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MARWAN AL QUR'AN



# Initiating Financial Technology (Fintech) as an Innovation of Communication Technology on Credit Cooperatives in Indonesia

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## Abstract

The purpose of this study is to describe the possibility to initiate Financial Technology (*Fintech*) as an innovation of communication technology on the credit cooperatives in Indonesia. This study is based on the phenomenon of tremendous growth of credit / financial business by using FinTech in Indonesia. Fintech so far has grown uncontrollably among illegal financial institutions and gave unexpected impact on lower income people in Indonesia. On the other hand, the credit cooperatives as legal financial institutions which could facilitate lower income people for financial services lag behind. This study used quantitative-descriptive method, and resulted in some findings: (1) Cooperatives can become the fintech P2PL Platform model, as an alternative business model by changing conventional savings and loan businesses into the P2PL platform. The model could also be seen as a solution to prevent moral hazard due to miss-used of this technology among illegal credit institutions, (2) Fintech as an innovation is recognized feasible to apply. It has good *relative advantage* due to giving more efficiency and effectiveness on management, it has good *trialability* because it may be easily experimented with on a limited basis, and has good *observability* because the result is visible to others, it has less *complexity* since it is easy to learn and apply. This study has implications for policies that fintech platform model could be developed for credit cooperatives in Indonesia both in rural and urban areas..

**Keywords:** Financial-technology, communication-technology, credit cooperative,

crowdfund-P2PL

## Introduction

Financial Technology (fintech) is an innovation in the field of financial services that is growing rapidly including in Indonesia. Financial Services Outhority (OJK) data for 2020 illustrated that the domicile of fintech companies is mostly in Java Island (155 units) and the rest are domiciled outside of Java Island with the ownership status of 113 companies representing national ownership and 51 foreign ownership companies.<sup>1</sup>

The following Table I is data on loan distribution for the past 3 years through fintech in Indonesia

Table I: the Cooperatives as the Subject of the Study

Description	unit	2017	2018	2019*)
Java Island:				
Loan distribution	(billion Rp)	2.185,63	19.617,46	63.861,88
Progress	(%)		797,57	225,54
Outside of Java Island				
Loan distribution	(billion Rp)	378,32	3.048,61	10.682,82
Progress	(%)		705,83	250,42
National				
Loan distribution	(billion Rp)	2.563,95	22.666,07	74.544,70
Progress	(%)		784,03	228,88

\*) Loan Accumulation Until November 2019,

Source: OJK, 2020

The data illustrates the extraordinary business development, with an increase in

<sup>1</sup> Kompas Daily January 4, 2020,



lending reaching 784.03% in 2018 from 2017, and 228.88% in 2019 from 2018. This is a huge business potential that can be utilized by any parties .

Apart from the positive side of the development of fintech-based financial business in Indonesia, there is a dark side to this business, that most of these businesses are illegal. 947 fintech units have been closed in 2018 and 2019 by the Financial Services Authority (OJK). There have been many complaints from the public about practices that harm consumers from this fintech business.

The above conditions, that on the one hand the development of fintech-based business is a potential business opportunity, but on the other hand this business also has the potential to be used for practices that are detrimental to consumers because of the moral hazard of its managers, which opens up thinking about fintech opportunities managed by cooperatives . The Financial Services Authority Regulation explains that legally fintech can be managed through corporation and / or cooperatives [1]. Almost all formal fintech applications are currently corporation, only a small proportion are cooperative legal entities. Even though cooperatives in Indonesia also have business experience in the financial sector (savings and loan businesses). Therefore it is very possible if the cooperative business is given the opportunity to develop a savings and loan business using fintech.

Cooperatives with values, principles and characteristics are possible to be able to conduct this business better, because of the position of members as *owners* and *users* of cooperative services (*member dual identity*) [2]. As users, members can function as providers of funds to lend to other members who need funds, especially Small and Medium Enterprises (SMEs) entrepreneurs who are also members of cooperatives. The orientation of a cooperative is as a service provider to its members, rather than it has a for-profit orientation, with the aim of improving the welfare of its members [3].

Based on the above background we conducted a study entitled Initiating Financial Technology (Fintech) ss An innovation of communication technology on credit cooperatives in Indonesia.. This study was conducted by quantitative descriptive method . The purpose of writing this paper is to formulate an alternative model for developing savings and loan (credit) cooperative using the Fintech platform based on various business constraints of fintech and of cooperative savings and loan businesses

## **State of the Art**

### *Conceptual Framework*

*Financial Technology* : Financial Technology, which later became known as fintech, developed as a new business model in the financial sector. Fintech is an innovation in the financial sector by utilizing information technology to create and popularize new financial, institutional and market instruments. Ref [4] states more specifically that

fintech or financial technology is a term used to denote firms that offer modern technology in the financial sector. Thus fintech innovation is related to institutional aspects, products and processes. This innovation has changed people's behavior in financial transactions, obtaining real products and other services by not having to leave other activities or even leaving home.

Fintech is developing very rapidly not only in Indonesia but also throughout the world in the last decade. The main factors driving the development of extraordinary fintech are the emergence of new technologies that can provide mobility, ease of use (visualization of information), speed and lower cost of financial services [5].

Understanding of fintech has been conveyed by many experts, including that fintech entered the market as an activity by utilizing technology to provide financial services [8]. In addition, fintech is a service sector, which uses mobile-centered IT technology to enhance the efficiency of the financial system [9]. Fintech is also seen as an economic industry composed of companies that use technology to make financial systems more efficient [10]. Another interesting definition describes fintech as a process driven by technology in the financial industry which introduces new work methods and approaches to standard processes [12].

Studies on fintech have been carried out by many academics and professionals, including Saksonova<sup>1</sup> and Merlino, 2017, Vlasov, 2017; Vovchenko et al., 2017; Setyawati et al., 2017 in [4]. Furthermore, [4] denoted the results of his study which describes the data that fintech is one of the fastest growing sectors of the economy. Investments in the industry have increased rapidly reaching 12.2 billion dollars in 2014, while in 2008, it was only 930 million dollars. The highest increase was observed in Europe. The total volume of investment in fintech in these regions was \$ 46.7 billion in 2015. In 2016 it fell to \$ 24.3 billion.

In Indonesia, fintech is a legal business. The legal basis for organizing fintech in Indonesia includes: Bank of Indonesia Regulation No. 18/40 / PBI / 2016 concerning Implementation of Payment Transaction Processing [6], Bank of Indonesia Circular No. 18/22 / DKSP regarding the Implementation of Digital Financial Services [7] and Bank of Indonesia Regulation No. 18/17 / PBI / 2016 concerning Electronic Money [8].

The Financial Stability Board describes fintech as a financial innovation that is technologically possible that can produce new business models, applications, processes, or products with related material effects on markets and financial institutions and the provision of financial services [9].

*Fintech, Crowdfunding and P2PL:* There are many definitions of crowdfunding, no single universal definition that all people could agree for crowdfunding. We prefer to adopt the definition mentioned by [5] that "Crowdfunding is a way for people to get fund or capital to be used for social activity, expand their business or create a new

line of product from the crowd themselves using the online method. It also includes the reward system for the investors in the form of special privileges, giving discount prices, and others.”

Ref [10] specifies that there are various forms of crowdfunding, which are classified as follows: (1) Philanthropic Crowdfunding, funders donate for philanthropic purposes, especially for charities and non-profit organizations, although in practice also profit-oriented companies can participate in such initiatives. Lenders donate for reasons they believe in and might be symbolically valued, but not with material returns. The risks associated with this model are very low, because people cannot expect returns. (2) Commercial Crowdfunding, financing artistic or innovative ideas, this method for financing projects or products in the initial stages for a start-up business. (3) Royalty Crowdfunding, investors or funders receive benefits or income sharing related to investment, but without any claim on project property or capital replacement. (4) Crowd investing, this platform with operations in the form of financing for investment purposes, so it is associated with remuneration. In this category include:

- a) Equity-based crowdfunding, is a direct form to finance a company, the purpose of the capital owner is to obtain a share of income (dividends),
- b) Loan based crowdfunding: the owner of the fund supplies the funds for a certain period, hoping to get a return on the principal and interest. This form of crowdfunding is the most consistent operation so far,
- c) Trading invoices, consisting of transfers of commercial invoices to obtain liquidity

Crowdfunding models 3 and 4, are models that have been developed by investors because they are valued according to the purpose of capital ownership, which is to invest or lend to business people who have difficulty financing their business or projects.

The existence of fintech is currently very supportive of crowdfunding activities. Based on the interrelationships between the two, the Financial Stability Board makes groups of fintech businesses, into: (1) Peer-to-peer Lending (P2PL) and Crowdfunding, (2) Market Aggregators, (3) Investment and Risk Management, and (4) Payment, Clearing, and settlement) [9]. Fintech's Crowdfunding and P2PL categories function to bring investors together with capital seekers

Bank of Indonesia divides fintech into 4 categories, one of which is Crowdfunding and P2PL categories. In this category, fintech serves to bring together investors (capital owners) with those who need funds (borrowers), Crowdfunding can also be used to raise funds for social purposes, such as victims of natural disasters, funding works and so on online. Meanwhile, P2PL is a service to help capital for SMEs so that they can borrow funds even though they do not have a bank account.

*Fintech as a Computer-mediated Communication innovation in the Business Field* : The development of Information Technology in the world today which is supported by internet technology increasingly supports the development of communication techniques among humans that are increasingly sophisticated, effective and efficient in various fields of human life, namely computer mediated communication (CMC). Conceptually Computer-mediated communication is "communication that takes place between human beings via the instrumentality of computers" (Thurlow, Lengel, & Tomic, 2004, p.83) in [11]. Financial technology (fintech) is a form of innovation in CMC in business activities.

From a communication perspective, innovation is an idea, practice, or object that is perceived as new by an individual or other unit of adoption [12]. As an innovation, fintech is currently used by the world community as described in the discussion above. This innovation is diffused from sources of innovation in developed countries throughout the world. The speed of adoption of fintech by a group of people is influenced by how people perceive fintech characteristics as an innovation as explained by [12] including 4 factors: (1) Relative advantage is the degree to which innovation is perceived as better than the idea it is supersedes, (2) Compatibility is the degree to which innovation is perceived as being consistent with the existing values, past experiences, and needs of potential adopters, (3) Complexity is the degree to which innovation is perceived as difficult to understand and use, and (4) Trialability is the degree to which an innovation may be experimented with on a limited basis.

*The Role of Cooperatives in the Saving and Loan Business for Members* : Cooperative is a form of business entity that is recognized in Indonesia and even in the world. Cooperatives have the uniqueness of other forms of business entity in two ways, namely cooperatives aimed at promoting the members economy, and members have a *dual identity*, namely members as *owners* of cooperatives and as *users* of cooperative services [13].

Almost all cooperatives in Indonesia have a savings and loan business, both of which are located as one of the business units in a *multipurpose* cooperative or as the only cooperative business unit (*single purpose*). Most savings and loan businesses are still conducted conventionally

Credit cooperatives or savings and loan businesses in cooperatives can function as intermediaries between depositors and borrowing members. Cooperatives collect funds from members and channel it back to other members.

Related to dual identity, in the position of members as owners, members are obliged to contribute to cooperative capital, while as users members must utilize credit business services from cooperatives. With this principle, P2PL mechanism actually occurs in cooperatives, in which as members they are capable of acting as investors, and other members who need funds to act as borrowers.

In fact, many cooperatives have not been able to rely on capital sources from members, so they rely on capital sources as channeling from banks with higher interest costs, consequently the interest expense for members is also high. However, this also faces obstacles, because the ability of cooperatives to access capital resources from the banking sector is still very limited. There are still many cooperatives that are not bankable. One reason is that they do not have assets that can be guaranteed. This condition is the rationale for this study to further optimize the sources of cooperative capital from members through a fintech model.

### **Method of Study**

This study uses quantitative- descriptive methods. Quantitative - descriptive method aims to describe an event or event that is happening now in the form of meaningful numbers (Nana Sudjana, 1997: 53) in [14]. with this method, the study is intended to describe the implementation of fintech in the financial sector business in Indonesia and formulate an appropriate model for the application of fintech in credit cooperatives. A case study was taken at The Fathiyah Islamic Boarding School Cooperative at Cisayong District, Regency Of Tasikmalaya, West Java Province to support the formulation of the model, based on a descriptive analysis of the feasibility of the innovation. The selection of the Fathiyah Cooperative as a case with consideration of the criteria that the Fathiyah Cooperative as a rural cooperative that represents the community with a relatively low IT literacy, and with a total membership of 20,000 people can represent the socio-economic diversity of the community.

### **Expected Output**

This study was aimed at answering four research questions as follows: (1) How is the implementation of fintech in the financial sector business in Indonesian society, (2) How is the feasibility of fintech applied to credit cooperatives in Indonesia, (3) What is the right model for fintech implementation in cooperatives credit in Indonesia, (4) What are the policy implications of developing fintech in credit cooperatives in Indonesia

### **Fact Findings and Result**

#### *Crowdfund and PdPL: Problems and Risks in its Implementation*

Actually loans in the P2PL platform, can be an alternative for traditional financial mediators to develop their business by utilizing IT developments. In this way individuals / families and SMEs can be funded directly by various investors. This condition creates innovation by developing business models on IT platforms, making it easier to bring together users, both in terms of lenders and borrowers. Money transactions are carried out among unrelated individuals [15]

However. As stated in the introduction, the implementation of fintech in Indonesia

faces many problems and risks. This is the focus of this study. The problem concerns legality issues, the community's limited understanding of the fintech business so that loans are only seen from the easy and fast side of the process of obtaining funds, but ignores interest rates, final fees and other risks, utilization of customer data by irresponsible parties, even to intimidation against defaulted customers, the risk of default, and fraud.

The description of problem and risk in the implementation of PdPL is presented in Table II as follows.

Table Ii: the Problems and Risks of P2pl

No	Problem/ risk	Description			
1	Legal	In 2018 and 2019 OJK had closed 947 fintech, mainly illegal P2PL,.			
2	Community's limited understanding	Many Indonesians still don't understand about the fintech business, including the risks,	Member	Function	Participation
3	loan	Capital owners are looking for maximum profit. those who need funds ignore the conditions set by the capital owners	User	Investor	Members provide loan funds / investments to other members in need
4	Data hacking	The P2PL application system can access personal data that is on the borrower's cell phone, starting from the contact list, photo gallery, short message history, to family history. Including colleagues and family phone numbers		Borrower	Members borrow funds to finance their business.

No	Problem/ risk	Description			
5	Intimidation to consumers	Customers are often trapped in returning debt. This condition usually continues with intimidation, embarrassing the customer in front of friends and colleagues to sexual harassment	Owner	Capital Contributions, Control and Make decision	Obligations of cooperative members to contribute capital to the cooperative, control and make decisions through member meetings.
6	Risk of Failure to Pay	The risk of default is very high especially for illegal P2PL, with very high interest and penalties that will ensnare customers			
7	risk of fraud	Many fraud risks occur, because between parties do not know each other, there are no guarantees and agreements tend to harm the customer			
8	Misuse of Client Data	Misuse of client data is done by the P2PL organizer to get other benefits. Customers' personal data can be offered to other investors, as a revenue niche			
9	high interest rates	Interest rates and final fees are very high, which will burden customers.			

Source: Sugiyanto [16]

*P2PL As a Cooperative Business Development Model*

Based on the description of the above problems, in this discussion an idea of the development model of a cooperative savings and loan business is presented by changing the conventional savings and loan business model to an IT-based savings and loan business using the P2PL platform approach. This model is feasible to be applied in cooperatives, especially for millennial generation which is characterized (one of them) by the mastery of technology known as *Technological Savvy*. Millennial generation is very closely related to the presence of IT, almost all of its activities by utilizing the sophistication of the technology, ranging from activities to meet everyday needs such as shopping, transportation, traveling, banking affairs, learning processes and also in the search for new knowledge

The P2PL platform can be applied to cooperative savings and loan businesses while maintaining the values and principles of cooperatives, thus the rules of cooperatives do not fade due to the development of IT. The role of the member must be both the user and owner. As users will enjoy the benefits of cooperative services (user-owner, user-control, and user-benefit principles). As the owner means they are the controller and decision maker, so various problems and risks can be reduced.

For members who have excess funds can take advantage of the business model as an investment portfolio with returns that can be negotiated between members of the owners of capital with borrowing members. The decision making process, negotiations and control of members as owners can be carried out at *member meetings*.

The cooperative business development model using the P2PL platform can be explained as Fig. 1. Description of Fig. 1 about members function as users and owners is shown in the Table III as follows:

Table III: Function of Cooperative Members as Owner and User

Member position	Function	Participation
User	Investor	Members provide loan funds / investments to other members in need
	Borrower	Members borrow funds to finance their business.
Owner	Capital Contributions,	Obligations of cooperative members to contribute capital to the cooperative,



	Control and Make decision	control and make decisions through member meetings.
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*C. Adoption of Fintech Innovation In Credit Cooperatives, Case: The Fathiyah Islamic Boarding School Cooperative, Cisayong District, Regency of Tasikmalaya, West Java Province*

Currently in Indonesia fintech has been adopted by several cooperatives, especially those engaged in the credit business. Cooperatives that implement fintech are large cooperatives, especially in terms of the number of members. One of the cooperatives that has implemented fintech is the Fathiyah Islamic Boarding School Cooperative at Cisayong District, Tasikmalaya Regency, West Java Province. The fintech application used in this cooperative is named *Qini Mobile*. This application can be downloaded at *Playstore*.

This cooperative is interesting to be used as a case in this study, because it is located in a rural area with a total membership of 20,000 people (the number of members is large for the size of cooperatives in Indonesia), with total cooperative assets of Rp 74,683,127,478 or equivalent to US \$ 5,000,000 (this amount is also great for the size of rural cooperatives in Indonesia). Rural areas can be said to represent the community with IT literacy is still limited compared to urban communities, so if fintech can succeed in rural areas it can be expected to be applied in other cooperatives in Indonesia both in rural and urban areas. With a description of the condition of this cooperative, this cooperative is a suitable sample/case in this study.

This cooperative was established in 1983 with Legal Entity No 02 dated March 23, 2019 . There are a number of business activities carried out by this cooperative to serve its members, namely fisheries, agriculture, mini-markets, and saving and loan (credit). In accordance with the focus of this study, the discussion here is focused on credit business only. The credit business managed by the cooperative has developed well, with total loans disbursed to members of Rp 44,887,232,601 (equivalent to US \$ 3,000,000). To support the development of credit business, cooperatives have implemented fintech since 8 February 2018. The application of fintech in this cooperative has had a positive impact on the development of cooperatives, both on the overall financial condition of the cooperative and on the development of the credit business.

In accordance with the context of this study, from the aspect of communication science, the application of fintech as an innovation can be successful in this cooperative because fintech has several advantages as illustrated in Table IV. as follows

Table IV: Innovation Feasibility Analysis for Fintech

Variabel	DESCRIPTION
<p><b>RELATIVE ADVANTAGE:</b> the degree to which an innovation is perceived as better than the idea it supersedes</p>	<p>There are benefits obtained by cooperatives from the application of fintech applied in the Cooperative starting February 8, 2018</p> <p>Increase the number of members from 18,000 to 20,000</p> <p>Increase the number of active members from 10,000 to 15,000</p> <p>Increase in the number of credit transactions from Rp 44,887,232,601 per year to 48,898,333,205 per year</p> <p>There is an efficiency of credit processing time from 30 days to 15 days</p> <p>There is an efficiency in credit costs from Rp 0.09 for each rupiah credit to Rp 0.06 for each rupiah credit</p> <p>There was a decrease in Non-performance loans from 0.22% to 0.15%</p> <p>There was a decrease in operational costs and cooperative overhead cost from Rp 3,205,216,600 / month to Rp 1,325,524,386 / month</p> <p>There was an increase in the payment of obligatory member savings from Rp 262,258,958 (65%) to Rp 463,583,798 (85%)</p> <p>There was an increase in members' voluntary savings from Rp 2,262,258,958 to Rp 4,463,583,798</p>
<p><b>COMPATIBILITY:</b> the degree to which an innovation is perceived as being consistent with</p>	<p>Serving as many as 20,000 members faster, more precise, and easier.</p>

<p>the existing values, past experiences, and needs of potential adopters</p>	<p>The fintech application can support the application of the dual-identity principle of members, namely members as owners and as users of cooperative services.</p> <p>The fintech application can support the application of democratic principles in cooperatives by strengthening the accountability and transparency aspects of cooperative management</p>
<p>COMPLEXITY: the degree to which an innovation is perceived as difficult to understand and use,</p>	<p>Fintech has less complexity . It is easy to learn by management and members of cooperatives. Administrators need 3 months to learn this application. Trial application in members is done within 1 week, and the members can understand and use it easily</p>
<p>TRIALABILITY: the degree to which an innovation may be experimented with on a limited basis</p>	<p>The fintech application can be tested on one group of members. Members quickly understand and use the application in one week. Currently this application has been used in this cooperative, because members have used Android software on their mobile phones.</p>

Source: Primary data on the Fathiyah Cooperative in 2020

Table IV could describe that fintech as a innovation is feasible to apply and develop since it fulfils the four criterions of innovation stated by [12].

## Conclusion

From this study it can be concluded that:

- (1) Fintech business practices, especially the P2PL platform in Indonesia, still face many obstacles and risks, ranging from rampant illegal business practices, misuse of customer data, customer intimidation, fraud, default, and high interest rates.
- (2) The application of fintech as an innovation has the feasibility of innovation to be applied to cooperatives in Indonesia.
- (3) Cooperatives can become the P2PL Platform model, as an alternative business model by changing conventional savings and loan businesses into the P2PL platform. This model can be a solution to various problems in the implementation of fintech in society in Indonesia. With a note that cooperatives values and principles is carried

out consistently. Likewise, the consistency in the implementation of the members' functions in participating both as a user and as an owner. As users, members can function as lenders/ investors and other members can function as borrowers to finance their businesses.

(4) The policy implication of the findings of this study is that the model of fintech P2PL platform could be developed for credit cooperatives in Indonesia both in rural and urban areas.

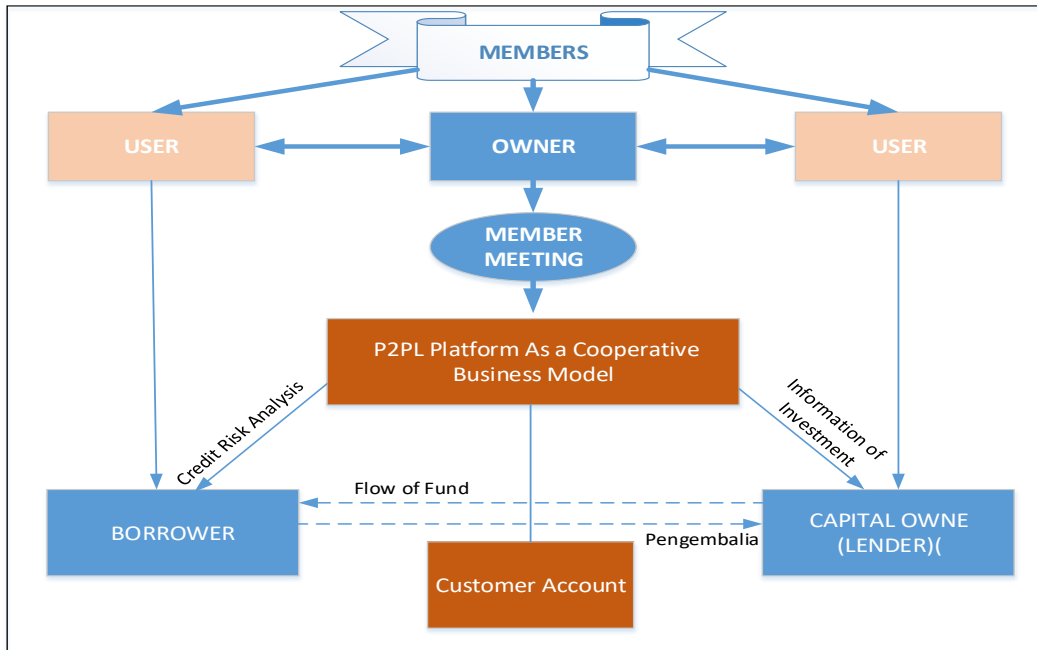


Fig 1.Application of P2PL Model for Savings and Loans (Credit) Cooperatives

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# Managing Workplace Anxiety during the Pandemic: A Pilot Study of Natural Imagery through 4K Video and Virtual Reality

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## Abstract

**Background:** Workplace anxiety has become an increasing priority to address. To date, professional interventions that address workplace anxiety involve medications or talk-therapy, yet the response to these modalities is limited or partial. As a result, there is room for other modalities of care. **Aim:** In this pilot study, we examined whether imagery of nature delivered through 4K Video or virtual reality (VR) headsets could be safe and feasible when administered in a workplace setting. We also examined whether they could reduce anxiety and worry. **Methods:** Sixteen employees at a large health insurance company were recruited to participate in the study. All participants completed “pre” and “post” surveys that measured worry or state-anxiety before and after viewing the video or VR interventions respectively. They were instructed to use the interventions at least once a day, three times a week over a two-week period. **Results:** Overall, the Reulay nature-based interventions were safe and feasible. In addition, there were strong signals of efficacy in reducing anxiety and worry for the 4K Video and virtual reality interventions. In certain instances, VR was superior to the 4K Video. **Conclusion:** Nature-based imagery may be a useful intervention to reduce

anxiety in the workplace if it is delivered using 4K video or VR headsets. Further studies in larger samples are needed to confirm these findings.

**Keywords:** Anxiety, Worry, Nature-based imagery, Video, Virtual reality, Panic, Social Anxiety

## Introduction

Improving resilience among employees who are distressed, anxious or depressed has long been considered a priority. Such negative sentiments can diminish workplace productivity (Ivandic et al., 2017), increase errors (Rajgopal, 2010), and also result in absenteeism and presenteeism (Street et al., 2019). Approximately one-third of the mental health cost burden is related to productivity losses including unemployment, disability and lower work performance (Birnbaum et al., 2010; Dewa et al., 2011). And in the US, the annual cost of depressive and anxiety disorders is \$1.1 trillion (Michalak & Ashkanasy, 2020). Given these widespread emotional and financial costs, the pandemic has heightened the focus on these concerns.

While noninfectious chronic disease patients, quarantined persons, and COVID-19 patients have a higher risk of depression and anxiety (Wu et al., 2021), there is a clear overall increase in anxiety, depression, post-traumatic stress, and “wear and tear” in the population even excluding psychiatric symptoms directly resulting from the viral infection (Nardi & Cosci, 2021). For example, one study compared the prevalence rates of anxiety and depressive disorder of 2019 with those of April-May 2020 in the USA (Twenge & Joiner, 2020). In the latter period, individuals were three times more likely to have anxiety disorders, depression, or both, with more than one in three individuals presenting with one or both disorders. In fact, many experts consider anxiety to be a parallel pandemic along with the viral infection.

While the proper care for anxiety and stress should always begin with a primary care physician who is capable of excluding medical precipitants, many people still do not receive effective and timely treatment due to the low availability, accessibility, and acceptability of traditional counseling (Ha & Kim, 2020). As a result, managers frequently seek solutions for the workplace itself.

One such solution is meditation apps, and some might also work well (Bostock et al., 2019). However, the use of meditation differs by religious group (NW et al., n.d.) (higher among Buddhists and Jehovah’s witness and lower among atheists, Christians and Jews) and only 14.2% of American adults surveyed in 2017 said they had practiced meditation at least once in the last year (*Products - Data Briefs - Number 320 - September 2018*, 2020). While this number may be increasing, there is still a gap in research-based alternatives to enhance wellbeing other than traditional meditation

for the other 86% of the US population and approximately the same proportion of people globally who do not meditate.

One potential alternative, especially given the lockdown conditions in many parts of the world, is viewing natural imagery. Many studies have demonstrated that nature-based guided imagery can be helpful to boost mood and decrease anxiety (Brown et al., 2013; Case et al., 2018; Nguyen & Brymer, 2018). In addition, especially for people who have no exposure to nature, virtual reality can produce the feeling of immersion in relaxing imagery that adds another dimension of exposure (Browning et al., 2020; Gorini & Riva, 2008; White et al., 2018).

In this paper, we report on the results of studying whether negative sentiments (e.g. anxiety, sadness, overwhelm, and frustration) can be reduced by brain-based guided imagery experiences delivered as 4K videos with audio immersion or as virtual reality. We used three different experiences which were designed to produce overall calmness, reduce worry, or reduce body tension. These three outcomes correspond with brain circuitry implicated in anxiety (Akirav & Maroun, 2007; Gold et al., 2016), worry (Barker et al., 2018; Buff et al., 2016) and body tension (Kobayashi & Koitabashi, 2016) respectively.

We hypothesized that both the video imagery with audio immersion (VI) and the virtual reality (VR) would be safe and feasible, and that they would decrease negative sentiments, anxiety, worry, and body tension.

## **Materials and Methods**

### **Participants**

Sixteen participants were recruited in two separate rounds by human resource professionals at a large health insurance company to perform a pilot study. They were assigned by that professional to be either in a VI or VR group.

All subjects signed an informed consent form, and they were screened for head injury, seizures, major mental illness, headaches, eyestrain, lightheadedness, nausea, seizures in individuals with photosensitivity, disorientation, and temporary (short term) loss of spatial awareness. No subjects had any of the contraindications to join.

Prior to the study, the participants filled out demographic forms and baseline questionnaires including the STAI-Y1 (*The State-Trait Anxiety Inventory (STAI)*, n.d.), GAD-2 (*Generalized Anxiety Disorder 2-Item (GAD-2) - Mental Disorders Screening - National HIV Curriculum*, n.d.), PROMIS-Anxiety short form (*PROMIS Anxiety Short Form.Pdf*, n.d.) and the Reulay Mental Shift Questionnaire (RMSQ), an in-house exploratory tool to measure mental shifts.

To be included in the study, participants had to be at least 18 years old. There were no specifications with regard to level of anxiety or meditation practice.



All 16 participants completed the study, but only 13 of them filled out the questionnaires correctly, so we only included 13 in the final sample.

Overall, there were 14 women and 2 men in the original sample, and 11 women and 2 men completed the surveys to provide usable data. The mean age of the sample was  $43.07 \pm 7.2$  years of age.

## Measures

**Demographic Questionnaire:** This questionnaire asked participants to identify information related to their sex, age, race, education level, experience with meditative practices and history of mental illness.

**GAD-2:** This questionnaire asks participants to rank how nervous, anxious, on edge or worried they feel on a scale from 0-3, with 0 being “not at all” and 3 being “every day”. The sensitivity of the GAD-2 is 0.76 (95% CI 0.55-0.89), and specificity is 0.81 (95% CI 0.60-0.92) (Plummer et al., 2016).

**STAI-Y1:** This 20 item self-report measure indicates the intensity of feelings of anxiety; it distinguishes between state anxiety (a temporary condition experienced in specific situations) and trait anxiety (a general tendency to perceive situations as threatening). This uses a 4-point visual analog scale and the participant indicates how they feel in the moment (1=not at all to 4=very much so). We only tested for state anxiety. Internal consistency coefficients for the scale have ranged from 0.86 to 0.95; test-retest reliability estimates have ranged from 0.65 to 0.75 over a 2-month interval (Gaudry et al., 1975; *Manual*, n.d.).

**PROMIS-ANXIETY SHORT FORM** (Pilkonis et al., 2011; *PROMIS Anxiety Short Form.Pdf*, n.d.): This questionnaire has 8-items: “I feel fearful”, “I found it hard to focus on anything other than my anxiety”, “my worries overwhelm me”, “I felt uneasy”, “I felt nervous”, “I felt like I needed help for my anxiety”, “I felt anxious” and “I felt tense.” Participants are asked to rank this as never, rarely, sometimes, often, or always.

**RMSQ:** This is an internal screening tool for mindset shifts which we constructed prior to the study. Subjects rank (five degrees from strongly agree to strongly disagree) the following questions: 1. I feel annoyed or irritable; 2. I feel tense and stressed out; 3. I feel overwhelmed; 4. I feel bored; 5. I feel sad or down; 6. I feel angry or upset; 7. I feel distracted

**Negative sentiment scores (NSS):** On the basis of these reports, we generated NSS to estimate across the board, whether these interventions decreased negative sentiments. To determine this, we assigned numeric values to the responses that participants gave in their surveys. For example, here are the mapping for participant’s answers to the question “How much do you agree with the following statement: I feel overwhelmed”: Strongly Disagree – 1; Disagree – 2; Neutral – 3; Agree – 4; Strongly Agree – 5

If a question asks about a more positive sentiment, such as “I feel calm”, then the mappings shown above are reversed so that higher scores continue to represent negative sentiment. The numerical mappings of a participant’s responses are then added up to calculate the negative sentiment score of a given test.

Participants filled out the STAI-Y1 and Promis only at the beginning and end of the entire 2 weeks. They filled out the GAD-2 and RMSQ before and after each experience (six times over the two weeks.)

## **Procedures**

**VI Experience:** Study participants were asked to complete a set of questionnaires, followed by being seated at a computer and asked to watch a video with one of three scenes: (Scene 1) natural scenery such as trees, streams and deer; (Scene 2) natural scenery such as a herd of buffalo and shooting stars and (Scene 3) designed to help release body tension with a series of progressive relaxation instructions with a background of a nature scene including stars, a canoe, and a visit to an island of plush green trees. After this viewing they were asked to complete another set of surveys.

**VR Experience:** Study participants were asked to complete a set of questionnaires, followed by being seated in a room, having been given basic instruction on the VR headgear [*Oculus Quest*]. They then initiated the first of the intervention events. They were all approximately 10-minute VR events that involves one of three scenes: (Scene 1) designed for relaxation in nature with natural scenery such as trees, streams and deer, and (Scene 2) designed to help worry with natural scenery such as a herd of buffalo and shooting stars and (Scene 3) designed to help release body tension with a series of progressive relaxation instructions with a background of a nature scene including stars, a canoe, and a visit to an island of green.

After this VR period, participants were asked to complete a second round of two questionnaires. At the conclusion of the experience, the headgear was removed.

After this viewing they were asked to complete a set of surveys as well.

## **Details of experience:**

### **Experience 1 (Calming) (Abbreviation: Calm)**

The in-nature experience was 9-min and 57 seconds in length and produced by Reulay Inc. (New York, NY, United States) using computer graphic imagery (CGI). As the scene opens, there is a forest with redwood trees and a path (Example: see Figure 1). The sky is blue and soft generative music begins playing in the background. Approximately 20 seconds into the experience, a voice begins guiding the viewer through a mindfulness meditation as you are ‘walked’ through the forest. Near the end of the scene, you come across a river and see a buck from a far distance that looks at the user. From there you continue down the path hearing the sounds of the forest,

birds chirping and water streams. The scene ends as you enter a meadow with the sun above while dissolving to white.

### **Experience 2 (Worry reduction) (Abbreviation: Distraction)**

The distraction-nature experience (Experience # 2) used identical music and identical length at 9-min and 57 seconds produced by Reulay Inc (New York, NY, United States) using computer graphic imagery (CGI). As the scene opens, you are in an open field looking at a flock of birds fly across the sky (Example: see figure 2). Approximately 20 seconds into the experience, a woman's voice begins guiding the viewer through a mindfulness meditation as you are 'walked' through field and see a herd of buffalo and shooting stars (3 mins & 20 seconds). During this experience, the user is gently guided through 3 distraction experiences starting with a flock of birds. Secondly the user looks at a herd of buffalo. And lastly, as the user makes their way through the experience, they approach the last distraction exercise, which is to look at shooting stars. The scene ends as you look out onto a lake with the moon's light above while dissolving to white.

### **Experience 3 (Reducing body tension) (Abbreviation: Relaxation)**

The somatic-nature experience (Experience # 3) uses similar music produced by Reulay Inc (New York, NY, United States) using computer graphic imagery (CGI). As the scene opens, you are staring at an island in the distance with blue clouds reflecting off the water below (Example: see Figure 3). Approximately 15 seconds into the experience, a woman's voice begins guiding the viewer through a somatic meditation as you are made aware to the sky, water and music around. During this experience, the user is gently guided through a breathing exercise (2:50 mins) while the clouds match your air movement. The user then gently glides in a canoe to a beach side sunset (6min 30 sec). The scene ends with a star light show as the user is how they are unique just as each star is. The sun rises and dissolves to white.

### **Hypotheses:**

Prior to the study, we articulated the following hypotheses:

**Hypothesis 1:** The Reulay Virtual Reality (VR) and Reulay Online (VI) interventions will be safe and acceptable (measured by participant report and survey)

**Hypothesis 2:** Participants will demonstrate high adherence to the VR and VI (measured by comparison of actual usage time to usage time prescribed)

**Hypothesis 3:** Using VR and VI will help reduce anxiety symptoms, worry and body tension) as well as shift negative mindsets to ward positive ones (measured by pre and post GAD-2 scale and pre and post Reulay Mental Reset Questionnaires)

**Hypothesis 4:** Using VR and VI will help to decrease STATE ANXIETY as measured by STAI-Y1 at the beginning and end of the study as well as PROMIS at the beginning and end of the study

**Hypothesis 5:** The majority of participants will find the experience worthwhile and will recommend it

## Results

Of the 16 participants recruited, only 13 provided usable data. Below are the results as they relate to the hypotheses.

**Hypothesis 1:** The Reulay Virtual Reality (VR) and Reulay Online (VI) interventions will be safe and acceptable (measured by participant report and survey)

Sixteen subjects signed up to the trial (9 for the online portal and 7 for the VR experience). All 9 subjects completed the online experience with no side effects and no discomfort. Six of the 7 people completed the VR experience. One person had cybersickness which reversed immediately upon discontinuation. All people were able to complete one 10- minute experience at least once a day for 3 days of the week.

**Hypothesis 2:** Participants will demonstrate high adherence to the VR and VI (measured by comparison of actual usage time to usage time prescribed)

Aside from the one person who dropped out after 2 full digital experiences, all other people used the VR and VI interventions as prescribed.

**Hypothesis 3:** Using VR and VI will help reduce anxiety symptoms, worry, and body tension) as well as shift negative mindsets to ward positive ones (measured by pre- and post GAD-2 scale and pre and post Reulay Mental Reset Questionnaires)

### GAD-2:

For all 13 participants who completed the study, the mean change in GAD-2 for VR and VI combined was  $-0.58 \pm 0.86$  ( $t = -2.45$ ;  $p = .03$ , paired t-test).

When each experience was examined separately, for CALM the mean change in GAD-2 for VR and VI was  $-0.36 \pm 0.55$  ( $N = 11$ ;  $t = -2.19$ ;  $p = 0.05$ , paired t-test). For DISTRACTION the mean change in GAD-2 for VR and VI was  $-0.83 \pm .98$  ( $N = 8$ ;  $t = -2.08$ ;  $p = 0.09$ , paired t-test). For RELAXATION the mean change in GAD-2 for VR and VI was  $-1.60 \pm 1.6$  ( $N = 6$ ;  $t = -2.20$ ;  $p = 0.06$ , paired t-test).

For VR alone, the mean change in GAD-2 was  $-0.83 \pm 1.11$  ( $N = 7$ ;  $t = -1.99$ ;  $p = 0.09$ , paired t-test). For VI alone, the mean change in GAD-2 was  $-0.29 \pm 0.33$  ( $N = 6$ ;  $t = -2.15$ ;  $p = 0.08$ , paired t-test).

Tables 2 a, b, and c summarize these data

## RMSQ

For all 13 participants who completed the study, the mean change in RMSQ for VR and VI combined was  $-3.12 \pm 4.17$  ( $t = -2.7$ ;  $p = .02$ , paired t-test).

When each experience was examined separately, for CALM the mean change in RMSQ for VR and VI was  $-3.64 \pm 4.24$  ( $N = 11$ ;  $t = -2.84$ ;  $p = 0.02$ , paired t-test). For DISTRACTION the mean change in RMSQ for VR and VI was  $-0.42 \pm 2.33$  ( $N = 6$ ;  $t = -.43$ ;  $p = 0.67$ , paired t-test). For RELAXATION the mean change in RMSQ for VR and VI was  $-2.75 \pm 3.96$  ( $N = 8$ ;  $t = -1.96$ ;  $p = 0.09$ , paired t-test).

For VR alone, the mean change in RMSQ was  $-2.97 \pm 2.59$  ( $N = 7$ ;  $t = -3.04$ ;  $p = 0.02$ , paired t-test). For VI alone, the mean change in RMSQ was  $-3.29 \pm 5.79$  ( $N = 6$ ;  $t = -1.39$ ;  $p = 0.22$ , paired t-test).

See Tables 3 a, b, and c for summaries

## Negative sentiment scores

For all 13 participants who completed the study, the mean change in negative sentiment for VR and VI combined was  $-3.71 \pm 4.24$  ( $t = 3.02$ ;  $p = .01$ , repeated measures ANOVA).

When each experience was examined separately, for CALM the mean change in negative sentiment for VR and VI was  $-4.0 \pm 4.3$  ( $N = 11$ ;  $t = -3.09$ ;  $p = 0.01$ , repeated measures ANOVA).

For DISTRACTION the mean change in negative sentiment for VR and VI was  $-1.25 \pm 3.03$  ( $N = 6$ ;  $t = -1.01$ ;  $p = 0.35$ , repeated measures ANOVA). For RELAXATION the mean change in negative sentiment for VR and VI was  $-4.0 \pm 5.3$  ( $N = 8$ ;  $t = -2.14$ ;  $p = 0.07$ , repeated measures ANOVA).

For VR alone, the mean change in negative sentiment was  $-3.81 \pm 3.4$  ( $N = 7$ ;  $t = -2.96$ ;  $p = 0.03$ , repeated measures ANOVA). For VI alone, the mean change in negative sentiment was  $-3.58 \pm 5.7$  ( $N = 6$ ;  $t = -1.52$ ;  $p = 0.19$ , repeated measures ANOVA).

**Hypothesis 4:** Using VR and VI will help to decrease STATE ANXIETY as measured by STAI-Y1 at the beginning and end of the study as well as PROMIS at the beginning and end of the study

## PROMIS:

There was only one participant who completed the test correctly for two weeks in a row so Week 1 had a sample size of 10 and Week 2 had a sample size of 1. We were unable to extract any meaningful data here as people only answered some of the questions.

Post-hoc, where there were sufficient questions on these items that were answered, the items “I feel tense and stressed out” and “I feel sad both showed meaningful reductions across all participants (N =13, W = 4.5, p = .01 and N = 13; W = 4.0; p = .02 , Wilcoxon signed-rank test)

### **STAI-Y1**

There was only one participant who completed the test correctly for two weeks in a row so Week 1 had a sample size of 10 and Week 2 had a sample size of 1. We were able to extract limited meaningful data here as people only answered some of the questions.

Overall, for VR and VI, the mean change in STAI-Y1 was  $-5.8 \pm 16.9$  (N = 10, t = -.18; p = -.31, paired t-test). For VR alone, the mean change in STAI-Y1 was  $-9.2 \pm 10.7$  (N = 6, t = -2.1; p = .09, paired t-test). For VI alone, the mean change in STAI-Y1 was  $-7.5 \pm 24.8$  (N = 4, t = -.06, p = .96).

Table 4 summarizes these findings

Post hoc, for the item “I feel calm” there were statistically significant reductions after 2 weeks (SS =10; W = 5; p = .02)

**Hypothesis 5:** The majority of participants will find the experience worthwhile and will recommend it

Seventy five percent of participants found this study worthwhile to participate in, 17% were unsure, and 8% did not. Eighty three percent of them agree that the imagery was a welcome break and 67% said they felt more relaxed after seeing it. There was a 50% / 50% split on whether or not the imagery should be longer or shorter.

### **Discussion**

In this sample of 13 corporate employees who were randomly assigned to VR and VI groups, 10-minutes of exposure to guided imagery through nature using VR or 4 K video proved to be safe feasible and appealing if experienced at least once daily, three times a week. In addition, there were strong signals that a 10-minute guided experience through nature could provide a much-needed break during the day.

For this group of individuals, we found statistically significant changes in GAD-2 for the group as a whole, and trends toward statistical significance for VR and VI separately. Among the three experiences, exposure to the “calm” experience only resulted in statistically significant changes in GAD-2, whereas there was a trend toward significance in the somatic relaxation group, but no statistical significant changes in GAD-2 the group exposed to the distraction experience. In addition, statistically significant changes were found for all experiences together for the VR

group, but not for the VI group. When we used our exploratory RMSQ Tool, we found statistically significant differences after the experience compared to prior to the experience across the entire two weeks for VR and VI combined, for the calm experience only, and for VR but not VI. There was a trend toward statistical significance for the somatic relaxation experience. For state-anxiety, there were no statistically significant changes at 2 weeks compared to baseline for VR and VI combined, but for VR alone there were statistically significant changes in state anxiety.

Overall, these findings indicate that nature-based guided imagery may be helpful for nervousness, anxiety, feeling on edge, or worrying, as well as “emotional distress” characterized by annoyance, tension, overwhelm, boredom, sadness, anger, or distraction. In addition, in this setting an experience designed to induce calmness is more powerful than one designed to induce somatic relaxation or distraction at a group level. Also, while VR and VI are both potentially helpful, it appears that for this group, VR was superior for annoyance, tension, overwhelm, boredom, sadness, anger, or distraction as well as state-anxiety.

Our findings are consistent with prior studies that demonstrate the positive effects of viewing nature on anxiety (Brown et al., 2013; Jo et al., 2019; Nguyen & Brymer, 2018), as well as studies that have demonstrated the anxiety-reducing impact of nature in VR (Browning et al., 2020; Ioannou et al., 2020; White et al., 2018). Given that burnout rates and psychological distress are both high in the workforce especially when there are large-scale changes (Alrawashdeh et al., 2021; Sklar et al., 2021), this intervention could be a much needed and helpful one for people at work. In addition, given the impact of anxiety on work-family balance (Mahgoub et al., 2021), this intervention could also have profound consequences on a person’s home life. Also, rates of anxiety were found in one study to be more than three times the baseline high rate of anxiety in the general population, so additional interventions could be very helpful indeed (Santabárbara et al., 2021). Many people are also experiencing tremendous anxiety due to job insecurity as a result of changes in the workplace (Ganson et al., 2021), and younger people may be especially susceptible to anxiety (Varma et al., 2021).

Limitations of this study include the relatively small sample size, the lack of a waitlist control, and the large standard deviations in some of the analyses, which might have benefitted from machine learning over a longer period of time and with a larger sample. Also, while the RMSQ is an exploratory questionnaire, it is not validated.

However, the GAD-2 and STAI-Y1 have been validated extensively, and the strong findings from these small samples suggest that the anxiety-reduction signal is worth noting. Also, this study has the strength of exploration of a relatively unique but feasible method of reducing anxiety at a time when companies appear to be acquiring VR headsets for their employees (*Accenture Orders Record 60,000 Oculus Headsets*,



2021; careers & Clients, n.d.). Also, this intervention can be delivered at scale in wellness rooms or departments that have partially returned to work.

Perhaps most notable is the fact that that 75% of participants found this experience worthwhile, and 83% of them experienced it as a welcome break. Given the harmful impact of work-related stress on factors as wide-ranging as productivity (Bui et al., 2021), absenteeism (HEO et al., 2015), presenteeism (Van Der Feltz-Cornelis et al., 2020), and even genes (Gottschalk et al., 2020), it would be worth exploring if this intervention can demonstrate an impact on all of these variables as well. Also, given that half of all people with generalized anxiety disorder will not respond to first-line treatment (Ansara, 2020), and given that most clinical trials of anxiety disorders document response rates of 50% to 60% and remission rates between 25% and 35% (Roy-Byrne, 2015), there is clearly a place for additional potentially helpful tools such as nature-based imagery, and in particular VR, which offers a unique and distinct ability for immersion in nature (Diemer et al., 2015; Gutiérrez et al., 2007; Joo et al., 2021).

Overall, this pilot study provides strong signals that nature-based imagery can provide a welcome break and reduce generalized anxiety and state anxiety, especially if delivered through VR. Future studies using larger sample sizes with a control condition would significantly add to the current line of inquiry. Also, examining individualized responses would help to further understand how interventions may be tailored toward specific groups of people.

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**Table 1: Demographics**

Mean Age (± SD)	43.07 ± 7.2
Female/Male	11/2

**Table 2: GAD-2**

Post-pre differences in GAD-2 Overall (R-VR and R-NI)

N	Mean	SD	t	p
13	-0.58	0.9	2.45	.031**

\*\* Statistically significant

**Table 2a: Mean changes in GAD-2 for VR and VI combined**

Post-pre differences in GAD-2 (VR and VI)

N	Mean	SD	t	p
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Calm	11	-0.36	0.55	-2.19	.05**
Distraction	8	-1.25	1.6	-2.20	.06*
Relaxation	8	-0.83	0.98	-2.08	.09*

\*\* Statistically significant; \* Statistical trend

**Table 2b: Mean changes in GAD-2 for VR and VI combined for each experience separately**

Post-pre differences in GAD-2 (VR and VI separately)

	N	Mean	SD	t	p
R-VR	7	-0.83	1.1	-1.99	.09*
R-NI	6	-0.29	0.3	-2.15	.08*

\* Statistical trend

**Table 2c: Mean changes in GAD-2 for VR and VI separately**

**Table 3  
RMSQ**

Post-pre differences in RMSQ Overall (R-VR and R-NI)

N	Mean	SD	t	p
13	-3.12	4.17	2.70	.02**

\*\* Statistically significant

**Table 3a: Mean changes in RMSQ for VR and VI combined**

Post-pre differences in RMSQ (VR and VI)

	N	Mean	SD	t	p
Calm	11	-3.64	4.24	-2.84	.02**
Distraction	8	-2.75	3.96	-1.96	.09*
Relaxation	6	-0.41	2.33	-.43	NS

\*\* Statistically significant; \* Statistical trend

**Table 3b: Mean changes in RMSQ for VR and VI combined for each experience separately**

Post-pre differences in RMSQ (VR and VI separately)					
	N	Mean	SD	t	p
R-VR	7	-2.97	2.6	-3.05	.02**
R-NI	6	-3.29	5.8	-1.39	NS

\*\* Statistical trend; NS = non-significant

**Table 3c: Mean changes in RMSQ for VR and VI separately**

**Table 4  
 STAI-Y1**

Post-pre differences in STAI-Y1 Overall (R-VR and R-NI)

N	Mean	SD	t	p
10	-5.8	16.9	-1.08	NS

NS = non-significant

**Table 4a: Mean changes in STAI-Y1 for VR and VI combined**

Post-pre differences in GAD-2 (VR and VI separately)

	N	Mean	SD	t	p
R-VR	6	-9.2	10.7	2.11	.09**
R-NI	4	-0.75	24.8	0.06	NS

\*\*Statistical trend

† Sample sizes were too small to examine each paradigm separately

**Table 4b: Mean changes in RMSQ for VR and VI separately†**



Figure 1: Photograph of a segment of the first VR and VI experience called “walk in the woods”





Figure 2: Photograph of a segment of the second VR and VI experience called “distraction-nature”



Figure 3: Photograph of a segment of the third VR and VI experience called “somatic-nature”





## Outsourcing and the strategy of organizations in Mexico

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### Abstract

Outsourcing has been a very commonly used strategy to increase productivity in a variety of organizations. In Mexico, it can be said that it has had a positive impact on employment rate. Nevertheless, there is a “dark side” in this strategy, since it has been used as a way to avoid direct hiring of employees and to evade fiscal and social security regulations. This document aims to analyze outsourcing from a regulatory and contractual approach, as well as its role as a way to increase the employment rate, and from a managerial perspective. As a result of this analysis, it was found that in our country outsourcing has been a successfully used strategy by many organizations of different sizes, but at the same time, the lack of an appropriate legislation has originated a series of unethical practices. In Mexico, in 2021 a new legal framework that tries to balance the relationship between firms and employees was approved. This paper ends with a reflection of the possible impacts of this new legislation.

**Keywords:** outsourcing, strategy, México, organizations, employment, contractual, regulatory

### Introduction

Undoubtedly, as years go by, new forms to increase efficiency and efficacy of organizations are arising. From the beginning of last century to date, the advanced Administrative Sciences have undergone a visible change, starting from the

mechanistic approach of Scientific Administration to reach a situational paradigm where the way to consolidate ends and means is a function that depends on the characteristics of the organization, as well as the particular context where the latter is inserted. This way, in the evolution of Modern Administration, tools that seek to assist in the achievement of the organization objectives have been cumulatively added.

Within the context of human talent management, several tools have emerged in the search of a more successful operation in the organizations, outstanding in later years the figure of outsourcing. Evidently, there are elements that reflect a dual character, since on one side this modality allows to divest the corporation of non-essential activities, but on the other side, it has been used to reduce the corporation obligations towards its workers, with important impacts on both labor and tax obligations.

The objective of this work is focused on analyzing outsourcing from the perspective of its contractual nature, the form it is regulated, its repercussion as far as job absorption is concerned, as well as its role within the range of strategies available to organizations.

### **Contractual elements of outsourcing**

As a way to hire people it shows several advantages for organizations. Big corporations began to use it since the seventies of last century. Twenty years later it is also intensively assimilated in informatics companies.

Legally this contractual mode belongs to a commercial field, specifically to a mercantile contract for business management (obligations to give and to do). Distinctly to what is generally believed, its nature is neither labor nor civil.

Different from a subcontractor contract, in an outsourcing one there is no labor relation. It is similar to a contract for externalizing activities, although with an emphasis on the financial rather than the legal features. Compared with a subcontracting contract, it is much more open. Different from a consortium contract, outsourcing does not contemplate any participation in corporative profits.

According to the regulatory circular of the Federal Banking Commission of Switzerland, externalization involves delegating within a long-term period some of the corporation activities (called client corporation) to the control of another company (called outsourcer), so that the first one may focus on its main operations (Echaiz, 2008). In the specific event of delegating activities outside the original country, this figure receives the name of offshoring.

Among the main rights of the client corporation are: definition of the objective, supervision, intellectual ownership, requirement of exclusivity and confidentiality, strategic coordination, ownership of goods being transported, and accountability. On

the other side, its main obligations are: magnitude of authority delegation, providing information, supervision of compliance and payment of agreed compensations.

Concerning the rights inherent to the outsourcer, these include: autonomy, no subordination, possibility of additional businesses within the exclusivity limits, requirements for information, payment for the service. As far as its obligations, these refer to: having human resources sufficiently trained, liability concerning assets and documentation of the Client Corporation, providing periodic information, efficacy, as well as respecting intellectual property, exclusivity and confidentiality.

Other specific characteristics are: it is considered of organizational nature (due to its impact on an administrative structure), of long-term (5 to 10 years as average), costly, that will provide certain results, that entails the parties without subordination, as well as that it provides benefits for both parties.

Among the derivations of outsourcing, it may be observed: co-sourcing (shared risk), multi-sourcing (merging efforts of diverse transactions), temporary outsourcing (between 5 and 10 years), and insourcing (reversion of outsourcing), as well as trans-sourcing (creative reinforcement), among other (Viega, 2002).

Other features of this figure are, as has been shown, its eminently financial-administrative origin, it is used for goods or services, mainly as support of non-essential activities of the client corporation. It may be temporary or for indefinite duration.

There is no standard that identifies one unique concept to name the figure, in Spanish it is usually referred to with the term “externalización”, and less frequently as “subcontratación” (subcontracting). Beyond these semantic considerations, briefly, what is sought by the client corporation, as an increase in efficiency and competitiveness, as a result of specialization on its substantive activities (Silva, 2010).

### **Current environment of outsourcing in México**

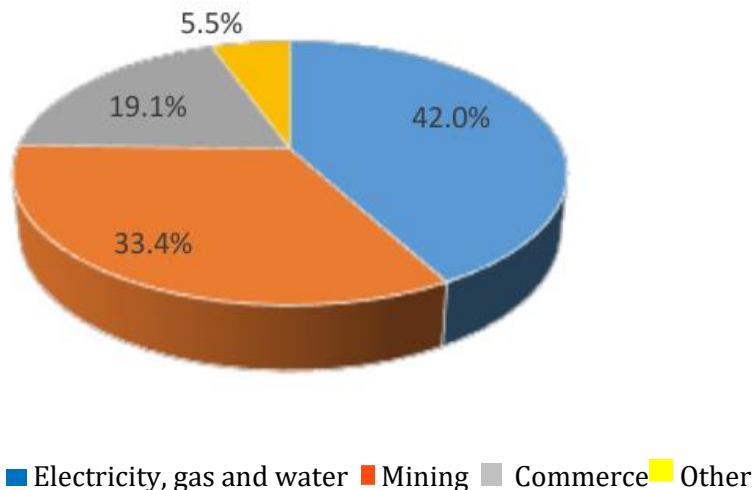
Ant the end of 2018 in México, the personnel hired and provided by a different company, and the personnel working for fees or commissions without any basic salary, that are considered within subcontracted personnel, showed a considerable increase in number.

It should be noted that among the most used services under the figure of outsourcing, are the informatics and accounting ones, tele marketing, graphic design, and investigation. By 2019, the personnel not dependent of the company grew to nearly 4.7 million people, with an average yearly increase rate of 5.5% during the most recent decade (Inegi, 2020b). In 2019 the participation of this modality within the total number of hired personnel was 17.3%, 0.7 percentage points higher than the previous year. Whereas the above growth is significant, it is also very inferior to the

average yearly growth rate of 14.3% observed in the period 2004-2009 (Inegi, 2020a).

The sectors where this figure has had a higher relative participation in 2019, were: electricity, gas and water (42.0%), mining (33.4%) and commerce (19.1%) (See Graph 1). The sectors with the highest accumulated growth within this modality, for the period 2013-2018 are: electricity, gas and water (1,132.6%), fishing and aquaculture (45.7%), services (41.5%) and mining (39.4%). The total accumulated growth for the same analysis period was 30.9%. The states with a bigger proportion of personnel hired with this figure were: Quintana Roo (35.4%), Baja California Sur (27.8%), Mexico City (25.0%), Nuevo León (22.0%) and Querétaro (21.4%) (Inegi, 2020a).

Graph 1. Outsourcing by economic activity sectors in Mexico, 2019. Percentages as a proportion of the total.



Source- Own draft, based on INEGI, 2020a

### Regulatory aspects of outsourcing: The case of Mexico

As mentioned above, outsourcing is mostly used for reorganizational purposes, particularly by big companies, with the objective of concentrating their efforts on their main activity or core business. Other features of this figure in Mexico are its similarity with a job lease contract, that it is considered atypical, linked with a company, periodically implemented, and also involving a fee payment, and a partial transference to a third party (Viega, 2002).

In Mexico, in April 2021, it was approved an Outsourcing Reform that forbids outsourcing, though it allows providing “specialized services”, or the implementation of “specialized activities” that are not part of the social aim or of the core economic

activity of the beneficiary (whether by external companies or by related entities). In order to provide these services, outsourcing companies have to register themselves in Secretaría del Trabajo y Previsión Social (Labor and Social Security Ministry) (Rendón de Chevez, 2021).

### **Corporation strategies regarding outsourcing**

Around three fourths of the manufacturing production have been involved with outsourcing. This modality of hiring has been an essential part of globalization, impacting on the structure and function of many corporations. These ones, when trying to consolidate all activities in their processes, fell into inefficiencies arising from deviating from their core abilities. Therefore, they were increasingly demanding a supply of support activities provided by companies specialized in such activities.

The origins of outsourcing were in India, as well as the Philippines and Indonesia, due to their relatively lower wages levels, 24 hours service and personnel with higher education levels.

The benefits provided by outsourcing may be operative and/or strategic. According to the results obtained by the companies, its role continues showing high demand. This has a higher weight when re-engineering is part of an organizational strategic process aimed to identify substantive processes, as well as adjective processes, in order to concentrate their efforts in their core business.

Among the most relevant advantages are cost reduction in a long term, increase of productivity of manpower, economic access to technology, as well as positive effects for the corporative image. On the other side, the drawbacks of this figure are the wrong identification of essential activities and the economy of scale that is sought, reduction in corporative control, errors in cost consideration, as well as lack of efficient support of the outsourcer (Lankford and Parsa, 1999).

Thus, previously to the use of this figure, organizations must accurately know the core business of the company, the costs and benefits, as well as the flexibility of the available options. Thus, the net result in costs must be studied carefully for each option, as well as its quality, creativity and degree of vulnerability, the latter concerning the dependence on third parties.

Furthermore, the different offers must be evaluated considering offered services, reversibility, trustworthiness, among other factors. From a strategic perspective, the decision should be taken placing balancing all the factors impacting on the acquisition of long-range competitive advantage (Lankford y Parsa, 1999).

The main barriers to the use of this modality are: fear of losing control, trade union reactions, communication problems, distrust of remoteness. The main operating risks are integration risk, loss of control, loss of know-how generated by the organization, changes in the business as well as contractual changes (Corbett, 2004).

## **Key elements to make the decision of implementing outsourcing**

Attention should be focused on processes, not on departments, according to the Business Process Outsourcing (BPO). In addition, this decision must be taken considering the concept of supply chains and within a holistic perspective of the organization (Lankford y Parsa, 1999).

In order to evaluate the benefits of outsourcing, tools such as the Balance Score Card, that provides a deeper assessment than financial statements, should be used. Also, it must be taken into consideration the utilization of value chain analysis. Especially relevant is the role of the team leader of the project.

The existence of a market of first-rate service vendors is an important requirement to make a decision. Furthermore, the analysis must cover all the aspects of a joint venture characterized by highly interdependency, with pre-qualification mechanisms that verify success indicators of prospectus, that analyses current costs, the expected benefits, as well as other related intangible factors.

A successful outsourcing decision requires transparency, mutual cooperation, and clearness of the expected benefits for each party, always under a win-win negotiation. Also, the benefits of outsourcing must be considered in such a way that they do not negatively impact on the welfare of the workers. A good communication, empathy and the role of the human resources areas are very important. All these elements must be contemplated within a framework of a mutual interdependence environment (Corbett, 2004).

## **Expected impact of the regulatory Reform of Outsourcing in México**

It is foreseen that this Reform will have a positive impact regarding workers, that have to be directly hired by the firms that require their services and it will be mandatory for these companies to fulfill social security and tax regulations. As a matter of fact, the Labor and Social Security Ministry has estimated that around 300 thousand workers that had been hired through outsourcing, up to the end of April, had been transferred as direct employees of the firms (Sáenz, 2021). On the other hand, it is expected that there will be a reduction in the number of outsourcing companies.

The figure of outsourcing shall be formalized under a written contract. Furthermore, Labor and Social Security Ministry will supervise the registration of companies providing specialized services, as well as the fulfillment of the newly approved regulations. The corresponding fines may go as far as 4 million pesos (El Financiero, 2021).

Regarding the economic impact of the regulations, at the end of the third quarter of 2021, Inegi (2021) reports that the Gross Domestic Product (GDP) underwent a loss of -0.2% in relation to the prior quarter. This was caused by the quarterly reduction of -0.6% observed in the service sector. Alejandro Valerio, from Frontier View,

indicates that business support sector fell -48.1% on an annual basis, which according to this source is a result of the legal modifications to outsourcing (El Economista, 2021).

### **Final remarks**

In México, during the first decades of this century, outsourcing as a managerial tool has gained a high degree of importance due to its impact on employment rates and because it is a valuable element to increase productivity and efficacy in the organizations. However, from a contractual perspective, due to its atypical character, sometimes it was misused, even in an illegal way, with negative consequences regarding labor rights of the workers.

As it has been said, outsourcing as a management strategy allows corporations to focus on their core business, making more flexible the management of human talent. However, in Mexico, misleading practices, led to the need of reviewing and modifying the corresponding legislation. This has conducted to the enactment of the Outsourcing Reform, whose effects at the level of organizational strategy, as well as on employment rates and welfare of workers, have yet to be evaluated. In the meantime these changes are a starting point to achieve a greater degree of balance between the parties: the organizations demanding the service, those that provide it and the workers.

According to Piedra et al (2021) “The most important is to generate a balance that allows corporations to use this modality to increase their productivity and make investments more attractive; and on the other side, guarantee the rights of the workers, without falling into simulation...” (p. 8).

From another perspective, outsourcing has responded to an approach where both the worker and the employer have relaxed their links, in such a way, that they may become so flexible that the dimension of the true rights of the workers is lost during the search of a reduction of related costs (Ruíz and García, 2016).

Fairly fulfilling labor rights, as well as the aspects related to tax contributions, the corporations that use this modality may achieve higher levels of productivity, focusing organizational efforts on the core activities of their operation.

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## Sustainability in the Companies Practices

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### Abstract

The sustainability topic is present in our everyday life. No matter if we are traveling in the public transport, we are having coffee with friends or watching tv we hear something related to green economy, sustainable usage of resources or smart energy saving devices. All ads that we see around us, in one way or another, also are calling to be environmentally friendly and sustainable. On national and international level, there are a lot of regulations and requirements developed and enforced both for the business and for the citizens. In the general case, it is commonly accepted, that the companies are taking actions in the field of sustainable development only because they are forced to do so by legislative requirements and penalties. But is it always the case? The paper discusses the main idea standing behind the sustainable development and presents some of the models that summarizes this idea. Further, by reviewing the practices of three large companies in different economic fields, it discusses their approach and attitude towards the subject.

**Keywords:** Sustainability, environment protection, business practices

### Introduction

The sustainability issues nowadays are all around us. At the beginning, when the sustainability concept had been only a good wish and it had not been accepted as something important, it has been based on four main principals - consideration of public priorities, not only with the needs of today but also the needs of the future generations; even distribution of efforts to reasonably use of natural resources and

restoration of ecological balance; linking the economic to the environmental effectiveness; equal environmental responsibility and cooperation between countries in solving global problems facing humanity. These principals are even more valid today but since the 70s of the XXth century, they have been significantly improved and developed. Furthermore, different sustainability models have emerged due to the different understandings and the different approaches to the subject on international level. All these developments through the years affect mostly the companies and their activities. One of the main objectives of the corporate governance is “to achieve high level of performance, profitability and to prevent the management from pursuing their own objectives at the cost of the stakeholders” (Zhelev, 2020). This objective usually is pursued without paying much attention to the side costs that emerge and to the harms that are caused to the environment. The general case from the beginning of the sustainable development talking is that the big corporations were forced by law to take the sustainability in mind. But is it really the case? Nowadays a lot of companies (big and small), led by different motives, are putting a lot of efforts to be sustainable, mostly on voluntary base. Looking at the history and practices of different multinational and global companies, it turns out that their sustainability thinking dates far before the sustainability concept to be in the spotlight.

### **The concept of sustainable development**

There is a lot of things already written and discussed about the sustainable development, its nature and main characteristics. Some authors see it as a package of development programs that will help solving the problem of scarcity and lack of natural resources as well as the social equality (Bartelmus, 1994). Other authors accept it as a system of activities and mechanisms whose main purpose is to ensure optimal growth of the economy through the use of natural resources in the most efficient way and preserve them for future generations (Pearce, Barbier, Markandya, 1990). Still others present it as achieving a balance between social and environmental principles in a socially justified and environmentally sound economic development (Gechev, 2005).

The most popular definition, that has been used as a base for all other activities related to popularization of the concept, comes from a report written in 1987 by an international commission, led by Gro Brundtland, known as the Brundtland report. It states that “*Sustainable development is development that meets the needs of the present without compromising the needs of future generations to meet their own needs*”.

Since the Brundtland Report, the sustainable development idea has developed further and went beyond the primary framework for "socially inclusive and environmentally sustainable economic growth". In 1992, the UN Conference on Environment and Development published the Earth Charter, with the main purpose

to outline the building of a fair and sustainable “global society” in the 21st century<sup>1</sup>. The Agenda 21 action plan for sustainable development further defined these three pillars as interdependent (IISD, 2012). It points out the need to change the business practices from old resource-oriented to new approaches that involve interdisciplinary co-ordination and integration of environmental and social issues. Furthermore, Agenda 21 stressed that all activities related to the sustainable development would be in vain without broad public participation in decision making process.

In December 1997, based on the principle of "common but differentiated responsibilities" the Kyoto Protocol was adopted. It is the first legally binding global instrument that engaged the developed countries with specific quantitative reduction of their greenhouse gas emissions. The Protocol entered into force in 2005, it is valid until 2012 and has been ratified by 184 countries.

The Protocol's scope include six main greenhouse gases and its purpose is to reduce their emissions by 5% for the period 2008-2012 based on the emissions registered in 1990. The countries that have signed the Protocol are divided into Annex 1 countries (industrialized countries) and non-Annex 1 countries (mostly developing countries). For each state that has ratified it the Protocol sets mandatory targets for reducing the amounts of emitted harmful gases, but it also develops three mechanisms to encourage the participation of the private companies. These mechanisms are as follows:

- Joint Implementation (JI) - a mechanism that provides opportunity to the developed countries that cannot reduce their own greenhouse gas emissions, to invest and develop projects in transition economy countries. In return they receive a share of the reduced emissions by which to achieve their own obligations.
- Clean Development Mechanism (CDM) - enables developing countries to get investments for construction of new, low-carbon installations. On the other hand the investors get the so called "credits from projects" by which they can cover part of their own obligations under the Protocol.
- Emissions trading – this mechanism allows the countries to sell the part of the reduced greenhouse gas emissions that exceed the commitments under the Protocol (so called 'Surplus of Assigned Emission Units'). Using this mechanism, countries that have failed to reduce their emissions, can buy part of the "surplus" emission units from countries that managed to reduce their greenhouse gas emissions below the required levels.

In 2000 the United Nations Millennium Declaration was adopted. The Declaration

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<sup>1</sup> <https://www.un.org/en/conferences/environment/rio1992>

committed nations to a new global partnership to reduce extreme poverty, and set out a series of eight time-bound targets - with a deadline of 2015 - that became known as the Millennium Development Goals (MDGs). All actions taken after that on worldwide level were targeted to achieve these goals. They are as follows<sup>1</sup>:

- Eradicate extreme poverty and hunger
- Achieve universal primary education
- Promote gender equality and empower women
- Reduce child mortality
- Improve maternal health
- Combat HIV/AIDS, malaria and other diseases
- Ensure environmental sustainability
- Develop a global partnership for development

The United Nations Conference on Sustainable Development (known as Rio 2012) is the third international conference on sustainable development. Its aim is to reconcile the economic and environmental goals of the global community. The result of this conference was the development of the Sustainable Development Goals that aim to eliminate inequalities in the world and to promote sustainability.

After the Kiyoto protocol the next important action in the field of climate change and sustainable development is the Paris agreement which builds on the UN Framework Convention on Climate Change, posing the common world target to rapidly reduce greenhouse gas emissions and to strengthen the ability of countries to build resilience and adapt to the impacts of climate change. Pursuing climate action and sustainable development in an integrated and coherent way offers the strongest approach to enable countries to achieve their objectives efficiently and quickly under the Paris Agreement and the 2030 Agenda for Sustainable Development.

The latest development on EU level dates from 2019 when the European Union took an ambitious challenge to become the world leader in the field of climate change combat by presenting the European Green Deal. It is “a roadmap for making the EU's economy sustainable by turning climate and environmental challenges into opportunities across all policy areas and making the transition just and inclusive for all”<sup>2</sup>. The main idea of this initiative is, by different policy actions, the EU to become climate neutral by 2050. The Green deal plan includes seven general policy areas

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<sup>1</sup> [https://www.un.org/en/development/desa/population/migration/generalassembly/docs/globalcompact/A\\_RES\\_55\\_2.pdf](https://www.un.org/en/development/desa/population/migration/generalassembly/docs/globalcompact/A_RES_55_2.pdf)

<sup>2</sup> [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_19\\_6691](https://ec.europa.eu/commission/presscorner/detail/en/ip_19_6691)

namely: clean energy, sustainable transport, sustainable industry, building and renovation, eliminating pollution, biodiversity and agriculture.

Looking at all the activities since the 70s of the XXth century to date related to sustainable development, it can be concluded that a tremendous work has been done but the results are not satisfactory yet. Based on the different viewpoints for the sustainable development and the different initiatives taken on international level various models developed throughout the years. Some of them are presented in the next lines.

### **Principles and models of sustainable development**

At the beginning, when the sustainability concept had been only a good wish and it had not been seen as something important, it has been based on several main principals. These principals are even more valid today but since the 70s of the XXth century, they have been significantly improved and developed. Furthermore, different sustainability models have emerged due to the different understandings and the different approaches to the subject on international level.

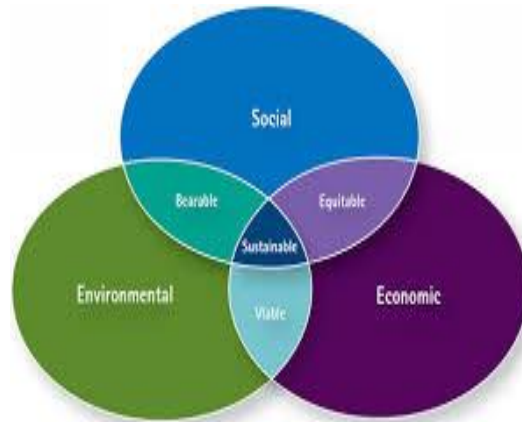
The concept of sustainable development is built upon the three most important aspects in the life of every society - economic development, social equity and environmental protection. In the context of sustainable development, they are known as the "pillars" of sustainable development.

The Brundtland report formulates the following basic principles of sustainable development:

- consideration of public priorities, not only with the needs of today but also the needs of the future generations;
- even distribution of efforts to reasonably use of natural resources and restoration of ecological balance;
- linking the economic to the environmental effectiveness;
- equal environmental responsibility and cooperation between countries in solving global problems facing humanity.

The relationships among these pillars is graphically presented in fig.1

Fig. 1 Sustainability



Source: <https://www.sustainable-environment.org.uk/Principles/principles.php>

The sustainability concept has developed throughout the years. There are several models that present the evolution of the concept and its improvement in time. Some of these are:

- 3 Legged stool model
- Prism Models or 3 overlapping circles model
- The egg or 3 nested dependencies model

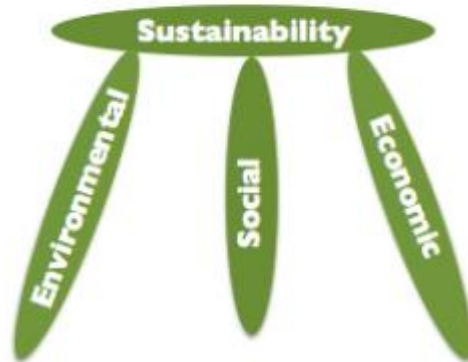
### **Legged stool model**

At the beginning of its clarification and even nowadays sometimes the sustainable development has been depicted as three-legged stool, where the environment, the economy, and society are the legs. This model treats each of the three pillars as separate and equal entities.

The main idea of the stool is that if any of the legs is shorter, meaning is with smaller importance, or is missing, the stool will be unstable. However, if all three legs are with identical length (each pillar being given equal weight), the result is a balanced stool that will support sustainable development. This model sometimes is described as the "Three E's balance rule": Environment, Equity, Economy (SOGESID, n.d.).

The models has its criticism. Some authors (Dawe, Ryan, 2003) argue that it should not be a matter of balance as the world could not be forced to select among economics, environment and society. Each nation should have the right to achieve prosperity which according to the critics of the model is not possible without jeopardizing the nature. Therefore the environment should not be a leg of this stool but the ground on which the model should be build. It is the foundation of any economy and social well-being that humanity is fortunate enough to achieve (Herath, Rathnayake, 2019).

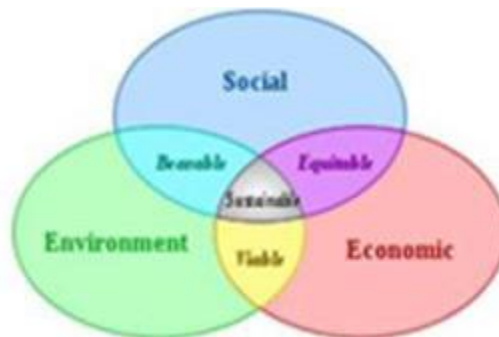
Fig. 2, Three legged stool model



Source: <https://bridgebrighton.wordpress.com/2012/11/20/defining-sustainable/>  
Prism Models or 3 overlapping circles model

Other authors (Lehtonen, 2004) think that the three pillars of sustainability are not equal, but have different positions in a hierarchy. In line with this some authors propose a more complex and profound model, such as the "egg" or Prism model.

Fig. 3, Three overlapping circles model



Source: IUCN (2006)

The Prism model develops four dimensions of the sustainable development:

- Economic
- Environmental
- Social and
- Institutional dimension



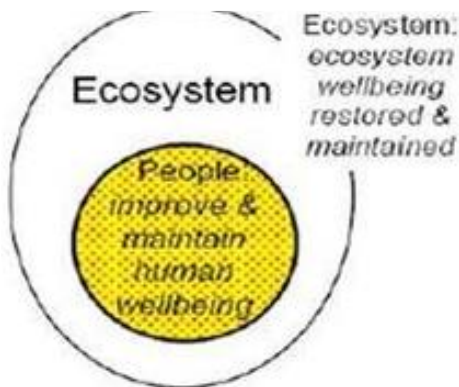
In each circle of the sustainable development there are imperatives (as norms for action). Indicators are used to measure how far one has actually come in comparison to the overall vision of sustainable development (Keiner, 2005).

The critics of the 3-legged stool model are valid for this model as well. Both take as granted that the different sustainable development elements are independent and in reality they are quite intertwined and cannot exist separately.

### **The egg or 3 nested dependencies model**

Another model, that tries to graphically replace the above ones is that of the International Development Research Center. In 1997 it proposes to replace the three pillars and the circles of society, economy, and the environment with the 'egg of sustainability', originally designed in 1994 by the International Union for the Conservation of Nature, IUCN (Herath, Rathnayake, 2019).

Fig. 4, The "Egg" model



Source: Guijt et al. (2014)

Source: Herath, Rathnayake, 2019

This new approach describes all previous elements as an entire ecosystem where each element depends on the other. This model seems to be most comprehensive as it takes into consideration that the nature provides all necessary resources and each of the elements cannot function without the others.

However, this model faces challenges from those who place greater emphasis on human wellbeing (Herath, Rathnayake, 2019).

All above models and principals show that the sustainability issue has become more and more important through the years. It is a subject of national and international regulations, requirements and penalties for the companies and the people. However,

that's not all. There are a lot of initiatives coming from the business that deserve attention. Some examples are reviewed in the next section.

### **The business in the sustainability talking**

All above developments influence directly the business activities not only on country level but worldwide. To great extend the actions of the companies in the field of sustainable development are in order to avoid new regulations and new legislation. On the other hand by being sustainable they get a lot of benefits such as competitive advantage on local or foreign markets, optimization of the production costs etc. Proof for this is the 2005 report of FORD on its greenhouse gas emission reduction activity where the company highlights three main reasons for taking actions in the environmental field namely gaining bigger market share, legislation compliance and compliance with the shareholders' expectations regarding the environmental performance. The economic reasoning and the avoidance of stricter regulations are supported also by the analysis of Skelton (2013) who claims the driving forces behind the companies activities in the field are legislative requirements, cost reductions, brand improvement, new revenue opportunities, corporate image etc. Nowadays, when the digital communication channels are used for everything, the uncontrolled spread of fakes is a fact (Valcheva, 2020) and companies' task to maintain their corporate image becomes more difficult and they turn to their sustainability activities as an additional image improvement. No matter the reason that drives the companies in the sustainability sector the truth is that the business puts a lot of efforts and invests in different innovative projects that result in benefits for the environment, the economy and the society. Some companies apply these practices even before they become popular and united in the sustainability concept.

### **Lush Cosmetics**

One example is Lush Cosmetics, which has various sustainability initiatives. They initiate a whole sustainability investment program "born out of a desire to move beyond simply buying responsibly"<sup>1</sup>. This statement proves the common practice for just stating sustainability but practically doing business-as-usual. And yet it proves the company's desire for action. About 70% of the waste in the cosmetics industry comes from plastic packaging, which is why Lush takes steps to reduce its impact on the environment. The company ensures that its entire packaging is 100% recyclable, compostable or biodegradable (whichever possible). They also offer fresh and handmade products, not animal tested, and create 100% vegetarian products. An innovative idea of the company is their line of "naked" products with zero packaging. Customers can bring their own reusable containers to pick up their soaps and other skin care products so they can be waste-free (online orders with minimal biodegradable packaging). Another innovative approach are the shampoo bars. Since

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<sup>1</sup> [https://www.lush.ca/en/stories/article\\_lush-investments.html](https://www.lush.ca/en/stories/article_lush-investments.html)

2005, they have sold more than 41 million shampoo bars, saving 124 million plastic bottles. This is approximately 3417 tons of saved plastic or the weight of 30 blue whales. They also support charity, ethical ingredient extraction, responsible packaging and labelling, and promote community recycling.

### **Solvay Group**

Solvay company was established in 1863 by Ernest Solvay and some relatives of his including his brother Alfred. Since then, Solvay has become one of the largest international chemical companies with 110 locations in 64 countries.

This company has started to apply the sustainability concept from the very beginning of its establishment, long before it became popular by introducing a revolutionary for the time ammonia-soda process. This process, applied to date, replaces the used by that time very polluting and expensive Leblanc process (Bertrams, et al. 2013). At the beginning of the XXth century the company enlarges all over the world becoming one of the first multinational companies. It introduces also employees' social policy by different health and protection initiatives including establishment of medical centers near "near the plants provided free services to workers and their families for general medical needs, surgery, home nursing, maternity, dentistry"<sup>1</sup>.

Nowadays the sustainability is part of every process and activity in the company. In 2020 Solvay Group launches its newest initiative, Solvay One Planet, focused on three main categories – climate, resources and better life. By this initiation the company sets clear goals to be reached by 2030 addressing the targets set by the UN Sustainable development goals. Within the climate area the company plans to decrease with 26% the greenhouse gas emissions and 100% of coal phase out in energy production wherever renewable alternatives exist thus contributing to the Millennium goals 7 (Affordable and clean energy), 13 (climate action) and 14 (life below water); in the resource area some of the aims are reaching 30% decrease of non-recoverable industrial waste, landfilled or incinerated without energy recovery, 25% decrease of freshwater intake thus addressing the goal 12 (responsible production and consumption); in better life area the set targets are reaching 45% of women as senior and middle managers, 50% of women in senior leadership, 16 weeks by 2021 for extended parental leave thus addressing another four Millennium goals<sup>2</sup>.

Looking at all activities and history of the company it could be stated that this enormous multinational is sustainable and socially responsible long before the sustainable development agenda became popular. It also sets quite high standards worldwide in the sustainability filed without the legislative or governmental

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<sup>1</sup> <https://www.solvay.com/en/our-company/history/1885-1914>

<sup>2</sup> <https://www.solvay.com/sites/g/files/srpend221/files/2020-02/Solvay%20One%20Planet%20brochure.pdf>

pressure. Of course the stimula for economic growth is present from the very beginning but this stimula is exactly the driving force for the company to incorporate the sustainability ideas into its daily work. Thus long before the definition of the sustainability pillars Solvay Group applied the environmental and the social aspects in its agenda.

## Hershey

Another example is the very popular chocolate brand Hershey. The company is a proof that the sustainability thinking is not always forced by law or authority but is a priority for itself. As stated on their web-site “We’ve been protecting the environment since before anyone cared”<sup>1</sup>. Looking at the company’s history and development, its philosophy for being sustainable dates from the very beginning. The company’s founder, Milton Hershey, back in the 19<sup>th</sup> century showed creativity and sustainable thinking by “seeing the waste from the manufacturing process as an opportunity to innovate, create and reuse”<sup>2</sup>. Following this approach the company used turbines to power its factory and the wasted steam from these turbines was used to heat residential and public buildings. Something quite revolutionary for that period. Nowadays the company continues to be very committed to the sustainable development idea. Its management has set quite ambitious targets not only in the environmental field but also in the other sustainability dimensions, namely the social and economic sphere. Another good practice of the company is that it not only set goals just to show that it is responsible and has a corporate social responsibility but it also monitors the achievement of these goals and communicates the results to the general public by publishing sustainability reports and web-site news. Thus in the different fields their targets are<sup>3</sup>:

- 1) Growth: here one of the goals is to achieve 100% of the cocoa from Côte d’Ivoire and Ghana to be bought by known farmers by 2025 and in the year 2020 they already reach 60%.
- 2) Environment: the companies sets a couple of goals in this field. For example they aim for 50% reduction of the greenhouse gas emissions from Scope 1 and 2 emission types included in the Paris Climate Agreement by 2030 and 2020 they already reached about 23% reduction.
- 3) People: the company aims to reach 30-40% of its workforce to be coloured representatives by 2025 and about 50% to be women. In 2020 they already achieved

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<sup>1</sup> [https://www.thehersheycompany.com/en\\_us/home/newsroom/blog/weve-been-protecting-the-environment-since-before-anyone-cared.html](https://www.thehersheycompany.com/en_us/home/newsroom/blog/weve-been-protecting-the-environment-since-before-anyone-cared.html)

<sup>2</sup> [https://www.thehersheycompany.com/en\\_us/home/newsroom/blog/weve-been-protecting-the-environment-since-before-anyone-cared.html](https://www.thehersheycompany.com/en_us/home/newsroom/blog/weve-been-protecting-the-environment-since-before-anyone-cared.html)

<sup>3</sup> [https://www.thehersheycompany.com/content/dam/hershey-corporate/documents/pdf/hershey\\_2020\\_sustainability\\_report.pdf](https://www.thehersheycompany.com/content/dam/hershey-corporate/documents/pdf/hershey_2020_sustainability_report.pdf)

21% on the first aim and 48% on the second one.

4) Communities: in 2020 the company reports \$16.9 Million cash donated and 62,256 employee volunteer hours

The company also assigns special attention to the children and youth.

This company is a good example for corporate initiatives in the field of sustainable development even before this concept exists. This proves that the business is not just a passive participant in the process waiting to be forced by a certain legal requirement but voluntarily takes a lot of initiatives.

## Conclusion

The sustainability undoubtedly is part of our life and it will continue to be so. The scarcity of all kind of resources (productive and living) is a fact and the only way to ensure the future of the planet and of the next generations is to stop being selfish and start thinking in perspective. This means that the business-as-usual, the production-as-usual and the consumption-as-usual should be drastically changed. Looking back in the years it should be admitted that a lot of things have been achieved and the change in the mind-set both of the people and of the corporate governance is a fact. Yet, a lot has to be done in the field. The three examples that have been discussed in the paper prove that the change can be done and is really beneficial for the companies. All three firms get profit from their sustainability behaviour and that's a fact. The founders of Solvay and Hershey turn to be people with great visions. They prove that the social, environmental and economic aspects of life can be combined in working symbiosis in such a way that could be profitable for everybody. Their win-win approach should be followed nowadays and more companies should aim for achieving such symbiosis.

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# Impacts of Workplace Factors on Employee Engagement in the Public Sector

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## Abstract

Employees are an integral part of any organization because of the value they bring, and how they help the organization achieve its goals. Yet, the percentage of employees who are passionate about their jobs and the overall goal of the organization where they work remains in the minority. While workplace factors tend to play a role in determining the extent to which employees are engaged, actively engaged or unengaged, the direct impact on employee engagement remains vague. This paper presents the outcome of a study conducted which evaluates the impact of workplace factors on employee engagement in public sector entity. An online questionnaire was completed by 120 employees of one of UAE public sector entities. Participants were selected through random sampling to ensure fair representation. The primary data was analyzed using structural paths analysis to determine the direct effects of workplace experience as well as workplace conditions on Employee Engagement respectively. The findings indicate that workplace conditions positively influence employee engagement in the public sector entity, while the impact of workplace experience is negative and unsupported in the UAE public entity examined. The implication of these findings is that public sector entities such as the one examined is able to determine the workplace factor to prioritise for sustaining engagement of its employees in order to increase engagement level. This study advances organizational studies in general, particularly the field of employee engagement. The result helps to empirically verify the positive influence of workplace factors such as clarity of work, opportunities at work and support from managers on employee engagement.



**Keywords:** Workplace Conditions, Workplace Experience, Employee Engagement, Public Sector, UAE

## Introduction

Interest in Employee Engagement has grown rapidly with the knowledge that high Employee Engagement levels is crucial for attracting and retaining skilled employees in a competitive business environment (Kompaso & Sridevi, 2010; Lockwood, 2007; Purcell et al., 2003; Wellins et al., 2005). In a meta-analysis by Gallup, organisations with engaged employees were found to have 3.9 times the earnings and growth rate compared to organisations with lower engagement levels in the same industry (Gallup, 2013). The drive for business success and the increasing awareness that employees are the greatest asset in any organisation has led to various human capital empowerment strategies including new leadership styles, fostering teamwork, staff recognition, personnel development and performance management (Wellins et al., 2005). Yet, the percentage of employees who are passionate about their jobs and their organisations remains in the minority (Aon, 2018; Efectory International, 2018; Gallup, 2017; Steelcase Inc, 2016). According to Gallup's 2014- 2016 global survey, businesses with higher levels of Employee Engagement are 17% more productive and 21% more profitable than those with lesser engaged staff. Being able to successfully engage more employees continue to be a challenge despite the benefits of Employee Engagement. For instance, a 2017 global Employee Engagement survey of workers from 155 countries reveal that 85% of employees worldwide were not engaged or were actively disengaged in their job (Gallup, 2017). Employee Engagement has consequently become an elusive ideal for many organisations and the focus of many organisational improvement efforts (Osborne & Hammoud, 2017). The difficulty increasing level of engagements of staff in different sectors including public sector continue to be a daunting task even in the United Arab Emirates (UAE). In 2013, the Gallup research revealed that the percentage of engaged employees working in the UAE was 26 percent, this has dropped to 16% in the 2017 report (Gallup 2013; Gallup 2017). Such report, and decline in engagement level is a concern for the government because of the vision for excellence in government-run businesses. This makes Employee Engagement a topic of interest to the government and public sector scholars in the UAE. Scholars have called for more research on the effect of Employee Engagement on organisational outcomes and the role of contextual-level variables such as clarity of organisational purpose and organisational climate on engagement (Albrecht et al., 2015; Motyka, 2018). Therefore, this study examines the impact of workplace factors on Employee Engagement, in order to determine the work-related factors that can increase level of engagement in the UAE public sector. This focus is important as it may contribute to decision making process especially for improving



human capital management in other government entities in the UAE and around the world.

## **Employee Engagement**

The term 'Employee Engagement' has been conceptualized in several ways in previous research, scholars and practitioners also do not seem to agree on any one definition of the concept of Employee Engagement (Dalal et al., 2008). Terms such as work engagement (Schaufeli et al., 2006a); personal engagement (Kahn et al., 2013); job engagement (Rich et al., 2010); and organisational engagement (Ruck et al., 2017) have been used to describe similar concepts. Some authors present Employee Engagement as a multi-dimensional psychological state which is beneficial for both individuals and employers (Osborne & Hammoud, 2017; Saks, 2006). Others view it as a unidimensional construct at the team and organisational level (Barrick et al., 2014; Costa et al., 2014). While Bakker (2011) identified energy, and involvement as the two features of engagement, Soane et al. (2012) stated that work-role focus, activation, and positive affect were the three requirements. While these explanations are justified from the standpoint of each author, it is difficult to answer the question of who an engaged employee is without consistent definition of Employee Engagement. Some scholars consider Employee Engagement as a performance construct as well as a behaviour (Macey & Schneider, 2008; Robertson-Smith & Markwick, 2009). Harter et al. (2002) and Schaufeli et al. (2006) view Employee Engagement as an affective commitment involving pride and satisfaction.

Though Saks (2006) presents engagement as the alignment between job satisfaction and job contribution, Robinson et al. (2004) reveal that an engaged employee is aware of organisational context, works with positive attitude with colleagues to achieve organisational goals. Regardless of how Employee Engagement is viewed or defined, Vance (2006) indicate that both the employee and organisation have commitment and responsibility for Employee Engagement. This view aligns with the social exchange theory (SET) which have been used to explain and understand the reciprocity in engagement. SET is one of the conceptual paradigms in organisational behaviour used to identify why some people are engaged and others are not (Cropanzano & Mitchell, 2005). It has also proved useful in explaining why some work relationships evolve over time into the discretionary effort necessary to improve personal and business success (Cropanzano & Mitchell, 2005). The theory explains the volition that individual employees have towards engagement at work and the implications of an implicit social, rather than an explicit economic, contract between an organisation and its employees (Slack et al., 2015). The basic tenet of the SET is that relationships only grow into trusting and loyal ones if the parties stand by the "rules" of exchange. Such basic tenets position relationships within organisation as non-economically driven especially when explained through SET. When applied to Employee Engagement, the basic tenets of SET shows that the pathway to better

engagement within an organisation may be based on level of trust and loyalty exhibited between the employee and employer. An effect of the relationship underpinned by trust and loyalty may be better employee performance and subsequently better performance of the organisation. SET supports the position that engagement increases with reward (Vance, 2006).

Singh and James (2016) reveal that when employees receive rewards and recognition from their organisation, they will feel obliged to respond with higher levels of engagement. These rewards or compensation can either be extrinsic or intrinsic (Ram & Prabhakar, 2011). Extrinsic rewards are financial compensation such as pay raises, bonuses, and benefits, as well as non-financial rewards like extra holiday and recognition schemes given to employees (Ram & Prabhakar, 2011). Intrinsic rewards are the psychological rewards that employees get from doing meaningful work and performing it well (Ram & Prabhakar, 2011). The reward dimension of engagement explains the link between engagement and productivity. If the percentage of engaged employees is low this amounts to wasted potential (Gallup, 2017). Gallup estimates that unengaged workers in the United Kingdom cost their companies \$64.8 billion (U.S.) dollars a year. In Japan, where only 9 percent of the work-force is engaged, lost productivity is estimated to be \$232 billion each year (Gallup, 2017). The report by Gallup further reveals that employees may be engaged, not engaged or actively disengaged. Where engaged employees are described as being highly involved in, and enthusiastic about their work and workplace; those not engaged are psychologically unattached to their work and company; actively disengaged are employees who are unhappy, who demotivate others at work and resentful at work (Gallup, 2017). Therefore, Vance (2006) approach to explaining Employee Engagement is central to understanding the relationship between workplace conditions and employee engagement in public sector as undertaken in this study.

### **Employee Engagement in UAE**

In the UAE, 20 percent of employees were highly engaged and highly satisfied with their workplace making it one of the most engaged and satisfied nations. This high level of engagement report for UAE has been attributed to the fact that the majority of employees work either in a private office or a shared private office, with 52 percent of Emirati employees working in shared private offices, compared to the global norm 37 percent. The Steelcase Global Report is the first to explore the relationship between Employee Engagement and the work environment and findings show that workers who are highly satisfied with various aspects of their workplace also demonstrate higher levels of engagement (Steelcase Inc, 2016). Although there is an awareness of the importance of Employee Engagement, it remains a relatively untested in organisational management literature in the UAE (Krishnaveni & Monica, 2018; Motyka, 2018). With the high rate of foreign investments and innovations in the UAE, there have been significant social changes with increasingly western models of

organisational management (Bin Taher et al., 2015). Literature has shown that countries with increasing economic competitiveness will often evolve towards the systems found in Western Europe and the United States with less dependence on the country's culture and customs (Varma et al., 2008). During such transitions, national and cultural norms may co-exist with western norms (Varma et al, 2008). However, there has been very little research done to understand how and if western human resource management strategies have been assimilated into the UAE public sector and if these westernized systems produce similar levels of Employee Engagement as observed in the West.

The findings from a UAE study of employees in the public sector found a significant relationship between loyalty and engagement (Ibrahim & Al, 2014). Affective Commitment (AC) was found to be more important in affecting employee's engagement when compared with Continuance Commitment (CC). Considering that employees today tend to have a much shorter-term view on employment in any organisation (Hewitt, 2012; Collini et al., 2015; Philip & Lindley, 2006), it is crucial for managers to identify what attracts, retains and engages them. The Gallup Workplace Audit (GWA) includes the assessment of 12 work resources and employer practices that have been empirically linked to Employee Engagement (AbuKhalifeh & Som, 2013; Bailey et al., 2017; Bedarkar & Pandita, 2014; Gilboa et al., 2008; Joshi & Sodhi, 2011; Rich et al., 2010; Robinson et al., 2004; Saks, 2006; Slåtten & Mehmetoglu, 2011). Based on extant literature and the role of work conditions on Employee Engagement, the following hypothesis is presented. There are a host of different factors that can influence engagement levels at work. Some of these factors are dependent on the individual but most depend on work conditions and leadership practices (Robinson et al., 2004). These variations in Employee Engagement models make it challenging to extrapolate findings on Employee Engagement drivers from other contexts to the UAE. With the scarcity of literature on the levels and drivers of Employee Engagement within the regional context of the Middle East, there are no guiding model on Employee Engagement for an emerging economy like the UAE. The role of workplace conditions, especially its link with Employee Engagement has, therefore, become a priority for governments entities that want to retain good talents and skills in UAE. In recognition that creating and sustaining Employee Engagement is a vital component in the effort to sustain the current economic growth of the UAE, this study intends to bridge this knowledge gap by investigating the current level of Employee Engagement, and assessing the impact of workplace related factors on Employee Engagement within a public sector organisation.

### **Relationship between Workplace factors and Employee Engagement**

It is also noticed that individuals or human (Kim, 2011; Andrew & Sofian, 2012; Aninkan & Oyewole, 2014; Chandani et al. 2016; Matthews et al. 2018). Other studies have identified that providing opportunities for staff development and advancement,

providing clarity on the organisation's priorities (Coetzer & Perry, 2008; Costa et al. 2014; Anitha, 2014). There were also instances where giving regular feedback, and having avenues for workers to use their skills were the most cited reasons for Employee Engagement by a majority of employees according to Blessing White (2013). Costa et al. (2014) also found that employees who have close friendships at work are more engaged workers. Differences in the factors of Employee Engagement and those that may potentially influence it have been attributed to the differences in workplace conditions and personalities of workers (Bailey et al., 2017). As there are no two workplaces that are the same, there is a need to identify the relevant antecedents to Employee Engagement for each work environment. When leaders try to create a culture of Employee Engagement, they do so by modifying or creating certain work conditions that favour engagement. There are various aspects of the workplace which authors have found to be responsible for the differences observed among companies in the levels of engagement by their employees. Some of the workplace factors that have been linked to Employee Engagement include leadership, co-worker relations, policies, compensation, and other workplace conditions. According to Blessing White (2013), engagement increases with power and position linked to experience. In the same vein, Robertson-Smith and Markwick (2009) reported that engagement levels vary according to seniority, occupation, and length of service in an organisation. Thus, the accumulated wisdom and experience with increasing length of service in an organisation has been linked to employee's exerting the discretionary effort required to be engaged at work (Bedarkar & Pandita, 2014). Gallup's 2013 survey revealed that companies with a highly engaged executive team generally see higher Employee Engagement among those with a tenure of 10 years or more (Gallup, 2013). Against this background, it is important to particularly examine the influence of gender, age as well as work experience in the UAE context. It is therefore proposed that;

### *H1: Workplace experience positively influence Employee Engagement*

According to Little and Little (2006), engaged people want to be at work, they work towards the organisation's goals and expectations, clearly understand their roles and how this links to the success of the organisation. They also have the resources they need to achieve these expectations readily available (Chandani et al. 2016). In addition to their own unique demographics, psychological makeup and experience, these employees depend on their employers to create the conditions that promote engagement and interaction between employees at all levels (Bailey et al., 2017; Harter et al., 2002; Little & Little, 2006). Thus, employees' engagement is driven by the resources they receive from management and a work environment and culture that is conducive to this win-win, employee-employer partnership (Huang et al., 2016). As identified through SET, when employees work in an environment with abundant job resources including support from supervisors, autonomy, strong work relationships, opportunities for advancement, coaching and mentoring, and learning

and development opportunities, employees are more likely to reciprocate in productive behaviours and active engagement (Schaufeli & Bakker, 2004). A large study of 50,000 employees in 59 organisations confirmed this information. They found that employees with lower engagement were four times more likely to leave their jobs than those who are highly engaged. Workplace conditions such as role clarity, availability of work materials, recognition of efforts, as well as opportunities for advancements and growth are all essential workplace conditions that may motivate employees to work hard, stay committed and help the organisation achieve its goals and mission. Therefore, it is proposed that;

### *H2: Workplace conditions positively influence Employee Engagement*

Identifying workplace experience and conditions as two core work-related factors that potentially influence employee engagement in the public sector have influenced the two hypotheses formulated to be tested in this study. The method adopted to test these hypotheses in the UAE context is explained next.

### **Methodology**

This quantitative study is conducted in the UAE, using one of the public entities. Due to Covid-restrictions in year 2020, data is collected remotely using online questionnaire. Data relating to the hypotheses and explanations for the relationship between workplace factors and employee engagement are gathered over the period of ten weeks. A validated questionnaire is adapted and used for the primary data collection. Containing three main sections with closed-ended questions measured on a five-point Likert scale. Questions in the first section focused on gathering demographic data of the respondents to determine the profile of respondents. Other sections contained questions that focused on measuring workplace factors and employee engagement. Random sampling is used to select respondents to participate from one of UAE public sector entities to participate in this study. 120 respondents completed the questionnaire which is analysed using SPSS Amos which is structural equation modelling software for determining correlation, analysis of variance, factor analysis among others. A preliminary data analysis is conducted to determine the outliers, normality, reliability, common method bias and non-response bias are all done as part of the data analysis process. Due to the small sample size, structural path analysis is done to determine nature of relationship that exists between workplace factors and employee engagement. The SEM is assessed by examining the path coefficients. T statistics was also calculated to assess the significance of these path coefficients. In addition,  $R^2$  was used to evaluate the overall predictive strength and utility of the proposed model (Stein et al., 2017). For a significance level of 0.05, critical ratio that exceeds 1.96 were considered significant. Findings from the data analysis are presented and discussed.

## Findings and Discussion

There was a diversity observed in terms of the participants' position in the organisation. The majority of the participants were senior officers ( $f = 29.7, n = 35$ ), followed by officers ( $f = 16.9\%, n = 20$ ). There were participants who were advisors ( $f = 8.5\%, n = 10$ ), engineers ( $f = 4.2\%, n = 5$ ), analysts ( $f = 2.5\%, n = 3$ ), directors ( $f = 7.6\%, n = 9$ ), managers ( $f = 6.8\%, n = 8$ ), and graphic designers ( $f = 0.8\%, n = 1$ ). Data provided also reveal that the respondents have a range of experience from 6 to 10 years ( $f = 39.8\%, n = 47$ ) and 11 to 15 years ( $f = 37.3\%, n = 44$ ) is the highest compared to less than 5 years ( $f = 14.4\%, n = 17$ ) and more than 20 years ( $f = 8.5\%, n = 10$ ). The employees who responded to the survey were highly experienced, they tend to sufficient years of experience working in the organisation to explain the workplace factors that may influence employee engagement in the government entity. Following this, the direct effects of the two workplace factors on employee engagement is tested. The findings from SPSS Amos shows the estimates, the standard error and significance values of the two workplace related factors on employee engagement in Table 1.

*Table 1: Findings for impact of workplace factors on Employee Engagement*

			Hypothesis	Estimate	S.E.	P
Employee Engagement	<---	Workplace Experience	H1	.164	.396	.678
Employee Engagement	<---	Workplace Conditions	H2	.559	.042	***

Data presented in Table 1 shows that H1 has ( $p = 0.678 > 0.01$ ) which means that the premise that workplace or work-related experience positively influence employee engagement is not supported in the entity assessed. The table further shows that H2 which represents the hypothesis that; workplace conditions positively influence employee engagement has ( $p = 0.000, p < 0.01$ ). This imply that the hypothesis is supported. The analysis reveals that workplace conditions is a significant factor that positively influence Employee Engagement. Though workplace experience was identified in literature as a factor that may potentially influence Employee Engagement in a positive way, the findings indicate that this factor does not positively influence Employee Engagement. However, this finding is not strange from academic perspectives. As views differ on Employee Engagement so does it on work-related influencing factors. Authors such as Whorton (2014) consider race as one of key factors that influence Employee Engagement while Markos and Sridevi (2010)



consider educational attainment as factor with potential to influence Employee Engagement.

Person-job fit is explained as the fit between the knowledge, expertise and skills of the employee with a particular job or task (Lauver & Kristof-Brown, 2001). This is reflected in Employee Engagement which has been linked to the possession of adequate knowledge and skills by employees who work without much supervision (Anitha, 2014). For employees that have updated themselves by increasing their knowledge and skills through appropriate trainings and educational attainment, this leads to increased confidence which in turn builds self-efficacy and commitment to the job (Markos & Sridevi, 2010). This link between education and Employee Engagement is supported by the findings of Azoury et al. (2013) in a study of over 10,000 employees in the United Kingdom in which higher engagement was found among employees with higher education and talents. Although there is an argument that college-educated employees may have higher expectations of their employers than employees with lower education, this is often a function of the prevalent work environment (Sorenson & Garman, 2013). The lower engagement levels observed among college graduate was attributed to the inability of employers to adequately motivate college graduates. Which allures to the role of work conditions in Employee Engagement as examined in H2 which is supported. Workplace conditions such as the physical, psychological and organisational aspects of a job help employees to complete tasks successfully and achieve work goals; provide basic human needs and foster employee growth, learning, and development (Bakker & Demerouti, 2014, 2017). Based on such further explanations from literature, it is understandable why workplace conditions have positive impact on Employee Engagement in the public sector entities as discovered in this study.

## **Conclusion and Implications**

This study has revealed that all views on Employee Engagement are focus on psychological state, expression and behaviour of employee in a workplace in which its scope centres on involvement of individuals and satisfaction in the workplace as well as their enthusiasm for work. The overwhelming view and consensus on Employee Engagement are that, it is a two-way relationship between employee and employer which goes beyond mere job satisfaction or loyalty to the employer. All explanations in this study support the premise that Employee Engagement is a multidimensional construct with variable antecedents, correlations and consequences as explained by Azoury et al. (2013). This study explored a better explanation for, and understanding of the two-way relationship between Employee Engagement and its influencing work-related factors. By identifying that workplace conditions such as role clarity, availability of work materials, recognition of efforts of employees by the organisation, can positively influence Employee Engagement is an advancement in organisational studies. The result is a contribution to knowledge

because the finding indicate that employees give their best efforts and say positive things about the organisation, though the outcome varies based on level of education. This contribution highlights another contribution which reveals organisational input positively influence Employee Engagement, not the factors that relate to the work experience of individual employees.

As a result, it is recommended that future studies examine the influence of other forms of organisational input such as human resources measures such as training and human capital among others on Employee Engagement. It may also be beneficial to knowledge if future studies explore how changes made by public sector organisations post Covid-19 pandemic may have influence Employee Engagement. Such considerations by future researchers may be further enhanced through a comparative study that investigates and compares the public and private sector to identify patterns and similarities. Another recommendation for future studies is to identify and evaluate the workplace conditions that may adequately motivate college graduates, thereby increasing their level of engagement in the public sector. The clarity this study has provided shows and highlights the contribution to knowledge as well as implications for practice. First, it emphasizes the implication for public sector executives who may need to improve their Employee Engagement activities and measures including providing conducive and supportive workplace conditions in order to increase Employee Engagement in their respective units and organisations. There is also implication for human resources department in the public sector to improve their recruit strategies as well as training to include theme so of interests to college graduates who want to work in the public sector. It is important for education level to be better utilized in the public sector rather than recording low engagement levels among such group of people. Therefore, public sector executives and human resources department would do well to explore how best to utilize findings from this study to improve levels of engagement among their staff regardless of their workplace related experiences.

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## Navigating the World: Challenges within the Relocation Process - An Empirical Investigation

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### Abstract

The complete relocation of the center of life to a foreign country is a plan increasingly chosen by specific people, especially for entrepreneurial reasons. The digital nomads or expatpreneurs often emphasized in this context exhibit a particular structure of fundamental personality dimensions and can also be described as unique in the perception of specific challenges in the relocation process. In the present study, which is based on both a literature-based and quantitative approach,  $n = 196$  subjects participated in an online survey that included scales and self-constructed items on personality structure, the possible choice of specific occupational groups as support systems, the perception of specific challenges, and other relevant aspects in the context of relocation. In addition to descriptive results and a brief review of previous scientific findings, multivariate analyses of variance were able to show that the choice of support system exerts a significant influence in the form of a decrease in stress in the context of the perception of specific challenges in the (tax) legal as well as financial areas. It also became clear that the region of origin and the destination region are related to assessing tax-legal aspects and administrative aspects in the economic context. Thus, there

are significant differences between the Schengen Area and the U.S. area as the region of origin and these and (South East) Asia and Latin America as the destination region.

**Keywords:** Relocation, Relocate, Digital Nomadism, Expat-Preneurs, Global Migration

## Introduction

Among the many effects of the COVID-19 crisis is the exponential growth of a group of people described by authors such as Richter and Richter (2020) as "digital nomads", who are characterized in the academic context as a related group or subgroup of expats (expatriates; Green, 2020; Lee et al., 2019). Although corresponding developments were evident both before the onset of the pandemic and different authors emphasize that *global relocation* is becoming an increasingly relevant topic area, this seems to be intensified even more by the pandemic and the development of *new work*. Accordingly, increasingly opportunities to engage in such remote work (also from abroad) are not only offered by corporations but are also facilitated by so-called *digital nomad visas* that are introduced by more and more countries (Relocate World, 2021; Chevtaeva & Denizci-Guillet, 2021).

Much more than before, people are offered the opportunity to perform their work remotely and thus independently of their own company location or the restrictions that go along with it: Work and place of residence are becoming increasingly decoupled from one another, a development which Brumma (2016) generally describes as a consequence of teleworking. While there was a general tendency towards centralization during the industrial revolution (people increasingly moved to urban or central areas in order to reduce the distance between their place of work and their place of residence), the digital revolution has now allowed a countermovement for several years or decades (Agba et al., 2021; Dangelmaier et al., 1997).

Thus, a number of specific challenges also become relevant for an increasingly larger group of individuals - this research deals with the typical challenges expats and digital nomads, as described below as two distinct yet similar groups, face in the context of their relocation processes. Using a quantitative-empirical research approach, the following research question will be addressed: What challenges are perceived by expats and digital nomads in the relocation process and in what ways can different resilience factors, such as the use of external resources, help to minimize these challenges? Decidedly, the core focus of the examination within this research paper is shifted towards pragmatic challenges such as the acquisition of visas and work permits (see Hall et al., 2019; Wang et al., 2019) or financial aspects regarding the relocation process (Yavin & Reardon, 2021).

While aspects such as romantic or relationship-focused challenges in the group of expats and nomads or the benefits of an increased feeling of freedom are outside of the scope of this research paper, highly important findings in this field (Lee et al., 2019; Thompson, 2019; Reichenberger, 2018; Cook, 2020). The present study focuses on challenges of the relocation process itself, where especially legal and financial aspects such as the process of visa acquisition are shifted into the focus. Utilizing a quantitative-empirical approach, the leading research question will be addressed following an in-depth review of relevant scientific literature on the topic.

### **State of Research on Digital Nomads**

Digital nomadism is a relatively recent phenomenon. Scholars have yet to agree on a broadly accepted definition for digital nomadism (Cook 2020; Schlagwein 2018), but the term is generally used to refer to the lifestyle that comes with the instrumentalization of digital technologies by individuals that without attachment to a specific location, perform their work remotely (Hannonen, 2020). As such, there still isn't a robust understanding or conclusive research on the issue.

The recent focus of popular media outlets on digital nomadism, particularly as a trend accelerated by the COVID-19 pandemic, has brought more attention to the issue. However, as a subject with less than a decade of clear presence in academia, its research structure continues to change, driven by the multiplicity of theoretical perspectives approaching it (Hannonen, 2020; Makimoto, 2013; Müller, 2016).

As a new field of research, most studies focus on descriptive analysis of the phenomenon to the detriment of the development of terminological and conceptual perspectives. Recent scholarly work has strengthened the research base. However, the terminology and definition of basic concepts in the field remain problematic as different scholars use the term digital nomad in various ways.

The academic training often defines the approach taken toward research on digital nomads. Consequently, digital nomadism has been studied from diverse perspectives and areas of knowledge. There is research on digital nomadism as a fashionable lifestyle with just cultural implications, an economic issue, or an evolved type of tourism, but its overall challenges and long-term effects are not fully understood yet.

### **Expats and Digital Nomads - Overview and Distinction**

Traditionally, professional opportunities and work-life in general have been approached from a location-centric perspective connected to a fixed notion of home, city, or country. The emergence of digital nomads as a movement, aided by the penetration of mobile technologies in almost every work process, is corroding this antiquated perception of work and physical location rigidity. Digital nomadism also presents implications that transcend work customs, affecting cultural standards on societal labor expectations or family planning (Hannonen, 2020; Yang, 2015).



On the other hand, expats are usually not nomadic. For many reasons, such as a job or marriage, expats have picked a place to call home that isn't their country of origin (Hannonen, 2020). This distinction about nomadism is vital as recent research has covered the term "expat-preneur" a specific expat with substantial similarities to digital nomads.

The term expat-preneur serves to identify people pursuing self-employed entrepreneurial opportunities while temporarily living abroad (Vance et al., 2016; Selmer et al., 2018). The construct is more connected with the shift in modern career expectations. The disruption of what is perceived as a traditional path is viewed as a radical expression of flexibility, fluidity, and newness, while expats are more driven by opportunity or the necessity to relocate.

The academic literature recognizes two different categories of expat-preneurs: pre-departure expat-preneurs and transitioned expat-preneurs. The difference between the two resides in the reason to live abroad and the moment they decide to pursue a new venture. While pre-departure expat-preneurs travel abroad with a clear entrepreneurial intention, transitioned expat-preneurs already live abroad for any reason when they choose to initiate an entrepreneurial project. (Vance et al., 2016).

The growth of digital nomads and expats as particular types of mobility directly connects to the effects of technology, particularly wireless communication and technical advancement in transportation methods, on contemporary life. The globalization of professional services expectations and standards plays a significant role in this trend (Hannonen, 2020).

The main difference in the academic research on the issue of digital nomads vs. expats is the question of freedom. Digital nomads are usually inspired by the idea of freedom to discover the world or have new experiences. Digital nomadism is strongly connected to this notion. They use mobile technologies to perform their jobs remotely, taking advantage of the sustained increase in internet availability worldwide (Nash et al., 2018; Mancinelli, 2020).

The digital nomad phenomenon has had a meaningful and transformative effect on the perception of work as an obligation. The very notion of digital nomadism inserts a fulfilling and motivating element into professional life. While combining the physical and personal freedom to move with stable work opportunities, digital nomadism seeks a more balanced lifestyle, with greater autonomy over life and career decisions (Reichenberger, 2017).

Despite this apparent quest for freedom as a critical motivation for digital nomadism, empiric research shows that successful digital nomads build routines and enforce disciplinary habits on themselves. These practices and behavior usually develop with time and experience after realizing how working from leisure locations affects productivity and work communication (Cook, 2020). Achieving work-life balance as



a digital nomad often requires assuming office hours, even when this seems counterintuitive for this lifestyle (Thompson, 2018).

### **Typical Challenges of Expats and Nomads**

Relocation is said to be one of life's most stressful experiences. Challenges such as language barriers, drastic climate shifts, and other significant lifestyle changes can push the emotional tension to an extreme level. Moreover, these tensions can increase exponentially when other family members are involved in the transition (Cooper et al., 2012).

In the case of digital nomadism, there isn't considerable research to know if this lifestyle choice is financially sustainable in the long term or what the implications are for retirement, social life, and long-term family plans, while for expats, living in a new cultural environment is bound to present challenges and force them to equally make adjustments in their lifestyles (Tahir & Ismail, 2007).

### **Work-Life Balance**

Even when part of the appeal behind digital nomadism is the quest for work-life balance and the notion of breaking free from traditional career settings in corporate offices, the reality is that achieving said balance is a significant challenge. Travel and new experiences often become an excuse for delays on deliverables. As mentioned previously, developing a discipline is essential for the success of digital nomads.

These seemingly fluid lifestyle practices promote a continual preoccupation with boundaries, as digital nomads try to make sense of work, identity, and newness amid an invisible and intersecting constellation of mobility pathways (Green, 2020). These boundaries are not only physical, but digital nomads also often have to worry about enforcing the distinctions between work and leisure.

A new layer of complications is introduced when considering other family members. Traditionally this is a frequent issue with expats, and there is a substantial body of research on family issues and expat satisfaction (Grant-Vallonea et al., 2001).

The literature distinguishes between two different lines of family-work conflict depending on which element affects or disturbs the other. According to Grant-Vallonea et al. (2001), expats report that work interferes with family life more than the other way around.

For working expats, the family-work balance has a significant impact on the success of their work. Arthur and Bennet (1995) identified family-work conflict as one of the most important reasons behind the expat's experience of failure.

These issues can be mitigated by an organizational solid support, including language classes and relocation assistance to support spouses and families of working expats.

On the other hand, digital nomads are often seen as sole individuals without strong family attachments.

Digital nomads usually travel by themselves as this is a lifestyle and career choice often connected to sole, younger individuals. If well digital nomads usually can't count on organizational solid or soft-landing programs to support relocation, at the same time, the fact that they move and operate as individuals facilitates the transition to new locations.

### **Cross-Cultural Adjustment and Communication**

A cross-cultural adjustment has been generally defined as the process of adaptation to living and working in a foreign culture. It is the perceived degree of psychological comfort and familiarity an individual has working with the new culture (Black, 1988; Black et al., 1991; Okparaa & Kabongob, 2011).

Both expats and digital nomads often encounter difficulties assimilating the cultural components and behavior of their residence. Although it is easier for digital nomads to remain in a bubble with like-minded individuals, they usually don't work in local economies. However, for working expats, cultural clashes in the workplace can be an example of a significant cross-cultural challenge (Tahir & Ismail, 2007).

Gender is another challenging issue. Besides understanding the cultural differences, professional women from western countries should be aware of the gender differences (Tahir & Ismail, 2007).

Men have traditionally dominated expatriates' positions, though the number of women expats has increased mainly due to more highly educated women entering the workforce (Makela & Suutari, 2015). Though there still is significant research space to expand on the details of work-life balance for expats through the lens of gender, the literature already shows that women face specific conflicts (Makela & Vesa-Suutari, 2015; Powell & Greehaus, 2010).

While women face similar conflicts as men, they usually have less access to the vital support from their organizations: demanding workloads and family life combined with new cultural standards while living abroad present significant challenges.

In the case of digital nomadism, this trend has been mainly embraced by a technological-savvy generation that considers digital technologies and infrastructure as inherent to work responsibilities. Digital nomads often require less cross-cultural adjustment to develop their routines outside local cultural norms.

The main communication challenge and adjustment curve for digital nomads resides in their interactions with clients and bosses. For this issue, digital nomads heavily depend on digital tools, which mediate in every work process, particularly communications and productivity, allowing individuals to maintain and expand their work-life (Nash et al., 2018).

Freelance digital nomads are highly dependent on internet connectivity, not only to perform and deliver services and products but to keep themselves aware of possible new opportunities. As digital nomads rely on gig work, accessing third-party platforms and sites that publicize job openings is essential. This is a way to market themselves to possible employers and clients.

### **Securing Work Permits and Taxation**

For expats living abroad under work contracts for established corporations, the issue of taxation may be simplified by double taxation treaties and the legal assistance of their companies. However, existing tax rules based on residence criteria do not suit digital nomads well. Digital nomads are at risk of being tax residents and may not enjoy the same tax regimes as regular settled employees (Tyutyuryukov et al., 2021).

The recent increase in digital nomadism has motivated some jurisdictions to waive tax requirements or set minimum taxation schemes to welcome more temporary residents and digital nomads (Hannonen 2020). But digital nomads not only have to worry about their residence, but their country of origin is also of importance for tax purposes.

For example, the US government taxes its citizens with no distinction for residence status. In this way, US law applies taxation to citizens living in the US and US citizens with residence abroad in the same general manner (Blankarta and Margraf, 2011). Currently, there is an intense debate in the US around the relevance of replacing citizenship-based taxation in favor of residence-based tax.

There might be a distinction for other countries according to the resident or non-resident status but not in the kind of residency. This is the case of Germany, which applies the residence principle and taxes residents on all their domestic and foreign revenues (Blankarta & Margraf, 2011).

Taxation is even more complicated for digital nomads that work as freelancers and move across various jurisdictions. Individuals in these circumstances often face many moving parts, including their country of origin and residence, but they also need to consider the location of the clients they're invoicing, as this often can complicate their tax requirements.

Work permits and visas for digital nomads and expats have gathered considerable attention. In the case of working expats, usually, their organizations play a role in securing these visas. However, various jurisdictions can understand remote nomadic workers in different ways.

Many countries understand digital nomadism as a more intimate form of tourism, but at the same time, working while using a tourist visa is considered illegal. Though that usually doesn't stop digital nomads from working while traveling as tourists, this practice has an expiration date as tourist visas generally offer limited time.

Since the COVID-19 pandemic, various jurisdictions have promoted special digital nomad visas to take advantage of the wave of emerging remote workers. Traditionally essential tourist destinations such as Costa Rica quickly modified legislation to accommodate these trends. This Central American country, for example, created a new immigration category to increase tourist arrivals through visas for digital nomads who are willing to stay for more extended periods.

Today dozens of countries have some form of digital nomad visas. Despite this progress, these visas are usually attached to specific minimum monthly income requirements and bank statements. This challenges freelance digital nomads who often don't have fixed salaries or income security.

The more nomadic these individuals continue to move around with tourist visas, switching locations constantly. But this benefits people mainly from Europe, North America, or countries of origin with solid passports. Digital nomads from the global south face more difficulties were maintaining this lifestyle due to broader visa restrictions.

### **Resilience Factors – The Expat Personality**

Academic literature addresses the personality of expatriates. Successful expats tend to share a broad knowledge and understanding of different cultural values, the ability to work and socialize with others, a persistent and broad-minded personality, and excellent skills and educational qualifications (Brewester et al., 2008).

Expats tend to share certain personality traits (Black, 1990): for example, they (a) show openness and receptiveness to learning the norms of a new culture, (b) make contact with citizens of the host country to (c) gather cultural information. Moreover, they do this to (d) cope with the higher stress associated with the ambiguity of their new environment (Black, 1990). Given the adverse cultural circumstances expats face, extraversion, emotional stability, agreeableness, and conscientiousness are essential in adapting to foreign affairs.

Digman (1990) identified specific beneficial factors for classifying the variety of personality traits personality factors include: (1) extroversion, (2) agreeableness, (3) conscientiousness, (4) emotional stability, and (5) openness or intellect. These factors are related to many traits that are consistently associated with expatriate success and, more broadly, success in many activities in the home country and when working in other cultures (Hannonen, 2020).

## Materials and Methods

Based on the existing findings on typical challenges expats and nomads are facing both within and following the relocation process, this empirical study used a quantitative strategy to add to the state of research.

### Research Material

All participants provided written informed consent before data collection and completed the questionnaires and individual items described in more detail below on the computer. The test battery contained both standardized scales and specially constructed items on personal experience and behavior in the relocation process motivated by entrepreneurial aspects.

In addition to a socio-demographic questionnaire, subjects were asked to provide information on their current business status (owner of a business living outside their home country (expat-preneur) vs. entrepreneur exclusively using digital technologies to pursue their work (digital nomad)), their region of origin, and their current host region. In addition, it was recorded whether participants sought help from a specialist lawyer or a tax advisor during their relocation.

The Big Five Inventory with a total of ten items (BFI-10; Gosling et al., 2003) was used to assess the personality structure of the sample. The highly economic short inventory allows the assessment of the personality traits *Extraversion*, *Neuroticism*, *Openness to Experience*, *Conscientiousness*, and *Agreeableness* defined according to the five-factor model (De Raad, 2000; Goldberg, 1990) and contains specific statements that are to be answered on a 5-point Likert scale (from 1: "Strongly Disagree," to 5: "Strongly Agree") concerning the subjects' level of agreement. An example for recording the degree of self-control, accuracy, and purposefulness (Conscientiousness) is "I see myself as someone who does a thorough job." According to Rammstedt and John (2007), the inventory has good psychometric characteristics and can thus be described as a reliable and valid inventory for assessing personality structure.

In addition to these essential personality dispositions, the personality trait Sensation Seeking, postulated primarily in the biopsychological field, was also surveyed. For this purpose, the Brief Sensation Seeking Scale (BSSS) by Hoyle et al. (2002) with a total of eight items was given to the subjects. The scale captures items that measure the construct by capturing the subscales *Thrill and Adventure Seeking (TAS)*, *Experience Seeking (ES)*, *Disinhibition (DIS)*, and *Boredom Susceptibility (BS)* with two items each, but also represents the individual's overall propensity to experience varied, new, complex, and intense impressions, experiences, and experiences by calculating a total score of sensation seeking. The BSSS as a self-report instrument presents the items in the form of short statements (e.g., "I prefer friends who are excitingly unpredictable"), which are also to be rated on a five-point Likert scale (from 1: "Strongly Disagree," to 5: "Strongly Agree").

Finally, to capture the subjects' perception and assessment of specific challenges in the relocation process, they were given a specially created scale for this survey: The scale included legal, tax, financial, and insurance items and also focused on communication and private aspects that may arise during the focused relocation process. Subjects were asked to indicate on a 5-point Likert scale (from 1: minimum rating as challenging to 5: maximum rating as challenging) how challenging they considered the aspects presented in short statements to be in their relocation (e.g., "During my relocation, I had difficulties applying for a visa that was sufficient for me."). For each of the seven subscales Legal Aspects (focus on residence law), Legal Aspects (focus on labor law), Tax Aspects, Administrative Aspects in the Financial Context, More Complex Aspects in the Financial Context, Insurance Aspects, and Communication and Private Factors, five items were given and combined into a total score by calculating mean values.

**Sample**

The dataset underlying the further analyses included data from a total of 196 participants (146 male (74.49%), 50 female (25.51%)) between the ages of 22 and 46 ( $M = 33.94$ ,  $SD = 7.38$ ). 12.8% ( $N = 25$ ) of participants reported having a college degree. 8.2% ( $N = 16$ ) subjects had at least nine years of high school education and a teaching degree. In comparison, 79.1% ( $N = 155$ ) reported having attained a high school diploma as their highest completed level of education.

The descriptive data of the sample concerning the information related to the relocation process (assistance from lawyer or tax advisor, Origin Region, Host Region) are presented in Table 1.

**Table 1**

*Distribution of the sample according to the data concerning relocation*

Assistance or Support from specialist Lawyer	Yes	71	36,2%
	No	125	63,8%
Assistance or Support from Tax Attendant	Yes	92	46,9%
	No	104	53,1%
Status	Expatriate Entrepreneur	107	54,6%
	Digital Nomad	89	45,4%
Origin Region	Schengen	88	44,9%

	US	108	55,1%
Host Region	(South East) Asia	81	41,3%
	Latin America	67	34,2%
	Schengen	22	11,2%
	US	26	13,3%

*Note.* 19.9% of respondents reported receiving assistance from a lawyer and a tax advisor ( $N = 39$ ). 36.7% of the subjects received support neither from a lawyer nor from a tax advisor ( $N = 72$ ).

### Procedure

Participants were recruited through various social media platforms recognized in the entrepreneurial field. The survey was conducted online via a dedicated survey tool. Subjects were presented with a standardized instruction at the outset, after which they were asked to give their informed consent.

Participants in the study were then first given the questionnaire regarding their sociodemographic characteristics and relevant aspects in the relocation process, after which they were presented with the BFI-10 and the BSSS. The final part of the survey was the presentation of the specially constructed scale to capture the perception and evaluation of the specific challenges in the focused process.

The processing of the test battery took about 15-20 minutes.

### Data Analysis

In order to uncover possible correlations and interactions in the context of the topic described, multivariate analyses were conducted in addition to the output of descriptive data.

The main focus was on perceptions of the specific challenge areas in the relocation process, the professional group chosen to support the relocation, and entrepreneurial status.

### Results

All statistical tests were performed using IBM SPSS 25.0.0.1 with a significance level of .05. Variables were tested for requirements and normal distribution before the actual computation steps. Mean values and standard deviations (inclusive possible range of values) of the information on personality traits and the perception of specific challenges of the overall sample are shown in Table 2.

**Table 2**

*Means, standards deviations, and possible range of values among the study variables (N=196)*

	<i>M</i>	<i>SD</i>
BFI_O (Openness to Experience)	3.44	0.88
BFI_C (Conscientiousness)	2.78	1.18
BFI_E (Extraversion)	3.36	0.86
BFI_A (Agreeableness)	2.58	0.87
BFI_N (Neuroticism)	2.68	1.14
SSS (Sensation Seeking)	3.35	1.12
LegVisa (Legal Aspects, Focus on Residence Law)	3.02	1.15
LegWork (Legal Aspects, Focus on Labor Law)	3.46	1.05
Taxation (Aspects in the Field of Taxation)	2.74	0.74
FinAdmin (Administrative Aspects in the Financial Context)	3.38	0.88
FinAccessMarket (More Complex Aspects in the Financial Context)	2.85	0.99
Insurance (Aspects in the Field of Insurance)	2.74	0.53
CommPrivate (Communication and Private Factors)	2.75	1.14

*Note.* Possible Range of Values for all variables is 1-5. Higher values represent a higher



level of expression in the personality dimensions or a perceived higher challenge of corresponding aspects.

For a closer understanding of the sample in the chosen entrepreneurial work mode context, corresponding data are again presented in Table 3 depending on the specified status (Expat-Preneur vs. Digital Nomad).

**Table 3**

*Means, standards deviations, and possible range of values among the study variables depending on the specified entrepreneurial status (Expat-Preneur vs. Digital Nomad)*

	Expat-Preneurs <sup>a</sup>		Digital Nomads <sup>b</sup>	
	<i>M</i>	<i>SD</i>	<i>M</i>	<i>SD</i>
BFI_O (Openness to Experience)	3.50	0.88	3.37	0.87
BFI_C (Conscientiousness)	2.76	1.18	2.79	1.19
BFI_E (Extraversion)	3.38	0.86	3.33	0.87
BFI_A (Agreeableness)	2.60	0.90	2.56	0.84
BFI_N (Neuroticism)	2.64	1.16	2.72	1.13
SSS (Sensation Seeking)	3.45	1.13	3.22	1.10
LegVisa (Legal Aspects, Focus on Residence Law)	2.93	1.12	1.13	1.19
LegWork (Legal Aspects, Focus on Labor Law)	3.48	1.08	3.44	1.02
Taxation (Aspects in the Field of Taxation)	2.63	0.70	2.87	0.78
FinAdmin (Administrative Aspects in the Financial Context)	3.46	0.89	3.30	0.87

FinAccessMarket (More Complex Aspects in the Financial Context)	2.81	0.98	2.89	1.00
Insurance (Aspects in the Field of Insurance)	2.78	0.54	2.68	0.51
CommPrivate (Communication and Private Factors)	2.68	1.22	2.82	1.04

<sup>a</sup>N = 107 (54.6%). <sup>b</sup>N = 89 (45.4%).

### Support and Assistance (Lawyer vs. Tax Attendant)

A multivariate analysis of variance (MANOVA) was conducted to compare the subject's perceptions of the specific challenges depending on the professional group chosen as an assistance or support system in the relocation process. The analysis revealed an overall significant difference between individuals who received assistance from a specialized lawyer ( $F(7, 168) = 18.25, p < .001$ , partial  $\eta^2 = .407$ , Wilk's Lambda = 593) or a tax advisor ( $F(7, 168) = 39.50, p < .001$ , partial  $\eta^2 = .598$ , Wilk's Lambda = .402). Univariate analyses of variance (ANOVAs) as follow-up analyses were conducted separately for each of the occupational groups (choice of occupational group (Yes, No) x Specific Challenges (LegVisa, LegWork, Taxation, FinAdmin, FinAccessMarket, Insurance, CommPrivate)).

The results are presented in Tables 4 and 5.

**Table 4**

*Results of the one-factor analysis of variance in the context of the (lack of) lawyer support in the relocation process and the perception of the specifically defined challenges*

	Support from Lawyer				F(1, 192)	Partial $\eta^2$
	Yes <sup>a</sup>		No <sup>b</sup>			
	M	SD	M	SD		
LegVisa	2.11	1.09	3.53	0.82	101.79***	.346
LegWork	2.80	1.05	3.83	0.85	53.55***	.218
Taxation	2.53	0.63	2.85	0.78	6.77*	.034

FinAdmin	3.71	0.51	3.19	0.99	16.79***	.080
FinAccessMarket	2.97	0.94	2.77	1.01	1.41	.007
Insurance	2.78	0.54	2.71	0.52	0.60	.003
CommPrivate	2.67	1.11	2.79	1.16	0.77	.004

<sup>a</sup>N = 71 (36.2%). <sup>b</sup>N = 125 (63.8%).

\**p* < .05. \*\*\**p* < .001.

**Table 5**

*Results of the one-factor analysis of variance in the context of the (lack of) tax support in the relocation process and the perception of the specifically defined challenges*

	Support from Tax Attendant				F(1, 192)	Partial $\eta^2$
	Yes <sup>a</sup>		No <sup>b</sup>			
	M	SD	M	SD		
Leg_Visa	2.78	1.12	3.23	1.14	3.74	.019
Leg_Work	3.39	1.06	3.52	1.04	0.00	.000
Taxation	2.12	0.29	3.29	0.57	270.79***	.585
Fin_Admin	3.44	0.90	3.33	0.87	0.43	.002
Fin_AccessMarket	2.97	0.79	2.73	1.12	2.63	.013
Insurance	2.76	0.54	2.72	0.52	0.45	.002
CommPrivate	2.84	1.13	2.66	1.14	1.14	.006

<sup>a</sup>N = 92 (46.9%). <sup>b</sup>N = 104 (53.1%).

\*\*\* $p < .001$ .

ANOVA on the choice of a specialized lawyer to support in the relocation process revealed a significant interaction effect in the context of perceptions of the challenges LegVisa ( $F(1, 192) = 101.79, p < .001, \text{partial } \eta^2 = .346$ ), LegWork ( $F(1, 192) = 53.55, p < .001, \text{partial } \eta^2 = .218$ ), Taxation ( $F(1, 192) = 6.77, p = .010, \text{partial } \eta^2 = .034$ ), and FinAdmin ( $F(1, 192) = 16.79, p < .001, \text{partial } \eta^2 = .080$ ). Individuals who sought assistance from a specialist lawyer in the relocation process reported lower levels of challenge burden in legal aspects with a focus on residence law ( $M_{\text{LegVisa(Lawyer)}} = 2.11, SD_{\text{LegVisa(Lawyer)}} = 1.09$ ), in legal aspects with a focus on labor law ( $M_{\text{LegWork(Lawyer)}} = 2.80, SD_{\text{LegWork(Lawyer)}} = 1.05$ ), in tax aspects ( $M_{\text{Taxation(Lawyer)}} = 2.53, SD_{\text{Taxation(Lawyer)}} = 0.63$ ), and in administrative aspects in the financial context ( $M_{\text{FinAdmin(Lawyer)}} = 3.71, SD_{\text{FinAdmin(Lawyer)}} = 0.51$ ) than individuals who did not seek assistance from a specialist lawyer ( $M_{\text{LegVisa(NoLawyer)}} = 3.53, SD_{\text{LegVisa(NoLawyer)}} = 0.82, M_{\text{LegWork(NoLawyer)}} = 3.83, SD_{\text{LegWork(NoLawyer)}} = 0.85, M_{\text{Taxation(NoLawyer)}} = 2.85, SD_{\text{Taxation(NoLawyer)}} = 0.78, M_{\text{FinAdmin(NoLawyer)}} = 3.19, SD_{\text{FinAdmin(NoLawyer)}} = 0.99$ ).

However, the (lack of) choice of a specialized lawyer did not affect perceptions of challenges in the context of more complex aspects of finance ( $F(1, 192) = 1.41, p = .236, \text{partial } \eta^2 = .007$ ), insurance aspects ( $F(1, 192) = 0.60, p = .441, \text{partial } \eta^2 = .003$ ), and communication and privacy factors ( $F(1, 192) = 0.77, p = .381, \text{partial } \eta^2 = .004$ ).

In the context of possible tax assistance in the relocation process, significant results were only evident in the perception of challenges in the tax context ( $F(1, 192) = 279.79, p < .001, \text{partial } \eta^2 = .585$ ). Individuals who sought support from a tax advisor perceived corresponding challenges as lower ( $M_{\text{Taxation(TaxAttendant)}} = 2.12, SD_{\text{Tax(TaxAttendant)}} = .029$ ) than individuals without corresponding assistance ( $M_{\text{Taxation(NoTaxAttendant)}} = 3.29, SD_{\text{Taxation(NoTaxAttendant)}} = 0.57$ ).

### **Status (Expatriate vs. Digital Nomads)**

Another MANOVA conducted with a focus on considering stated status in the context of type of current occupation (expatriate vs. digital nomad) showed no statistically significant differences in the context of perceptions of the specific challenges ( $F(7, 188) = 1.70, p = .111, \text{partial } \eta^2 = .060, \text{Wilk's Lambda} = .940$ ).

The means and standard deviations in the context of the specific challenges are presented in Table 3 despite the lack of significant differences in the course of the descriptive statistics.

### **Origin Region (Schengen vs. US)**

In the course of further exploratory research, a MANOVA revealed a statistically significant difference in the context of perception of specific challenges depending on the subjects' region of origin ( $F(7, 188) = 20.46, p < .001, \text{partial } \eta^2 = .432, \text{Wilk's Lambda} = .568$ ). The subsequent post hoc analysis using one-factor analyses of

variance (Origin Region (Schengen, US) x Specific Challenges (LegVisa, LegWork, Taxation, FinAdmin, FinAccessMarket, Insurance, CommPrivate) were able to show that subjects who originated from the U.S. rated challenges in the taxation domain as more challenging ( $M_{\text{Taxation(OriginUS)}} = 3.12$ ,  $SD_{\text{Taxation(OriginUS)}} = 0.70$ ) than individuals originally from the Schengen area ( $F(1, 192) = 98.20$ ,  $p < .001$ , partial  $\eta^2 = .336$ ;  $M_{\text{Taxation(OriginSchengen)}} = 2.26$ ,  $SD_{\text{Taxation(OriginSchengen)}} = 0.48$ ). Original U.S. residents also rated administrative aspects in the financial context as more challenging than did individuals with a Schengen region of origin ( $F(1, 192) = 6.32$ ,  $p = .013$ ,  $\eta^2 = .032$ ;  $M_{\text{FinAdmin(OriginSchengen)}} = 3.21$ ,  $SD_{\text{FinAdmin(OriginSchengen)}} = 1.00$ ;  $M_{\text{FinAdmin(OriginUS)}} = 3.52$ ,  $SD_{\text{FinAdmin(OriginUS)}} = 0.74$ ).

In the context of legal aspects with a focus on residence law ( $F(1, 192) = .295$ ,  $p = .588$ ,  $\eta^2 = .002$ ) and labor law ( $F(1, 192) = .308$ ,  $p = .580$ ,  $\eta^2 = .002$ ), more complex aspects in the financial context ( $F(1, 192) = 2.36$ ,  $p = .126$ ,  $\eta^2 = .012$ ), insurance ( $F(1, 192) = .004$ ,  $p = .949$ ,  $\eta^2 = .000$ ), and the communication and private factors domain ( $F(1, 192) = .971$ ,  $p = .326$ ,  $\eta^2 = .005$ ) these aspects showed no significant effects with respect to the perception of corresponding domains depending on the subjects' region of origin.

The results, including descriptive statistics, are presented in Table 6.

**Table 6**

*Results of single-factor analysis of variance in the context of the region of origin and perceptions of specifically defined challenges of individuals who have relocated*

	Region of Origin				F(1, 192)	Partial $\eta^2$
	Schengen <sup>a</sup>		US <sup>b</sup>			
	M	SD	M	SD		
Leg_Visa	3.07	1.15	2.98	1.16	.295	.002
Leg_Work	3.50	1.03	3.42	1.07	.308	.002
Taxation	2.26	0.48	3.12	0.70	98.20***	.336
Fin_Admin	3.21	1.00	3.52	0.74	6.32*	.032
Fin_AccessMarket	2.96	0.88	2.75	1.06	2.36	.012
Insurance	2.74	0.52	2.73	0.53	.004	.000

CommPrivate      2.66    1.16    2.82    1.12    .971      .005

<sup>a</sup>N = 88 (44.9%). <sup>b</sup>N = 108 (55.1%).

\*\*\**p* < .001. \**p* < .05.

Host Region ((South East) Asia vs. Latin America vs. Schengen vs. US)

Finally, the multivariate procedures in the context of the perception of specific challenges were also conducted with a special focus on the destination region targeted of the subjects. Statistically significant differences were found ( $F(21, 535) = 2.76, p < .001, \eta^2 = .094, \text{Wilk's Lambda} = .744$ ).

The results of the post-host analyses conducted (Host Region ((Sout East) Asia, Latin America, Schengen, US) x Specific Challenges (LegVisa, LegWork, Taxation, FinAdmin, FinAccessMarket, Insurance, CommPrivate) are presented in Table 7.

**Table 7**

*Results of single-factor analysis of variance in the context of the host region and perceptions of specifically defined challenges of individuals who have relocated*

	Host Region								F(1, 192)	Partial $\eta^2$
	(South East) Asia <sup>a</sup>		Latin America <sup>b</sup>		Schengen <sup>c</sup>		US <sup>d</sup>			
	M	SD	M	SD	M	SD	M	SD		
Leg_Visa	3.03	1.15	2.96	1.14	2.91	1.41	3.25	0.97	0.48	.007
Leg_Work	3.44	0.98	3.48	1.18	3.14	1.14	3.73	0.99	1.27	.019
Taxation	2.58	0.68	2.99	0.78	3.10	0.68	2.24	0.46	10.82**	.145
Fin_Admin	3.41	0.91	3.47	0.79	3.40	0.65	3.08	1.14	1.29	.020
Fin_AccessMarket	2.85	0.94	2.73	1.07	3.20	1.04	2.84	0.83	1.26	.019

Insurance	2.7 2	0.5 2	2.8 2	0.5 3	2.6 1	0.5 3	2.6 8	0.5 3	1.13	.017
CommPrivate	2.7 4	1.0 8	2.7 6	1.1 7	2.8 9	1.1 4	2.6 1	1.2 7	0.24	.004

<sup>a</sup> $N = 81$  (41.3%). <sup>b</sup> $N = 67$  (34.2%). <sup>c</sup> $N = 22$  (11.2%). <sup>d</sup> $N = 26$  (13.3%).

\*\*\* $p < .001$ .

It becomes clear that the perception of tax challenges differs significantly depending on the chosen destination region. The Tukey-HSD post-hoc tests conducted show that individuals whose destination region is in Latin America ( $M_{Diff} = -.41$ , 95%-CI [-0.71, -0.11],  $p = .002$ ) or the Schengen Area ( $M_{Diff} = -.52$ , 95%-CI [-0.95, -0.08],  $p = .012$ ), rate tax challenges as higher ( $M_{LatinAmerica} = 2.99$ ,  $SD_{LatinAmerica} = 0.78$ ;  $M_{Schengen} = 3.10$ ,  $SD_{Schengen} = 0.68$ ) than individuals whose destination region is in (South East) Asia ( $M_{(SouthEast)Asia} = 2.58$ ,  $SD_{(SouthEast)Asia} = 0.68$ ). There was also a significant difference between the assessment of tax challenges of individuals who choose their destination in Latin America ( $M_{LatinAmerica} = 2.99$ ,  $SD_{LatinAmerica} = 0.78$ ) and those who relocate to the U.S. region ( $M_{Diff} = 0.75$ , 95%-CI [0.34, 1.17],  $p < .001$ ;  $M_{US} = 2.24$ ,  $SD_{US} = 0.46$ ). However, individuals who choose their destination in the Schengen area ( $M_{Schengen} = 3.10$ ,  $SD_{Schengen} = 0.68$ ) rate tax challenges as more severe than do individuals who choose their destination in the U.S. area ( $M_{Diff} = 0.86$ , 95%-CI [0.34, 1.38],  $p < .001$ ;  $M_{US} = 2.24$ ,  $SD_{US} = 0.46$ ).

## Discussion

### Main Findings and Contribution

This research has been able to show the specific challenges associated with the relocation process in the context of expat and nomad experiences. As shown both from the perspective of the review of the existing state of research and in the study conducted here, there is a complex network of conditions that can lead to different constellations of challenges. It should be noted that this publication decidedly chose a problem-focused approach but does not want to ignore the mention of the different benefits that can result from appropriate living conditions. These are to be considered both from the perspective of expats and nomads themselves, for whom relocation typically represents turning points in life (Brayer-Hess & Lindermann, 2011) and brings with it a series of exciting and formative experiences (Selmer et al., 2018), as well as from the perspective of ecosystems and communities, which are increasingly shaped by the intensifying international exchange. Considering these issues and understanding what challenges there are to consider in the relocation process and examining corresponding resilience factors should thus be understood as a contribution to a smoother process.

The approach chosen here can be described as exploratory throughout, which is primarily due to the novelty of the research topic itself: To date, especially in the context of the changing environment of the ecosystem studied here and with a focus on the challenges chosen here, no comprehensive empirical study has been conducted that addresses the practical challenges of the relocation process. Accordingly, this research represents a central cornerstone in the research environment of expats and nomads but is at the same time characterized by corresponding limitations, which need to be addressed in subsequent research. In particular, the resilience factors and a sharpened understanding of their influence on the perception of different challenges and their relationship to personal life circumstances seem worth mentioning in this regard. Also, a detailed addressing of potential cultural differences and the search for causal explanations for them is a research goal to be strived for in future research activities.

## **Conclusion**

The steadily increasing numbers of people working in distant countries via digital technologies as digital nomads or expats point to the need for research into the factors and interactions that are fundamentally relevant in this context.

Using both a literature-based and quantitative approach, this study examined the findings to date in the context of the groups of people increasingly observed in the entrepreneurial sphere, focusing on personality structure and the existing challenges in the process of relocation chosen for entrepreneurial reasons among others. It became clear that it is not the distinction between the identification as a digital nomad or an expat that makes a difference in assessing specific aspects as challenges in relocation. Instead, it is primarily the choice of specific professional groups as support systems that matters. Thus, especially the choice of a lawyer specializing in emigration is related to a perceived lower level of challenge in tax law aspects, financial aspects, and legal aspects in residence and labor law. In contrast, the use of tax law support affected the perception of tax law challenges and caused a significant difference in this area compared to individuals who did not receive support. In addition to the support system chosen, it became clear that the region from which the digital nomads or expats originated influenced the perception of tax law issues, as did the destination region chosen. For example, individuals from the US American region report higher experienced challenges in this area and the perception of financial aspects than individuals from the Schengen area. In the context of the selected target region, it can be reported that especially in the Schengen area and in the Latin American area, tax aspects are experienced as challenging and, thus, significant differences from the (South East) Asia and America regions can also be reported.

Due to the ever-increasing focus on new forms of work, an in-depth examination of the possibly relevant aspects in the context of experience and behavior in the relocation process is indispensable. To continue to overcome borders in any way, it is



recommended to expand the range of support offered to corresponding groups of people.

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# **Manufacturing Sino -Egyptian Commune as Smart Hackathon Project of Advertisement and Distributing Animation Products for Graduated Youth**

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## **Abstract**

The Sino-Egyptian smart Hackathon commune project is to endorse Dr./ Dina Ali Mohammed El-Besomey, the Primary founder & pioneer& leader(with 100%) For a post-doctoral mission under the mission Call 2022-2023. The purpose of the post-doctoral mission is applying Sino -Egyptian commune project of advertisement and distributing animation products for graduated youth. The importance of the mission is this Applied study for Future Chinese -Egyptian Electronic Education vision 2020 - 2030). This project is as scientific mission of my post- PHD. This project focuses on the contemporary Chinese animation industry, especially The Role of Demography in the Distribution of Advertising Animation Products via the Experience of Chinese Communes with smart hackathon and how to apply it in Egypt. As the Demography of Advertising Animation Products via Chinese Communes, and the impact of them on the contemporary Chinese industry. Also on another hand explain that many of the Egyptian animation companies suffer from such problems as the production reduction ,the expensive costs ,to produce animation films with high quality ,so Chinese and Egyptian companies should be concentrated with the post- production stage to achieve profits . So I suggest to build this project in Damanhour,El-Behira Government, Egypt. And there is a discussion with El-Behira Government where it will be build and distribute Demography This Sino-Egyptian commune project in Damanhour, and also distribute Advertising Animation Products to the output of this project in his

first stage to build one Sino-Egyptian commune to distribute his Advertising Animation Products, like: video tapes, DVD, video games, posters, stickers, comics, magazine, school tools, toys, electronic games, children clothes, masks, and interior designs.<sup>1</sup>

**Keywords:** Manufacturing Sino Egyptian commune -smart Hackathon project - advertisement –distributing animation products - graduated youth-Manga-Anime-Multimedia-Computer Graphic–Computer Animation

## Introduction

The purpose of the post-doctoral mission is applying Sino -Egyptian commune project of advertisement and distributing animation products for graduated youth.The importance of the mission is this Applied study for Future Chinese –Egyptian Electronic Education vision 2030 - 2020). This research is as scientific mission of my post- PHD.

This project focuses on the contemporary Chinese animation industry, especially The Role of Demography in the Distribution of Advertising Animation Products via the Experience of Chinese Communes. As the Demography of Advertising Animation Products via Chinese Communes, and the impact of them on the contemporary Chinese industry . Also on another hand explain that many of the animation companies suffer from such as the production reduction, the expensive costs ,to produce animation films with high quality ,so Chinese and Egyptian companies concentrated with the post- production stage to profit.

There is the summary for the present purposes of many years' research goals and strategies, incorporating the following axes of the research plan:

This project focuses on the recent and latest technology of Asian manga &anime production via multimedia at the Asian tigers countries (south East Asia) like: (Japan-china-Korea).and how to utilize from that to develop the Asian animation production vs. the international market. And it discusses Asian animation at different fields of multimedia, like: the prints as journals, magazine, manga and other terminology of Asian prints :( Tankōbon, Aizō-ban, Kanzenban, Sōshūhen ,Bunko-ban ,Waido-ban ,and Shinsō-ban. This explained the meaning of them in this research. Also there is other field of multi-media like: cinema which called in Japanese "Doga", TV, internet

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<sup>1</sup> This research is introduced as worksheet to publish my post- PHD researches in EJMS (European Journal of Multidisciplinary Studies) for the 27rd International Conference on Multidisciplinary Studies (ICMS XXVII – Brussels): "Recent Ideas and Research", organized at the venue of Brussels college, Excelsiorlaan 59, 1930 Zaventem ,with co-operation European Centre for Science Education and Research. Revistia Publishing, 11 Portland Road, London, UK on 11-12 March 2022

and the wide spread of webtoons, mobile, tablet, ipad...Etc. this is depending on two important factors, including the following:

The labor market Participates in skills' development and vocational & artificial & technical training of the mechanisms of Chinese animation industry with specialized educational institutions:

Computer graphics began in the animation education industry in China in the late of seventies and expanded considerably since the last ten years. Universities across the country are using computer graphics in her programs, in addition, there are training courses for students at universities, academic training and education centers in universities in China to get a university degree in animation and provide job opportunities and training seminars for teachers of computer graphics and researchers. They usually form part of the curriculum for a more general article (usually computer science). Also, many universities offer degrees in animation, design the illustration as well as cinema techniques. which helps professional life in that area.

### **Overview and Background**

This is the National Project for manufacturing Sino - Egyptian Communes and distributing it Demography for sustainable development in Egypt as these are Distributing the Advertisement Animation Products and others . According to studding this project the contemporary Chinese & Egyptian animation industry vs. the international industry .

The roadmap of my many years in research of Asian animation industry especially Chinese and Japanese animation industry and also south east Asian -the Asian tiger countries- animation as North & south Korea, Philippine, Malaysia, Indonesia, sangfora as I participated at many Chinese- Egyptian conference, which held by Chinese and Egyptian centre at Helwan university and also I published many researches in this field. So I hope my National project of manufacturing Sino - Egyptian Communes and distributing it Demography for sustainable development in Egypt to be accessible for a relatively broad audience of academics. It will provide a clear and succinct picture of my short and long term programmatic project goals.

### **Creation the largest nursery for engineers and researchers in the world.**

The reconstruction of the Chinese university education structure was one of the most important great achievements in the era of Deng , after the disaster that hit the Cultural Revolution. In 1970, the year of the setback was found in China 48000 university student, and this number rose up in 1997 to 3.2 million, and until 2000 to 5.6 million. in the era of Mao was the "Red loyalty" rather than efficiency is the deciding factor for accepting students in the university study during the seventies, but in the time of Deng, it has been approved the method of entrance examinations .The Chinese elite universities in Beijing, such as (Beida University) in Shanghai is considered by the quality of students - and to some extent the quality and

competencies of the faculty staff. As china builds the largest nursery for engineers and scientific researchers in the world

### **Research importance**

The importance of this project depend on the direct Distribution Demography of Advertising Animation Products via the sino-Egyptian Communes production vs. the international market . Also the project supports the importance of post-production stage –this is puzzle solve at the Chinese and American animation industry to save job opportunities for international creative qualification designers, animators, Anime directors, and producers.

### **The project Objectives**

The roadmap of this project depending on many years of Chinese –Egyptian research is accessible to a relatively broad audience of academics. It will provide a clear and succinct picture of my short and long term programmatic research goals. There is the summary for the present purposes of my project goals, objectives and strategies, as the following:

The project study is determined in the Similarities and the differences of manufacturing the sino-Egyptian Communes to save job opportunities & achieve the profits for its companies

Recognized the Mechanisms of implementation & the technology of Asian manga &anime production via multimedia, like: the prints as journals, article magazine, cinema, TVs, web, mobile, all of that at china & America.

Utilize from the pioneer& creative ideas of the Chinese Animation production for developing the Egyptian animation industry technical& Produce via publishing& marketing &distribution locally and regionally vs. the international market.

Studding how the Dumping of the Chinese animation products will be increased the ten coming years, like: movies, series on dvd ,school tools, electronic games, toys the markets of Egypt ,Middle East, Arab World, European & international market in this period and the necessity of Address it.

### **Research problem**

The problem of Research determine in Manufacturing Sino -Egyptian commune as smart Hackathon project of advertisement and distributing animation products For graduated youth and how to utilize from the technology of Asian manga &anime production via multimedia at the Asian tigers countries(south east Asia)like: (japan-china-Korea) for developing the Asian animation production vs. the international market.And supporting the technology of Asian manga &anime production via multimedia ,like: the prints as journals ,article magazine ,cinema ,TVs, web ,mobile, all of that at the Asian tigers countries (south east Asia), especially (japan-china-Korea)



and the pioneer & creative ideas of developing the Asian animation production vs. the international market. And how the importance of post-production stage –this is disappear stage at the Egyptian animation industry, and the results of saving job opportunities for international creative qualification designers, animators, Anime directors, and producers.

Research methodology: **Applied & futurism Study**

Research limits:

**The place limits: Egypt, and china**

**The time limits : ( from 2022 to the future 2099).**

The terminology of the project plan

**The concept of Chinese communes**

The **people's commune** (Chinese: 人民公社) was the highest of three administrative levels in rural areas of the People's Republic of China during the period from 1958 to 1983, until they were replaced by townships. Communes, the largest collective units, were divided in turn into production brigades and production teams. The communes had governmental, political, and economic functions during the Cultural Revolution. The people's commune was commonly known for collectivizing living and working practices, especially during the Great Leap Forward. The scale of the commune and its ability to extract income from the rural population enabled commune administrations to invest in large-scale mechanization, infrastructure, and industrial projects. The communes did not, however, meet many of their long-term goals, such as facilitating the construction of socialism in the rural areas, liberating women from housework, and creating sustainable agriculture practices in the countryside. They ranged in number from 50,000 to 90,000.

Communes began as amalgamations of collective farms; but, in contrast to the collectives, which had been engaged exclusively in agricultural activities, the communes were to become **multipurpose organizations for the direction of local government and the management of all economic and social activity**. Mao tse-tung said, in 1958, that the commune "includes industry, agriculture, culture, trade. Military affairs...include the people of all professions and trades...the people's commune is different in nature from the agricultural cooperative ...referring to the urbanization of the countryside, the ruralisation of the cities, we imply that new changes have come to the society as a whole". This introduces the Chinese commune as a large comprehensive unit of social organization. Contrary to what many people have assumed, the commune in china has not replaced the family as the basic social unit, but it has given the peasant the sort of security he never knew in the past: the commune guarantees him food, clothes, fuel, funeral expenses, and education for his



children. In order to understand the commune plays in china today, it is necessary to trace its origins in the struggle of the peasant to free himself from rural oppression.

## **What is the experience of Chinese commune**

### **The Chinese commune concept**

This experience is creating products and their market according to his studies and marketing mechanisms through the instruction of communes (small sales shops) to distribute the product in demographic areas in accordance with the Urban Planning of the State and to study populated places in a target plan of the domestic market and also the government sponsors the street vendors not only During those communes, But in accordance with street vendors and some owners of crafts and services through supplying them these goods to sell and distribute them in those inhabiting places by people as well as outside the country to dump the global market as well as open market for them abroad via international exhibitions.

### **The Chinese Communes Mission in Cities**

The mission of communities in cities, as explained by the Central Committee of the Communist Party of China to operate that:

As a tool to repair ancient cities and establish new socialist cities

A complete regulator of production, exchange, distribution, luxury, traders, students and soldiers in one format where government power and communes integrate into a single unit.

Due to the citizens of the cities and their business, the communes cities should vary some of the organization and ownership of their countryside.

### **Chinese communes role in Chinese animation industry**

It is recently observed during the third millennium booming the animation industry in China, where China is a modern China's animation industry, therefore it proved to be a leading and Frequent Chinese industry despite the severe competition which it suffered from. Recent Statistics show that the Chinese people are more than six hundred million people, and china has turned into the most active animation markets in the world. And According to the universal Forum of chinese Cultural Industries 2008 that:" the Chinese animation production in 2007 has been overshadowed a hundred thousand minutes on four national animation television channels , and 33 Republic channels. and Their audience is more than six hundred million person . This evolution of the high rate of viewing, resulting from the high rate of adult viewers . since 2005, new animations are tried to attract the new audience of ages ranging from 16 years and 30 years.

## **Chinese communes role of Chinese animation industry requires:**

Renovation and expansion of handicrafts to be basically for local industries

Distribution of Chinese communes demography according to the current administrative division in China on The Basis of three levels: provinces, governments and suburbs

### **Hackathon history brief**

On June 4, 1999, **Niels Provos** coined the work hackathon when OpenBSD organised a cryptographic development. In the event, around ten developers participated to develop the cryptographic software ensuring to stay under the regulations of the US for the software. There have been a number of hackathons devoted to improving government, and specifically to the cause of open government. One such event, in 2011, was hosted by the United States Congress. Starting in 2012, NASA has been annually hosting the International Space Apps Challenge.

In 2014, the British government and Hacker Nest ran Dementia Hack, the world's first hackathon dedicated to improving the lives of people living with dementia and their caregivers. The series continues in 2015, adding the Canadian government and Facebook as major sponsors. The Global Game Jam, the largest video game development hackathon, often includes optional requirements called 'diversifiers' that aim to promote game accessibility and other causes.

Van Hacks is an annual hackathon that is part of Vancouver Startup Week. The focus of the hackathon is creating solutions for local non-profit organizations from the Vancouver area over the course of 36 hours. VanHacks was created in 2016 by TTT Studios. In March 2020, numerous world-wide initiatives led by entrepreneurs and governmental representatives from European countries resulted in a series of anti-crisis hackathons Hack the Crisis, with first to happen in Estonia, followed up by Poland, Latvia, and Ukraine.

### **Hackathon Concept**

The word hackathon is a portmanteau of the words hacker, which means clever programmer, and marathon, an event marked by endurance .

The hackathon (also known as a hack day, hackfest, datathon or codefest; a portmanteau of hacking marathon) is a social coding event and a design sprint-like event, in which often computer programmers and others involved in software development, including graphic designers, interface designers, product managers, project managers, domain experts, others collaborate intensively on software projects, and other interested people together to improve upon or build a new software program.

### **Crypto hackathon Concept**

Hackathon is a competition that is held for IT-specialists to find the most professional and widely prepared developers and to reward them

### **Hackathon project Concept**

Hackathon is a type of programming marathon in which participants who are not professional developers attempt to build a new computer program during a fixed period of time. Programming events are often designed to create a specific programming project to work on, or the projects can be self-chosen

### **The Common Types of Hackathons**

Coding Competition. Hackathon, by looking at this word which is “Hack” plus “Marathon”, you can immediately link it with intensive coding competition. ...

- Datathon
- Hackathon
- Business Case Competition

### **The hackathon purpose and goal**

Various hackathons have been held to improve city transit systems. Hackathons aimed at improvements to city local services are increasing, with one of the London Councils (Hackney) creating a number of successful local solutions with a two-day Hackney-thon. There have also been a number of hackathons devoted to improving education, including Education Hack Day and on a smaller scale, looking specifically at the challenges of field work based geography education, the Field Studies Council hosted FSCHackday. Random Hacks of Kindness is another popular hackathon, devoted to disaster management and crisis response. The Port instead is a hackathon devoted to solving humanitarian, social and public interest challenges. It's hosted by CERN with partners from other non-governmental organizations such as ICRC and UNDP.

### **What is the experience of the Sino-Egyptian smart Hackathon commune project?**

#### **The Sino-Egyptian smart Hackathon commune project concept**

This experience is creating products and their market according to his studies and marketing mechanisms through the instruction of communes (smart small sales shops) via **smart Hackathon** to create functioning software or hardware by the end of the event to distribute the product in demographic areas in accordance with the Urban Planning of the State and to study populated places in a target plan of the domestic market and also the government sponsors the street vendors not only During those communes, But in accordance with street vendors and some owners of crafts and services through supplying them these goods to sell and distribute them in

those inhabiting places by people as well as outside the country to dump the global market as well as open market for them abroad via international exhibitions.

### **The Sino-Egyptian smart Hackathon commune project purpose and goal**

The purpose and goal of The Sino-Egyptian smart Hackathon commune project is to create functioning software or hardware by the end of the event for the instruction of communes (smart small sales shops) to distribute the product in demographic areas in accordance with the Urban Planning of the State and to study populated places in a target plan of the domestic market and also the government sponsors the street vendors not only During those communes, But in accordance with street vendors and some owners of crafts and services. Hackathons tend to have a specific focus, which can include the programming language used, the operating system, an application, an API, or the subject and the demographic group of the programmers. In other cases, there is no restriction on the type of software being created.

The main axes of the project plan

The first axis: The impact of demographic planning on the Chinese& Egyptian animation industry

The second axis: study the concept of the experience of Chinese communes on advertising animation products and applied it in Egypt.

The third axis: Study of samples of the experiences of Chinese communists in the distribution of advertising animation products and the similar and different factors

The fourth axis: the development of artisanal industries related to advertising animation products

Fifth axis: study the Chinese & Egyptian media used to compete with the global animation industry.

Sixth axis: strategic marketing of the computer industry, graphics ,Advertisement and animation products in the Chinese & Egyptian communes

Seventh: The role of the Chinese and Egyptian countries in the adoption of legislative and parliamentary decisions in support of the Chinese animation industry and attracting foreign investment to establish an information empire.

### **Technical output and Impact**

Here we take the manga and its publications as a form of Asian print art and anime industry and distributing and producing it as new and different concepts of what we know in Egypt, our Arab societies in general, or even on the global analogues.by exploring the new in Asian Advertisement and print arts, especially Japanese and south east Asian- the Asian tigers countries- of print arts, which used for Advertising. At the end the project's results &recommendations, introducing experiments in which

Japanese & Chinese Advertisement and print arts progressed the anime industry in china & Japan & Asia, they also progressed in Egypt . All of these products and more produce and distribute in one place that is the aim of our project Sino-Egyptian communes.

There is two kinds of the Technical output of this project and their Impacts

The first kind is the instruction of the Sino-Egyptian communes and distributing it demography. Its impact is Unemployment reduction and achieving profits for companies suffering the lack of production & profits, especially adapters, advertising, animations, entertainment and multimedia companies

The second kind is These publication Terminology of the advertisement animation products and its development of Asian experience artistic style

- Japanese Cartoons " TOBA-E"
- Chinese glypls
- Tankōbon 単行本
- Aizō-ban 愛蔵版
- Kanzenban 完全版
- Sōshūhen 総集編
- Bunko-ban 文庫版
- Waido-ban ワイド版
- Shinsō-ban 新装版
- the origin of the Japanese word manga and anime
- Manhua
- DOGA

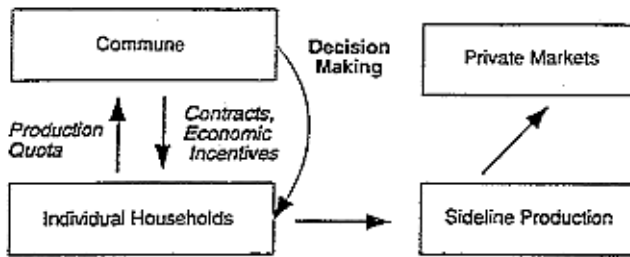
The impact of the second kind is Entering the Egyptian market , this new distinct quality of entertainment and educational works which develop artistic, creative and mental skills at different ages, especially children and teenagers. As The quality of the technical work is also characterized by the quality of technical and scientific content with the lack of production costs and a strong attraction for both children and teenagers and has a popular market and followed by all ages, that is making it appropriate and worthy to apply indeed in the Egyptian market.

### First: The smart Hackathon



Shape (1) photography of techcrunch hackathon

### Second: The people's communes illustration drawings



Shape (2) the graph of the instruction process of Chinese communes



Shape (3) the Chinese communes illustration drawings





Shape (4) the Chinese communes illustration drawings

Third: The Products of the post-production stage of Chinese animation



Shape (5) Products of the post-production stage of the movie The Goat and the Great Witch

**Gantt chart - Annex 1**

Task NO.	Title of Task/Sub-task	Start Date	End Date	Duration	12 months	Expected measurable
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1	Manufacturing Sino -Egyptian commune parts	1/1/	1/7/	6M	M	M	M	M	M	M	M	M	M	M	M	10	11	11	12	outcomes of successful implementation of the task	
		20	20																		
		22	22																		
		33	33																		100%
1.1																					
1.2																					
2	Building the instruction of the Sino -Egyptian commune in a square	1/1/	1/7/	6M																100%	
		20	20																		
		22	20																		
		33	23																		
2.1																					
2.2																					
2.3																					
3	The production and distributing the Advertising			3M																100%	





## Results & Discussions

### (Expected Project Outcomes and Impact )

This project is exploring the new in contemporary Chinese animation technology and its stages. At the end the project's results & recommendations, introducing experiments in which could be progressed this industry in china & Egypt.

Transferred technology, innovation and creativity between Egypt, china, and America will make us up-to-date with the latest innovations all over the world to get develop and progress ourselves.

The exchange of technological Experience and scientific Missions will increase the coming twenty years between all sides of Egypt, japan, china, especially at the field of the technology of manga& anime production.

The impact of the technology of manga& anime production will increase and reflect on the Egyptian animation industry.

The Egyptian animation industry should be up-to-date with the latest version of Asian computer graphic and animation, also with the recent events in Asian cinema, multimedia and animation industry to develop the global industry.

Animation film has many stages to produce ,start with idea, storyboard ,design characters and backgrounds ,animation ,inking, coloring ,composing ,and Montage & Mixage .finally its ended with production stage ,but there is an important stage which called "After production stage ,"the problem solving, why some animation companies didn't achieve a good profit and loss . This stage depended on animation products ,like :video tapes, DVD ,video games, posters ,stickers ,comics ,magazine ,school tools, toys, electronic games, children clothes ,masks ,and interior designs .

It's possible, the post-production stage achieves high profit for special companies ,so the Egyptian government should support the Egyptian animation as national industry ,which has the same case in china, so we should utilize from the Chinese experiment by comparing it with local Egyptian market ,the role of government to give the Egyptian animation industry a percent from the national income ,which will return with more profits in the country national income

Probably the ten coming years will be increased the Dumping of the Asian animation products, like: movies, series on dvd ,school tools, electronic games, toys the markets of Middle East ,Arab World ,European & international market in this period and the necessity of Address it

Transferred technology, innovation and creativity between Egypt, china, and America will make us up-to-date with the latest innovations all over the world to get develop and progress ourselves.

The necessity of exiting Computer & Network Engineers , Programmers developer of Graphic& computer animation software at the teamwork of animation & video games with computer to create private programs, applications, and multimedia for every studio to make Egyptian national industry at this field ,like the Asian& international industry of cinema, computer graphic, video games.

Egyptian companies of programming & developing video games should have the opportunity to make animation and video games with the national characters.

The necessity of using multimedia technology in education &tourism and hologram documentary to express about Egyptian Encyclopedic civilization, like: the scene of ancient Egyptian civilization as the pyramids, sphinx, opened area templates, the attractive view of its beaches as what happened in china.

We must put the value of belonging to the homeland in our children to protect the Egyptian identity in Egyptian animation, and to establish customs and traditions and Egyptian values as Gateway of transforming from local to global.

## **Conclusion**

Finally, the research's results & recommendations, introducing new experiment in which could be progressed this industry in Egypt.

For the Financial feasibility ,I suggest to build this project in Damanhour, El-Behira Government, Egypt. And there is a discussion with El-Behira Government where it will be build and distribute Demography This Sino-Egyptian commune project in Damanhour, and also distribute Advertising Animation Products to the output of this project in his first stage to build one Sino-Egyptian commune to distribute his Advertising Animation Products, like: video tapes, DVD ,video games, posters ,stickers ,comics ,magazine ,school tools, toys, electronic games, children clothes ,masks ,and interior designs.

And the Socio-economic Impact and Sustainability of this project idea depends on what many of the animation companies suffer from such as the production reduction ,the expensive costs ,to produce animation films with high quality ,which requested particular composer & script writer deal well with the ages introduced to her this animation ,also the quality of technology ,professional director, so there must be a solution to produce succeeding animation with its nationality ,which children love it and grow up their thoughts &sense , get them delighted ,with positive ideas and experiments .as the animation industry & each other nationality industries needs to profit to go on their way . And how this project help to employ graduated youth especially youth graduated from fine arts faculties& applied arts faculties.. And so on institution supporting arts .

So the instruction of the Sino-Egyptian communes and distributing it demography. Its impact is Unemployment reduction and achieving profits for companies suffering the

lack of production & profits, especially adapters, advertising, animations, entertainment and multimedia companies. And this project achieves Sustainability and increasing the national income.

The impact of this project is Entering the Egyptian market, this new distinct quality of entertainment and educational works which develop artistic, creative and mental skills at different ages, especially children and teenagers. As The quality of the technical work is also characterized by the quality of technical and scientific content with the lack of production costs and a strong attraction for both children and teenagers and has a popular market and followed by all ages, that is making it appropriate and worthy to apply indeed in the Egyptian market

This project advertises and distributes the new of Asian Technology of Animation, The styles, features and prosperities of animation films. As Asian animation was sorted according to its subjects and techniques (2d) & (3d).Also, the tools which uses in the Japanese manga &anime& Korean manhwa(which mean the Korean web comics)& sino-motion- the Chinese style of animation can be designed manually and digitally .Also This project advertises and distributes the new of manga and anime computer graphic and computer animation software which uses in in the manga &anime& manhwa

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# Investment Strategy of Georgia as a Country of Transition Economy: Trends, Problems, Prospects

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## Abstract

Transition of Georgia to market economy is a complex and continuous process, closely related to both, economic growth and social challenges. In this regard domestic as well as foreign direct investments are one of the mechanisms of utmost importance. The country with economy in transition has many social-economic problems that make it essential for government to look for the most efficient ways of solving them implementing proper investment strategy. The paper considers the main trends and tendencies of investments from macroeconomic point of view, concerning the governmental investment policy aspects, investment climate, the dynamics of investments flows, capital revenues, investments' share in GDP, the structure of investments in term of countries, sectors, etc. The article considers the core issues of the investment policy in Georgia from pragmatic as well as conceptual point of view, where the role and importance of investment policy are presented, legislative base of investments are discussed, inevitability of transparency, measurability and effectiveness of investment process is reasoned, proactive investment approach is prioritized, the importance of privatization policy is given, forms of privatization and their effectiveness are analyzed, complex utilization of investment marketing instruments, effective management of investment cycle, facilitation of post-investment activity, investigation of investment potential, Brown-field and Green-field investments and the PPI model and other topical questions are also characterized. Herewith, the author suggests some corresponding problem-solving recommendations which, as the author suggests, will help policy implementation persons at state, regional and local governmental levels of the country.

**Keywords:** Investment Strategy; Proactive Investment Policy; Post-Investment Activity; Investment Cycle; Infrastructure for Investments; Brown-field and Green-field Investments; Privatization Process; Investment Marketing

## 1. Introduction

In the modern stage of development, one of the most important determinants of economic growth is the private sector investments and contemporary economic effects. Since the level of savings in the economy of Georgia is relatively low, the investment activity is mainly stimulated by foreign direct investments (FDI). The main factors for investment attractiveness in the country's economy are the following: the favorable geostrategic location of the country and nearness to the markets, leading positions in international indices (the Index of Economic Freedom, simplicity of Doing Business, etc.), simple and effective taxes, liberal customs legislation, flexible logistical infrastructure, available labor resources, state programs for business promotion, free trade agreements (especially, a European Union Association Agreement), bilateral agreements on promotion and protection of investments (with more than 30 countries), free economic (industrial, touristic, technological) zones, developed financial sector, increasing participation of international financial organizations in economic projects and more. In spite of this, the significant challenges in the realization of investment potential of the country is observed, which requires the development and implementation of a correct and well thought investment strategy. The present paper, based on quantitative and qualitative analysis, identifies weak points of investment policy and provides relevant recommendation proposals.

## 2. The necessity of moving from the reactive to the proactive investment policy

As it's commonly considered the investment policy is one of the main underlying axes for the economic policy of the country and the central element of economic growth (Klump, 2015, p. 157) as well as the main circulating power of the macro and microeconomic processes and flows. The importance of the investments in the private sector on the macro level is mainly revealed by reaching the macroeconomic equilibrium, added value formation, creation of jobs, strengthening the national currency, generation of the additional budget-income flows, increase of the export capacity and others, while the technological update process of companies, saturation of the of consumer market, development of the adjacent and sub-sectors, improvement of the quality of production, increase of competition, promotion of reinvestment activity and more.

It should be mentioned that the efficiency of the investment policy and relevant strategy largely depends on the effectiveness of the reciprocal steps taken by the relevant state bodies towards investors, perfection of the investment cycle and

adequate assessment of investment trends. The dynamics and structure of the investment processes in the economy of Georgia completely and clearly are highlighted in the following table.

Table 1. Dynamics and Structure of the Investment Characteristics in Georgia

	2010	2011	2012	2013	2014	2015	2016	2017 <sup>1</sup>
Foreign Direct Investments (Million US Dollar), Including -	845,1	1 129,9	1 022,9	1 020,6	1 818,0	1 652,5	1 602,9	1 861,9
<i>By Sources:</i>								
Foreign Economic Activity of Enterprises	678,0	866,3	841,3	765,9	1 700,3	1 510,6	1 479,3	1 533,8
Privatization	49,4	61,8	5,4	2,8	3,6	6,5	2,2	1,6
Financial Sector	117,7	201,8	176,2	251,9	114,1	135,4	121,4	326,5
<i>By Sectors (%):</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>
Agriculture	1,0	1,5	1,6	1,3	0,7	1,1	0,5	0,2
Industry/Manufacturing	27,8	16,0	20,4	14,8	14,1	11,3	11,2	6,9
Energy Sector	3,2	18,8	17,5	24,0	10,5	7,5	7,3	10,1
Construction	1,1	7,0	9,0	7,8	17,9	8,7	8,6	15,8
Hotels and Restaurants	2,8	2,7	0,2	-0,7	7,3	8,6	3,6	4,8
Transports and Communications	25,4	11,6	8,2	13,9	23,9	35,5	42,3	28,3
Real Estate	15,0	14,1	5,6	6,1	8,2	5,5	6,1	8,6
Other	23,7	28,3	37,5	32,8	17,4	30,5	20,4	25,3

<sup>1</sup> Preliminary Statistical Figures.

Sectors								
<i>By Country Groups (%):</i>	100	100	100	100	100	100	100	100
EU Countries	27,7	43,6	44,7	41,3	46,0	46,7	23,8	39,4
CIS Countries	15,8	13,3	9,6	14,2	25,1	38,3	38,8	28,1
Other Countries	51,1	34,7	39,5	38,5	34,6	12,2	35,0	32,3
International Organizations	5,4	8,4	6,2	6,0	-5,7	2,8	2,4	0,2
Investments in Fixed Assets (Million GEL), Including -	3 210,1	2 602,5	3 245,6	3 937,3	3 559,6	4 333,6	4 665,4	-
<i>By Enterprise Size (%):</i>	100	100	100	100	100	100	100	-
Large	71,2	58,5	54,2	49,1	44,5	58,6	53,2	-
Medium	15,5	19,6	22,3	27,5	15,7	19,1	22,6	-
Small	13,3	21,9	23,5	23,4	39,8	22,3	24,2	-
GDP (At Market Prices, Million GEL)	20 743,4	24 344,0	26 167,3	26 847,4	29 150,5	31 755,6	34 028,5	38 042,2
Gross Capital Formation	4 477,7	6 368,0	7 575,4	6 652,9	8 688,9	10 004,3	11 136,6	12 133,3
<i>Portion of Gross Capital Formation in GDP (%)</i>	21,6	26,2	28,9	24,8	29,8	31,5	32,7	31,9

Source: National Statistics Office of Georgia; The Author's Calculations.

Analysis of the investment parameters is important in several directions: 1. According to the sources – as the table shows, the component of the foreign activity of the

enterprise is increasing in the dynamics, the share of privatization is significantly reducing while the data of the financial sector is relatively stable that can be explained by the increase of the foreign investments in the real sector of the economy compared with previous years; 2. According to the sectors – the foreign investment flows are concentrated mainly in sectors of the economy such as transport and communications, industry, energetics, construction, other sectors (including the financial sector as well). 3. According to groups of countries – the growth trend is characterized to the investment of EU and CIS countries which can also be explained by the enactment of the European Union Association Agreement. By 2017, the top three leading investor countries are United Kingdom, Netherlands and China. 4. Investments in fixed assets – the share of the total number of investments in large enterprises are significantly reduced, while the specific weight of the investments of the average and especially small enterprises is increasing which contributes to the implementation of relevant state programs to some extent. 5. Total capital formation – the share of this indicator is about a third of the Gross Domestic Product of the country which implicitly indicates the importance of the investment component in economic growth.

In terms of implementing rational investment policy at all levels of the state government, in our opinion, it is of utmost importance to create such a well thought out and effective mechanism, which by taking into consideration the specifics of particular investors, specific investment projects and the state property privatization forms will make the entire investment process transparent, measurable and effective. In transparency we mean procedural transparency of the full investment cycle in all phases of investment decision making, the measurement should include a complex assessment of the concomitant risks of the investment projects and complex assessment of the admissible effects, and the efficiency – the final fruitfulness of the investment process. At the same time, the right implementation of the privatization policy greatly depends on the state investment policy and the appropriate strategy, as well as the rational prediction of the capital income of budget and in total, the minimization the risks of investment environment. It should be noted that state regulation of investment activities in the country is mainly based on the following legislative acts – special laws: "On Promotion and Guarantees of Investment Activity", "On State Support for Investments", "On Investment Funds", "On JSC Partnership Fund", in the section of state property management and disposal – Law of Georgia "On State Property", in the tax regulation section – Georgian Tax Code as well as the other laws and subordinate normative acts. In this context, we find it important to develop a single investment framework law based on modern investment challenges and existing experiences, which will unify and improve the regulatory norms of investment processes, old and unused norms, for example, through the annulation or change of the special investment status, investment deprivation, investment center,

etc. (6, Article 9; 7, Articles 6, 7) and activation of guarantees for more effective protection of investors.

The efficiency of the investment policy can generally be evaluated by what approaches have the relevant state bodies, implementing such policy, have towards the potential investors and relevant investment flows. From this point of view, we can use the approaches, known in economic science as so-called "ex ante" and "ex post" (Tanzi, 2011, p. 184). In particular, the reaction of the state on the interest of investors and demand and initiated investment processes, can be considered as one of the determinants of conduct of investors. It also originates from how well prepared the potential investor or the group of investors are. Prepared can be called an investor who has an actually implementable project, has a clear investment concept, is well aware of the specifics of the local market, knows the nuances of the investments laws, has some information about privatization facilities, etc. It should be mentioned that the investment policy of the country practically uses the "ex post" approach. This means that the investors are the initiator of the investment process and the state is only making "reciprocal steps" after the investment cycle is activated. The use of this approach can be regarded as just when the absolute majority constitutes the so-called "well aware investors". In cases where the opposite occurs, the state, in parallel with the wide use of investment marketing instruments, the state must ensure consideration of its investment proposals at all levels of governance and offer to investors, which means full systematization of objects of privatization and lease and their "investment packaging", creating and continuously updating the map of investment assets, the assessment of sectoral and subsectoral investment attractiveness, based on sectoral research, preliminary feasibility study of the strategic objects (large investment land plots) and designing, that will facilitate transaction from the reactive (ex post) to the proactive (ex ante) investment approach and increase the investment activity within the terms of the relevant privatization policy.

### **3. Investment policy and privatization mechanisms**

At the current stage of the transition economy, the issue of formation and use of investment flows as one of the major macroeconomic and macrofinancial issues of the country is under discussion, since dynamism of investment policy implementation is directly related to the efficiency of privatization policy. Based on the above, investment and privatization policy mechanisms are the most closely correlated instruments of financial-economic policy.

It should be mentioned that the basic primary interest of local as well as foreign investors in terms of transitional economy of Georgia, if we do not consider the investment environment, is mainly focused on the moment of real estate acquisition and further use, and in this respect, the state investment policy is ranked by the level of property ownership (state property, property of autonomous republics, property

of self-governing units). Investment decisions are also made by the approaches of the discretionary authority. We should emphasize the fact that in implementation of the local and foreign investments, if the investor already has basic information about the investment environment, its primary interest is the investment object and the nuances related to it (condition, value assessment, investment conditions, etc.).

Thus, this approach is almost standard for state and private investment objects, the difference is reflected only in appraisal of the state-owned property and the use of disposal forms. From the macroeconomic point of view, both types of investments are equally positive for the state, because investment in both cases represent the component of the economic growth, while from the macroeconomic point of view, the investments made by the privatization or use of the right of privatization are more important, unlike the investments carried out on private property objects, as the state receives additional benefits as an income from privatization and lease.

The main goal of the privatization policy on the modern stage of the development of the country should be an increase of economic efficiency, which implies formation of an efficient private owner, creation of an environment of supporting initiatives and establishing the middle class of entrepreneurs. From this point of view, we consider the use the form of an conditional auction in privatization relationships, which, unlike the unconditional auction form, excludes privatized property "preservation" and ignoring its involvement in economic activity for speculative or other purposes. In parallel with the use of privatization forms, both – the short-term and long-term lease relationships should be activated, especially with regard to investment projects of the high capital capacity.

For the above purpose, adequate selection and use of the forms of privatization and property in respect to investor requirements is also a noteworthy, based on the specific investment project and specificity of the object (of the land). We mean the auction or direct sale sub-forms. In particular, unlike the conditioned auction, which is mainly used for "strategic" investment objects, from which the state is waiting for various investment effects, unconditional auctions can be applied to relatively peripheral or small investment plots and aim to ensure potential involvement in the economic turnover of "inactive assets" owned by the state. As for the direct sale on the basis of a competitive selection, which provides "infiltration" in case of several alternative investment projects, is relatively rarely used, because one investment project often involves one investment project, unlike to direct sale, which is a governmental exclusive right, however, its lawful formulation, we think, should be improved. In particular, according to the Law of Georgia "On State Property", "Privatization of state property through direct sale is aimed to transfer ownership rights to the buyer who fully and honestly fulfills the term (-s) of direct sale of state property (5, Article 10.1). In our opinion, we consider it unjust, the future probably



implementable activity to become the basis for making the present decisions and at the same time, it is advisable to be associated with certain criteria selected in advance.

In order to increase the investment activity, together with the privatization process, control over the fulfilment of the contractual obligations under the so-called conditional investment projects is also very important which is known under the name of Investment Monitoring Agreement and somehow represents the continuation of the privatization / lease process. In terms of revising the investment conditions, may be due to the reasonable necessity, and in relation to the investor, in the best case, to change the terms of investment or, at worst, exemption from the sanctions imposed for non-compliance with the terms. In turn, the change of investment-privatization conditions may be due to the necessity of extension of investment terms, request of the investor for additional land plots or other factors, which should be based on the principles of public and private interests. The relatively delicate issue is exemption of the investors from the imposed sanctions which should be based on a fair approach as well as on the objective approach of the decision-makers and be originated from stimulating specific investment projects, task of generating future investment effects with maximal consideration of state interests. In addition, the purpose of investment monitoring, in our opinion, should not only be the "technical" control and "technical" control of its implementation, but also the governing entity of the property and, in general, the state should also be interested in the "post audit" of the investment projects, i.e. what macroeconomic effects have brought to the country, specific region or self-government unit by the privatization process and specific investment project (Roland, 2008, pp. 55-60), did the post-investment activity take place with regard to the reinvestment, how much did the specific investment project reach to the implementation phase and whether or not the predetermined effectiveness was achieved. In this regard, the post-investment activities, must be activated, the so-called post-privatization studies can be used as one of the most important instruments.

For increasing the investment activity with regard to privatization, the issue of transformation of property relations into the context of the privatization rate remains as an urgent issue that is a complex phenomenon. Here, naturally, we do not mean the "aggressive" approach to such a delicate and consistent process, as privatization, however, it is advisable, the state to ensure speedup of the irreversible process of involving assets in the economic turnover, at all levels of governance incorporating assets of its assets into the economic circulation by taking into consideration the phase of the transition economy of the country, that will enable it to promote private sector to create more value added through the use of unused assets, and on the other hand, to ensure "diminishment" of the privatization process within the midterm perspective and moving to the "spot" privatization (which is an approbated western practice) (Pavliashvili, 2009, pp. 16-17), resale of the returned property or through "secondary" privatization due to non-fulfillment of investment liabilities in some

cases. From this point of view, the timely implementation of relevant lawful measures against the enterprises subject to liquidation and bankruptcy, privatization of the state shares and stocks in inefficiently functioning enterprises established by the state participation are also very important.

The balance of short-term and long-term goals represents one of the important and problematic issues in the context of investment and privatization policy which is revealed during decision making process of implementation of large investment projects. The latter is connected to the moment of paying a large amount of privatization fee, which is a short-term fiscal source for the state, and an additional source of investment activity for the investor, in case of graduated payment. We mean that the forms and terms of payment of the privatization fee are determined by law (5, Article 19), which envisages payment of the appropriate fee both in lump and in installment. Due to the long-term goals of the investment project specificity and investment process, especially when using a conditional auction and direct sale forms of property, the relevant authorized privatization bodies have to take into account the interests of investors in order to stimulate long-term investment dynamism by using the optimal schedule of graduated payment of privatization fee.

The issue of using the state-owned large land plots for investment purposes also needs the special approach. From this point of view, the relevant state investment policy implementing subjects may use the complex or selection approach, in particular: 1. Due the large territories, conduct their feasibility study, form a successful investment concept on the basis of the relevant research and invite potential investors through expression of interest, which will form the basis for the complex-integral use of the given investment plot. 2. In order to avoid the use of large investment area, they may be "split" into small investment plots by providing the appropriate minimum infrastructure, which in turn will increase the market value of the asset and its investment attractiveness.

#### **4. Key areas of investment policy improvement**

Sustainable implementation of the investment policy, along with efficient privatization policy, in our opinion, should also integrate the realization of investment issues and the launch of appropriate leverages, such as: complex use of investment marketing tools, effective management of investment cycle, raising post-investment activity, research of investment potential and complex analysis of investment indicators, which will facilitate minimization of investment risks and stimulate growth of investment flows. For implementation of the proactive investment policies, the appropriate policy implementers must have the relevant investment marketing instruments at all levels of management, as well as the relevant means of financing, pre-specified plan-schedules of investment activities. Thus, during the planning and implementation of such investment activities, for increasing efficiency, the tight coordination between the relevant state agencies has the great importance (profiled

ministries, agencies, funds, trade and industrial chambers, etc.). Along with this, it is also noteworthy that in many cases, solving of the problem of duplication of the separate issues of investment policy between the different state authorities, agencies and departments is of not less importance.

The instruments of the investment marketing should be based on and support on the investment strategy, developed at all levels of governance, as well as on already existing investment experience and local trends. It should be at the same time complex and flexible system, which will be subject to permanent improvement of investment marketing instruments. Such investment activities should include: preparation of a comprehensive investment package and systematic updating; permanent refinement and promotion of investment web-pages; organization of internal and external investment forums, conferences and exhibitions; using different formats of investment meetings (G2B, G2G, B2B) for demonstration of the investment potential on the one hand, and on the other hand to establish economic ties between local and foreign business entities; formation of a unified base of foreign investment funds/companies and active communication with them; planning and organizing investment tours based on the preliminary analysis of the targeted investment markets and using the involvement of national state representations abroad; to highlight the activities for attraction of the so-called “diaspore” investments and purposeful implementation.

It is noteworthy that the efficiency of the investment policy is significantly determined by the fact whether the investment cycle related to each investment proposal is consistently and perfectly implemented, on which the possibility of turning the potential investor into the real investor and planned investment into the real investment is largely depended as it includes all phases from attracting investments to its implementation. In this context, special attention should be paid to providing the potential investors with all investment nuances on the one hand and, on the other hand, to the integral consideration of the anticipated investment effects (general, fiscal, employment, cross-sectoral, etc.) and reliable assessment of sustainability of investment projects, which will promote not only the “hot money” but also movement of the strategically well thought out investment flows and their implementation in the economy. The state actions targeted to increase of the investment activity should not only involve interesting of the internal and external potential investors with the investment potential of the country and its separate regions, but also the development of post-investment (reinvestment) component through constant and systematic communications and dialogue with existing investors, that will enable the state to increase the investment “importance” of its assets and the acting investors - to expand and/or diversify their activities.

In order to implement an efficient investment policy, the investment-based quality studies by using the internal, as well as the outsourcing resources, should gain the

weighable importance which will be linked to analysis of the investment potential of the country and its individual regions, assessment of investment attractiveness of individual sectors and subsectors of economy, interfiled multiplication effects of investments, post-privatization and post-investment evaluations, trends of investment flows, etc., which will help investment policy implementers to make investment sectors, on one hand, diversified, and on the other hand, to form the investment portfolios of privatization and lease facilities that will help potential and potential investors in making rational investment decisions.

As it is known, one of the key factors in investment decision making by investors is the infrastructure required for investment and the level of its efficiency, and the readiness of the investment infrastructure is mainly determined by the relevant functioning of the engineering-communication networks. The main investment area is characterized by the so-called Brown-field type investments, unlike Green-field investments. Therefore, it is important for the state to use the state-private partnership (PPP) (Tanzi, 2011, p. 134) investment model (PPI) with respect to specific strategic projects and territories and upon submission of the strategically important investment project in specific areas, for economic activation of such territories, provide them with basic infrastructural elements with the condition of fulfillment of investment liabilities defined by the investor.

Finally, in our opinion the issue of implementation of the investment policy requires specific approach with regard to free economic and tourist zones as the “coefficient of efficiency” comes across some problems from the period of founding. The identification of the mentioned problems and the consequent measures should be taken first by the state. In addition, the potential for the Deep and Comprehensive Free Trade Area (DCFTA) with EU should be activated not only for promoting the attractiveness of European investment flows, who will be interested in realizing products produced in Georgia on the EU market (i.e. by speeding up the "diagonal cumulative" process) which is a complex and long-term process and will facilitate the activation of efficiency-seeking investments. In parallel to this, the state should create certain promotional financial and economic mechanisms in the direction of development and promotion of unique, progressive and resource saving technologies. It is also crucial to ensure speeding up the capital market infrastructure and development of appropriate instruments, as well as expanding the circle of partner countries' bilateral agreements on protection and promotion of investments, which will make the investment environment more attractive and increase the investment activity of the country.

## **5. Conclusion**

Due to all the above mentioned directions, for ensuring the increase of the investment activity at a higher rate at the current stage of the transition economy of the country, the state must carry out the pro activation of investment policy and the growth of

post-investment activity through close relations with privatization policy and intensive use of effective investment marketing tools.

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# How to Incorporate Corporate Social Responsibility into DNA of the Companies?

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## Abstract

In my presentation I would like to treat corporate social responsibility (CSR) from a legal perspective and especially discuss how to achieve an effective application of the CSR codes and principles. In this respect I would like to discuss solution proposals such as emphasizing compliance programs or certification systems and especially the question how CSR principles could be regulated by legislations with binding character, as hard law instruments. This is also mentioned as the ultimate goal of the CSR in the summary of European Commission's Multi-Stakeholder Forum "*The ultimate goal of CSR should be to embed social responsibility into DNA of companies, rendering it obsolete through normative compliance*". Corporate Social Responsibility, is an approach that companies should conduct their business in a responsible and fair way and that they should take responsibility of their impact on society. CSR, has different pillars such as sustainability, environment, human rights, investment, public procurement etc... Among all these different subsectors, I will treat the applicability of the CSR principles mostly from the sustainability perspective. Since CSR has so many different facets and propose a general policy of good conduct rather than concrete specific rules and legal provisions, stays as a vague concept and need to be defined and concretized. CSR has no description and is not regulated in the national codes and legal systems. However, there are a lot of regulations, guidelines and standards prepared by international authorities and organizations and the European Commission.

**Keywords:** incorporate corporate, social responsibility, DNA of companies

## Introduction

The CSR can be considered as a component of the social state system adopted by many European countries against harsh capitalism in the economic life. Since the main element of capitalism is the absolute target of maximizing the profit, corporations, especially multinational companies are the pioneers of this system. Thus, in corporate law the corporations purpose is defined as to make maximum profit, rather than social duties toward society and stakeholders. Longtime the question whether such a social responsibility could be imposed on corporations was in the center of SCR discussions. The idea was that corporations contribute to the economy by making maximum profits, not by taking social responsibility. However, the aim to maximize profits can lead to unfair business acts and can cause damages to workers of the company, consumers, suppliers, competitors, the society, economy and the environment. Therefore, the harsh capitalist system based on profit maximizing should be balanced and moderated to protect insider and outsider interests related to corporations. CSR propose to corporations a general duty to follow fair and good business practices. But there are several drawbacks that prevent an effective application of such a social responsibility system for the companies. Some of these come from the nature of the concept itself such as generality of the CSR policies for example. The more a CSR code is sectoral and specific, the more has chance to be applied. Another problem comes from the voluntary character of the CSR regulations and codes which are based mostly on soft law instruments and are not binding. The fact that CSR consist mostly of soft law instruments, prevent CSR to have a real impact and to be applied and enforced in private law. Several regulations and codes have been prepared by the international organizations such as UN, OECD and etc. These are not mandatory and companies are not obliged to adopt these general policies. Companies might prepare specific codes for their own business on the related sector. Once a company adopt such a CSR policy, there are enforcement difficulties as well. As long as the so-called policy is not incorporated into a contract between parties, it is difficult to hold responsible a company, relying on its own CSR code, which is usually written under the form of a general good conduct policy and not as a specific contractual obligation. Because of all the above-mentioned drawbacks mostly related to soft law nature of the CSR codes, there are many discussions about adopting and imposing binding CSR rules to companies and redefining the purpose and the role of the corporations. Among them there are also ideas to create new hybrid model of companies closer to cooperatives with both social and economic purposes. In the light of these discussions and ideas, my aim is to examine different proposals regarding the applicability and effectiveness of the CSR principles and to question whether CSR principles could or should be subject to binding legal provisions on the national or international level.

Corporate Social Responsibility (CSR) is a multidisciplinary domain, related to so many fields such as sociology, economics, business ethics, public relations and



management etc... In my presentation I would like to treat corporate social responsibility from a legal perspective and especially discuss how to achieve an effective application of the CSR principles through legal instruments. There have been so many discussions and ideas with regard the question how CSR can be incorporated genuinely into companies' structure and activities. This is mentioned as the ultimate goal of the CSR, in the summary of European Commission's Multi-Stakeholder Forum as follows "*The ultimate goal of CSR should be to embed social responsibility into DNA of companies, rendering it obsolete through normative compliance*". In this respect I would like to discuss whether could or should be attributed a mandatory character to CSR principles and whether CSR principles can be integrated in the mandatory national legislative system. There are many debates whether CSR principles should be regulated as part of the mandatory national legislative system or not<sup>1</sup>. Corporate Social Responsibility is an approach that companies should conduct their business in a responsible and fair way and that they should take responsibility of their impact on the society. CSR has different pillars such as sustainability, environment, human rights, investment, public procurement etc... Since CSR has so many different facets and propose a general policy of good conduct rather than concrete specific rules and legal provisions, stays as a vague concept and need to be defined and concretized. CSR has no description and is not regulated in the national codes and legal systems. However, there are a lot of regulations, guidelines and standards prepared by the international authorities and organizations and the European Commission. The concept of CSR can be considered as a component of the social state system adopted by many European countries against harsh capitalism in the economy. Since the main element of capitalism is the absolute target of profit maximizing, corporations, especially multinational companies are the pioneers of this system. Thus, in corporate law companies' purpose is defined as to make maximum profit, rather than social duties towards society and stakeholders. Longtime the question whether such a social responsibility could be imposed on corporations was in the center of CSR discussions. The idea was that corporations contribute to the economy by making maximum profits, not by taking social responsibility. However, the aim to maximize profits can lead to unfair business acts and can cause damages to workers of the company, consumers, suppliers, competitors, the society, economy and the environment. Therefore, the harsh capitalist system based on profit maximizing should be balanced and moderated to protect insider and outsider interests related to corporations. CSR propose to corporations a general duty to follow fair and good business practices. But there are several drawbacks that prevent an effective application of social responsibility system. One of the drawbacks comes from the characteristic of the concept itself such as the generality of the CSR policies for example. The more a CSR code is sectoral and specific, the more has chance to be applied. Thus, sectoral

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<sup>1</sup> See debates **Mullerat Ramon**, The Global Responsibility of Business, in Corporate Social Responsibility, The Corporate Governance of the 21st Century, Editor Mullerat Ramon, 2011, p.4.



approach is gaining more importance nowadays; different codes for different sectors are being regulated<sup>1</sup>. Another problem comes from the voluntary character of the CSR codes which are not binding and are mostly based on soft law instruments. Thus, there are many discussions concerning adopting and imposing binding CSR rules to companies and redefining the purpose and the role of the corporations. Among them there are also ideas to create new hybrid model of companies closer to cooperatives or non-profit organizations having both social and economic purposes<sup>2</sup>. In the light of these discussions I will discuss the problems regarding efficiency of CSR principles and the question whether CSR principles could or shall be subject to mandatory legislative regulation.

### What is CSR?

Concerning the definition of the CSR, there is no internationally agreed one uniform definition. In the OECD report on Corporate Social Responsibility, codes of conducts are described as *“commitments voluntarily made by companies, associations or other entities which put forward standards and principles for the conduct of business activities in the marketplace.”*<sup>3</sup>. CSR is also defined as a *“concept whereby companies voluntarily decide to protect the interests of a broad range of stakeholders while contributing to a cleaner environment and a better society”*<sup>4</sup>. According to the definition of the International Chamber of Commerce, *“CSR is a voluntary commitment by businesses to manage their roles in society in a responsible way.”*<sup>5</sup>. There is no one unique and uniform text of CSR internationally introduced and accepted. There are various international initiatives among which there is no priority. Therefore, different terms are used to name CSR principles such as ethical guidelines, codes of ethics, corporate credos, codes of business conduct or codes of conduct<sup>6</sup>. CSR is the term used to mention an approach and a policy that might be adopted by companies or associations. These principles are usually of general character and constitute mostly a framework rather than specific rules and provisions. They are not directed to answer legal problems case by case. Thus, these codes of conduct can be described as flexible, vague and imprecise, non-binding principles that complement mandatory national rules<sup>7</sup>. CSR is a multidimensional domain comprising different pillars. These pillars, in other words sub-fields gathered under CSR, cannot be defined with an

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<sup>1</sup> **Martin Felix**, Corporate Social Responsibility and Public Policy, in Corporate Social Responsibility, The Corporate Governance of the 21st Century, Editor Mullerat Ramon, 2011, p.101.

<sup>2</sup> **Martin**, p.101. The author mentions that these models might ensure a better distribution of goods and resources in the community.

<sup>3</sup> The OECD Report on Corporate Social Responsibility: Private Initiatives and Public Goals prepared in 2001; **Cronstedt Claes**, Some Legal Dimensions of Corporate Codes of Conduct, in Corporate Social Responsibility, The Corporate Governance of the 21st Century, Editor Mullerat Ramon, 2011, p.445.

<sup>4</sup> **Mullerat**, p.4.

<sup>5</sup> Same author refers to definition of the International Chamber of Commerce. **Mullerat**, p.4.

<sup>6</sup> **Cronstedt**, p.444.

<sup>7</sup> **Mullerat**, p.3; **Cronstedt**, p.445.

identical and uniform manner. There is no one uniform and precise content that is generally agreed and accepted at the international level. This is one of the drawbacks that complicate the application of CSR. Thus, CSR appears to be, not more than a general, theoretical, idealistic sum of principles. In the OECD guidelines for multinational companies, areas of responsibility are mentioned such as, disclosure, human rights, employment and industrial relations, environment, bribery, consumer interests, science and technology, competition and taxation. Most commonly, areas such as human rights, environment, sustainability, labor security are the issues considered as the main pillars of the CSR principles<sup>1</sup>. What kind of practices can be given as examples? Reducing CO2 emissions, reducing costs of the essential pharmaceuticals in the developing countries, improving workplace standards could be given as examples of CSR practices related especially to sustainability<sup>2</sup>. Although don't exist a uniform definition, sustainable development can be defined as "*meeting the needs of the humanity while preserving the conditions of the nature, in a society socially cohesive and equal*"<sup>3</sup>. The definition in the Report of the World Commission on Environment and Development is as follows "*meeting the needs of the current generation without compromising the ability of future generations to meet their own needs*"<sup>4</sup>.

## Why CSR?

Nowadays there is an increasing tendency to introduce and adopt CSR policies, both in the corporate life, academia and the international area. This trend has been described as "*mushrooming prevalence*" of the codes of conduct<sup>5</sup>. There are so many motives and reasons giving rise to the emergence of the CSR principles and codes of conduct. One of the reason is the changing role of the companies in the society. In most of the studies it is emphasized that today companies are expected to take a proactive role towards society and its members<sup>6</sup>. Especially in the developed countries, consumers and the rest of the society have the awareness to assess whether corporations comply with CSR standards. This awareness has impact on customers, consumers and other market actors' behaviors towards companies. Accordingly, complying with CSR standards is closely related with the business success, advertising and public relations policy of the corporations, especially of the big and

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<sup>1</sup> **Shestack J. Jerome**, Corporate Social Responsibility in a Changing Corporate World, in Corporate Social Responsibility, The Corporate Governance of the 21st Century, Editor Mullerat Ramon, 2011, p.124.

<sup>2</sup> **Martin**, p.108, 101; **Beckers Anna**, Enforcing Corporate Social Responsibility Codes: On Global Self-Regulation and National Private Law, 2015, p.3; For other examples of CSR practices see **Smith F. Chloé**, Corporate Social Responsibility et Durabilité, in Expert Focus 6-7/16, p.473.

<sup>3</sup> For further analysis on the sustainability see **Smith**, p.471.

<sup>4</sup> Report (titled Our Common Future) of the World Commission on Environment and Development, Annex to document A/42/427, 1987; **Smith**, p.471; **Martin**, p.94.

<sup>5</sup> **Cronstedt**, p.445.

<sup>6</sup> **Beckers**, p. 3

well-known companies<sup>1</sup>. Nowadays, especially in the developed countries, adopting a CSR policy might have direct impact on the companies' reputation, thus on their business and competitiveness in the market. Another driving force is the emergence of multinational companies, and their investment in the developing countries. The fact that their contractors, suppliers or distributors in the developing countries are integrated in the multinational companies supply chain, as it is indicated in the OECD guidelines, caused to "*blur the boundaries of the enterprise*"<sup>2</sup> and extended the multinational companies' responsibility. Since multinational companies have a bigger impact on the economy and the society, there is a stronger belief that multinational companies should have a social responsibility<sup>3</sup>. Another reason is that CSR overlap with the traditional principles of commercial law such as combating unfair practices. CSR is closely related with the unfair practices in the opposite direction and meaning. Acts of companies such as violating workers' rights or giving harm to the environment can constitute free-riding and unfair competition<sup>4</sup>. Thus CSR, with its preventive impact on unfair practices, serves to the unfair competition law's aim to combat unfair practices.

### What is the Essential Role of the Companies?

While first CSR principles had been emerging, the role of the company in the society has long been questioned. The debate was whether companies shall have any obligation towards society other than shareholders and whether they can have social role in the society<sup>5</sup>. Regarding this question there were two main approaches in the US, where CSR first blossomed. First was the classical approach, which is also called as "shareholder primacy", that define the company as a private property and that the company's main role is towards its own shareholders and this can be achieved through profit maximization. One of the famous phrase representing this approach is of the Friedman Milton as follows "*the only social responsibility of the business is to increase its profits*"<sup>6</sup>. Thus, companies are mostly directed to have higher economic and financial performances in the short term. On the other hand, the counter approach relied on the idea that companies should consider not only shareholders' interests but stakeholders' interests and might have social responsibilities. In the context of corporate governance (CG), the concept of stakeholder includes

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<sup>1</sup> **Cronstedt**, p.444; **Shestack**, p.120; **Williams A. Cynthia**, Corporate Social Responsibility and Corporate Governance, in *The Oxford Handbook of Corporate Law and Governance*, Editor Gordon N. Jeffrey, Ringe Wolf-Georg, 2018 p.647, 649.

<sup>2</sup> OECD Guidelines 2011, p.13; **Shestack**, p.123; See for the change of companies from a hierarchical unit into a complex heterarchically fragmented structure with subsidiaries, distributors and suppliers. **Beckers**, p.7,9.

<sup>3</sup> Concerning the influence of big companies on governments see **Martin**, p.103.

<sup>4</sup> **Cronstedt**, p.444.

<sup>5</sup> See for the debates in the US and UK **Beckers**, p. 5-6.

<sup>6</sup> **Friedman Milton**, The Social Responsibility of Companies is to Increase its Profits, *New York Times Magazine*, 1970.

shareholders, customers, employees and potential investors. In the context of CSR, stakeholder may comprise a bigger circle, in addition to customers and employees, contractors, suppliers, the environment and the rest of the community can be included in the concept<sup>1</sup>. This bigger circle including society can be defined as “social stakeholders”<sup>2</sup>.

### Weak Point and Critics of the CSR

The fact that CSR consist mostly of soft law instruments, prevent CSR to have legal consequences and to be applied and enforced in private law conflicts. Countless regulations and codes have been adopted worldwide by the international organizations such as UN, OECD and etc. These are not mandatory, and companies are not obliged to adopt these general policies. Companies might regulate specific codes for their own business concerning the related sector. Once a company adopts such a CSR policy, there are enforcement difficulties as well. If the so-called policy is not incorporated into a contract between parties, it is difficult to hold responsible a company, relying on its own CSR policy, which is usually written under the form of a general policy of good conduct and not as a specific contractual obligation<sup>3</sup>. The fact that different legal forms are all of voluntary character constitutes the weakest point of the CSR. The voluntary character of the international initiatives is indicated in the OECD guidelines for Multinational Enterprises, which is one of the most important international initiatives on CSR introduced by international organizations. It is indicated that the guidelines provide voluntary principles and standards that can be observed by companies. But they are not legally enforceable<sup>4</sup>. These guidelines aim to “*complement and reinforce private efforts to define and implement responsible business conduct.*”<sup>5</sup> “*The countries adhering to the Guidelines make a binding commitment to implement*” them into their national law system. This means that the “*adhering countries give political commitment to observe and promote the Guidelines’ principles*”. Therefore, companies, in principle, are not legally obliged to follow these guidelines, which are defined to be “self-imposed”. On the other hand, companies might be forced to comply with specific CSR requirements, as a result of specific legal regulations concerning the stock exchange or tender bids offered by the public authorities<sup>6</sup>. Another drawback and a point of critic gathers around the fact that, usually companies adopt a general CSR policy, only as a part of their marketing and public relations policy, but in a non-committing manner<sup>7</sup>. And these kinds of codes engender

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<sup>1</sup> **Shestack**, p.116.

<sup>2</sup> **Martin**, p.97.

<sup>3</sup> **Beckers**, p.58 ff.

<sup>4</sup> OECD Guidelines 2011, p.17 N 1.

<sup>5</sup> OECD Guidelines 2011, p.15 N 7.

<sup>6</sup> **Cronstedt**, p.447.

<sup>7</sup> See in **Shestack**, p.125; The author expresses this fact as follows “It is customary for many corporate company to trumpet their CSR accomplishments”.

problems of enforceability. At the end CSR rules cannot be applied to the harmful acts of the companies. This might reinforce doubts concerning the fact that CSR principles not being genuinely integrated into companies' DNAs, rather are destined to be tools for companies to advertise, make a reputation and thus obtain more profits<sup>1</sup>.

### **Which Are the Legal Instruments?**

One of the questions concerning CSR is which legal instruments would be most efficient to integrate CSR into corporate business practices. There are many different legal forms under which CSR principles might be regulated. The International regulatory initiatives introduced by the International Organizations prevail in this voluntary area. Non-governmental or inter-governmental organizations such as OECD have been introducing several initiatives concerning CSR<sup>2</sup>. These initiatives set usually a framework of a CSR policy that can be adopted by the companies or by states. It is arguable that they can be considered as a replacement of the national mandatory codes and rules<sup>3</sup>. Can these initiatives replace the national legal provisions? In this respect, the international initiatives won't reflect the will of a national parliament, unless they are approved and incorporated by a national parliament into national legal system. This can lead to a question of legitimacy of these rules and can make difficult to attribute them a mandatory character. OECD Guidelines for Multinational Enterprises provide principles and standards of good practice that are addressed to the governments or multinational companies. Under these Guidelines, recently OECD has been developing a sector-specific guidance in areas such as agricultural supply chains, textile and garment supply chains, mineral supply chains, which may encourage the adoption of the guidelines by companies<sup>4</sup>. Other than international initiatives, the most common way is the self-regulatory approach which means that companies might adopt and regulate their own CSR principles<sup>5</sup>. Nowadays most of the multinational or big companies choose to adopt a CSR policy to enhance and protect their reputation<sup>6</sup>. In this case CSR rules are regulated and shaped by the companies, them-self. Since in most of the national legal systems, there are no binding provisions concerning social responsibility, the codes of conduct or statement of ethics can be regulated under any form depending on each company's own situation and

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<sup>1</sup> See regarding use of CSR practices as a way to distract public attention from other less ethical practices of the companies such as pharmaceutical companies which adopt a CSR policy but on the other hand don't take any steps to reduce costs of the essential medicines in the developing countries. **Martin**, p.101.

<sup>2</sup> **Cronstedt**, p.446. Some of these international initiatives can be cited as follows; EU Green Book 2001, EU Multi-Stakeholder Forum on CSR, White Paper and Communication of the European Commission on CSR, OECD Guidelines on Multinational Enterprises, 2013.

<sup>3</sup> **Becker**, p.4.

<sup>4</sup> **Williams**, p.639.

<sup>5</sup> Other than companies, trade associations in a sector or NGOs might issue CSR codes. **Shestack**, p.124.

<sup>6</sup> **Cronstedt**, 445; **Shestack**, p.123.

approach<sup>1</sup>. It can be included in the articles of the association. The most common way is the statement of ethics or codes of conduct announced on the web site of the company. Other than that, such a policy can be cited among the general terms and conditions of the contracts as well. The form and language may vary from a more general and abstract type of statement to more specific, precise and commitment like statement. Most of the cases these statements are written in a non-committing manner<sup>2</sup>. One of the most important questions is whether this kind of general statements can be considered as an obligation from the side of the company? Can this kind of statement of ethics have legal consequences? Another approach could be through introducing certification or evaluation mechanisms to assess whether companies comply with CSR principles<sup>3</sup>. This can be voluntary or mandatory. There are several assessment standards or indexes worldwide which work on a voluntary basis. Companies might choose to be assessed and reported by these assessment mechanisms such as CSR Index of Business in the Community in the UK or The Arcturus CSR Assessment Survey<sup>4</sup>. Another legal instrument could be to integrate CSR into national legislative system and regulate it as part of the mandatory legal system. In other words states might codify CSR rules as binding enforceable rules. There are so many discussions whether CSR should be part of the mandatory enforceable legislative system or not. Recently there have been an increasing number of studies and researches about the legal consequences and enforceability of the CSR principles<sup>5</sup>, in most of them the idea of a mandatory legislative system prevails. Whereas there are opinions supporting the counter argument that CSR should remain

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<sup>1</sup> **Cronstedt**, p.447.

<sup>2</sup> **Cronstedt**, p.447; **Beckers**, p.63 ff.

<sup>3</sup> **Brennan Daniel**, Corporate Responsibility and Corporate Governance: New Ideas and Practical Applications of Ethical Standards and Risk Management, in Corporate Social Responsibility, The Corporate Governance of the 21st Century, Editor Ramon Mullerat, 2011, p.307.

<sup>4</sup> **Brennan**, p.308, 315.

<sup>5</sup> **Beckers**, p.47 ff.; **Cronstedt**, p.459; **You Jeehye**, Legal Perspectives on Corporate Social Responsibility Lessons From the United States and Korea, 2015; **Pillay Renginee**, The Changing Nature of Corporate Social Responsibility, 2014; **Rahim Mia Mahmudur**, Legal Regulation of Corporate Social Responsibility, 2013; **Nowrot Karsten**, The Relationship between National Legal Regulations and CSR Instruments: Complementary or Exclusionary Approaches to Good Corporate Citizenship? , Beiträge zum Transnationalen Wirtschaftsrecht, October 2007, N. (Heft) 70;

India is one of the few countries that adopted a new binding legislation which requires companies to establish a committee of CSR and to contribute 2 % of net profits to CSR initiatives. See **Williams**, p.641.



as voluntary principles and should be based on self-regulation system by the companies<sup>1</sup>.

### **What is the Correlation between CSR and Corporate Governance?**

It is necessary to clarify the correlation between CSR and corporate governance<sup>2</sup>. Can we consider CSR principles as corporate governance codes of the 21st Century? Can we consider corporate governance codes as a fundament of the CSR principles? With regard the correlation between these fields, one can ask the question whether CSR could be incorporated into corporate governance codes. This question is important especially in the countries where mandatory codes of corporate governance are adopted. One can ask the question whether can be attributed a mandatory character to CSR principles, by interpreting them within the corporate governance codes of conduct and relying on the existing national corporate governance codes. Some authors' remark is that CSR is expanding into corporate governance<sup>3</sup>. Some others mention that, corporate governance principles provide solid foundations on which broader CSR principles can be further enhanced<sup>4</sup>. Although it depends on the national legal system of the each country, one of the common traits is that both CSR and corporate governance are mostly regulated in the form of voluntary or semi-voluntary codes of conduct, as soft law instruments and codes of best practice<sup>5</sup>. In this respect, we should emphasize that corporate governance rules are regulated in the national legal systems of the EU countries, mostly as a semi-voluntary codes of conduct which along with voluntary codes of conduct, also sets forth several binding rules especially for listed companies<sup>6</sup>. While there is a close connection between these two, there are distinctions as well. Especially in the first half of the 20<sup>th</sup> century, corporate governance codes were directed mostly to protect shareholders' interests<sup>7</sup>. Corporate governance rules regulate mostly the relations between group of interests inside the company such as shareholders, managers, directors and employees and destined more to resolve inner conflict of interests from the perspective of shareholders' protection. However, CSR is deemed to be more related to external area, the market and the society that surrounds the company<sup>8</sup>. The historical process how these two types of codes have appeared and evolved is different as well. The corporate governance codes appeared worldwide, especially in the US and EU as a reaction to corporate failures and financial crisis. In order to deal with corporate failures resulting from the gap on the managing and the supervision of the companies, corporate governance codes, reinforced the management, board's accountability and the disclosure and included rules concerning the composition of the board of directors, such as independent members or committees<sup>9</sup>. However, CSR principles did not evolve directly as a result of corporate failures and financial crisis, rather as a result of other factors among which the liability issue of the multinational companies comes forward<sup>10</sup>.

## Conclusion

With regard the correlation between corporate governance and CSR, although corporate governance and CSR aim to protect different areas and interests, they both have similar aims of setting standards of best practices for business entities<sup>11</sup>. The recent stakeholder approach prevailing in the corporate law and corporate governance might open a door to attribute a mandatory character to CSR principles. The concept of stakeholder could be interpreted with a broader meaning that interest groups such as, suppliers, contractors, the rest of the community and the environment, can be included in the context of stakeholders under the mandatory codes of conduct of corporate governance, depending on the national legal system of the each country. With regard the question whether CSR principles should be regulated as mandatory rules or not, as far as we observe the latest academic researches and ideas, there is a prevailing tendency to suggest and support a mandatory enforceable legislative system for CSR. This approach seems to prevail over the counter approach which suggests that CSR should remain as part of the voluntary principles. It is hard to answer this question with one unique response for all areas of the CSR. Since there are so many pillars under CSR, as suggested<sup>12</sup>, this

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<sup>1</sup> Mullerat, p.4; Hervieu-Causse Nicolas, Les Etats, Les Sociétés Privées et la CSR, in EF 6-7/16, p.515.

<sup>2</sup> See for a comparison Peter Henry/Jacquemet Guillaume, Corporate Social Responsibility, Sustainable Development et Corporate Governance: quelles corrélations?, SZW RSDA 3/2015, p.179.

<sup>3</sup> Cronstedt, p.446.

<sup>4</sup> Walsh Mark/Lowry John, CSR and Corporate Governance, in Corporate Social Responsibility, International Bar Association Series, Second Edition 2011,p.46.

<sup>5</sup> Walsh/Lowry, p.44, 54. The author explains that in the US regime corporate governance codes are primarily rule based, whereas in the EU corporate governance codes relies mostly on voluntary or semi-voluntary codes of conduct. For a different approach see Mullerat, p.4. The author mentions that corporate governance is basically a binding and enforceable law and CSR, is ethical, voluntary, non-enforceable principles.

<sup>6</sup> A corporate governance codex was not prepared in the EU or by other International organizations, although have been introduced EU directives concerning corporate governance. The approach of the EU and the International Organizations is more to improve the existing codes of best practice rather than making a CG codex. This approach is defined as a “regulatory reform”. There have been introduced several directives setting forth requirements especially for the listed companies, such as the requirement to include a corporate governance statement in their annual reports. Walsh/Lowry, p.55, 56.

<sup>7</sup> Walsh/Lowry, p.45; Brammer J. Stephen/ Stephen Pavelin, Corporate Governance and Corporate Social Responsibility, in The Oxford Handbook of Corporate Law and Governance, Editor Gordon N. Jeffrey, Ringe Wolf-Georg, 2018, p.719; Cronstedt, p.445.

<sup>8</sup> Walsh/Lowry, p.45.

<sup>9</sup> Walsh/Lowry, p.45-46

<sup>10</sup> See other factors above under “Why CSR”. While some authors consider financial crises and corporate failures, as a cause of the CSR emergence, others reject this approach, and mention that although there are common areas, CSR and corporate governance must be distinguished. See Mullerat, p.4.

<sup>11</sup> Peter/Jacquemet, p.171, 178.

<sup>12</sup> Mullerat, p.4-5.



question could be handled separately for each of the pillars depending on each one's specifications.

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## Decision-Making Process in Foreign Investment Choices

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### Abstract:

This exploratory investigation aims to develop a managerial decision model that assist international firms and investors in selecting the right valuable foreign country for their international operations. Two comparative and rich-information case studies were purposefully selected from among Arabian large firms. Additionally, six international investment decisions were investigated within these two cases and data were collected by in-depth interviews, follow-up interviews and questionnaire instrument. Within and cross-case analyses were undertaken in the current investigation. The findings demonstrated that a methodical and international experience-based strategic decision-making process was adopted to attain a profitable foreign country choice. The decision process comprised five critical managerial phases; that is, (1) analysis of internationalization drivers, (2) searching and development of location determinants and country alternatives, (3) obtaining adequate and related-information about potential countries, and, ultimately, assessment for these alternatives, (4) selection of a final beneficial foreign country choice, and, finally, (5) effective implementation of the selected country choice. The research findings provide theoretical and practical implications to the internationalization of firms as well as international investment. Further, it provides significant methodological contributions to international business research in relation to an effective multiple case study approach to capture elements of the international market selection process.

**Keywords:** Decision model, foreign investments, Arabian international firms

## **Introduction:**

The internationalization activity of firms and foreign market entry and selection have received increasing research attention among scholars during the last decade due to the significant contribution of this movement to the economic and social development in both home and host countries (Akbar and McBride 2004 ; Jansen and Stockman 2004). According to the “eclectic paradigm of international production” proposed by Dunning (1980, 1988), firms which decide to internationalize their business activities face a very vital, complicated, and strategic decision concerning the selection of a foreign country for their international operations. Consequently, during the phase of the foreign country selection, firms have to choose the most appropriate entry strategy for that foreign market such as exporting, franchising, licensing, joint venture, and foreign direct investments (FDI) (Buckley and Casson 1998). The internationalization activity of Arabian firms is a relatively recent phenomenon and has attracted extremely little attention from scholars. Therefore, as an attempt to fill this evident shortcoming and gap in FDI literature, two comparative in-depth, and information-rich case studies of the Arabian premium manufacturing and service firms were undertaken to explore and analyze the foreign direct investment decision-making process. More specifically, this paper underlines the important managerial decision-making aspects that should be considered by international firms to arrive at a beneficial foreign country for their outward FDI.

## **Literature Review:**

### ***The Internationalization Process of Firms***

Internationalization refers to the process through which a firm shifts its business operations from the local market to foreign markets (Buckley and Casson 1998). The literature on the internationalization process of firm can generally be categorized under two main approaches: the economic approach and the behavioral approach (Andersson 2000). The economic approach has its roots in economics, and it primarily assumes that firms are likely rational in their choice of foreign investments and that the decision-maker has access to perfect and complete information (Andersson 2000; Buckley et al. 2007a). According to this school of thought, the choice of country for foreign investment is a premeditated decision and motivated, led by the principal goal of profitability. Thus, firms select the most profitable locations (Buckley et al. 2007a). The behavioral approach focuses on the influence of international experience of the firm on the speed and direction of succeeding internationalization. An important aspect in this school is the important role of organizational knowledge in the internationalization process (Clercq et al. 2005). The approach considers individual learning and top managers as important aspects in understanding international behavior of firms (Andersson 2000). Eclectic theory proposed by Dunning (1980, 1988) underlines the importance of firm and location-specific factors to explain international operations. Dunning (1988) states that

specific organizational skills or technologies allow a firm competitive advantage in the marketplace. He also indicates that country-specific factors are also essential to successful international operations. He argues that the characteristics of the selected foreign country influence significantly the firm's international efforts. Vernon's International Product Life Cycle Model (Vernon 1966) considers the internationalization process to be a systematic, incremental, and predictable chain where the type of entry into foreign markets depends on the life stage of the products passing through the phase of introduction, growth, and maturity. The roots of the transaction cost approach go back to Ronald Coase (1937) who argued that due to the transaction costs of foreign market activities, it is more efficient for a firm to engage in a local market rather than enter foreign ones. A high extent of transaction cost gives rise to a preference for internalizing the transaction (Johanson and Mattsson 1987). Firms therefore prefer to produce offshore if they recognize that the decrease in transaction costs will be greater than the cost of organizing such activities internally. Otherwise, foreign markets will be supplied by exports, licensed sales, or some other type of foreign market entry. The Uppsala model is perhaps the most cited model of internationalization process. Johanson and Wiedersheim-Paul (1975) found that firms who decided to internationalize their business activities go through distinct steps, starting from no exports to exports, to independent representatives (agents), to the establishment of sales subsidiaries, and, finally, to the establishment of owned or joint production facilities. In their view, the flow of information between the firm and the market is critical in the internationalization process, and they significantly underlined the concept of "psychic distance" which determines the location choice of international manufacturing firms. Psychic distance was defined as the costs of obtaining significant information about business conditions in other countries, the perception of risk and uncertainty involved in international operations, and the resources required to access foreign networks. The model asserts that the costs expended in overcoming "psychic distance" decrease over time due to the experience achieved by the firm. Therefore, firms often first enter adjacent markets because of their historical familiarity and then expand to other foreign markets. Afterward, models of innovation-related internationalization were developed on the basis of the Uppsala model. Among the best-known models are from Cavusgil (1980) and Reid (1981). These models focus on the learning chain in relation to adopting an innovation, and thus, the internationalization decision is considered an innovation for the firm. They state that the decision-maker's attitude, experience, motivation, and expectations are main determinants in firms engaging in foreign market entry (Reid 1981) and, therefore, the entry into exporting is considered to be traced to an innovator inside the firm.

### ***Foreign Direct Investment Decision-Making Process***

Foreign direct investment (FDI) was defined as "a category of cross-border investment made by a resident in one economy (the direct investor) with the

objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor” (OECD 2008 , p. 10). Empirical research in the area of foreign direct investment decision-making process is relatively little. For instance, Aharoni’s behavioral decision-making model (Aharoni 1966) described the foreign investment decision as a multifaceted social process that is influenced by social relations within and outside the firm. Generally, in the first international operation decision, the firm often has had export experience but has no experience in the field of foreign investment. It has no clear standard decision procedures to deal with that decision. As a result, the firm will gain from its experience when foreign investment decision processes needed to be carried out. He concluded that the FDI decision-making process involves three main phases: initial idea generation, investigation and development, and finally presentation and decision. Likewise, Wei and Christodoulou (1997) examined the decision-making process undertaken by international firms to select a foreign country for their FDI. He observed that the foreign country selection process incorporates three key stages: initiation and preliminary thinking, investigation, and evaluation and final decision-making. Wahab (1978) attempted to make some developments in Aharoni’s decision-making model. He found that the profit was an imperative consideration in FDI decisions that is why firms invest in countries with high profit potential. He also concluded that firms were not only receivers of information in various forms, as stated by Aharoni, but also they were information seeker and were continuously searching for opportunities and take advantage of them where they exist.

### **Research Design and Methodology:**

The international investment decision is a very strategic one which is carried out by senior managers of the firm; therefore, the phenomenology paradigm was adopted in the current exploratory research to enable the researcher to “get inside” the decision-makers’ minds and seeing the foreign country selection process from their point of view (Hassard 1993) and experiences (Smith and Heshusius 1986; Yeung 1995). The case study method was employed in our study due to the close connection of this strategy with philosophical assumptions and foundations of the selected paradigm and because it represents one of the primary research methods for studies adopting the phenomenology paradigm (Perry 1994). Moreover, the exploratory nature of this research required the use of the case study method as it offers an opportunity for in-depth exploration and results in rich understanding about the research issue (Rowley 2002). A multiple case (embedded) design was chosen because two information-rich Arabian firms, which carried out various international investments decisions, were investigated. The selected two comparative companies were information-rich, accessible, proximal, large, leading, and well-established Arabian international manufacturing and service firms which established various foreign investments worldwide.

## **Data Collection Method:**

### ***Case Descriptions***

Company A is one of the largest and most profitable petrochemical manufacturers in the Middle East and the world. It involves in industrial marketing as it produces chemicals, fertilizers, plastics, and metals to be used by other companies. The company's remarkable accomplishment is the outcome of focusing on three important issues: investment in local partnerships, research and technology (R&T) programs, and an ambitious global growth strategy. In order to achieve its global vision, the company invested heavily in R&T, as it has R&T facilities worldwide. Recently, the company launched a new company, and it is a leading global supplier of engineering thermoplastics. Finally, the company has a global presence as it has manufacturing facilities in the Middle East and Africa, Asia, the Americas, and Europe.

Company B is a large, leading, and well-established Arabian international professional service firm that engaged in providing world-class engineering and construction services to the Saudi and the Middle East market. The company is a key member of a large group of companies which established diverse business activities in Saudi Arabia and the Middle East. The group commenced operations in Saudi Arabia 60 years ago in the business and transport sectors with a large transportation fleet that covered a wide network in the region. The group established new companies in the fields of construction, operations, maintenance, health care, medical equipment, hospital supplies, and commerce. The current annual turnover of the group is in excess of US\$377 million, and it has over 7,000 employees worldwide. The Engineering and Constructions Company is a dynamic and expanding construction organization which was established in 1975. The company is classified among the top three construction companies in Saudi Arabia and one of the largest and most reputable in the Middle East. It has over 3,500 employees, significant construction plant and equipment resources, strong financial capabilities, and three decades of sustained successful construction track record. In its 28-year history of considerable progress, the Engineering and Constructions Company has made significant achievements in the construction industry. Finally, the company has expanded its services internationally as it established service operations and working relationships for construction business in Qatar, UAE, Bahrain, and Lebanon.

The data was mainly collected via in-depth personal interviews, follow-up telephone interviews, a questionnaire instrument, documents review when available and field notes. Initial telephone calls were made with the selected companies, which agreed to participate in the study, to explain to the company's executive the purpose of study and the issues that will be covered during the interview sessions. The accessible most knowledgeable senior executives, involved in international investment decisions, were in-depth interviewed. Multiple interviews were carried out and each interview lasted 1 hour. All the interviews were recorded during the interview sessions using

high-quality recording devices. The interview questions were open-ended and designed to explore the drivers of FDI decisions and elements of the decision-making process relating to the international investments and selection of foreign country. The questionnaire instrument was designed to obtain information about the company background and to confirm the interview responses.

### **Data Analysis**

For the purpose of the data analysis, the researcher listened carefully to the tape interviews more than once in order to capture the key ideas and themes linked to the main research questions. The field notes which taken during the site visits to the participating firm were very valuable and necessary in assisting the researcher in preliminary identification for the anticipated main themes about the international investment decision process story. Within and cross-case analyses were utilized in the current research (Creswell 1998; Eisenhardt 1989; Yin 2003). Accordingly, we developed a detailed description or report for the selected single case study. The developed case study report described and organized all information and details relevant to the case company. Seeing that an assurance as to the confidentiality of the interviewees' responses and identities during the data collection and analysis processes was given to the informant by the researcher, all the names indicated to individuals or organizations were removed from the report. In cross-case analysis, categorizing the case studies based on the size and type of industry such as large firms vs. small firms, manufacturing firms vs. service firms and followed by search for similarities and differences among these categories was adopted as an analytic strategy for cross-case pattern (Eisenhardt 1989). The data analysis method employed in analyzing the interview data was based on the descriptions written by Miles and Huberman (1984, 1994) which imply data reduction, data display, and conclusion drawing and verification.

### **Findings and Discussions**

The research findings revealed that Arabian international firms undertook a thorough and comprehensive decision process in order to successfully arrive at a beneficial foreign country for their outward FDI. In general, the decision process encompassed five imperative managerial stages; that is, (1) analysis of internationalization drivers, (2) searching and development of location determinants and country alternatives, (3) obtaining adequate and related-information about potential countries, and, ultimately, assessment for these alternatives, (4) selection of a final beneficial foreign country choice, and, finally, (5) effective implementation of the selected country choice. More details about the managerial procedures of the earlier managerial stages are provided below:

1. Selecting an experienced team consisting of a team leader who is internationally experienced in addition to other senior managers with different international experiences, and then the selected team should identify carefully the drivers of



international investment, the organization's overall strategy and financial and human resources capabilities, and the financial and human resources commitments toward the international investment. If the prospective entry mode to the foreign country is by a greenfield operation, it is better to select and identify a trustworthy and internationally experienced expatriate manager for the international investment at this stage who will become another important part in the FDI team. In the case of an internationalizing firm which does not have sufficient international experience, it is recommended to recruit an external internationally experienced team leader, seek advice from professional consulting firms, and develop international experience prior to pursuing the international investment process, especially, if the FDI involves massive financial and human resources commitments.

2. The selected FDI team develops a list of primary and secondary foreign country factors taking into consideration the drivers of the internationalization decision, the organization overall strategy. For manufacturing firms entering the foreign country through international joint venture (IJV), developing local partner factors or criteria is important; trust a high level of local knowledge is very important.

3. Searching and determining potential foreign country options relying on a set of established country factors, international experience, and the country knowledge of the FDI team and external consultations with international business experts. In addition, for IJV, searching for a local partner should be carried out together with the search for a country. The proposed country options should be developed within the scope of the country knowledge and international experiences of the team.

4. Collecting satisfactory information relevant to the developed foreign country factors from appropriate governmental trade departments of both home and host countries and through external consultations with business experts from the home country and the potential countries.

5. Assessing the gathered information by comparing it with the developed country factors. In addition, rely on the international experience and country knowledge of the FDI team as well as the external consultations with business experts from the home country and the potential countries; assess the opportunities and threats, the financial and nonfinancial costs and benefits, and the global risk factors of each country option. As a result, eliminate the less feasible foreign country options.

6. Maximizing the knowledge of the most feasible foreign country options through exploratory field visits to these countries. Consequently, selecting the most beneficial foreign country choice relying on the international experience and country knowledge of FDI team as well as the external consultations with business experts from the home country as well as from the potential countries. For IJV, select the local partner based on the identified criteria simultaneously with the foreign country choice.



7. Reviewing the decision consultatively with FDI team members and not to hurry in performing the decision and once the decision has been agreed, obtaining official authorization if required for pursuing the remaining parts of FDI process.

8. Finally, consulting international business experts and consulting firms about how to implement the international investment decision and conduct field visits to the selected foreign country and negotiate with its foreign investment officials about their incentives and regulation.

The results relating to drivers of international investments decisions were in line with the past internationalization theories addressed by (Al Qur'an, 2011; Clercq et al. 2005; Andersson 2000; Johanson and Mattsson 1987; Dunning 1980,1988, etc.). Furthermore, the FDI decision-making process adopted by Arabian international firms confirmed the behavioral and bounded rational model disused earlier in the literature review (Wei and Christodoulou 1997; Aharoni, 1966, etc.). Nonetheless, the findings of the current investigation revealed that selecting the foreign country of the international investment relied heavily on the international experience and country knowledge of the management team along with the external consultations with business experts from the home country and the prospective countries. This result was not indeed addressed in the previous body of knowledge and, thus, providing new insights into importance of international consultation in international investments decisions.

### **Conclusion and Implications:**

The intention of this study was to develop a managerial decision model that assist international firms in selecting the right profitable foreign country for their international operations.

In general, the current research findings provide benefits to foreign investment policy-makers and local development administrators in the Arab countries by assisting them to increase their outward FDI and, accordingly, enhance the economic development movement in their countries. The research provides insight into how Arabian investors select the country for their foreign investments in relation to how they develop prospective beneficial countries, what type of characteristics they require in a foreign country, what type of location factors they produce, what type of information they gather and how they assess country options, and finally how they implement the country decision. Understanding these issues would assist considerably the Arabian firms and their local government trade departments concerned with increasing their business involvements with foreign countries to improve the foreign investment decision-making process. Minimizing the risk associated with foreign investment decisions will bring economic benefits to the national economy through assisting firms to attain successful international growth. In addition, they could establish a governmental consulting body and recruit internationally experienced directors and academic experts in the area of

international investments to assist substantially the Arabian international firms willing to undertake foreign investments, but which lack of adequate international experience, to arrive at successful international investments. Furthermore, the international trade policy-makers could increase the international participations of Arabian firms by reaching positive trade agreements with foreign countries to provide attractive foreign investment incentives to the investors and facilitate the implementation process in relation to international investments, legal requirements, and registration procedures.

In conclusion, the beforehand discussed recommendations and implications of the current research findings within the Arabian context could be applied to any foreign country to assist in the economic and social development in that country.

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