	K5	
	Success planning	Organization has a succession policy	L1	
		People are considered equitably for leadership position	L2	
		Succession policy of organization has helped it against competitors	L3	
	Leadership	Transformational leadership	Organization leaders prefer to work hand in hand with all members	M1
			Organization's leaders set long-term valuable goals	M2
Charismatic leadership		Leader makes use of the charisma to motivate employees	N1	
		Leader uses eloquent conversation and strong persuasive power in leading employees	N2	
Super Leadership		Organization's leaders are self-learnt and self-made from experience	O	
Contextual leadership		Organization's leader is the mediator and attempts at positively influencing others in the group	P1	
		Organization's leaders give utmost priority to , namely, time, location and culture of the organization while behaving with their followers	P2	
Full text leadership	Leadership style in organization changes as per situation	Q		
Employee commitment		I would accept almost any type of job assignment in order to keep working for this organization	R1	
		I am proud to tell others that I am part of this organisation	R2	
		I speak highly of my organisation to my friends	R3	
		I would recommend this as a good place to work	R4	
Ownership culture		Employees are always informed about the organisational decisions	S1	
		Employees are always informed about the operational process	S2	
		Employees have the capacity to have financial stake/bonus in the organization	S3	
People, policy, process		The people practices followed in the organization is clear and agreeable	T1	
		The overall guidelines and policies in the organization are clear and agreeable	T2	
		The operational process followed in organization are detailed and executable	T3	

Table 2. Reliability Analysis for statements of HRM

Coding	Total Chronbach Alpha	Cronbach's Alpha if Item Deleted
A1	0.84	-
A2		-
B1	0.89	-
B2		-
C1	0.88	0.83
C2		0.81
C3		0.80
C4		0.91
D1		0.81
D2		0.67
D3	0.79	0.71
D4		0.74
E1		0.74
E2		0.74
E3	0.83	0.77
E4		0.88
F1		0.70
F2		0.76
F3	0.81	0.85
F4		0.79
F5		0.70
G1		0.92
G2	0.92	0.89
G3		0.89
G4		0.89
G5		0.92
G6		0.92
H1		0.84
H2	0.86	0.84
H3		0.84
H4		0.81
H5		0.83
H6		0.85
I1		0.60
I2	0.72	0.83
I3		0.56
I4		0.62
I5		0.70
J1		0.92
J2	0.86	0.81
J3		0.81
J4		0.80
J5		0.80
K1		0.79
K2	0.86	0.79
K3		0.82
K4		0.82
K5		0.92
L1		0.75
L2	0.87	0.87
L3		0.83
M1		0.81
M2	0.86	0.84
N1		0.82
N2		0.83
O		0.84
P1		0.84
P2		0.85
Q		0.86
R1		0.91
R2	0.84	

R3		0.91
R4		0.84
S1	0.87	0.73
S2		0.87
S3		0.86
T1		0.72
T2	0.83	0.73
T3		0.83

Table 3. Descriptive Statistics HRM Factors

		Group Statistics					
		Factors	Professional Status	N	Mean	Std. Deviation	Std. Error Mean
<b>Internal Factors</b>	A1	civil servant	200.00	3.61	0.78	0.05	
		private industry employee	200.00	4.01	0.99	0.07	
	A2	civil servant	200.00	4.07	0.91	0.06	
		private industry employee	200.00	4.22	0.84	0.06	
<b>External factors</b>	B1	civil servant	200.00	4.75	0.43	0.03	
		private industry employee	200.00	3.90	0.93	0.07	
	B2	civil servant	200.00	4.74	0.44	0.03	
		private industry employee	200.00	3.54	1.02	0.07	
<b>HRM Policies</b>	<b>Absence Management</b>	C1	civil servant	200.00	2.45	1.55	0.11
			private industry employee	200.00	4.45	0.79	0.06
		C2	civil servant	200.00	2.70	1.55	0.11
			private industry employee	200.00	4.12	1.00	0.07
		C3	civil servant	200.00	2.12	1.40	0.10
			private industry employee	200.00	3.64	1.56	0.11
	<b>Behaviour management</b>	D2	civil servant	200.00	3.17	0.83	0.06
			private industry employee	200.00	4.10	0.91	0.06
		D3	civil servant	200.00	1.76	0.68	0.05
			private industry employee	200.00	3.47	1.18	0.08
		D4	civil servant	200.00	2.75	0.96	0.07
			private industry employee	200.00	4.83	0.61	0.04
	<b>Career Management</b>	E1	civil servant	200.00	3.39	1.05	0.07
			private industry employee	200.00	3.57	1.06	0.07
		E2	civil servant	200.00	3.00	1.11	0.08
			private industry employee	200.00	3.15	1.27	0.09
		E3	civil servant	200.00	2.27	1.25	0.09
			private industry employee	200.00	2.68	1.13	0.08
	<b>Downsizing</b>	F1	civil servant	200.00	4.93	0.26	0.02
			private industry employee	200.00	1.45	0.78	0.06
		F2	civil servant	200.00	4.93	0.26	0.02
			private industry employee	200.00	3.14	1.48	0.10
		F4	civil servant	200.00	4.99	0.12	0.01
			private industry employee	200.00	4.11	0.90	0.06
F5	civil servant	200.00	5.00	0.07	0.01		
	private industry employee	200.00	2.35	1.23	0.09		
<b>Job Evaluation</b>	G1	civil servant	200.00	3.58	1.00	0.07	
		private industry employee	200.00	3.63	0.97	0.07	
	G2	civil servant	200.00	3.13	1.14	0.08	
		private industry employee	200.00	3.40	1.18	0.08	
	G3	civil servant	200.00	3.17	1.11	0.08	
		private industry employee	200.00	3.23	1.22	0.09	



		G4	civil servant	200.00	2.88	1.12	0.08	
			private industry employee	200.00	3.19	1.37	0.10	
		G5	civil servant	200.00	3.01	1.18	0.08	
			private industry employee	200.00	3.96	1.11	0.08	
		G6	civil servant	200.00	3.34	1.04	0.07	
			private industry employee	200.00	2.93	1.09	0.08	
	<b>Employee relation</b>	H1	civil servant	200.00	4.13	0.70	0.05	
			private industry employee	200.00	4.23	0.84	0.06	
		H2	civil servant	200.00	4.27	0.73	0.05	
			private industry employee	200.00	3.92	0.86	0.06	
		H3	civil servant	200.00	4.42	0.60	0.04	
			private industry employee	200.00	3.79	1.24	0.09	
		H4	civil servant	200.00	4.08	0.75	0.05	
			private industry employee	200.00	3.84	1.02	0.07	
		H5	civil servant	200.00	4.06	0.62	0.04	
			private industry employee	200.00	4.10	0.84	0.06	
		H6	civil servant	200.00	4.14	0.75	0.05	
			private industry employee	200.00	2.89	1.00	0.07	
	<b>Knowledge Management</b>	I1	civil servant	200.00	3.49	0.72	0.05	
			private industry employee	200.00	3.79	1.06	0.07	
		I3	civil servant	200.00	2.99	1.03	0.07	
			private industry employee	200.00	3.44	1.22	0.09	
		I4	civil servant	200.00	3.42	0.91	0.06	
			private industry employee	200.00	3.65	1.09	0.08	
	I5	civil servant	200.00	2.51	0.90	0.06		
		private industry employee	200.00	4.03	0.95	0.07		
	<b>Performance appraisal</b>	J2	civil servant	200.00	3.24	0.85	0.06	
			private industry employee	200.00	3.83	1.02	0.07	
		J3	civil servant	200.00	2.88	0.94	0.07	
			private industry employee	200.00	3.63	1.09	0.08	
		J4	civil servant	200.00	2.90	1.10	0.08	
			private industry employee	200.00	3.53	1.15	0.08	
	J5	civil servant	200.00	2.63	1.03	0.07		
		private industry employee	200.00	3.47	1.18	0.08		
	<b>Work Life Balance</b>	K1	civil servant	200.00	2.33	1.67	0.12	
			private industry employee	200.00	3.04	1.34	0.09	
		K2	civil servant	200.00	2.22	1.56	0.11	
			private industry employee	200.00	3.17	1.12	0.08	
		K3	civil servant	200.00	2.54	1.78	0.13	
			private industry employee	200.00	2.90	1.65	0.12	
		K4	civil servant	200.00	2.05	1.53	0.11	
			private industry employee	200.00	3.35	1.13	0.08	
<b>Success planning</b>	L1	civil servant	200.00	2.63	1.38	0.10		
		private industry employee	200.00	4.22	0.87	0.06		
	L2	civil servant	200.00	2.52	1.46	0.10		
		private industry employee	200.00	3.38	1.42	0.10		
	L3	civil servant	200.00	2.60	1.60	0.11		
		private industry employee	200.00	3.85	1.20	0.08		
<b>Leadership</b>	<b>Transformational leadership</b>	M1	civil servant	200.00	2.77	1.05	0.07	
			private industry employee	200.00	3.47	1.24	0.09	
		M2	civil servant	200.00	3.55	0.84	0.06	
			private industry employee	200.00	4.02	0.96	0.07	
	<b>Charismatic leadership</b>	N1	civil servant	200.00	2.86	0.95	0.07	
			private industry employee	200.00	3.69	0.92	0.07	
		N2	civil servant	200.00	3.28	0.89	0.06	
			private industry employee	200.00	3.95	0.93	0.07	
	<b>Super Leadership</b>	O1	civil servant	200.00	3.22	1.33	0.09	
			private industry employee	200.00	3.98	1.10	0.08	
			P1	civil servant	200.00	3.84	0.75	0.05

	<b>Contextual leadership</b>		private industry employee	200.00	4.10	0.81	0.06
		P2	civil servant	200.00	4.59	0.60	0.04
	<b>Full text leadership</b>		private industry employee	200.00	4.56	0.76	0.05
		Q1	civil servant	200.00	3.74	1.35	0.10
<b>Employee commitment</b>	R2		private industry employee	200.00	4.65	0.67	0.05
			private industry employee	200.00	3.52	1.22	0.09
	R3		civil servant	200.00	4.31	0.79	0.06
			private industry employee	200.00	3.87	1.08	0.08
	R4		civil servant	200.00	4.90	0.30	0.02
			private industry employee	200.00	3.78	1.22	0.09
<b>Ownership culture</b>	S1		civil servant	200.00	4.49	0.72	0.05
			private industry employee	200.00	3.54	1.21	0.09
	S2		civil servant	200.00	4.52	0.64	0.05
			private industry employee	200.00	4.09	1.07	0.08
	S3		civil servant	200.00	4.52	0.71	0.05
			private industry employee	200.00	3.15	1.52	0.11
<b>People, policy, process</b>	T1		civil servant	200.00	4.11	0.71	0.05
			private industry employee	200.00	4.14	0.79	0.06
	T2		civil servant	200.00	4.40	0.53	0.04
			private industry employee	200.00	4.38	0.73	0.05
	T3		civil servant	200.00	4.70	0.50	0.04
			private industry employee	200.00	4.54	0.61	0.04

Table 4. Equality of means and variance result for HRM Factors

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
A1	Equal variances assumed	0.51	0.47	-4.56	398.00	0.00	-0.41	0.09	-0.58	-0.23
	Equal variances not assumed			-4.56	376.93	0.00	-0.41	0.09	-0.58	-0.23
A2	Equal variances assumed	0.00	0.97	-1.66	398.00	0.10	-0.15	0.09	-0.32	0.03
	Equal variances not assumed			-1.66	395.28	0.10	-0.15	0.09	-0.32	0.03
B1	Equal variances assumed	33.19	0.00	11.76	398.00	0.00	0.86	0.07	0.71	1.00
	Equal variances not assumed			11.76	281.49	0.00	0.86	0.07	0.71	1.00
B2	Equal variances assumed	107.73	0.00	15.38	398.00	0.00	1.21	0.08	1.05	1.36

	Equal variances not assumed			15.38	270.92	0.00	1.21	0.08	1.05	1.36
C1	Equal variances assumed	234.70	0.00	-16.24	398.00	0.00	-2.00	0.12	-2.24	-1.75
	Equal variances not assumed			-16.24	295.41	0.00	-2.00	0.12	-2.24	-1.75
C2	Equal variances assumed	77.35	0.00	-10.95	398.00	0.00	-1.43	0.13	-1.68	-1.17
	Equal variances not assumed			-10.95	339.61	0.00	-1.43	0.13	-1.68	-1.17
C3	Equal variances assumed	4.66	0.03	-10.24	398.00	0.00	-1.52	0.15	-1.81	-1.23
	Equal variances not assumed			-10.24	393.28	0.00	-1.52	0.15	-1.81	-1.23
D2	Equal variances assumed	0.63	0.43	-10.74	398.00	0.00	-0.94	0.09	-1.11	-0.76
	Equal variances not assumed			-10.74	394.96	0.00	-0.94	0.09	-1.11	-0.76
D3	Equal variances assumed	72.47	0.00	-17.82	398.00	0.00	-1.72	0.10	-1.90	-1.53
	Equal variances not assumed			-17.82	316.73	0.00	-1.72	0.10	-1.90	-1.53
D4	Equal variances assumed	84.62	0.00	-25.99	398.00	0.00	-2.08	0.08	-2.24	-1.92
	Equal variances not assumed			-25.99	336.35	0.00	-2.08	0.08	-2.24	-1.92
E1	Equal variances assumed	0.01	0.94	-1.71	398.00	0.09	-0.18	0.11	-0.39	0.03
	Equal variances not assumed			-1.71	397.97	0.09	-0.18	0.11	-0.39	0.03
E2	Equal variances assumed	4.79	0.03	-1.26	398.00	0.21	-0.15	0.12	-0.38	0.08
	Equal variances not assumed			-1.26	391.39	0.21	-0.15	0.12	-0.38	0.08
E3	Equal variances assumed	4.61	0.03	-3.48	398.00	0.00	-0.42	0.12	-0.65	-0.18
	Equal variances not assumed			-3.48	394.47	0.00	-0.42	0.12	-0.65	-0.18
F1	Equal variances assumed	173.50	0.00	59.69	398.00	0.00	3.48	0.06	3.37	3.59
	Equal variances not assumed			59.69	243.90	0.00	3.48	0.06	3.37	3.59

F2	Equal variances assumed	624.55	0.00	16.81	398.00	0.00	1.79	0.11	1.58	2.00
	Equal variances not assumed			16.81	210.82	0.00	1.79	0.11	1.58	2.00
F4	Equal variances assumed	245.30	0.00	13.64	398.00	0.00	0.88	0.06	0.75	1.01
	Equal variances not assumed			13.64	206.22	0.00	0.88	0.06	0.75	1.01
F5	Equal variances assumed	850.97	0.00	30.41	398.00	0.00	2.65	0.09	2.48	2.82
	Equal variances not assumed			30.41	200.31	0.00	2.65	0.09	2.48	2.82
G1	Equal variances assumed	0.11	0.74	-0.51	398.00	0.61	-0.05	0.10	-0.24	0.14
	Equal variances not assumed			-0.51	397.74	0.61	-0.05	0.10	-0.24	0.14
G2	Equal variances assumed	2.21	0.14	-2.37	398.00	0.02	-0.28	0.12	-0.50	-0.05
	Equal variances not assumed			-2.37	397.55	0.02	-0.28	0.12	-0.50	-0.05
G3	Equal variances assumed	3.24	0.07	-0.51	398.00	0.61	-0.06	0.12	-0.29	0.17
	Equal variances not assumed			-0.51	394.74	0.61	-0.06	0.12	-0.29	0.17
G4	Equal variances assumed	10.36	0.00	-2.48	398.00	0.01	-0.31	0.13	-0.56	-0.06
	Equal variances not assumed			-2.48	382.82	0.01	-0.31	0.13	-0.56	-0.06
G5	Equal variances assumed	0.77	0.38	-8.27	398.00	0.00	-0.95	0.11	-1.18	-0.72
	Equal variances not assumed			-8.27	396.49	0.00	-0.95	0.11	-1.18	-0.72
G6	Equal variances assumed	0.18	0.67	3.80	398.00	0.00	0.41	0.11	0.20	0.61
	Equal variances not assumed			3.80	397.02	0.00	0.41	0.11	0.20	0.61
H1	Equal variances assumed	6.08	0.01	-1.29	398.00	0.20	-0.10	0.08	-0.25	0.05
	Equal variances not assumed			-1.29	386.64	0.20	-0.10	0.08	-0.25	0.05
H2	Equal variances assumed	2.58	0.11	4.38	398.00	0.00	0.35	0.08	0.19	0.51
	Equal variances not assumed			4.38	386.77	0.00	0.35	0.08	0.19	0.51

H3	Equal variances assumed	84.84	0.00	6.40	398.00	0.00	0.63	0.10	0.43	0.82
	Equal variances not assumed			6.40	288.04	0.00	0.63	0.10	0.43	0.82
H4	Equal variances assumed	21.75	0.00	2.68	398.00	0.01	0.24	0.09	0.06	0.42
	Equal variances not assumed			2.68	363.69	0.01	0.24	0.09	0.06	0.42
H5	Equal variances assumed	31.80	0.00	-0.54	398.00	0.59	-0.04	0.07	-0.19	0.11
	Equal variances not assumed			-0.54	366.11	0.59	-0.04	0.07	-0.19	0.11
H6	Equal variances assumed	4.30	0.04	14.04	398.00	0.00	1.25	0.09	1.07	1.42
	Equal variances not assumed			14.04	369.92	0.00	1.25	0.09	1.07	1.42
I1	Equal variances assumed	8.40	0.00	-3.32	398.00	0.00	-0.30	0.09	-0.48	-0.12
	Equal variances not assumed			-3.32	351.96	0.00	-0.30	0.09	-0.48	-0.12
I3	Equal variances assumed	13.53	0.00	-3.99	398.00	0.00	-0.45	0.11	-0.67	-0.23
	Equal variances not assumed			-3.99	386.55	0.00	-0.45	0.11	-0.67	-0.23
I4	Equal variances assumed	4.55	0.03	-2.29	398.00	0.02	-0.23	0.10	-0.43	-0.03
	Equal variances not assumed			-2.29	385.38	0.02	-0.23	0.10	-0.43	-0.03
I5	Equal variances assumed	2.63	0.11	-16.46	398.00	0.00	-1.53	0.09	-1.71	-1.34
	Equal variances not assumed			-16.46	396.92	0.00	-1.53	0.09	-1.71	-1.34
J2	Equal variances assumed	4.66	0.03	-6.27	398.00	0.00	-0.59	0.09	-0.78	-0.40
	Equal variances not assumed			-6.27	384.97	0.00	-0.59	0.09	-0.78	-0.40
J3	Equal variances assumed	11.58	0.00	-7.39	398.00	0.00	-0.75	0.10	-0.95	-0.55
	Equal variances not assumed			-7.39	389.78	0.00	-0.75	0.10	-0.95	-0.55
J4	Equal variances assumed	1.12	0.29	-5.64	398.00	0.00	-0.64	0.11	-0.86	-0.41
	Equal variances not assumed			-5.64	397.44	0.00	-0.64	0.11	-0.86	-0.41

J5	Equal variances assumed	4.46	0.04	-7.60	398.00	0.00	-0.84	0.11	-1.06	-0.62
	Equal variances not assumed			-7.60	391.05	0.00	-0.84	0.11	-1.06	-0.62
K1	Equal variances assumed	42.18	0.00	-4.70	398.00	0.00	-0.71	0.15	-1.01	-0.41
	Equal variances not assumed			-4.70	380.46	0.00	-0.71	0.15	-1.01	-0.41
K2	Equal variances assumed	86.57	0.00	-7.02	398.00	0.00	-0.95	0.14	-1.22	-0.68
	Equal variances not assumed			-7.02	360.79	0.00	-0.95	0.14	-1.22	-0.68
K3	Equal variances assumed	10.57	0.00	-2.13	398.00	0.03	-0.37	0.17	-0.70	-0.03
	Equal variances not assumed			-2.13	395.87	0.03	-0.37	0.17	-0.70	-0.03
K4	Equal variances assumed	55.52	0.00	-9.66	398.00	0.00	-1.30	0.13	-1.56	-1.04
	Equal variances not assumed			-9.66	366.88	0.00	-1.30	0.13	-1.56	-1.04
L1	Equal variances assumed	85.37	0.00	-13.77	398.00	0.00	-1.59	0.12	-1.82	-1.36
	Equal variances not assumed			-13.77	334.98	0.00	-1.59	0.12	-1.82	-1.36
L2	Equal variances assumed	1.41	0.24	-6.02	398.00	0.00	-0.87	0.14	-1.15	-0.58
	Equal variances not assumed			-6.02	397.75	0.00	-0.87	0.14	-1.15	-0.58
L3	Equal variances assumed	74.27	0.00	-8.82	398.00	0.00	-1.25	0.14	-1.52	-0.97
	Equal variances not assumed			-8.82	368.58	0.00	-1.25	0.14	-1.52	-0.97
M1	Equal variances assumed	8.01	0.00	-6.10	398.00	0.00	-0.70	0.11	-0.93	-0.47
	Equal variances not assumed			-6.10	388.06	0.00	-0.70	0.11	-0.93	-0.47
M2	Equal variances assumed	0.14	0.71	-5.22	398.00	0.00	-0.47	0.09	-0.65	-0.29
	Equal variances not assumed			-5.22	390.94	0.00	-0.47	0.09	-0.65	-0.29
N1	Equal variances assumed	0.64	0.42	-8.83	398.00	0.00	-0.83	0.09	-1.01	-0.64

	Equal variances not assumed			-8.83	397.74	0.00	-0.83	0.09	-1.01	-0.64
N2	Equal variances assumed	0.03	0.87	-7.38	398.00	0.00	-0.67	0.09	-0.85	-0.49
	Equal variances not assumed			-7.38	397.15	0.00	-0.67	0.09	-0.85	-0.49
O1	Equal variances assumed	20.67	0.00	-6.28	398.00	0.00	-0.77	0.12	-1.00	-0.53
	Equal variances not assumed			-6.28	384.65	0.00	-0.77	0.12	-1.00	-0.53
P1	Equal variances assumed	3.67	0.06	-3.31	398.00	0.00	-0.26	0.08	-0.41	-0.11
	Equal variances not assumed			-3.31	395.59	0.00	-0.26	0.08	-0.41	-0.11
P2	Equal variances assumed	2.66	0.10	0.51	398.00	0.61	0.04	0.07	-0.10	0.17
	Equal variances not assumed			0.51	378.16	0.61	0.04	0.07	-0.10	0.17
Q1	Equal variances assumed	32.88	0.00	-4.96	398.00	0.00	-0.56	0.11	-0.78	-0.34
	Equal variances not assumed			-4.96	335.56	0.00	-0.56	0.11	-0.78	-0.34
R2	Equal variances assumed	83.80	0.00	11.56	398.00	0.00	1.14	0.10	0.94	1.33
	Equal variances not assumed			11.56	309.90	0.00	1.14	0.10	0.94	1.33
R3	Equal variances assumed	13.57	0.00	4.70	398.00	0.00	0.45	0.09	0.26	0.63
	Equal variances not assumed			4.70	363.01	0.00	0.45	0.09	0.26	0.63
R4	Equal variances assumed	303.38	0.00	12.65	398.00	0.00	1.13	0.09	0.95	1.30
	Equal variances not assumed			12.65	223.04	0.00	1.13	0.09	0.95	1.30
S1	Equal variances assumed	54.52	0.00	9.55	398.00	0.00	0.95	0.10	0.75	1.15
	Equal variances not assumed			9.55	325.56	0.00	0.95	0.10	0.75	1.15
S2	Equal variances assumed	11.81	0.00	4.93	398.00	0.00	0.44	0.09	0.26	0.61
	Equal variances not assumed			4.93	325.84	0.00	0.44	0.09	0.26	0.61
S3	Equal variances assumed	194.99	0.00	11.63	398.00	0.00	1.38	0.12	1.14	1.61

	Equal variances not assumed			11.63	282.08	0.00	1.38	0.12	1.14	1.61
T1	Equal variances assumed	4.30	0.04	-0.40	398.00	0.69	-0.03	0.08	-0.18	0.12
	Equal variances not assumed			-0.40	394.01	0.69	-0.03	0.08	-0.18	0.12
T2	Equal variances assumed	28.59	0.00	0.39	398.00	0.69	0.03	0.06	-0.10	0.15
	Equal variances not assumed			0.39	364.37	0.69	0.03	0.06	-0.10	0.15
T3	Equal variances assumed	19.47	0.00	2.86	398.00	0.00	0.16	0.06	0.05	0.27
	Equal variances not assumed			2.86	384.39	0.00	0.16	0.06	0.05	0.27



## THE CORPORATE IMAGE OF WINE PRODUCERS IN BULGARIA AS A COMPETITIVE ADVANTAGE

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Received: 26.10.2021, Accepted: 08.11.2021

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### Abstract

*In the theory, there are different paradigms that determine the nature of the corporate image, as well as the processes of its building, enforcement and management. Corporate image is one of the important factors for improving the competitiveness of enterprises. The structure of the corporate image is generally made up of the internal and the external image of the organization. The aim of the article is to study and analyze the corporate image of Bulgarian wine producers (in the top 20 according to the ranking of DiVino.bg) as a factor in increasing competitiveness.*

**Keywords:** corporate image; competitive advantage; wine producers

**JEL Codes:** M14, M21, L52

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### 1. Introduction

Corporate image is generally the image created in the public's mind about a particular organization due to its products, management, advertising, public relations, marketing, etc. An image that attracts not only because of the high quality it offers, but also because of the purely emotional attitude of consumers towards it. Seeing the security, prosperity, social commitment and good future represented by the image, consumers approach with trust and faith to all that the company represents and does

Corporate image is one of the important factors for improving the competitiveness of enterprises. In this regard, corporate image should be studied in close relation to competitiveness.

### 2. Essence and elements of corporate image

Corporate image is an image of a collective entity, therefore its structure, content and management differ from those of a personal image. The presence of internal and external image requires targeted management actions to achieve

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integration, to establish a link between internal corporate culture and external positioning to strengthen the image of the organization.

Corporate image is the picture emerging in the mind of target mass that any given enterprise aims to reach (Bozkurt, 2018, p. 61). A corporate image refers to how a business is perceived. It is a generally accepted image of what a company stands for (Tandoh, 2020, p. 12).

*The structure* of the corporate image is generally made up of the *internal* (culture of the organization, level of relations in the collective, levels of motivation, image of the manager and image of the staff) and the *external image* of the organization (image of products, image of consumers of goods, social and business image of the organization).

The image of a company is an integrative sum of images: the image of the manager, the staff, the goods and services produced; the image of the consumer; the visual image created by the corporate style and the state of the facilities; the image of the company's business activities and its socially significant initiatives. It also hides past situations - how the person reacted before, what it did, how it behaved towards others (Filipova, 2015, p. 6).

In order to be even more successful and effective, an enterprise must seriously work on building, developing and maintaining a positive corporate image. On the one hand, a good image, the quality of the goods and services offered, customer satisfaction and the trust built up with consumers result in an improvement of competitiveness of enterprises. On the other hand, competitiveness as part of corporate image is an important element for building an unquestionable and trustworthy image.

In order to be recognized in their actions, the companies must present their image in public (Yaneva, & Serafimova, 2020, p. 171). It is essential to keep in mind that the formation of the image is mainly related to the values (Kyurova, 2013, p. 72).

The question most likely to be asked by an external stakeholder is „Who are you?“ and the question most likely to be asked by an internal stakeholder is „Who are we?“ (Davies et al., 2003, p. 161). The first question concerns the external image of the organization. The second concerns the way employees view the organization they work for, its identity. „Consistent perceptions would suggest that image is a universal construct“ (Gatewood et al., 1993, p. 416).

The underlying assumption is that, if the corporate identity is well managed, then the resulting corporate image will accurately reflect the values, beliefs and strategic direction of the company (Stuart, 1999, p. 151). „Over the recent years a trend has been observed towards establishment of modern wine cellars which meet global standards as well as towards production of exclusive wines which compete successfully with proven world brands. In spite of the sector's progress so far, some additional actions and efforts are necessary to increase the competitiveness of this traditional for Bulgaria sector“ (Vasileva et al., 2014, p. 11).

### 3. Assessment of the corporate image of wine producers in Bulgaria

Some specialized sociological agencies are known to study annually the image and reputation of wine producers in the world. One of them is Latitude 28 ° Global Platinum Mastercard®, which compiles a list of "Top 10 best wineries in the world".

In Bulgaria a similar ranking has been carried out by DiVino.bg, a site for wine, wine culture and journalism, since 2006. This ranking is in several categories: top 10 of the best wines; top 20 and top 50 of wines and winemakers.

The wine market (national and international) is characterized by growing competition (Dimitrova, 2021).

Before analysing the wine producers with the best corporate image in Bulgaria, it is necessary to clarify the criteria for this ranking, namely: quality of the produced wines, leadership in the management; good financial results; care and attitude towards employees; social responsibility and commitment.

#### 3.1. Leading elements of the corporate image of winemakers

The organizational actions and peculiarities underlying such a ranking could be interpreted as leading elements of the corporate image of winemakers. As a result of the analysis of the study, these key elements can be systematized, as follows (Table 1):

*Table 1. Leading elements of corporate image of wine producers in Bulgaria*

Leading elements of corporate image	Positive	Negative
Quality of the wines produced	✓	✓
Value for money of wines	✓	✓
Data of wine exports	✓	✓
Financial status of wine producers	✓	✓
Care and attitude towards employees	✓	✓
Popularity and reputation of the brand	✓	
Mission, vision and strategy of winemakers	✓	
Leadership in management	✓	
Organizational culture	✓	
Attitude towards environmental protection	✓	✓
Corporate social responsibility	✓	
Work in the gray sector		✓
Artificially created corporate image		✓

*Source:* author's systematization

The leading elements for building the corporate image of winemakers can generate positive or negative perceptions, evaluations and attitudes.

Conducting a survey of the best wine producers in Bulgaria can be identified through three key elements of the corporate image, which can generate both positive and negative assessments, attitudes and perceptions, namely: the quality of wines produced, the financial status of enterprises and the attitude of management towards employees.

It is possible to create a positive corporate image artificially, but it cannot be maintained for too long and therefore cannot be used as a competitive advantage by winemakers. Conversely, the image formed on the basis of the behavioral culture of the team, based on company policy, culture and internal organizational status, is a prerequisite for a long-term corporate image that can be successfully used as a competitive advantage.

The data from the empirical study was obtained by the method of semi-standardized interview.

The subject field of the research is the corporate image of the wine producers in Bulgaria.

In the last few years wine production in Bulgaria has been developing at an exceptional pace in terms of *quality*, *price* and *marketing*. The main problem, according to experts in the field is the lack of a well-established *corporate image* and highly *organized marketing*. However, a strong point of winemaking is the local, rare, but extremely good varieties of wine, such as Mavrud, Misket, Gamza, Shiroka Melnishka and Rubin, which are particularly attractive and demanded on the market.

A significant part of the sales at international level are from the Cabernet and Merlot varieties. Local varieties distinguish the Bulgarian wine producers by its specific and authentic taste of the wine for the region.

The prospects for the development of Bulgarian wine products are related to: building and maintaining a *good image*, *constant marketing* in order to promote wine globally, as well as the development of *wine tourism*.

### **3.2. Research questions for corporate image assessment**

The research questions formed in the research are:

1. What are *the vision* and *the mission* of the winemakers in Bulgaria and do they have *a strategy* through which to build and maintain their corporate image?
2. Which one according to the winemakers is the key element of the corporate image?
3. Are Bulgarian winemakers interested in publications related to the corporate image and what actions do they take to build and maintain it?
4. How do winemakers assess their competitors and their own competitive advantages?

The questionnaire contains a total of 10 questions. The information is presented through the systematization of the general opinions, according to the tasks, and the research questions are:

- corporate mission and vision;
- the existence of a strategy for building and maintaining a corporate image;
- presence of a marketing department, taking care of the enterprise image;
- interest in presenting at wine forums and festivals;
- key elements of the image that winemakers consider to be the most important;
- evaluation of the competitive advantages of the enterprises.

### 3.3. Results analysis

The criteria for evaluation of wines and winemakers is based on: good value for money, rating of wine products and the winemaker, measured in points on a 5-point system and evaluation of the purchase.

Winemakers whose wine products are in the top 20 according to the ranking of DiVino.bg were evaluated.

*Table 2. Top 20 wines of winemakers from Bulgaria*

№	product - wine	winemaker	harvest / year	price	rating *
1	Katarzyna Grand Cru	Katarzyna	2013	228 BGN	4
2	Katarzyna Grand Cru	Katarzyna	2012	190 BGN	4
3	Angel`s Estate Gold Stallion	Angel`s Estate	2012	160 BGN	4
4	Angel`s Estate Gold Stallion	Angel`s Estate	2013	135 BGN	4
5	Santa Sarah Mavrud Privat One	Santa Sarah	2011	120 BGN	4
6	Edoardo Miroglio Brut Rose Grand Reserve Special edition	Edoardo Miroglio	2006	120 BGN	4
7	Katarzyna Reserve	Katarzyna	2012	120 BGN	4
8	Santa Sarah Cabernet Sauvignon Privat	Santa Sarah	2011	120 BGN	4
9	Dragomir Special Selection Merlot & Rubin	Dragomir	2013	120 BGN	4
10	Neragora Pinot Noir Grand Reserve Organic	Neragora	2012	100 BGN	4
11	Bulgarian Treasure Mavrud Reserve	Rumeliya	2011	95 BGN	4
12	Midalidare Rock`n`Rolla Magn	Midalidare	2010	94 BGN	4
13	Borovitza DUX	Borovitza	2007	90 BGN	4
14	Domaine Boyar Solitaire Syrah Hand Crafted	Domaine Boyar	2017	90 BGN	4
15	Korten Single Barrel № 30 Syrah	Korten	2016	85 BGN	4

16	Four Friends Gorno Botevo Single Vineyard Premium	Four Friends	2016	84 BGN	4
17	Zlaten Rozhen Syrah Exclusive	Zlaten Rozhen	2017	83 BGN	4
18	Terra Tangra Single Barrel	Terra Tangra	2007	75 BGN	4
19	Domaine Bessa Valley Syrah	Domaine Bessa	2015	75 BGN	4
20	Bratanov Cabernet Franc Priv.	Bratanov	2013	75 BGN	4

*Source:* Evaluation and rating of wine producers in Bulgaria, <https://divino.bg/vino/reitingi-i-ocenki>

The table below shows that all ranked wines and their winemakers are rated with a high rating of 4 points (with a maximum of 5 points). The price/quality ratio of the products is also reported as very good. The prices of the wines vary from 228 BGN for the most expensive ranked Bulgarian wine of the winemaker Katarzhyna to 75 BGN for the Bratanovi wine cellar.

The highest rating is for the winemaker Katarzhyna with two high quality wines (vintage 2012 and 2013), followed by Angels Estate, which is ranked for several products. Both companies are located in the Thracian lowland wine-growing region.

Next is the wine product of Santa Sara wine cellar from the Black Sea region.

In connection with the more detailed study of the overall corporate image of the top winemakers in Bulgaria, a semi-standardized interview was conducted, the producers' websites were evaluated, updated information was sought in the media about the presentation of winemakers in front of the community, coverage of awards and prizes, as well as other features related to building and maintaining a positive corporate image in the enterprises.

Table 3 presents the criteria and the respective indicators for evaluation of the elements in order to form the corporate image of the winemakers from the top 20 list of DiVino.bg. Due to the fact that some winemakers are ranked in the top position with more than one product, the number of enterprises has been reduced to 13.

The main criteria for the survey of wineries are: wine quality, leadership in management, good financial stability, care and attitude towards employees and social responsibility and commitment.

Table 3. Criteria for evaluating the elements of the corporate image of the winemakers in the top 20 of the wine products for Bulgaria

winemaker	Quality of wines	Leadership in management	Good financial stability	Care and attitude towards employees	Social responsibility and commitment
Katarzyna	high	HLP (high leadership positions)	HFS (high financial stability)	high level	high
Angel's Estate	high	HLP	MFS (moderate financial stability)	high level	high
Angel's Estate	high	HLP	MFS	high level	high
Edoardo Miroglio	high	HLP	HFS	high level	high
Dragomir	high	MLP (middle leadership positions)	MFS	average	average
Neragora	high	LLP (lack of leadership positions)	LFS (low financial stability)	low level	average
Rumeliya	high	MLP	-	average	average
Midalidare	high	HLP	HFS	high level	high
Borovitza	high	LLP	-	low level	low
Domaine Boyar	high	MLP	MFS	average	average
Korten	high	LLP	LFS	low level	average
Four Friends	high	HLP	HFS	high level	high
Zlaten Rozhen	high	HLP	HFS	high level	high

Source: interpretation according to data from: assessment and rating of wine producers in Bulgaria, <https://divino.bg/vino/reitingi-i-ocenki>, Annual financial statements of the surveyed wine producers and according to data from the interviewees

The measurement of financial stability is based on the data for the own capital and the net profit of companies for 2018 and 2019.

Table 4. Data on the own capital and the net profit of the surveyed winemakers

winemaker	Equity	Net profit for 2019/ in thousand BGN/	Net profit for 2018/ in thousand BGN/
Katarzyna	6 325 000 BGN	327	547
Angel`s Estate	50 000 BGN	119	118
Angel`s Estate	517 801 BGN	270	202
Edoardo Miroglio	64 720 700 BGN	293	258
Dragomir	220 000 BGN	58	165
Neragora	100 BGN	26	104
Rumeliya	5 000 BGN	-	11
Midalidare	5 826 000 BGN	701	546
Borovitza	5 000 BGN	-	-
Domaine Boyar	50 000 BGN	224	109
Korten	5 000 BGN	34	30
Four Friends	4 134 870 BGN	141	185
Zlaten Rozhen	2 571 500 BGN	174	0

Sources: The data is taken from the Annual Financial Statements of the winemakers published in the Commercial Register, <https://portal.registryagency.bg/CR/Reports/ActiveCondition> and the electronic source [www.papagal.bg](http://www.papagal.bg), last posted on 10.09.2021

To determine the level of financial stability of winemakers, evaluation criteria and indicators are set, based on information about the value of the own capital and net profit of companies (see Table 5).

Table 5. Criteria for financial stability of the winemakers

Evaluation	Value of equity	Net profit	Cost-effectiveness ratio of high financial stability Equity = (Net profit) / (Equity)
Cost-effectiveness ratio of high financial stability	over 1 000 000 BGN	over 200 000 BGN	> 0,2
Moderate financial stability	50 000 – 1 000 000 BGN	101 000-200 000 BGN	> 1
Average financial stability	5 000 – 50 000 BGN	51 000-100 000 BGN	> 2
Low financial stability	2 – 5 000 BGN	0-50 000 BGN	> 10

Source: setting values from/to, according to the financial indicators of the winemakers - author's interpretation

According to the indicator "quality of wines" all surveyed winemakers receive a maximum score, as they are in the top 20 of the highest quality wines produced by Bulgarian winemakers and awarded with prizes.



Regarding the criteria "leadership in management", the evaluation is based on the rating of the company, the organizational and management structure, the management style, the prestige and the rating of the wine company in the market. Part of this information is taken from the websites of the surveyed companies and another part is based on the answers of the surveyed people who took part in the interview.

Table 6. Criteria for evaluating „leadership in management“

<b>Level of leadership positions</b>	<b>High Leadership positions</b>	<b>Middle Leadership Positions</b>	<b>Lack of Leadership Positions</b>
Rating	4-5 p.	2-3 p.	0-1 p.
Organization and management style in the company	high evaluation	average grade	low score
Implementation of innovations	Implementation of innovations in terms of technology and management	Implementation of innovations in only one of the departments	Lack of data on innovation activity

Source: author's interpretation according to the answers of the interviewees

In general, *leadership in management* can be assessed by the high leadership positions, taking into consideration the company's rating, the organization and the management style, according to the opinion of respondents, as well as on the basis of implemented innovations in various departments of the company. The average leadership position refers to makers who have a rating of 2 to 3 points in the evaluation by DiVino.bg, innovate only one of the departments of the company and according to the opinion of the interviewees and review of the website, an average rating is set. The lack of leadership positions refers to winmakers with a rating of 0 to 1 point, with a low rating of organization and management style and no data on the implementation of innovations.

A detailed examination of the results of the "Leadership and Management" criteria presented in Table 3, gives a reason to summarize that three of the surveyed makers don't have a leadership position (these are the wine cellars: Neragora, Borovitsa and Korten). Also, three of the wine enterprises - object of analysis that have a middle leadership position (wineries: Dragomir, Domaine Boyar and Rumelia). The other 7 companies (Katarzhyna, Angels Estate, Santa Sara, Edoardo Mirolio, Midalidare, Four Friends and Zlaten Rozhen) have high leadership positions.

The evaluation according to the criteria „Care and attitude towards employees“ is done in regards to the answers of the interviewees regarding: whether the trainings are organized by the company, whether world leaders in wine production are visited,

employees are certified, if team building events are organized and if there is an opportunity for career development.

*Table 7. Evaluation indicators according to the criterion „care and attitude towards employees“*

<b>Evaluation indicators</b>	<b>High level</b>	<b>Average level</b>	<b>Low level</b>
Organizing trainings	Regular organization of trainings	Trainings are rarely organized	No trainings are organized
Visits of world leaders in wine production	Leaders are visited	Leaders were visited once	Leaders are not visited
Attestation of employees	Regular attestation of employees is performed	Employees are rarely attested	There is no attestation of the employees
Organizing team building	Regular organization of team building events	Team building events are rarely organized	No team building events are organized
Opportunities for career development	Good conditions for career development are created	Career prospects are limited	No career development opportunities have been created

*Source:* according to the interview

The evaluation according to the criteria „Social responsibility and commitment“ can be based on several main elements: *economic* (creation of good financial stability), *social* (impact of enterprises on society, quality of life, charity events, etc.) and *attitude to the environment* (observance of the ecological balance, etc.). The main indicators for evaluation according to the criteria of social responsibility and commitment are presented in Table 8.

*Table 8. Indicators for evaluation according to the criterion „social responsibility and commitment“*

<b>Indicators</b>	<b>High level</b>	<b>Average level</b>	<b>Low level</b>
Charity events of winemakers	He regularly participates in charity events	He rarely participates in charity events	He does not participate in charity events
Environmental protection and attitude towards eco-balance	Protects the environment and is environmentally friendly	Protects the environment, but is not environmentally friendly	It is not environmentally friendly and does not protect the environment
Organic production	Yes	Yes	No

*Source:* based on data from the interview and information from the websites of the surveyed wine producers

Based on the approved evaluation indicators according to the set criteria, enterprises highly valued in terms of their corporate image appeared (this includes winemakers Katarzyna, Edoardo Miroglio, Midalidare, Four Friends and Zlaten Rozhen), enterprises with a moderate assessment of corporate image (Angel's Estate, Santa Sarah and Domaine Boyar) and those with a low evaluation, whose corporate image is not enough built or maintained (Dragomir, Neragora, Rumeliya, Borovitza and Korten).

#### **4. Conclusion**

In the theory, there are different paradigms that determine the nature of the corporate image, as well as the processes of its building, enforcement and management. The position of researchers from a marketing point of view and those from an organizational point of view is different.

In regards to the analyzed issues and the results of the survey conducted among Bulgarian winemakers, it was confirmed that the corporate image is one of the main competitive factors. In the process of building their image, winemakers aim to create one that brings competitive advantages and presents the company in the best possible way.

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## THE MISSMATCH BETWEEN PREFERED AND APPLIED FORMS OF MOTIVATION AND ITS INFLUENCE ON SOME WORK OUTCOMES

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Received: 25.10.2021, Accepted: 7.11.2021

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### **Abstract**

*In the current research, we aim to prove a significant influence of motivation on work outcomes. For doing so, we formulated various kinds of question, with the goal to examine employee motivation. We divided the motivational elements in to six modules for better understanding of the wholly process of motivating the staff. For examining the overall effectives of the motivation in the company at hand, we formulated a so-called match factor, which described the difference between the preferred and applied types of motivation and calculated it for each module separately. We examine its influence on propensity of staying in the company; psychological tension; pride from working in the company; engagement; satisfaction and initiative. The study was held in the form of a survey among N=423 administrative employees in a railway company in Bulgaria. Our results proved a significant influence by the match factor of the motivational modules on the work related outcomes. Hence, proving the influence of motivation on work outcomes.*

**Keywords:** motivation; work outcomes; effectiveness of motivation

**JEL Codes:** M52, M54

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### **1. Introduction**

The effectiveness of motivation is its most important trait. If managers do not apply favorable for the employee's forms of motivation, they risk demining the effectiveness and therefore, the overall results of the wholly process of motivating the staff. Consequently, when applying certain forms of motivation, managers should acknowledge the most favorable forms, which are subjectively approved by the employees. In the literature it is enough empirical prove, that in work environment, almost no individual is expected to react the same to given motivators. People value different things in their work, based on their personal experience, demographic or psychological traits. Therefore, it is expected different forms of motivation to have

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different overall effect on different employees. The goal in the current study is namely to underline to eventual effect of the mismatch in motivation in certain concrete forms and its influence on employees work outcomes. For doing so, we will examine firstly the wholly problematic of the motivation, we will provide examples of what influences motivation and what could be the effects of ineffective motivation in the workplace. Finally, we will provide our results from the study we conducted.

The line of research we chose is to investigate only the employees when it comes both to preferred and applied forms of motivation in the company. This was chosen, simply because if the employee cannot feel the application of certain motivational form, the last is simply too ineffective and cannot be accepted as a valuable part of the firms motivational scheme. Martin (2004) states, that the main argument for a behavioral approach to HRM is as simple as it is convincing: it is that human labor cannot be detached from the person who is working (p. 203). Therefore, when examining motivation in the workplace, the most favorable approach is by examining the employees. Hence, we can define our approach as favorable for the examination of the effectiveness of the motivation in the workplace.

## **2. Defining motivation**

Motivation studies could be traced back to the great Greek philosophers, where in his famous work “Republic”, Plato describes three separate parts of the soul – reason, spirit and appetite. Hence, even in ancient times, people knew that there is something that drives people to a given direction. Since then, many philosophers examined the reason behind human behavior. Since then, motivation was a part of the psychology and it was formulated in a later stage in the beginning of the 20<sup>th</sup> century as a separate part of the organizational psychology. Hence, motivation became a part of the science, which examines the behavior of people in organizations. Consequently, it began to interest many scholars, which examine also the problems, linked to management theory. One of the first considerations on motivation within management theory comes from Taylor (1911), who described the tendency of the average worker to work with calm and slow pace. Only after the realization of a possible good deal for the worker, he will be driven to work better and faster (p. 17). Hence, motivation came only up to the material stimuli, which could be applied in the workplace. However, scholars and practitioners found out that there must be something else, more effective in the human motivation. Ever since the Hotorn studies, it was clear that often times the implementation of material stimuli, does not have any significant results in certain conditions. As a conclusion of the studies in the city of Hotorn, the scholars stated that the sense of meaning and importance is far more motivating for people in given circumstances.

Based on the high importance of motivation it has many different definitions. For example, Latham and Pinder (2005) define it as a resource-allocation process where time and energy are allocated to an array of tasks benefits, which have to satisfy

the needs (p. 502). As some authors argue, motivation is a process of taking a voluntary decision to undertake a particular purposeful action or inaction under given circumstances. It is of a subjective nature, runs within an individual's mind, and is reduced to the personal appraisal of all the impacts on him/her, of the signals sent by the economic, organisational and social environment of the enterprise (Dimitrova & Sotirova, p. 168). Here the authors accentuate on the directing energy in a way, which will lead to some sort of satisfaction of the individual. Alternately, as Deckers (2010) describes it, as a process initiating, directing and maintaining goal-directed behavior (p. 6). Therefore, it can be stated that, from one side lays the goal or the one thing the individual desires and on the other side it is the individual with his energy and effort, which he can put into a task in order to fulfil his desire. This view is a part of the so-called "Need theories of human motivation", for which the motivational process is not other than a behavior directed only on fulfilling the goals of the individual.

In line of the last, we would like briefly to examine some of the theories of motivation in order better to understand the wholly process of motivating in the workplace. Maybe the first formulated motivational theory as a part of the organizational psychology is the theory of Murray (1938), who based on a research among students in the Oxford university, concluded that there are 20 basic needs in the human psychology. He only makes a list of the last in alphabetical order (p. 144-145). Although, this theory wasn't completely objective and did not provide a full understanding of motivation, it led to the formulation of many other need theories and was the beginning of the increased interest in the topic. Building onto the work of Murray, Maslow (1954) formulated five groups of needs and arranged them in a hierarchical order – Physiological; Safety; Social; Respect and self-respect; Self-actualization (p. 77-97). For Maslow the individual can feel the motivating effect of the needs on the higher level in his hierarchy, only when he fulfilled the lower set of needs. Hence, the only way for the individual to feel good and fulfilled is to satisfy his needs. There are certain exceptions of this rule, but we would not consider them in detail. Based on the work of Maslow, Alderfer (1969) defines three groups of needs – Existence; Relatedness; Growth (p. 142-175). The big difference between the two theories is that Alderfer states that the individual tends to strive to the satisfaction of the more concrete needs, rather than the higher set of needs, once the lower ones are satisfied. This is known as frustrational-regressional process, which means that the individual can focus on lower-level needs if they are more concrete at the moment. Need formulation tends to differ. For example, Hogan and Wageman (2003), described – biological, needs for acceptance and approval, status, power and control over resources, predictability and order (p. 77). The common among all is the view that the only way for the human to direct his behavior is to chase the fulfilment of his needs. MacClenand (1986) on the other hand, acknowledges the urge to achieve in the individuals as a source of motivated behavior (p. 273-281).

One of the first authors, examining specifically the motivation on the work place is Herzberg (1968). For him, motivation can be the consequence of the influence of two group of factors – hygiene and motivational (p. 56). The basic idea in his theory is that hygiene factors cannot lead to satisfaction among workers. He accepts only the motivational factors as a source of satisfaction. Furthermore, he states that factors, which are hygiene for certain professions, could be motivational for others. Hence, material stimulation can lead to satisfaction in some cases, but is expected not to have the same result in other circumstances. Some authors go even further and state, that in some circumstances, material stimulation, could not only have a low effect on motivation, but as well diminish effort and motivation for fulfilling a task. Great example is the work of Deci and Ryan (2000), as a starting point in their views the authors accept the postulate that humans are active, growth-oriented organisms who are naturally inclined toward integration of their psychic elements into a unified sense of self and integration of themselves into larger social structures (p. 229). The foundation in the work of these scholars is that the individual can be motivated by the wholly process of execution of task, rather than the eventual reward for this behavior. In the theory are described Gagne and Deci (2005) describe – the needs for competence and autonomy underlie intrinsic motivation, but also a third basic – the need for relatedness can be also crucial for internalization (p. 337).

Other theorists in motivation on the workplace describe it as a constant interaction of the individual with the environment. And therefore, the goal directed behavior is a consequence of this interaction. Some examples for such theories, are – Expectancy theory, in which the main view is for the expected results and outcomes thanks to the chosen behavior Lower, Porter (1967); Goal setting theory in which the authors acknowledge the interesting and challenging task as the main condition for high motivation, alongside high performance and subsequent feedback Locke and Latham (2002); Latham and Pinder (2005); Job characteristics model, in which domain the characteristics of the job play vital role on the motivation of the workers Oldham and Hackman (1981). Hence, the wholly process of motivation, can be described as a very complex psychological process, which could be influenced by many factors. Such factors are - personality traits (Bipp, 2010, p. 29); autonomy support (Gellet at al., 2017, p. 1167); leadership (Keating, Harper & David, 2013, p. 34-35); leadership empowerment (Zang & Barton, 2010, p. 17); age and lifespan (Kanfer & Ackerman, 2004, p. 455-456), social interaction and cultural dependencies (Wood & Bandura, 1989, p.378-380), (Bandura, 2002, p. 280-282), (Roe, Zinovieva, Dienes & Horn, 2000, p. 675-677), authority and delegation, recognition and sanctions (Yaneva, 2007, p. 429) could highly influence work outcomes. Alternatively, other authors state that it is essential to keep in mind that the creativity is a prerequisite for stimulating innovative behavior (Kyurova, 2020, p. 363). Moreover, knowing the factors that have a significant impact on the relationships and motivation could contribute to the formation of a correct view on the innovation



culture in organizations (Kyurova & Koyundzhiyska-Davidkova, 2018, p. 130). Therefore, the factors, influencing motivation, can have a significant effect on overall work performance, because it has been proven that motivation can have a strong influence on work performance and employees satisfaction. In turn, this contributes to strengthening the corporate culture and creating an overall positive image of the organization (Yaneva, 2021, p. 107). Employees are the business ambassadors and they strongly influence customers' perceptions, attitudes and satisfaction (Angelova, 2021). In addition, if the motivation is not favorable or it is not applied in the right way can have serious results on workers. A good example is absenteeism, which as cited by Olafsen et al. (2021) the estimates of (Solberg, 2013) for the cost of absenteeism in Norway for between \$1.41 and \$1.64 billion per year, and for approximately \$43.7 billion per year in the United states (Bureau of labor statistics, 2014) (p. 283). Therefore, any factor, which could lead to an eventual absenteeism, can be crucial in some circumstances. Moreover, motivation, can lead to the dissatisfaction and low levels of effort in organization. Therefore, leading to diminished work results. This is even more valid to sectors of the economic that rely on their employees for the success of the company in a greater state. In a resent study for example, Olafsen, Hlavry and Frolund (2021) held a research among two groups from Norway and one group from England, proved a significant and positive relationship between the satisfaction of Autonomy, competence and relatedness and positive work outcomes and negative connection with the need satisfaction with the negative outcomes examined in all the three groups. Moreover, there was a significant and positive link between need frustration and negative work outcomes (p. 9). Hence, if the motivation in the workplace is not favorable, this could lead to negative outcomes in work, which can lead to overall worst results for the company.

In the conditions subsequent the COVID-19 crisis, managers have the difficult task not only to maintain a good and favorable motivational climate, but they must find ways to motivate in the complexed times we are operating at the moment. . Alternatively stated by Collings et al. (2021), HR leaders are uniquely placed to navigate the paradox emerging from the COVID-19 pandemic, this has placed them front, and center in organizational responses to the crisis, and how they perform is likely to affect organizational sustainability and lives of workers (p. 11). Hence, not only the economical era is changing, but we are at the beginning of a new era of motivating people. By our opinion, motivating in the current state of the global economy, could significantly differ than from normal times. People could value different aspects of their work more in the expense of others. Consequently, managers must research the needs and motivational preference of employees before they act with a certain formulation of motivational scheme. Moreover, as concluded by Coun et al. (2021), there is a significant correlations between psychological empowerment on the workplace and workplace proactivity; workplace flexibility; professional autonomy; access to knowledge and empowering leadership. Therefore, managers

have a significant role in the formulation of favorable work environment and motivational climate. An interesting review by Wood (2021) managed to prove various kinds of influence, coming from the environment, which had significant influence on work performance and work involvement. As we examined above there are significant influences from numerous of factors of the environment, which are influential on motivation. Hence, as was postulated before, motivation can have a significant influence on work outcomes. Consequently, there should be an expected influence of numerous factors, including the ones, influencing motivation, which will effect overall work outcomes.

The importance of motivation in the workplace are undisputable. As we examined in the current section of the article, there are numerous vies of what motivates people and how exactly this works. The vast interest in the topic continues and scholars all over the world are conducting researches and providing empirical data, proving the influence of motivation on various work outcomes. The aim in most of the current researches is the investigate the concrete influence of need satisfaction, respectively, need frustration in human behavior. The goal in the current research was namely such. Our main goal was to investigate the mechanism of the influence of the ineffective motivation in the workplace.

### 3. Methodology

The current study was held in a form of a survey. The study was held in a Bulgarian railway company in the administration departments of the subdivision in the whole country. There was N=423 successfully filled up survey carts. For the purpose of examining motivation, we examine different forms of motivation and formulated the question accordingly. We divided the different forms of motivation into 6 modules for the purpose of better understanding and favorable way of analyzing the results. Modules are as follow: 1. **Work Environment** (WE) ; 2. **Remuneration** (R); 3. **Safety** (S); 4. **Personal development** (PD) ; 5. **Affiliation and social aspects** (ASP); 6. **Respect and self-respect Interest and challenge, autonomy and leadership** (RS; IC; AL).

In the first part of the survey, we asked the respondents to valued, using a Five-point Likert scale, the subjective importance for each element in the modules. This helped us to evaluate the average attestation of the respondents when it comes to there preference of the modules. In the second part of the survey, we asked the respondents to evaluate the actual application of the elements of the modules, which we already examined. We chose this approach, because if a certain motivator is applied in the work environment, the employees will sense its presence and they will be able to evaluate it. This helped us to formulate a coefficient for each module, which we called the match factor of motivation. Basically this meant that we evaluated the difference between what people preferred in their work and what they actually was applied in reality.

In the last part of the survey we examined some of the work-related outcomes in the responds group. Namely, they are - propensity for staying in the company (PSW); psychological tension among employees (PSYTENS); pride of working in the current company (PRIDE); engagement (ENGAGE); work satisfaction (SATISF); initiative in work (INIT). Each of the outcomes was evaluated by asking the respondents, questions and inviting them to evaluate each with a scale. The questions for each outcome are as follow:

- Propensity of staying in work – If it is up to you, you will work in your current company after 5 years;
- Psychological tension – Do you have the feeling that you are working in psychologically tens environment;
- Pride of working in the company: It is a pride for you to work in the current company;
- Engagement – In what degree do you feel engaged with the work and overall results of your company;
- Satisfaction – Please evaluate your overall satisfaction from work!
- Initiative – Please express your readiness for engaging in task and overall initiative!

We evaluated the match factors for each module and afterwards we were able to conduct a regression analysis for the examination of statistically significant influences by the match factor on the work outcomes.

Hence we can formulate the following hypothesizes:

*Hypothesis 1:* The match factor of the work environment module has a significant influence on the work outcomes;

*Hypothesis 2:* The match factor of remuneration module has a significant influence on work outcomes;

*Hypothesis 3:* The match factor of safety module has a significant influence on work outcomes;

*Hypothesis 4:* The match factor of personal development module has a significant influence on work outcomes;

*Hypothesis 5:* The match factor of affiliation and social aspects has a significant influence on the work outcomes;

*Hypothesis 6:* The match factor of Respect and self-respect Interest and challenge, autonomy and leadership has a significant influence on work outcomes.

In the result and discussion section, we will test the hypothesizes and provide the results of the analyses.

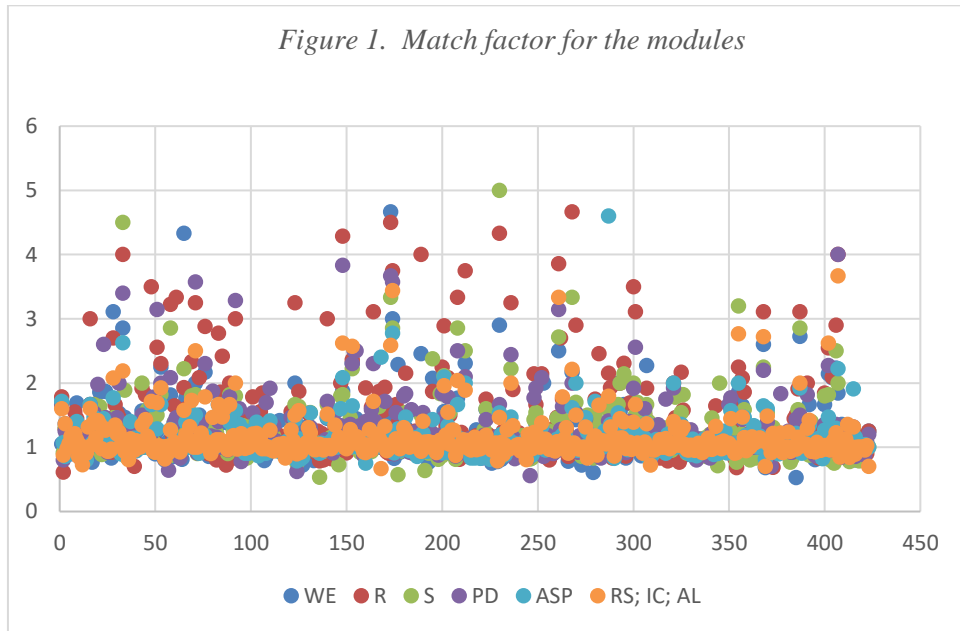
#### **4. Results and discussion**

In the current section, we will provide the results for our match factors of the modules. As the way it was formulated and calculated, the closest is to 1, the better the match between preferred and applied form of motivation. Hence, if it is more than

one, we can conclude that the modules is more preferred and less applied in the work place. Controversially, if the match factor is less than one, there are more applied than preferred forms of motivation.

Firstly, we will examine the overall results for the match factor providing results from the calculations, then we will represent the results of our regression analysis.

The results for the match factor for each of the modules for each respondent separately, we present in Figure 1:



*Source: Own research*

As we can see in Figure 1, there is a high concentration of the match factor around the full match. There are not a few cases of high mismatch among the respondents. Meaning that by the personal opinion of them, the motivation, applied in the company is not favorable for them. As we can see, the mismatch is threefold the perfect match between preferred and applied forms of motivation in numerous cases. Consequently, we can state that the motivation in the company at hand is not fully favorable for the employees.

The results of our regression analysis we represent in Table 1:

Table 1. Regression between match factor of the modules and work outcomes

<i>Outcm. / match</i>	<b>WorkEnv</b>	<b>Remuner</b>	<b>Safety</b>	<b>Pers. Devel.</b>	<b>Af. Soc. As.</b>	<b>RS; IC; AL</b>
<b>PSW</b>	-	-	-	-	-0.31***	
<b>PSYTENS</b>	0.32***	-	-	0.12***	0.24***	0.26*
<b>PRIDE</b>	-	-	-0.26***	-	-	-
<b>ENGAGE</b>	-	-	-	-0.11*	-	-0.29**
<b>SATISF</b>	-0.31***	-	-	-	-	-0.27***
<b>INIT</b>	-	-	-	-	-0.27***	-

Notes: P < 0.05\*; P < 0.01\*\*; P < 0.001\*\*

Source: Own research

In the table, we represent the statistically significant and reliable (Cronbach's  $\alpha > 0.60$ ) results from the analysis. We will briefly explain them here. The first statistically significant influence is by the match factor of **affiliation and social aspects** onto **propensity of staying in the company**. As we formulated above, the greater the value of the match factor, the bigger is the miss match between the preference of motivational elements and their application. Hence, when the negative correlation between the variables, represents a negative influence by the match factor of the module on the given work outcome. Consequently, if the miss match increases for the affiliation and social aspects, the propensity of staying in the company decreases.

Second work outcome we examine is the **psychological tension**. On which there is a significant and reliable influence by the match factors of four of the modules. Respectively, **work environment** (0.32); **personal development** (0.12); **affiliation and social aspects** (0.24); **respect and self-respect Interest and challenge, autonomy and leadership** (0.26). Hence, there is a proven positive influence by the mismatch of motivation for the mentioned modules and the psychological tension. Consequently, if the mismatch increases, the psychological tension increases as well.

The third work outcome, which we examine, is the **pride from working in the company**. On which there is a significant and reliable influence by the match factor of **safety** (-0.26). Hence, if the miss match increases, the pride from working in the company decreases significantly.

The fourth work outcome, examined is the **engagement of employees**. There is a significant influence on it by **personal development** (-0.11) and **respect and self-respect Interest and challenge, autonomy and leadership** (-0.29). Again, we can observe a negative correlation between the match factor of the modules and the examined outcome. Consequently, we can conclude that there will be an expected decrease in engagement, if the miss match of the mentioned modules increases.

**Satisfaction** is the next work outcome, which we examine. There was a significant influence on it by the match factor of **work environment** (-0.31) and **respect and self-respect Interest and challenge, autonomy and leadership** (-0.27). Therefore, there is an expected decrease in satisfaction when the mismatch of the motivation in the given modules increases.

The last examined work outcome is the **initiative in work**. It was significantly influenced by the match factor of **affiliation and social aspects** (-0.27) in our responds group. Therefore, we can conclude that there will be an expected decrease in the employee initiative if the miss match for the mentioned module increases.

Hence, we provided prove for partially confirming all of our six hypothesis. Although we proved a partial influence of only from some of the match factors. We provided prove that the match factor of the modules can influence, in some amount, the work related outcomes.

## 5. Conclusion

In the current article we examined motivation as a main formulator of work outcomes. We underlined its importance in the wholly process of human resources management. It has been examined the vast interest in the topic of motivation, the different aspects and views in the theories, which proved the high importance of the topic for the practice of management. We represented some examples of the influence of motivation on work related outcomes and postulated that the factors, influencing the motivation of the employees, can have a significant influence on work outcomes in organizations.

Based on our results we can conclude that there will be an expected decrease in the propensity of people to stay in the company, if the affiliation and social aspects, used as motivators are not favorable. There will be a significant increase of psychological tension in work, if there will be an unfavorable application of work environment, safety, affiliation and social aspects, as we as respect and self-respect Interest and challenge, autonomy and leadership elements, used as motivators in the company. there will be a significant decrease in pride, if the applied forms of safety motivational elements is not favorable in the company. In addition, there will be a significant decrease of engagement of workers, if the forms of motivation, related to personal development and respect and self-respect Interest and challenge, autonomy and leadership are not favorable in the work environment. Moreover, satisfaction is expected to decrease significantly, if there is unfavorable application of the elements of work environment and respect and self-respect Interest and challenge, autonomy and leadership in work. And lastly, there will be a significant decrease of initiative of workers, if the elements of affiliation and social aspect are not favorably applied in the workplace.

Motivation can be vital for the success of the company. Often times, it can be the difference between the good and the great companies. Therefore, researches, such

as the current, are valuable not only for the science of organizational psychology and management, but as well for the practice of human resource management. Consequently, managers must investigate what is valuable for their employees and do everything possible to fulfil their valued element in the greatest amount possible. If the motivation is unfavorable, managers risk to demine the overall results of the company trueout, the worst executions of the tasks by the employees.

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## METHODS AND METHODOLOGY FOR ANALYSIS AND ASSESSMENT OF COMPETITIVENESS OF WINE PRODUCING ENTERPRISES

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Received: 23.10.2021, Accepted: 08.11.2021

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### Abstract

*Depending on the objective of assessing the competitiveness of wine-producers, different methods can be applied. Methods for assessing the competitiveness of enterprises in the wine sector may be based on one or several indicators, on one or several parameters. The factors most influencing the competitiveness of wine producers are: terroir, quality and price of wines, productivity, financial stability, growth, innovation, production and marketing flexibility, corporate image, advertising, adaptability to the market, etc. Ranking wine producers based on their competitiveness is essential to properly assess and analyse the state and position of each at a particular point in time, judging the outcomes of past events on this basis and laying a good foundation for planning future efforts. The aim of the article is to study the methods and methodology for analysis and assessment of competitiveness of wine producing enterprises.*

**Keywords:** *competitiveness; methods and methodology; wine producers*

**JEL Codes:** *P23, Q12, Q13*

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### 1. Introduction

There are various methods for assessing the competitiveness of Bulgarian and foreign authors and enterprises. Different theoretical formulations exist related to the competitiveness of enterprises, but the practical applications of the theoretical methods proposed for analysis and assessment of competitiveness of wine enterprises are not the same.

That has resulted in the need to develop and apply scientific methods to assess competitiveness of wine companies. On this basis, the research question related to the possibility of improving the competitiveness of companies in the wine sector is formulated, which requires revealing their capabilities by assessing their level of competitiveness.

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Wine production is one of the most important agricultural activities around the planet. The main production areas are in Europe (Italy, Spain, France, Germany and Portugal), America (USA, Argentina and Chile), as well as Australia, South Africa and China (Maicas & Mateo, 2020).

Evaluation of competitiveness of any industry should lead to identification of the potential for building a competitive advantage within this industry and to a suggestion of appropriate directions for competitive strategies of businesses within the industry (Žufan & Chládková, 2008).

## **2. Theoretical review**

The analysis and assessment of winemakers' competitiveness is a comprehensive process that involves multiple factors. With the help of this assessment, the definition of vision, mission and development strategies is more accurate and adequate, while also supporting the marketing, production and innovation activities of enterprises.

Thus, the effective functioning of an enterprise is determined by diagnosing competitiveness and developing mechanisms for managing it (Tikhonov, 2021, p. 403).

Research methods can be descriptive research, exploratory research and or explanatory research (Sakyi, Musona & Mweshi, 2020).

Competitiveness can be captured and measured by several aspects at micro, mezzo, and macro levels (Balogh & Jambor, 2017, p. 2076).

M. Velev studies several methods of assessing the competitiveness of enterprises and their supporters, classifying them as follows (Velev, 2004, p. 43-71): traditional and non-traditional; quantitative and qualitative; deterministic and stochastic; static and dynamic; depending on the purpose of the assessment; depending on the number of indicators on which they are based; depending on the number of indicators on which the assessment is carried out; in terms of the activity, leading to supreme financial performance; and depending on the basis for comparison. Each of these could find its place in assessing the competitiveness of wine producers, and depending on the purpose of the assessment, those could be selected that will provide the most accurate picture of the level of competitiveness and support decision-making, which is important for the enterprise.

Under the method of McNamee and MsHugh, the competitiveness of compabnies is measured by simultaneously reporting pre-tax net profit levels (McNamee & McHugh, 1989, p. 65).

A subgroup of the traditional methods for assessing the competitiveness of an enterprise are the methods for taking into account the long-term business performance, which use more complex methodologies. Well-known methods from this group are the so-called Balanced Scorecard Model, developed by Kaplan and Norton. These methods evaluate the performance of the enterprise in terms of: internal

and external environment, financial performance and innovation policy (Kaplan & Norton, 2000, p. 66).

The weakness of these methods is that evaluations are based on short-term results and this static nature is at odds with the dynamics of competitiveness and consideration of the long-term success of winemakers

L. Hardy, I. M. Lifits and others are proponents of traditional methods of assessing competitiveness based on the quality of production (Hardy, 1990; Lifits, 2001). However, these methods should be combined with others to achieve a more accurate assessment of the competitiveness of an enterprise.

Non-traditional methods worth mentioning are those of P. N. O'Farrell and D. M. Hitchens taking into consideration the company competitiveness based on quality, price and structure of products sold, and also accounting for management and marketing of an enterprise (O'Farrell & Hitchens, 1989, p. 21).

Depending on the objective of assessing the competitiveness of wine-producers, different methods can be applied, one of which is the so-called "*diamond of determinants of advantages*" of M. Porter (Porter, 1998). This method contributes to strategic decision making.

Methods for assessing the competitiveness of enterprises in the wine sector may be based on one or several indicators, on one or several parameters.

To date, various methods have been employed to investigate the theory of comparative advantage, and they provide the basis for this analysis (Balogh & Jambor, 2017, p. 2078).

In view of the methods presented, it is necessary to select those of them that most fully, clearly and accurately represent the assessment of an enterprise from the wine sector.

In this regard, it is important to present the factors most influencing the competitiveness of wine producers, and namely: terroir , quality and price of wines, productivity, financial stability, growth, innovation, production and marketing flexibility, corporate image, advertising, adaptability to the market, etc.

Defining the criteria for assessing winemakers' competitiveness are important in relation to: clarifying competitive advantages; making comparisons; supporting managers; and making important strategic decisions by winemakers.

## **2. Methodology for determining the competitiveness of wine producers**

The methodology clarifies the main stages for assessing the current competitiveness of wine producers and aims to reveal its reserves, as well as to formulate guidelines for its future development.

The key stages for assessing winemakers' competitiveness are generally the following: gathering the information needed to assess winemakers' competitiveness;

determining indicator and indicator values; scoring the indicators; determining weighting factors; and assessing indicator values.

In cases where the competitive potential to increase the competitiveness of a wine producer is assessed, the following formula is applied to determine its relative position to another:

$$BO_{ik} = 6x \frac{(ST_{ik} - ST_{imin})}{(ST_{imax} - ST_{imin})} + 1 \quad (1)$$

where:  $BO_{ik}$  – score of the  $i$ -th indicator for the  $k$ -th wine producer;

$ST_{ik}$  – the value of the  $i$ -th indicator for the  $k$ -th enterprise;

$ST_{imax}$  and  $ST_{imin}$  – the maximum and respectively the minimum amount (value) of the  $i$ -th indicator for the entire aggregate of winemakers analysed.

In cases where the potential for improving the competitiveness of two enterprises is evaluated and compared, the winemaker with the higher values of the respective indicator is given a score of 7, and the score of the other winemaker is determined by the formula:

$$BO_{ik} = 6x \frac{ST_{ik}}{ST_{imax}} + 1 \quad (2)$$

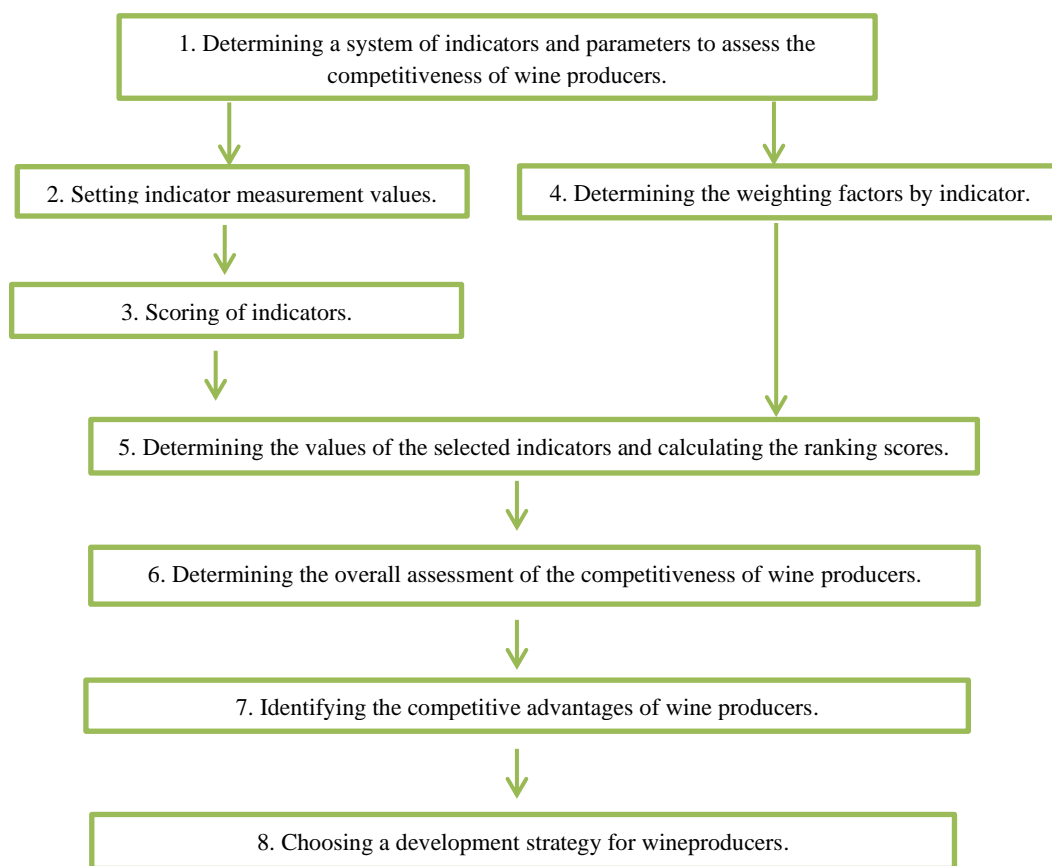
Where a winemaker has a negative value for a particular indicator, the latter is given a score of 1 for that indicator. If both enterprises have a negative score, they both receive the lowest score for it, which is 1.

It can be seen from Figure 1 that after determining the values of the selected indicators and calculating the ranking scores, the overall competitiveness score is calculated, the competitive advantages are identified and it is proceeded to the selection of a development strategy.

Weighting factors can be determined: by expert judgment; by studying the opinions of the managers surveyed; or as a result of empirical research.

The summative assessment of the competitive potential of the wine producers is determined as the sum of the scores by individual indicators weighted by factors of significance.

Fig. 1. Stages for determining the competitive potential of wine producers



Source: adapted after Velev, M. 2004. Assessment and analysis of company competitiveness, Publ. Softtrade, S., p. 105

Table 1 shows that the most significant indicators for the study and evaluation of competitiveness are: terroir (*A multi-layered concept of the relationship between land, vine and man. The relationship between wine characteristics (quality, taste, style) and its geographical origin.*), technologies used, favourable geographic location, financial resources, innovation policy, management and leadership, marketing activity, corporate image, consumer loyalty, relative market share as compared to competitors, exports, availability of long-term contracts with the winemaker, etc.

To that regard M. Velev also draws attention to the importance for the quantity of these indicators, which can be of different importance at any given time (Velev, 2004, p. 127). This group includes: labour force; natural resources; knowledge base;

capital - the amount of capital available to finance the wine sector and the cost of acquiring it; infrastructure, etc.

*Table 1. Summary assessment of the competitive potential of wine producers*

Indicators	Weighting factor	Scores		Weighted scores	
		Wine producer 1	Wine producer 2	Wine producer 1	Wine producer 2
1. Terroir - price, quality, taste					
2. Technologies used					
3. Favourable geographical location					
4. Financial resources					
5. Innovation policy					
6. Management and leadership					
7. Marketing activities					
8. Corporate image					
9. Consumers' loyalty					
10. Relative market share as compared to competitors					
11. Export					
12. Presence of long-term contracts with the winemaker					
Summarized assessment					

*Source:* adapted after Velev, M. 2004. Assessment and analysis of company competitiveness, Publ. Softtrade, S., p. 113-116

R. Dimitrova examines the monitoring of the competitive environment, including the following main components: industry analysis, competitive analysis and forecasting the changes in the competitive environment under each component of the analysis (Dimitrova, 2014, p. 71).

From the point of view of the effectiveness of the activities of competing enterprises in the wine market, in structuring the indicators of competitiveness, S. A. Ablyazova recommends taking into account the following main factors (Ablyazova, 2006, p. 47):

- Wine producer's corporate image;

- Wine production technologies;
- Quality of wine products (usually determined through tasting);
- Producer's total market share (within the national market);
- the availability of raw materials and the capacity of production facilities, characterizing the ability to recover to the import of new wines and to increase the import volume of utilized wines;
- finance, both own and externally raised;
- the market price of the wines, taking into account possible discounts or surcharges;
- frequency and depth of market researches and their budget;
- pre-sales preparation, demonstrating the winemaker's ability to attract and retain consumers by better meeting their needs;
- the efficiency of wine production in terms of the use of distribution channels;
- level of stimuli for employees, trading organizations and consumers;
- level of advertising/publicity activities;
- the company's policy in the external business environment, which characterizes the winemaker's ability to positively manage their relations with state and local authorities, public organizations, the press, the population, etc.

## CONCLUSION

The methods for the analysis and evaluation of winemakers' competitiveness are generally carried out in four main stages: (1) determination of values by the selected indicators; (2) determination of an overall assessment of competitiveness; (3) identification of competitive advantages; and (4) selection of a development strategy.

Ranking wine producers based on their competitiveness is essential to properly assess and analyse the state and position of each at a particular point in time, judging the outcomes of past events on this basis and laying a good foundation for planning future efforts.

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