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A Research Perspective on Application of Cloud-Based Enterprise Resource Planning for Building Futuristic Organisation and Deliverance of Return on Investment

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Abstract
The remit of this article is to explore how technology acts as a catalyst and an enabling tool for organisational growth, sustainability and deliverance of Return on Investment (ROI) in a hyper-competitive, volatile and ambiguous business environment. Application of the right technology at the right time and the right cost is the building block of a future-ready globally integrated organisation. Thus the author endeavours to present a research perspective on the impact of cloud-based information technology solutions to an organisation’s business process architecture and management so as to make the organisational future ready by making it more flexible to scale up and integrate. The author also presents a perspective as to how adoption of a two tier approach of Enterprise Resource Planning (ERP) in a cloud-based technology platform can help the organisation to be future-ready by being more competitive and growth oriented. The success of tomorrow’s organisation lies in architectural arrangement of the processes and systems which will make it highly flexible to adapt and innovate better and faster than the competitors and ensure delivery of ROI. In this process it is critical to apply the latest technology driven business processes in an integrated manner so as to enhance the scope of value delivery to customers and other stakeholders. This article contributes to develop a perspective and make a business case for application of cloud-based ERP for making the organisation futuristic.

Keywords: Enterprise Resource Planning, Seamless integration, Business Process Architecture, Return on Investment, Cloud-based platform, Future ready

I. Introduction

The increasing complexity of future technology is continuously challenging organizations to anticipate change and adapt faster. In this fast shifting digital economy companies are striving to gain sustainability in the industry. Technological advancement and transformation provide improved agility and velocity, increase reliability and support, and enhance cost efficiency which is the greatest concern for reducing complexity and increased business value.

Enterprise Resource Planning (ERP) is a seamless application of technology for the integration of various functions of an organisation to have a robust business process management mechanism with impact on organisational growth, competitiveness and profitability. ERP provides complete visibility across all functional processes of an organization to ensure a smooth transition and quicker completion of processes. The biggest advantage in an ERP environment is that people work and talk on one number unlike fragmented standalone functional softwares like Accounting, Inventory Management, Mfg., Human Resources etc. This becomes really handy: when there is a change in the business process in one area of

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运作，其他领域也得到了照顾，并且没有歧义和挑战。ERP 提供了自动和一致的工作流，从一个部门/功能到另一个。无缝的电子商务集成与供应商、零售商、金融机构等一起通过 EDI，或者业务伙伴特定的 API，如银行、信用卡公司、货运公司等。自 1990 年左右，企业资源规划（ERP）已被证明是不仅多国公司，对于许多中等和小型企业的关键。但是，持续的技术和业务的转变已经识别了对现场 ERP 的各种限制。ERP 无疑有其独特的优点，但庞大的投资有时会导致效率低下。ERP 部署的一个缺点就是时间问题，项目可能需要相当长的时间才能完成并全功能化在大型企业或 MNC。然而，在近年来，ERP 开发商提供了现成的、特定于行业的垂直产品，这些产品可以减少实施时间，并减少时间、精力和金钱在定制。全球经济的动荡和日益激烈的竞争影响了组织的升级和维护现有现场 ERP，并使其更加定制，以应对不断变化的环境，同时增加了投资负担。小型和中型企业发现，要承受这种无情的压力来降低成本和应对业务挑战，要变得更灵活，比竞争对手更难。ERP 维护成本比许可成本要高得多。这不仅包括年度维护费用，还包括硬件（服务器）、网络、附件和软件的维护，如更新软件补丁等。现成功能通常不能满足所有需求。要填补现成功能和业务需求之间的差距，往往需要对基础系统进行变更。个性化包括对软件源代码的更改。所有这些都增加了额外的费用，年度维护也是必要的。因此，两层式的方法可能是一个有力的业务策略和灵活的解决方案。两层式 ERP 的内在问题是它不能在短时间内升级，并因此遭受了缺乏敏捷性的影响，这是 MNC 运行现场 ERP 系统可能迁移到两层式 ERP 的主要原因，以适应功能单元。

II. 概念框架和研究

企业资源规划（ERP）

企业资源规划（ERP）是一个全面的打包解决方案，旨在整合企业的全部范围的业务流程和功能，以提供商业的全面视图，从单一的信息和 IT 架构（Klaus et al., 2000）。在解决方案中，有一个明显的区分可以被做得在传统的 ERP 作为现场和托管 ERP。现场解决方案加载到服务器和内部的计算机上。这些解决方案通过许可模型提供，而托管 ERP 解决方案为个人或组织提供服务，通过托管的物理服务器和内部计算机。这些解决方案是通过直接网络连接的，托管服务通过互联网提供。托管服务通过直接网络连接提供，可能或可能不通过互联网（Fripp, 2011）。

云基 ERP

云基 ERP 解决方案是通过软件作为服务（SaaS）模型提供。重要的是要指出，一些标榜为‘云基’的 ERP 解决方案实际上是托管 ERP 解决方案（Scavo et al. 2012）。真正的云基 ERP 系统是云的特性。一个普通的浏览器可以轻松访问这些系统，通过因特网连接，并且依赖性更少，取决于客户端配置。云基 ERP 软件提高了 ERP 的性能。通常，本地 ERP 软件经常需要良好的计算能力和高网络效率。这可能由于高成本的收购，最好的服务器、网络设备和定期升级导致的性能下降。这在降低性能方面影响，因为云基 ERP 提供商必须处理这些问题，订阅公司通常需要一个稳定互联网连接。云基 ERP
reduces IT staffing requirements at the same time that it provides technical agility to migrate to on-premise if required.

The other distinct advantage of the cloud based ERP is that it reduces Operating costs. In a cloud based ERP system there is a flat monthly fee per user and due to fast implementation using industry vertical the total cost of ownership is reduced considerably.

Quick, fast, and reliable access to vital business information is a key to success to the organization. The fact that cloud-based ERP solutions are accessible via the Internet, means the information is available from anywhere an Internet connection is available. This provides huge flexibility to organization in the ERA of globalization. This could, in turn, increase overall business operations efficiency and make accessing information outside of the office far easier.

When you choose a cloud-based ERP, you normally only have to pay a flat-rate monthly fee for server space, licensing etc., which means total cost of implementation will likely be far lower. Beyond this, many providers can also manage the solution, taking care of installing and maintaining the systems. This in turn, will even out operating costs, and if implemented correctly can result in an overall decrease in expenses.

One of the major concerns which an organization generally has is the security of data. Most cloud based ERP softwares offer high security measures to make sure that the data are secure.

One of the major advantages of the cloud based ERP, is the 24/7 support. This is a major consideration by most companies while implementing an ERP solution. Therefore, Cloud ERP is a cost effective approach to enterprise resource planning (ERP) that makes use of cloud computing platforms and services to provide an organisation with more flexible business process transformation.

**Common Similarities and Differences in On-Premise ERP and Cloud-Based ERP**

<table>
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<th>Cloud-Based</th>
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<tr>
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<td>YES</td>
</tr>
<tr>
<td>Registration / Subscription Model</td>
<td>Maybe</td>
<td>YES</td>
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*Table 1: Similarities and Differences between the Responsibilities of On-Premise and Cloud-Based ERP Solutions*

*Source: Jim Holincheck (2006)*

**Cloud-Based ERP** – In this approach clients are responsible for internal business processes whereas Information Technology and Support for business processes are Software Solution Provider’s responsibility. In these software solutions, the applications are run on the server of solution providers and with the common code line and data definitions which can be delivered to many following a One-to-Many approach. These software solutions are provided on a registration and subscription base model (*Gartner, 2006*).

**On-Premise** – Clients are responsible for the business process as well as Information Technology and Application Support in this approach. In these software solutions applications depends on the facilities provided by the clients for support and they are delivered unique codes to run them. Registration, subscription, or pay-as-you-go model cannot be utilized (with some exceptions) in this approach as these contracts are formulated on longer contracts and licenses (*Gartner, 2006*).
Return on Investment deliverance through Cloud-Based ERP Solution

A company which desires a Return on Investment (ROI) from an ERP investment firstly requires a strong position in the industry; however, the direct relationship in investment in ERP and ROI is rather complex. For example, managerial judgment plays a significant role in the decision for ERP investments but their beliefs for potential benefits vary from operational and tactical to strategic. It is hence imperative to understand the purpose of investment in ERP and the managerial perception while making ERP investment decisions. In a survey conducted by a leading IT consulting firm (Panorama Consulting Solutions, 2013), “approximately 59-percent of projects have exceeded their planned budgets, 53-percent of projects have exceeded their planned durations and a full 56-percent of respondent organizations have received less than 50-percent of the measurable benefits they anticipated from their ERP software initiatives”.

Measuring the success of ERP optimum utilization efforts on a regular basis is critical. Companies therefore categorize and institute performance measurement practices. Focus is gradually shifting from investments in either On-Premise ERP or Cloud-Based ERP Solutions to the ROI it provides. For any ERP initiative, communication from senior management pertaining to vision, strategy and opportunities for business transformation, and tangible and intangible ROI are critically analyzed. Even Cloud-Based ERP implementation requires extensive involvement of executives and strategy formulators. Organizations often give less importance to process re-engineering while taking a decision for Cloud-Based ERP.

ERP implementation is an on-going process that doesn’t end. During the implementation of ERP Systems various changes and activities transpire in the organization which makes it impossible to isolate the benefits derived from the system (Reynolds, 2009). Implementing an On-Premise ERP System can take up to five years and usually does not show many positive figures on that scale; therefore many organizations choose not to measure ROI (Stein, 1999). In financial terms ROI is not certain even after completing the implementing process.

Cloud-Based ERP on the other hand serves as a facilitator in requiring shorter implementing periods. But it is suggested to carry out an ROI assessment to have a clearer view of the whole project as investors of ERP prefer to have an estimated ROI before pursuing investment in ERP (Reynolds, 2009). The simplest calculation of ROI is to “Divide the value of Net benefits associated with the ERP Project by the implementing cost of it” (Reynolds, 2009). Also another simpler way of calculating ROI is “The Expected Savings in the Inventory and other costs compared with the Total Implementation Cost of ERP Project” (Dowlatshai, 2005).

ERP Transformation Process

Transformation is a key to success in this evolving digital economy. Transformation of a technical ERP Platform along with the business processes can create a more agile and cost-efficient ERP Environment that can support a high velocity of business. Transformation in ERP can be achieved by developing an idea of the end state of the ERP System. A vision of horizontal and distributed systems where components can be reused across business processes can be developed. Components such as tax-calculator and other company evaluations can be standalone but other business processes such as order-taking and procurement can be shared and utilized in different ways and in different orders. A transformed ERP System features components that can be used by multiple business processes and a consistent base of master data that supports business intelligence applications (Figure 1).
Two-Tier ERP
Implementation of ERP is not necessarily less complex or with the lowest total cost. The best ERP Model is the one that fits an organization’s specific structure and critical industry challenges. A three dimensional ERP approach can thus be considered that integrates and provides a single platform for people and processes in order to meet companies’ objectives in almost every industry (Figure 2). An ERP Solution leveraged by the Cloud-Based Application that enables organizations to deliver functions and services required by employees and business partners is called Two-Tier ERP.

A two tiered ERP solution strategy is still a fairly new approach to doing business. A two tiered ERP solution is when a regional or unit-specific ERP solution (Tier 2) where data rolls up into the main ERP system (Tier 1). This strategy simplifies the field level operations, helps improve management functionality and is used in large MNCs with global operations. This is typically used due to functional/operational reasons, location/geographic reasons or acquisition/expansion reasons.

- **Functional/operations reasons:** Enterprises doing many different functions, like manufacturing, distribution, warehousing, and retail for example, having a system that best runs manufacturing division may be the best solution for manufacturing division but not necessarily for the enterprise. Manufacturing compliance may also factor into the decision. If, for example, one of the manufacturing divisions has strict or unique compliance regulatory requirements that must be followed, it may make the most sense for that division to have its own ERP system.

- **Two-Tier for Location/Geographic Reasons:** Location might also play an important role in deciding to use a two-tiered ERP system. For example, if an Enterprise has acquired a plant in a different country, it is important that those employees have an ERP system that they are able to use effectively.

- **Two-Tier for Acquisition/Expansion Reasons:** A third situation that may trigger the need to consider the two-tier ERP approach is where Enterprise headquarters is acquiring businesses to support strategic, inorganic growth initiatives. If resourcing a conversion of the acquisition’s existing ERP solution means big costs, or timing challenges due to a lack of available skills, then sticking with the existing ERP solution or putting in a more modern, simplified, user-friendly ERP system that communicates back up into HQ’s ERP system may make the two-tier approach the better decision.

![Figure 1: Transformation of ERP System](Source: IT@Intel White Paper, (2012))
A two-tier ERP approach helps organizations swiftly deploy and integrate new processing capabilities at subsidiaries or smaller business units that can be seamlessly integrated into the core on-premise ERP backbone. This approach significantly reduces the time and cost required to implement, support and maintain ERP capabilities. Two-tier ERP does not replace on-premise ERP but instead complements it with more agile, flexible and lower cost Cloud-Based ERP. On-premise ERP still provides the standardization and consistency for back-office systems of records for processes such as make-to-deliver and record-to-report that are vital for efficient operations, regulatory and legal compliance, and consistent quality (Figure 3).

Figure 3: Two-Tier ERP – A New Age
Source: Manish Gupta, (2013)
The main purpose of implementing ERP should be bringing an improvement in alignment between IT infrastructure and business conduct rather than forcing the business operations into the ERP portfolio applications. Flexible and innovative systems therefore need to be implemented to support and automate new processing capabilities. These systems can facilitate global visibility, process efficiency, and standardization in the digital economy.

Cloud-Based ERP besides maintaining and supporting On-Premise Application also can also provide an organization to penetrate new market segments and geographies while retaining business agility, flexibility, and achieving low cost ownership and standard business processes. Through Cloud-Based ERP, links to newly acquired businesses can be established. Core businesses of a business can be focused more by keeping them On-Premise while other processes can be Cloud-Based enabled.

Cloud-Based ERP when integrated with On-Premise ERP provides all the required capabilities a business desires and is considerably less expensive, and easier and faster to deploy than On-Premise alone. This collaboration facilitates rapid piloting of ideas, easily scalable solutions, and faster and cost effective expansion into new markets. It also provides customer service via digital channels and makes it easy and less expensive to support local language, tax code, currency or regulatory requirements.

Two-Tier ERP – A Future-Ready Organization Tool

Any SME or MNC can be Future-Ready in the upcoming IT advancement and business challenges by implementing a Two-Tier ERP Strategy. The following are the main IT challenges that can be faced through a Two-Tier ERP Strategic tool:

- **Modern Applications**: Enterprises considering an application modernization strategy can use two-tier ERP to continue operating efficiently while adapting to rapidly changing business needs.
- **Rationalized Application**: Organizations can deploy on-premise ERP to support core corporate functions while deploying cloud ERP for market-integration functionalities.
- **New application requirements**: Cloud ERP can complement on-premise ERP with next-generation disruptive technologies, such as Web services and process integration libraries, to enable applications that operate anytime, anywhere.
- **Cost reduction**: Cloud ERP shifts responsibility from the customer to the vendor for upgrades, patches and other functions. Cloud ERP also reduces total cost of ownership by eliminating the need to purchase servers, storage and network capability for on-premise systems.

Conclusion

Cloud based ERP and a flexible application of Two-Tier ERP is gaining increasing prominence as organizations seek greater value and flexibility from the core systems of their businesses. Organizations with multiple subsidiaries stand to gain comprehensive, cost effective and highly customized business solutions which are, agile and innovative through a Two-Tier ERP Strategy that is not possible to achieve by adopting a standardized On-Premise ERP system. Succession lies in the selection of the right ERP Solution that furnishes comprehensive functionality, high adaptability and flexibility; that is robust, configurative, maintainable, and reduces TCO (Total Cost of Ownership). The Two-Tier ERP Strategy promises to deliver the right solution. Cloud based ERP helps an organisation, especially SMEs, to address the investment issues and to play to strengths, thus empowering organisations to unlock their business potential by offering a flexible and cost-effective option for small and medium-sized businesses and offers extensive benefits for growth and expansion such as:

- **Option to scale up and grow which reduces** businesses’ total costs and improves **Return on Investment**
- **Relief from IT constraints** as it has high-level security and privacy, easy accessibility and integration
- **Flexibility and mobility** as data remain in the cloud
- **Innovation Scope** brings new features and functions

**Recommendations**

Two-Tier ERP Systems are the best of both the worlds of On-Premise and Cloud-Based ERP Solutions. Continuous growth in large organizations results in growing new subsidiaries, acquiring new markets and geographies. In order to run the new entities efficiently and to get a real-time visibility in operational performance, main concern is “How to integrate the new business operations with the existing?” that requires years long implementations, configurations, and involve huge investments.

The Two-Tier ERP Business Model allows organizations to preserve their On-Premise investments while integrating the global subsidiaries with a more flexible and agile Cloud-Based ERP. By adopting the Two-Tier ERP Approach, headquarters get the visibility required to measure global operational performance at an affordable price. Two-Tier ERP Applications are recommended as:

TCO (Total Cost of Ownership). Two-Tier ERP Strategy promises to deliver the right solution. The Two-Tier ERP solution offers significant cost savings. Generally, it is assumed that adding multiple systems would likely increase the cost of modifying the legacy ERP system and can be very time and cost intensive. Hence while calculating the total costs of the implementation, ongoing maintenance fees, upgrades, modifications, and retraining costs etc. are to be taken into account. In such situations a two-tiered ERP can offer quantifiable savings. (Gartner Research, 2011) has found that companies are seeing a 33% reduction in implementation costs and a 50% decrease in total time to full implementation when a two-tiered system is executed. Companies can see a savings of up to a 33% reduction in implementation cost.

The Two-tiered ERP offers increased flexibility and effectiveness as well. It also provides better compliance specific to the country.

- **Twice as Fast**: Embedded Cloud-Based ERP provides twice as fast as standalone On-Premise ERP System that is easy to use, speed the growth, and customize the subsidiaries.
- **Half the Cost**: Various studies have estimated TCO for Cloud-Based ERP as half the cost of On-Premise ERP.
- **Double the Visibility**: Cloud-Based deployment increases the oversight of subsidiaries by providing anytime, anywhere accessibility. It also provides an in-house control over the global subsidiaries through consolidated visibility.

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Available at: http://blogerp.typepad.com/hcm_research/2006/11/clearing_up_th


The Emergence of Patronage States in Central Europe: The Case of FDI-related Policies in Hungary after 2010

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Despite the profound development success of Central European economies of the past 25 years Hungarian and Polish governments have started openly query the applicability of various elements of the “competition state”. They took measures to curtail the activity of multinational firms that have played an important role in the successful modernization process of the region. This paper makes an attempt to explain the rationale of this policy using the political economy approach. It defines economic policy changes as shifts in the power relations of national elites. It highlights the selective advantage and punishment measures which are labelled economic patriotism. Yet, economic patriotism is interpreted in this paper as the application of covert discrimination policies applied for the benefit of spatially defined interest groups. The discussed policies are targeted rather at closely defined companies. They are not here regarded as tools of economic patriotism but rather of state clientism, or a departure from a competition state towards a patronage state.

Keywords: multinational companies, economic patriotism, elites, patronage state

JEL classification indices: D72, H82, P16, P31

Introduction

The Central European transition process has been earmarked by the strong penetration of multinational business, especially in the Visegrad (V4) countries. The role of foreign capital in establishing state-of-the-art manufacturing industries and service sectors was seen as a systemic element with a remarkable historical background for the region, mainly on the territory of the former Austro-Hungarian Empire (Szanyi, 2003). Another rationale of the powerful presence of multinational business was the unfolding globalization process. Markets became global. Global competitiveness depended on the successful combination of traditional comparative (local) advantages and new, company-bound competitive advantages. These later could be most readily offered by investments of multinational firms. The combination of various competitiveness factors is reflected in the most commonly used FDI theory, the Eclectic Paradigm by John H. Dunning (1988, 2001). Nowadays technologies with large factory and batch sizes enable firms to build regional centers. Production facilities need not be repeatedly established in neighboring countries. First movers of the region, countries which opened up their economies early obtained significant advantages in FDI attraction. Today we note that multinational firms became stable and progressive elements of V4 economies.

It is therefore rather surprising that the strong presence of multinational business has become a political issue in V4 with rather successful FDI attraction records. Political debates on multinational business have started and (populist) conservative parties called for action against their spreading influence. This is most visible in Hungary and Poland. The debates are usually heated by anti-globalist sentiments, strong criticism is articulated, and benefits are neglected. In order to conceptualize this trend it can be formulated as an expression of economic patriotism (Clift and Woll, 2012; Naczyk, 2014). This interpretation states that (populist) conservative political elite would like to modify the group of winners of the transformation process. However, international competitiveness still depends on the performance of multinational firms. Moreover, international institutions continue to safeguard important elements.
achievements of liberalization in world trade and factor flows. The room for open protectionism is therefore still restricted but the application of new, covert forms has become more common. This practice is reflected in changing Hungarian and Polish state policies towards multinational business. These new policies also mean a departure from the concept of a competition state and a shift towards a patronage state. I argue in this paper that the kind of economic patriotism which has been applied currently in Hungary and Poland runs the risk of killing sources of dynamic economic efficiency by limiting not only global but also local competition.

In the remaining part of the paper I first introduce the concept of economic patriotism as a form of business-polity relationship, highlighting the role of business elites and their networks. In the second part of the paper I provide empirical evidence of changing FDI-related policies from Hungary to illustrate that these policies can be interpreted as a special form of economic patriotism. I also introduce results of an empirical survey that was conducted among multinational firms that signed strategic partnership agreements with the Hungarian government. These long-term cooperation agreements were conducted with selected multinational firms working mainly in manufacturing industries. The impact of this bilateral cooperation network will be evaluated together with restrictive policies against other multinational firms. The final part concludes.

Economic patriotism and changing power relations of elites in CEE
Shifts in FDI-related policies in Hungary and some other CEE countries (especially the V4) can be discussed from the political economy viewpoint. I interpret these changes as modifications in the business-polity relationships. In this regard three main strands of literature are applied in this paper. The first draws on the evolution of elites during the transition process. The second analyses the role of networks in business-polity relationships. The third approach combines the former two in a broader context and discusses the emergence of economic patriotism and clashes with the two decade long reigning neo-liberal economic thought of as a power shift in political and economic elites. In this paper I will use mainly the Hungarian example to illustrate tendencies that might have a more general Central European application. Yet, more research has to be done to work out details of similar processes in other countries.

In order to investigate the shift of FDI-friendly economic policy towards a more low-key and sometimes even hostile stance of the Hungarian government it is necessary to discuss briefly the starting point. In earlier papers I argued that the FDI-led economic development path that Hungary and other CEE countries took in their transition process had historic roots and was reinforced also by the urgent restructuring and modernization needs due to global competition. This later statement, however should not necessarily be taken as given (like an imperative of the globalization process) but can be conceptualized as a deliberate policy to capture economic and political power in CEE countries. I believe that in the case of Hungary FDI-led development was coded by the antecedents of the time of systemic transition starting in 1990. Such determining factors were the economic reforms of the planned economy, heavy debt burden that pushed privatization towards the sales method, severe undercapitalization of firms and the weak domestic bourgeoisie (Szanyi, 2003). Although transition background and policies differed in other CEE countries, development of V4 economies converged towards an FDI-led development model regardless of the differences. The dependent market economy (DME) model of Nölke and Vliegenhard (2009) conceptualized and criticized this development path. Based on this background I feel inclined to look after various policies that first intended to help multinational business dominate V4 economies later tried to reduce this dominance.

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4 The term competition state is taken from Drahokoupil (2008) and refers to liberal state policies allowing full penetration of global competition on domestic markets. The term patronage state is applied after Schoenman (2014), and refers to the importance of personal business-polity linkages in shaping economic policies, a strong, general curtailment of competition in local markets with the dominance of polity over business through the usage of selective advantage measures (business capture).

5 Some of this work has already been done and published in the literature that I will also use in this paper.
Elites

The CEE transition process was designed by an interplay of local political forces and the international advising institutions the recommendations of which stemmed from neo-liberal concepts. The aim of shaping social processes mainly supporting the emergence of a local bourgeoisie was an important aspect of the transition process. Liberal concepts of ownership change and the role of privatization emphasized the political impacts of the process. The reduction of state property was regarded as crucial element in institution building mainly because of its role in reducing chances of surviving paternalism between managers of state owned enterprises and politicians at various levels (Boycko et al, 1996; Rapaczynski, 1996). The liberal concept emphasized the liquidation of incumbent management’s power position in order to make the transition process irreversible (Friedman and Rapaczynski, 1996). Concerning the practical implementation the general concept did not make strong recommendations, e.g. in favor of foreign investors. Therefore, privatization practice varied among CEE countries. Yet, privatization was a key issue of the transition process in all transition countries.

Political economic approaches of the privatization process soon directed attention to the empirical fact that incumbent management’s influence and economic power could not be eliminated (Stark, 1996; Stark and Bruszt, 1998). Nevertheless, fears of reversing the transition process proved to be unfounded. Instead, new power networks evolved that included old and new players in the economy and in the polity as well. New types of alliances were set up, new elites were created. While penetration of multinational business was very quick in transitioning economies’ markets, local companies’ and entrepreneurs’ adjustment processes lagged behind (Szanyi, 1996). Therefore, market power shifted very quickly away from local firms to foreign companies. Foreign penetration increased to unusually high levels.

This process of economic restructuring was also reflected in relationships between business and polity. Both foreign and domestic business organized itself into various interest groups. Drahokoupil (2008) analyzed the emergence and impact of the new elite around foreign-owned companies. He regarded this elite as the ultimate winners of the transition process in CEE, especially in the V4 countries (as compared with the position of the incumbent technocratic-managerial elite and the new entrepreneurs).

He called this elite “foreign investors with their comprador intellectual allies”, and claimed that “the domestic comprador forces rather than their foreign allies had … a major role in domestic politics” (p. 361). The rise of this sector was intertwined with the consolidation of the “competition state” the main aim of which was the insertion of the local economy into the structures of global capitalism. It is important to note, that the “domestic comprador elite” bound to foreign investors need not be a proprietor class⁶. Based on the “strategic-relational state theory” Drahokoupil et al. (2008) argue that the social relations of production, institutions and ideas constitute “a (strategically selective) environment that provides advantages to some actors and certain strategies over others” (p. 363). If this environment is determined by one or another type of elite the advantages will be received by actors bound to the given ruling elite.

The dominance of one or another elite may or may not be politicized and bound to parties in power. In this regard we find observations for both solutions. Drahokoupil (2008) argued that the political support of the competition state went beyond party divisions in CEE. Thus, the connected “comprador elites” might work under the rule of various political parties. Post-crisis experience showed a more partisan approach towards foreign investors in some CEE economies, most importantly in Hungary and in Poland. Schoenman (2014) on the other hand made the type of business-polity connections conditional to political and economic uncertainty, and the strength and degree of organizations of networks

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6 Drahokoupil (2008) characterizes the FDI-related elite, the „comprador service sector” and its recreation as follows: „I characterize the domestic actors linked to FDI as the comprador service sector… (It) comprises various groups providing service for foreign investors. It includes local branches of global consulting and legal advisory firms and their local competitors, companies providing other services to foreign investors and officials from FDI-related state bodies. This group is comprador as it is structurally dependent on transnational capital, whose interests it represents. Structurally, this sector is not a bourgeoisie, as it constitutes neither a propertied class nor a professional managerial class….(Its) links to foreign capital can be characterized mainly by the Weberian notions of ´market capacity´ and ´income class´…the comprador service sector helps to translate the structural power of transnational capital into tactical forms of power within the states…The structural power of capital is derived from the dependency of the state and society at large on the investment decisions (p. 366-7).” This type of dependency is fundamental to the DME model of Nölke and Vliegenhart (2009), too.
(lobbying platforms). According to him all three above mentioned elites may or may not act in non-partisan ways in relation with polity, depending on their level and strength of organization and the level of political uncertainty of the ruling parties. In this approach the dominance of a certain type of elite may be challenged when determinants change. Moreover, Schoenman (2014) found different patterns of business-polity cooperation in the various CEE countries. We come back to this issue later. Local business has developed representative organizations, but direct links between businesspeople and politicians also persisted over time. Incumbent management of pre-transition state-owned enterprises as well as petty entrepreneurs formed local businesses. Some analysis of the Hungarian business elite showed that most influential entrepreneurs have had some kind of pre-transition career, either as party members and chief or second line managers of SOEs or petty entrepreneurs (Laki, 2002). It also turned out that local entrepreneurs could not keep pace with the dynamic development, superior technological and market competences, and wealth of multinational competitors (Laki and Szalai, 2013). Typically, influential Hungarian entrepreneurs participated in various service businesses (trade, logistics, hotels, business services, gambling, etc.), real estate development, construction and banking, and much less in manufacturing. They maintained good personal relationships with politicians and frequently also became officers of various parties. Therefore, the representation of Hungarian business towards polity was much more based on personal linkages than on representative organizations.7

Be it a temporary or long lasting phenomenon, business-polity elites do whatever they can in order to stabilize their privileged positions. State and corporate functions of the elites are integrated through personal ties, institutional channels, material benefits, and recruiting patterns. There is a frequent personnel exchange between business, polity (state, regional and local administration) and supporting institutions (consulting firms, developing agencies, law offices, etc.). Many persons hold several positions in various areas. Interactions between the state and business are usually institutionalized. Due to important agency problems the flows of material benefits between government and business are also frequent, giving way to rent seeking and corruption. Last but not least, personal careers usually combine positions in the various areas of business-polity interplay. The recruitment system gives preference for broader professional experience including both business and government positions. While Drahokoupil (2008) provided evidence on the establishment of FDI-based elites in various CEE countries, other authors described similar process featuring local business (Schoenman, 2014; Naczyk, 2014; Stark and Bruszt, 1998; McDermott, 2002).

**Networks**

Elites exercise influence through personal contacts and also using communication platforms of business networks. Depending on the main message of their study, authors describe particular sets of business networks. Drahokoupil (2008) highlighted the FDI-related networks and emphasized FDI-dependency. Naczyk (2014) interpreted the sharp turn in the orientation of government policies in Hungary and Poland from FDI-support towards local business preferences. He described therefore mainly local business networks and mechanisms of polity-local business interplay. THI (2014) drew attention to the fact that after 2010 the then new Hungarian government closed the usual communication interfaces towards multinational business in its effort to thwart FDI dependence. Simultaneously, it allowed local business interest groups to exercise more influence on government decisions. I believe that networks and communication platforms are always important channels of business polity communication, however, participants may have different access to them over time. The intensity of that platforms’

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7 The career of Mr Gábor Széles is a good example of this. Up till 1990 he was president of Műszertechnika Coop, a small firm producing electronic devices for the Hungarian market. His firm was one of the two lucky Hungarian companies who could form a winning coalition together with Swedish Ericsson for the tender producing electronic switching centers for the Hungarian wired telephone network in 1992 – that is before the appearance of the cellular services. Despite of the opportunity Műszertechnika could not establish itself as a significant player in electronics. Thus, Mr Széles tried lobbying for another less technology and innovation intensive activity and could participate in the privatization process of the large Hungarian bus producer Ikarus. He could also acquire the large Hungarian electronics firm VIDEOTON. Neither of these projects proved to be successful in the sense that the original industrial activity could not be maintained. Both companies serve today mainly as real estate development agencies and component producers. Széles used to be a high-ranked official of MDF the larger right-wing coalition member party of the first Hungarian government after 1990. Széles’ is today also owner of a right-wing oriented media network.
usage may also depend on the political stance. If governments need more support for - example due to their weaker political power relations - they may rely more on networks and supporters. As far as the concrete analysis of FDI-related networks is concerned, Drahokoupil (2008) provided an interesting comparison of the V4 countries. The networks are organized by different types of organizations. State agencies for the promotion of foreign investments, regional development agencies are most influential from the side of the state especially in Hungary and the Czech Republic, less so in Poland and Slovakia. In Slovakia the Ministry of Economy and the Governmental Assignee for Development of Automotive Industry (in the years 1997-2003) established themselves as centers of representation of FDI-bound elites. Where state institutions are less active business associations play a major role. In Hungary the American Chamber of Commerce (AmCham), the Hungarian European Business Council (HEBC) the Joint Venture Association (JVA), the British Chamber of Commerce in Hungary and the German-Hungarian Chamber of Industry and Commerce are the most influential organizations. They are also backed by diplomats of foreign embassies establishing powerful lobby organizations. The membership of the associations is not closed, thus they also integrate firms with other national backgrounds including Hungarian companies. Major international consulting firms have a strong presence in V4 countries too and act as hubs of the “comprador service sector”. It is important to emphasize that even more senior positions in the aforementioned firms and organizations are frequently filled by local managers. A similar pattern of representation has been observed in Poland and Slovakia.

In case of Hungary two main associations played a role in shaping institutionalized forms of local business-polity contacts. The Hungarian Chamber of Commerce and Industry is an association representing Hungarian small business. The National Association of Entrepreneurs and Employers represents Hungarian big business. Both organizations proved to support the actual governments, nevertheless, they both gained more in terms of influence with right-wing governments. This is due to traditionally bigger emphasis of these governments on local business support, which has always been openly declared and implemented in various policies during the transition process. Therefore, we may conclude that the two important business elites in Hungary always had partisan linkages to polity.

According to Naczyk (2014) Poland’s local business representation proved to be partisan, and the various organizations shared the political spectrum. The liberal Civic Platform has had close links with PKPP Lewiatan, the country’s largest employers’ association. And although the Polish Chamber of Commerce (representing small business) has not developed strong political ties, on a personal level its leaders had good contacts in the Civic Platform. The now ruling Polish party Law and Justice (PiS) had good contacts to the Sobieski Institute, a think tank that organized the “Poland Great Project” an action plan to support Polish local business. Naczyk also provided anecdotal evidence that representative organizations not only lobbied for members’ interests but intervened in political campaigns directly.

Schoenman (2014) compared Polish, Rumanian, and Bulgarian experience with business-polity exchanges. He found that these were more institutionalized in Poland than in the other two countries where even if formal representative organizations existed, they were overshadowed either by wealthy businesspeople (oligarchs) who used them to lobby for their own business interests, or by influential politicians. He also claimed that broad networks (with substantial membership) were less partisan and thus their lobbying power was larger in any political setting than personal contact-based lobbying. Business-polity networks that are based on the activity of broad representation can lobby for “broadly distributive” advantages in exchange for political support. In these, narrow networks where personal contacts playing dominant role create “selective advantage” institutions and distribute benefits to targeted recipients who are among the supporters of the ruling political party.

Schoenman (2014) states that this dichotomy of business-polity network structure works differently under high or low levels of political uncertainty. When political uncertainty is high and polity needs the (material and moral) support of broad business cooperation, a kind of concertation characterizes business-polity relations. In case of high uncertainty and narrow networks, influential oligarchs may capture the state (like pre-Putin era Russia or Bulgaria). Political uncertainty is usually high in transition economies, nevertheless, there may be periods of lower uncertainty (like in Hungary after 2010 or in Romania during the 1990s). Under the low uncertainty environment broad business networks may engage in new corporatist cooperation with the state. However, if business is less organized, polity may dominate the relationship and pick the winners of selective advantage measures. Schoenman calls this patronage, but the term business capture (see: Yakovlev, 2006) can be also applied for this setting.
We may conclude here that the organizational network of business-polity relation differs to a large degree among CEE countries. Meanwhile business representation has formal institutions in each of these countries. Their membership, bargaining power, and embeddedness varies. Multinational business’ representation is usually strong and well organized – in those countries where FDI has been strong. Local business representation’s characteristics are very different and are shaped by local political, economic, and social development factors. They are definitely less effective than FDI-based elites’ representation, and are usually less broad and often partisan. Besides them personal business-polity relationships may be also important, in some countries even determining, giving way to business or state capture positions.

The emergence of economic patriotism

FDI-bound elites dominated the first two decades of transition in CEE even in countries of less significant FDI stock. The neoliberal concept was reinforced by the international advising community that favored well established multinational players against weak local companies, investors or interest groups. The classic concept of free competition and its general impact on overall well-being determined transition policies with correction in favor of local institutions and infrastructure development. Massive financial and knowledge transfer has flown to the CEE region that largely contributed to the modernization process of these countries. The CEE region, especially the V4 countries, became integrated parts of the European economic space (the Single European Market). The level of integration can be regarded as extraordinarily high. Foreign penetration is dominant not only in market supplies, but also in local production. The share of foreign owned (mostly multinational) companies is over 50% in the majority of economic sectors in terms of production, investments, and exports. This high foreign share was regarded as excessive by many observers. Szentes (2005/6) wrote about unhealthy asymmetric interdependence, Nölke and Vliegenhart (2009) developed the “Dependent Market Economy” concept in the framework of the Varieties of Capitalism literature. Yet, economic policies remained crucially influenced by neo-liberalism until the financial crisis of 2008.

The crisis delivered extraordinary shocks to most developed market economies that needed rapid crisis management steps of various kinds that did not fit into the neo-liberal concept framework but rather into a neo-Keynesian one. Many forms of increased state intervention were applied temporarily (nationalizations, cash transfers to bail out important firms), others remained in place for the longer run (e.g. demand stimulation through increased public spending). However, even in the worse days of the crisis governments refrained from the application of “classic” protectionist policy tools like devaluation of currencies or export restrictions. This fact reflected the different level of today’s world economic integration compared with the times of the Great Depression, as well as the accumulated policy experience gathered since then. Thus, we may conclude that crisis management practice itself remained influenced in many areas by the neo-liberal concept. Many of the temporarily applied steps have been withdrawn since then.

However, many governments in CEE countries have gone against the current and did not limit increased state economic intervention but rather continued and even increased it after crisis shocks eased. The most striking examples are Hungary and Poland. Hungary entered open conflict with a series of policies that run against various EU regulations (mainly competition policy). And Poland was reported to have undertaken steps that aimed strengthening statist policies in the field of state property management for example. Many of these steps were taken already by the Civic Platform dominated government after 2010 (Naczyk, 2014). The new right-wing populist PiS government just continued and expanded these policies. Mihályi (2015) highlighted that in certain delicate issues social-liberal Hungarian governments of the 2000’s also pursued interventionist policies. Thus, the departure from the neo-liberal suit started before the crisis in Hungary as well. These facts allow me the conclusion that in some CEE countries politicians have started questioning the dominant neo-liberal policy agenda in general, and have increasingly favored interventionist policies. The tendency can be regarded as a kind of reaction to the

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8 A most striking action was the introduction of „Lex MOL”, an amendment of the commercial code that changed corporate governance regulation in order to help the Hungarian oil company repel the takeover ambitions of the Austrian competitor ÖMW. The legal changes were passed in a rare mutual agreement of government and opposition.
far reaching application of neo-liberal policies that produced strong dependencies in economies that started from the time of direct state control at the beginning of the transition process. Increased state intervention is currently referred as “economic patriotism” (Clift and Woll, 2012; Naczzyk, 2014). Clift and Woll (2012) make a clear distinction against classic “economic nationalism”, the roots of which go back to Adam Smith and Friedrich List. The main difference lies in the limited toolkit of economic patriotism. This means, governments do not go back to outright protectionist measures but use covert tools to positively discriminate domestic players or they use liberalization measures selectively. The aim is reinventing control over open markets. The term itself was first used in 2005 by Dominique de Villepin, then French prime minister, who called the defense of local prerogatives in integrated markets ‘economic patriotism’ (Clift and Woll, 2012). They also state that the conflict of pursuing the special political economic interests of citizenry under conditions of complex economic, legal and regulatory interdependence had started well before the 2008 financial crisis. Having no exclusive control over large parts of economic governance, and facing deepening international trade and competition policy regulation, governments “had to become creative with policy strategies”.

I use the definition of economic patriotism given by Clift and Woll (2012, p. 308) as follows: “We define economic patriotism as economic choices which seek to discriminate in favor of particular social groups, firms or sectors understood by the decision-makers as insiders because of their territorial status. Economic patriotism entails a form of economic partiality: a desire to shape market outcomes to privilege the position of certain actors. Unlike economic nationalism, economic patriotism is agnostic about the precise nature of the unit claimed as patrie. It can also refer to supranational or sub-national economic citizenship.” An important feature of this approach is that it uses territorial references of political economic space in the definition rather than policy content. Thus, it can handle a wide range of state intervention including liberal economic policies that are applied selectively (Helleiner and Pickel, 2005). The novelty of present day economic patriotism over old fashioned economic nationalism and mercantilism is that it is a response to the reconfiguration of economic governance and market interdependence. Governments had to become creative to assure traditional economic policy objectives with new means. They can today transfer their particular objectives from the national to the supranational level. For example the EU can reinforce liberalization within the EU for the sake of protection towards the outside. On national and sub-national levels we can distinguish between the defense of existing local production advantages and the creation of these in the process of integrating markets.

Paradoxically, deregulation liberalization may itself serve the creation of new types of discrimination (Levy, 2006). Deregulation involves not only removing restrictions but also active reregulation that can be designed to promote particular outcomes. The need for re-regulation provided politicians new means to continued influence over the economy to get territorially beneficial outcomes. As Clift and Woll (2012) state, economic patriotism represents a shift from measures of classic protectionist barriers to trade to more indirect measures like discriminative product and process standards or state subsidies (as part of overall aid policy). Alternatively practice may also prefer selective liberalization in strategic sectors or the introduction of competition rules that prohibit standards common abroad and other restrictions. These forms of protectionism cannot be easily detected and their usage had spread parallel with the mass-scale liberalization process (e.g. within WTO negotiations) already during the 1990s.

**CEE relevance**

As is seen from the above analysis, the roots of the practices that gave rise to the concept of economic patriotism are not new; moreover, they characterize all market economies not just CEE countries. What is really new is the way of selling the idea more openly taking on deliberate conflicts with safeguarding institutions of the neo-liberal concept. Occasionally, other governments also pursued policies that openly contradicted, e.g., EU’s liberal competition policy rules. Clift and Woll, (2012) interpreted these clashes as political messages to the electorate that lacked serious intention of realization. We can see similar attempts but on a rather mass scale from the Hungarian and more recently from the Polish governments. They are aware of the impossibility of the implementation under the current EU framework regulations; nevertheless, they would like to send political messages to both their electorate and Brussels. Yet, the amount of the new non-compliant measures can seriously undermine the classic market economic institutions and erode the rule of law in these countries.
The other, more important purpose of economic patriotism is a real reconstruction of power relations. In this sense the practice of the Hungarian and Polish governments goes beyond the rationale described in the above definition of the term. The Hungarian evidence shows that selective advantage measures have been applied to favor particular agents. This is in contrast with the notion that economic patriotism uses broadly distributive measures in favor of territorially determined groups of actors. The aim of such steps is not the general preference of citizenry but the promotion of selected clients: selected members of the local elite who were considered losers of the power competition during the transition process. Thus, this policy practice supports only a predetermined part of the local bourgeoisie. This aim is more likely to be achieved if the new (local business-bound) elite has no strong organizations. Our previous analysis showed that local business associations in Hungary were rather weak, especially when compared with the lobbying platforms of foreign investors. Moreover, their leadership has always been politically determined, thus these organizations could not strongly enforce interests of their members. Weak, politically influenced networks, strong personal linkages of influential business people with polity makes the Hungarian business elite easy prey for the state. The usage of selective advantage measures does not serve the elite’s interest as a whole but only selected clients. This practice cannot be regarded an example of economic patriotism. The concept of economic patriotism is rather used as a politically good selling label for predator practices of the state. The application of covert protectionism is sometimes justified with the historical (today not repeatable) success stories of the classic East-Asian developmental state. However, an important element of these was regulated competition on protected internal markets first and on global markets later. The system of a patronage state kills market competition all together. Clients are protected in domestic markets from unfriendly foreign and domestic competition alike. Without competition however, economic agents will rely solely on maintaining good relations with their patrons and do not enter the trying path of innovation and activity sophistication. The result is declining competitiveness, deteriorating product and service quality, decreasing income generation, and overall impoverishment. The concept of economic patriotism (neither economic nationalism and mercantilism) never ever negated the role of competition as a driving force of market economies. The political practice of the patronage state in Hungary eliminates competition and cannot be regarded therefore as an example of economic patriotism.

Empirical evidence from Hungary

Hungary is a small open economy, which started the transition process from socialism to the market economy in 1989. The establishment of minority foreign ownership in the form of joint ventures was legally allowed under communism already in 1972, and a USD 400 million stock of investments had been accumulated up to 1989. Moreover, regular contacts to world markets and to foreign firms allowed the accumulation of some network capital in the Hungarian economy that became an important lever of Hungary’s internationalization process. More significant volumes of FDI started to arrive to the country after 1991 when the privatization process was directed towards sales to foreign investors. When the privatization process decelerated at the end of the 1990s large scale greenfield investments started to uphold yearly FDI inflow levels in the range of EUR 3-4 billion. Later on the expansion of existing capacities also gained momentum. This is shown by the increasing share of reinvested profits in the source structure of FDI stock increments (Antalóczy et al, 2011). Traditionally, FDI statistics have been provided from the balance of payment figures of countries. This source became rather problematic after the year 2000 but especially from around 2010. FDI flow figures became mixed up with capital flows of “special purpose entities”; and moreover, temporary capital flows were also reflected. The problem has been recognized internationally (UNCTAD) and figures were also cleared also by the Hungarian National Bank. However, despite the clearing procedure, international and also timely comparisons remained rather difficult and less reliable than earlier (Antalóczy and Sass, 2015).

Despite this, Hungarian FDI statistics clearly demonstrate the outstanding role of foreign investments. During the years of the transition process most of the largest multinational companies established a direct presence in Hungary in the form of an affiliated company. Foreign presence has been especially strong in the automotive and electronics industries of manufacturing, in retail trade, banking and financial services, telecommunication, and media. These are typically the most globalized businesses. The establishment of Hungarian affiliates in them reflects the fact of successful integration of the
Hungarian economy in global production networks. I regard this development as a key determinant of structural development, technological modernization, investment activity and economic growth in Hungary.

**Positive and negative impacts, criticisms of the FDI-led development model**

The strong influence of multinational companies in the Hungarian economy can be illustrated by several figures. They have contributed much to national investments creating a massive body of highly productive manufacturing and services base. The uneven spread of FDI is very much visible, too. In certain hot spots like Komárom, Győr, Székesfehérvár, various parts of the larger Budapest agglomeration new industrial districts have been created or old ones renovated. Foreign companies produce 70% of manufacturing production and 48% of manufacturing employment. Their share in retail trade, banking and financial services, their share in telecommunication is also exceptionally high. Since foreign firms, especially those in manufacturing, are partners in international value chains they by definition are export oriented. Over 80% of total manufacturing export is delivered by the foreign owned sector. In other V4 countries foreign ownership participation is similarly important.

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9 The other main source of investment financing was EU transfers. The Hungarian national sources’ share was rather small.
Table 1. Share of foreign owned companies in sales, employment and gross investments in Hungary (selected economic branches, %)

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2012</th>
</tr>
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<tbody>
<tr>
<td>sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>manufacturing</td>
<td>64.9</td>
<td>69</td>
</tr>
<tr>
<td>energy supply</td>
<td>74.4</td>
<td>67.5</td>
</tr>
<tr>
<td>Trade</td>
<td>44.6</td>
<td>45.4</td>
</tr>
<tr>
<td>infocommunication</td>
<td>62.7</td>
<td>67.7</td>
</tr>
<tr>
<td>total non financial</td>
<td>50.1</td>
<td>53.3</td>
</tr>
<tr>
<td>Financial</td>
<td>53.8</td>
<td>70.1</td>
</tr>
<tr>
<td>employment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>manufacturing</td>
<td>44</td>
<td>47.7</td>
</tr>
<tr>
<td>energy supply</td>
<td>51.5</td>
<td>51.9</td>
</tr>
<tr>
<td>Trade</td>
<td>21.5</td>
<td>24</td>
</tr>
<tr>
<td>infocommunication</td>
<td>29.8</td>
<td>37</td>
</tr>
<tr>
<td>total non financial</td>
<td>23.8</td>
<td>26.1</td>
</tr>
<tr>
<td>Financial</td>
<td>46.9</td>
<td>45.1</td>
</tr>
<tr>
<td>gross investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>manufacturing</td>
<td>67.8</td>
<td>78.3</td>
</tr>
<tr>
<td>energy supply</td>
<td>61.6</td>
<td>65</td>
</tr>
<tr>
<td>Trade</td>
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</tr>
<tr>
<td>infocommunication</td>
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<td>79</td>
</tr>
<tr>
<td>total non financial</td>
<td>49.6</td>
<td>55.3</td>
</tr>
</tbody>
</table>

Source: Central Statistical Office

We can evaluate the strong presence of multinational business in various ways. My standpoint regards the development trends of the whole transition period up till now. Compared with the starting point the current economic structure of Hungary is more developed with a high share of high- and upper medium-tech manufacturing production and highly efficient services sector. I sincerely doubt this extraordinary change in economic structure would have been possible to achieve without the strong investment activity of foreign firms. It is important to see that global markets are dominated by firms who are also present in Hungary. Entry barriers of global markets are extraordinarily high; penetration is extremely difficult even for the most innovative small firms. True, there are some success stories of East-European born global companies, like Hungarian Graphisoft or Prezi as well as Estonian Skype. However, they all work on rather small market segments, and were sold to big multinational businesses when their further expansion to broader markets required large scale investments. Inserting V4 economies into the system of global value chains is hardly imaginable without the effective role of global players of the markets.

On the other hand, we can see clear drawbacks as well. The strong presence of multinational firms produced dual structures in V4 economies. Foreign firms have relatively few contacts to local companies along their main production activity. Local suppliers usually do not enter their value chain. The reasons for this are manifold. Firstly, existing technological cooperation links in the value chain are not likely be replaced by new entrants because of the high costs of entry. Secondly, local firms attained technological capabilities, financial and logistics capacities for cooperating with global business only gradually. At the moment of FDI penetration of the V4 economies, local firms were not fit for cooperation (Antalóczi, et.al., 2011). Nevertheless, the scope of the essential contribution by local firms to the global value chains started to increase after 2000. Due to the 2008/9 crisis and recession, cost cutting considerations became even more important and moved multinational firms towards more intensive local sourcing. V4 countries launched support programs to enable local firms to cooperate with multinational companies (Kalotay, K. – Sass, M., 2012).
Another important issue that has been widely discussed is the extent of positive externalities stemming from multinational firms (spillover effects). Most studies tried to measure the externalities using various measures of productivity, assuming that the aggregate impact of spillovers will increase productivity of local firms. The results have been mixed and not very convincing. A meta-analysis of the related literature stated that a larger part of the findings supported the idea of measurable productivity increases (Iwasaki and Tokunaga, 2014). There are methodological and also logical explanations for the lacking positive results (Szanyi, 2002b).

Other critics of the FDI-based development model drove attention to systemic problems that could be far more important than the low level of positive impacts. Nölke and Vliegenhart (2009) wrote an important paper in which they tried to conceptualize the CEE economic model (DME model). They picked out the role of foreign direct investments in shaping the structure of the establishing market economies of the V4 countries. They argued that the high share of multinational companies in the production and trade of these economies strongly influenced the development of some other economic and social sub-systems as well. Their impact on national innovation and education systems was negative, because their operation did not need high-end inputs from these systems. Furthermore, strong bias was exercised on a variety of national policies, since multinational companies’ tax reliefs deprived governments of financial tools, and also because their operation was largely independent from national policies.

But there has also been another, political criticism addressed to foreign investments and multinational companies’ activities. Populist parties hoped to receive social support and votes in the elections with such criticisms. Terms like “luxury profits” of foreign firms, treatment of profit transfers as an attack against national property, predetermined expectations of tax revenues treated as justified claims of the state towards foreign firms earmarked the populist sentiments that were articulated in Hungarian and Polish mass media. Similar statements served as moral justification, and political and social support for unfriendly changes in regulation and tax policy. This meant that political expectations of sharing a bigger part of the potential benefits of global economic integration were enforced by measures that reached beyond the usual action sphere of policies and market institutions.

*Hostile actions in Hungary*

While the main focus of the Hungarian government was set on supporting domestic business ventures after 2010, the strongly imbedded Hungarian economy continued relying on the activity of multinational firms. Populist political attacks were targeted against selected branches and even companies. Critical arguments (when applied at all) lost their general character when they were translated into policy measures. The Hungarian government identified a group of companies that were not treated well. Meanwhile other companies and branches received further (mainly political) support. Banks and financial institutions were repeatedly accused of unfair practices towards customers. They were also thought to realize above average profits. Foreign presence in the Hungarian banking sector was unusually high (80 %) which also annoyed the government. Actions were taken to change all this. The Hungarian was one of the first governments to introduce sector-specific extra taxes (on turnover and on transactions). Besides this banks had to bear much of the costs of the compensations of private debtors with (non-performing) foreign exchange debt. These changes in the regulation and new taxes brought banks into red when they still had problems with recapitalization after the 2007/8 financial crisis. Owners of private pension accounts were “secured” by the government with a second pillar of the pension system, that is claims of private pension funds were blamed for the low level of returns by the government. Pension claims were then secured by the government with a second pillar of the pension system, that is claims of private pension accounts coming from the compulsory insurance system were taken and rechanneled to the pay-as-you-go first pillar state pension system. The most affected financial institutions were foreign-owned in both cases.

In 2014 the Hungarian state acquired MKB Bank from the German owners. The German parent bank was unwilling to run the Hungarian daughter at a loss and sold to the only serious buyer: The Hungarian state. The losses were, however, were caused by various negative changes in the business environment.

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10 Documents of various government officials’ media communication on the ideological differentiation between „good, productive” and „bad, speculative” business are analyzed by Mihályi (2015) and T.I.H. (2014).

11 Magyar Külkereskedelmi Bank Rt: Hungarian Foreign Trade Bank Co., its previous owner was the Hungarian affiliate of Bayerische Landesbank until 2014.
initiated by the Hungarian government, and by the process of restituting the private foreign-exchange debtors. The achievement of 50% of national ownership in the banking sector was heralded soon after. Later that year FHB Bank was purchased by the Hungarian Post, increasing national ownership to over 60% of bank assets.

Retail trade chains and other trading companies, firms in the telecommunication and energy sector as well as media were also harassed by disadvantageous selective regulations, most importantly sector specific taxes and fees in Hungary. In order to save local business from the effect of the new taxes specific selection rules were applied. In the case of the tax on broadcasting advertisement for example, a high level turnover threshold was fixed so that the tax affected only one major foreign owned medium. A larger number of transactions and regulatory changes over a longer period of time was undertaken under the umbrella of limiting utility costs. The promise of savings on utility costs was a major campaign tool of the 2010 and 2014 election campaigns. The government already prohibited price increases of the public utilities in 2010. Later on prices were set by government agencies at significantly lower levels than before, thus eliminating profits from this sector. This was a measure that directly affected the profitability of private business. Limiting utility costs through price decreases resulted in companies going into the red. Owners soon felt encouraged to sell their loss-making assets. This process is regulatory taking: company revenues dry up because of unfavorable changes in market regulations or excessive taxes. Many of the utility firms were thus sold to central or local public bodies. Some of them received quite generous compensation (for example German RWE).

Selected advantage measures – the strategic partnership program

In order to make a formal difference between favored and punished firms, the Hungarian government signed strategic agreements with a number of foreign companies. The process started in the summer of 2012 when the macroeconomic situation of Hungary worsened. GDP fell and investments by major business ventures were postponed. The sluggish business conduct of large firms could not be counterbalanced by supporting SME activity. The Hungarian government decided to encourage the activity of selected multinational firms with the declaration of partnership. Up until September 2015, 60 such strategic agreements were signed, out of which 54 partners were foreign-owned company. The partners concentrated in three major manufacturing branches: electronics, automotive, and pharmaceutical industries. According to Transparency International’s calculations the contracts signed by mid-2014 covered firms presenting 18% of manufacturing employment and 40% of manufacturing exports, a significant share of Hungary’s manufacturing base (TIH, 2014).

Agreements were initiated mainly but not exclusively by the government. There is a set of conditions that applies to big multinational business (5 years track record in Hungary, significant contribution to GDP production and exports, investments exceeding HUF 5 billion, contribution to employment – at least 1000 own employment, intention to increase job creation for skilled workers, participation in education, and at least 10% local supplier input in production). The content of the agreements was rather uniform. Usually the intention of cooperation was declared to be in job creation, training and education, R&D, and local supplier network development. No concrete measures of cooperation were included. Our previous analysis of FDI attraction policies pointed out that these areas used to be the main foci after 2004. Thus, the Hungarian government did nothing more in the strategic partnership agreements than reassure selected foreign firms about the possibility of the type of cooperation and support, which had been normatively expanded to all business players before 2010.

Survey results

T.I.H. (2014) analyzed the usage of selective policies from the viewpoint of lobbying. The main conclusion of the analysis was that policies of the Hungarian government increased uncertainty not only in the regulatory environment but also in the communication channels between business and polity.

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12 Government communication explained the measure with suspected tax evasion of the company. Yet, it was never explained why, if there was something illegal in RTL’s taxation, why this was not repaired by the responsible state institution the tax office?

13 It is of course another question if today’s sales revenues are sufficiently high for the necessary investments. Observers state that public utility companies are still in extremely bad financial situations and do not invest any more, which may threaten the quality of their services.
Though previous regulation on lobbying and control of corruption was also far from perfect, institutions with normative effects were curtailed or lifted (e.g., the law on lobbying), and arbitrariness of decision-making increased. Instead of using official channels practice of lobbying became informal. Business representatives used special occasions like soccer games and social events to meet influential politicians. Representatives of “bad” as well as “good” business equally used the informal channels. TIH’s survey of the practice with the partnership agreements looked back on a period of less than two years in 2014. Therefore, most interviewees expressed their hopes that the new tool will serve more efficient lobbying and communication with the Hungarian government. Some stated that signing the agreement was a symbolic gesture from the side of big business as well: companies expressed their good will in spite of the unfriendly policies of the government. In that early period interviewees expressed their satisfaction with the fact that based on the strategic partnership agreement they could directly contact medium or high level government officials, which was not possible between 2010 and 2012.

In the autumn of 2015 a series of interviews with CEOs of strategic partner companies was conducted by the Institute of World Economics. The aim of the survey was to collect firsthand information about the importance and practical application of the partnership agreements. Out of the then 54 foreign partners 12 were approached. All of them worked in manufacturing industries and nine had the necessary qualifications for the program and one was negotiating. Since TIH (2014) conducted another empirical survey in 2014 I also had an opportunity to check for timely development of the linkages (though answers were anonymous in both surveys, hence no panel comparisons could be made).

Most interviewees expressed their hopes that the new tool will serve more efficient communication with the Hungarian government. Yet, they were not expecting quick results from negotiations. Some of them were most skeptical stating that the PR value of the campaign was most important and they did not hope to receive any kind of concrete benefits. Others reported some kind of success or at least hoped to have positive impacts on success in public procurement tenders in future. Several mentioned lobbying for easing some disadvantageous regulation. For example, firms felt it strange that the government expected of having sizeable corporate social responsibility activities (sponsorship of sport clubs, financing sports infrastructure development).

Most firms seemed to have been engaged in the cooperation activities suggested by the partnership agreement anyway and could not report on substantial extra government support on these areas either. In sum, we could confirm the major findings of T.I.H. (2014) one year later. Most multinational affiliates used the strategic agreements as a communication channel, a platform for lobbying. But the success of their lobbying efforts did not depend on the conditions or content of the agreement. In fact, they mostly wanted to achieve results in areas that were not covered by the strategic partnership agreements.

**Conclusion and interpretation of the research results**

What does the dual treatment of domestic and foreign owned companies, and changes in the communication channels to business agents mean for the business model of Hungary? In another paper I argued that arbitrary involvement of the state in the ownership patterns of the Hungarian economy would bring important systemic risks (Szanyi, 2016). Basic market economic institutions like the security of the private property regime and the rule of law can be seriously undermined if the government does not apply the laws consequently to its own transactions. The dual treatment of local and international business seems to be a less dangerous practice. It is rather a different concept of regulation which is in conflict with competition policy principles. Yet, the ways how losers and winners are picked may also matter. The decline of normative regulation and preference of selective measures will deliver the wrong message to economic agents that their success will more depend on the development of their network capital than their business activity. Also, a danger of increasing corruption is bound to the process. This may all strengthen negative tendencies of the evolution of crony capitalism.

In my understanding crony capitalism means a legally uncontrolled (badly controlled) interaction between a polity and business interests that works against the principles of free enterprising and fair competition. Policy makers and influential business people cooperate to create preferential treatment for “friendly business(es)” in exchange for material support of parties, politicians, and election

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14 The full transcript of the interviews was published in Szanyi (2016b)
campaigns. This type of cooperation is not unknown in developed economies, though a more developed institutional background and strong civil society control may limit the most harmful impacts of cronyism on market economic institutions. If the financial support of political parties is transparent and lobbying for industry (company) interests is institutionalized, than crony capitalism is under social control. It does not mean, of course, that the markets are free of marginal interest enforcement. In case cronyism is not transparent and not controlled it may lead to very high social losses and even illegal transactions. A major difference between most of the established market economies and most of the transition economies lies in the level of institutional and social control of polity-business interactions. Loose control in transition economies sees the investment and business climate deteriorate which is expressed in rather low level rankings in competitiveness reports and high costs of financing.

State favoritism in Hungary ranging from public procurement to market regulation seriously contradicted normative regulation and violated the principle of equal treatment and EU competition law. For example, only in the first half of 2015 were three major processes launched in Brussels against the Hungarian government. Levies on retail trade supervision and taxes on tobacco products were suspended, and grants for road construction were ceased to be transferred to Hungary due to ongoing competition policy procedure infractions. In the first two cases tax policy measures were designed in such ways as to favor a selected number of politically linked agents. The public procurement cases were investigated because of unusually high prices. Road construction was also regarded by observers as one of the main areas of patronage.

Selective advantages have been provided to clients and simultaneously, competitors of clients were frequently punished by unfavorable regulation. This is most clearly visible in the example of punishing representatives of multinational business by selective disadvantages (extra taxes, exclusive regulation). Meanwhile other members of the same community were rewarded and included in the close circle of strategic partners of the Hungarian government. The simultaneous steps in opposite directions can be interpreted as a deliberate policy aimed at splitting the established business networks (that of foreign companies/multinational business). Using Schoenman’s typology, this is a move towards narrow networks and the patronage state (business capture), since political uncertainty is perceived very low in a government relying on a 2/3 majority support in the Parliament. These cases illustrate the departure from the “competition state” (Drahokoupil, 2008). The concept of an illiberal state reduces the free market system and democratic institutions. The above cases as well as the whole departure process from the Western values has been conceptualized in Hungary and is therefore regarded by the Hungarian government as a sovereign decision to establish a new economic system. Populist followers of the Hungarian agenda can be found also in Poland. The PiS party openly declared its appreciation of the concept declaring that hopefully there will be Budapest in Warsaw. But the essence of the opinion of Polish observers is that the concept of economic patriotism has already been introduced in Poland as well.

When comparing the fundamentals of the FDI-led development model and the current policy changes in Hungary (with an eye on potential changes in Poland), my assumption is that FDI-lose economic development cannot be run without an important decline of international competitiveness. I am not even sure if the replacement or substitution of multinational business is technically possible at all even in the long run. But if yes, I do not think that such a change could be carried out without a significant drop in economic activity, income generation, and living standards. Therefore, such an undertaking is also politically hardly feasible. Thus, I evaluate increasing cronyism not as fatal danger but rather as a factor that deteriorates economic performance due to less effort on improving levels and quality of business activity.

References


Social Media Campaigns in the Nonprofit Sector

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Abstract

The public sector is aimed at meeting the needs of the majority of individuals; as such its services are aimed at the median and average needs of a population. The nonprofit sector originally emerged from a failure of the public sector to meet certain needs within the population. Social media today is among the best and most widely used opportunities for nonprofit organizations to connect with the public. It is now a staple for nonprofit organizations to have profiles on social media sites, and to utilize this online presence to engage stakeholders and donors. This study looks at success variables within social media campaigns, and identifies ways in which NPOs can utilize social media as a platform with the best opportunity for success. This article represents a focused effort in this direction. The research question is: what success variables make social media campaigns effective in raising funds via online-giving? This is an inductive qualitative analysis that explores the features of social media based advertising, and identifies success variables that can be adapted to future campaigns and a variety of organizations.

Introduction

The public sector is aimed at meeting the needs of the majority of individuals; as such its services are aimed at the median and average needs of a population. The nonprofit sector originally emerged from a failure of the public sector to meet certain needs within the population. Nonprofit organizations are voluntary and self-governing and may not distribute profits (Borris, n.d.). Globalization has enabled nonprofits to operate beyond national borders, and eroded boundaries between the public and private sectors (Hall, 2011). The nonprofit sector fosters civil engagement, social capital, informs public policy through education, and creates income and jobs (Borris n.d.). Since the advent of this sector it has become one of the most rapidly growing sectors in the world. As of 2013, there were over 175,000 registered nonprofit organizations in Canada (Statistics Canada, 2009), and over 1.5 million registered nonprofit organizations in the United States of America (National Centre for Charitable Statistics, 2010). The nonprofit sector accounts for 8.1% of total Canadian GDP (Sector Impact, 2013), and 5.5% of total American GDP (National Centre for Charitable Statistics, 2013).

It is a commonplace belief that the majority of funding for NPOs comes from government sources, but these organizations receive funding from a variety of sources. Examining the core nonprofit sector (excluding hospitals, and universities), one third of all nonprofit revenue actually relies on membership fees, donations, and investment income, while government funding accounts for just 20% of their revenues (Statistics Canada). NPOs with smaller revenues rely even more on income from nongovernment sources including donations and gifts (Statistics Canada). Therefore, it is now commonplace to see these core NPOs advertising in ways that aim to engage the public with their organization.

With the continually growing popularity of social media, many organizations are now using it as an advertising platform to reach more individuals. Social networking is becoming increasingly popular because people want to connect; this provides the opportunity for public engagement by nonprofit organizations. Social media is defined as “websites and applications that enable users to create and share content or to participate in social media networking” (Oxford English Dictionary). Facebook is the world’s second most visited website, Twitter ranks tenth, and Instagram is ranked 23rd most visited (http://www.alexa.com/topsites). Facebook currently has 1.59 billion users, Instagram - 400 million, and Twitter has 320 million (Statista, 2016).

The rapid diffusion of social media has boosted NPOs ability to strategically and effectively engage large audiences of stakeholders, donors, investors, and volunteers, as well as to draw newer and younger audiences to their organization. As such, it is now a staple for organizations to both have social media accounts, as well as to utilize them for a variety of purposes. These purposes often include:
networking with current and future stakeholders, the creation of valuable partnerships, seeking new donors, seeking new members, renewing existing memberships, and associating with other prominent organizations in the field.

An emerging body of literature has explored how nonprofit organizations are using social media, and what they are using social media for. However, little literature exists discussing the use of specific social media campaigns as a tool to drive donation to NPOs. Literature barely touches on how organizations with existing social media presence and audience can use targeted campaigns to increase donation to a specific organizational cause. There is a need for research regarding what makes campaigning on social media successful, and how these success variables can be adopted and adapted for a variety of campaigns and organizations.

This article represents a focused effort in this direction. The research question is: what success variables make social media campaigns effective in raising funds via online-giving? For the purposes of this article online-giving refers to any donation made via the Internet, texting, e-mail, or other versions of online donation. This article will examine five nonprofit organizations across a spectrum of subjects. This question is answered in three parts: (1) Does the NPO have an existing presence on social media sites- Facebook, Instagram, and Twitter? (2) The NPOs website is examined for clarity, transparency, and whether there is a link to become involved, (3) One specific campaign from each NPO is examined for variables contributing to its success in raising donations for a specific cause. This analysis will look at two levels: the existing presence and reputation of the NPO online, and success variables specific to the social media campaigns examined.

This is an inductive qualitative analysis that explores the features of social media based advertising, and identifies success variables that can be adapted to future campaigns and a variety of organizations. Drawing on this analysis a concept map is created that identifies success factors specific to each campaign. This concept map is then utilized to create a continuum of success that identifies the most important aspects to effective social media marketing for all NPOs to be successful. Following this, the idea of content marketing as a crucial means for engagement of the public is introduced. Beyond the theoretical contributions, this article provides an investigation into what makes a campaign successful, and what this success means for the organization as a whole moving forward. It is important to define success within the nonprofit sector not only as raising revenue, but also as increasing awareness related to the organizations cause, and to increasing engagement of the public and volunteers within the organization. This article is organized as follows: a literature review is completed, than the research question is answered in its three respective parts. The fourth section represents the analysis and discussion of the findings, and this article is concluded with a discussion of this study’s limitations, implications, and recommendations for further research.

**Literature Review**

The literature relating to this topic so far is focused on how nonprofit organizations can use social media membership to engage with potential donors and stakeholders. Little exists on how NPOs can create specific campaigns to enhance donations to a specific cause, as well as increase awareness and volunteers as a long-term result. Because technological innovation and social media evolves so rapidly, much of the existing literature can be out of date soon after publication.

Kaplan & Haenlein (2010) advise choosing carefully the right social media medium to connect with your target audience, and being active within whichever mediums you do decide to be necessary. They also offer that ensuring activity alignment on different sites, having an integrated media plan, being honest, and being interesting are all necessary variables to retain followers and support for your organization online. They finish the article by cautioning against utilizing social media as the only means of connection, and forgetting to foster face-face relationships and communication with long-term supporters.

Through the content analysis of 275 organizations on Facebook Waters, Burnett, Lamm, & Lucas (2009) found that although NPOs understood the importance of disclosure on their profiles, this extended to the administrators, and description of the organization, while less than half disclosed the mission statement. Waters et al. concluded that although nonprofits are transparent on their Facebook profiles, they need to enhance their information dissemination and are not utilizing their profiles to their fullest potential for engagement.
Guo & Saxton (2013) identify advocacy as being a necessary central tenant of all NPOs, and assert that advocacy initiatives should represent an additional path for achieving the organizations mission. This study found that the majority of tweets were aimed at providing information to stakeholders, building an online community, and calling to action this community and stakeholder presence. This study concludes that mass avenues such as twitter tend to work better with indirect advocacy tactics such as grassroots lobbying and public education, rather than direct calls to action.

Dolnicar & Lazarevski (2009) assert that the adoption of a market-oriented perspective is becoming essential for NPOs due to the necessity to compete for funds and supporters in order to fulfill their mission. They argue that NPOs operating in different countries are exposed to different environments, and as such they need to adapt their marketing strategy to cater to those environments. They conclude that the majority of NPOs fail to engage in strategic marketing and as such are unable to reach their full potential for receiving support.

Sarah Smith (2012) states that although charitable giving is philanthropic in nature, individuals attempt to make the best decision on which organizations to financially support and in doing so incentives and economics do matter. Smith concludes that peer effects are powerful donation initiatives, and that tax incentives are likely to be beneficial in increasing donations. Sisra Neti (2011) states that social media is not only about money, rather about interacting, learning from the supporters, identifying supporters, and innovating on services.

Saxton & Wang (2011) investigate online giving and identify that it is not governed in the same way as in “off-line” donation. Donors are not interested in efficiency rations, donations are smaller and success is rather related to an organization “web-capacity”. This study concludes there is a strong relationship between the size of an organizations social network and the receipt of contributions. Contributions are concluded to come more often through a social network effect in which donors reach out to circles of friends in their own social networks.

Ronald Hill (2011) concludes that greater levels of interactivity, feedback, encouragement, customization, and clarity are fundamental components of successful programs. While Greenberg & MacAulay (2009) conclude that many Canadian nonprofits are using their online presence to disseminate messages to the masses, but doing little to foster two-way communication.

Miller (2011), & Andreasen (2002) both agree that organizations should foster social engagement and social marketing must nurture growth and increase penetration. Miller (2009) continues to conclude that NPOs need to be more proactive in recruiting social media followers, if they want to remain connected to younger followers, they need to do a better job of informing. Additionally, Miller states that although individuals who follow NPOs read all of the materials that are provided, they still feel undereducated on important policy issues. This suggests that NPOs should send out more comprehensive and frequent newsletters to members. Miller finishes by stating that only so much is possible with the use of social media, and that it cannot replace face-face communication with supporters.

Lovejoy, Waters, & Saxton (n.d.) examined how 73 organization use Twitter to engage stakeholders through tweets and other various communication methods. This paper discusses that although Twitter has a 140-word limit, it can be used as a more effective and complex communication tool within the nonprofit sector. This article concludes that while Twitter- like other social media avenues- has a wide potential to build relationships, it is not being utilized to its full potential. Namely, twitter is only being used to disseminate information, rather than as an avenue for two way communication and engagement of followers within the organization.

Kylander & Stone (2011) discuss the importance of fostering a role for brand within NPOs. They argue that brand can play a role not only in fundraising- but also in a wider strategic manner in driving broad long-term social goals, while strengthening internal identity, cohesion, and capacity. They argue that nonprofit leaders need a brand that sustains their global impact, serves their mission, and stays true to the organizations values. This study concludes that brand management is especially challenging for organizations working internationally, but can align image and identity, and strengthen internal cohesion as well as external trust. International organizations will find it increasingly important to build brand around missions, values, and strategies to establish external trust within donor and stakeholders.

Mark Rovner (2013) discusses the charitable habits of different generations, and how the knowledge of these habits can implicate targeted advertising. The key findings from this article are that
most Americans give, with matures being the most generous generation. Baby boomers will exert an increasing influence on charitable giving for the foreseeable future. Generations X & Y are far more likely to donate online, and as many baby boomers donate online as do by direct mail. The value of social media is un-channeled, and peer-peer fundraising has significant implications as a positive donation strategy. This article concludes that multi-channel advertising is optimal, but the preferred mix varies by generation. Additionally, this article recommends getting as many young donors’ support as possible, because while they may not donate as much now due to financial limitations and are more likely to volunteer this will develop into a long-term donor relationship over time.

The Advantage of Social Media

Social media is a means by which organizations can engage with more followers than ever. In doing so, they are able to disseminate a vast amount of information to a mass number of individuals. Statistically this provides a greater opportunity for success in receiving donations for an organization. Success is defined by the Oxford English Dictionary as “ the accomplishment of an aim or purpose, the attainment of popularity or profit”. This definition is important because social media provides a platform for success as more than just a source of revenue. Social media provides an avenue with which organizations can strengthen their public image. Where NPOs can foster their mission, values, and goals by furthering the advocacy activities engaged in by their organization. Social media also provides an increased awareness of an organization, and can improve success through donations, but also through reaching more individuals, and increasing volunteer support as well. Why is social media an area of such emphasis, and how can NPOs successfully utilize social media to its fullest potential?

The 1% of NPOs with annual revenues exceeding 10 million dollars receive 59% of all revenues thus, competition for the remaining 41% is stiff, and social media can be utilized to bridge this gap successfully (Statistics Canada). Canadians alone annually donate over 10.6 billion dollars to charity each year, and over 13 million Canadians volunteer for charity each year (Imagine Canada). Effective social media campaigns can significantly enhance the share of these financial and voluntary contributions to an NPO, as the younger generations are donating mostly if not entirely online (Rovner, 2013).

Nonprofit Tech for Good (2015) conducted a study whose results demonstrate the importance of fundraising and social media that all NPOs should be aware of. The study found that: in 2014, 1.4 billion people donated to NPOs, 12% of donation occurs between December 29-31, 64% of all donations are made by women, Canadians donate the most money overall (84%), generation X donates more frequently, volunteers give twice as often, 1/3 of revenue comes from e-mail, 54% of donations are made by individuals with 4 years or more of higher education, 91% of mobile internet traffic is used for social media, 51% of all people visiting your website do so on a phone, and responsive donation pages receive 34% more donations.

The implications of this study are vast, and provide invaluable information on the audience of social media campaigns. Using this data, nonprofit organizations can increase the donations that they receive by altering a few simple things within their social media profiles and their social media campaigns. For example, tailoring a campaign to college graduate women would target a vast majority of those who donate. Noting that 1/3 of donations come from direct e-mails, organizations could provide require an e-mail signup rather than a membership fee to increase traffic, and capitalize on this strategy. Understanding that a website should be responsive to adapt to mobile screens would increase the likelihood of donations received because it factors in the sheer volume of individuals that visit websites directly from their mobile device. Additionally, targeting an extra campaign to run December would increase the donations received by an organization because a large percent of donation occurs within this last month of each year.

Nonprofit Organizations Analyzed

This study examines 5 nonprofit organizations, their current presence on social media, and examines how specific extra campaigns have been successful in raising money for these NPOs. These organizations were chosen randomly because they are all involved in different sectors. Furthermore, each of these organizations has engaged in a social media campaign in addition to their already existing
presence within the realm of social media. Each organization is described briefly throughout the next section.

*Epic change* is a social innovation lab that believes love changes everything. They create movements designed to amplify the voices of change-makers and work to inspire investment in their ideas by spreading the love they manifest. Their experiments harness emerging ideas and approaches to spread love, and create new possibilities. They have created over 60 jobs, a school for over 600+ children, and raised over $300K+. Epic change consistently demonstrates the ability to harness the web to drive attention and investment to grassroots change-makers (*Epic Change, n.d.*).

*Charity Water* is a nonprofit organization with the mission of bringing clean drinking water to every person on the planet because access to clean water can improve health, increase food access, and grow local economies (*Charity Water, n.d.*). *The American Red Cross* exists to provide compassionate care to those in need. Their mission is to prevent and relieve suffering, at home, and around the world in five key areas: disaster relief, supporting military families, lifesaving blood, health and safety services, and international services (*American Red Cross, n.d.*).

*Pencils of Promise* is a global community that believes everyone should have access to quality education. Guided by the 100% promise- 100% of donations go directly to programs, 100% of leadership is local, 100% success. Since 2009 pencils of promise has built 344 schools and served 33,883 students. *Crohn’s and Colitis Foundation* connects inflammatory bowel disease research directly with patient care, and improved outcomes. This is the only national, volunteer based foundation focused on finding a cure for crohn’s and colitis and improving the lives of those affected by the disease. One of the top two health charity funders for this cause to date having raised $94 million for research (*Crohn’s and Colitis, n.d.*).

**NPOs Existing Presence on Social Media**

For the purposes of this examination this study is limited to identifying whether the NPOs in focus are members of Facebook, Instagram, Twitter, or some combination of the three social media platforms. *Epic Change* is only a member of Twitter, and Instagram and does not currently hold a Facebook account. Epic change does not consistently update their Twitter or Instagram account- their last update having been posted in 2013, and providing links to photos of events, as well as information about certificates being written for those who participated in a specific program. On Twitter *Epic Change* has 2795 followers, and has 301 followers on Instagram.

*Charity Water* currently holds an account on Facebook, Instagram, and Twitter. They update all three profiles regularly, having posted on each account with no longer than 7 days in between posts. The majority of their posts are updates on progress in specific building areas, as well as quotes and photos that relate to their mission and goal to bring clean water to every person on the planet. On Facebook *Charity Water* has 330,554 followers, on Instagram 291K followers, and on Twitter 1.5 million followers.

*The American Red Cross* has accounts on all three social media sites, which they update regularly. In doing so, the provide information about the events they are currently engaged in, world events, provide public education, posts expressing gratitude, and posts containing links to donate. On Facebook *The American Red Cross* has 721,343 followers, on Instagram 40.2K, and on Twitter 2.61 million followers.

*Pencils of Promise* currently holds accounts on Facebook, Instagram and Twitter. They update all three regularly with statistical information on the number of children worldwide without access to education, photos of the children that are now able to attend school due to this organizations efforts, as well as videos relating to current projects, and progress on past projects. Currently on Facebook *Pencils of Promise* has 211,199 followers, on Instagram 162K, and on Twitter 247K followers.

*Crohn’s and Colitis Foundation* currently has a profile on Twitter and on Facebook, but does not currently have an account on Instagram. They update both accounts regularly providing information related to current research, procedures, links to medical articles, and links to donate. Currently on Facebook *Crohn’s and Colitis Foundation* has 131,271 followers, and on Twitter 17K followers (*Facebook, 2016*), (*Instagram, 2016*), (*Twitter, 2016*).
NPOs Website

Based on examination of each of these organizations it was found that each organization does maintain a website. The websites were examined for clarity, information, and links for individuals to donate directly to the organization, as well as links to subscribe.

Currently each of the organizations being examined has an up to date website for their organization. Each website displays the mission statement of the organization in some form, provides information and background related to the organization and its goals, and provides information related to the campaigns that have been successful for the organization. Each of the organizations provide a link to donate within the main interface of their webpage, as well as providing another link on other ways to become involved with the organization and its mission.

_Epic Change and Pencils of Promise are_ the only site that provide the link to their annual reports within the main toolbar of the website. The rest of the organizations do have links to each of their annual reports, but they are not available without searching. Furthermore, each of the websites has the ability to subscribe to more information utilizing an e-mail address.

NPOs Social Media Campaigns

Within each of the NPOs examined one social media campaign was analyzed in order to identify success variables that contributed to the positive outcomes of the campaign. **Epic Change** conducted the social media campaign “Tweetsgiving”, this campaign was launched exclusively on Twitter, and used a simple hashtag and the main premise of gratitude to elicit a donation in honor of what individuals were grateful for. This campaign raised $11,000 in 48 hours (Sumac, 2013).

**Charity Water** launched the campaign “Twestival”, in which contributing to their mission of clean water for every person on the planet was the primary goal. This campaign raised over $250,000 from 10,000 new donors. **The American Red Cross** launched the “Haiti Text Campaign” in response to the earthquake in Haiti and raised an astounding $32 million dollars all via mobile donations. (Sumac, 2013).

**Pencils of Promise** launched their “back to school campaign which used photographs to add a personal aspect to the campaign. This campaign is launching again in the coming months, but its original version raised $110,000 through Instagram. **Crohn’s and Colitis** annual “No go gala” utilized crowd sourcing to raise $375,000 to contribute to furthering research into this debilitating disease. (Sumac, 2013).

Positive Outcomes of Social Media Engagement

Through the analysis of the various campaigns launched by these nonprofit organizations, as well as through examination of their websites, and comparison to literature this study has identified several positive outcomes of engaging effectively with social media. Engagement in social media gives current stakeholders the opportunity to find up to date information more readily, as well as allowing input in a user generated counter face that will allow interaction of prospective stakeholders.

Social media helps to engage donors through campaigning as well as through existing profiles on a variety of social media platforms. This also acts to advertise and disseminate information on behalf of the organization and promote its mission and values. Engagement in social media helps to foster and create relationships with the online community and can foster relationships with other communities—such as in a specific workplace, geographic location, etc.

Use of social media allows for the creation and maintenance of partnerships with other organizations and fuels success, and NPOs who help to advocate for other organizations as mc as or more than their own are more successful (McPhillips, 2014). Social media helps to disseminate information more rapidly and widely, and progress toward the mission of the NPO more often; this increases confidence of members, helps to recruit new members, and fosters external trust in the organization.

Concept Map

Through this inductive analysis of five nonprofit organizations, their current presence on social media websites, and their current maintenance of an individual website a concept map has been created identifying specific success variables within each of the five campaigns examined. Figure 1 displays the social media mediums examined, as well as listing the organizations examined. This figure shows
which media sites each organization is a part of, as well as the number of followers that they have on each website.

Figure 2 displays the five specific campaigns analyzed, how much money they raised. Below this, each campaign was analyzed for four specific success variables related directly to that campaign. The bottom of the figure shows seven overall variables of success that were present in all of the campaigns analyzed.

**Content Marketing**

Content marketing is defined as “a technique of creating and distributing relevant and valuable content to attract, acquire, and engage a clearly defined and understood target audience- with the objective of driving profitable consumer action” (Content Marketing Institute, n.d.). Content marketing is an important concept in making social media campaigns a successful method of raising donations and public support. Most nonprofit organizations do not clearly define a brand within their organization- let alone use this brand to strengthen their public image (Kylander & Stone, 2011). Furthermore, the
majority of nonprofit organizations are not engaging in effective marketing— even though the current economic client forces them to compete for financial resources (Dolnicar & Lazarevski, 2009).

These concepts are both extremely important to achieving success within social media campaigns for nonprofit organizations. The role of branding should not be overstated because it is the public image that draws new members to be interested in the cause and mission of the organization. Without an effective brand or public image, NPOs cannot hope to draw new and lasting members to the organization as donors, or volunteers.

In the current economic climate, NPOs are now competing more than ever for the resources that are donated, as well as for supporters and volunteers for their organization. As such, it is more important than ever for NPOs to consider the role of marketing in their advertising. However, NPOs can look at the role of advertising from a unique perspective, rather than strategically marketing a good or service, they need to effectively market their mission to receive support.

How can NPOs successfully brand and market a mission? Utilizing the concept map, literature, and examination of the organizations a continuum of success was created, this continuum should be followed by all NPOs hoping to gain a support base that not only increases donations, but also increases supporters, stakeholders, partners, and volunteers.

**Continuum of Success**

![Continuum of Success](Image)

Figure 3 shows the continuum of success derived from a combination of the previous literature, as well as from the concept map, and the websites of each organization. This continuum represents necessary concepts for every NPO to adopt in order to obtain success on a social media platform. Determination refers to the purpose of the organization, in line with the values and norms accepted within this sector. This purpose must be firm, ethical, clear, and there must be a commitment to stay resolute in maintaining these values and boundaries at each level of the organization. This builds relationships and maintains the integrity of both the organization and the sector as a whole. Additionally, determination refers to identifying social media presence as a priority within the organization, and as such being determined to dedicate adequate resources to creating and maintaining an online image. NPOs must be active users of their media profiles in order to maintain interest and foster the longer-term relationships that bring repeat donors, and continuous support.

Community refers to the necessity of a community of support and engagement for the organization. Without a community of stakeholders, volunteers, donors, partners, and many others organizations would not be able to function. Maintaining this community is essential and builds relationships and fosters a continued engagement and a lasting network that will maintain an organizations success. A nonprofit must create and foster a community of supporters both through
online and face-face communication. It is extremely important to this sector that this community be able to engage in two-way communication. Many of the failures in utilizing social media come from simply disseminating information rather than creating a two-way dialogue with supporters, which is necessary to fulfill the user-generated content aspect defined as social media.

Intention and continuity refers to the intention of the organization, this must be clear and with that intention there should be a consistency within all levels of engagement. So the intention of the organization should not be different in a different geographic location, this international management is difficult but fosters increased external trust and support of an organization. There must also be a continuity in how the organization interacts with the public, as well as maintains their image and engagement with partners.

Transparency is the single most important success factor, not only in hosting successful social media campaigns, but in continuing to build and strengthen relationships. Transparency is the biggest contributor to the lasting success of an organization, as it is what creates trust within current, and new members. This enhances the ability of an organization to have more effective campaigns, relationships, and to reach a variety of goals without its underlying cause being questioned. Transparency comes from an honest availability of information relating to the organization. This includes a mission statement that is clear, goals that are clear, available annual reports, the ability to donate, an outline of where the money donated goes, as well as progress reports on what the organization is doing, and its future goals. Without transparency, individuals will lose trust in an organization, and will move their support to an organization that provides them with information, education, and honest updates on progress, as well as organization values, etc.

Discussion

The theoretical implications of this research are important, and may have a significant contribution to how nonprofit organizations utilize social media profiles, websites, and campaigns to ensure success for their organizations in the future. NPOs can now target campaigns to include the concepts outlined on the continuum of success, utilize the overall tips for success outlined in the concept map, as well as utilize the facts from the aforementioned study to tailor their campaigns to target populations. Moving forward NPOs need to consider the role of brand, and strategic content marketing within their social media profiles, and specific social media campaigns in order to give them the best chance of success-defined as gaining revenue, as well as partners, stakeholders, and volunteers.

The limitations of this study include that the social media sites examined were limited to Facebook, Instagram, and Twitter, and did not include other social media sites such as YouTube, Tumbler, and Flicker. Furthermore, this study only examined five nonprofit organizations, and only one campaign from each organization, it did not compare and contrast the different campaigns launched by the same organizations and thus, is not transferrable to all social media campaigns. Additionally, this study examined five nonprofit organizations that had an existing reputation when launching their campaigns, and did not examine how a relatively new nonprofit organization can best gain followers before launching a social media campaign.

Further research would be indicated in conducting a study that collects primary data from individuals asking whom they donate to and why they decided to donate to a particular organization. This primary data could then be correlated with the concept map and continuum of success drafted here in order to create a more comprehensive version of the success variables that are essential to nonprofit marketing in social media.

Conclusion

Overall, this study examined the role that social media plays in the success of nonprofit organizations. It further went on to identify success variables that were specific to the examined campaigns and utilize those to create overall success variables and draft the continuum of success. Social media is an ever-growing platform in which organizations can utilize the reach and rate of information dissemination to reach more individuals and have a larger impact. This study identified ways in which nonprofit organizations can utilize social media to their best advantage, using content marketing, branding, and targeted campaigns to create the most effective overall impact on potential donors. The nonprofit sector helps to foster civil engagement, social capital, and inform public policy through education and public involvement.
The nonprofit sector is still rapidly growing, and the advent of social media has made a unique opportunity for this sector to capitalize on the full potential of social media in order to create long-term relationships with potential donors and stakeholders. While it is often believed that the majority of NPO funding comes from government, smaller NPOs often rely heavily on individual donation, investment, and nongovernmental sources of income. As such, nonprofit organizations need to dedicate the proper resources to the management of an online presence for their organization.

The rapid diffusion of social media has boosted more than ever the ability of NPOs to engage with larger audiences, as well as have the ability to continually draw new audiences and this can be a very effective method of maintaining financial support.

This article represents a focus on how NPOs can be successful in utilizing social media campaigns. Five nonprofit organizations were examined, and an inductive qualitative analysis was done to identify variables that created positive outcomes for the NPOs based on their specific social media campaigns. Limitations and recommendations for further research have been discussed. It is important to define success within the nonprofit sector not only as raising revenue, but also as increasing awareness related to the organizations cause, and to increasing engagement of the public and volunteers within the organization. This article provides a forward movement in identifying how NPOs can create more successful campaigns, and engage with the public in a more effective way as they move forward with their social media campaigns.
References


Impact of Box Stores on Localized Economies and Nearby Competing Retailers; Case Study of Toronto, Canada

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Abstract

The impact that big box stores can have on nearby retailers and communities has been subject to considerable contention. Whether the presence of box stores, both in numbers and size, is beneficial to communities with respect to added revenues versus potential retail and commercial losses from competition is of interest in this study. This study also examines some of the impacts that box stores have on communities when they convert to a supersize format. When a box store increases significantly in size and extends the range and depth of the goods and services offered it seems reasonable to suggest that it can noticeably amplify its impact in a region. This study is unique in that it examines the localized impact of four Walmart stores in Toronto, Canada over a 10 year period ending in 2011. All four of the stores opened as supercenters in 2006 and five years of data prior and after their opening is analyzed.

Three types of location are examined with respect to Walmart stores: Inner city, suburban, and exurban. This study also examines two formats of Walmart stores, those that opened as a supercenter and those that converted from discount to supercenter format. It is found that where a Walmart is located does affect to what extent it might adversely impact a community. In this study, retailers that are located near an inner city Walmart experienced the most closures. This adverse impact is somewhat less evident around suburban Walmart supercenters and least evident in the case of an exurban supercenter. As one moves from the inner city outwards the impact of Walmart stores on nearby competing retailers seems to dissipate. On a positive note, a Walmart that is located in the inner city generates the greatest potential tax revenues for local governments followed by those stores located in the suburbs, exurbs, and then rural areas. Finally, when a Walmart converts to a supercenter format, it does significantly amplify its impact in a community, both positively and negatively.

Keywords: Walmart, Toronto, retail, store, supercenter

Introduction

The purpose of this study is to examine the impact of selected Wal-Mart supercenters in the Greater Toronto Area (GTA). The study area is a highly populated Canadian metropolitan area with varying degrees of urban development. It is hypothesized that the Walmart supercenters identified in this study have adversely impacted retailers operating near them. It is also believed that the opening of the identified Walmart supercenters have positively impacted property values at each site. The locations of the four supercenters are shown in Figure 1.

The four Walmart stores being studied are within the Toronto CMA, which has slightly more than 6 million people and anchors a broader and fast growing urbanized area (called the Greater Golden Horseshoe) approaching 9 million (Statistics Canada, 2015a; Statistics Canada, 2015b). The four Walmart stores being studied were selected for their location attribute. One store is located in an exurban location, the town of Stouffville. Two stores are located in suburban locations, they being Brampton and Vaughan, and one store is located in the inner city, and identified as the Scarborough store (Figure 1).
Examining the identified stores by geographic area should be useful to understanding if box store impact on nearby retailers varies by location. Of other interest, two of the stores were converted from discount to supercenters in 2006 (the Brampton and Vaughan stores) and the other two (Stouffville and Scarborough) were opened as supercenters in 2006. As such, this study will explore whether converting a box store from discount to supercenter format has any added impacts on nearby retailers. It should be noted that few studies examine the impact of big box stores in the inner city. Walmart has announced for some time now its desire to open inner city stores. In spite of this, there are only a handful of Walmart stores located in the core of large North American cities. While this situation is probably hindered by income, transportation, and crime, to name a few, the Scarborough store identified in this study is very much located in a middle-income, densely populated neighborhood which is relatively safe and accessible by public transportation, hence the reason why Walmart probably chose to open at this site. Finally, it should be noted that this study would not have been possible without extensive longitudinal field work. Reconnaissance of retail activity on the ground on a yearly basis over a 10 year period spanning from 2002 to 2011 was obtained.

Figure 1. Location of Walmart stores in Brampton, Stouffville, Toronto, and Vaughan

Background

Recent decades in North America have seen dramatic shifts in the composition and type of retailing formats that exist in urban, suburban, and rural locations (Graff, 1997). The emergence and hegemony of large retail chains such as Wal-Mart, Home Depot, Best Buy, Costco, and Toys R’ Us have become commonplace in most commercial areas. Leading the structural change in the retail industry, Wal-Mart has grown from a small general merchandise discount retailer in the southern United States into a large multinational firm that operates in three segments: Wal-Mart US, Wal-Mart International, and Sam’s Club. In addition, the company employs over two million people and operates outlets in various formats in over 15 countries internationally (Reuters, 2015). Despite the expansion of Wal-Mart and other large retail chains, it is contentious as to whether these retailers provide wide scale benefits to their local or regional economies.
The prevalence of discount retailers - and Walmart alone - has undoubtedly altered the composition of the retailing industry. Sales in discount-retailing now outperform those in the entire retail industry (US Census Bureau, 2007). Furthermore, the success of large chain discount retailers (and other big-box retailers) and the pressure they exert on other related businesses are often tied to the demise of the contemporary shopping center (Hernandez & Simmons, 2006). Moreover, concentration in the retail industry is a concern in that the number of non-chain retailers has declined by 55 percent since the opening of the first Walmart (Basker, 2007). Retail chains with more than 100 stores have more than tripled in the United States (Basker, 2007). Research on the implications of Walmart stores has produced various results and despite the negative connotations that are associated with box stores in contemporary media, findings have suggested that not all impacts from the retail giant are negative (Hausman & Leibtag, 2007; Stone, 2003). Various studies have noted that the effect of a nearby mass merchandiser can actually aid some small retailers by acting as an anchor and attracting shoppers to them (Stone, 2003; Renkow, 2005). It has also been argued that the opening of Walmart stores can create significant increases in tax revenues for the host region (Hicks, 2007).

Other researchers have identified changes, both positive and negative, with respect to retail turnover, sales, gross leasable area (GLA), and property values to gauge the impact that box stores, such as Walmart, can have at the local scale (Hicks, 2007; McGee & Gresham, 1996; Stone et al, 2002; Stone, 1989). Stone (1997) provides one of the earliest studies on the regional, economic leakage effects caused by Walmart stores. He was able to document the phenomena by examining the impact of Walmart stores on small Iowa towns. He found that the smallest and least able communities are the most impacted, losing half their retail in a 13 year period (Stone, 1997). Prior to this study, outcomes were being studied from a more endogenic perspective, as evident in the work of Keon et al. (1989). They examined the impact of Walmart stores within, rather than between, counties and from an endogeneity perspective, not accounting for per capita retail and other growth. Still, it has been argued that small town America has been hurt by stores like Walmart as evident by boarded-up downtowns, declining sales for small independent retailers, and a milieu of erosive factors that depress the socio-economic environment of communities (Freeman, 2003). The extent to which this outcome is true cannot be attributed to Walmart alone, but to the collective impact of chain stores and the exceptional retail economies of scale that such stores and that of online retail giants possess.

While the vast majority of research on Walmart has concentrated on counties and small towns, understanding the location and impact of box stores in large cities at the neighborhood scale can provide additional insight. We do not know if box stores have the same type of impact in large cities as they do in small towns and exurbs. One of the only studies undertaken in a large city is with respect to Chicago (Merriman, et al., 2012). In the Austin neighborhood, northwest of the downtown core, there were 306 businesses in the neighborhood in 2006 before Walmart entered. Two years after Walmart’s entry, 82 businesses closed (Merriman, et al., 2012). Interestingly, the closer a business was to the Austin Walmart the more likely it would close (Merriman, et al., 2012). In fact, for every mile closer to the Walmart, 6 percent more stores closed. Bear in mind that in a rural location proximity to Walmart store can be advantageous. Though sales-tax revenues and employment both increased shortly after the Chicago store’s opening, these two economic indicators declined 2 years afterwards and to the extent of negating all earlier growth (Merriman et al., 2012). Additional evidence elsewhere shows that for every Walmart job that is created there is a loss of 1.4 retail jobs elsewhere in a community and that retail earnings across a county decrease by 1.5 percent (Neumark, et al., 2005).

The small numbers of Walmart stores that are situated in the core of large North American cities can be attributed partly to two factors: (i) a reluctance of large cities to entice Walmart to inner city locations and, arguably, (ii) Walmart’s low aspiration to situate into such areas. In spite of the slow movement of Walmart stores into the core of large cities, one contribution that supercenters can provide are groceries in an area that might be a food desert (Ivey, 2014). Though the supercenter store is not a new construct of Walmart, for the most part it is a suburban, exurban, and rural-based edifice. As such, understanding the phenomena as it enters the highly urban landscape represents an area of emerging research.
It is contended that Walmart stores can adversely impact small businesses and Mom and Pop type stores. Boyd (1997) argues that Walmart early on was able to dominate its competitors, particularly small stores, by pressuring suppliers to give Walmart unequal pricing advantages. Walmart’s sheer size gives it economies of scale advantages and associated supply chain leverage that small, independently operated stores cannot capitalize upon. It is this unequal footing in the market place between big box stores versus small store operators that can create unease among retail competitors when Walmart enters new locations/markets. Gereffi and Christian (2009) would argue that this concern is real in face of Walmart’s potential for eroding downtown retail in addition to being able to reduce wages, lower prices, and shift consumer behavior in regions. The hidden costs that are often overlooked when Walmart enters an area, according to Bonanno and Goetz (2012), are the local services that are eroded in favor of external supply chains and support services, some of which are overseas. It has been argued that large retailers like Walmart still create significant externalization of support services due to a leakage of decisions, profits, and corporate services to the principal corporate headquarter (Bonanno and Goetz, 2012).

Hicks (2007) found that Walmart significantly increases local commercial property tax assessments, sales tax collections, and labor force participation. On the other hand, Hicks (2007) also found that the presence of a Walmart dramatically increased government assistance claims, the extent to which depended on if it was a discount store or supercenter. However, Johnson et al. (2009) examined the effect of Walmart’s entrance on residential property values in five Colorado communities and found that proximity to a Walmart decreases property values as a result of increased traffic, noise pollution, and garbage.

Basker (2005) examined the effect of Walmart on employment in 1,749 counties over a 23 year period and concluded that this retailer has a small positive effect on retail employment at the county level, though reducing the number of small retail establishments. After a Walmart supercenter enters a community the estimated effect on employment is thought to be zero (Basker 2005). Walmart’s entry into an area is not only about whether it impacts or benefits small retailers, but also how it increases the barriers of entry to new retail opportunities (Baum, et al., 2009).

**Methods**

Data collected for this study was collected from two primary sources. Information on the number of retail and commercial establishments operating within a 3 km buffer of each Walmart store was collected by field work and housed at the CSCA (2015). The number of store vacancies within each area was also collected by field work and housed at the CSCA (2015). Property assessments for each Walmart location were collected from municipal property assessment corporations, MPAC (2015). Conducting field work on a yearly basis from 2002 to 2011 involves substantial longitudinal resources as trained personal are continually required to undertake accurate and comparable visual observations over a lengthy period of time. The location of the stores and the extent of their buffers are shown in figure 2.
The stores chosen for this study were partly selected because they opened as supercenters in 2006. This made it possible to attain five years of data before and after each of them opened as a supercenter. The name, address, closing date, and North American Industry Classification System (NAICS) was collected of commercial establishments within each buffer and ascertained from the CSCA (2015).

Using buffers to assess the local impact of box stores will vary by study and there is no universally agreed upon notion of what distance best captures ‘local’. For example, one study that examines an inner city Walmart uses a comparable buffer of 3 miles when examining box store effect (Merriman et al., 2012). One of the difficulties with measuring the socio-economic impact of any big box store in a highly urbanized location is being able to separate exogenous forces in a highly complex commercial, urbanized environment. If too big a buffer is used then the impacts are washed out by other exogenous factors.

Yearly property assessments are given from 2002 to 2011 in Canadian dollars (MPAC, 2015). The province of Ontario’s property assessments are collected and reported by MPAC or the Municipal Property Assessment Corporation. MPAC administers a uniform, province-wide property assessment system based on current value assessments in accordance with the province’s Assessment Act.

**The Walmart Effect**

This study examines the impact of four Walmart stores that opened as supercenters in Toronto, Canada in 2006. These stores are situated in Brampton, Scarborough, Stouffville, and Vaughan (Figure 1). These stores had a clear and positive impact on property assessments for each location (Table 1). The Stouffville store provides a good illustration of what happens when Walmart opens in an exurban location. Land values are typically cheaper at such locations as evident in this study. Prior to Walmart’s opening the immediate property area was assessed at $388,000. After the store opened its property assessment quickly increased to $4.8 million. Though it did decline a year later, perhaps due to pressure by Walmart on the local government for a better tax rate. This is not an unusual tactic by big box stores once they open, particularly in more rural and exurban locations where they can use their clout. Though
the Stouffville store managed to lower its property assessment shortly after opening, property values have been increasing nonetheless (Table 1).

**Table 1: Property assessments by Walmart location in Toronto, Canada in millions of dollars**

<table>
<thead>
<tr>
<th>Supercentre Location</th>
<th>2002</th>
<th>2003</th>
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<tbody>
<tr>
<td>Stouffville (New Supercentre)</td>
<td>.388</td>
<td>.388</td>
<td>.388</td>
<td>.388</td>
<td>4.87</td>
<td>1.59</td>
<td>2.59</td>
<td>2.74</td>
<td>2.74</td>
<td>2.89</td>
</tr>
<tr>
<td>Brampton (Converted Store)</td>
<td>20.16</td>
<td>27.07</td>
<td>27.21</td>
<td>27.21</td>
<td>30.14</td>
<td>34.58</td>
<td>34.58</td>
<td>34.58</td>
<td>42.6</td>
<td>42.6</td>
</tr>
<tr>
<td>Vaughan (Converted Store)</td>
<td>10.60</td>
<td>10.60</td>
<td>14.75</td>
<td>14.75</td>
<td>24.69</td>
<td>24.69</td>
<td>24.69</td>
<td>31.52</td>
<td>39.8</td>
<td>39.8</td>
</tr>
<tr>
<td>Scarborough (New Supercentre)</td>
<td>7.63</td>
<td>10.01</td>
<td>11.24</td>
<td>13.91</td>
<td>18.62</td>
<td>68.16</td>
<td>41.91</td>
<td>45.41</td>
<td>57.6</td>
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</tbody>
</table>

Source: MPAC, 2015.

The Brampton store, which was already a discount store prior to 2006, did not experience an equal increase in property assessments after 2006 due to its Walmart legacy. Still, because this store is located in one of Toronto’s fastest growing suburb’s its property assessment was significantly higher compared to the exurban Stouffville store (Table 1). The Brampton store was assessed 20 times higher than the Stouffville store (Table 1). Since the Brampton store is in a desired location and in a large thriving urbanized area, it is unlikely to get the same kind of tax breaks as a more exurban located store, such as Stouffville. This certainly seems to be the case when one examines the most urban-based Walmart in this study, the Scarborough store. Property assessments were highest for this store location. A declining land rent curve is apparent from the property assessments as one moves from inner city to exurban locations. Another unique attribute of the Scarborough site is that its property assessments dramatically increased after Walmart opened at the site in 2006, increasing from around 18 to 68 million dollars in 2006 to 2007, respectively.

Overall, it is apparent that local governments benefit from attracting Walmart supercenter(s) to their jurisdiction with respect to property taxes. This is partly supported by data shown in Table 1, which helps explains why local governments and counties are eager to seek-out box stores than chance having a neighboring community or county benefit from accruing any added tax revenues.

Though tax revenues appear to benefit local communities that attract a Walmart store, the impact is less optimistic with respect to nearby competing retailers. In this study, only one of the four Walmart stores (identified in Table 2) showed an increase in the number of retailers operating nearby (or within a 3kms buffer). That location being Stouffville, the least urbanized location. Since this store is in an exurban location it has likely created retail growth nearby. However, the extent to which this growth will continue is hard to surmise. Unfortunately, the growth identified at the Stouffville site does not come close to offsetting declining numbers of commercial establishments at the other three locations. For example, the Scarborough store, which is located in the inner city, showed the greatest decline in competing retailers. There were 505 commercial establishments located near this Walmart in 2005 before the supercenter opened (Table 2). Five years later there were 100 fewer commercial establishments operating nearby (Table 2). A decline in the numbers of nearby retailers to the Walmart stores identified in this study coincided with increased store vacancies. The number of store vacancies at the Scarborough site increased from 38 in 2006 to 53 in 2011. Similar, but less dramatic, patterns are evident for the remaining two Walmart stores located in Brampton and Vaughan (Table 2). As with the property assessments, there is a spatial pattern to the findings. The most urbanized Walmart stores (such as Scarborough and Brampton) are witnessing the greatest declines in numbers of competing, nearby retailers and those that are situated in less urbanized locations (such as Vaughan and Stouffville) are not as affected.
Three retail sectors that compete directly with Walmart are Clothing, Grocery, and General Merchandise. When Walmart enters a community it is expected that these sectors will decline. In the case of the Scarborough store this is the case. All three sectors showed significant decline after Walmart opened in 2006 (Table 3). To what extent this can be attributed to Walmart or other exogenous forces requires further study. In all likelihood there has been a Walmart effect on retailers nearby.

**Summary**

This study examined the impact of four Walmart stores in Toronto, Canada from 2002 to 2011. All four stores opened as supercenters in 2006 thereby allowing for retail and property assessment trends before and after they opened. The four stores are located in Stouffville, Vaughan, Brampton, and Scarborough. These stores are unique in that one is located in the inner city (Scarborough), two in the suburbs (Brampton and Vaughan) and one in the exurbs (Stouffville). Two of the stores converted from discount to supercenters (Brampton and Vaughan) while the other two opened as supercenters in 2006.

It was found that all four stores generated higher property assessments/revenues for their local governments. In the case of the Stouffville store, being in an exurban location, property values were low for this site due to its location and prior to the stores opening, but increased considerably afterwards. Interestingly, a property reassessment occurred a year after for Walmart at the Stouffville (exurban) site. Something that box stores are reportedly apt to seek shortly after they open and for the purpose of generating lower property taxes. Overall, the closer a store was to the metro core the more likely a municipality could seek revenues from property assessments. The two stores that converted from discount to supercenters in 2006 also generated notably more in property assessments after they converted.

Impacts on nearby retailers varied by location. When observing commercial activity within a three kilometers buffer around each Walmart store it was found that numbers of retail and commercial establishments decreased more significantly if they were situated in a study area that was closer to the metro core. Another pattern also evolved with respect to store vacancies. They increased more rapidly

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**Table 2:** Number of retail and commercial establishments operating and store vacancies within 3kms of a Walmart location in Toronto, Canada

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
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<tr>
<td><strong>Brampton Walmart</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td># of Establishments</td>
<td>118</td>
<td>114</td>
<td>103</td>
<td>98</td>
<td>95</td>
<td>95</td>
<td>92</td>
<td>82</td>
<td>81</td>
<td>77</td>
</tr>
<tr>
<td>Store Vacancies</td>
<td>24</td>
<td>20</td>
<td>12</td>
<td>7</td>
<td>7</td>
<td>4</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td><strong>Vaughan Walmart</strong></td>
<td></td>
<td></td>
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<td># of Establishments</td>
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<td>228</td>
<td>228</td>
<td>218</td>
<td>220</td>
<td>217</td>
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<tr>
<td>Store Vacancies</td>
<td>7</td>
<td>8</td>
<td>12</td>
<td>11</td>
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<td>12</td>
<td>17</td>
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<tr>
<td><strong>Scarborough</strong></td>
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<td># of Establishments</td>
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<td>505</td>
<td>505</td>
<td>431</td>
<td>434</td>
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<td>411</td>
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<td>Store Vacancies</td>
<td>50</td>
<td>42</td>
<td>49</td>
<td>38</td>
<td>38</td>
<td>41</td>
<td>52</td>
<td>58</td>
<td>53</td>
<td></td>
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<tr>
<td><strong>Stouffville Walmart</strong></td>
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<td># of Establishments</td>
<td>27</td>
<td>30</td>
<td>20</td>
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<td>28</td>
<td>37</td>
<td>37</td>
<td>40</td>
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<tr>
<td>Store Vacancies</td>
<td>9</td>
<td>11</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>6</td>
<td>7</td>
<td>6</td>
<td>5</td>
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</tbody>
</table>

Source: CSCA, 2015.

**Table 3:** Number of establishments operating within three kilometers of the Scarborough Walmart by key retail sectors

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clothing</td>
<td>88</td>
<td>86</td>
<td>80</td>
<td>78</td>
<td>64</td>
<td>67</td>
<td>60</td>
<td>57</td>
<td>52</td>
<td>49</td>
</tr>
<tr>
<td>Food and Beverage</td>
<td>36</td>
<td>37</td>
<td>35</td>
<td>35</td>
<td>28</td>
<td>29</td>
<td>24</td>
<td>25</td>
<td>25</td>
<td>24</td>
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<tr>
<td>General Merchandise</td>
<td>22</td>
<td>21</td>
<td>25</td>
<td>25</td>
<td>21</td>
<td>22</td>
<td>20</td>
<td>19</td>
<td>18</td>
<td>16</td>
</tr>
</tbody>
</table>

Source: CSCA, 2015.
in those study areas that are closer to the metro core and noticeably less in the exurb. When observing the inner city site, the most impacted in this study, it was found that key retail sectors had fewer stores after Walmart opened in 2006.

Bibliography


Fashion Involvement of the First Time Mother: Online Consumption or Face to Face Consumption

Iris Gertner Moryossef, Hadassah Academic College, Israel

Becoming a mother for the first time - behavior and demographic characteristics

Transitions in life separate the person from the key role to which he was accustomed, and engage him in creating new roles to fit the gaps. The individual will begin to formulate possible selves and to envision himself as he might possibly become (Markus & Nurius, 1986). The mother's new selves struggle with serious questions such as, what kind of mother do I want to be? Or, will I be a good mother? What is a good mother? And, will I be able to balance my new work and life with my new role as a mother? (Banister & Hogg, 2006).

Demographic changes were seen over the last two decades in Israel regarding the mother's identification. The new mother is older (27.7 years of age on average) and more educated (45% up to college education).

Consumption often expresses who we are and, according to Thomsen and Sorenson (2006), there is a relationship between symbolic consumption and personal role transitions. Roles of uncertainty, achieving the ideal self, and assisting in creating an ideal new role are a few of consumption's target and significant objectives (Thomson & Sorenson, 2006).

These roles of consumption during the transition to motherhood often enhance the clothing and other baby products as an important issue of new mother's behavior reflecting her self-esteem, especially the married mother (Gertner Moryossef, 2014). Samson, Mehta & Chandani (2014) find that for customers buying a car, the internet has a more positive and impressive influence on decision-making than does television or print media or word of mouth media. The positive impact of the internet was also shown in the study by Dai, Forsythe, and Kwon (2014) where early positive online knowledge has a positive impact on the customers’ purchasing and also in high involvement products (high perceived risk products).

Due to the fact that baby’s goods are high involvement products for the first-time mother (Gertner Moryossef, 2014), the first source of information is family and friends while salespersons and the internet are secondary sources for the mother's decisions (Senecal & Nantel, 2004; Guy, Park & Konana, 2011).

Preliminary research (O'Cass & Choy, 2008) demonstrated a significant relationship between fashion involvement for the baby's clothes and demographic parameters including education (negative influence), price perception, self-confidence, and media usage (positive influence) with variables like age, income, and marital status having no influence on the fashion involvement of the new mother in her baby's clothes (Gertner Moryossef, 2014).

The present research aimed to examine the digital consumption of baby clothes by the new mother.

Methodology

The empirical research involved qualitative group interviews with two groups of partnered new mothers. The interviews were recorded and transcribed verbatim. The mothers’ group was comprised often first time mothers aged 24-37 with their first child aged 6-18 months.
The first group included five mothers (Dorit, Sharon, Gal, Maayan, and Shira) with their first child aged eight to ten months, and the second group included four mothers (Rachel, Odelia, Efrat, and Rinat) with a new baby one to two years of age.

The participants included mothers living in different households with diverse incomes.

Results

Figure No 1: Participants’ description

<table>
<thead>
<tr>
<th>Participant</th>
<th>Group A (babies aged up to 1 year)</th>
<th>Group B (babies aged between 1-2 years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mother's age</td>
<td>34 29 27 30 26</td>
<td>25 24 26 37</td>
</tr>
<tr>
<td>Baby's age (months) and gender</td>
<td>9 m girl 5 m girl 5 m boy 7 m boy 15 m boy</td>
<td>17 m girl 18 m girl 14 m girl</td>
</tr>
<tr>
<td>Mother's income compared to the average</td>
<td>High Average High Low Low Low High High</td>
<td></td>
</tr>
<tr>
<td>Mother's marital status</td>
<td>Solo mother Married (cohabiting relationship) Married Married Married Solo mother</td>
<td></td>
</tr>
<tr>
<td>Mother's education</td>
<td>High school 2nd degree 1st degree High school education High school education High school education 1st degree 1st degree</td>
<td></td>
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</table>

The findings (Figure no. 1 above) suggest that the new mother seeks and shares information using the web but hardly buys online. Regardless of her demographic variables the new mother goes to the store to see the clothes and decide what to buy. The experience of buying the first clothes must be face to face in the traditional way and the new mother does not want to miss it.

Consumption was not related to the baby's age as mothers from the first and the second group (baby's age younger and older than one year) had the same consumption behavior.

Based on Bar Zuri (2009), Punj (2011), and Kutucuoglu, Arikan Saltik, Firat, and Tuncel (2013) online consumption more commonly typifies the younger consumer (aged 18-25) who is more innovative, less suspicious of giving their credit card, and are more sensitive to time. Still, in this study no relationship between the new mother's age and online consumption behavior was seen, and young as well as older mothers preferred traditional consumption.

Online consumption is conspicuous consumption categorized as consumers having identities through products and goods. They are “consume now”, and characterize themselves through consumption, use consumption to be happy and to advertise what they have (Wang & Griskevicius, 2014).

In fact, modern fashion consumption refers to “you are what you wear” (Kutucuoglu et al., 2013; Belk, 2014). The new mothers use baby clothes to identify themselves as “perfect mothers”.

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It was interesting to see that solo mothers, on the other hand, are less self-consciousness and less influenced by the opinions of those around (Bock, 2001; Banister & Hogg, 2006; Gertner Moryossef, 2014).

**Discussion**

The above themes obtained from the interviews point to the fact that the new mother is highly involved in baby fashion. She treats clothing as symbolic items, positioning her as a perfect mother and is deeply influenced by web sites and the internet.

Since the higher the involvement indicates more media usage and more time the consumer will dedicate to viewing advertising (O’Malley, 2006; Zaichkowsky, 1986) it is logical to suppose that new mothers will use the internet to share information to gather conclusions and to share from their experience, but they will not miss the experience of buying the first baby's clothes face-to-face.

Results indicate that solo mothers are more price perceptive, and partnered mothers are more publicly self-conscious, but both solo and partnered mothers are similarly and highly involved in clothing for their first child.

Both solo and partnered mothers have high involvement in fashion clothing but the more educated the mother is and the older she is, the lower is her involvement (O’Cass 2002, 2004).

For the new mother clothing for the baby is symbolic in terms of status and the importance of positioning, so looking on the web site for the latest trend or the outfit celebrities are wearing is essential if mothers want their baby to be fashionable (Belleau, McFatter, Summers, Yingjiao, Xu, & Garrison, 2008). Still, the buying decision will be at the store because this is a new product, a new experience, and she treats shopping as participation in the new and enjoyable job of her new role as a mother.

Marketers in the baby clothes segment should be aware of the fact that information must be shared using the web forums and blogs but the main decision will be made at the store. These findings suggest that marketers advertise all the information on the web, but allow the new mother to use a coupon or other sales promotion to go to the store personally to buy the clothing.

It will be of interest to examine the consumer behavior of the new mother after her new born is older (more than 2 years) or to explore her buying consumption procedure for the second baby.

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Theoretical Exploration of Selected Corporate Governance Challenges

Najla Podrug, University of Zagreb, Croatia
Davor Filipović, University of Zagreb, Croatia
Lara Jelenc, University of Rijeka, Croatia

Introduction

Corporate governance denotes ‘the relationships among the participants in determining the direction and performance of corporations’ (Monks and Minow, 2001). It tackles the intrinsic nature, purpose, integrity and identity of the corporation, as well as its strategic direction, socio-economic and cultural context, externalities and constituencies (Tipurić, 2008, 2011). Governance processes operate at multiple levels, which is reflected in definitions of corporate governance. Narrow meaning refers to the governance of the corporation in the interest of dominant stakeholder groups (usually the shareholders), raising the issues of board structure and performance, executive compensation, disclosure and accountability of management to shareholders (including the minority ones). Broader meaning of governance denotes legal and habitual frameworks defining corporations and governing the pursuit of business within society (Hendry, 1998a), and involves a more extensive concept of accountability to stakeholders. Despite the prevalence of the former approach in research and policy, governance failures of particular corporations in developed economies and the difficulties of Central and Eastern European countries to build effective corporate governance regimes provoke questions whether these problems should solely be attributed to the shortcomings of particular individuals and corporations, or whether they are symptoms of more systemic governance failures.

Agency theory dominance

The dominant paradigm of governance research and policy is agency theory (Jensen and Meckling, 1976; Fama, 1980). It views the relationship between shareholders and managers as a principal-agent problem whereby agent’s behaviour is derived from a set of assumptions, including opportunism, bounded rationality and maximisation of economic utility, which require monitoring and result in agency costs. Corporate governance thus becomes a regulatory process linked to the view of the firm as a nexus of private contracts. When the firm is viewed as a creation of private contract, outside influences, such as regulation and stakeholder pressures, require further justification and can only exceptionally override the firm’s autonomy in the pursuit of instrumental business goals. Shareholders are given a special position as principals and ‘residual claimants’ whose claims are contingent upon satisfaction of the contractual or legally enforced financial claims of other stakeholders (suppliers, employees, creditors and the state). Higher risk of their claims justifies higher expected returns, and the primacy of the shareholders’ interests expressed through their monitoring prerogatives over managers.

Effectiveness of this approach depends upon a combination of regulation and financial markets as external disciplinary mechanisms that should ensure partial transparency of crucial corporate practices and enable shareholders, analysts and other relevant actors to monitor company (financial) performance (Podrug, Filipović & Milić, 2010). The underlying intuition is that managerial accountability can best be ensured by arms-length governance mechanisms that are as specific and enforceable as possible. Board of directors - an institution whose members are appointed (predominantly) by particular shareholders, but representing the company as a whole - should mediate the requirements of external bodies and the strategies/policies enacted by corporate management. Governance mechanisms should be treated as performance-enhancing.
constraints to managerial autonomy to control information on the company or disregard obligations to the company and stakeholders in general and shareholders in particular (Podrug, 2010). Among these mechanisms, laws, codes and contracts specify enforceable rules, whereas financial markets generate performance expectations that need to be met. In both cases, non-compliance results in sanctions, enforced either by regulators and the judicial system, or by financial markets (i.e. decrease of share price and/or deterioration of credit rating\(^1\)). The result is a system based on external market mechanisms (markets for managerial labour and corporate control).

The dominant paradigm has made important contributions to the public advancement of governance issues, and to the specification of instruments of corporate governance, particularly in Anglo-American countries, but also including the current global standard – OECD Principles of Corporate Governance. However, its empirical evidence has been equivocal (Hendry, 1998b). Moreover, analysis of its assumptions, principles, instruments and outcomes leaves it uncertain whether it can achieve its specified objectives (including the accountability of managers to the shareholders), let alone ensure effectiveness of the corporate governance regimes.

The dominant approach to governance primarily oriented towards arms-length control assumes that corporate governance becomes effective through hierarchical and market-based control mechanisms that limit managerial self-seeking behaviour through individualising processes and effects of accountability (Tipurić, 2011). That leads to the disregard of ‘system effects’ (Jervis, 1998) which may involve legitimising and even advancement of the very self-interest which was supposed to be curtailed, as well as underestimation of actual correspondence of interests of managers, directors and shareholders. The remedies offered for the curtailment of self-interested opportunism have fed the very mentality they have seemingly sought to control: explicit linking of individual executives pay with the performance of units they manage (through stock options and bonuses) has been associated with bidding up levels of senior executive pay (Tipurić, 2008). As for the actual congruence of interests between shareholders and executives, it occurs through the joint interest in increased stock price, and may be further reinforced by the collusive relationship between the board and senior executives. Although a degree of congruence is conducive to effective governance, it may also occur at the expense of the interests of other stakeholder groups or long-term organisational capabilities (cf. Froud et al. 2000). Since it views the company as a creation of private contract and treats stakeholders instrumentally, the dominant paradigm does not enable mechanisms that could restrain the effects of collusion between managers, directors and/or shareholders on the company and its less powerful stakeholders (apart from the improvement of position of minority shareholders). This contributes to underdevelopment of socialising forms of accountability – both within the board and in relationships with key stakeholders – and the neglect of trust-building they can facilitate (Podrug, 2010).

Corporate governance, as it is viewed and practised nowadays, mainly pertains to the publicly traded companies, which severely limits its scope in bank-based financial systems whereby the stock market plays an ancillary role in corporate finance, and the takeover threats are rare because of concentrated ownership structures. That leaves most large companies in such countries outside of an effective corporate governance umbrella. Although the principal-agent relationships may not pose particular challenges in this context, the issues such as disclosure and transparency of corporate practices, and the treatment of minority shareholders and other stakeholders, remain largely unresolved. Inadequate regulation and/or ineffective judicial systems, as it is witnessed in many transition countries of Central and Eastern Europe will further reinforce these problems. In other words, reliance on market-based modes is inadequate in the absence of markets for corporate control and a comprehensive and effective legal system that would enable efficient redress mechanisms.

\(^1\) Both of these conditions make access to capital more expensive; the former also increases the threat of replacement of current management and/or (hostile) takeover.
Formation of markets necessary for corporate governance in the conventional sense needs to be addressed. Hereby the distinction between any exchange between operationally autonomous actors and organised and institutionalised exchange entailed by actual markets should be emphasised (Cao, 2010). Institutional and conventional characteristics of markets shape actors’ expectations, influence behaviour and can serve as a basis of trust. They include the definition of products, formation and publication of prices, establishing contacts among actors, definition of bargaining conventions, standardisation of contracts, norms, codes of conduct and contract enforcement procedures. The absence of such elements does not necessarily preclude exchange from taking place, but it is likely to increase costs of such fragmented exchange. The conditions where fragmented exchange prevails are linked to specificity of the exchanged resources and/or emergence or paradigmatic technological or institutional shifts. Unlike fragmented exchange systems, where obtaining relevant information is difficult, institutionalised markets promote the reduction of transaction costs and increase accountability of their participants through conventions, norms, codes of conduct and legal institutions. Legally and professionally defensible practices can be established and defended more easily when the information on the actors’ behaviour can be juxtaposed to some standards. Economically, socially or environmentally unsustainable practices are more easily disputed in markets than in fragmented exchange systems. Idiosyncratic transactions and the lack of applicable standards make the formation of markets as foundations of corporate governance quite difficult.

**Systemic governance deficit**

Defining corporate governance in terms of an instrumental relationship between shareholders and managers leads to an overemphasis on the governance of the corporation, which is defined too narrowly. The corporation is viewed as a closed system with predetermined objectives whose relationship with the environment is reduced to strategic communication – predominantly with current and potential investors. Governance is primarily viewed as a set of financial-performance-enhancing constraints to managerial opportunism, rather than as an interface integrating stakeholder interests for the purpose of longer-term benefit of the company and its stakeholders (Fahlenbrach, 2009). These conditions contribute to a systemic governance deficit – relatively widespread inadequacies in perception and management of governance risks at the organisational level, coupled with insufficiently comprehensive and/or effective regulative and market-based mechanisms within society. In addition to the inadequacies of regulative and market-based mechanisms discussed above, governance weaknesses and failures (meaning different degrees of inadequacies in managing risks and processes that define stakeholder relationships and create value for stakeholders, and the company’s reputation) often occur due to lack of stakeholder interaction and/or its perceived low importance. This is especially pertinent when external influences or intensified competition jeopardise institutional foundations of an organisational field. In such cases, due to the structure of incentives, actors may find it difficult to act in mutually beneficial ways (in dyadic relationships) or may resort to illegitimate collusion (in network- or market-based relationships), both of which may cause governance weaknesses or failures. The governance deficit occasionally becomes effectuated through governance failures of particular corporations, and contributes to the inadequacies of corporate governance systems.

Due to an exclusive focus on the narrowly defined governance of the corporation, the mainstream approach often fails to adequately integrate the interrelationship between the firm and the environment into governance concerns. That interrelationship tends to be either undervalued (e.g. stakeholder relationships) or taken for granted (e.g. legal and other institutions, including financial markets). The current approach undervalues risks and opportunities for productive cooperation stemming from a network of stakeholder relationships, thereby weakening the connection between corporate governance and corporate social responsibility, with detrimental
effects on both practices\textsuperscript{2}. Furthermore, the lack of context-related concerns leads to an implicit assumption of appropriateness and effectiveness of external governance mechanisms. Comprehensive and efficient financial markets, legal frameworks and judiciary systems seem to be assumed, resulting in automatic attribution of governance failures to practices of specific individuals or corporations, without sufficient attention to the contextual issues that might have exacerbated them. The preconditions and processes that facilitate effective regulatory and market pressures - which are far from certain – are not tackled. Due to reductionism and emphasis on formal regulation disembedded from the social context, the dominant paradigm stops at acknowledging the gap between ideal and actually operating markets, or between formal rules and actually institutionalised behaviour, thereby failing to take into account the learning processes that can reduce those gaps. Acknowledgment of these processes would require viewing of the corporation as an open system capable of learning and integrated into wider societal environment. An alternative view approaches governance as an ongoing learning process that defines and institutionalises stakeholder relationships (as opposed to contracts alone) and value creation processes at the level of particular firms and societies/economies in general. Its roots are in competence-based and knowledge based theories of the firm. Although such an approach can be applied in any context, it is argued that it is especially relevant for contexts that witness marked institutional change and/or widespread institutionalisation of antisocial/unethical behaviour – like the transition countries of Central and Eastern Europe.

**Systems of corporate governance**

Business practices within a firm correspond to productively motivated association and cooperation aimed at achieving viable economic outcomes and cultivating resources and relationships that will facilitate the future development of the firm. However, when we move beyond such general goals and enter the realm of processes, assumed purposes and the corresponding institutional and normative frameworks, dissimilarities arise. Since the practice of business is intertwined with other societal systems (culture, law, politics etc.), its institutional and normative aspects are inherently related to them. Since business practices are institutionalised in business enterprises, these dissimilarities are reflected in the concepts of the business corporation and the corresponding systems of corporate governance. Various (supra)national governance systems display various patterns of equity ownership (see La Porta et al., 1999; Takacs, & Hilmann, 2010), legal regulation, acquisition of financial and human capital (Filipović, 2012), and ethical conceptualising of business activities. Without attempting to marginalise these differences artificially, or to negate the current tendencies towards convergence of some aspects of the various systems, it can be argued that two large groups of systems can be identified according to the predominant concepts of the business firm – the shareholder and the stakeholder systems. The shareholder systems, predominant in the common law countries, view the corporation essentially as a creation of private contracts, what implies that its internal organisation and its relationships with the societal context should be defined autonomously (through negotiation), rather than by externally imposed norms. In the stakeholder systems, characteristic for the civil law countries, a corporation is viewed as a social institution whose objectives encompass the interests of multiple stakeholders, but cannot be equated with any of them (Kay, 1997). Therefore, it is assumed that the society has a legitimate claim to define the legal framework for the pursuit of business within it, as well that a relatively denser network of implicit and explicit understandings concerning both the relationships among the stakeholders and between the corporation and the society.

Although shareholder and stakeholder systems may display tendencies towards behavioural differences, the crucial element separating the systems is normative: they are justified through different discourses (Cennamo, Berrone, & Gomez-Mejia, 2009). The shareholder system

\textsuperscript{2} Corporate governance focuses on the ‘hard’ issues of financial reporting, auditing and compliance. Corporate social responsibility mostly tackles ‘soft’ issues linked to reputation building or human resource management; environmental concerns might be the CSR concern closest to core business practices.
assumes that the company should be geared towards shareholder wealth and profit maximisation, respecting the constraints imposed by the law, customs or public opinion. This goal requires a simple, but all-encompassing ideology of free exchange between rational individuals disembodied from their contextual particularities. The foundations of free-market discourse are contractarian - it focuses on expressed choices and negotiated agreements, treating the social, psychological and ethical backgrounds of economic actions as contingent and open for overcoming and redefinition. This ideology tends towards commercially motivated questioning of the social order, having a potential for overcoming its restrictive aspects, as well as for ignoring intricate webs of meaning inherent to social systems. Integration of various interests and needs, inherent to the stakeholder system, assumes greater social complexity and, therefore, requires justification through multiple discourses related to various constituencies and social institutions that shape economic behaviour. The underlying assumption is that the autonomy of various social spheres should not be effaced in their integration through business. Institutional and normative channelling of business is expected to incorporate structures of meaning and power coming from the societal environment. The acceptance of a high degree of social embeddedness of business implies relatively complex processes of integration of business into the wider context, which may lead to entrenchment of special interests, lack of flexibility and discouragement of innovation.

Comparative analysis of the systems of corporate governance has partially overcome initial focus on Anglo-American systems, usually covering the issues such as ownership configurations, acquisition of capital, legal regulation (e.g. company and employment law) and the corresponding distribution of power within the corporation (Scott, 1997; La Porta et al. 1997, 1999; Filipović, 2012). Despite some arguments favouring common-law systems as facilitators of growth of capital markets due to better investor protections (in terms of character of legal rules and quality of law enforcement) (La Porta et al. 1997), there are few reasons to inherently prefer any system (Choi et al., 1999). Economic performance does not seem to be intrinsically related to governance systems (Hendry, 1998a). The effectiveness of any system can be analysed in terms of processes (e.g. levels of transparency and accountability of managers and firms to particular stakeholders) and economic, social and environmental outcomes. When it comes to accountability, systems also differ in terms of dominant forms - in particular in terms of relative weight they give to private and public accountability of companies. Depending on circumstances encountered by stakeholders, these differences may occasionally imply different aggregate levels of accountability.

Globalisation of business operations and financial markets, coupled with complementary political processes (e.g. integration and expansion of the European Union, formation of regional free trade associations and the World Trade Organization etc.), has spurred the interest in corporate governance (seen primarily as a means of securing investors’ claims) and the debate about the convergence of corporate governance systems (Hendry, 1998a). The requirements for increased transparency and consistency of governance practices across systems have been favouring a more widespread application of arms-length mechanisms, historically prevalent in Anglo-American systems of corporate governance, which have been endorsed by the current global standard. What should not be overlooked is that these elements are superimposed on the existing structure of legal and habitual instruments, which may not be entirely consistent with them; any re-institutionalisation in that case is gradual. If the new regulations related to corporate or national governance (sometimes labelled ‘best practice’) are adopted without sufficient legitimacy and/or leeway for adaptation to specific circumstances, the risk of non-compliance increases. On the other hand, increased complexity and interconnectedness of business operations and increasing importance of relational aspects of business redefine the corporation and its accountability.

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3 Hereby we need to distinguish between corporate governance and more fundamental issues encapsulated under governance as a generic term used by economists to capture the impact of the political system (especially the government) on economic activity – which are relevant regardless of the system of corporate governance prevalent in a country. Kaufmann et al. (2003) divide governance indicators into the following groups: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law and control of corruption. Economic performance tends to be correlated with many of these indicators.
processes. The corporation becomes a flexible bundle of tangible and intangible resources, competences and relationships with shifting boundaries with the environment. The differentiation aimed at matching increased environmental demands requires a balance by the redefined integrating forces within the organization. Since the processes of acquisition, development and reproduction of these resources increasingly involve a wider web of stakeholders, the governance processes related to these resources become increasingly complex.

Consequently, a systemic governance deficit seems a likely condition faced by many corporations in many economies, including the most developed ones. Effective corporate governance entails building up of institutions at organisational and societal levels that contribute to the reduction of such deficits.

Conclusion

Contemporary governance is defined by the relationships of interdependency, which can be viewed from organisational and societal levels. From the perspective of corporations, strategies become increasingly dependent on complex learning processes and the networks of relations within which they are embedded. Moreover, interdependency has important implications for the public policy, particularly due to a legitimate concern for the development of social institutions through which these interdependent relations can be governed. Institutional considerations should not be reduced to their regulatory aspects; they also have significant implications for organisational strategy and systemic competitiveness of countries and regions.

The duality that pervades firms is based on the tension between exercising strategies and building relationships. Frequency and complexity of internal processes and interactions with the environment engender a tension between the use of material and symbolic resources to satisfy immediate goals, and development of resources (including relationships) that could enable future effectiveness. Their integration is captured in the notion of satisficing. Instead of maximising any single structure of objectives, actors within firms satisfice the ever-changing multiple objectives and influences. Satisficing was originally (Simon, 1976 [1945]) understood as a characteristic of administrative behaviour stemming from cognitive limits of bounded rationality, which prevents maximisation. Drucker (1980) extended the concept by including the political dimension – the relative strength of constituencies. Finally, the stakeholder theory addresses ethical implications of business decisions in the context of multiple constituencies. Being a complex of economic, political and ethical dimensions, satisficing is an ethically desirable process, rather than an obstacle to profit maximisation imposed by cognitive limits or negotiating realities. Satisficing stems from empirically determined balancing of the constituencies within particular firms and institutional environments. It includes an instrumental dimension embedded in organisational hierarchies and dominant discourses, which can ensure the necessary efficiency and prevent the collapse of intraorganisational processes into unsustainable distributional conflicts. But it also affirms the firm as a social entity whereby strategising and relationship-building are integrated. Satisficing also redefines the notion of stewardship as a relation of interdependence. Multiple material and symbolic resources required for effective business are preserved and enhanced through satisficing processes. Despite the differences in importance, excessive orientation towards any particular resource may jeopardise the attainment of other necessary assets. Moreover, the patterns of use of resources are constrained by the power of stakeholders, including both those directly affected, and the members of relevant political communities that can use explicit regulatory mechanisms and various forms of social pressure to influence the modes of using of those resources. The affected or interested parties may have different abilities to respond to one’s actions. Nevertheless, legitimacy, relationships with stakeholders and the ability of actors to exercise their strategies partially depend upon the perceived effects of their previous actions and their systemic consequences. The importance of social contextualisation of the use of resources via stakeholder influences increases, as the resources and modes of their utilisation become more complex and therefore interdependent with the environmental influences.
Being a result of a complex and chaotic learning process, accountability promoted by the market is admittedly partial. Responsible practices may result in higher costs (at least in the short term) or discursive disadvantages towards powerful stakeholders, which may impede their spreading across the business field. The pressures from the media, consumers, non-governmental organisations or institutional investors can be chaotic and without sufficient attention to systemic issues. Consequently, it should be complemented by wider public policy considerations. One should place corporate governance debates within a public policy domain, which places economic issues within wider legal and cultural frameworks. That results in various modalities of the market economy - labelled as social systems of production (Hollingsworth and Boyer, 1998), business systems (Whitley, 2000), varieties of capitalism (Hall and Soskice, 2001) etc. The main difference between developed and underdeveloped forms of the market economy comes from the processes of social satisfying that limit the ability of particular interest groups (e.g. political elites, trade unions, entrepreneurs etc.) to seek rents and/or hinder the restructuring of an economy, as well as the excesses of profit seeking that aim to transgress legal or social boundaries of economic activity. Effective satisfying is based on social institutions which define acceptable patterns of action and the means of conflict resolution. By enacting effective institutions - or failing to do so - economic actors help create particular social and natural environments that affect them and their stakeholders. Economic, social and environmental sustainability requires a balancing process that combines instrumental and other considerations and enables the not only utilisation, but also preservation and enhancement of productive capacities of actors and resources. This is related to the issue of systemic competitiveness of a country, based on the interaction of financial, production, innovation and governance systems (Bradford, 1997). Systemic competitiveness is highly related to the capacity for developing interactive governance at the public policy level. That is in turn related to meta-level factors such as orientation of groups of actors towards both learning and efficiency, the capacities of groups and organisations for strategic interaction and integration, and appropriate framework for protection of interests (Messner, 1997).

Strategic and public policy perspectives and motives for taking seriously the relations of interdependence within the corporate governance context may be different, but they seem to pinpoint in the same direction, giving a pivotal role to the processes of institution-building within and between organisations and across societies. More research into the issues in question is undoubtedly needed, which would link and extend the existing knowledge, which seems to be dispersed across different disciplines and theoretical perspectives. That would enable better understanding of the issues in question, as well as clearer guidance to business practitioners and policy makers who may want to practically implement adequate practices through their policies, strategies and managerial activities.

References


The Importance in Using a Quantitative and Computerized Approach to Resolve Public Conflicts

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Abstract

Getting into conflict is very common in a democratic society. Conflict can help us to explore problems more deeply and from a wider perspective through discussions and negotiations. Through the process of conflict resolution, the relationships between conflict parties can be improved. New opportunities can also be created as well. However, people are often stuck in the situation of positional bargaining when they get into a conflict that hinders them from the above benefits. The situation may get complicated in public decisions in which a large number of stakeholders are involved. In this paper, the conflict among the stakeholders for choosing the most appropriate road junction control (RJC) method (e.g. traffic light, roundabout and interchange etc.) is taken as an example to illustrate the importance in using a computerized and quantitative approach to resolve public conflicts. The limitations of the three commonly used alternative dispute resolution (ADR) methods, namely negotiation, mediation and arbitration to resolve the conflict in the example are discussed. A computer-aided conflict resolution methodology is proposed so as to make the decision process more efficient and the result generated less biased.

Keywords: group decision making, public conflicts, alternative dispute resolution (ADR) methods, information technology, management

1. Introduction

“Negotiation is a fact of life.” (Fisher, Ury, & Patton, 2011) Conflicts exist everywhere owing to the nature of human diversity. It is especially common in a democratic society where people have the freedom to express their own views. Conflict itself is a good phenomenon. It functions as an alarm signaling some form of abnormality in a social system and urging people to deal with the problem in a timely way before it gets worse. If conflicts are properly managed, they can even help improve trust and relationships and create new opportunities (Innes & Booher, 1999). However, managing conflicts is not an easy task. People often see conflicts negatively as if they are battles to be fought. The word “conflict” comes from the Latin word “confilgere” which means “to fight” (“Definition of conflict,” 2016). People are usually trapped in a positional bargaining situation, i.e., to take a position, stand up of it, and intend to force others to compromise. Fisher et al. (2011) argue that positional bargaining seldom reaches an optimal outcome.

This situation may even become worse in public conflicts. In a democratic society, people desire getting involved in public decisions that interest them, but few people are willing to look into the decisions made by others (Fisher et al., 2011). The large number of stakeholders with conflicting views and interests make the consensus-building process even harder. Therefore, it is important to develop a systematic way to manage conflicts in a group decision process in order to help the government and the stakeholders to manage their conflicts in a more efficient and constructive way.

This paper is divided into five sections: following the present introduction, Section 2 describes conflict comprehension that provides the basic idea of conflicts that may involve in the RJC method selection process. The difficulties in conflict resolution and conflict intervention strategies are discussed in Section 3 and Section 4 respectively. Finally, conclusions are drawn in Section 5.
2. Conflict Comprehension

Glasl (2008) claims that it is important to diagnose a conflict in order to develop the best intervention strategy for it. To diagnose a conflict situation properly, it is essential to know what parties are involved in the conflict, their inter-relationships, attitude towards the conflict, points of view regarding the problem and the potential for escalation (Glasl, 2008).

2.1 An Overview to RJC Method Selection

From the point of view of quarrying theory, road junctions are seen as processors which form queues and cause traffic congestion. In the United Kingdom, from 2005 to 2012, over 50% of the traffic accidents happened at road junctions (STATS19 data (accident, casualties and vehicle tables) from 2005 to 2012, 2014). Therefore, an ill-formed road junction not only wastes the drivers’ time in passing through it and puts the lives of both the drivers and passers-by at risk, it also causes pollution and diminishes the economy of a city. Hence, it is essential to choose a proper RJC method for each road junction. It is not an easy task. Presently, there are many RJC methods proposed, ranging from a simple fixed time traffic light controlling system to a 4-level graded interchange. Each of them has its advantages and drawbacks that best suit a particular situation.

2.2 The Conflict Parties Involved and their Primary Goals

People are always concerned about the quality of their lives and are more willing to express their opinions when they believe they will matter. The RJC method selection consultation can lead to a hot debate in a democratic society. Examples of conflict parties include urban planners, drivers who usually pass through that junction, engineers and government. Each conflict party has different primary goals: urban planners are concerned mostly about efficiency; drivers are concerned about efficiency and safety; engineers are concerned about project and geographical feasibility; governments are concerned about the cost. Incompatibility is observed with respect to standards, expectations, and assumptions on the performance of the RJC methods. These are obstacles that hinder the parties to conflicts in achieving their primary goals.

2.3 Escalation Potential

This conflict cannot be underestimated or ignored. Burton (1990) (as quoted in [Sandole, 2001]) points out that any attempt to suppress conflict relating to human needs will lead to conflict escalation, often in an exponential manner. Choosing a proper RJC method for a road junction can easily be transformed to a political issue if some commonly acceptable ideologies are added via the media, e.g. be democratic or be environmental friendly. The conflict escalation potential is high.

2.4 Conflict Parties’ Relationship and their Common Goals

Though the conflict parties have different primary goals, the conflict is possible to be settled. It is because each conflict party is inter-related and depends on the others. For example, the government depends on the residents, urban planners and engineers depend on the government’s decision on the funding. At the same time urban planners and engineers can be a part of residents of that area along with environmentalists. Hence, the relationship among the conflict partners is usually inter-dependent. In addition, the conflict parties share some common goals, e.g. all of them consider safety and efficiency although these two factors may not be their top consideration.

2.5 Conflict Characteristics

Speaking of the nature of conflict, conflicts in the RJC method selection process should be classified as a realistic (concerning concrete and objective issues) and substantial (clearly identified problem) conflict, which involves plenty of conflict objects, e.g. legal, economic and strategic issues, as well as conflicts of interests and values. Thus, it is a realistic conflict because everything in such conflict can
be quantified, e.g. money, pollution, and efficiency. It is a substantial conflict in the sense that the main cause of conflict can be clearly identified and the task becomes one of choosing an RJC method which can benefit most of the people at minimal cost. In addition, such conflict has high escalation potential and consequence because an ill-formed road junction affects every stakeholder’s life from day to day. If the conflict is not settled in a proper way, it may be turned into a political issue and hence affect the reputation of the government.

In terms of the conflict parties’ characteristics, this conflict should be seen as inter-group (between different groups in the same society), symmetrical, endogenous, and organized. It is symmetrical because every conflict party should have the same level of bargaining power. Although the bargaining power of the government may be slightly higher, a democratic government is usually willing to listen to its citizens in order to gain their votes in the next election. It is endogenous because every conflict party is within the same society and hence they all may have a chance to use that particular junction. It is organized because all conflict parties are easily and clearly identifiable, because all the stakeholders in this conflict shall automatically show up to express their voice as the RJC method selection is a public issue.

Therefore, this conflict can be considered as “technical” as defined in Heifetz’s book “Leadership without Easy Answers” (Heifetz, 1994), in which he classifies a problem into two types: technical and adaptive. For a technical problem, it is clearly identified and hence a routine technical solution can be used to settle it.

3. Difficulties in Managing Conflicts

3.1 Large Number of Conflict Parties/Stakeholders

Since the selection of the RJC method is a public issue in a democratic society, any party who is concerned about this issue is regarded as a stakeholder and should be automatically counted in the decision process. Speaking of the implementation, it is unfeasible to group together such a large number of conflict parties/stakeholders at the same table for discussion. The workload on information processing is high.

3.2 High Escalation Potential

As an ill-formed road junction brings negative impacts to people and even an economy as mentioned in Section 2, these problems are especially prevalent for major road junctions in a town as people have no choice but to use the road junctions anyway. The road junction users usually are not able to change the current unfavorable situation but tolerate and use the road junctions, but their dissatisfaction will build. Provided they are given a chance to express their views regarding betterment of the road junction, it is likely it will turn into a hot debate having different stakeholders with different opinions based on their own interests. Also, since choosing a proper RJC method is a public issue, it may also intensify the emotion of the people with regard to the people’s dissatisfaction to other current issues and government policies. Hence, if there is no strong reason to persuade them, they usually stand firm on their position.

3.3 Serious Escalation Consequences

According to Glasl’s conflict escalation model (Glasl, 2004) as explained by (Gerner, Heurich, Günther, & Schraml, 2011), if the conflict is not manifested properly in time, the conflict will escalate along the nine-phases and head towards a mutually destructive outcome (a lose-lose solution), which is the downside of conflict – a damage of relationship and creation of greater loss to the social system as a whole. In the case of RJC method selection issues, similar to many other popular public issues, if the demand of the stakeholders are always ignored in the negotiation process, they may go for demonstrations for even higher level of actions, e.g., destroying the opponents’ image, threatening other conflict parties and forcing them to compromise. If the conflict keeps escalating without being managed, all the parties will move towards mutual destruction by eliminating those who are “enemies” in their
eyes. If that stage is reached, a high cost will be incurred by the government to deescalate the conflict and cater to the stakeholders. Hence, it is always wise to identify and manage the conflict as early as possible, let everyone who is concerned with the issue express their view and make them feel their views are taken into consideration in the decision process.

3.4 Different Hierarchy of Human Needs

Each conflict party in the RJC method selection conflict fights for different ‘needs’ under Maslow’s Theory of Human Motivation. Maslow (1994) defines human needs in terms of a hierarchy, ascending from the most basic need for survival, e.g. food and water, to the highest category for self-actualization, which is the tendency for a person become what he potentially wants to be, i.e. “A musician must make music, an artist must paint, a poet must write, if he is to be ultimately happy” (Maslow, 1994). Adopting Maslow’s theory, the urban planners and engineers fight for affiliation acceptance, esteem or even self-actualization needs. They can get more respect from others and self-esteem in their professional field. They would like to develop some innovative solution to the traffic congestion or endeavor to make a construction breakthrough, what the environmentalists fight for is often a self-actualization need – to protect the environment. However, what the drivers and residents fight for is only the security and safety need to drive safely and to have a good living environment. The difference in the hierarchy of need is the major incompatibility among them and hence agreement is not easily reached through simple discussion.

Moreover, when it comes to tackling a problem as a group, humans often perform acts of heroism according to the Becker’s Human Paradox Theory. Becker (2007) points out that humans are afraid of death without having achieved any significant thing. Hence, most people spend their life on overcoming this anxiety by attempting to acquire some forms of distinction. They will imagine themselves as heroes and think that they are the only one who can deliver a unique contribution to the society. Hence, it may be difficult to ask those who are self-actualizing to change their view without any strong reason or rule that they can refer to.

3.5 The Prisoners’ Dilemma

According to Thomas and Kilmann’s Conflict Mode Instrument (Thomas & Kilmann, 1974) as discussed in (Lincke, 2003), which is for evaluating people’s typical behavior in conflict situation, there are five types of typical behavior when people are facing conflict according to their degree of assertiveness and cooperativeness:

1. The unassertive and uncooperative turtle – A person simply just wants to postpone and avoid to deal with the conflict.
2. The assertive and uncooperative shark – A person eager to pursue their own needs at the other sides’ expense if necessary.
3. The unassertive and cooperative teddy bear – A person attempts to accommodate the other sides, if necessary at his/her personal expense.
4. The assertive and cooperative owl – A person who is determined to come out with solutions which are acceptable to all parties.
5. The compromising fox (in the middle in terms of assertiveness and cooperativeness).

In terms of arenas, Morris et al. (1998) conclude that there is a difference in conflict management (negotiation) style between Western and Asian people. Western people tend to be of a competing style while Asian people tend to an avoiding style.

Since in this RJC selection conflict, a public issue, the stakeholders may not recognize each other and know the degree of assertiveness and cooperativeness of other stakeholders to the conflict in the consensus building process; they do not know the degree of compromise necessary in order to reach a consensus. Under the environment in which information is incomplete, people are wise to protect
themselves by standing firm in their position according to what the Prisoners’ Dilemma suggests (Poundstone, 2011). Yet, this act is not advantageous in reaching a consensus.

3.6 Leaders of Some Conflict Parties Are Not Easy to Be Identified

In order to conduct effective negotiation, there should be representatives (usually the leaders from different conflict parties) at the negotiation table. The leaders of the government, engineers and urban planners concerned with the RJC method selection are relatively easy to be identified as they are usually the secretary-general or project holders of the road junction construction projects.

On the other hand, in the era of the Internet, it is easy to call for campaigns or even protests demanding one’s own rights with the help of the social media, e.g. Facebook and Twitter. Yet, it is hard to search for leaders to represent such a large segment of the general population, each with different interests, in the negotiation with the groups which have relatively more power such as the government, engineers, and urban planners. This explains why it is not always clear how to identify leaders of the general public.

3.7 Easy to Gain Allies (Hardliners) Using Some Common Ideologies

The conflict among the stakeholders for choosing the most appropriate RJC method is likely to turn into a political issue with the presence of politicians in a democratic society. Some politicians may amplify the conflict by injecting some commonly acceptable ideologies to it and hence more surrounding communities concerning those ideologies will appear and get involved to the conflict. The first ideology that can be applied to the conflict is democracy, regarding whether the general public has the right to choose a road junction design they are going to use frequently. From the general public’s perspective, the government, academic scholars and professionals like engineers and urban planners are always criticized as living in an ivory tower, disconnected from reality. The general public often thinks that they should have the right to participate in public issues. The second one is environmental sustainability. Nowadays, people are more concerned about environmental protection so as to provide a sustainable living environment for the next generation. The third one is the cost efficiency. Citizens want the government to use their public funds in a cost-effective way. In short, the above are the three common ideologies conflict parties will typically refer to when searching for allies.

4. Intervention Decision – The ADR

Traditionally, an often common way to settle a conflict is to go for litigation (going to the court). However, the cost of litigation can be extremely high and litigation takes a relatively longer period of time (Fiadjoe, 2013). This is the reason why another form of conflict resolution method called Alternative Dispute Resolution (ADR) has been introduced and is increasingly popular these days. The pros and cons of using the three commonly used ADR methods (negotiation, mediation and arbitration) (Goltsman, Hörner, Pavlov, & Squintani, 2009) to reach agreements on the RJC method are evaluated in this section.

4.1 Negotiation

Negotiation is the simplest way for conflict resolution. It involves all the conflict parties or their representatives sitting together and discussing the issue face-to-face in order to reach a mutually accepted solution. However, this method is not very effective and feasible when the number of conflict parties/stakeholders is large or the escalation level is high. Dalkey and Helmer (1963) point out that direct negotiation invokes: impulsive construct of biased notions, a tendency to choose one’s mind’s novel ideas, an inclination to defend oneself on his own stand when being challenged by others, and quite often in the end, one person may dominate the ideas of the group. Hence negotiation is not always to be preferred.
4.2 Mediation

Mediation is an increasingly popular ADR method. It is to manage the conflict with an assistance of a “neutral” third party. The mediator acts as a catalyst to stimulate the effectiveness of negotiation between the conflict parties so as to increase the chances for reaching a consensus. All parties who are interested in the decision are invited to work together and explore all the views, expectations, options as well as obstacles in order to get a solution which can satisfy the needs of most parties. This method creates a higher chance to settle the problem in a way that everyone is satisfied (a win-win situation).

However, the effectiveness of mediation decreases when many parties lack obvious leaders. Also, it does not guarantee that a solution can be formed before the conflict is escalated to an irreversible level (Stage 9 of Glasl’s conflict escalation model [Glasl, 2008]). According to mediation statistics for the cases related to civil justice reform in Hong Kong, only 48% of the reported cases by the Hong Kong District Court in 2015 resulted in full or partial agreements ("Mediation statistics for civil justice reform related cases," 2016).

Moreover, the key assumption behind the mediation approach is that the mediators are ideally independent, neutral and have enough knowledge and experience to understand the complexity of the conflict. Yet, this may not be the reality for many big, broad conflicts, given the mediators are also human. It is possible that they are affected by mood, friendship, and news media etc. no matter how professional they are.

4.3 Arbitration

Arbitration is different from negotiation and mediation in the sense that it relies on an arbitrator, a “neutral” person, to render a final and binding decision to the conflict similar to what is done by the judge in court. However, unlike litigation, the arbitrator is chosen and agreed by the conflict parties and the time for arbitration is usually relatively short. This method can ensure a solution to the problem can be reached in a relative short time. However, similar to litigation, the decision granted by the arbitrator usually only favors one party, which is a win-lose situation. This will exacerbate the downside of a conflict – and damage relationships. In addition, similar to the limitations of mediation, for some big, broad conflicts, it is difficult to find a real independent and neutral person who has enough knowledge to comprehend the conflict and grant a decision.

To conclude, the above three commonly used ADR methods all have their limitations: e.g. unable to perform effectively when the number of conflict parties/stakeholders is large, and difficulties finding an independent and neutral third party for making decision. Hence, none of them can fit in the situation of the RJC method selection conflict nor is preferred to be used as its conflict intervention strategy.

4.4 Proposed Methodology – Computerized Mediation-Arbitration

With the development of computer technologies and artificial intelligence, it is desirable to develop a quantitative decision framework and let the computers guide the conflict parties to reach a consensus for conflicts, especially for those which involve many stakeholders and criteria. The advantage of using computers is that it can generate a less-biased decision in the sense that it will not consider or be affected by factors which are unrelated to the decision subject and stakeholders’ mood. Hence, the results generated can be more acceptable to the stakeholders. In addition, using computers and the internet can let many conflict parties/stakeholders enter their views and opinions at the same time. The information handling capacity is better than that by any human. Moreover, one of the drawbacks of group decisions is that substantial time and resources are wasted in information sharing and may be directed only at influencing other parties’ opinions (Ben-Arieh, Easton, & Evans, 2009). If computers are used, some optimization process can be done in the quantitative decision framework to reduce the number of rounds of negotiation, so as to shorten the time and reduce the cost as well as resources related to time. Lastly, since the result is generated based on quantitative data instead of vague and qualitative reasons, the data can be reserved for analysis for similar future projects.
The intervention strategy proposed in this paper is something in between mediation and arbitration, but in a computerized way as shown in Figure 1. Theories of Delphi Method, Analytic Hierarchy Process (AHP), Technique for Order of Preference by Similarity to Ideal Solution (TOPSIS), Vague Set Theory and Minimum-Cost Consensus Model (MCCM) are used. (For details, please refer to (Kwok & Lau, 2016) and (Kwok, Chau, & Lau, 2014).)

Figure 1 Overview on the Proposed Methodology

4.4.1 Preparation

Approaching and Grouping the Stakeholders

From the point of view of statistics, the quality and representativeness of a decision are driven by the number and knowledge of the participants. Hence, it is crucial to involve the right participants with sufficient knowledge and interest on the decision subject in the decision process. Engaging the stakeholders on public issues is relatively easy because often they will appear and express their views during the consultation period as a matter of course. This group of people should have enough knowledge and interest as they are the individuals directly affected by the decision.

After the stakeholders are identified, they should be grouped according to their interests or professions, so as to balance the bargaining power of each conflict party and to prevent the decision being dominated by a single party. As a result, a more accurate and reliable decision can be generated.

4.4.2 Mediation

Delphi Survey Together with MCCM Algorithm for Identifying Evaluation Criteria, their Relative Importance and their Key Performance Indicators

Fisher et al. (2011) points out that people usually get into positional bargaining in a conflict: taking a position, arguing for it, and forcing others to compromise. Positional bargaining is not in favor of producing optimal and long-lasting results. Hence, instead of asking the stakeholders to evaluate and choose the RJC method options directly, it is suggested that they should focus on reaching a consensus on the evaluation criteria, their inter-related importance, and their key performance indicators (e.g. construction cost, efficiency in time and safety accident rate etc. of similar junction designs). To do so, several rounds of Delphi surveys are performed on-line. The participants are required to suggest and evaluate the relative importance on the criteria that have to be considered in the RJC method selection. Similar to most traditional Delphi processes, at the end of each round of the survey, their choices are summarized (Hsu & Sandford, 2007). What is different in this proposed method is that, MCCM algorithm is used to calculate and suggest the optimal changes for each party and participant so as to lead everyone in the decision process to reach certain level of consensus more quickly. This act is
similar to a human-performed mediation in a sense that a human mediator summarizes all the points given by the conflict parties and makes suggestions to every participant so as to push the parties to reach a consensus. What is different is that this proposed method can ensure efficiency in the decision process and a less biased decision is generated.

4.4.3 Arbitration

AHP together with TOPSIS for Judging the Optimal Choice of RJC Method

After a consensus is reached on the evaluation criteria, their relative importance and their key performance indicators in the computerized mediation step, a final judgment on the RJC method to be used is granted by computers using two algorithms, namely, AHP and TOPSIS. The former algorithm summarizes the evaluation criteria concluded in the computerized mediation process and prioritizes them according to their importance, while the later judges the best RJC method for that particular junction based on the prioritized evaluation criteria and their agreed key performance indicators of the RJC method options.

5. Conclusion

Public consultation and group decision-making are the foundations of a democratic society. They can help to explore problems in a society more deeply and create new opportunities for fine-tuned solutions. In this paper, conflicts that occur in the RJC method selection process is used as an example to illustrate the importance in using a quantitative and computerized approach for making public decisions. A full analysis has been done with that conflict and the limitations of using the commonly used ADR methods, namely, negotiation, mediation and arbitration as the intervention strategies for that subject matter were also discussed. Lastly, a computerized mediation-arbitration method is proposed to illustrate how public conflicts can be resolved using a quantitative and computerized approach yielding the most desirable outcomes.

Reference


Is Facebook a Necessity for Nonprofits?

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Abstract

Facebook is the most popular social media platform in the world. Being a popular social networking site, Facebook is used by many marketers around the world. This site is also considered a cheaper way to promote products and services. This is very beneficial for some nonprofit organizations, because they have very limited funds for adequate marketing efforts. The article explains why nonprofits should use Facebook and how nonprofits can benefit from Facebook.

Introduction

Social media has become increasingly popular. According to Digital in 2016, there are 2,307 billion active social media users in the world and this number continues to grow every year (We Are Social, 2016). People use social media for sharing stories, pictures, videos and other types of shareable media. Rob Stokes and Quirk eMarketing suggest the following definition of social media:

Social media are media (from written to visual to audio) that are designed to be shared. Sharing means that it easy to comment on, send and copy the media, and that there are no high costs associated with this. And, because of the connected nature of the Internet, it means that sharing, commenting and viewing can all be tracked and measured. (Stokes, & Quirk eMarketing, 2013, p.366)

The most popular social media platform is Facebook. According to Business Dictionary, Facebook is:

A social media website first developed by Mark Zuckerberg while he was a student at Harvard in 2004. Since its creation it has become one of the most popular social media sites attracting people of all ages from all over the world. To use the site you must create a personal profile where you provide information about yourself that can either be made public or private, depending on your privacy status. Once your personal profile is created you can request friends, like pages, share articles with your friends that you have found and more. (Facebook, para.1)

Due to the popularity of Facebook, many businesses and nonprofit organizations use it for communicating with their constituencies, promoting products and services, and for exchanging information with the public.

While corporate organizations can afford expensive advertising and marketing campaigns, nonprofits often struggle with marketing and communication due to their budget limitations. Facebook, as a free service, can become a solution to nonprofit essential needs like creating awareness, fundraising, attracting volunteers. As Facebook is becoming popular globally, it is becoming a vital part of every nonprofit marketing activity. Despite many opportunities for better marketing, nonprofit agencies do not use Facebook to its full capacity, even though there is strong evidence proving the need for nonprofits to use it as a marketing tool.

Literature review

Nonprofit organizations are a very important part of our society. Most non-governmental schools, hospitals, and religious organizations are nonprofits. According to Merriam-Webster dictionary, nonprofit means “not existing or done for the purpose of making a profit” (nonprofit, 2016, para 1). Usually nonprofit organizations dedicate their work to a particular cause. Despite the similarity
in function, there are very many different types of nonprofits. N. Ton-profits vary in size, purpose, mission, and services and/or products they offer. To promote the services and/or products, nonprofits need to use marketing. There are very many ways for an organization to market, and Facebook is one of them.

Presence on Facebook helps nonprofits connect with their potential and current clients, donors, volunteers and community members. In other words, it helps to create relationships with individuals and groups of people. Social Network Theory supports the previous statement and can be applied to Facebook because friendship, interests, or willingness to take action connects people and organizations on this website. In Social Network Theory, individuals, groups of individuals, and organizations are called “nodes”, which can be linked to each other based on different interest and likes or dislikes (Katz, Lazer, Arrow, & Contractor, 2004). The same is observed on Facebook: people and organizations connect if they have similar interests or like/dislike certain topics, things or behaviors.

As mentioned earlier, Facebook is the most popular social media platform in the world. There are 1.04 billion daily active users on average (Facebook, 2015). Facebook has been operating for twelve years and it has many features that are very useful for nonprofit organizations. Nonprofit agencies use Facebook as a fundraising tool (NTEN, Common knowledge & Blackbaud, 2012). For example, some nonprofit organizations use Facebook to solicit individual gifts and donations. Facebook accesses potential volunteers, donors and clients without spending much money. Facebook’s platform enables agencies to utilize the interactivity by monitoring conversations about current news and trends on their page as well as on pages of other agencies and companies. Other uses of Facebook include getting feedback from the community and learning what is current in the community. Nonprofits do this by simply asking their followers about their services and value of their ideas (McCurry, 2014).

Since Facebook is the most popular social media platform, it might also be the most popular for use in nonprofit marketing. I will discuss the benefits of the Facebook site for nonprofits and nonprofit marketing. Although it is very popular among marketers in a corporate world, it is not used to its full capacity in nonprofit marketing specifically for fundraising. There are several reasons why nonprofits should be more active on Facebook as discussed further in this article.

Discussion

Facebook helps to spread the word

Many nonprofits cannot afford advertising. It is well known that organizations cannot be successful without adequate marketing efforts. Hiring a staff member or an outside marketing professional is expensive and complicated. It is very common for nonprofits, especially for those with a small organizational budget, to struggle with raising awareness and spreading the word about the agency and its mission and services. Although, Facebook might not be completely free, because it takes employees’ time to create posts and reply to messages from followers, it can help to spread the word quickly, possibly reducing the need for other types of marketing or public relations. While it can be difficult to spark conversations using the regular media channels like TV or radio, it is easy to create awareness about particular causes.

There are many examples of nonprofit organizations that became popular thanks to Facebook. For example, Diabetes UK was a very active Facebook user. One of Diabetes UK’s campaign objectives was to create awareness about Type 1 diabetes. This agency had many supporters on Facebook, giving their experiences and sharing this information with their friends and family. People’s comments, ‘shares’ and discussions created awareness about Type 1 diabetes and spread the word about Diabetes UK (McCurry, 2014). Another example is the Amyotrophic Lateral Sclerosis Foundation (ALS). In 2014, ALS had a successful campaign, which was called “ALS Ice Bucket Challenge”. People were asked to make a video of themselves dumping a bucket of cold water with ice on their heads, post it on Facebook, or other social media sites, and then challenge friends to do the same within 24 hours or donate $100 to ALS (Steel, 2014). This campaign not only increased donations to the ALS Foundation, but also increased awareness about ALS disease, which was not very well known. About 2.4 million Ice Bucket Challenge videos were shared on Facebook alone (Stampler, 2014).
Facebook helps to fundraise

Facebook has great features that help nonprofits to fundraise, such as the “Donate Now” button. This button can be created by the organization’s page administrator and can be placed on the company’s website. It simplifies the process of donation, which is very important for potential donors. Since Facebook allows open conversation and sharing, it is very easy to communicate with donors, thank them for donations and encourage them to donate in the future.

Another great tool for fundraising on Facebook is the events tab, a very useful fundraising application. Fundraisers are crucial for fund development, and require lots of preparations, time and people. Facebook events can simplify the fundraiser preparations process by inviting people to attend the event and informing the media of the event to encourage their coverage. For example, one of Rockford city’s nonprofit organizations, KFACT (Keeping Families and Communities Together) utilized the Facebook events tool to invite people to the annual fundraiser – their Thrifty Fashion Show. They created a Facebook event two months prior to the actual event and started inviting “Facebook friends” to attend the event. Since KFACT does not have a very professional website or many followers, Facebook was utilized for sharing the information about the event. The Fashion Show event page included all the information about tickets, sponsorships, location, hosts, date and time - all the information about the event in one place. It simplified the process of spreading the word about the annual fundraiser. KFACT did not have to mail ‘save the date’ cards, spending lots of money on it – they simply utilized Facebook event page as a brochure. Monitoring their Facebook page for insight, I was able to find out that the page reach increased by more than 300 percent when the event was launched and the number of followers increased by more than 20 percent. This also raised the number of comments and posts of people who attended the previous year’s fundraiser. KFACT shared pictures with attendees from the last Thrifty Fashion Show. This reminded previous attendees to purchase a ticket, created interest in the community, and drew people to the event this year. KFACT also shared pictures and videos during and after the event, sharing stories about their youth mentoring program, which will help them to attract people for the next annual fundraiser. Without Facebook KFACT would have to spend money on printed mail, large posters and TV advertising. Since KFACT does not have a large budget, this organization would not be able to have such a successful outcome without utilizing Facebook.

Facebook helps to attract volunteers

Facebook is a great tool for display of digital content like pictures or videos. Pictures and videos are two of the best storytellers and are a good way to attract potential volunteers. Some nonprofits do a great job attracting volunteers on Facebook. Forest Preserves of Winnebago County is one of the organizations attracting many volunteers using Facebook. Forest Preserves of Winnebago County is a nonprofit organization, dedicated to protect, conserve natural lands of Winnebago County by connecting people to nature (Forest Preserves of Winnebago County, 2016). Volunteers are one of the biggest assets of this organization. This organization has an incredible volunteer coordination system, and Facebook is an essential part of it. The organization uses Facebook to demonstrate their appreciation of their current volunteers and to attract new ones. By posting pictures of volunteers in action doing the fieldwork or pictures of volunteers on a celebration picnic attracts people’s attention and makes them want to be a part of this organization. Forest Preserves of Winnebago Country posts information on Facebook of interest to current as well as potential volunteers. There are very many pictures of volunteers working in the forest, videos of volunteer training, posts about volunteer schedules and lots of other information regarding the organization as well as its volunteers (O’Malley, 2016). These posts have an appeal to local people who are interested in preserving their natural lands.

Conclusion

Facebook’s benefits to nonprofits are not limited to spreading the word, fundraising, and attracting volunteers, but my observations suggest that these three are the most important ones for nonprofit organizations. There are many other opportunities on Facebook from which nonprofit organizations can benefit. For example, Facebook connectivity can increase community engagement.
and grow organizational impact. Nonprofits can use Facebook to cut expenses on printed mail or on volunteer appreciation cards. Since nonprofits are highly dependent on donations and grants, they have very limited financial resources, and this means they have to spend as little money as possible on marketing. It is not very easy to do a low-cost and effective marketing without social media. TV commercials, radio and newspaper advertising is very expensive both to publish the information as well as paying staff time to create a successful message. With Facebook, it is possible to decrease the costs by sharing the same message without paying for publication. If Facebook is a cheaper way to promote nonprofit services, spread awareness, fundraise, attract volunteers; can nonprofits be successful without it? The answer is yes. But with Facebook, nonprofit organizations can be not only more efficient in marketing expenses, but also be more efficient at targeting their audience more effectively.

Future Research

Although social media is a very useful tool in helping nonprofits to grow, it is not used efficiently or effectively by many or, perhaps, most nonprofit organizations, thus reducing their full potential. According to 2015 Northern Illinois, in “Southern Wisconsin Nonprofit Needs Assessment for Northern Illinois Center for Nonprofit Excellence” social media is one of the professional development opportunities of interest (DeYoung et al., 2015).

This paper has discussed some of the reasons why nonprofits are interested in social media, but cannot implement a successful social media strategy. My future research will determine reasons why nonprofits do not use Facebook to its full potential, what prevents them from doing so and how nonprofits can improve their presence on Facebook in order to be more successful.

References
